BANK RAKYAT INDONESIA

PT Bank Rakyat Indonesia (Persero)

(incorporated with limited liability in the Republic of Indonesia)

3,811,765,000 Common Shares
(subject to the exercise of the Over-subscription Option and the Over-allotment Option)

(par value Rp500 per share)

Offer price Rp875 per Common Share

Joint Global Co-ordinator, Joint Bookrunner and Lead International Selling Agent

UBS Investment Bank

Joint Global Co-ordinator, Joint Bookrunner and Lead Managing Underwriter

Bahana Securities

No US federal, state or foreign securities commission or regulating authority has approved of, disapproved of or recommended these shares, nor have any of the foregoing authorities, reviewed, passed upon, determined or endorsed the merits of the offering of our shares or the accuracy or adequacy of this Offering Circular ("Offering Circular"). Any representation to the contrary is a criminal offense in the United States and may be a criminal offense in other jurisdictions. In addition, the Indonesian Capital Markets Supervisory Agency (*Badan Pengawas Pasar Modal* or "BAPEPAM") does not declare its approval or disapproval of these shares, nor does it declare the accuracy or adequacy of this Offering Circular. Any statement to the contrary is a violation of Indonesian law. For the purposes of the public offer of shares in the Republic of Indonesia (the "Indonesian Offering"), the formal offering document is the Indonesian prospectus.

This Offering Circular is strictly confidential and has been prepared by us solely for use in connection with the proposed offer of shares to eligible investors outside of the Republic of Indonesia (the "International Offering"). This Offering Circular is personal to each offeree and does not constitute an offer to any person or to the public generally to purchase, or otherwise acquire, the shares. Distribution of this Offering Circular to any person other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective purchaser, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular and, if the offeree does not purchase shares or the International Offering is terminated, to return this Offering Circular to the Lead International Selling Agent.

In making an investment decision, you must rely on your own examination of us and the terms of the International Offering, including the merits and risks involved. By receiving this Offering Circular, you acknowledge that (i) you have been afforded an opportunity to request from us and to review, and have received, all information that you consider necessary to verify the accuracy of, or to supplement, the information contained in this Offering Circular, (ii) you have not relied on the Lead Managing Underwriter or the Lead International Selling Agent or any person affiliated with the Lead Managing Underwriter or the Lead International Selling Agent in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (iii) no person has been authorized to give any information or to make any representation concerning us, the Selling Shareholder or our shares other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Ministry of State-owned Enterprises, acting on behalf of the Government of the Republic of Indonesia (the "Selling Shareholder"), the Lead Managing Underwriter or the Lead International Selling Agent.

No representation or warranty, express or implied, is made by the Lead Managing Underwriter or the Lead International Selling Agent as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of our shares shall, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date of this Offering Circular or that any information contained herein is correct as of any date subsequent to the date hereof.

Neither we nor the Selling Shareholder, the Lead Managing Underwriter, the Lead International Selling Agent, nor any affiliate or representative of us or any of them, is making any representation to any purchaser of shares regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in our shares for an indefinite period of time. You should consult with your own advisors as to the legal, tax, business, financial and related aspects of a purchase of shares.

This Offering Circular does not constitute an offer to sell, or an invitation by or on behalf of us, the Selling Shareholder, the Lead Managing Underwriter or the Lead International Selling Agent or any affiliate or representative of any of us or them to purchase any of the shares, and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. There are restrictions on the distribution of this Offering Circular and the making of solicitations pursuant thereto in certain jurisdictions, including, among others the United States, the United Kingdom, Singapore, Hong Kong, Japan, Indonesia, Australia, The Netherlands, France, Germany and Italy,further details of which are set out under "Distribution and Solicitation Restrictions" and "Transfer Restrictions". Recipients of this Offering Circular are required to inform themselves about and observe any applicable restrictions.

Our shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act") or any US state securities laws and, unless so registered, may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US Persons (as defined under Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable US state securities laws. The International Offering is being made in the United States in reliance on an exemption from registration provided by Rule 144A of the Securities Act and outside the United States under Regulation S under the Securities Act. Prospective purchasers are hereby notified that sellers of the common shares (the "Shares") may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Each purchaser of the shares in making its purchase will be required to make or will be deemed to have made certain acknowledgements, representations and agreements. For a description of these and certain further restrictions on offers, sales and transfers of the shares and distribution of this Offering Circular, see "Transfer Restrictions".

Each purchaser of our shares must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such shares or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such shares under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and none of us, the Selling Shareholder, nor the Lead Managing Underwriter or the Lead International Selling Agent shall have any responsibility therefore.

FOR NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes Annotated ("RSA 421-B") with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

FOR CANADIAN RESIDENTS

The distribution of the shares in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities authorities in each province where trades of our shares are made. Any resale of the shares in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the shares.

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

Market data used throughout this Offering Circular has been obtained from market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, market research, while believed to be reliable, has not been independently verified, and none of us, the Selling Shareholder, the Lead Managing Underwriter or the Lead International Selling Agent makes any representation as to the accuracy of that information.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "Indonesia" are references to the Republic of Indonesia. All references to the "Government" herein are references to the Government of the Republic of Indonesia. All references to "United States" or "US" herein are to the United States of America. All references to "United Kingdom" herein are to the United

Kingdom of Great Britain and Northern Ireland. All references to "Rupiah" and "Rp" herein are to the lawful currency of Indonesia and all references to "US dollars" or "US$" herein are to the lawful currency of the United States.

For convenience, certain US dollar amounts have been translated into Rupiah amounts, based on the prevailing exchange rate on June 30, 2003 of Rp8,265 = US$1.00, being the exchange rate for Rupiah against US dollars as quoted at 4.00 pm Western Indonesia time on Reuters on that date. Such translations should not be construed as representations that the Rupiah or US dollar amounts referred to could have been, or could be, converted into Rupiah or US dollars, as the case may be, at that or any other rate or at all. See "Exchange Rate Information" for further information regarding rates of exchange between the Rupiah and US dollar.

In this Offering Circular, unless the context otherwise requires, "we", "us", "our" and "the Bank" refer to PT Bank Rakyat Indonesia (Persero) and its consolidated subsidiaries taken as a whole. Further, unless we specify otherwise or the context otherwise requires, all references to our "common shares" or our "shares" refer to common shares of par value Rp500 each in the capital of PT Bank Rakyat Indonesia (Persero) and unless we specify otherwise or the context otherwise requires, all references to our "loans" refer to gross loans (prior to deduction of any allowances), all references to "deposits" excludes deposits from other banks and all references to "net non-performing loans" refer to non-performing loans less the minimum loan loss allowances required under Bank Indonesia regulations. We define "business groups", "Government" and "Government-related" in accordance with Bank Indonesia regulations. "Government-related" means entities which are owned at least 51.0% by the Government or are otherwise controlled by the Government. "Private" or "private sector" means entities, including corporations, in which the Government owns an interest less than 51.0% and are not otherwise controlled by the Government.

In this Offering Circular, references to "2000", "2001" and "2002" refer to the years ended December 31, 2000, December 31, 2001 and December 31, 2002, respectively. Unless otherwise stated, all financial information relating to us is stated on a consolidated basis for 2000 and 2001 and on an unconsolidated basis for 2002 and as of and for the period ended June 30, 2003 in accordance with Indonesian GAAP. In this Offering Circular, "unconsolidated" refers to the Bank only. For 2000 and 2001, average balance sheet data is based on the average of the opening and closing balances as of January 1 and December 31 for such year. For 2002, average balance sheet data is based on the average of the balances as of January 1, June 30 and December 31, 2002 and the balances based on our in-house statements as of March 31 and September 30. For the six-month periods ending June 30, 2002 and June 30, 2003, average balance sheet data is based on averages of the opening and closing balances as of January 1 and June 30 of such year and the balance based on our in-house statements as of March 31. Any discrepancies in the tables included in this Offering Circular between the listed amounts and their totals are due to rounding. In addition, unless we indicate otherwise, all percentage figures included in this Offering Circular are rounded.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains words such as ‘‘believe’’, ‘‘expect’’, ‘‘anticipate’’, ‘‘estimate’’, ‘‘project’’, ‘‘will’’, ‘‘aim’’, ‘‘will likely result’’, ‘‘will continue’’, ‘‘intend’’, ‘‘plan’’, ‘‘contemplate’’, ‘‘seek to’’, ‘‘future’’, ‘‘objective’’, ‘‘goal’’, ‘‘should’’, ‘‘will pursue’’ and similar expressions or variations of these expressions that constitute forward-looking statements. In addition, all statements other than statements of historical fact included in this Offering Circular, those regarding our financial position and results, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to our services), are forward-looking statements. Such forward-looking statements involve:

- known and unknown risks,
- uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- our ability to successfully implement our strategy,
- the condition of and changes in the local, Indonesian, Asian or global economies,
- future levels of non-performing loans,
- our growth and expansion, including whether we succeed in our micro, retail, medium-scale and consumer banking strategies,
- technology changes,
- changes in interest rates and the value of the Rupiah against the US dollar and other currencies,
- changes in government regulations and licensing of our businesses in Indonesia, and
- competition in the banking and financial services industry.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed under ‘‘Risk Factors’’. These forward-looking statements speak only as of the date of this Offering Circular. Each of us, the Selling Shareholder, the Joint Lead Managing Underwriters and the Lead International Selling Agent expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement is based.

AVAILABLE INFORMATION

For so long as our shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or 15(d) of the US Exchange Act of 1934, as amended (the "US Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of restricted securities who is a "qualified institutional buyer" within the meaning of Rule 144A and designated by the holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act. We will furnish annual and interim reports in English and Indonesian to our shareholders and the JSX and SSX. These reports will include a review of our business and operations and in our annual reports, audited financial statements which will be prepared in accordance with Indonesian GAAP. We will also furnish to the JSX and SSX all notices of shareholders' meetings in English and Indonesian that we make available to our shareholders.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a limited liability company incorporated under the laws of the Republic of Indonesia. All of our commissioners, directors and executive officers reside outside the United States. All or a substantial portion of our assets and the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against us or any of them in the US courts judgments obtained in US courts, including judgments based upon the civil liability provisions of the securities laws of the United States, which are not enforceable in Indonesia courts, and there is doubt as to whether Indonesian courts will enter judgments in original actions brought in Indonesian courts based solely upon the civil liability provisions of the federal securities laws of the United States. As a result, because substantially all of our assets and those of our commissioners, directors and executive officers are located in Indonesia, investors would be required to pursue claims against us in Indonesia.

Summary

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. We urge you to read this entire Offering Circular carefully, including our financial statements and related notes and "Risk Factors".

OVERVIEW

We are one of the largest banks in Indonesia with a historical focus on microfinance as well as a growing focus on the consumer, small and medium enterprise ("SME") and agribusiness sectors. We are the second largest bank in Indonesia in terms of loans and the fourth largest bank in terms of total assets and total deposits (based on published unaudited financial statements of Indonesian banks as of June 30, 2003). As of June 30, 2003, we had Rp43,488 billion (US$5,262 million) in total loans, Rp91,803 billion (US$11,107 million) in total assets and Rp74,333 million (US$8,994 million) in total deposits. We have the most extensive network of branches, sub-branches and units among major commercial banks, with offices located in every province in Indonesia. Through our network, we offer a range of financial products and services to consumers, micro, small and medium-sized enterprises and corporations. We are wholly-owned by the Government of the Republic of Indonesia.

Our business is organized to serve the varying needs of different categories of borrowers and depositors. Our principal lending and deposit-taking units include:

- *Micro*. Our Micro Business Division operates our over 3,900 BRI units and makes loans of up to Rp50 million to micro enterprises and individual customers with low incomes. This division also takes deposits at the BRI units.
- *Retail*. Our Retail Business Division makes loans of up to Rp5 billion to small businesses and individual customers.
- *Commercial*. Our General Business Division makes loans of up to Rp50 billion to medium-size businesses (other than agribusiness borrowers).
- *Corporate*. Our General Business Division makes loans above Rp50 billion to corporate borrowers (other than agribusiness borrowers).
- *Agribusiness*. Our Agribusiness Division makes loans above Rp5 billion to agribusiness borrowers.
- *Program lending*. Our Program Loan Division makes loans of various sizes to micro, small and medium-size businesses in connection with various government programs, mostly in the agribusiness sector.
- *Consumer banking*. Our Consumer Banking Division makes vehicle loans, home loans and bridging loans to individual customers. This division also takes deposits from all types of business and individual customers at our branches and sub-branches.
- *Islamic banking*. Our Syariah Business Unit operates through eight Syariah branch offices and offers a variety of financing, funding and other services that are structured in accordance with Islamic law principles.

Our focus on micro and small enterprises is supported by our strong history in this sector. Founded in 1895, we have been committed to assisting micro and small enterprises for over one hundred years. We have been recognized by many international organizations, including The World Bank, as being one of the world's leading microfinance institutions due to our ability to make a profit from our micro finance business while providing financial services to a market segment that otherwise would have limited access to banking services. During the economic crisis that started in 1997, these types of borrowers demonstrated their strong resilience amid severe adverse economic conditions. We believe our loan portfolio did not deteriorate to the same extent as other banks in Indonesia during the economic crisis as a result of our diverse borrower base and the low loss experience in our micro, consumer fixed income and small business loan portfolios. As of June 30, 2003, 2.5% of our micro loans were non-performing.

Historically, we have participated in Government programs and policies targeting the agribusiness sector and those providing financing to micro businesses. Our involvement with these programs has supported our efforts to develop a client base of micro, small and medium-size enterprises and corporate borrowers, especially in the agribusiness and trading industries. We serve a unique dual function, acting as a traditional commercial bank and also as the largest microfinance agency in Indonesia.

As a result of the Indonesian economic crisis, many State-owned banks, ourselves included, experienced significant financial difficulties. During this period, our capital adequacy ratio fell below Bank Indonesia requirements as a result of a deterioration in our asset quality. This deterioration was especially evident in our loans to medium-size enterprises and corporate borrowers, many of which were denominated in US dollars. The Government implemented a recapitalization program in 1999 in order to increase the capital adequacy ratio of eligible banks by injecting additional capital into such banks in the form of Government recapitalization bonds. The Government agreed to recapitalize us in 2000 on the condition that we implement various corporate reforms, including reforms to our risk management system and technology infrastructure. Our recapitalization was completed in 2000 and new directors and commissioners were appointed at that time. Pursuant to the terms of the recapitalization, the new board of directors adopted a business plan that refocuses our strategy on our consumer, micro and retail business customers.

Since the completion of the recapitalization program by the Government, we are one of the few major commercial banks in Indonesia with a greater proportion of its total assets represented by loans than Government recapitalization bonds. As of June 30, 2003 loans represented 47.4% of our total assets while Government recapitalization bonds represented 30.5% of our total assets. In addition, we had one of the highest loan to deposit ratios among major banks in Indonesia at 58.5% as of June 30, 2003, and our mix of stable funding, 57.7% of which is comprised of our demand and savings accounts, and portfolio of high-yielding micro and small business loans helped us achieve a net interest margin of 8.9% (annualized) in the first six months of 2003.

OUR COMPETITIVE ADVANTAGES

We believe we possess the following key business strengths:

Strong position in the microfinance, SME and low to middle income consumer loan markets

We are the leading Indonesian bank serving the microfinance market and one of the leading banks focusing on small and medium enterprises (SMEs) and consumer loans to individuals with low to middle income. Microfinance and the low to middle income consumer loan markets have contributed to our profitability and made us less sensitive to global and regional economic trends during economic downturns. Since 2001, we have demonstrated significantly better financial performance than many other Indonesian banks. In the first six months of 2003 our net interest margin was 8.9% (annualized), which was the highest of the top ten largest Indonesian banks according to Bank Indonesia reported financial statistics. Our return on average equity and average assets for the first six months of 2003 were (annualized) 38.3% and 2.7%, respectively.

Good quality assets and a strong capital base

Our proportion of non-performing loans is better than average for Indonesian banks due to our well-diversified loan portfolio, limited exposure to the corporate sector and strength in the microfinance, small business and consumer loan segments, where the proportion of non-performing loans has been historically lower. As of June 30, 2003, our ratio of allowances for possible loan losses to gross non-performing loans was 143.0%. Gross non-performing loans for our Micro Business and Retail Business Divisions comprised 2.5% and 3.0%, respectively, of total loans outstanding at each of those divisions. We also enjoy a strong capital base, with a capital adequacy ratio of 14.7% as of June 30, 2003, which is above the statutory minimum of 8.0% set by Bank Indonesia.

Prudent risk management standards

We maintain a more conservative provisioning policy than that required by Bank Indonesia regulations and have upgraded many of our risk management policies and processes over the past four years. These measures have included strengthening the separation between credit evaluation and relationship management functions at our branches. Except in our BRI units, where the maximum loan authorization is only Rp15 million (less than US$2,000), our relationship and risk management functions are clearly separated throughout our branch network to enable effective, independent and impartial credit risk management. In addition, credit approvals across all our businesses require the agreement of two credit officers, and then only after a thorough evaluation of risk is conducted, which incorporates analysis of both financial and non-financial aspects of potential customers' creditworthiness.

Most extensive branch network in Indonesia

With 324 branches and over 3,900 micro units, we believe we have the most extensive network among banks in Indonesia. Our 13 regional offices located throughout the Indonesian archipelago stretch from Banda Aceh in Sumatra to Manado in Sulawesi. In many of the villages served by our BRI units and village service posts, we are the only major Indonesian bank to offer banking services and we have expanded our network of BRI units by over 200 units over the past two and one-half years. Our network of branches and units is a critical advantage in enabling us to compete successfully to meet the financing and deposit-taking needs of our micro and retail customers.

Strong brand recognition and loyalty

With an operating history of more than 107 years with over 4,000 outlets across Indonesia, "BRI" is one of Indonesia's most recognized brands. We received the "Best Indonesian Brand" award from SWA Magazine in 2001 and 2002. We believe our strong brand recognition gives us a powerful platform from which to expand the distribution of products and services.

Well-positioned for continued growth amid improving macroeconomic conditions

Unlike many other major Indonesian banks, all of our loans in our portfolio were originated by us. As of June 30, 2003, loans constituted 50.9% of our interest-earning assets and Government recapitalization bonds constituted 32.8% of our interest-earning assets. We expect the percentage of Government recapitalization bonds in our portfolio to decrease for the foreseeable future as we continue to grow our loan portfolio through new lending. According to the published financial statements of Indonesian banks, we are the only recapitalized bank that has had positive net interest income, excluding interest from recapitalization bonds, each year since 2000. Our loan-to-deposit ratio as of June 30, 2003 was 58.5%, which is significantly above the average of 42.4% for Indonesia's 10 largest domestic banks, based on Bank Indonesia's reported financial statistics.

Experienced and professional management team

In connection with our recapitalization in 2000, the government installed a new professional management team with the experience needed to re-establish our banking business on a sound basis. Our seven directors have an average of 27 years of experience in the banking industry. Since its appointment, our new management team has implemented numerous changes to our policies, operations and strategy, including the adoption of new risk management, credit control and internal audit policies recommended by the Boston Consulting Group and Deutsche Bank.

OUR BUSINESS STRATEGY

Our aim is to reinforce our leadership position in our core business areas while leveraging the strength of our experience and national footprint to become a leading provider of banking services to a wider cross segment of customers. The key facets of our strategy are outlined below.

Continue to focus on our core business areas

We plan to continue our focus on the microfinance, SME and low to middle income consumer loan markets. We believe that our experience serving these markets, extensive network of branches and BRI units and strong brand recognition will help us to compete successfully in these markets and continue to grow our business.

Extend reach within key growth areas

We aim to increase our market share among small businesses and individual customers served by our Retail Business and Consumer Banking Divisions. Within the small business market, we are actively targeting growth opportunities in the agribusiness, retail trade and consumer goods sectors. Within the consumer market, we believe individuals in Indonesia's smaller towns and rural areas remain underserved by banks and represent a potentially large and relatively untapped customer market. To strengthen our ability to service these targeted growth areas, we are implementing marketing and training programs to enable our offices in these locations to serve their customers more effectively.

Enhance and strengthen our risk management systems

We believe that prudent risk management policies, procedures and controls are critical for the long-term sustainable development of our business. In line with the strong emphasis we place on the effective management of risk, we have been implementing a wide range of improvements to our risk management systems recommended by the Boston Consulting Group after a comprehensive evaluation of our existing systems in 2001. Based on these recommendations, we have re-aligned our organization in our head office, regional offices and branches to monitor and control risk in the three key areas of credit, operational and market risk management. To ensure that the interaction among these risks is being considered and properly addressed, our Internal Audit Division adopted a risk-based audit system in 2002 to analyze the risk profile of the bank overall through Risk Self-Assessment (RSA). Over the next two years, we plan to take further steps to enhance and strengthen our risk management systems, focusing on our credit portfolio management (including through our early warning system) and improved management of our assets and liabilities.

Increase our operating efficiency through the use of technology

We plan to continue to upgrade our information systems in order to enhance our products, reduce operating costs and help us better manage our risks. Over the past three years we have made significant investments in new information technology, including investments in the BRINets network, which as of June 30, 2003 covers 99.0% of our existing branch network and 115 of our BRI units. We have budgeted approximately US$125 million in additional spending between 2003 and 2004 as part of a comprehensive program to upgrade our existing systems and add functionality to our management information systems, which includes BRINets migration for 1,000 BRI units by 2004. We intend to migrate all of our existing units to BRINets by 2009. We believe these investments will better integrate our extensive branch network and employ better management information systems (MIS) to facilitate more efficient sharing of information and better decision making.

Increase customer and market penetration

Recognizing the need to constantly improve the way we develop, market and deliver our products and services, we have identified the following key areas which need to be strengthened to achieve this goal:

- *Improving customer relationship management systems and processes.*
- *Increasing corporate marketing.*
- *Increasing product development and marketing initiatives.*
- *Enhancing staff training programs and cross-selling incentives.*

Enhance our product delivery capabilities

To address the increasing competition we expect to face in the Indonesian banking industry and the increasing sophistication of our target customers, we plan to enhance our ability to reach and serve our customers in new and innovative ways. We plan to achieve this by:

- Using our upgraded information technology infrastructure to improve cross-selling opportunities and product development.
- Utilizing our increasingly integrated banking infrastructure to provide customers access to their account information through additional channels.
- Increasing the sales efforts of our branch personnel.

RECENT DEVELOPMENTS

Based on our preliminary review, we anticipate our net interest income and net income from operations for the third quarter ended September 30, 2003 to be in line with the first two quarters of 2003. Our net income from operations and net income for the quarter were adversely affected by provisions taken for the fraud described below and benefited from the reduction of allowances for possible losses on other assets relating to amounts due from other banks as these items continue to be resolved. Our review of the quarter's results has not been finalized, and the results are subject to change.

We have recently identified several instances of fraud involving unauthorized funds transfers and pledges of cash which involve or affect our employees, customers and other third parties (including State-owned companies and affiliates). We have reported these incidents to Bank Indonesia and the attorney general of the Republic of Indonesia. We have not yet determined the amount of losses resulting from these events. Based on preliminary estimates, we expect the losses to be up to Rp294 billion (US$36 million) and have provided for all this amount through allowances for losses on earning assets and on other assets in the third quarter ended September 30, 2003. The amount of these provisions is equal to 20.2% of our profit from operations for 2002.

Our investigations of these incidents and review of the adequacy of our internal controls relating to these incidents are continuing. We cannot be certain at this time whether there are other instances of fraud (either related or unrelated) as yet undetected or whether there are systemic weaknesses in our internal controls intended to prevent and detect fraudulent activities. Accordingly, we could incur substantial additional losses from other incidents of past or future fraud.

Publicity arising from disclosure of fraud at other banks in Asia adversely affected the reputation of, customers' confidence in and the share price of the banks. According to recent press reports, a major Indonesian bank discovered fraud involving a possible exposure of Rp1,700 billion (US$206 million), and bank staff alleged to be involved in the fraud were arrested. The price of such bank's shares dropped sharply on the day of the initial publication of these reports. Based on current information, we believe that the nature of these fraudulent transactions are different and have no reason to believe that these events are related to recent incidents at the Bank. If we discover or are subject to additional fraudulent activities, the value of our shares could also experience rapid and sharp declines and our business, earnings and financial condition could be materially adversely affected.

CORPORATE INFORMATION

Our head office is located in BRI I Building, Jl. Jenderal Sudirman Kav. 44-46, Jakarta 10210, Indonesia. Our telephone numbers are +62 (21) 251-0244, and 575-1717 through 575-1966.

SHARE OWNERSHIP

Immediately prior to the Global Offering, 100.0% of our outstanding common shares were owned by the Selling Shareholder. Immediately following the Global Offering, and assuming 3,811,765,000 shares are sold, the Selling Shareholder will own approximately 67.6% of our outstanding common shares (59.5% if the over-subscription and over-allotment options are exercised in full). See "Risk Factors—Risks Relating to the Bank—We are and will continue to be controlled by the Government".

Summary of the Offering

Issuer	PT Bank Rakyat Indonesia (Persero).
Selling Shareholder	The Government of the Republic of Indonesia, acting through the Ministry of State-owned Enterprises.
The Global Offering	Offer of 3,811,765,000 common shares of PT Bank Rakyat Indonesia (Persero) (the "Underwritten Shares") together with any Over-subscription Option Shares (as defined below) and any Over-allotment Option Shares (as defined below) by us and the Selling Shareholder. The Global Offering consists of the concurrent International Offering and Indonesian Offering. See "Plan of Distribution".
The International Offering	The Underwritten Shares together with any Over-subscription Option Shares and any Over-allotment Option Shares are being offered through the Lead Managing Underwriter's arrangements with the Lead International Selling Agent to (i) qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act, and (ii) certain non-US persons outside Indonesia and the United States in offshore transactions in reliance on Regulation S under the Securities Act, subject to adjustments as described below.
The Indonesian Offering	The Underwritten Shares together with any Over-subscription Option Shares and any Over-allotment Option Shares are being offered in Indonesia through the Underwriters by way of a offering in Indonesia.
Over-subscription Option	The Selling Shareholder has agreed to grant to PT Bahana Securities ("Bahana") as agent for and on behalf of the Lead Managing Underwriter and the Lead International Selling Agent, the Over-subscription Option, exercisable in whole or in part, at any time and from the end of the International Offering until the final allotment of Shares in the Global Offering, to acquire up to an additional 381,176,000 shares (the "Over-subscription Option Shares") at the offering price, less any applicable underwriting discounts and commissions. See "Plan of Distribution".
Over-allotment Option	The Selling Shareholder has agreed to grant to Bahana as agent for and on behalf of the Lead Managing Underwriter and the Lead International Selling Agent, the Over-allotment Option, exercisable in whole or in part, at any time and from time to time, until 30 days following the listing of our shares, to acquire up to an additional 571,764,000 shares (the "Over-allotment Option Shares" at the offering price, less any applicable underwriting discounts and commissions. See "Plan of Distribution".
Offering Price	Rp875 per share
Shares Outstanding	9,999,999,999 shares plus the Special Share outstanding prior to the Global Offering and 11,764,704,999

shares plus the Special Share immediately following the Global Offering

Listing of our Shares Prior to the Global Offering, there has been no public market for our shares. Application has been made for the listing and quotation of our shares on the JSX and on the Surabaya Stock Exchange (the "SSX"). If listing approval is granted, trading in the Shares on the JSX would be expected to commence on or about November 10, 2003 under the symbol "BBRI" and trading in our shares on the SSX would be expected to commence on or about November 10, 2003 under the symbol "BBRI".

Lock-up We have agreed that, for a period of twelve months following the effective date of the registration statement with BAPEPAM, we will not offer, sell, contract to sell, pledge or otherwise dispose of (or enter into any transaction (including swap transactions) which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by us), directly or indirectly, any of our shares or any securities convertible into or exchangeable or exercisable for (including swap transactions) or warrants or other rights to purchase our shares, or publicly disclose the intention to effect any such transaction, without the prior written consent of the Lead Managing Underwriter and the Lead International Selling Agent. The Selling Shareholder has agreed to a similar restriction for a period of six months following the effective date of the registration statement with BAPEPAM. In addition to the consent of the Lead Managing Underwriter and the Lead International Selling Agent, each of us and the Selling Shareholder may require the consent of BAPEPAM before the applicable lock-up can be waived.

Use of Proceeds The net proceeds from the Global Offering, after deducting underwriting fees and commissions, but before taking into account the 3.0% discount available to certain of our customers and employees and other expenses, are expected to be approximately Rp3,230.2 billion (US$390.8 million) (Rp4,037.0 billion (US$488.4 million) if the Over-subscription Option and Over-allotment Option are exercised in full). We expect to receive approximately Rp1,490.6 billion (US$180.4 million) (prior to the deduction of the discount and other expenses) of the net proceeds. We intend to use such proceeds to enhance our regulatory capital and:

- to fund future growth, including our ability to make loans and provide other financing products to our customers;
- to invest in technology;
- to expand our branch and unit network; and
- for other general corporate purposes.

	The Selling Shareholder is selling common shares as part of the Government's bank divestment strategy and we will not receive any proceeds from the sale of common shares by the Selling Shareholder (equal to approximately Rp1,734.8 billion (US$209.9 million) (Rp2,541.5 billion (US$307.5 million) if the Over-subscription Option and Over-allotment Option are exercised in full (prior to the deduction of the 3.0% discount and other expenses)).
Special Share	The Special Share gives the Government the rights of approval in respect of certain of our actions including with respect to the election and removal of commissioners and directors and amendments to our Articles of Association. Pursuant to our Articles of Association, the Government cannot transfer the Special Share. The Government's rights with respect to the Special Share will not terminate unless our Articles of Association are amended, which would require the approval of the Government as holder of the Special Share. See "Description of Our Shares".
Voting Rights	Owners of the shares offered in this Global Offering will be entitled to the same voting rights as other holders of our common shares.
Dividends	The declaration, amount and payment of future dividends on our shares, if any, is discretionary and will be subject to the recommendation of our board of directors and approval of our shareholders. See "Description of Our Shares—Dividends".
Payment	Payment to us and the Selling Shareholder for the shares is expected to be made on or about November 10, 2003.
Delivery	Delivery of the shares to successful applicants will be made against payment therefore through the depository facilities of the Indonesian Securities Depository Company, PT Kustodian Sentral Efek Indonesia. See "Indonesian Capital Markets" and "Plan of Distribution—Registration of the Shares in KSEI". It is expected that the shares will be delivered on or about November 10, 2003.
Transfer Restrictions	Our shares will be subject to certain transfer restrictions as described in the "Transfer Restrictions" section of this Offering Circular.
Timetable	An indicative timetable in respect of the International Offering and the Indonesian Offering is set forth in the "Plan of Distribution" section of this Offering Circular.
Risk Factors	Investment in our shares involves risks which are described in the "Risk Factors" section of this Offering Circular.

Summary Financial Information and Operating Data

The following tables set forth our summary financial information and other operating data. We have prepared this information using our audited financial statements, including notes to the financial statements, that have been prepared in accordance with Indonesian GAAP for the three years ended December 31, 2002 and the six-month period ended June 30, 2003 and our unaudited consolidated financial statements for the six-month period ended June 30, 2002, which are included in this Offering Circular. Our audited financial statements for 2002 and the six months ended June 30, 2003 have been audited by Ernst & Young Prasetio, Sarwoko & Sandjaja, independent auditors. Our consolidated financial statements for 2000 and 2001 were audited by Prasetio, Utomo & Co., a former affiliate of Andersen Worldwide. Prasetio, Utomo & Co. ceased operating in August 2002. See "Independent Auditors" and "Risk Factors—Risks Relating to the Bank—Investors will have no remedy against Prasetio, Utomo & Co.".

Except as otherwise stated, all financial information relating to us is stated in accordance with Indonesian GAAP. Indonesian GAAP differs in certain significant respects from US GAAP. See "Principal Differences Between Indonesian GAAP and US GAAP". We have not quantified or identified the impact of the differences between Indonesian GAAP and US GAAP.

	Year ended December 31,			Six months ended June 30,		
Selected Income Statement Data	**2000**	**2001**	**2002**	**2002**	**2003**	**2003**
			(Rp billions)			**(US$ millions)**
Total interest income	7,616	10,968	13,454	6,579	7,448	901
Total interest expense	(4,823)	(6,006)	(7,373)	(3,720)	(3,806)	(460)
Net interest income	2,793	4,962	6,080	2,859	3,642	441
Total other operating income	754	1,153	1,045	589	537	65
Total income	3,547	6,115	7,125	3,448	4,179	506
Other operating expenses	(3,881)	(3,396)	(3,908)	(1,793)	(2,761)	(334)
Pre-provision operating profit (loss)	(334)	2,719	3,217	1,655	1,418	172
Total provision for possible losses, net of reversal	662	(1,603)	(1,755)	(701)	(26)	(3)
Profit from operations	328	1,116	1,462	954	1,392	169
Non-operating income (net)	8	25	8	11	373	45
Profit before tax and minority interests	336	1,141	1,470	965	1,765	214
Tax benefit (expense)	4	(69)	55	131	(583)	(71)
Profit before minority interest	339	1,072	1,525	1,096	1,182	143
Minority interests in net profit (loss) of consolidated subsidiary[1]	(0)	(8)	—	(4)	—	—
Net income	339	1,064	1,525	1,092	1,182	143

Selected Balance Sheet Data	As of December 31, 2000	2001	2002	As of June 30, 2003	2003
	(Rp billions)				(US$ millions)
Cash and placements with other banks	8,129	10,977	12,136	10,680	1,292
Securities	723	2,509	5,590	8,582	1,038
Government bonds:					
Fixed rate bonds	28,982	28,436	21,803	21,468	2,598
Variable rate bonds	—	0	6,591	6,539	791
Total Government bonds	28,982	28,436	28,394	28,007	3,389
Gross loans	27,030	33,529	39,367	43,488	5,261
Allowance for possible loan losses	(2,771)	(3,963)	(3,913)	(4,169)	(504)
Net loans	24,259	29,566	35,454	39,319	4,757
Total assets	66,334	76,195	86,345	91,803	11,107
Deposits:					
Demand deposits	7,529	7,516	11,459	11,810	1,429
Savings deposits	22,711	26,529	28,673	31,096	3,763
Time deposits	18,974	23,706	29,484	31,416	3,801
Certificates of deposits	3	8	11	11	1
Total deposits	49,217	57,758	69,627	74,333	8,994
Deposits from other banks	1,943	3,056	2,061	1,833	222
Fund borrowings	4,559	5,023	3,025	1,502	182
Subordinated loans	421	517	520	509	62
Total liabilities	62,266	71,358	80,551	85,605	10,358
Minority interests in net assets of consolidated subsidiary(1)	15	23	—	—	—
Total shareholder's equity	4,053	4,814	5,794	6,198	750
Total liabilities and shareholder's equity	66,334	76,195	86,345	91,803	11,107

Selected financial ratios	As of or for the year ended December 31, 2000	2001	2002	As of or for the six months ended June 30(10) 2003
	(percentages)			
Return on average assets(2)(3)(10)	0.7%	1.5%	1.9%	2.7%
Return on average shareholder's equity(2)(4)(10)	n.a.	24.0%	28.2%	38.3%
Net interest margin(2)(5)(10)	6.1%	7.6%	8.1%	8.9%
Cost to income ratio(6)	109.4%	55.5%	54.8%	55.7%
Loans to deposits(7)	54.9%	58.1%	56.5%	58.5%
Tier I capital adequacy ratio(8)	11.5%	10.7%	10.3%	12.7%
Total capital adequacy ratio(9)	14.4%	13.3%	12.6%	14.7%
Total shareholder's equity to total assets	6.1%	6.3%	6.7%	6.8%
Gross non-performing loans to gross loans	5.6%	7.3%	6.7%	6.7%
Allowances for possible loan losses to gross non-performing loans	182.2%	162.3%	147.5%	143.0%
Non-performing assets to total assets	2.8%	3.2%	3.4%	3.4%
Allowances for possible losses on earning assets to non-performing assets	169.2%	162.2%	143.9%	141.4%

(1) *For 2002 and 2003, the financial statements of PT Bank Inter-Pacific Tbk ("BIP") have been excluded from consolidation, in accordance with Indonesian GAAP, after we resolved to divest our investment in BIP.*

(2) *Averages for 2000 and 2001 are based on opening and closing balances for the year. In addition, due to changes in accounting principles taking effect in 2000, averages for 2000 may not be comparable with other periods. See "Risk Factors—Risks Relating to the Bank—Certain statistical information has not been prepared in accordance with international disclosure standards."*

(3) *Net income divided by average total assets for the period indicated, calculated after taxes.*

(4) *Net income divided by average total shareholder's equity for the period indicated. Because shareholder's equity as of December 31, 1999 was negative, resulting in a negative average total shareholder's equity for 2000, return on average shareholder's equity would not be meaningful.*

(5) *Net interest income divided by average interest-earning assets (gross) (as set forth in "Statistical Information—Average Balance Sheet").*

(6) *Other operating expenses divided by total income.*

(7) *Total gross loans divided by total deposits (excluding deposits from other banks).*

(8) *Tier I capital divided by total risk-weighted assets (unconsolidated), as defined under and calculated in accordance with Bank Indonesia regulations.*

(9) *Total Tier I and Tier II capital, less deductions, divided by total risk-weighted assets (unconsolidated), as defined under and calculated in accordance with Bank Indonesia regulations.*

(10) *Where necessary to enhance comparability with full year data, six month data has been annualized.*

Risk Factors

An investment in our shares involves a number of risks. You should carefully consider all the information contained in this Offering Circular including the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. The market price of our shares could decline due to any one of these risks and you may lose all or part of your investment.

RISKS RELATING TO INDONESIA

We are subject to the political, economic, legal and regulatory environment in Indonesia and substantially all of our operations and assets are located in Indonesia. Our results of operations and financial condition are affected by changes in Government policies, laws and regulations. Investing in Indonesia and companies located in Indonesia involves many risks, including the following:

The inability of the Government to secure funding from sources other than the International Monetary Fund could adversely affect the economy and our business

The Asian economic crisis which began in 1997 had a significant adverse impact on Indonesia, causing, among other adverse changes, a significant depreciation in the value of the Rupiah and depletion of the country's foreign currency reserves. The crisis caused the Government to turn to the International Monetary Fund (the "IMF") for financial assistance and, in October 1997, the IMF agreed to provide relief contingent upon the implementation of economic reforms, such as the Government undertaking asset sales and abolishing subsidies for commodities and other consumer products. In addition to the IMF, the World Bank has been an important source of funding for the Government. Indonesia has received assistance from the IMF and the World Bank since late 1997. The Government has announced that it will not renew its program with the IMF when it expires at the end of 2003. Total external indebtedness of the Government as well as private sector companies in Indonesia amounted to US$131,343 million as of December 31, 2002, which was approximately 70.7% of Indonesia's GDP for that year. If the Government is not able to generate a fiscal budget surplus or secure alternative funding, it may default on its debts, which in turn is likely to have a material adverse impact on our business.

The members of the Paris Club and the Consultative Group on Indonesia ("CGI") are important sources of funding for the Government. The Paris Club is an informal voluntary group of 19 creditor countries that seeks to coordinate solutions for payment difficulties experienced by debtor nations. CGI is a group of 19 donor countries and 13 international organizations that meet annually to coordinate donor assistance to Indonesia. Lending from the Paris Club members to the Government accounts for approximately one-third of the Government's total debt. CGI members were owed approximately US$45,762 million by the Government as of December 31, 2002. In April 2002, the Paris Club decided to reschedule the Government's approximately US$5.4 billion of principal and interest that is due to certain creditors between April 2002 and December 2003 by extending the Government's payment period. In determining whether to reschedule the debt, the Paris Club took into consideration the economic reform program carried out by the Government with support from the IMF. The Government has several times successfully rescheduled its foreign debt. However, from 2004, the Paris Club will no longer reschedule debt owed to its members or to other creditors by the Government, as a result of the Government's decision to end the IMF program. CGI and IGGI may also elect not to extend further aid should the Government depart from the precepts of the IMF program.

Given the impact of the Asian 1997 economic crisis, the inability or failure of the Government to implement reforms necessary to receive additional funding or creditor support for debt rescheduling could cause the Government, among other things, to default on its debts, including on the Government recapitalization bonds issued under the bank recapitalization program commenced in 1999. Government recapitalization bonds constituted 30.5% of our assets and interest payments from such bonds constituted 25.0% of our total interest income, as of and for the six months ended June 30, 2003. The Government might also be unable to fund subsidies for staples such as food and fuel which, in turn, could have serious social, economic and political consequences.

A slowdown in economic growth, or negative growth, in Indonesia could adversely affect our business

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indonesian economy. A severe economic crisis in 1997 resulted in real GDP declining in 1998 by 13.8%, with 0.2%, 4.8%, 3.3% and 3.7% growth in 1999, 2000, 2001 and 2002, respectively. The Government estimated that the GDP growth for the first six months of 2003 was at an annual rate of 3.6%. Indonesia's economy remains significantly affected by the 1997 economic crisis and substantially reliant on the support of international agencies to prevent sovereign debt defaults.

The economic difficulties faced by Indonesia during the 1997 economic crisis resulted in, among other things, significant volatility in interest rates. The volatility had a material adverse impact on the ability of many Indonesian companies to meet their debt servicing obligations. High interest rates during the crisis made it difficult for Indonesian companies to raise necessary funding and to maintain payments on debt. The interest rate on one month Bank Indonesia certificates (SBI) ranged from 10.5% in June 1997 to a peak of 70.8% in July 1998. The one month SBI interest rate was 8.91% on August 31, 2003.

Indonesia continues to have a significant budget deficit, limited foreign currencies reserves, a volatile currency and a weak banking sector. Any continuation or worsening of economic conditions, including significant depreciation of the Rupiah or increase in interest rates, could materially adversely affect our SME and corporate borrowers and other contractual counterparties. This, in turn, could materially and adversely affect our financial condition and results of operations, including our ability to grow our asset portfolio, sell our services and products, the quality of our assets and our ability to implement our business strategy and service our US dollar debt.

Social and civil unrest could adversely affect our business

Indonesia has experienced social and civil unrest which has, on occasion, escalated into riots and violence. In June 2001, demonstrations and strikes affected at least 19 cities after the Government mandated a 30.0% increase in fuel prices. Similar demonstrations occurred in January 2003, when the Government tried to increase fuel prices, electricity rates and telephone charges. In both instances, the Government was forced to repeal, defer or substantially reduce such proposed increases.

Separatist movements and clashes between religious and ethnic groups have also resulted in social and civil unrest in parts of Indonesia. In the provinces of Aceh and Papua (formerly Irian Jaya), there have been numerous clashes between supporters of separatist movements and the Indonesian military. In the province of Maluku, clashes between religious groups have resulted in thousands of casualties and displaced persons over the past three years. The Government has attempted to resolve problems in these troubled regions with limited success. In May 2003, peace talks between Government officials and supporters of the separatist movement in Aceh collapsed, with the Government subsequently imposing martial law in Aceh and launching intensive military actions against the separatist movement.

Social and civil conditions have and could continue to materially adversely affect business investment and confidence in Indonesia's economy. We cannot be certain that social and civil disturbances will not occur in the future. If these were to occur, such disturbances could lead to further political and economic instability, increased internal divisions within the Government as well as loss of confidence in Indonesian investment and could materially and adversely affect our business.

Terrorist activities in Indonesia could destabilize Indonesia which could adversely affect our business

An extensive bombing campaign struck religious buildings throughout Indonesia in 2000 and bombings have escalated in the last three years at government buildings, foreign diplomatic facilities, night clubs and other locations, including the Jakarta Stock Exchange building, the Police Function Building in Jakarta, the departure lounge of Jakarta's Soekarno-Hatta International Airport, the parliament building in Jakarta and a shopping mall in Jakarta. On October 12, 2002, over 200 people were killed in a bombing at a tourist area in Bali. This terrorist attack resulted in a significant decline in international tourism and has affected the ability of a portion of our customers in Bali to repay their loans. As of June 30, 2003, we had reserved Rp88.6 billion (US$10.7 million) against potential loan losses as a result of the Bali bomb attack. On August 5, 2003 a bomb exploded at the Marriott Hotel in Jakarta killing at least 12 people and injuring up to 150 people. Indonesian and US government officials have indicated that these bombings may be linked to the international terrorist organization, al-Qaeda.

There can be no assurance that further terrorist acts will not occur in the future. Such terrorist acts may, for example, be directed at foreigners in Indonesia or in relation to national elections scheduled for 2004. Following the commencement of hostilities in Iraq, a number of governments have issued warnings to their citizens in relation to a perceived increase in the possibility of terrorist activities in Indonesia, targeting foreign, particularly US, interests. Such acts could destabilize Indonesia and increase internal divisions within the Government as it considers responses to such instability and unrest. Violent acts arising from and leading to instability and unrest have in the past had, and could continue to have, a material adverse effect on investment and confidence in, and the performance of, the Indonesian economy and our business.

Political instability in Indonesia could adversely affect the economy which in turn would affect our business

Indonesia in recent years has experienced political instability. As economic conditions in Indonesia worsened in 1998, many cities, including Jakarta, experienced rioting, unrest and destruction of property. This instability led to the resignation of President Suharto in May 1998. Promptly thereafter, Vice President Baharuddin Jusuf Habibie was sworn in as President and called for reforms and parliamentary elections to be held in October 1999. Following the elections, the People's Consultative Assembly, *Majelis Permusyawaratan Rakyat*, or MPR, elected Abdurrahman Wahid as President and Megawati Sukarnoputri as Vice President. In February 2001, a committee of the Indonesian parliament, the People's Representative Council, *Dewan Perwakilan Rakyat*, or DPR, alleged that President Wahid was involved in instances of corruption. In July 2001, the MPR voted to impeach President Wahid and elected Megawati Sukarnoputri in his place. Since taking office in July 2001, President Megawati has appointed a new cabinet and announced plans to improve economic conditions and has generally received positive support both domestically and internationally. However, political instability in the past has caused confidence in the Indonesian economy to remain low. National elections, including the first direct popular election of the President, are scheduled to occur in Indonesia during 2004, and any uncertainty or political instability associated with these upcoming elections may impact Indonesia's economy and our business. Should there be a resurgence of political instability, there are likely to be adverse effects on the Indonesian economy and our business.

Labor activism and unrest could affect our customers and Indonesian companies in general, which in turn could adversely affect our business

A new labor law took effect in Indonesia on March 25, 2003 which permits employees to form unions without intervention from their employers. It is unclear what effect, if any, this law will have on labor relations in Indonesia, which has experienced labor unrest and activism in recent years. Labor unrest and activism could disrupt the operations of our corporate customers and would likely adversely affect the financial condition of Indonesian companies in general. In addition, these labor laws may make it more difficult for businesses, including our business, to downsize or have flexible labor policies.

Future changes in the value of the Rupiah against the US dollar or other currencies could adversely affect our business

The Government's exchange rate policies and any future changes in the value of the Rupiah against the US dollar and other currencies could adversely affect our financial condition and results of operations. Since July 1997, the Rupiah has been subject to significant depreciation and volatility against the US dollar and other currencies. On August 14, 1997, Bank Indonesia permitted the exchange rate for the Rupiah to float without announcing a level at which it would intervene. From 1997 to mid-1998, the value of the Rupiah relative to the US dollar declined from a high of Rp2,360 = US$1.00 as of January 2, 1997 to a low of Rp15,250 = US$1.00 as of June 17, 1998. As of September 30, 2003, the exchange rate was Rp8,389 = US$1.00. See "Exchange Rate Information". We cannot assure you that the Rupiah will not be subject to depreciation and continued volatility, that the current exchange rate policy will remain the same, or that the Government will, or will be able to, act when necessary to stabilize, maintain or increase the value of the Rupiah, and will not act to devalue the Rupiah, or that any such action, if taken, will be successful.

Since 1997, depreciation of the Rupiah has made it difficult for many Indonesian companies with Rupiah revenue streams and significant US dollar or other foreign currency-denominated loans or costs to meet their repayment obligations. Depreciation or volatility of the Rupiah against the US dollar or other currencies could adversely affect our ability, and the ability of our borrowers, to meet foreign currency-denominated payment obligations, such as for loans and imports, and adversely affect general economic conditions in Indonesia. This, in turn, could result in additional non-performing loans and reduced demand for new foreign currency loans that we make to our SME and corporate customers that are in export-oriented businesses or have foreign currency revenues. In addition, continued volatility or significant depreciation of the Rupiah against the US dollar or other currencies could cause depositors and investors to lose confidence in us.

Downgrades of credit ratings of the Government and Indonesian companies could adversely affect our business

Beginning in 1997, certain international credit rating agencies, including Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch"), downgraded Indonesia's sovereign rating and the credit ratings of various credit instruments of the Government and a large number of Indonesian banks and other companies, including us. Currently, Indonesia's sovereign foreign currency long-term debt is rated "B2" by Moody's, "B" by S&P and "B" by Fitch, and its foreign currency short-term debt was rated "NP" by Moody's, "B" by S&P and "B" by Fitch. These ratings reflect an assessment of the Government's overall financial capacity to pay its obligations, and its ability or willingness to meet its financial commitments as they become due. No assurance can be given that Moody's, S&P, Fitch or any other international credit rating agency will not further downgrade the credit ratings of Indonesia or Indonesian companies, including us. Any such downgrade could have an adverse impact on liquidity in the Indonesian financial markets, the ability of the Government and Indonesian companies, including us, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available. Interest rates on floating rate Rupiah-denominated debt would also likely increase. Furthermore, it would likely also result in a lower price on Government recapitalization bonds and reduce the value of our Government recapitalization bonds and other Government obligations generally and may cause us to face liquidity difficulties.

RISKS RELATING TO THE INDONESIAN BANKING SECTOR

The Indonesian banking sector is in the process of recovery and if the recovery fails, it could materially and adversely affect us

The Indonesian banking sector is in the process of recovering from the Asian economic crisis that started in 1997 and continues to face significant financial and operating challenges. These challenges have included or include, among other things, volatile interest rates, liquidity constraints, low or negative interest margins, low deposit growth, a large number of non-performing loans, deterioration of asset and credit quality, low or negative loan growth, declining collateral values and potential or actual under-capitalization. In response to the economic crisis, the Government established the Indonesian Bank Restructuring Agency, *Badan Penyehatan Perbankan Nasional,* ("IBRA") in 1998 to restructure the banking system. In 1999, the Government, through Bank Indonesia and IBRA, undertook significant reforms including taking action to close, liquidate, sell interests in or merge a number of Indonesian banks. Continuing disruptions in the Indonesian financial sector, or general economic conditions in Indonesia, may cause the Indonesian banking sector in general, and us in particular, to experience any or all of the aforementioned challenges including substantial increases in non-performing loans, problems meeting capital adequacy requirements, liquidity problems and other challenges, many of which we have faced before. There can be no assurance that the Government, acting through Bank Indonesia, IBRA or otherwise, will not take additional actions in relation to Indonesian banks, including us, including forced acquisitions or mergers, bank closures, increases in interest rates, increases in regulatory capital requirements or exchange controls.

The laws governing us are evolving and failure to comply with such laws could harm our business and reputation

We are regulated principally by, and have reporting obligations to, Bank Indonesia. We are also subject to the banking, corporate and other laws in effect in Indonesia from time to time, including the requirement that we be licensed to conduct our banking and financial services operations and the banking laws and regulations of other jurisdictions where we have branches or subsidiaries.

The regulatory and legal framework governing us differs in certain material respects from that in effect in the United States and other countries and may continue to change as the Indonesian economy and commercial and financial markets evolve. Since January 1998, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the banking sector. There can be no assurance as to whether the Government will continue to enforce these rules and regulations and implement these reforms, or whether such rules, regulations or reforms will be modified, revoked, diluted, strengthened or enforced against us in a manner that would be against our commercial interests.

The Government enacted Law of the Republic of Indonesia no. 15/2002 concerning Money Laundering Criminal Acts ("MLCA") on April 17, 2002. While MLCA criminalizes the laundering of illicit proceeds and mandates reporting of suspicious transactions by Indonesian banks, Indonesia remains on the Financial Action Task Force on Money Laundering ("FATF") list of "non-cooperative countries and territories" due to the failure to fully implement the MLCA, the thresholds set forth in the MLCA for criminal activity and the grace period for reporting suspicious transactions, among other things. The Indonesia legislature, on September 16, 2003, approved an amendment to the MLCA that would, among other things, increase the scope of transactions that require disclosure to Bank Indonesia to include foreign currency transactions, define the term "money laundering" and shorten the grace period for reporting suspicious transactions to three working days for transactions other than those in cash. This amendment awaits enactment by the President. We may have greater difficulty transacting business with entities located in other countries if the FATF determines that countermeasures are necessary in order to move Indonesia towards compliance with the FATF recommendations. We may incur substantial compliance and monitoring costs if further rules or regulations are enforced, or if existing regulations are enforced on a more stringent basis.

If we are unable to comply with the rules and regulations applicable to us, we could lose our license or incur penalties and our business reputation may suffer, which could materially and adversely affect our financial condition and results of operations. If the current requirements are relaxed, depositors and counterparties could lose confidence in the Indonesian banking system, which could adversely affect our business and deposit base.

Indonesian banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries

Indonesian banks are subject to the credit risk that Indonesian borrowers may not make timely payment of principal and interest on loans and in particular that, upon such failure to pay, Indonesian banks may not be able to enforce the security interest they may have. The credit risk of Indonesian borrowers is, in many instances, significantly higher than that of borrowers in more developed countries due to the greater uncertainty associated with the Indonesian regulatory, political, legal and economic environment and the greater volatility of interest rates and Rupiah to US dollar exchange rates. Any significant political or economic event in Indonesia may result in a rapid deterioration in the credit quality of our loan portfolio and, as a consequence, a significantly higher percentage of non-performing loans than banks in more developed countries generally experience.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Indonesian banks, including us, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk may make it more difficult or more expensive to raise equity financing. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on our financial condition, liquidity and results of operations.

Bank Indonesia classification and provisioning policies in respect of non-performing loans may be applied more leniently than in certain other countries which may result in our provisions to be inadequate

Bank Indonesia regulations require that Indonesian banks classify non-performing loans in three categories corresponding to risk of non-payment: substandard, doubtful and loss. In addition, we are required to classify performing loans in two categories: current and special mention. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears and the business prospects of the borrower and its affiliates. These requirements have in the past been, and will in the future be, subject to change by Bank Indonesia. In addition, the application of these requirements is generally more lenient than it would be for banks in the United States and certain other countries and generally results in particular loans being classified as non-performing or impaired later than would be required in such countries or being classified in a category reflecting a lower degree of risk. In addition, US GAAP requires that impaired loans be measured at the present value of expected cash flows discounted at the loan's effective interest rate. Furthermore, the procedures for writing off loans in Indonesia generally results in loans being written off later than would be the case for banks in the United States and other countries. The absence of write-offs in any particular period makes it difficult to determine the adequacy of past or current loan provisioning levels.

Since 1998, we have had a significant number of special mention loans in our portfolio. As of June 30, 2003, 7.3% of our loans fell under the category "special mention". Special mention loans are not classified as non-performing in Indonesia although they may be classified as impaired under US GAAP or international accounting standards, which would potentially require significantly more provisions than under Indonesian GAAP.

Although our loan classification provisioning policies comply with current Bank Indonesia guidelines, no assurance can be given that our allowances are appropriate or that we will not have to make significant additional provisions for possible loan losses in future periods, which could have a material adverse effect on our financial condition, liquidity and results of operations and may require us to raise additional capital. Our loan classification provisioning policies have a significant impact on our results of operations.

The Government has in the past altered, and may in the future alter, the terms of our Government recapitalization bonds

The Government has the power to alter, or reprofile, material terms of Government recapitalization bonds with our agreement or by legislation at any time. On November 20, 2002, the Government completed a reprofiling of certain Government recapitalization bonds which became necessary due to continuing Government budgetary constraints. The reprofiling sought to allow the Government to better manage its debt by extending the maturity of certain Government recapitalization bonds held by certain State banks, including us. The reprofiling allowed the Government to replace a portion of the outstanding Government recapitalization bonds held by four State-owned banks (ourselves, Bank Mandiri, Bank Tabungan Negara and Bank Negara Indonesia), which were due to mature between 2004 and 2009 with Government recapitalization bonds due to mature between 2010 and 2020. Under the reprofiling, the Government reprofiled Rp171.8 trillion (US$20.8 billion) of its Government recapitalization bonds by shifting the maturity profile of such bonds to between 2010 and 2020. The reprofiling affected Rp20,400 billion (US$2,468 million) of our Government recapitalization bonds, representing 72.8% of our Government recapitalization bonds as of June 30, 2003. Although we believe that the terms of this reprofiling resulted in no change in the value of the Government recapitalization bonds in our portfolio, there can be no assurance that the Government will not reprofile certain or all of the Government recapitalization bonds that we hold in the future on terms that may be substantially disadvantageous to us, and that may have a material adverse effect on our financial condition.

There is only a limited market for Government recapitalization bonds; the market value of these bonds may differ from their book value

There is only a limited market existing for the Government recapitalization bonds and this can make it difficult to determine the market value of such bonds. As of June 30, 2003, we held 92.8% of our Government recapitalization bonds in our held to maturity account and 7.2% of our Government recapitalization bonds in our trading account. The Government recapitalization bonds which are held to maturity are reflected on our financial statements at notional value rather than market value as required under Indonesian GAAP. Any requirement to mark these bonds to market could affect our shareholder's equity and, in a rising interest rate environment, cause a reduction in our capital adequacy ratio (which may cause us to breach Bank Indonesia regulatory requirements), require us to raise new capital and otherwise have a material adverse effect on our financial condition and results of operations.

We are required to mark to market any Government recapitalization bonds we hold in our trading account. As of June 30, 2003, we applied a market value of Rp2,018 billion (US$244 million) to the Government recapitalization bonds held in our trading account which had a nominal value of Rp1,898 billion (US$230 million), representing a 6.3% premium.

A liquid secondary market does not currently exist for most series of the Government recapitalization bonds. There can be no assurance that we will be able to sell any of our Government recapitalization bonds at all, or without sustaining a loss which may be significant. Also, the value of our Government recapitalization bonds is dependent on the Government's credit rating. There can be no assurance that the Government's credit rating, and the value of our holding of Government recapitalization bonds, will not decline in the future. See ''Risks Relating to Indonesia—Downgrades of credit ratings of the Government and Indonesian companies could adversely affect our business''.

The discontinuance of the bank deposit guarantee program in Indonesia may lead to instability in the banking sector

Prior to January 26, 1998, deposits in Indonesian banks were not guaranteed by any Government agency. Since then, deposits in Indonesian banks have been guaranteed by the Government pursuant to the Government Guarantee Program implemented by the Minister of Finance. By its terms, the guarantee will be automatically extended at six-month intervals unless the Minister of Finance, prior to the end of any six-month period, announces that the guarantee will not be extended. There can be no assurance that the current Government Guarantee Program will be continued in its current form or at all. Any change or termination of the program could lead to instability in the banking sector, including liquidity shortages and increases in interest rates caused by withdrawals of deposits. Any such instability may have a material adverse effect on our financial condition, liquidity and results of operations.

RISKS RELATING TO THE BANK

Our results of operations have varied and may continue to vary significantly from period to period

Our results of operations have varied from period to period in the past and may fluctuate significantly in the future as a result of various factors, including (i) our recapitalization in 2000, (ii) extraordinary gains and losses in our securities portfolio due to changes in the interest-rate environment, (iii) the significant provisions we have had to make for non-performing loans and commitments and contingencies (such as letters of credit and bank guarantees), and the subsequent partial reversal of such provisions and (iv) write-offs and write-backs of our loans, such as decreased income from written-off loans as the credit quality of these loans decreases over time. In light of the above, we believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a bank not affected by such factors.

We are and will continue to be controlled by the Government

The Government, through the Selling Shareholder, owns all of our issued share capital. After the Global Offering, and assuming 3,811,765,000 shares are sold, the Government is expected to own 67.6% of our issued share capital (59.5% if the Over-subscription Option and Over-allotment Option are exercised in full) and will continue to retain control over us. The Government has historically influenced, and is likely to continue to influence, our strategy and operations. During the Suharto regime, State-owned banks were encouraged to make loans to politically-connected business groups. The Government also has the ability to influence and control other Government-related entities, some of which are our competitors, and to direct opportunities to our competitors or favor their interests over ours.

There can be no assurance that the Government will exercise its control and influence for our commercial benefit or that of our minority shareholders. For example, we could be pressured to enter into transactions or extend loans for other than purely commercial reasons, including making loans that are considered to serve the national interest. Furthermore, there can be no assurance that we will become independent of our Government shareholder, or even if we do become independent, that we will be able to exercise any such independence effectively in making decisions concerning our business and prospects. If we are required to act in the Government's interests and those interests differ from our interests, we could suffer a material adverse effect on our financial condition, liquidity and results of operations, which would limit our ability to compete effectively and expand our business.

Government recapitalization bonds and other Government securities represent a substantial portion of our assets

As of June 30, 2003, we held Rp28,007 billion (US$3,389 million) of Government recapitalization bonds, representing 30.5% of our total assets. Furthermore, 39.8% of our total assets, as of June 30, 2003 were direct obligations of the Government (such as the Government recapitalization bonds, Bank Indonesia call money obligations and SBIs). Interest payments on our Government recapitalization bonds account for a substantial portion of our total interest income, representing 25.0% for the first six months of 2003. Any delay or default in the payment of interest or principal by the Government when due will have a material adverse effect on our financial condition, liquidity and results of operations.

Any significant reduction in the value or liquidity of our Government recapitalization bonds, any change in the rules applicable to our Government recapitalization bonds or any requirement under Indonesian GAAP to mark to market our Government recapitalization bonds held to maturity, depending on the level and direction of interest rates at the time, could have a material adverse effect on our financial condition, liquidity and results of operations.

We have a high ratio of non-performing loans to total loans

We have a higher level of non-performing loans than is typical of banks in certain other countries. As of June 30, 2003, our non-performing loans represented 6.7% of our total loans. Higher levels of non-performing loans require additional management resources and redirect such resources away from other productive uses, including growing our business.

In addition, we have a high percentage of special mention loans. See "—Risks Relating to the Indonesian Banking Sector—Bank Indonesia classification and provisioning policies in respect of non-performing loans may be applied more leniently than in certain other countries which may cause our provisions to be inadequate".

We have a high concentration of loans to certain customers and certain sectors and if any of these loans were to become non-performing, the quality of our loan portfolio could be adversely affected

As of June 30, 2003, total exposures to our 20 largest individual borrowers (based on outstanding principal balances) totaled Rp4,902 billion (US$593 million), which represented 11.3% of total loans. We also have additional undrawn commitments to several of these top 20 borrowers. As of June 30, 2003, Rp1,078 billion (US$130 million), or 22.0% of the outstanding loans to the top 20 individual borrowers were classified as non-performing. In addition, as of June 30, 2003, Rp1,469 billion (US$178 million) or 30.0% of these loans were classified as special mention. If any additional loans to the top 20 individual borrowers become non-performing, the overall quality of our total loan portfolio may be adversely affected.

As of June 30, 2003, 12.7% of our loans were made to the manufacturing sector, 22.9% were to the trading, restaurant and hotel sector and 19.1% were to the agriculture sector (as defined by Bank Indonesia). As of June 30, 2003, 41.2% of loans consisted primarily of low to middle income consumer fixed income loans. Excluding these loans, as of June 30, 2003 loans to the manufacturing sector, the trading, restaurant and hotel sector and the agriculture sector constituted 93.0% of our loans together and 21.7%, 39.0% and 32.4% of our total loans respectively. Of our total non-performing loans, 48.7% were to the manufacturing sector, 14.6% were to the trading, restaurant and hotel sector and 13.8% were to the agriculture sector.

Our strategy to increase our loan portfolio may not be successful

We intend to increase our portfolio of loans to SMEs and corporate borrowers beginning in the fourth quarter of 2003 upon receipt of Ministry of Finance approval of an amendment to our Management Contract. We suffered significant losses from our corporate loan portfolio during the financial crisis, and pursuant to the restrictions placed upon us under the terms of our recapitalization, we have made loans only to existing corporate borrowers since 2000. Our experience in this sector has therefore been limited since our recapitalization and our credit underwriting procedures are untested for new customers and may not be adequate to ensure prudent loan growth.

Our business plan targets an increase in the amount of loans we extend to borrowers in the agribusiness sector from 29.2% to up to 40.0% of our total loan portfolio including micro, retail and medium-scale loans. This sector is exposed to many unique risks, such as unfavorable weather patterns, natural disasters, crop disease, environmental and conservation regulations, labor strikes and other disturbances and trade controls. Changes in commodity prices and foreign exchange movements also impact the financial condition of these borrowers. Strong competition within the industry could also cause a downturn in crop prices. Our loan portfolio could be adversely affected if a number of our borrowers in the agribusiness sector became affected by one or more of these risks.

We have recently started offering specialized consumer lending products such as motor vehicle loans and housing loans and intend to begin issuing credit cards to our consumer customers. We believe our consumer banking strategy is necessary to enable us to grow our customer base and increase our loan portfolio. However, we have limited experience in these new consumer lending products, especially in the area of credit cards. The credit card business involves different skills and approaches from our traditional lending business, which we may not succeed in developing.

We have recently commenced Islamic banking operations. As of June 30, 2003, we had opened eight Islamic branches and we intend to continue expanding our network. The Islamic banking business requires different skills and oversight than our traditional banking business and we have had to establish a separate supervisory board to oversee this business. There are several major banks with established Islamic banking operations and we may not succeed in developing this business.

Our inability to grow our business in any of these areas could have a material adverse effect on our financial condition, liquidity and results of operations.

The value of our collateral may be overstated and may decline in the future

There can be no assurance that our loans are collateralized at adequate levels. Our collateral may be overvalued and not accurately reflect its liquidation value, which is the maximum amount we are likely to recover from a sale of collateral, less expenses of such sale. In addition, some of the valuations in respect of our collateral may be out of date or may not accurately reflect the value of our collateral. In certain instances where there are no purchasers for a particular type of collateral, it may be worthless. Consequently, the protection afforded by our collateral may be overstated. In addition, since nearly all of our secured loans are secured by real property, inventory or other collateral located in Indonesia, the value of these assets has been, and may continue to be, negatively affected by the current political, economic and social conditions in Indonesia. Values for such assets may also be depressed by the forced sale by IBRA of various assets, businesses and companies situated in Indonesia which IBRA acquired from Indonesian banks (including us). Given this uncertainty in collateral values, our policy is to not deduct collateral values from required provisions for potential loan losses.

We may be unable to recover the assessed value of our collateral when our borrowers default on their obligations, which may expose us to potential losses

We may not be able to recover the value of any collateral or enforce any guarantee due, in part, to the difficulties involved in using the Indonesian legal system to enforce our rights. In order to foreclose on collateral or enforce a guarantee, we are generally required to submit a petition to an Indonesian court. Such a petition, when made, is subject to relatively burdensome procedural, administrative and bankruptcy law requirements. The resulting delays can last several years and could lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. In the past, these factors have exposed us, and continue to expose us, to legal liability while in possession of the collateral. Like other Indonesian banks, we rarely foreclose on our loans or enforce our collateral due to the time, expense and uncertainty involved in the legal process. This significantly reduces our ability to realize the value of our collateral and therefore the effectiveness of taking a secured position on the loans we make. In addition, when we restructure a non-performing loan, we may agree with a borrower to release collateral once a portion of the outstanding amount due on the loan is repaid. There can be no assurance that we will be able to realize the full value, or any value, of our collateral in a bankruptcy or foreclosure proceeding or otherwise.

If we are unable to raise sufficient additional capital, our capital adequacy ratio may fall

We expect that capital adequacy standards established by Bank Indonesia, as well as asset growth, will increase the amount of regulatory capital required by banks in Indonesia, including us. Bank Indonesia regulations increased the minimum risk-weighted capital adequacy ratio applicable to us from 4.0% to 8.0% commencing December 31, 2001. Before the economic crisis that began in 1997, the minimum risk-weighted capital adequacy ratio for Indonesian banks was 12.0%, and Bank Indonesia may increase the minimum risk-weighted capital adequacy ratio in the future in order to bring Indonesia's minimum capital adequacy ratio in line with international standards. Our risk-weighted capital adequacy ratio is expected to decrease as the percentage of zero risk-weighted Government recapitalization bonds included in our asset portfolio declines and the percentage of higher risk-weighted assets, such as loans, increases. As of June 30, 2003, our risk-weighted capital adequacy ratio was 14.7%. Although we are currently in compliance with the capital adequacy requirements of Bank Indonesia, there can be no assurance that we will continue to be able to comply with such requirements. If we cannot comply with minimum capital adequacy requirements, we would need to raise additional capital and our ability to do so could be limited.

We face foreign exchange risk due to mismatches between our assets and liabilities

As of June 30, 2003, we had US dollar and other currency-denominated loans of Rp3,643 billion (US$441 million), and US dollar and other currency-denominated deposits (including deposits from other banks) of Rp4,173 billion (US$505 million) and fund borrowings of Rp889 billion (US$108 million). Our foreign currency net open position ratio was 11.8% as of June 30, 2003, which did not exceed the 20.0% limit set by Bank Indonesia regulations. If the Rupiah appreciates significantly at any time when we have a significant net open position in foreign currency, such appreciation could cause us to suffer losses, reduce our capital adequacy ratio and require us to seek additional capital or breach Bank Indonesia capital adequacy regulations. There can be no assurance that any additional required capital would be available on acceptable terms or at all.

We may experience limited liquidity due principally to a material asset-liability mismatch

Most of our funding requirements are met through short-term and medium-term funding sources, primarily in the form of time deposits and savings deposits. Many of our assets (such as Government recapitalization bonds and many of our loans), however, have long-term maturities, creating potential for funding mismatches. Historically, we have been able to roll over most of our deposits on maturity, however, there can be no assurance that this will continue in the future. Although we have not experienced liquidity problems in the past, there can be no assurance that we can maintain sufficient liquidity to cover customer withdrawals in the future, especially in the event of a future economic crisis. If a substantial number of our depositors do not roll over deposited funds upon maturity, our liquidity position would be adversely affected. In particular, we may have to rely on borrowings from Bank Indonesia or other sources of financing which may not be available at commercially attractive terms or at all. Any failure to source funding would have a material adverse effect on our liquidity, financial condition and results of operations.

Our information and reporting systems require significant improvement; if we have difficulty integrating and upgrading our systems, our business could be adversely affected

The constraints of our information technology system limits our ability to implement product initiatives, such as online banking, or permit our customers to access their accounts throughout our BRI unit network. Certain procedures that are typically automated at other Indonesian banks are still carried out by us manually, which is not cost-effective and leads to increased errors. Although we have migrated a substantial portion of our branches and sub-branches to our centralized core banking system, we expect the full migration of our BRI units to take at least five years to complete. Until the BRI units are connected to our centralized system, it will continue to take as long as two weeks to complete transfers between such units and other branches, sub-branches and units and up to 30 days to transfer financial and operating data to the head office.

We are developing a new data center in Jakarta that will provide data support for our systems throughout our network. Until the data center is completed, we face security risks to our current system.

There can be no assurance that our information technology roll-out will be successfully completed or completed on time or within budget, that the new systems will be successfully implemented, that our employees can be successfully trained to utilize the new information technology system or that the new information technology system, if completed, will not become quickly outdated.

Even if we are able to integrate and modernize our existing information technology and reporting systems, our success will depend, in part, on our ability to respond to new technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. The development and implementation of such technology entails significant technical and business risks. There can be no assurance that we will successfully implement new technologies or adapt our transaction processing systems to customer requirements or emerging industry standards.

Our ability to assess, monitor and manage risks inherent in our business is hindered by limitations in the quality and timeliness of available data

As a bank, we are exposed to a variety of risks, including credit risk, market risk, interest rate risk and operational risk. The effectiveness of our management depends upon our ability to access accurate and reliable information on a timely basis. Our ability to manage our liquidity, protect against interest rate, market and operational risk, manage our asset quality and offer new products and competitive services also depends on our information and reporting systems. The constraints of our information and accounting systems hinder the timeliness and quality of data we need to collect in order to carry out risk management policies and procedures effectively and therefore our risk management is often hindered by the quality and timeliness of available data. For example, we calculate our interest rate gap analysis based on data which may be more than 30 days old in the case of BRI units. Even assuming effective implementation of our risk management policies, our ability to assess, monitor and manage risks inherent in our business would not meet the standards of our counterparts in certain other countries. If we are unable to acquire or develop in the future the technology and systems available to meet such standards or to implement such standards, it could have a material adverse effect on our ability to manage these risks and on our financial condition, liquidity and results of operations.

We are exposed to possible acts of fraud by our employees and third parties

We have recently identified several instances of fraud involving unauthorized funds transfers and pledges of cash which involve or affect our employees, customers and other third parties (including State-owned companies and affiliates). We have reported these incidents to Bank Indonesia and the attorney general of the Republic of Indonesia. We have not yet determined the amount of losses resulting from these events. Based on preliminary estimates, we expect the losses to be up to Rp294 billion (US$36 million) and have provided for all this amount through allowances for losses on earning assets and on other assets in the third quarter ended September 30, 2003. The amount of these provisions is equal to 20.2% of our profit from operations for 2002.

Our investigations of these incidents and review of the adequacy of our internal controls relating to these incidents are continuing. We cannot be certain at this time whether there are other instances of fraud (either related or unrelated) as yet undetected or whether there are systemic weaknesses in our internal controls intended to prevent and detect fraudulent activities. Accordingly, we could incur substantial additional losses from other incidents of past or future fraud.

Publicity arising from disclosure of fraud at other banks in Asia adversely affected the reputation of, customers' confidence in and the share price of the banks. According to recent press reports, a major Indonesian bank discovered fraud involving a possible exposure of Rp1,700 billion (US$206 million), and bank staff alleged to be involved in the fraud were arrested. The price of such bank's shares dropped sharply on the day of the initial publication of these reports. Based on current information, we believe that the nature of these fraudulent transactions are different and have no reason to believe that these events are related to recent incidents at the Bank. If we discover or are subject to additional fraudulent activities, the value of our shares could also experience rapid and sharp declines and our business, earnings and financial condition could be materially adversely affected.

We have significant numbers of unresolved inter-branch open items

We have a significant number of unresolved inter-branch open items which arise from recording differences between branches (such as in the recording of reference numbers or amounts) or recording failures, including from time lag, human error, non-integrated information technology systems and manual processes. These unresolved open items are reflected in our balance sheet under "Other assets" and "Other liabilities" depending on whether the items are net debit or net credit balances and are equal to 0.6% of our total assets as of June 30, 2003. We have made substantial provisions for these open items against "Other assets" to cover possible losses accruing from the eventual reduction or settlement of these open items. As of June 30, 2003, these provisions equalled 26.7% of the net open items. We have not yet developed formal policies and procedures for determining and assessing the adequacy of the provisions made to cover possible losses from open items. In determining our net open items, we set-off the open items in the same currency (for example, Rupiah assets are set off against Rupiah liabilities). This may mean that the gross open item assets and liabilities are substantially larger than the net position shown in our financial statements. As a result of our unresolved inter-branch open items, our assets may be overstated.

Our ability to control the extent of open items remains a significant issue for us, as it highlights the need for improvements in the effectiveness of our internal control system upon which our financial and accounting results are based. Until substantially all of our BRI units are connected to our centralized system, which is currently expected in 2007, we will continue to rely on various manual processes as part of our accounting system, which increases the risk of errors of various kinds.

Our industry is very competitive

The Indonesian banking sector is very competitive. Our primary competitors are major domestic and foreign banks operating in Indonesia. We also face competition for customers from a variety of financial services companies, such as regional banks, unlicensed money lenders, co-operatives and leasing and financing companies, as well as entities owned by or affiliated with the Government that provide industrial development funding and export and import lending and services.

The Government has agreed with the IMF to sell a portion of its interest in several State-owned banks as part of its privatization efforts, including Bank Lippo and Bank International Indonesia. The Government completed the sale of a portion of its interest in Bank Mandiri in July 2003 and Bank Danamon in June and July 2003. Although the Government has announced its intention not to renew its program with the IMF, the Government has announced that it will continue with its plan to sell some of its interest in our competitors. The sale by the Government of some or all of its interest in several of our major competitors may result in the strengthening of the competitive and financial position of our major competitors to our detriment, and may have a materially adverse impact upon our competitive position.

We also may face increased competition in one or all of our product lines in the future from financial institutions offering a wider array of commercial banking services and products than us and that have larger lending limits, greater financial resources and stronger balance sheets than we do. Increased competition may result from:

- foreign banks, due to, among other things, relaxed standards permitting large foreign banks to open branch offices;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, such as the alliance of Bank Panin with Australia and New Zealand Banking Group Limited;
- Government reform of the financial sector and restructuring and recapitalization of Indonesian banks, many of which also have established relationships with the Government and large corporate groups and which, like us, benefit from the ability of the Government to direct opportunities to them and otherwise favor their interests;
- continued consolidation, both with and without Government assistance, in the banking sector involving domestic and foreign banks, driven in part by the liberalization in 1999 of foreign ownership restrictions; and

- smaller private domestic banks that are more nimble, did not need to be recapitalized, and are focused as we are on profitable market segments such as SMEs.

In addition, our consumer banking strategy will expose us to competition from Indonesian and foreign banks which may have significantly more experience in that market segment than we do.

There can be no assurance that we will be able to compete effectively, and increased competition may make it difficult for us to increase the size of our loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on our growth plans, results of operations and financial condition.

Corporate governance standards in Indonesia may differ from those in certain other countries

Corporate governance standards differ from those applicable in other jurisdictions in significant ways, including board and audit committee independence and internal and external reporting standards.

As Indonesian accounting differs in certain material respects from US GAAP, there will be less information about us available than for companies in countries that apply US GAAP or similar accounting rules

Our financial statements are prepared and presented in accordance with Indonesian GAAP, which differs from US GAAP in many material respects, including the recognition and provisioning for non-performing loans. Thus, our financial statements may differ from those prepared for companies in the United States in these and other respects. See "Principal Differences Between Indonesian GAAP and US GAAP". This Offering Circular does not include reconciliation of our financial statements to US GAAP, and there can be no assurance that such a reconciliation would not identify material quantitative differences.

Certain statistical information has not been prepared in accordance with international disclosure standards

The statistical information based on average balances included in this Offering Circular has not been prepared in accordance with the requirements specified under the Securities Act, which requires average balances to be prepared on the basis of daily averages or, in limited circumstances, monthly averages. The average balances for 2000 and 2001 are prepared on the basis of opening and closing balances for the year, while the average balances for 2002 were prepared on the basis of quarterly balances. Averages calculated based on quarterly data as compared to averages calculated based on year-end data may vary significantly. For example, in 2002 the average balance for our current accounts with other banks based on quarterly data was Rp737 billion (US$89 million) as compared to Rp879 billion (US$106 million) based on opening and closing balances, or a difference of 19.3%. For the same period, the average balance for our demand deposits was Rp8,392 billion (US$1,015 million) based on quarterly data as compared to Rp9,487 billion (US$1,148 million) based on opening and closing balances, or a difference of 13.0%. In 2002 the average balance for our loans was Rp36,689 billion (US$4,439 million) based on quarterly data as compared to Rp36,448 billion (US$4,410 million) based on opening and closing balances, or a difference of 0.7%. In addition, due to changes in accounting principles taking effect in 2000, averages for 2000 may not be comparable with other periods, as they are based on our closing balances in 1999 which have not been restated to take into account these new accounting principles. As a result, a period to period comparison may not be meaningful.

The preparation of this average balance sheet information impacts important statistical information including net interest margin, return on average equity and return on average assets. Accordingly, you should not place undue importance on small changes from year to year or on statistical information based on average balances.

RISKS RELATING TO OWNERSHIP OF OUR SHARES

Conditions in the Indonesian securities market may affect the price or liquidity of our shares; the absence of a prior market in our shares may contribute to a lack of liquidity

We have applied to list our shares on the JSX and SSX. There is currently no market for our shares. There can be no assurance that a market will develop for our shares. The Indonesian capital markets are less liquid and more volatile, and have different reporting standards, than markets in the United States, the

United Kingdom and many other countries. Also, prices in the Indonesian capital markets are typically more volatile than in such other markets.

The ability to sell and settle trades on the JSX and SSX may be subject to delays. In light of the foregoing, there can be no assurance that a holder of our shares will be able to dispose of its shares at prices or at times at which such holder would be able to do so in more liquid markets or at all.

Even if our listing application is approved, our shares will not be listed on the JSX and SSX for approximately 30 days after the end of the allocation period for the Global Offering. During that period, investors will be exposed to movements in the price of our shares without the ability to dispose of the purchased shares through the JSX and SSX.

Future changes in the value of the Rupiah against the US dollar or other currencies will affect the foreign currency equivalent of the value of our shares and any dividends

Fluctuations in the exchange rate between the Indonesian Rupiah and other currencies will affect the foreign currency equivalent of the Rupiah price of our shares on the JSX and SSX. Such fluctuations will also affect the amount in foreign currency received upon conversion of cash dividends or other distributions paid in Rupiah by us on, and the Rupiah proceeds received from any sales of, the shares, as well as the book value of foreign currency assets and liabilities, and income and expenses and cashflows in our financial statements.

The application of BAPEPAM conflict of interest rules may cause us to forego transactions that are in our best interests

In order to protect the rights of minority shareholders, the rules of BAPEPAM afford independent shareholders of Indonesian public companies the opportunity to vote to approve or disapprove any transactions, whether or not material, which entail a "conflict of interest" under the BAPEPAM rules unless the conflict existed before a company became listed on the JSX or SSX and was fully disclosed in the relevant Indonesian share offering documents. Transactions between us and other State-owned or controlled enterprises could constitute conflict of interest transactions under the BAPEPAM rule. As a result, the approval of holders of a majority of shares not owned directly or indirectly by the Government ("disinterested shareholders") would have to be obtained if a conflict of interest were to exist. BAPEPAM has the power to enforce this rule and our shareholders may also be entitled to seek enforcement or bring enforcement action based on this BAPEPAM rule.

Given our large customer base of Government-related entities, the requirement to obtain independent shareholder approval could be burdensome to us in terms of time and expense and could cause us to forego entering into certain transactions which we might otherwise consider to be in our best interests. Moreover, there can be no assurance that approval of disinterested shareholders would be obtained if sought.

Future sales of our shares could adversely affect the market price of our shares

Future sales of substantial amounts of our shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our shares or our ability to raise capital through a public offering of additional equity or equity-linked securities. Immediately following the Global Offering, and assuming 3,811,765,000 shares are sold, 67.6% of our outstanding shares (59.5% if the Over-subscription Option and Over-allotment Option are exercised in full) are expected to be held directly by the Government, through the Selling Shareholder. The Government has announced generally that it intends to privatize State-owned enterprises, which may lead to the Government selling more of our shares in the future as part of its privatization plans. We and the Government have each agreed to certain restrictions on our respective abilities to transfer or otherwise dispose of our shares for limited periods following closing of the Global Offering. Nevertheless, future sales of large blocks of shares, or the perception that such sales could occur, could cause the price of our shares to decrease and make it more difficult for us to raise capital.

Your right to participate in our rights offerings could be limited, which would cause dilution to your holdings

To the extent that we offer our shareholders rights to purchase or subscribe for shares or otherwise distribute common shares to our shareholders, US holders will be unable to exercise such rights for our shares unless a registration statement under the Securities Act is effective with respect to the new shares or an exemption from registration under the Securities Act is available.

Whenever we make a rights or similar offering of our shares, we will evaluate the costs and potential liabilities associated with, and our ability to comply with, US regulations, for any such registration statement and any other factors we consider appropriate. However, we do not currently expect to file any such registration statement. If we do not file a registration statement and no exemption from registration under the Securities Act is available, then US holders of our shares would be unable to participate in rights or similar offerings and would suffer dilution of their shareholdings. Also, there may be similar restrictions in other jurisdictions that affect our ability to offer rights and make other share offerings in these jurisdictions. Consequently, we cannot assure you that you will be able to maintain your proportional equity interests in us. Because rights issues in Indonesia generally enable participants to purchase shares at a large discount to the recent trading price, your inability to participate could cause you material economic harm.

You may not be able to enforce a judgment of a foreign court against us

We are a limited liability company incorporated under the laws of Indonesia. All of our commissioners, directors and executive officers reside in Indonesia. Substantially all of our assets and the assets of such persons are located in Indonesia. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against us or such persons in the United States judgments obtained in US courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States. Judgments of US courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States, are not enforceable in Indonesian courts, and there is doubt as to whether Indonesian courts will enter judgments in original actions brought in Indonesian courts predicated solely upon the civil liability provisions of the federal securities laws of the United States. As a result, holders of our shares may be required to pursue claims against us in Indonesia under Indonesian law.

The claims and remedies available under Indonesian law may not be as extensive as those available in other jurisdictions. No assurance can be given that the Indonesian courts will protect the interests of investors in the same manner or to the same extent as would US courts.

Indonesia's legal system is a civil law system based on written statutes, and decided legal cases do not constitute binding precedent. The administration of laws and regulations by courts and Government agencies may be subject to considerable discretion. In addition, because relatively few disputes relating to commercial matters and modern financial transactions and instruments are brought before Indonesia's courts, such courts do not necessarily have the experience of courts in other countries. There is no certainty as to how long it will take for proceedings in Indonesian courts to be concluded, and the outcome of proceedings in Indonesian courts may be more uncertain than that of similar proceedings in other jurisdictions. Accordingly, it may not be possible for investors to obtain timely and equitable enforcement of their legal rights.

In addition, purchasers of our shares may have more difficulty in protecting their interests against actions by our commissioners, directors or principal shareholders than they might have as investors in shares in a corporation established under the laws of other jurisdictions.

You may be subject to limitations on minority shareholders rights

The obligations under Indonesian law of majority shareholders, commissioners and directors with respect to minority shareholders may be more limited than those in certain other countries such as the United States and certain other countries. Consequently, minority shareholders may not be able to protect their interests under current Indonesian law to the same extent as in certain other countries. Your rights as a shareholder may also be adversely affected by the Government's ownership of the Special Share. Principles of corporate law relating to such matters as the validity of corporate procedures, the fiduciary duties of our management, directors, commissioners and controlling shareholders, and the rights of our minority shareholders are governed by Indonesian law and our Articles of Association. Such principles of law differ from those that would apply if we were incorporated in a jurisdiction in the United States or in other jurisdictions. In particular, concepts relating to the fiduciary duties of management are untested in Indonesian courts. Derivative actions have almost never been brought on behalf of companies or been tested in Indonesian courts, and minority shareholders' rights have only been defined since 1995 and are unproven in practice. Accordingly, there can be no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders.

Investors will have no remedy against Prasetio, Utomo & Co.

Our consolidated financial statements as of December 31, 2000 and December 31, 2001 and for each of the two years then ended were audited by Prasetio, Utomo & Co., a former affiliate of Andersen Worldwide, and are included herein in reliance upon the authority of such firm as experts in accounting. Prasetio, Utomo & Co. has informed us that the Ministry of Finance withdrew its business license in August 2002 and that it no longer operates as a public accounting firm. Accordingly, we are no longer able to obtain, after reasonable efforts, signed, reissued reports of Prasetio, Utomo & Co. for its consolidated financial statements included elsewhere in this Offering Circular. Investors may not be able to recover damages from Prasetio, Utomo & Co. if it is later determined that there are material misstatements or omissions in such financial statements that have been prepared or certified by Prasetio, Utomo & Co.

Use of Proceeds

The net proceeds from the Global Offering, after deducting underwriting fees and commissions, but before taking into account the 3.0% discount available to certain of our customers and employees and other expenses, are expected to be approximately Rp3,230.2 billion (US$390.8 million) (Rp4,037.0 billion (US$488.4 million) if the Over-subscription Option and Over-allotment Option are exercised in full). We expect to receive approximately Rp1,490.6 billion (US$180.4 million) (prior to the deduction of the discount and other expenses) of the net proceeds. We intend to use such proceeds to enhance our regulatory capital and:

- approximately 10% of the proceeds will be used to fund future growth, including research and development, our ability to make loans and provide other financing products to our customers;
- approximately 60% of the proceeds will be used to invest in technology including upgrading our management information system, implementation of our core banking system and capital investment;
- approximately 30% of the proceeds will be used to expand our network including opening branches in, among others, Jakarta, Padang and Banjarmasin regional offices, and opening our sub-branches and units throughout Indonesia.

The Selling Shareholder is selling common shares as part of the Government's bank divestment strategy and we will not receive any proceeds from the sale of common shares by the Selling Shareholder (equal to approximately Rp1,734.8 billion (US$209.9 million) (Rp2,541.5 billion (US$307.5 million) (prior to the deduction of the discount and other expenses) if the Over-subscription Option and Over-allotment Option are each exercised in full).

Exchange Rate Information

The following table shows the exchange rate of Rupiah for US dollars based on the middle exchange rate at the end of each month during the periods indicated. The Rupiah middle exchange rate is calculated based on Bank Indonesia published buying and selling rates. No representations are made that the Rupiah or US dollar amounts referred to herein could have been or could be converted into US dollars or Rupiah, as the case may be, at the rate indicated or any at other rate or at all.

	At Period End	Average(1)	High(2)	Low(2)
1998	8,025	9,875	14,900	7,300
1999	7,100	7,809	8,950	6,726
2000	9,595	8,534	9,595	7,425
2001	10,400	10,266	11,675	8,865
2002	8,940	9,261	10,320	8,730
2003				
January	8,876	8,897	8,968	8,836
February	8,905	8,895	8,970	8,863
March	8,908	8,930	9,120	8,863
April	8,700	8,806	8,905	8,665
May	8,279	8,434	8,675	8,165
June	8,285	8,229	8,337	8,170
July	8,505	8,336	8,665	8,166
August	8,535	8,503	8,618	8,380
September	8,389	8,462	8,503	8,389

(1) *For full years the average shown is calculated based on the middle exchange rate announced by Bank Indonesia on the last day of each month during the year indicated. For monthly averages from January 2003 to September 2003, the average shown is calculated based on the daily middle exchange rates during the month indicated.*

(2) *For full years, the high and low amounts are determined based upon the month-end middle exchange rates announced by Bank Indonesia during the year indicated. The high and low figures for January to September 2003 are determined based on the daily middle exchange rates during the month indicated.*

Source: Bank Indonesia.

Dividend Policy

Under Indonesian law, the payment of final dividends is required to be approved by the shareholders at the annual general meeting of shareholders upon the recommendation of the board of directors. Our Articles of Association provide that if we make a net profit in any financial year, we may distribute dividends to our shareholders, based on a recommendation from our board of directors, upon obtaining the necessary approval from our shareholders. There is no guarantee that we will pay dividends in the future. The decision to pay dividends is otherwise subject to our earnings, capital adequacy requirements, financial and liquidity condition, compliance with prevailing laws and regulations and any other factors considered relevant by our board of directors and, to the extent a decision is made to pay dividends, dividends will be paid in Rupiah. Holders of shares on the applicable record dates will be entitled to the full amount of dividends approved, subject to Indonesian withholding tax imposed, if any. The board of directors may change its dividend policy at any time, subject to approval of such change by a general meeting of shareholders. See "Description of Our Shares—Dividends".

Since 2000, we have made three cash dividend payments, including a payment in the aggregate amount of Rp167,689 million for 2000, a payment in the aggregate amount of Rp531,946 million for 2001 and a payment of Rp762,470 million for 2002, each reflecting a dividend payout ratio of approximately 50.0% of earnings for the period. No interim dividend was paid for the first six months of 2003.

It is the current intention of the management, subject to our financial performance and financial position and the approval of IBRA pursuant to its authority under the Government Guarantee Program and the further approval of a general meeting of shareholders, to pay a final dividend of at least 50.0% of net profit for the second half of 2003 that will be payable in 2004. Our net profit for the first six months was capitalized into additional paid-in capital as part of the quasi-reorganization and therefore the distributable portion of our net profit for 2003 will be the net profit for the second half of 2003. In addition, our current intention is to maintain a dividend payout ratio of approximately 50.0% of net profit for each financial year, subject to our financial performance and financial position and the approval of IBRA and a general meeting of shareholders. However, no assurance can be given that we will be able to pay dividends according to this policy.

In accordance with Government policies for State-owned enterprises, we also contribute 1.0% of net profit to programs for the development of small-scale industry and cooperatives and environmental development in the form of a dividend.

Dividends received by a Non-Indonesian Holder of shares will be subject to Indonesian withholding tax. For the definition of Non-Indonesian Holder and further information relating to Indonesian taxation, see "Taxation—Indonesian Taxation".

Capitalization

The table below sets forth our capitalization and indebtedness as of June 30, 2003 and as adjusted to account for certain changes in our capital structure, as described below. This information has been extracted from our financial statements as of June 30, 2003.

On October 3, 2003, we effected a corporate readjustment of our accounts in the form of a quasi-reorganization in accordance with PSAK No. 51 and current regulations, in which the deficit after calculating of the readjustment was eliminated against additional paid-in capital. In addition, on September 30, 2003, pursuant to a decree of the Minister of Finance, the Government agreed to an increase in the level of our issued and fully paid capital to Rp5,000 billion (US$605 million) by the conversion of recapitalization funds from additional paid-in capital into issued and fully paid capital. The quasi-reorganization and the capital restructuring are effective as of June 30, 2003 and such adjustments are reflected in our audited balance sheet as of such date. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Introduction—Quasi-Reorganization and Capital Restructuring".

On September 25, 2003, we issued US$150,000,000 of Subordinated Notes due 2013, which qualify as Tier II capital.

You should read this table in conjunction with our financial statements, including the notes thereto, found elsewhere in this Offering Circular and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	As of June 30, 2003			
	Actual[1]	As adjusted[2]	As adjusted for the Global Offering[3]	
		(Rp billions)		(US$ millions)
Indebtedness				
Fund borrowings in Rupiah	613	613	613	74
Fund borrowings in foreign currencies	889	889	889	108
Subordinated loans	509	509	509	62
Subordinated Notes due 2013	—	1,240	1,240	150
Total indebtedness	2,011	3,251	3,251	393
Shareholder's equity				
Share capital				
Issued and fully paid	5,000	5,000	5,882	712
Additional paid-in capital	1,092	1,092	1,700	206
Revaluation increment on premises and equipment	1	1	1	0
Differences in foreign currency translation	105	105	105	13
Retained earnings (deficit)				
Appropriated	—	—	—	—
Unappropriated	—	—	—	—
Shareholder's equity	6,198	6,198	7,688	930
Total capitalization and indebtedness	8,209	9,449	10,939	1,324

(1) *As adjusted for quasi reorganization and capital reorganization.*
(2) *As adjusted for the US$150,000,000 offering of our Subordinated Notes due 2013.*
(3) *As adjusted for the Global Offering, assuming both the Over-allotment Option and the Over-subscription Option are exercised, but without reduction for the 3.0% discount made available to certain of our customers and employees and other expenses.*

Selected Financial and Operating Data

The following tables set forth our summary financial information and other operating data. We have prepared this information using our audited financial statements, including notes to the financial statements, that have been prepared in accordance with Indonesian GAAP for the three years ended December 31, 2002 and the six-month period ended June 30, 2003 and our unaudited financial statements for the six-month period ended June 30, 2002, which are included in this Offering Circular. Our audited financial statements for 2002 and the six months ended June 30, 2003 have been audited by Ernst & Young Prasetio, Sarwoko & Sandjaja, independent auditors. Our consolidated financial statements for 2000 and 2001 were audited by Prasetio, Utomo & Co., a former affiliate of Andersen Worldwide. Prasetio, Utomo & Co. ceased operating in August 2002. See "Independent Auditors" and "Risk Factors—Risks Relating to the Bank—Investors will have no remedy against Prasetio, Utomo & Co.".

Except as otherwise stated, all financial information relating to us is stated in accordance with Indonesian GAAP. Indonesian GAAP differs in certain significant respects from US GAAP. See "Principal Differences Between Indonesian GAAP and US GAAP". We have not quantified or identified the impact of the differences between Indonesian GAAP and US GAAP.

Selected Income Statement Data	**Year ended December 31,**			**Six months ended June 30**		
	2000	**2001**	**2002**	**2002**	**2003**	**2003**
	(Rp billions)					**(US$ millions)**
Total interest income	7,616	10,968	13,454	6,579	7,448	901
Total interest expense	(4,823)	(6,006)	(7,373)	(3,720)	(3,806)	(460)
Net interest income	2,793	4,962	6,080	2,859	3,642	441
Total other operating income	754	1,153	1,045	589	537	65
Total income	3,547	6,115	7,125	3,448	4,179	506
Other operating expenses	(3,881)	(3,396)	(3,908)	(1,793)	(2,761)	(334)
Pre-provision operating profit (loss)	(334)	2,719	3,217	1,655	1,418	172
Total provision for possible losses, net of reversal	662	(1,603)	(1,755)	(701)	(26)	(3)
Profit from operations	328	1,116	1,462	954	1,392	169
Non-operating income (net)	8	25	8	11	373	45
Profit before tax and minority interests	336	1,141	1,470	965	1,765	214
Tax benefit (expense)	4	(69)	55	131	(583)	(71)
Profit before minority interest	339	1,072	1,525	1,096	1,182	143
Minority interests in net profit (loss) of consolidated subsidiary[1]	(0)	(8)	—	(4)	—	—
Net income	339	1,064	1,525	1,092	1,182	143

Selected Balance Sheet Data	As of December 31, 2000	2001	2002	As of June 30, 2003	2003
	(Rp billions)				(US$ millions)
Cash and placements with other banks	8,129	10,977	12,136	10,680	1,292
Securities	723	2,509	5,590	8,582	1,038
Government bonds:					
Fixed rate bonds	28,982	28,436	21,803	21,468	2,598
Variable rate bonds	—	0	6,591	6,539	791
Total Government bonds	28,982	28,436	28,394	28,007	3,389
Gross loans	27,030	33,529	39,367	43,488	5,261
Allowance for possible loan losses	(2,771)	(3,963)	(3,913)	(4,169)	(504)
Net loans	24,259	29,566	35,454	39,319	4,757
Total assets	66,334	76,195	86,345	91,803	11,107
Deposits:					
Demand deposits	7,529	7,516	11,459	11,810	1,429
Savings deposits	22,711	26,529	28,673	31,096	3,763
Time deposits	18,974	23,706	29,484	31,416	3,801
Certificates of deposits	3	8	11	11	1
Total deposits	49,217	57,758	69,627	74,333	8,994
Deposits from other banks	1,943	3,056	2,061	1,833	222
Fund borrowings	4,559	5,023	3,025	1,502	182
Subordinated loans	421	517	520	509	62
Total liabilities	62,266	71,358	80,551	85,605	10,358
Minority interests in net assets of consolidated subsidiary(1)	15	23	—	—	—
Total shareholder's equity	4,053	4,814	5,794	6,198	750
Total liabilities and shareholder's equity	66,334	76,195	86,345	91,803	11,107

Selected financial ratios	As of or for the year ended December 31, 2000	2001	2002	As of or for the six months(10) ended June 30, 2003
	(percentages)			
Return on average assets(2)(3)(10)	0.7%	1.5%	1.9%	2.7%
Return on average shareholder's equity(2)(4)(10)	n.a.	24.0%	28.2%	38.3%
Net interest margin(2)(5)(10)	6.1%	7.6%	8.1%	8.9%
Cost to income ratio(6)	109.4%	55.5%	54.8%	55.7%
Loans to deposits(7)	54.9%	58.1%	56.5%	58.5%
Tier I capital adequacy ratio(8)	11.5%	10.7%	10.3%	12.7%
Total capital adequacy ratio(9)	14.4%	13.3%	12.6%	14.7%
Total shareholder's equity to total assets	6.1%	6.3%	6.7%	6.8%
Gross non-performing loans to gross loans	5.6%	7.3%	6.7%	6.7%
Allowances for possible loan losses to gross non-performing loans	182.2%	162.3%	147.5%	143.0%
Non-performing assets to total assets	2.8%	3.2%	3.4%	3.4%
Allowances for possible losses on earning assets to non-performing assets	169.2%	162.2%	143.9%	141.4%

(1) *For 2002 and 2003, the financial statements of PT Bank Inter-Pacific Tbk ("BIP") have been excluded from consolidation, in accordance with Indonesian GAAP, after we resolved to divest our investment in BIP.*

(2) *Averages for 2000 and 2001 are based on opening and closing balances for the year. In addition, due to changes in accounting principles taking effect in 2000, averages for 2000 may not be comparable with other periods. See "Risk Factors—Risks Relating to the Bank—Certain statistical information has not been prepared in accordance with international disclosure standards."*

(3) Net income divided by average total assets for the period indicated, calculated after taxes.

(4) Net income divided by average total shareholder's equity for the period indicated. Because shareholder's equity as of December 31, 1999 was negative, resulting in a negative average total shareholder's equity for 2000, return on average shareholder's equity would not be meaningful.

(5) Net interest income divided by average interest-earning assets (gross) (as set forth in "Statistical Information—Average Balance Sheet").

(6) Other operating expenses divided by total income.

(7) Total gross loans divided by total deposits (excluding deposits from other banks).

(8) Tier I capital divided by total risk-weighted assets (unconsolidated), as defined under and calculated in accordance with Bank Indonesia regulations.

(9) Total Tier I and Tier II capital, less deductions, divided by total risk-weighted assets (unconsolidated), as defined under and calculated in accordance with Bank Indonesia regulations.

(10) Where necessary to enhance comparability with full year data, six month data has been annualized.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our audited financial statements included in this Offering Circular. The following discussion is based on our audited financial statements for the three years ended December 31, 2002 and for the six months ended June 30, 2003, and our unaudited financial statements for the six months ended June 30, 2002, all of which have been prepared in accordance with Indonesian GAAP. Our financial statements for the year ended December 31, 2002 and for the six months ended June 30, 2003 have been audited by Ernst & Young Prasetio, Sarwoko & Sandjaja. Our consolidated financial statements for the two years ended December 31, 2001 have been audited by Prasetio, Utomo & Co., a former affiliate of Andersen Worldwide. Prasetio, Utomo & Co. has informed us that the Ministry of Finance withdrew its business license in August 2002 and no longer operates as a public accounting firm. Accordingly, we are no longer able to obtain signed, reissued reports of Prasetio, Utomo & Co. for its consolidated financial statements included elsewhere herein.

For 2000 and 2001, average balance sheet data and average yields have been based on averages of the opening and closing balances for the year. For 2002, averages are based on the average of the opening balance as of January 1, 2002, the balance as of June 30, 2002, the closing balance as of December 31, 2002 and the balances based on our internal management financial statements as of March 31 and September 30, 2002. For the six-month periods ended June 30, 2002 and June 30, 2003, averages are based on the average of the opening and closing balances as of January 1 and June 30 of such year and the balance based on our internal management financial statements as of March 31 of such year.

OVERVIEW

Our Business

We are one of the largest banks in Indonesia with a historical focus on microfinance as well as a growing focus on the consumer, small and medium enterprise and agribusiness sectors. Through our extensive network of branches and BRI units, we offer a range of financial products and services to our customers.

Our results of operations and the comparability of our financial results over successive periods have been and will continue to be affected by a number of external factors, including the economic conditions in Indonesia, changes in Government policies and regulations regarding the banking sector and the volatility of interest rates and exchange rates. Our results have also been affected by our recapitalization in 2000 and the change in our business strategy at that time.

The Indonesian Economy

Our financial position and results of operations have been and continue to be significantly impacted by the financial and economic conditions in Indonesia. The regional economic crisis that started in 1997 adversely affected the ability of borrowers to repay their obligations, and led to severe difficulties for the Indonesian banking sector, including deterioration of asset and credit quality, increasing non-performing loans, declining collateral values, liquidity shortages and related problems. The economic crisis necessitated the restructuring of the banking sector in Indonesia. To this end, the Government, with the support of the IMF, the World Bank and the Asian Development Bank, set up a recapitalization program designed for both private and State-owned commercial banks. The Government also established IBRA for the restructuring of the national banking sector.

In November 1997, the Government seized and liquidated 16 Indonesian banks due to their weak financial condition. On January 26, 1998, to restore confidence in the banking system, the Government established the Government Guarantee Program which guaranteed most payment obligations of Indonesian banks, including deposits with and certain borrowings by, participating banks. The Government Guarantee Program encompassed certain obligations of locally incorporated banks such as demand, savings and time deposits and deposits on call, bonds, marketable securities, inter-bank placements, fund borrowings and swaps and contingent liabilities such as bank guarantees, standby letters of credit and certain other liabilities. IBRA was appointed to administer the Government Guarantee Program. Under this program, the guarantee period for deposits is automatically extended, unless otherwise announced by the Minister of Finance at least six months from the scheduled expiration of the guarantee. The next scheduled expiration occurs at the end of July 2004 (subject to announcement from the Minister of Finance by the end of January 2004 to terminate such program).

The Indonesian economy continues to face challenges coming out of the economic crisis. Interest rates and exchange rates have remained volatile since 2000. Beginning in 2002, financial and economic conditions generally started improving in Indonesia. The general level of interest rates decreased starting in mid-2002, the Rupiah stabilized against other currencies, consumer demand for financial products increased and the overall level of non-performing loans decreased. System-wide non-performing loans declined from Rp205.3 trillion as of March 1999 to Rp33.2 trillion as of December 2002, representing a decline in system-wide gross non-performing loan ratio from 56.0% to 8.1%, respectively. On a net basis, Indonesia's system-wide non-performing loan ratio, as defined by Bank Indonesia, stood at 2.9% as of December 2002. At the same time, the level of Indonesia's external debt has declined from US$141,693 million as of December 31, 2000 to US$130,747 million as of June 30, 2003. GDP growth was 3.85% for 2002 and 3.62% for the first half of 2003. Consumer demand for financial products has increased over the same period, with outstanding loans held by the Indonesian banking sector rising from Rp225,990 billion in January 2000 to Rp390,563 billion in June 2003. Although there are signs of improvement in the economy, the Indonesian economic outlook remains uncertain and our results of operations may be impacted by continued economic volatility.

Recapitalization and Management Contract

As a result of the economic crisis that began in 1997, like many other State-owned banks in Indonesia, a majority of our corporate loans became non-performing and our capital adequacy ratio declined substantially below the minimum level of 8.0% as then required by Bank Indonesia. In response to this situation, the Government sought to recapitalize a number of the State-owned banks, including us, under a recapitalization program. This recapitalization program aimed to eliminate a portion of the accumulated losses of banks in the program in order to meet a capital adequacy ratio of 4.0%. In exchange for all of the Rp14,535 billion loss loans and other earning assets classified as loss in our portfolio that were identified to be transferred to IBRA, the Government contributed additional capital which was immediately used by us to purchase Government recapitalization bonds totaling Rp29,149 billion, of which Rp20,404.3 billion was issued on July 25, 2000 and Rp8,744.7 billion was issued on October 31, 2000. As a result of our recapitalization, a substantial portion of our assets consist of and our income is derived from Government recapitalization bonds. As of and for the six months ended June 30, 2003, 30.5% of our assets consisted of, and 25.0% of our total interest income was derived from, our Government recapitalization bonds.

In connection with our recapitalization, a new management team was appointed and on February 28, 2001, we entered into a Management Contract with the Government acting through the Ministry of Finance and the members of our board of directors and board of commissioners (the "Management Contract"). As described below, we have ongoing obligations to the Government under the Management Contract. In addition, under the terms of the Management Contract we returned Rp85.5 billion of the Government recapitalization bonds (including all interest accrued thereon) to the Government in accordance with the final calculation of the capital required to meet the minimum capital adequacy ratio of 4.0%.

Pursuant to the Management Contract, we adopted a business plan establishing certain performance targets and related time frames for, among other things, the strict control of overhead expenses, the divestment of non-agribusiness corporate loans and share ownership in PT Bank Inter-Pacific Tbk ("Bank Inter-Pacific"), the reduction of non-performing loans and the implementation of a new information technology system. The Management Contract also provides that a special committee established under the Ministry of Finance must monitor the implementation of the business plan and the board of directors must file quarterly reports with the Ministry of Finance setting out our progress and any problems we have encountered in achieving the targets specified in the business plan (such as meeting a maximum ratio of non-performing loans to total loans). Under the Management Contract, our board of directors and board of commissioners are required to ensure that we operate in accordance with the business plan. If we default on our commitments as stipulated in the Management Contract, the consequences are the replacement of the boards of directors and commissioners or adjustment of the targets if the reasons for non-achievement are beyond our control. The Management Contract will expire on December 31, 2003, however, we have been informed that the Minister of Finance may extend the Management Contract by at least one year, as it intends to do with other State banks.

To date, we have not met some targets as originally specified in the Management Contract, including timing of certain asset sales and the composition of funding mix, in most cases due to circumstances outside of our control. However, where such circumstances have arisen in the past, we and the Ministry of Finance have agreed to modify the business plan to provide us with an extension of time to comply with the targets or to revise the targets to be achieved. To date, no action has been taken by the Ministry of Finance to replace any director or commissioner as a result of the implementation of the Management Contract, the failure to meet specified targets thereunder or for any other related reason.

Loan Growth

Under the terms of our recapitalization, our shareholder and management agreed that our new lending activities to corporate borrowers would be restricted and that we would focus our efforts on loan growth in the micro, consumer and SME customer segments. These segments have historically experienced lower non-performing loans. We believe we have a significant competitive advantage in these areas as a result of our existing extensive network of branches and BRI units. Operating in these segments, however, leads to higher cost-to-income ratios than other banks experience due to the greater number of employees and the more extensive infrastructure required to service the large number of customers.

Although we have a large portfolio of consumer fixed income loans and a strong history operating in the consumer sector, we have recently expanded our consumer lending products to include housing and motor vehicle loans. We also intend to begin extending loans over Rp50 billion primarily to new agribusiness customers within the maximum limit of 20.0% of our total loan portfolio. While we intend to selectively grow our corporate loan portfolio, we intend to reduce non-agribusiness corporate loans as a percentage of total loans over time as our loans to micro, consumer and SME borrowers increase. As of June 30, 2003, corporate loans (excluding loans to agribusiness customers) represented 8.2% of our total loan portfolio. We have not originated corporate loans since our recapitalization and our success in this area will depend on our ability to implement our credit policies and procedures, which have been largely untested in the corporate sector since 2000. These areas are subject to intense competition from Indonesian banks and foreign banks and our results of operations will be impacted by our ability to compete effectively in these markets.

Reprofiling

In November 2002, the Government completed a reprofiling program for the Government recapitalization bonds which became necessary due to continuing Government budgetary constraints. Under the reprofiling program, the Government reprofiled approximately Rp171.8 trillion (US$20.8 billion) of its Government recapitalization bonds held by State banks by shifting the maturity profile of such bonds to between 2010 and 2020. The reprofiling affected Rp20,400 billion (US$2,468 million) of our Government recapitalization bonds, including Rp16,800 billion of our fixed rate bonds and Rp3,600 billion of our variable rate bonds, representing approximately 71.8% of our Government recapitalization bonds as of December 31, 2002. The reprofiling was intended to be value-neutral to bond holders and provided us with a yield increase of approximately 0.8% on the fixed rate Government recapitalization bonds as the range of yields on these bonds went to 13.15% to 15.575% from 12.0% to 16.5% following the completion of the reprofiling, and lengthened the overall maturity profile of our portfolio of Government recapitalization bonds. This amounted to an annual increase of Rp180 billion (US$21.8 million) in interest income based on our holding of Government recapitalization bonds as of December 31, 2002. The yield curve utilized by the Government to reprofile the Government recapitalization bonds was the same for each of the four State banks affected. Maturities and interest rates set on the new bonds were established through negotiation between the Government and each of the four State banks affected, individually.

Sale of Bank Inter-Pacific

We announced our intention to sell our only consolidated subsidiary, Bank Inter-Pacific, during 2002 and, in accordance with Indonesian GAAP, the financial statements of Bank Inter-Pacific have been excluded from our financial statements for the periods ended December 31, 2002 and June 30, 2003, although we remained the majority shareholder. Our consolidated financial statements for 2000 and 2001 included

Bank Inter-Pacific. Bank Inter-Pacific is located in Jakarta and is mainly engaged in commercial banking, principally to corporate borrowers. Bank Inter-Pacific's non-performing loan ratios were significantly higher than Bank Indonesia established limits in both 2000 and 2001. Our percentage of non-performing loans declined in 2002 in part due to the exclusion of Bank Inter-Pacific from our financial statements. We maintain a 66.79% ownership interest in Bank Inter-Pacific which we have classified as "loss" in our investment account in accordance with Indonesian GAAP and reserved 100.0% of the book value of our equity interest and US dollar placements with Bank Inter-Pacific. We intend to divest Bank Inter-Pacific before the end of 2003 and, to this end, potential buyers are currently undergoing the final stages of regulatory review by Bank Indonesia.

Taxation

For the years ended December 31, 2000, 2001 and 2002, we did not provide for estimated corporate income tax because our accumulated tax loss carry forward was more than our estimated taxable income. We benefited from a tax loss carry forward for tax losses we incurred in 1998 and 1999. Tax loss carry forward represents amounts deductible from taxable income for five years from the year the tax loss was incurred. In recent tax audits covering the years 1999-2002, the Director General of Taxes did not allow us to claim the provision expense related to loans transferred to IBRA in 1999 and 2000 as a deduction from our income. According to Indonesian tax regulations, to claim the provision as an expense, the loans must be transferred to the state auction board, which is the Government entity through which all State-owned banks must enforce collateral and recover payments for written-off loans. As IBRA had been established by the Government as an agency responsible for loan and asset liquidation, we treated the transfers of our loans to IBRA in 1999 and 2000 in the same manner that a transfer to the state auction board would have been treated for tax purposes. All other Indonesian State banks accounted for the transfer of their assets to IBRA in the same manner. The effect of the elimination of the provision expense for loans transferred to IBRA in 1999 and 2000 was the elimination of our tax loss carry forward and assessment of Rp421 billion for taxes in 2002. This tax assessment was included in tax expense for the six months ended June 30, 2003.

In 2000 and 2001, we received tax refunds amounting to Rp415 billion and Rp285 billion, respectively, for prior years tax objections and such refunds were recorded in "Other Operating Income".

Quasi-Reorganization and Capital Restructuring

On October 7, 2003, we implemented an accounting procedure under the Indonesian Statement of Financial Accounting Standard (PSAK) No. 51—Accounting for Quasi-Reorganization. Based on PSAK No. 51 and current regulations, we restructured our equity by eliminating the deficit against additional paid-in capital after determining the effects of any adjustment from the revaluation of our assets and liabilities. We have determined the fair values of our assets and liabilities and this resulted to a zero adjustment to the shareholders' equity.

The elimination of the deficit in retained earnings will permit us to distribute dividends in accordance with *Law No. I of 1995* Regarding Limited Liability Company and other pertinent laws and regulations.

The shareholders approved the quasi-reorganization effective June 30, 2003, based on the shareholders' extraordinary general meeting on October 3, 2003.

Changes in Securities Values, Exchange Rates and Interest Rates

Exchange rates, interest rates and securities prices have fluctuated significantly in Indonesia in recent years. These fluctuations affect, among other things, the demand for our products and services, the value and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. For example, the Rupiah to US dollar exchange rate depreciated from Rp7,100 to US$1.00 as of December 31, 1999 to Rp11,675 to US$1.00 as of April 30, 2001. The Rupiah has since strengthened to Rp8,285 to US$1.00 as of June 30, 2003. Interest rates on Bank Indonesia certificates ("SBIs") have also experienced volatility over the same period. The following table shows one-month SBI rates as of the dates indicated:

	March 31	June 30	September 30	December 31
2000	11.0%	11.7%	13.6%	14.5%
2001	15.8%	16.7%	17.6%	17.6%
2002	16.8%	15.1%	13.2%	12.9%
2003	11.4%	9.5%	8.6%	—

Source: Bank Indonesia

RECENT DEVELOPMENTS

Based on our preliminary review, we anticipate our net interest income and net income from operations for the third quarter ended September 30, 2003 to be in line with the first two quarters of 2003. Our net income from operations and net income for the quarter were adversely affected by provisions taken for the fraud described below and benefited from the reduction of allowances for possible losses on other assets relating to amounts due from other banks as these items continue to be resolved. Our review of the quarter's results has not been finalized, and the results are subject to change.

We have recently identified several instances of fraud involving unauthorized funds transfers and pledges of cash which involve or affect our employees, customers and other third parties (including State-owned companies and affiliates). We have reported these incidents to Bank Indonesia and the attorney general of the Republic of Indonesia. We have not yet determined the amount of losses resulting from these events. Based on preliminary estimates, we expect the losses to be up to Rp294 billion (US$36 million) and have provided for all this amount through allowances for losses on earning assets and on other assets in the third quarter ended September 30, 2003. The amount of these provisions is equal to 20.2% of our profit from operations for 2002.

Our investigations of these incidents and review of the adequacy of our internal controls relating to these incidents are continuing. We cannot be certain at this time whether there are other instances of fraud (either related or unrelated) as yet undetected or whether there are systemic weaknesses in our internal controls intended to prevent and detect fraudulent activities. Accordingly, we could incur substantial additional losses from other incidents of past or future fraud.

Publicity arising from disclosure of fraud at other banks in Asia adversely affected the reputation of, customers' confidence in and the share price of the banks. According to recent press reports, a major Indonesian bank discovered fraud involving a possible exposure of Rp1,700 billion (US$206 million), and bank staff alleged to be involved in the fraud were arrested. The price of such bank's shares dropped sharply on the day of the initial publication of these reports. Based on current information, we believe that the nature of these fraudulent transactions are different and have no reason to believe that these events are related to recent incidents at the Bank. If we discover or are subject to additional fraudulent activities, the value of our shares could also experience rapid and sharp declines and our business, earnings and financial condition could be materially adversely affected.

CRITICAL ACCOUNTING POLICIES

The notes to our financial statements contain a summary of our significant accounting policies. Certain of these policies are critical to the presentation of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below.

Classification of Non-performing Assets and Allowances for Possible Losses on Earning Assets

In accordance with Bank Indonesia regulations, we classify our earning assets into one of five categories. Earning assets consist of loans, current accounts and placements with other banks, securities, export bills, Government recapitalization bonds, Syariah financing, acceptances receivable and investments in shares of stock. We also make allowances for estimated losses on commitments and contingencies. Performing loans are categorized as "current" or "special mention". Non-performing loans are divided into three categories: "sub-standard", "doubtful", and "loss". All other earning assets are classified as either "current" or "loss". Bank Indonesia regulations require earning assets to be classified according to three sets of criteria: (a) business prospects, (b) financial condition with an emphasis on cash flow and (c) capacity for repayment (which includes time past due). Accordingly, classification of earning assets involves certain judgments on our part. In practice, however, we primarily classify assets based on time past due. See "Supervision and Regulation—Asset Classification, Allowance for Possible Losses and Credit Restructuring".

In accordance with Bank Indonesia guidelines, we have established allowances for possible losses in the form of a "general reserve" in respect of our 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". We also maintain "riot torn" allowances, which are allowances of between 25.0% to 100.0% for possible losses in respect of loans to borrowers in riot-torn areas such as Aceh, regardless of the classification of the asset. As of June 30, 2003, we maintained allowances which exceed Bank Indonesia's minimum allowance requirements. The following table shows Bank Indonesia's minimum allowance requirements and our policy for making allowances.

	Bank Indonesia's Minimum Requirements	The Bank's Allowance
Loan Classification		
Current	1.0%	3.0%
Special mention	5.0%	7.0%
Sub-standard	15.0%	15.0% to 40.0%*
Doubtful	50.0%	50.0% to 85.0%*
Loss	100.0%	100.0%

* *Allowance determined based on the number of months a loan has been delinquent.*

The following table shows our loan classifications as of December 31, 2002 and as of June 30, 2003:

	As of December 31, 2002	As of June 30, 2003	
	(Rp billions)	(Rp billions)	(US$ millions)
Loan Classification			
Current	33,341	37,407	4,526
Special mention	3,373	3,166	383
Sub-standard	549	1,102	133
Doubtful	1,549	863	105
Loss	555	950	115
Total	39,367	43,488	5,262

As of December 31, 2002 and June 30, 2003, we had loan allowances of Rp3,913 billion and Rp4,169 billion, respectively, including riot-torn allowances of Rp1,240 billion and Rp927 billion, respectively.

When making allowances for "sub-standard", "doubtful" or "loss" loans, Bank Indonesia regulations permit us to deduct the value of certain types of collateral, including land, buildings or cash, from the amount of the required allowance, provided that we have obtained an appraisal of the collateral's value. We only take into account cash collateral in the form of customer deposits in calculating provisions. Historically, we believe we have maintained allowances significantly in excess of the minimum allowances required by Bank Indonesia. However, the use of different estimates or criteria, including different accounting standards, in the classification of our loans could produce different allowances for loan losses.

Allowance for Possible Losses on Other Assets

We establish allowances on non-earning assets of between 25.0% (for assets that could result in potential loss) and 100.0% (for assets that have been unresolved for over two years). Assets for which reserves have been established include inter-branch open items, suspense accounts, differences resulting from conversion to BRINets, and differences in recording channeling loans and balances with other banks prior to 2000. In 2001, the Bank took a charge of Rp661 billion, comprised mainly of a provision equal to 100.0% of the amount of unresolved items that arose prior to 2000. As some of these items have been resolved we have been able to reverse a portion of these provisions. As of June 30, 2003, the balance of our allowance for possible losses on other assets was Rp642 billion (US$78 million).

Valuation of Government Recapitalization Bonds and Securities

In addition to our significant holdings of Government recapitalization bonds, we invest in various financial instruments including SBIs and debt and equity securities. We account for the securities as follows:

- Securities held for trading purposes are reported at fair value. Unrealized gains or losses resulting from the increase or decrease in fair value are recognized in the current period's profit and loss. The fair value of a security is determined by management based on prevailing market rates. If no recent market rates are available or if there is limited liquidity, we base the fair value on the bid and offer price for the security quoted in the market, the market value of similar securities, the present value of the expected yield of the security, or a combination of these calculations.

- Securities that are placed in our held-to-maturity account are stated at cost adjusted for the amortization of discount or premium, if any.

In accordance with Bank Indonesia regulations, we are permitted to trade all series of the Government recapitalization bonds we hold in the secondary market. There is limited liquidity in the market for Government recapitalization bonds and determining the market value of these securities often requires the subjective judgment of our management. Although we occasionally enter into repurchase agreements with respect to our Government recapitalization bonds, we do not engage in significant trading activities and substantially all of our Government recapitalization bonds are held in our held-to-maturity account and stated at cost in our financial statements.

Revenue Recognition

For our micro loans, we record interest on a cash basis. However, for all other performing loans, including special mention loans, we recognize revenue on an accrual basis. For interest income on non-performing earning assets, namely "sub-standard", "doubtful" and "loss" loans, income is not recognized, except to the extent of cash collections received. At the time a credit is classified as non-performing, interest which has been recognized but not yet collected is reversed against interest income. Any payments received on non-performing loans (which does not include loans which have been written-off) (i) classified as "doubtful" or "loss" are applied first against principal of the loan and (ii) classified as "sub-standard" are applied in accordance with the terms of the applicable loan agreement. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter and could result in future operating losses.

Deferred Tax

Deferred tax assets are the result of temporary differences in allowances for possible losses on earning assets and estimated losses on commitments and contingencies. These temporary differences occur because the Director General of Taxes allows only actual losses, and not allowances, to be treated as deductible expenses for tax purposes, except for loan loss allowances, for which the minimum BI allowance is a deductible expense for tax calculation purposes. These deferred tax assets will be deductible in future years for tax purposes upon the reversal of the allowances or write-off of the relevant earning asset, commitment or contingency. As of June 30, 2003 the bank had a deferred tax asset of Rp800 billion (US$97 million).

Legal Contingencies

We are a party to various legal proceedings in connection with our banking business. A majority of these legal proceedings have been brought by borrowers relating to the sale of collateral securing their loans. In connection with our recapitalization, we recorded a provision in the amount of Rp177 billion representing the entire amount of claims in the pending lawsuits filed against us at that time. Since that time we have reversed certain provisions in connection with settled cases that were associated with potential claims amounting to Rp 33 billion, resulting in a total allowance of Rp144 billion (US$17 million) as of June 30, 2003. It is our policy to reserve 100.0% against legal claims.

INCOME AND EXPENSES

Key line items in our statements of income are total interest and investment income, interest and other financing expenses, other operating income, provisions for possible losses, other operating expenses, net non-operating income and tax benefits or expense. A brief description of each of these is set out below:

➤ *Interest and investment income.* This line item consists of interest income generated principally from our loan and Government recapitalization bond portfolios. We also receive interest income from other securities, which consists primarily of placements with Bank Indonesia and SBIs. "Total interest and investment income" includes fees and commissions on loan facilities consisting of loan origination fees and commitment fees.

➤ *Interest and other financing expenses.* This consists principally of interest paid or accrued on deposits as well as on other debt instruments issued by us and fund borrowings. We also incur financing expenses for life insurance we purchase for our micro and consumer fixed income customers and fees relating to the Government Guarantee Program based on a fixed percentage of deposits. Other financing expenses include promotional gifts (relating to our customer lottery) and fees paid to employers or pension paying agents to collect loan installments from employees or pensioners.

➤ *Other operating income.* Other operating income consists principally of gains from changes in the value of securities, including Government recapitalization bonds held for trading purposes in our portfolio, other operating fees and commissions, foreign exchange gains and losses and various other sources of operating income. Gains from changes in the value of securities and Government recapitalization bonds reflect the marking to market of the securities and Government recapitalization bonds in our trading portfolio. Losses are recorded as other operating expense. Other fees and commission income is derived from fees on savings accounts, fees we receive for bill payment services and fees received on trade finance products. Foreign exchange gains and losses include realized and unrealized foreign exchange gains and losses on spot and forward transactions and translations of foreign exchange positions (such as translation gains or losses from our balance sheet at the balance sheet date). Net foreign exchange losses are recorded as other operating expense. Other items include recoveries of interest payments on written-off loans, tax refunds and payment under the IBRA paying agency agreement.

➤ *Provisions for possible losses.* We make provisions for, or reversals of provisions for, possible losses on earning assets, commitments and contingencies and other assets. Earning assets include current accounts and placements with other banks, securities, export bills, Government recapitalization bonds, loans, Syariah financing, acceptances receivable and investments in shares of stock. Commitments and contingencies include bank guarantees and letters of credit. Other assets include inter-branch open items, suspense accounts, differences resulting from conversion to BRINets and differences in recording channeling loans and balances with other banks prior to 2000.

➤ *Other operating expenses.* Other operating expenses consist principally of expenses for salaries and employee benefits, general and administrative expenses, other fees and commission expense, net losses from changes in the value of securities and Government recapitalization bonds held in our portfolio, net foreign exchange loss and others. Others mainly includes insurance premiums and prior year tax expenses.

➤ *Net non-operating income.* This consists of items such as recoveries from the liquidation of subsidiaries, rental income and management fees.

➤ *Tax Benefit (Expense).* This consists of current year corporate income tax and deferred income tax.

For further explanation on key line items in our financial statements, see our financial statements and the notes to our financial statements included elsewhere in this Offering Circular.

RESULTS OF OPERATIONS

June 30, 2003 compared to June 30, 2002

Income From Operations

Our income from operations increased by 45.9% to Rp1,392 billion (US$169 million) in June 30, 2003 from Rp954 billion in June 30, 2002. The following table sets out the components of income from operations:

	Six months ended June 30,		
	2002	2003	2003
	(Rp billions)	(Rp billions)	(US$ millions)
Net interest income	2,859	3,642	441
Other operating income	589	537	65
Reversal of allowance (provision) for possible losses on earning assets, commitments and contingencies and other assets	(701)	(26)	(3)
Other operating expenses	(1,793)	(2,761)	(334)
Income from operations	954	1,392	169

Net Interest Income

Our net interest income increased by 27.4% to Rp3,642 billion (US$441 million) during the first six months of 2003 from Rp2,859 billion during the first six months of 2002. The increase in net interest income was principally a result of an increase of 13.2% in total interest and investment income to Rp7,448 billion (US$901 million) during the first six months of 2003 from Rp6,579 billion during the first six months of 2002 while total interest and other financing expenses increased by 2.3% to Rp3,806 billion (US$460 million) during the first six months of 2003 from Rp3,720 billion during the first six months of 2002.

	Six months ended June 30,		
	2002	2003	2003
	(Rp billions)	(Rp billions)	(US$ millions)
Interest and investment income(1)	6,465	7,313	885
Fees and commissions on loan facilities	114	135	16
Total interest and investment income	6,579	7,448	901
Total interest and other financing expenses	3,720	3,806	460
Net interest income	2,859	3,642	441

(1) Includes Syariah income.

Interest and Investment Income

Our interest and investment income increased by 13.1% to Rp7,313 billion (US$885 million) during the first six months of 2003 from Rp6,465 billion during the first six months of 2002 primarily due to increases in the interest income generated by our loan portfolio. Interest and investment income was derived from the following:

	Six months ended June 30,		
	2002	2003	2003
	(Rp billions)	(Rp billions)	(US$ millions)
Interest on loans	3,898	4,725	572
Interest on Government recapitalization bonds	1,859	1,860	225
Interest on securities(1)	568	563	68
Interest on placements with other banks	60	52	6
Others(2)	80	113	14
Interest and investment income	6,465	7,313	885

(1) Includes income from SBIs, placements with Bank Indonesia and other securities.

(2) Includes late payment interest charges on micro loans.

Interest on loans increased by 21.2% to Rp4,725 billion (US$572 million) during the first six months of 2003 from Rp3,898 billion during the first six months of 2002 principally due to an increase in the average outstanding balance of loans and an increase in the relative proportion of higher interest micro and consumer fixed income loans in our portfolio which were offset, in part, by lower average interest rates. Our average outstanding balance of loans increased by 17.0% to Rp40,845 billion (US$4,942 million) during the first six months of 2003 from Rp34,904 billion during the first six months of 2002. This was largely due to the growth in our loans to micro and retail (including consumer fixed income) customers. Micro loans increased 21.3% to Rp13,175 billion (US$1,594 million) and retail loans increased 33.2% to Rp22,514 billion (US$2,724 million) as of June 30, 2003 from Rp10,859 billion and Rp16,903 billion respectively, as of June 30, 2002. At the same time, medium scale loans (including corporate loans) decreased 13.1% to Rp7,799 billion (US$944 million) as of June 30, 2003 from Rp8,978 billion as of June 30, 2002.

Yields on our loans increased to an average of 23.8% during the first six months of 2003 from an average of 23.0% during the first six months of 2002 primarily due to an increase in the proportion of higher yielding Rupiah loans. Yields on Rupiah loans decreased to an average of 25.6% during the first six months of 2003 from average of 25.7% during the first six months of 2002 primarily due to declining market interest rates. Our ratio of gross non-performing loans to total loans decreased from 8.24% as of June 30, 2002 to 6.70% as of June 30, 2003.

Interest on Government recapitalization bonds increased marginally to Rp1,860 billion (US$225 million) in the first six months of 2003 as compared to Rp1,859 billion in the first six months of 2002.

Interest on securities decreased slightly to Rp563 billion (US$68 million) in the first six months of 2003 from Rp568 billion in the first six months of 2002, primarily due to the decrease in the interest rate of SBIs offset in part by an increase in the amount of securities held by us.

Interest on placements with other banks decreased by 13.3% to Rp52 billion (US$6 million) in the first six months of 2003 from Rp60 billion in the first six months of 2002. The decrease was mainly a result of a decrease in interest rates offset in part by an increase in the average balance of such placements.

"Others" category increased to Rp113 billion (US$14 million) in the first six months of 2003 from Rp80 billion (US$10 million) in the first six months of 2002. This increase was mainly due to late payment interest charges on micro loans.

Fees and Commissions on Loan Facilities

Fees and commissions on loan facilities include origination fees and commitment fees. Our fees and commissions increased by 18.4% to Rp135 billion (US$16 million) in the six months ended June 30, 2003 from Rp114 billion in the six months ended June 30, 2002. This increase was primarily due to an increase in total loans, which grew to Rp43,488 billion (US$5,262 million) as of June 30, 2003, as compared to Rp36,740 billion in total loans as of June 30, 2002.

Interest and Other Financing Expenses

Our interest and other financing expenses increased by 2.3% to Rp3,806 billion (US$460 million) in the first six months of 2003 from Rp3,720 billion in the first six months of 2002. This increase resulted primarily from the increase in the amount of interest paid on deposits, especially demand deposits and savings deposits. Our average cost of funds decreased to 10.1% in the first six months of 2003 from

11.2% in the first six months of 2002 due to an overall decline in interest rates. The following table sets out the components of interest and other financing expenses:

	Six months ended June 30,		
	2002	2003	2003
	(Rp billions)	(Rp billions)	(US$ millions)
Interest expense on:			
Demand deposits	131	190	23
Saving deposits	1,081	1,159	140
Time deposits(1)	1,902	1,853	224
Total interest expense on deposits	3,114	3,202	387
Life insurance premiums on micro loans and consumer fixed income loans	85	82	10
Premium paid for Government Guarantee Program	81	94	11
Fund borrowings	120	90	11
Securities sold with agreement to repurchase	22	15	2
Deposits from other banks	115	130	16
Other(2)	183	193	23
Interest expenses and other financing expenses	3,720	3,806	460

(1) *Includes certificates of deposit.*

(2) *Includes promotional gifts (relating to our customer lottery) and fees paid to employers and pension paying agents to collect loan installments from employees and pensioners.*

Our total interest expense on deposits increased by 2.8% to Rp3,202 billion (US$387 million) in the first six months of 2003 from Rp3,114 billion in the first six months of 2002 principally as a result of the increase in average balance of deposits, notwithstanding a decrease in the interest rate paid on deposits.

Our average total deposits increased by 20.5% to Rp71,107 billion (US$8,603 million) in the first six months of 2003 from Rp59,010 billion in the first six months of 2002. We believe this increase was partially due to the increase in our number of outlets, in particular the number of our sub-branches and ATMs, and our increased marketing efforts. Our average total demand deposits increased by 51.0% to Rp11,015 billion (US$1,333 million) in the first six months of 2003 from Rp7,297 billion in the first six months of 2002. Our average total savings deposits increased by 10.2% to Rp29,645 billion (US$3,587 million) in the first six months of 2003 from Rp26,908 billion in the first six months of 2002. Our average total time deposits increased by 22.7% to Rp30,447 billion (US$3,684 million) in the first six months of 2003 from Rp24,805 billion in the first six months of 2002.

Our average cost of deposits decreased to 9.0% in the first six months of 2003 from 10.6% in the first six months of 2002 primarily as a result of a general decline in interest rates as reflected in the decrease in the one-month SBI interest rate to 9.5% as of June 30, 2003 from 15.1% as of June 30, 2002. Our average cost of demand deposits decreased to 3.4% in the first six months of 2003 from 3.6% in the first six months of 2002. Our average cost of saving deposits decreased to 7.8% in the first six months of 2003 from 8.0% in the first six months of 2002. Our average cost of time deposits decreased to 12.2% in the first six months of 2003 from 15.3% in the first six months of 2002.

In connection with our loans to micro and consumer fixed income customers, we purchase life insurance to cover the principal amount of the loan. Expense related to life insurance premiums on micro loans and consumer fixed income loans decreased by 3.5% to Rp82 billion in the first six months of 2003 from Rp85 billion in the first six months of 2002.

We pay a premium to IBRA in order to participate in the Government Guarantee Program. Premium paid to IBRA increased by 16.0% to Rp94 billion in the first six months of 2003 from Rp81 billion in the first six months of 2002 mainly due to the increase in our total deposits.

Our interest paid on fund borrowings decreased by 25.0% to Rp90 billion (US$11 million) in the first six months of 2003 from Rp120 billion in the first six months of 2002 primarily as a result of the decrease in the outstanding balance of fund borrowings. The average outstanding balance of our fund borrowings decreased to Rp2,434 billion (US$294 million) in the first six months of 2003 from Rp4,035 billion in the first six months of 2002 through the repayment of fund borrowings as they matured.

Expenses relating to securities sold with agreement to repurchase decreased 31.8% to Rp15 billion (US$2 million) for the first six months of 2003 from Rp22 billion for the first six months of 2002 mainly due to a decrease in average cost of such securities from 16.0% to 12.7%.

Interest expense on deposits from other banks increased 13.0% to Rp130 billion (US$16 million) for the first six months of 2003 from Rp115 billion for the first six months of 2002 mainly due to an increase in the average outstanding balance of such deposits.

"Other" category increased 5.5% to Rp193 billion (US$23 million) for the first six months of 2003 from Rp183 billion for the first six months of 2002 mainly due to an increase in fees paid to employers for collecting loan installments from employees.

Other Operating Income

Our other operating income decreased by 8.8% to Rp537 billion (US$65 million) in the first six months of 2003 from Rp589 billion in the first six months of 2002 primarily as a result of a decrease in the net gain in value and sale of our securities portfolio. The following table sets out the components of our other operating income:

	Six months ended June 30,		
	2002	2003	2003
	(Rp billions)	(Rp billions)	(US$ millions)
Net gain from changes in value and sale of securities and Government recapitalization bonds	351	205	25
Other fees and commissions[1]	120	139	17
Other[2]	118	193	23
Other operating income	589	537	65

(1) *Other fees and commissions income is derived from our non-lending activities, including fees on savings accounts and Tabungan Haji accounts and fees received in relation to our bill payment, money transfer and trade finance products.*
(2) *Includes recoveries of interest payments on written-off loans and payments under the paying agency agreement with IBRA.*

In the first six months of 2003 we had a net gain from the increase in value and sale of securities and Government recapitalization bonds of Rp205 billion (US$25 million). This compares to a net gain of Rp351 billion in the first six months of 2002. This reflects the greater price increase on our fixed rate Government recapitalization bonds in the first six months of 2002 as compared to the first six months of 2003, due to a larger decline in interest rates in the 2002 period.

Other fees and commissions consist of fees on savings accounts and Tabungan Haji accounts and fees received in relation to our bill payment, money transfer and trade finance products. Other fees and commissions increased by 15.8% to Rp139 billion (US$17 million) in the first six months of 2003 from Rp120 billion in the first six months of 2002 principally due to increases in fees paid in respect of our savings accounts. Of our other fees and commissions, Rp48 billion (US$6 million) or 34.5% represented fees earned on our savings accounts in the first six months of 2003 as compared to Rp42 billion in the first six months of 2002.

Other increased by 63.6% to Rp193 billion (US$23 million) in the first six months of 2003 from Rp118 billion in the first six months of 2002 mainly due to a Rp123 billion (US$15 million) fee under a paying agency agreement with IBRA. Under the terms of the paying agency agreement with IBRA, we are paid this fee as compensation for the services we render in disbursing funds on behalf of IBRA to depositors of banks closed by Bank Indonesia.

Reversal of Allowance (Provisions) for Possible Losses on Earning Assets, Commitments and Contingencies and Other Assets

Our net provisions for possible losses on earning assets, commitment and contingencies and other assets decreased to Rp26 billion (US$3 million) in the first six months of 2003 from Rp701 billion in the first six months of 2002. The following table sets out the components of our reversal of allowance (provisions) for possible losses:

	Six months ended June 30,		
	2002	2003	2003
	(Rp billions)	(Rp billions)	(US$ millions)
Reversal of allowance (provision) for possible losses on earning assets	(510)	(62)	(7)
Reversal of allowance (provision) for possible losses on commitments and contingencies	(121)	(67)	(8)
Reversal of allowance (provision) for possible losses on other assets	(70)	103	12
Reversal of allowance (provision) for possible losses on earning assets, commitment and contingencies and other assets	(701)	(26)	(3)

In the first six months of 2003, our net provision for possible losses on earning assets of Rp62 billion (US$7 million) was principally due to making further provisions for losses on loans of Rp58 billion (US$7 million). In contrast, in the first six months of 2002, we made a net provision for possible losses on earning assets of Rp510 billion (US$62 million) principally due to making further provisions for losses on loans of Rp526 billion (US$64 million). The decrease in provisions was largely due to an increase in loan recoveries and a reduction in riot-torn reserves.

Our net provision for possible losses on commitments and contingencies of Rp67 billion (US$8 million) in the first six months of 2003 was primarily due to an 204.4% increase in outstanding letters of credit to Rp2,758 billion (US$334 million) as of June 30, 2003. Our net provision for possible losses on commitments and contingencies was Rp121 billion (US$15 million) in the first six months of 2002 due primarily to a reduction in their collectibility classification.

We make provisions on other assets, including inter-branch open items, suspense accounts, differences resulting from conversion to BRINets and differences in recording channeling loans and balances with other banks prior to 2000. In the six months ended June 30, 2003, we made a net reversal of allowances for possible losses on other assets of Rp103 billion (US$12 million) mainly due to a reduction in provisions for inter-branch open items as compared with a net provision of Rp70 billion in the six months ended June 30, 2002.

Other Operating Expenses

Our other operating expenses increased by 54.0% to Rp2,761 billion (US$334 million) in the first six months ended June 30, 2003 from Rp1,793 billion in the first six months ended June 30, 2002. The increase in operating expenses was due primarily to an increase in salaries and employee benefits and other expense related to payment of tax assessment for 2002. The following table sets out the components of other operating expenses:

	Six months ended June 30,		
	2002	2003	2003
	(Rp billions)	(Rp billions)	(US$ millions)
Salaries and employee benefits	1,151	1,685	204
General and administrative expenses	432	466	56
Other fees and commissions(1)	8	6	1
Net foreign exchange loss	86	128	15
Other(2)	116	476	58
Other operating expenses	1,793	2,761	334

(1) Other fees and commissions mainly includes prizes to BRI units.

(2) Includes insurance expense and tax assessments for prior years.

Salaries and employee benefits increased by 46.4% to Rp1,685 billion (US$204 million) in the first six months of 2003 from Rp1,151 billion in the first six months of 2002 largely due to an increase in salaries and benefits of all employees in order to bring our compensation in line with market standards. We believe our employee compensation has lagged behind that of our competitors since the financial crisis and have made efforts to bring compensation in line with other banks starting in 2002. We expect to make additional adjustments to the compensation packages for senior management in the second half of 2003 and in 2004.

General and administrative expenses increased by 7.9% to Rp466 billion (US$56 million) in the first six months of 2003 from Rp432 billion in the first six months of 2002 principally due to increases in depreciation of equipment, maintenance expenses, electricity and water, office supplies and professional fees.

Other fees and commissions are mainly prizes for BRI units which decreased 25.0% to Rp6 billion (US$1 million) in the first six months of 2003 from Rp8 billion in the first six months of 2002.

In the first six months of 2003, we had a net foreign exchange loss of Rp128 billion (US$15 million) mainly as a result of maintaining a long US dollar position as the Rupiah appreciated. In the first six months of 2002, we had a net foreign exchange loss of Rp86 billion.

"Other" category increased by 310.3% to Rp476 billion (US$58 million) in the first six months of 2003 from Rp116 billion in the first six months of 2002 primarily due to the Rp421 billion (US$51 million) tax assessment following the completion of the tax audit for the years 1999 to 2002. See "—Taxation".

Net Non-operating Income

We had a net non-operating income of Rp373 billion (US$45 million) in the first six months of 2003 compared to net-non-operating income of Rp11 billion in the first six months of 2002 mainly due to Rp365 billion (US$44 million) of recoveries from the liquidation of our Hong Kong subsidiary.

Tax Benefit (Expense)

In 2002, we did not provide for estimated corporate income tax because our accumulated tax loss carry forward exceeded our estimated taxable income. As of June 30, 2003, as a result of the elimination of our tax loss carry forward, we accrued a current tax expense of Rp527 billion (US$64 million) and a deferred tax expense of Rp56 billion (US$7 million).

Net Profit

As a result of the foregoing, our net profit increased by 8.2% to Rp1,182 billion (US$143 million) in the first six months of 2003 from Rp1,092 billion in the first six months of 2002.

2002 compared to 2001

Income From Operations

Our income from operations increased by 31.0% to Rp1,462 billion (US$177 million) in 2002 from Rp1,116 billion in 2001. The following table sets out the components of income from operations:

	Year ended December 31,		
	2001	2002	2002
	(Rp billions)	(Rp billions)	(US$ millions)
Net interest income	4,962	6,080	736
Other operating income	1,153	1,045	126
Reversal of allowance (provision) for possible losses on earning assets, commitments and contingencies and other assets	(1,603)	(1,755)	(212)
Other operating expenses	(3,396)	(3,908)	(473)
Income from operations	1,116	1,462	177

Net Interest Income

Our net interest income increased by 22.5% to Rp6,080 billion (US$736 million) in 2002 from Rp4,962 billion in 2001. The increase in net interest income was principally a result of an increase of 22.7% in total interest and investment income to Rp13,454 billion (US$1,628 million) in 2002 from Rp10,968 billion in 2001, while total interest and financing expenses increased by 22.8% to Rp7,373 billion (US$892 million) in 2002 from Rp6,006 billion in 2001.

	Year ended December 31,		
	2001	2002	2002
	(Rp billions)	(Rp billions)	(US$ millions)
Interest and investment income[(1)]	10,801	13,242	1,602
Fees and commissions on loan facilities	167	212	26
Total interest and investment income	10,968	13,454	1,628
Total interest and other financing expenses	(6,006)	(7,373)	(892)
Net interest income	4,962	6,080	736

(1) Includes Syariah income in 2002.

Interest and Investment Income

Our interest and investment income increased by 22.6% to Rp13,242 billion (US$1,602 million) in 2002 from Rp10,801 billion in 2001 primarily due to increases in the interest income generated by our loan portfolio and the interest income generated by our Government recapitalization bonds and securities. Interest and investment income was derived from the following:

	Year ended December 31,		
	2001	2002	2002
	(Rp billions)	(Rp billions)	(US$ millions)
Interest on loans	6,629	8,262	1,000
Interest on Government recapitalization bonds	3,516	3,736	452
Interest on securities[(1)]	396	957	116
Interest on placements with other banks	130	101	12
Others[(2)]	130	186	23
Interest and investment income	10,801	13,242	1,602

(1) Includes income from SBIs, placements with Bank Indonesia and other securities.
(2) Includes late payment interest charges on micro loans.

Interest income from loans increased by 24.6% to Rp8,262 billion (US$1,000 million) in 2002 from Rp6,629 billion in 2001 principally due to an increase in the average outstanding balance of loans. Our average outstanding balance of loans increased by 21.2% to Rp36,689 billion (US$4,439 million) in 2002 from Rp30,280 billion in 2001. Our average outstanding balance of Rupiah-denominated loans increased by 28.2% to Rp31,764 billion (US$3,843 million) in 2002 from Rp24,782 billion in 2001. This growth was largely due to the growth in micro loans, consumer fixed income loans and investment and working capital loans extended by the Retail Business Division. Our average outstanding balance of loans denominated in foreign currencies (primarily in US dollars) decreased in Rupiah terms by 10.4% to Rp4,925 billion (US$596 million) in 2002 from Rp5,498 billion in 2001 as these loans were repaid.

Yields on our loans increased to an average of 23.1% in 2002 from an average of 22.4% in 2001 primarily due to an increase in the proportion of our higher-yielding Rupiah-denominated loans. Yields on our Rupiah loans remained unchanged at an average of 25.5% in 2002. Yields on our loans denominated in foreign currencies decreased to an average of 7.3% in 2002 from an average of 8.7% in 2001, reflecting a decrease in interest rates and higher proportion of non-performing loans in 2002.

Interest income from Government recapitalization bonds increased by 6.3% from 2001 to 2002 due to an increase in the variable rate bonds held in our portfolio, after exchanging fixed rate bonds for variable rate bonds with the Government, and a higher interest rate earned on the Government recapitalization bonds that were reprofiled with higher interest rates and longer maturities in 2002. The average yield on all of our Government recapitalization bonds was 13.1% in 2002 and 12.2% in 2001.

The increase in interest on securities of 141.6% to Rp957 billion (US$116 million) in 2002 from Rp396 billion in 2001 was primarily due to the increase in the average outstanding balance of SBIs and placements with Bank Indonesia held in our portfolio. The average outstanding balance of SBIs and placements with Bank Indonesia held by us increased to Rp6,075 billion (US$735 million) in 2002 from Rp3,375 billion in 2001 as we placed our excess liquidity into SBIs and placements with Bank Indonesia.

Interest on placements with other banks decreased by 22.3% to Rp101 billion (US$12 million) in 2002 from Rp130 billion in 2001. The decrease was primarily a result of a decrease in interest rates paid by banks.

"Others" category increased to Rp186 billion (US$22 million) in 2002 from Rp130 billion in 2001. This increase was mainly due to an increase in penalty interest and late payment interest charges to micro customers.

Fees and Commissions on Loan Facilities

Our fees and commissions increased by 26.9% to Rp212 billion (US$26 million) in 2002 from Rp167 billion in 2001. This increase was primarily due to an increase in loans as of December 31, 2002 to Rp39,367 billion (US$4,763 million) as compared to Rp33,529 billion as of December 31, 2001.

Interest and Other Financing Expenses

Our interest and other financing expenses increased by 22.8% to Rp7,373 billion (US$892 million) in 2002 from Rp6,006 billion in 2001. This increase resulted primarily from the increase in outstanding balance of deposits, especially time deposits and savings deposits, in part offset by decreasing interest expense on fund borrowings. Our average cost of funds was 10.7% in 2002 as compared to 9.8% in 2001. Although we started offering Syrariah deposits in 2002, the amounts were insignificant. The following table sets out the components of interest and other financing expenses:

	Year ended December 31,		
	2001	2002	2002
	(Rp billions)	(Rp billions)	(US$ millions)
Interest expense on:			
Demand deposits	240	297	35
Saving deposits	1,879	2,168	262
Time deposits(1)	2,816	3,948	478
Total interest expense on deposits	4,935	6,413	776
Life insurance premiums on micro loans and consumer fixed income loans	159	151	18
Premium paid for Government Guarantee program	150	148	18
Fund borrowings	335	208	25
Securities sold with agreement to repurchase	11	22	3
Deposits from other banks	86	57	7
Others(2)	330	374	45
Interest expenses and other financing expenses	6,006	7,373	892

(1) Includes certificates of deposit.

(2) Includes promotional gifts (relating to our customer lottery) and fees paid to employers and pension paying agents to collect loan installments from employees and pensioners.

Our total interest expense on deposits increased by 30.0% to Rp6,413 billion (US$776 million) in 2002 from Rp4,935 billion in 2001 principally as a result of the increase in outstanding balance of deposits, especially time deposits and savings deposits, and an increase in the interest rate paid on deposits.

Our average total deposits increased by 16.0% to Rp62,067 billion (US$7,510 million) in 2002 from Rp53,488 billion in 2001. We believe this increase was partially due to the introduction of new features on our saving products, launching of ATMLink, and increase in the number of outlets. Our average outstanding balance of Rupiah-denominated deposits, savings deposits and time deposits increased to Rp7,920 billion (US$958 million), Rp27,306 billion (US$3,304 million) and Rp24,190 billion (US$2,927 million), respectively, in 2002 from Rp6,980 billion, Rp24,620 billion and Rp19,041 billion, respectively in 2001. Our average outstanding balance of demand deposits and time deposits denominated in foreign currencies decreased to Rp472 billion (US$57 million) and Rp2,180 billion (US$264 million), respectively, in 2002 from Rp543 billion and Rp2,304 billion, respectively, in 2001 in part due to the appreciation of the Rupiah against the US dollar. Our average total demand deposits increased by 11.6% to Rp8,392 billion (US$1,015 million) in 2002 from Rp7,523 billion in 2001. Our average total savings deposits increased by 10.9% to Rp27,306 billion (US$3,304 million) in 2002 from Rp24,620 billion in 2001. Our average total time deposits increased by 23.5% to Rp26,370 billion (US$3,191 million) in 2002 from Rp21,345 billion in 2001.

Our average cost of deposits increased to 10.3% in 2002 from 9.2% in 2001 primarily as a result of an increase in the outstanding balance of and interest rates on Rupiah-denominated time deposits. Our average cost of Rupiah-denominated demand deposits increased to 3.3% in 2002 from 2.8% in 2001. Our average cost of Rupiah-denominated saving deposits increased to 7.9% in 2002 from 7.6% in 2001. Our average cost of Rupiah-denominated time deposits increased to 16.0% in 2002 from 14.3% in 2001.

Expense related to life insurance premiums on micro loans and consumer fixed income loans decreased by 5.0% to Rp151 billion (US$18 million) in 2002 from Rp159 billion in 2001.

Premium paid to IBRA under the Government Guarantee Program decreased by 1.3% to Rp148 billion (US$18 million) in 2002 from Rp150 billion in 2001 mainly due to over-payment of premium in 2001.

Our interest paid on fund borrowings decreased by 37.9% to Rp208 billion (US$25 million) in 2002 from Rp335 billion in 2001 primarily as a result of the decrease in the outstanding balance of fund borrowings. We decreased the average outstanding balance of our fund borrowings to Rp3,794 billion (US$459 million) in 2002 from Rp4,791 billion in 2001 through the repayment of certain of our fund borrowings at maturity. Our fund borrowings also declined as we stopped consolidating Bank Inter-Pacific in 2002. Our average cost of funds for such borrowings decreased to 5.5% in 2002 as compared to 7.0% in 2001 due principally to the decrease in the interest rate paid on US dollar-denominated borrowings. Our average fund borrowings denominated in Rupiah decreased to Rp1,354 billion (US$164 million) in 2002 from Rp1,750 billion in 2001, while our average cost of fund borrowings denominated in Rupiah increased to 7.8% from 6.5% in the same periods. The increase was mainly due to the decrease in Bank Indonesia liquidity loans to Rp467 billion (US$57 million) as of December 31, 2002 from Rp901 billion as of December 31, 2001. Our average fund borrowings denominated in foreign currencies decreased to Rp2,440 billion (US$295 million) in 2002 from Rp3,041 billion in 2001, as we paid our exchange offer borrowings as they fell due, while our average cost of fund borrowings denominated in foreign currencies decreased to 4.2% from 7.3% in the same periods.

Expenses relating to securities sold with agreement to repurchase increased to Rp22 billion (US$3 million) in 2002 from Rp11 billion in 2001 mainly due to an increase in repurchase activity.

Interest expense on deposits from other banks decreased 33.7% to Rp57 billion (US$7 million) in 2002 from Rp86 billion in 2001 mainly due to a decrease in interest rates.

"Other" category increased 13.3% to Rp374 billion (US$45 million) in 2002 from Rp330 billion in 2001 mainly due to an increase in promotional expense partially offset by a reduction in foreign currency interest paid to overseas banks.

Other Operating Income

Our other operating income decreased by 9.4% to Rp1,045 billion (US$126 million) in 2002 from Rp1,153 billion in 2001. The following table sets out the components of our other operating income:

	Year ended December 31,		
	2001	2002	2002
	(Rp billions)	(Rp billions)	(US$ millions)
Net gain from changes in value and sale of securities and Government recapitalization bonds[1]	—	412	50
Other fees and commissions[2]	102	290	35
Net gain on foreign exchange[1]	150	—	—
Other[3]	901	343	42
Other operating income	1,153	1,045	126

(1) In years marked with "—", we experienced a net loss which is recorded in Other Operating Expenses.

(2) Other fees and commissions income is derived from our non-lending activities, including fees on savings accounts and Tabungan Haji accounts and fees received in relation to our bill payment, money transfer and trade finance products.

(3) Includes tax refunds, payments under the paying agency agreement with IBRA and recoveries for interest payments on written-off loans.

In 2002 we had a gain of Rp412 billion (US$50 million) from the increase in value and sale of securities and Government recapitalization bonds. This compares to a loss of Rp403 billion in 2001. The gain in 2002 resulted from marking to market our Government recapitalization bonds in our trading account, which increased due to the increase in the price of fixed rate Government recapitalization bonds as SBI rates declined. The loss in 2001 reflected the requirement to mark to market the Government recapitalization bonds in our trading account.

Our other fees and commissions increased by 184.3% to Rp290 billion (US$35 million) in 2002 from Rp102 billion in 2001. A portion of this increase was due to the reclassification of certain fees from other income to fees and commissions income. A Rp104 billion increase was principally due to an increase in savings account and loan administrative fees, and money transfer and other transactional fees.

Net gain on foreign exchange decreased to a net loss of Rp49 billion (US$6 million) in 2002 from a net gain of Rp150 billion in 2001. The loss in 2002 was due to our maintaining a long US dollar position.

"Other" category includes tax refunds, payment under the paying agency agreement with IBRA and recoveries for interest payments on written-off loans. Income in this category decreased by 61.9% to Rp343 billion (US$42 million) in 2002 from Rp901 billion in 2001. The primary components of other was Rp101 billion (US$12 million) reversal of accrued interest expense on funds borrowed from Bank Indonesia (which was less than the initial estimated interest expense), Rp77 billion (US$9 million) reversal of accrued honorarium expense and Rp59 billion (US$7 million) tax refund in 2002. For 2001, we received a tax refund of Rp285 billion for prior year taxes paid, a Rp256 billion fee under the paying agency agreement with IBRA and recoveries of interest payments on loans written-off. Under the terms of the paying agency agreement with IBRA, we are paid this fee as compensation for the services we render in disbursing funds on behalf of IBRA to depositors of banks closed by Bank Indonesia.

Reversal of Allowance (Provision) for Possible Losses on Earning Assets, Commitments and Contingencies and Other Assets

Our net provisions for possible losses on earning assets, commitments and contingencies and other assets increased to Rp1,755 billion (US$212 million) in 2002 from Rp1,603 billion in 2001. The following table sets out the components of our provisions:

	Year ended December 31,		
	2001	2002	2002
	(Rp billions)	(Rp billions)	(US$ millions)
Reversal of allowance (provision) for possible losses on earning assets	(890)	(1,540)	(186)
Reversal of allowance (provision) for possible losses on commitment and contingencies	(52)	(124)	(15)
Reversal of allowance (provision) for possible losses on other assets	(661)	(91)	(11)
Reversal of allowance (provision) for possible losses on earning assets, commitments and contingencies and other assets	(1,603)	(1,755)	(212)

In 2002, our net provision for possible losses on earning assets of Rp1,540 billion (US$186 million) was principally due to the making of further provisions for losses on loans of Rp1,334 billion (US$161 million) and on other earning assets, including Rp214 billion (US$26 million) for our investment in and placement with Bank Inter-Pacific in connection with our de-consolidation of Bank Inter-Pacific and the requirement to classify our investment in and our placements with Bank Inter-Pacific as loss. The additional provisions for losses on loans were required to cover potential losses in Bali and riot-torn areas, written-off and down-graded loans, offset in part by loan recoveries on loans written-off of Rp402 billion (US$49 million). For further details, see Note 10(e)(13) of our financial statements included elsewhere in this Offering Circular. In contrast, in 2001 we made a net provision for possible losses on earning assets of Rp890 billion principally due to the making of further provisions for losses on loans of Rp869 billion. The additional provisions for possible losses on earning assets were required in 2001 to cover potential losses in riot-torn areas and the writing off of loans totaling Rp642 billion in 2001, offset in part by Rp558 billion from loan recoveries on written-off loans.

In 2002, our net provision for possible losses on commitments and contingencies was Rp124 billion (US$15 million) as compared to Rp52 billion in 2001.

In 2002 and 2001, we made a net provision for possible losses on other assets of Rp91 billion (US$11 million) and Rp661 billion, respectively. The large provision made in 2001 was to provide for existing issues that we were in the process of resolving, including differences in accounts with other banks, differences in the recording of channeling loans and inter-branch open items. As issues are resolved, we write off or reverse these provisions.

Other Operating Expenses

Our other operating expenses increased by 15.1% to Rp3,908 billion (US$473 million) in 2002 from Rp3,396 billion in 2001. The increase in operating expenses was due primarily to an increase in salaries and employee benefits and general and administrative expenses, offset in part by the absence of a net loss from changes in value and sale of securities and Government recapitalization bonds. The following table sets out the components of other operating expenses:

	Year ended December 31, 2001	2002	2002
	(Rp billions)	(Rp billions)	(US$ millions)
Net loss from changes in value and sale of securities and Government recapitalization bonds(1)	403	—	—
Salaries and employee benefits	1,962	2,644	320
General and administrative expenses	950	1,082	131
Other fees and commissions(2)	11	14	2
Net foreign exchange loss(1)	—	49	6
Other(3)	70	119	14
Other operating expenses	3,396	3,908	473

(1) In years marked with "—", we experienced a net gain which is recorded in Other Operating Income.
(2) Includes mainly prizes to micro units.
(3) Includes insurance expense and tax assessments for prior years.

In 2002 we had a gain of Rp412 billion (US$50 million) from the increase in value and sale of securities and Government recapitalization bonds. This compares to a loss of Rp403 billion in 2001. The gain in 2002 resulted from marking to market our Government recapitalization bonds in our trading account, which increased due to the increase in the price of fixed rate Government recapitalization bonds as SBI rates declined. The loss in 2001 reflected the requirement to mark to market the Government recapitalization bonds in our trading account. The majority of the Government recapitalization bonds held in our trading account are fixed rate bonds which are usually subject to a greater price volatility than variable rate bonds when marked to market. The loss in 2001 was attributable to an increase in market interest rates.

Salaries and employee benefits increased by 34.8% to Rp2,644 billion (US$320 million) in 2002 from Rp1,962 billion in 2001 largely due to an increase in salaries, benefits, bonuses and incentives paid to all employees, effective July 1, 2002, in order to bring our employees' compensation in line with market rates.

General and administrative expenses increased by 13.9% to Rp1,082 billion (US$131 million) in 2002 from Rp950 billion in 2001 principally due to increases in depreciation of equipment, repairs and maintenance of computer equipment, and transportation and others, which was partially offset by a decrease in fees to consultants.

Other fees and commissions is comprised mainly of prizes for BRI units and increased 27.3% to Rp14 billion (US$2 million) in 2002 from Rp11 billion in 2001.

Other expenses increased by 70.0% to Rp119 billion (US$14 million) in 2002 from Rp70 billion in 2001 primarily due to increased cash in transit and cash storage insurance expenses.

Net Non-operating Income

Our net non-operating income decreased 68.0% to Rp8 billion (US$1 million) in 2002 from Rp25 billion in 2001 mainly due to a decline in rental income.

Tax Benefit (Expense)

We did not provide for estimated corporate income tax in 2002 and 2001 because our accumulated tax loss carry forward exceeded our estimated taxable income. We recognized a deferred tax benefit in 2002 of Rp55 billion (US$7 million) resulting from timing differences related to the non-deductibility of allowances for possible losses on earning assets and estimated losses on commitments and contingencies, partially offset by the reduction of our tax loss carryforward compared to a deferred tax expense of Rp69 billion in 2001. The 2001 expense was due to a reduction of Rp238 billion in tax loss carry forward benefit partially offset by an increase in temporary differences of Rp169 billion.

Net Profit
As a result of the foregoing, our net profit increased by 43.3% to Rp1,525 billion (US$185 million) in 2002 from Rp1,064 billion in 2001.

2001 compared to 2000

Income From Operations
Our income from operations increased by 240.2% to Rp1,116 billion in 2001 from Rp328 billion in 2000. The following table sets out the components of income from operations:

	Year ended December 31, 2000	2001
	(Rp billions)	(Rp billions)
Net interest income	2,793	4,962
Other operating income	754	1,153
Reversal of allowance (provision) for possible losses on earning assets, commitments and contingencies and other assets	662	(1,603)
Other operating expenses	(3,881)	(3,396)
Income from operations	328	1,116

Net Interest Income
Our net interest income increased by 77.7% to Rp4,962 billion in 2001 from Rp2,793 billion in 2000. The increase in net interest income was principally a result of an increase of 44.0% in total interest and investment income to Rp10,968 billion in 2001 from Rp7,616 billion in 2000, offset in part by an increase in total interest and other financing expenses of 24.5% to Rp6,006 billion in 2001 from Rp4,823 billion in 2000.

	Year ended December 31, 2000	2001
	(Rp billions)	(Rp billions)
Interest and investment income	7,499	10,801
Fees and commissions on loan facilities	117	167
Total interest and investment income	7,616	10,968
Total interest and other financing expenses	(4,823)	(6,006)
Net interest income	2,793	4,962

Interest and Investment Income
Our interest and investment income increased by 44.0% to Rp10,801 billion in 2001 from Rp7,499 billion in 2000 primarily due to an increase in the interest income generated by our Government recapitalization bonds and an improvement in the interest income generated by our loan portfolio. Interest and investment income was derived from the following:

	Year ended December 31, 2000	2001
	(Rp billions)	(Rp billions)
Interest on loans	5,633	6,629
Interest on Government recapitalization bonds	1,280	3,516
Interest on securities(1)	322	396
Interest on placements with other banks	128	130
Others(2)	136	130
Interest and investment income	7,499	10,801

(1) Includes income from SBIs, placements with Bank Indonesia and other securities.
(2) Includes late payment interest charges on micro loans.

Interest income from loans increased by 17.7% to Rp6,629 billion in 2001 from Rp5,633 billion in 2000 principally due to an increase in the average outstanding balance of loans and improved yields. Our average outstanding balance of loans increased by 10.4% to Rp30,280 billion in 2001 from Rp27,433 billion in 2000. Our average outstanding balance of Rupiah-denominated loans increased by 11.6% to Rp24,782 billion in 2001 from Rp22,203 billion in 2000. This was largely due to the growth in our micro, consumer fixed income and working capital loans, particularly in the manufacturing, trading and agribusiness sectors. Our average outstanding balance of loans denominated in foreign currencies (primarily in US dollars) increased in Rupiah terms by 5.1% to Rp5,498 billion in 2001 from Rp5,230 billion in 2000. This was largely due to a fall in the Rupiah exchange rate against the US dollar.

Yields on our loans increased to an average of 22.4% in 2001 from an average of 21.0% in 2000 primarily due to an increase in the proportion of higher interest earning micro and consumer fixed income loans. Similarly, yields on our loans denominated in Rupiah increased to an average of 25.5% in 2001 from an average of 23.8% in 2000. Yields on our loans denominated in foreign currencies decreased to an average of 8.7% in 2001 from an average of 8.8% in 2000, reflecting an increase in the proportion of foreign currency non-performing loans.

Our interest income generated from Government recapitalization bonds increased by 174.7% to Rp3,516 billion in 2001 from Rp1,280 billion in 2000. This increase was primarily due to our recapitalization occurring in July and October of 2000 when we received our Government recapitalization bonds.

The increase in interest on securities of 23.0% to Rp396 billion in 2001 from Rp322 billion in 2000 was primarily due to the increase in the average outstanding balance of placements with Bank Indonesia and SBIs held by us. The average outstanding balance of placements with Bank Indonesia held by us increased to Rp3,375 billion in 2001 from Rp1,765 billion in 2000 as we placed our excess liquidity into placements with Bank Indonesia.

Interest on placements with other banks increased by 1.6% to Rp130 billion in 2001 from Rp128 billion 2000.

"Others" category decreased to Rp130 billion in 2001 from Rp136 billion in 2000.

Fees and Commissions on Loan Facilities

Our fees and commissions increased by 42.7% to Rp167 billion in 2001 from Rp117 billion in 2000. This increase was primarily due to an increase in loans as of December 31, 2001 to Rp33,529 billion as compared to Rp27,030 billion of loans as of December 31, 2000.

Interest and Other Financing Expenses

Our interest and other financing expenses increased by 24.5% to Rp6,006 billion in 2001 from Rp4,823 billion in 2000. This increase resulted primarily from the increase in outstanding balance of deposits and increased interest rates paid on deposits, especially on time deposits, in part offset by decreased interest expense on fund borrowings. Our average cost of funds was 9.8% in 2001 as compared to 9.1% in 2000. The following table sets out the components of interest and other financing expenses:

	Year ended December 31, 2000	2001
	(Rp billions)	(Rp billions)
Interest expense on:		
Demand deposits	205	240
Saving deposits	1,785	1,879
Time deposits(1)	1,842	2,816
Total interest expense on deposits	3,832	4,935
Life insurance premiums on micro loans and consumer fixed income loans	134	159
Premium paid for Government Guarantee Program	120	150
Fund borrowings	488	335
Securities sold with agreement to repurchase	—	11
Deposits from other banks	61	86
Others(2)	188	330
Interest expenses and other financing expenses	4,823	6,006

(1) Includes certificates of deposit.

(2) Includes promotional gifts (relating to our customer lottery) and fees paid to employers and pension paying agents to collect loan installments from employees and pensioners.

Our total interest expense on deposits increased by 28.8% to Rp4,935 billion in 2001 from Rp3,832 billion in 2000 principally as a result of the increase in outstanding balance of deposits and an increase in the interest rate paid on deposits.

Our average total deposits increased by 17.2% to Rp53,488 billion in 2001 from Rp45,641 billion in 2000 partially due to customers' continued higher level of trust in State-owned banks as opposed to private banks as well as our introduction of an inter-branch online system. We experienced significant growth in our time deposits, particularly from institutional customers that see time deposits as their main investment instrument.

Our average cost of deposits increased to 9.2% in 2001 from 8.4% in 2000 primarily as a result of an increase in interest rates as demonstrated by the increase in the one-month SBI interest rate to 17.6% as of December 31, 2001 from 14.5% as of December 31, 2000. Our average cost of time deposits increased to 13.2% in 2001 from 9.7% in 2000.

Expense related to life insurance premiums on micro loans and consumer fixed income loans increased by 18.7% to Rp159 billion in 2001 from Rp134 billion in 2000. This increase was mainly due to an increase in outstanding loans.

Premium paid to IBRA under the Government Guarantee Program increased by 25.0% to Rp150 billion in 2001 from Rp120 billion in 2000 mainly due to an increase in deposits and other third party funds.

Our interest paid on fund borrowings decreased by 31.4% to Rp335 billion in 2001 from Rp488 billion in 2000 primarily as a result of the decrease in outstanding balance of fund borrowings. We decreased our average outstanding balance of Rupiah-denominated fund borrowings to Rp1,750 billion in 2001 from Rp4,399 billion in 2000 through the repayment of Bank Indonesia liquidity loans and we increased our average outstanding balance of foreign currency denominated fund borrowings to Rp3,041 billion in 2001 from Rp2,254 billion in 2000.

In 2001, we entered into repo transactions, classified as securities sold with agreement to repurchase, with respect to our Government recapitalization bonds, resulting in an interest expense of Rp11 billion.

Interest expense on deposits from other banks increased 41.0% to Rp86 billion for 2001 from Rp61 billion for 2000 mainly due to an increase in outstanding balances of 57.3% to Rp3,056 billion as of December 31, 2001 from Rp1,943 billion as of December 31, 2000.

"Other" category increased 75.5% to Rp330 billion in 2001 from Rp188 billion in 2000 mainly due to an increase in promotional activities.

Other Operating Income

Our other operating income increased by 52.9% to Rp1,153 billion in 2001 from Rp754 billion in 2000 primarily as a result of an increase in the net gain on foreign exchange, the Rp256 billion payment under a paying agent agreement with IBRA and a tax refund of Rp285 billion. The following table sets out the components of our other operating income:

	Year ended December 31, 2000	2001
	(Rp billions)	(Rp billions)
Other fees and commissions[(1)]	104	102
Net gain on foreign exchange[(2)]	—	150
Other[(3)]	650	901
Other operating income	754	1,153

(1) Other fees and commissions income is derived from our non-lending activities, including fees on savings accounts and Tabungan Haji accounts and fees received in relation to our bill payment, money transfer and trade finance products.

(2) In years marked with "—", we experienced a net loss which is recorded in Other Operating Expenses.

(3) Includes tax refunds, a payment under the paying agency agreement with IBRA in 2001 and recoveries of interest payments on written-off loans.

Our other fees and commissions decreased by 1.9% to Rp102 billion in 2001 from Rp104 billion in 2000.

Net gain on foreign exchange was Rp150 billion in 2001 compared to a loss on foreign exchange of Rp337 billion in 2000. In 2001, the net gain arose principally due to the transfer of Rp127 billion of translation gain from Differences in Foreign Currency Translation (Stockholders Equity Account) to Gain on Foreign Exchange (Income account) due to the closing of our Hong Kong subsidiary. The loss in 2000 was due to a structural short US dollar position in the first half of 2000 as a result of the transfer of US dollar loans to IBRA in late 1999 and early 2000, during which time the Rupiah was appreciating. In June of 2000, we eliminated this short portion and have generally maintained a positive net open position.

"Other" category increased by 38.6% to Rp901 billion in 2001 from Rp650 billion in 2000. The primary components of "other" operating income in 2001 were a Rp256 billion payment under the paying agent agreement with IBRA and a tax refund of Rp285 billion. In 2000, we received a tax refund of Rp415 billion for prior years.

Reversal of Allowance (Provision) for Possible Losses on Earning Assets, Commitments and Contingencies and Other Assets

Our net provisions for possible losses on earning assets, commitments and contingencies and other assets increased to a net provision of Rp1,603 billion in 2001 from a reversal of Rp662 billion in 2000. The following table sets out the components of our provisions:

	Year ended December 31, 2000	2001
	(Rp billions)	(Rp billions)
Reversal of allowance (provision) for possible losses on earning assets	565	(890)
Reversal of allowance (provision) for possible losses on commitment and contingencies	97	(52)
Reversal of allowance (provision) for possible losses on other assets	—	(661)
Reversal of allowance (provision) for possible losses on earning assets, commitments and contingencies and other assets	662	(1,603)

In 2001, we made a net provision for possible losses on earning assets of Rp890 billion principally due to the making of further provisions for losses on loans of Rp868 billion. The additional provisions for possible losses on earning assets were required in 2001 to cover the writing off of loans totaling

Rp642 billion in 2001, offset in part by Rp558 billion from loan recoveries on written-off loans. In contrast, we made a net reversal of allowances for possible losses on earning assets of Rp565 billion for 2000, principally due to loan restructurings.

In 2001, we made a net provision for possible losses on commitments and contingencies of Rp52 billion mainly due to a downgrade in collectibility of certain bank guarantees and letters of credit. In 2000, we made a net reversal of allowances for possible losses on commitments and contingencies of Rp97 billion.

In 2001, we made a net provision for possible losses on other assets of Rp661 billion to provide for existing issues we were in the process of resolving, including differences in accounts with other banks and in the recording of channeling loans that occurred in the 1990s.

Other Operating Expenses

Our other operating expenses decreased by 12.4% to Rp3,396 billion in 2001 from Rp3,881 billion in 2000. The decrease in operating expenses was due primarily to a decrease in salaries and employee benefits. This was offset in part by an increase in other expenses. The following table sets out the components of other operating expenses:

	Year ended December 31, 2000	2001
	(Rp billions)	(Rp billions)
Net loss from changes in value and sale of securities and Government Recapitalization bonds	95	403
Salaries and employee benefits	2,475	1,962
General and administrative expenses	909	950
Other fees and commissions[2]	59	11
Net foreign exchange loss[1]	337	—
Other[3]	6	70
Other operating expenses	3,881	3,396

(1) In years marked with "— ", we experienced a net gain which is recorded in Other Operating Income.

(2) Includes insurance expenses.

Our loss from the decline in value and sale of securities and Government recapitalization bonds increased to Rp403 billion in 2001 from Rp95 billion in 2000. The losses reflected the requirement to mark to market the Government recapitalization bonds held in our trading account. All of the Government recapitalization bonds we held in our trading account were fixed rate bonds the value of which decline with an increase in interest rates.

Salaries and employee benefits decreased by 20.7% to Rp1,962 billion in 2001 from Rp2,475 billion in 2000 largely due to additional expenses in 2000 related to the funding of our pension shortfall and increase in pension payments.

General and administrative expenses increased by 4.4% to Rp950 billion in 2001 from Rp909 billion in 2000 principally due to increases in transportation expenses, office supplies and repairs and maintenance, which were offset by decreases in rent and litigation expenses.

Other fees and commissions decreased 81.4% to Rp11 billion in 2001 from Rp59 billion in 2000.

"Other" category increased to Rp70 billion in 2001 from Rp6 billion in 2000.

Net Non-operating Income

Our net non-operating income increased by 212.5% to Rp25 billion in 2001 from Rp8 billion in 2000 largely due to an increase in rental income and gain from the sale of premises and equipment.

Tax Benefit (Expense)

We did not pay corporate income tax in 2001 and 2000 because our accumulated tax loss carry forward exceeded our net income. We booked a deferred income tax expense of Rp69 billion in 2001 and deferred tax benefit of Rp4 billion in 2000. The deferred tax expense in 2001 was due to a reduction of

Rp238 billion in tax loss carry forward benefit offset partially by an increase in temporary differences of Rp 169 billion.

Net Profit
As a result of the foregoing, our net profit increased by 213.8% to Rp1,064 billion in 2001 from Rp339 billion in 2000.

LIQUIDITY AND CAPITAL RESOURCES

Our business in 2000, 2001, 2002 and the first six months of 2003 was financed principally by a combination of receipts from interest income on our loan portfolio, the Government recapitalization bonds and increases in deposits. We also maintain liquid reserves, which generally exceed the minimum requirements of Bank Indonesia, in order to manage significant withdrawals of deposits by our customers. We have principally used our funds for the payment of interest expense on deposits and fund borrowings, the extension of loans, the repayment of fund borrowings and the payment of operational expenses (including salaries and employee benefits and general and administrative expenses).

The following table sets forth information with respect to our liquidity position as of the dates indicated:

	As of December 31,			As of June 30,	
	2000	2001	2002	2003	2003
	(Rp billions, except percentages)				(US$ millions)
Liquid assets[(1)]	10,043	15,583	19,786	21,066	2,548
Government recapitalization bonds held for trading	1,263	2,218	2,222	2,018	244
Loan to deposit ratio[(2)]	54.9%	58.1%	56.5%	58.5%	—
Liquid assets as a percentage of total assets	15.1%	20.4%	22.9%	22.9%	—
Liquid assets as a percentage of deposits[(2)]	20.4%	27.0%	28.4%	28.3%	—

(1) Liquid assets consist of cash, current accounts with Bank Indonesia, placements with Bank Indonesia and other banks, SBIs and securities (excluding Government recapitalization bonds) held in our trading portfolio.

(2) Excluding deposits from other banks.

We manage our liquidity by various means. We seek to generate liquidity by offering competitive interest rates on our deposit accounts to attract additional deposits, borrowing from the inter-bank market or through fund borrowings or by selling securities such as SBIs in our trading account. In situations where we have excess liquidity, we may revise downwards interest rates on our deposits to lower our deposit levels, or place funds with other banks or Bank Indonesia or into SBIs. To help us monitor and forecast liquidity, we produce daily liquidity reports based on a review of our current account with Bank Indonesia, deposits and our other secondary reserves such as SBIs and placements with Bank Indonesia. We prepare more detailed liquidity reports on a monthly basis. All other reports are based on information from our BRI units which may be up to 30 days old due to delays in receiving data from our BRI units that have not been migrated to BRINets.

Our liquidity remains heavily dependent on the Government continuing to meet its obligations under the Government recapitalization bonds. In the first six months of 2003, interest payments on these bonds represented 25.0% of our total interest income. We also use our Government recapitalization bond portfolio to generate liquidity and improve the balance of our interest-earning assets through sale and repurchase transactions and outright sales.

Cash flows from deposits also significantly impact our liquidity position. In the first six months of 2003, we had cash inflow from an increase in deposits from customers. In 2002, we experienced cash inflows from all deposit types. In 2001, we experienced cash inflows from our savings and time deposits, while the amount of our demand deposits decreased by less than 1.0%.

We may need additional capital to support our growth, to maintain our capital adequacy ratios within Bank Indonesia's guidelines and to maintain liquidity. We issued US$150 million subordinated notes in September 2003 and intend to raise up to Rp750 billion (US$91 million) by issuing additional debt securities in 2003 to strengthen our capital base. As we continue to increase our loan portfolio and reduce our proportion of assets comprised of Government recapitalization bonds, which are zero-risk weighted, our capital adequacy ratio will decrease. There can be no assurance that future financing will be available on terms which are acceptable to us or at all. We may seek additional funds through public or private offerings of additional debt, equity or equity-linked securities, the sale of some of our Government recapitalization bonds, borrowings in the inter-bank market and increases in our deposit base.

The following table sets forth a condensed summary of the statements of cash flows for the periods indicated:

	For the year ended December 31, 2000	2001	2002	For the six months ended, 2003	2003
		(Rp billions)			(US$ millions)
Net cash provided by operating activities	6,058	3,928	5,542	5,692	689
Net cash used in investing activities	(29,281)	(1,892)	(3,067)	(2,423)	(293)
Net cash provided by (used in) financing activities	23,807	384	(2,537)	(2,313)	(280)
Net effect of changes in foreign currency rate on cash and cash equivalents	71	(127)	(2)	1	0
Effect of subsidiaries deconsolidation	(58)	—	(799)	—	—
Net increase (decrease) in cash and cash equivalents	597	2,293	(863)	957	116

Cash Flows From Operating Activities

Our net cash inflow from operating activities in the first six months of 2003 of Rp5,692 billion (US$689 million) resulted primarily from cash inflows arising from interest income of Rp6,743 billion (US$816 million), of which loans represented Rp4,725 billion (US$572 million) and Government recapitalization bonds represented Rp1,860 billion (US$225 million). The net cash inflow also was due to an increase in demand deposits of Rp352 billion (US$43 million), savings deposits of Rp2,423 billion (US$293 million) and time deposits of Rp1,932 billion (US$234 million), and a decrease in placements with Bank Indonesia and other banks and financial institutions of Rp2,411 billion (US$292 million) partly offset by cash outflows from interest expenses of Rp3,787 billion (US$458 million), other operating expenses of Rp2,655 billion (US$321 million) and an increase in loans of Rp4,256 billion (US$515 million).

Our net cash inflow from operating activities in 2002 of Rp5,542 billion (US$671 million) resulted primarily from cash inflows arising from interest income of Rp13,834 billion (US$1,674 million), of which loans represented Rp8,262 billion (US$1,000 million), Government recapitalization bonds represented Rp3,736 billion (US$452 million) and increases in deposits of Rp11,868 billion (US$1,436 million). The increase was partly offset by cash outflows from interest expense of Rp7,522 billion (US$910 million) and other operating expenses of Rp3,441 billion (US$416 million), and an increase in loans of Rp7,261 billion (US$879 million).

Our net cash inflow from operating activities in 2001 of Rp3,928 billion resulted primarily from receipts from interest income of Rp10,968 billion and increases in deposits of Rp8,542 billion, offset primarily by the payment of interest expense of Rp6,006 billion, payment of other operating expenses of Rp3,772 billion and an increase in loans of Rp6,499 billion.

Cash Flows From Investing Activities

Our net cash outflow from investing activities in the first six months of 2003 of Rp2,423 billion (US$293 million) was due to an increase in SBIs by Rp2,805 billion (US$339 million).

Our net cash outflow from investing activities in 2002 of Rp3,067 billion was primarily due to the increase in securities categorized as held-to-maturity of Rp2,977 billion (US$360 million), most of which were SBIs. In addition, net cash outflow was due to the acquisition of premises and equipment in the amount of Rp599 billion (US$72 million). This was offset in part by our sale of Government recapitalization bonds in the amount of Rp438 billion (US$53 million) and sale of premises and equipment for Rp69 billion (US$8 million).

Our net cash outflow from investing activities in 2001 of Rp1,892 billion was primarily due to an increase in securities categorized as held to maturity of Rp1,792 billion particularly SBIs, and the acquisition of premises and equipment of Rp231 billion. This was offset in part by the sale of Government recapitalization bonds of Rp126 billion.

Our net cash outflow from investing activities in 2000 of Rp29,281 billion was primarily due to the purchase of Government recapitalization bonds of Rp29,064 billion as part of our recapitalization.

Cash Flows From Financing Activities

Net cash used in financing activities in the first six months of 2003 of Rp2,313 billion (US$280 million) was due in part to cash used to repay Rp1,523 billion (US$184 million) of fund borrowings.

Net cash used in financing activities in 2002 of Rp2,537 billion was in part used to repay Rp1,998 billion (US$242 million) of fund borrowings. This repayment included a payment of Rp860 billion (US$104 million) on our exchange offer loans and Rp606 billion (US$73 million) of notes payable.

Net cash provided by financing activities in 2001 of Rp384 billion was provided by fund borrowings of Rp464 billion which was offset in part by a dividend distribution.

Our net cash provided by financing activities in 2000 of Rp23,807 billion was due to the Rp29,064 billion in additional paid in capital received from the Government as part of our recapitalization. This increase was partially offset by the decrease of fund borrowings of Rp5,276 billion. Our reduction in fund borrowings was primarily due to a decrease in Bank Indonesia liquidity loans of Rp4,415 billion.

CAPITAL EXPENDITURE

Our consolidated capital expenditure over the past three years has been as follows:

	Year ended December 31, 2000	2001	2002	As of June 30, 2003	
		(Rp billions)		(Rp billions)	(US$ millions)
Land and buildings	12	14	75	28	3
Information technology	150	228	363	109	13
Office equipment and vehicles	20	51	102	14	2
Total capital expenditure	182	293	540	151	18

We have current plans for an aggregate capital expenditure of approximately Rp717 billion (US$87 million) in 2003. In 2003, we have budgeted approximately Rp272 billion (US$33 million) for branch and BRI unit network expansion and renovation, Rp277 billion (US$34 million) for information technology and Rp168 billion (US$20 million) for other capital expenditures such as office equipment. Our preliminary budget for 2004 includes approximately Rp228 billion (US$28 million) for branch and BRI unit network expansion and renovation, Rp537 billion (US$65 million) for information technology and Rp453 billion (US$55 million) for other capital expenditures such as office equipment. The foregoing budgeted amounts and purposes may change depending on a variety of factors including business conditions and our liquidity, financial condition and results of operations.

FINANCIAL CONDITION

Assets

The following table sets forth the principal components of our assets as of the dates indicated:

	As of December 31,			As of June 30,	
	2000	2001	2002	2003	
	(Rp billions)			(Rp billions)	(US$ millions)
Cash	1,677	1,796	2,028	1,959	237
Current accounts with Bank Indonesia	2,831	4,522	4,212	4,009	485
Current accounts with other Banks	797	1,281	496	1,724	209
Placements with Bank Indonesia and other banks and financial institutions	2,875	3,402	5,589	3,178	385
Securities	728	2,516	5,598	8,592	1,040
Government recapitalization bonds	28,982	28,436	28,394	28,007	3,389
Loans	27,030	33,529	39,367	43,488	5,262
Export bills	477	441	357	405	49
Acceptance receivable	285	272	208	256	31
Premises and equipment	1,808	2,030	2,543	2,691	326
Deferred tax assets	870	801	856	800	97
Total Assets	66,334	76,195	86,345	91,803	11,107

June 30, 2003 Compared to December 31, 2002

Our total assets increased by 6.3% to Rp91,803 billion (US$11,107 million) as of June 30, 2003, from Rp86,345 billion (US$10,447 million) as of December 31, 2002, principally as a result of the increase in our outstanding loans and securities held in our portfolio. Loans increased 10.5% to Rp43,488 billion (US$5,262 million) as of June 30, 2003 from Rp39,367 billion (US$4,763 million) as of December 31, 2002.

Current accounts with other banks increased 247.6% to Rp1,724 billion (US$209 million) as of June 30, 2003 from Rp496 billion (US$60 million) as of December 31, 2002, primarily due to an increase in Euro-denominated accounts of Rp1,073 billion (US$130 million) related to cash collateral. Securities, including SBIs and corporate bonds, increased by 53.5% to Rp8,592 billion (US$1,040 million) as of June 30, 2003 from Rp5,598 billion (US$677 million) as of December 31, 2002, primarily due to excess liquidity placed in SBIs. Placements with Bank Indonesia and other banks decreased by 43.1% to Rp3,178 billion (US$385 million) as of June 30, 2003 from Rp5,589 billion (US$676 million) as of December 31, 2002, due to a decrease of Rp2,531 billion (US$306 million) in placements with Bank Indonesia as part of our effort to reduce excess liquidity.

Net loans increased to Rp39,319 billion (US$4,757 million) as of June 30, 2003 from Rp35,454 billion (US$4,290 million) as of December 31, 2002, primarily due to the extension of new loans. As of June 30, 2003, "special mention" loans totaled Rp3,167 billion (US$383 million) (approximately 7.3% of our loans). Government recapitalization bonds decreased to Rp28,007 billion (US$3,389 million) as of June 30, 2003 from Rp28,394 billion (US$3,436 million) as of December 31, 2002, due mostly to selective selling of fixed rate bonds.

December 31, 2002 Compared to December 31, 2001

Our total assets increased by 13.3% to Rp86,345 billion (US$10,447 million) as of December 31, 2002, from Rp76,195 billion as of December 31, 2001, principally as a result of the increase in outstanding loans and securities held in our portfolio. Loans increased 17.4% to Rp39,367 billion (US$4,763 million) as of December 31, 2002 from Rp33,529 billion as of December 31, 2001. Micro loans increased by Rp2,169 billion (US$262 million) or 22.1% and retail loans by Rp5,128 billion (US$620 million) or 36.9%.

Securities, including SBIs and other corporate bonds, increased by 122.5% to Rp5,598 billion (US$677 million) as of December 31, 2002 from Rp2,516 billion as of December 31, 2001, primarily due to an increase in SBIs of Rp2,951 billion. Placements with other banks increased by 64.3% to Rp5,589 billion (US$676 million) as of December 31, 2002 from Rp3,402 billion as of December 31, 2001, due to increases in placements with Bank Indonesia of Rp1,029 billion (US$125 million) and call money deposits of Rp1,101 billion (US$133 million). Current accounts with Bank Indonesia decreased 6.9% to Rp4,212 billion (US$509 million) as of December 31, 2002 from Rp4,522 billion as of December 31, 2001.

Net loans increased to Rp35,454 billion (US$4,290 million) as of December 31, 2002 from Rp29,566 billion as of December 31, 2001, primarily due to the extension of new loans. As of December 31, 2002, "special mention" loans totaled Rp3,373 billion (approximately 8.6% of our loans). As of December 31, 2002, approximately 26.4% or Rp890 billion (US$108 million) of our "special mention" loans are former non-performing loans that had been restructured. Government recapitalization bonds decreased to Rp28,394 billion (US$3,436 million) as of December 31, 2002 from Rp28,436 billion as of December 31, 2001, as we exchanged Rp249 billion of Government recapitalization bonds with IBRA for certain non-performing loans, which was partially offset by a mark-to-market increase.

December 31, 2001 Compared to December 31, 2000

Our total assets increased by 14.9% to Rp76,195 billion as of December 31, 2001, from Rp66,334 billion as of December 31, 2000, principally as a result of an increase in net loans, securities and placements with other banks, partially offset by a decrease in Government recapitalization bonds.

Net loans increased to Rp29,566 billion as of December 31, 2001 from Rp24,259 billion as of December 31, 2000, primarily due to the extension of new loans. As of December 31, 2001, "special mention" loans totaled Rp5,513 billion (approximately 16.4% of our loans). Securities, which comprised SBIs and other securities, increased to Rp2,516 billion as of December 31, 2001 from Rp728 billion as of December 31, 2000 due to an increase in SBIs. Placements with other banks increased to Rp3,402 billion as of December 31, 2001 from Rp2,875 billion as of December 31, 2000, primarily due to an increase of Rp413 billion in US dollar call money deposits in preparation for our repayment of exchange offer loans. Government recapitalization bonds decreased to Rp28,436 billion as of December 31, 2001 from Rp28,982 billion as of December 31, 2000, as a result of our sale of fixed rate bonds and a reduction in book value when we marked to market Government recapitalization bonds in our trading account.

LIABILITIES AND SHAREHOLDER'S EQUITY

Liabilities

The following table sets forth the principal components of our liabilities and shareholder's equity as of the dates indicated:

	Year ended December 31,			As of June 30,	
	2000	2001	2002	2003	
	(Rp billions)			(Rp billions)	(US$ millions)
Short-term liabilities	2,596	1,296	1,887	3,635	440
Deposits:					
Demand deposits	7,529	7,516	11,459	11,810	1,429
Savings deposits	22,711	26,529	28,673	31,096	3,762
Time deposits	18,974	23,706	29,484	31,416	3,801
Certificates of deposit	3	8	11	11	2
Total deposits	49,217	57,758	69,627	74,333	8,994
Deposits from other banks	1,943	3,056	2,061	1,833	222
Securities sold with agreements to repurchase	—	711	201	508	62
Acceptances payable	285	272	208	256	31
Fund borrowings	4,559	5,023	3,025	1,502	182
Estimated losses on commitments and contingencies	56	107	229	296	36
Other liabilities	3,190	2,618	2,793	2,733	331
Subordinated loans	421	517	520	509	62
Total liabilities	62,266	71,358	80,551	85,605	10,358
Minority interests in net assets of consolidated subsidiary	15	23	—	—	—
Shareholder's equity	4,053	4,814	5,794	6,198	750
Total liabilities and shareholder's equity	66,334	76,195	86,345	91,803	11,107

June 30, 2003 Compared to December 31, 2002

Total liabilities and shareholder's equity increased by 6.3% to Rp91,803 billion (US$11,107 million) as of June 30, 2003 from Rp86,345 billion (US$10,477 million) as of December 31, 2002 principally as a result of an increase in short term liabilities and savings and time deposits partially offset by a decrease in deposits from banks and fund borrowings. Short term liabilities increased to Rp3,635 billion (US$440 million) as of June 30, 2003 from Rp1,887 billion (US$228 million) as of December 31, 2002 due to an increase in taxes payable and an increase in a short term liability to Bank Indonesia pending the offset of our current account with Bank Indonesia.

Total deposits increased by 6.8% to Rp74,333 billion (US$8,994 million) as of June 30, 2003 from Rp69,627 billion (US$8,424 million) as of December 31, 2002 due to increase in savings and time deposits by Rp2,423 billion (US$293 million) and Rp1,932 billion (US$234 million) respectively.

Fund borrowings decreased by 50.4% to Rp1,502 billion (US$182 million) as of June 30, 2003 from Rp3,025 billion (US$366 million) as of December 31, 2002 due to repayment of Rupiah notes payable of Rp605 billion (US$73 million) and exchange offer loans of Rp817 billion(US$99 million).

Total shareholder's equity increased by 7.0% to Rp6,198 billion (US$750 million) as of June 30, 2003 from Rp5,794 billion (US$701 million) as of December 31, 2002. This increase resulted mainly from net earnings through June 2003 of Rp1,182 billion (US$143 million) less dividend paid of Rp762 billion (US$92 million).

December 31, 2002 Compared to December 31, 2001

Total liabilities and shareholder's equity increased by 13.3% to Rp86,345 billion (US$10,477 million) as of December 31, 2002 from Rp76,195 billion as of December 31, 2001 principally as a result of an increase in demand, savings and time deposits and deposits from banks offset in part by a decrease in fund borrowings.

Total deposits increased by 20.6% to Rp69,627 billion (US$8,424 million) as of December 31, 2002 from Rp57,758 billion as of December 31, 2001 due to increases in demand, savings and time deposits of Rp3,943 billion (US$477 million), Rp2,144 billion (US$259 million) and Rp5,778 billion (US$699 million), respectively.

Fund borrowings decreased by 39.8% to Rp3,025 billion (US$366 million) as of December 31, 2002 from Rp5,023 billion as of December 31, 2001 mainly due to decreases in Bank Indonesia liquidity loans by Rp434 billion (US$53 million), Rupiah notes payable by Rp222 billion (US$27 million), exchange offer loans by Rp860 billion (US$104 million), and US dollar notes payable by Rp384 billion (US$46 million).

Total shareholder's equity increased by 20.4% to Rp5,794 billion (US$701 million) as of December 31, 2002 from Rp4,814 billion as of December 31, 2001. This increase resulted mainly from net earnings for the year of Rp1,525 billion (US$185 million) less dividends paid of Rp532 billion (US$64 million).

December 31, 2001 Compared to December 31, 2000

Total liabilities and shareholder's equity increased by 14.9% to Rp76,195 billion as of December 31, 2001 from Rp66,334 billion as of December 31, 2000 principally as a result of an increase in total deposits. This increase was partially offset by decreases in short term liabilities and other liabilities.

Total deposits increased to Rp57,758 billion as of December 31, 2001 from Rp49,217 billion as of December 31, 2000 and deposits from other banks increased to Rp3,056 billion as of December 31, 2001 from Rp1,943 billion as of December 31, 2000.

Fund borrowings increased to Rp5,023 billion as of December 31, 2001 from Rp4,559 billion as of December 31, 2000 due to an increase in Rupiah and US dollar notes payable by Rp827 billion and Rp384 billion, respectively, partially offset by a decrease in liquidity and exchange offer loans by Rp336 billion and Rp358 billion, respectively. Other liabilities decreased to Rp2,618 billion as of December 31, 2001 from Rp3,190 billion as of December 31, 2000. This decrease was due to payment of retirement benefit accrued and reduction of outstanding import drafts.

Shareholder's equity increased to Rp4,814 billion as of December 31, 2001 from Rp4,053 billion as of December 31, 2000. This increase resulted mainly from net earnings through December 31, 2001 of

Rp1,064 billion less dividends of Rp168 billion and reduction in differences in foreign currency translation of Rp127 billion.

COMMITMENT AND CONTINGENCIES

Foreign Exchange and Derivative Contracts

Our policy regarding foreign exchange risk is to comply with Bank Indonesia's regulatory limits with respect to our net open position. Bank Indonesia currently requires that our net open position in all foreign currencies be no more than 20.0% of our total regulatory capital. As of June 30, 2003, our net open position was 11.8%. Our policies include entering into transactions to transfer foreign exchange risk of derivative transactions with our customers to other parties, and buying and selling foreign currencies as required to manage our net open position.

We enter into forward swap transactions with our customers. These forward swap transactions enable customers to transfer, modify or reduce their foreign exchange risks. As part of our risk management policy, we cover these derivative contracts with customers, with forward agreements with other financial institutions. These forward agreements are designed to have substantially similar notional amounts and maturities to the original derivative contracts.

Letters of Credit and Guarantees

As part of our ordinary banking activities, we issue financial and performance guarantees and letters of credit, for which we charge a fee based on the value of the letter of credit or guarantee, as applicable.

The following table sets forth our letters of credit and guarantees outstanding as of the dates indicated:

	Year ended December 31,			As of June 30,	
	2000	2001	2002	2003	2003
		(Rp billions)		(Rp billions)	(US$ millions)
Irrevocable letters of credit	838	637	1,470	2,758	334
Guarantees					
Bank guarantees and risk sharing	631	536	377	244	29
Standby letters of credit	1,159	648	40	33	4
Total	2,628	1,821	1,887	3,035	367

REGULATORY CAPITAL

We are subject to the capital adequacy requirements of Bank Indonesia, which are primarily based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements in 1988. For a description of Bank Indonesia's capital adequacy guidelines applicable to us, see "Supervision and Regulation—Capital Requirements—Capital Adequacy Requirements".

Prior to the economic crisis that started in 1997, the minimum capital to risk-weighted assets ratio for Indonesian banks was 8.0%. As a result of the fiscal crisis in Indonesia, in November 1998, Bank Indonesia issued regulations requiring Indonesian banks to maintain a minimum capital to risk-weighted assets ratio of 4.0% of total capital not later than (i) December 31, 1998 for banks not participating in the Bank Recapitalization Program or (ii) the date of completion of the Bank Recapitalization Program for participating banks. In February 1999, Bank Indonesia issued a regulation that required Indonesian banks to increase the minimum capital adequacy ratio to 8.0% by the end of 2001. Bank Indonesia regulations require that the capital adequacy ratio be presented without calculation of deferred income tax.

The following table summarizes our regulatory capital and capital adequacy ratios as measured in accordance with Bank Indonesia regulations, on an unconsolidated basis, as of the dates indicated:

	Year ended December 31,			As of June 30,	
	2000	2001	2002	2003	2003
		(Rp billions)		(Rp billions)	(US$ millions)
Tier I capital	3,015	3,446	4,133	5,397	750
Tier II capital	749	919	1,022	964	117
Investments in shares of stock	—	(91)	(103)	(105)	(110)
Total capital	3,764	4,273	5,052	6,255	757
Total risk-weighted assets	26,224	32,077	40,040	42,414	5,182
Capital adequacy ratios:					
Tier I capital adequacy ratio(1)	11.5%	10.7%	10.3%	12.7%	—
Capital adequacy ratio(1)	14.4%	13.3%	12.6%	14.7%	—
Minimum capital adequacy ratios required by Bank Indonesia	4.00%	8.00%	8.00%	8.00%	—

(1) Ratios in the table are based on Bank Indonesia regulations and methods of calculations for each of the years indicated in the table. In each of 2000 and 2001, Bank Indonesia changed the requirements for calculating the capital adequacy ratio.

As these regulatory ratios are computed in accordance with Bank Indonesia regulations, Tier II capital includes any general provisions made in our Indonesian GAAP financial statements for potential future loan losses. As we continue to reduce the amount of Government recapitalization bonds we hold and increase our loan portfolio, we expect our risk-weighted assets to increase and consequently our capital adequacy ratio to decrease. We issued US dollar-denominated subordinated debt in September 2003 and intend to issue Rupiah-denominated subordinated debt in 2003 in order to strengthen our capital base.

RECENT ACCOUNTING PRONOUNCEMENTS

On May 1, 2002, the Indonesian Association of Accountants issued the Indonesian Statement of Financial Accounting Standards (PSAK) No. 59 on Accounting for Syariah Banking which is effective for the preparation of the financial statements covering the period starting on or after January 1, 2003. This statement aims to regulate the accounting treatment including recognition, assessment, presentation and disclosure of specific transactions related to Islamic Banking.

Business

OVERVIEW

We are one of the largest banks in Indonesia with a historical focus on microfinance as well as a growing focus on the consumer, small and medium enterprise ("SME") and agribusiness sectors. We are the second largest bank in Indonesia in terms of loans and the fourth largest bank in terms of total assets and total deposits (based on published audited financial statements of Indonesian banks as of June 30, 2003). As of June 30, 2003, we had Rp43,488 billion (US$5,262 million) in total loans, Rp91,803 billion (US$11,107 million) in total assets and Rp74,333 billion (US$8,994 million) in total deposits. We have the most extensive network of branches, sub-branches and units among major commercial banks, with offices located in every province in Indonesia. Through our network, we offer a range of financial products and services to consumers, micro, small and medium-sized enterprises and corporations. We are wholly-owned by the Government of the Republic of Indonesia.

Our business is organized to serve the varying needs of different categories of borrowers and depositors. Our principal lending and deposit-taking units include:

- *Micro*. Our Micro Business Division operates our over 3,900 BRI units and makes loans of up to Rp50 million to micro enterprises and individual customers with low incomes. This division also takes deposits at the BRI units.

- *Retail*. Our Retail Business Division makes loans of up to Rp5 billion to small businesses and individual customers.

- *Commercial*. Our General Business Division makes loans of up to Rp50 billion to medium-size businesses (other than agribusiness borrowers).

- *Corporate*. Our General Business Division makes loans above Rp50 billion to corporate borrowers (other than agribusiness borrowers).

- *Agribusiness*. Our Agribusiness Division makes loans above Rp5 billion to agribusiness borrowers.

- *Program lending*. Our Program Loan Division makes loans of various sizes to micro, small and medium-size businesses in connection with various government programs, mostly in the agribusiness sector.

- *Consumer banking*. Our Consumer Banking Division makes vehicle loans, home loans and bridging loans to individual customers. This division also takes deposits from all types of business and individual customers at our branches and sub-branches.

- *Islamic banking*. Our Syariah Business Unit operates through eight Syariah branch offices and offers a variety of financing, funding and other services that are structured in accordance with Islamic law principles.

Consistent with our financial statements, this offering circular generally categorizes our loans into three principal categories: (1) micro, which includes loans made by the Micro Business Division; (2) retail, which includes loans made by the Retail Business, Program Loan and Consumer Banking Divisions and financing products provided by the Syariah Business Unit; and (3) medium-scale, which includes loans managed by our General Business, Agribusiness and Restructuring and Problem Loan Divisions.

The following table shows, by business group, our loan portfolio as of June 30, 2003:

	As of June 30, 2003		
	(Rp billions)	(US$ millions)	
Micro:			
Working capital	5,990	725	13.8%
Investment	1,176	142	2.7%
Consumer fixed income[(1)]	6,009	727	13.8%
Total Micro	13,175	1,594	30.3%
Retail:			
Working capital	7,898	956	18.2%
Investment	500	60	1.1%
Consumer fixed income and consumer banking[(1)]	10,831	1,310	24.9%
Program	3,181	385	7.3%
Employee	23	3	0.1%
Other	81	10	0.2%
Total Retail	22,514	2,724	51.8%
Medium-Scale:			
Commercial	1,155	140	2.6%
Corporate	3,568	432	8.2%
Agribusiness	3,076	372	7.1%
Total Medium-Scale	7,799	944	17.9%
Total	43,488	5,262	100.0%

(1) *Includes personal loans to individuals that have regular income from full-time employment or pension payments as well as motor vehicle, housing and bridging loans.*

Our focus on micro and small enterprises is supported by our strong history in this sector. Founded in 1895, we have been committed to assisting micro and small enterprises for over one hundred years. We have been recognized by many international organizations, including The World Bank, as being one of the world's leading microfinance institutions due to our ability to make a profit from our micro finance business while providing financial services to a market segment that otherwise would have limited access to banking services. During the economic crisis that started in 1997, these types of borrowers demonstrated their strong resilience amid severe adverse economic conditions. We believe our loan portfolio did not deteriorate to the same extent as other banks in Indonesia during the economic crisis as a result of our diverse borrower base and the low loss experience in our micro, consumer fixed income and small business loan portfolios. As of June 30, 2003, 2.5% of our micro loans were non-performing.

Historically, we have participated in Government programs and policies targeting the agribusiness sector and those providing financing to micro businesses. Our involvement with these programs has supported our efforts to develop a client base of micro, small and medium-size enterprises and corporate borrowers, especially in the agribusiness and trading industries. We serve a unique dual function, acting as a traditional commercial bank and also as the largest microfinance agency in Indonesia.

As a result of the Indonesian economic crisis, many State-owned banks, ourselves included, experienced significant financial difficulties. During this period, our capital adequacy ratio fell below Bank Indonesia requirements as a result of a deterioration in our asset quality. This deterioration was especially evident in our loans to medium-size enterprises and corporate borrowers, many of which were denominated in US dollars. The Government implemented a recapitalization program in 1999 in order to increase the capital adequacy ratio of eligible banks by injecting additional capital into such banks in the form of Government recapitalization bonds. The Government agreed to recapitalize us in 2000 on the condition that we implement various corporate reforms, including reforms to our risk management system and technology infrastructure. Our recapitalization was completed in 2000 and new directors and commissioners were appointed at that time. Pursuant to the terms of the recapitalization, the new board of directors adopted a business plan that refocuses our strategy on our consumer, micro and retail business customers.

Since the completion of the recapitalization program by the Government, we are one of the few major commercial banks in Indonesia with a greater proportion of its total assets represented by loans than Government recapitalization bonds. As of June 30, 2003, loans represented 47.4% of our total assets while Government recapitalization bonds represented 30.5% of our total assets. In addition, we had one of the highest loan to deposit ratios among major banks in Indonesia at 58.5% as of June 30, 2003, and our mix of stable funding, 57.7% of which is comprised of our demand and savings accounts, and portfolio of high-yielding micro and small business loans helped us achieve a net interest margin of 8.9% (annualized) in the first six months of 2003.

COMPETITIVE STRENGTHS

We believe we possess the following key business strengths:

Strong position in the microfinance, SME and low to middle income consumer loan markets

We are the leading Indonesian bank serving the microfinance market and one of the leading banks focusing on small and medium enterprises (SMEs) and consumer loans to individuals with low to middle income. Microfinance and low to middle income consumer loan markets have been the strongest contributors to our profitability and made us less sensitive to global and regional economic trends during economic downturns. Since 2001, we have demonstrated significantly better financial performance than many other Indonesian banks. In the first six months of 2003 our net interest margin was 8.9% (annualized), which was the highest of the top ten largest Indonesian banks according to Bank Indonesia reported financial statistics. Our return on average equity and average assets for the first six months of 2003 were (annualized) 38.3% and 2.7%, respectively, which also places us among the leading banks in Indonesia on these measures, based on Bank Indonesia reported financial statistics. Our strong financial performance has also helped maintain adequate internal capital generation to support the growth of our operations.

Good quality assets and a strong capital base

Due in part to our focus on the microfinance, SME and low to middle income consumer loan segments, where the proportion of non-performing loans is significantly lower, our proportion of non-performing loans is better than average for Indonesian banks. As of June 30, 2003, our ratio of allowances for possible loan losses to gross non-performing loans was 143.0%. Gross non-performing loans for our Micro Business and Retail Business Divisions comprised 2.5% and 3.0%, respectively, of total loans outstanding at each of those divisions. The quality of our asset base is also supported by diversification through our over 3 million accounts and by our relatively limited exposure to the corporate sector. Our corporate and agribusiness loan portfolio consisting of loans exceeding Rp50 billion (approximately US$6 million) is limited to 20.0% of our total outstanding loans and comprised 15.3% of total loans outstanding as of June 30, 2003. Our net non-performing loans (net in accordance with Bank Indonesia regulations on minimum provisions), which represents gross non-performing loans less the minimum allowance required under Indonesian banking regulations, comprised 3.2% of total outstanding loans, significantly below the Bank Indonesia required maximum of 5.0%. We also enjoy a strong capital base, with a capital adequacy ratio of 14.7% as of June 30, 2003, which is above the statutory minimum of 8.0% set by Bank Indonesia.

Prudent risk management standards

We maintain a more conservative provisioning policy than that required by Bank Indonesia regulations and have upgraded many of our risk management policies and processes over the past four years. These measures have included strengthening the separation between credit evaluation and relationship management functions at our branches. We maintain three separate risk management divisions to monitor the three distinct, but inter-related areas of credit risk, operational risk and market risk, which collaborate to ensure an integrated approach to risk management. Except in our BRI units, where the maximum loan authorization is only Rp15 million (less than US$2,000), our relationship and risk management functions are clearly separated throughout our branch network to enable effective, independent and impartial credit risk management. In addition, credit approvals across all our businesses require the agreement of two credit officers, and then only after a thorough evaluation of risk is conducted, which incorporates analysis of both financial and non-financial aspects of potential customers' creditworthiness.

Most extensive branch network in Indonesia

With 324 branches and over 3,900 micro units, we believe we have the most extensive network among banks in Indonesia. Our 13 regional offices located throughout the Indonesian archipelago stretch from Banda Aceh in Sumatra to Manado in Sulawesi. In many of the villages served by our BRI units and village service posts, we are the only major Indonesian bank to offer banking services and we have expanded our network of BRI units by over 200 units over the past two and one-half years. Our network of branches and units is a critical advantage in enabling us to compete successfully to meet the financing and deposit-taking needs of our micro and retail customers.

Strong brand recognition and loyalty

With an operating history of more than 107 years and with over 4,000 outlets across Indonesia, ''BRI'' is one of Indonesia's most recognized brands. We received the ''Best Indonesian Brand'' award from SWA Magazine in 2001 and 2002. Although recognized internationally as well as domestically as a pioneer in the micro finance market and Indonesia's leading micro finance bank, we believe the BRI brand is well-recognized and highly regarded by Indonesians in a wide spectrum of socio-economic classes. This gives us a powerful platform from which to expand the distribution of our products and services.

Well-positioned for continued growth amid improving macroeconomic conditions

Unlike many other major Indonesian banks, all of the loans in our portfolio were originated by us. As of June 30, 2003, loans constituted 50.9% of our interest-earning assets and Government recapitalization bonds constituted 32.8% of our interest-earning assets. We expect the percentage of Government recapitalization bonds in our portfolio to decrease for the foreseeable future as we continue to grow our loan portfolio through new lending. According to the published financial statements of Indonesian banks, we are the only recapitalized bank that has had positive net interest income, excluding interest from recapitalization bonds, each year since 2000. Our loan-to-deposit ratio as of June 30, 2003 was 58.5%, which is significantly above the average of 42.4% for Indonesia's 10 largest domestic banks, based on Bank Indonesia's reported financial statistics. In addition, because of the comparatively high proportion of loans we already have, we have not felt compelled to acquire loan exposure by other means. As a result, unlike many of our competitors, we have avoided purchasing portfolios of restructured loans auctioned by IBRA.

Experienced and professional management team

In connection with our recapitalization in 2000, the government installed a new professional management team with the experience needed to re-establish our banking business on a sound basis. Our seven directors have an average of 27 years of experience in the banking industry. Our CEO, CFO and chief compliance officer have 31, 27 and 23 years of industry experience, respectively. Most of our senior executives have experience in the banking industry outside Indonesia or received advanced degrees from universities abroad. Since its appointment, our new management team has implemented numerous changes to our policies, operations and strategy, including the adoption of new risk management, credit control and internal audit policies recommended by the Boston Consulting Group and Deutsche Bank. We were the first bank in Indonesia to achieve the prestigious ISO 9000/2001 in 2002 for our risk-based audit program. In addition, we have taken various steps to evaluate and improve our internal and external reporting standards and internal controls under the corporate governance guidelines adopted by the Ministry of State-owned Enterprises in 2002.

BUSINESS STRATEGY

Our aim is to reinforce our leadership position in our core business areas while leveraging the strength of our experience and national footprint to become a leading provider of banking services to a wider cross segment of customers. The key facets of our strategy are outlined below.

Continue to focus on our core business areas

We have historically held a unique position in the Indonesian economy in providing banking services to the often-overlooked microfinance market throughout Indonesia. Our substantial experience and infrastructure, which have contributed to our leading position in this segment, will continue to underpin our future business strategy. We also enjoy a strong position in our other core areas, serving the urban and rural small and medium business and low to middle consumer loan segments. We will aim to extend our leadership position in these areas and to utilize our competitive advantages, such as our extensive network of branches and BRI units as well as experienced regional credit and operational personnel, to defend against any increased future competition. We continue to see growth opportunities in these segments and believe that we can continue to grow our operations.

Extend reach within key growth areas

We aim to increase our market share among small businesses and individual customers served by our Retail Business and Consumer Banking Divisions. With the continuing improvement in Indonesia's economy, we see substantial growth potential in the small business and consumer segments as entrepreneurs in high growth sectors expand their businesses and individuals experience increasing discretionary income. Within the small business market, we are actively targeting growth opportunities in the agribusiness, retail trade and consumer goods sectors. Within the consumer market, we believe individuals in Indonesia's smaller towns and rural areas remain underserved by banks and represent a potentially large and relatively untapped customer market. To strengthen our ability to service these targeted growth areas, we are implementing marketing and training programs to enable our employees to serve their customers more effectively.

Enhance and strengthen our risk management systems

We believe that prudent risk management policies, procedures and controls are critical for the long-term sustainable development of our business. In line with the strong emphasis we place on the effective management of risk, we have been implementing a wide range of improvements to our risk management systems recommended by the Boston Consulting Group after a comprehensive evaluation of our existing systems in 2001. The Boston Consulting Group's recommendations focused on strengthening our policies and controls in the three key areas of credit, operational and market risk management. Based on these recommendations, we have re-aligned our organization in our head office, regional offices and branches to monitor and control risk along these key lines. Under our new structure, our Credit Administration Division is responsible for managing credit risk (in conjunction with our Credit Committee), our Risk Management Division manages operational risk and our Treasury Division manages market risk (in conjunction with our Asset and Liability Committee). To ensure that the interaction among these risks is being considered and properly addressed, our Internal Audit Division adopted a risk-based audit system in 2002 to analyze the risk profile of the bank overall through Risk Self-Assessment (RSA). Similarly, to improve the management of our problem loans, a separate Restructuring and Problem Loan Division was created to oversee the resolution of the non-performing loans among our corporate, commercial, agribusiness and retail loans. Over the next two years, we plan to take further steps to enhance and strengthen our risk management systems, focusing on our credit portfolio management (including through our early warning system) and improved management of our assets and liabilities.

Increase our operating efficiency through the use of technology

We plan to continue to upgrade our information systems in order to enhance our products, reduce operating costs and help us better manage our risks. Over the past three years we made significant investments in new information technology, including investments in the BRINets network, which now covers 99% of our existing branch network and 115 of our BRI units. We have budgeted approximately US$125 million in additional spending between 2003 and 2004 as part of a comprehensive program to upgrade our existing systems and add functionality to our management information systems, which includes BRINets migration for 1,000 BRI units by 2004. We intend to migrate all of our existing BRI units to BRINets by 2009. As part of this program, we will deploy point-of-sale (POS) devices at shops, merchants and grocery stores, enable customers to better manage their funds and accounts through a cash management delivery channel and invest in new ATMs and replace our older ATMs. We believe these investments will better integrate our extensive branch network and employ better management information systems (MIS) to facilitate more efficient sharing of information and enable better decision making.

We decided to undertake this relatively significant expenditure to:

- be one of the first Indonesian banks to operate a fully integrated banking network located throughout Indonesia;

- ➤ improve our transaction processing platform to reduce the errors and other costs currently associated with manual entry systems;
- ➤ enhance the speed and quality of the information available to help our management monitor bank operations and improve operating efficiency by reducing the time required for routine administrative functions, allowing redeployment of staff;
- ➤ implement systems and processes capable of supporting international best practice standards of internal reporting, risk management and corporate governance; and
- ➤ strengthen our product development and delivery capabilities.

Increase customer and market penetration

Recognizing the need to constantly improve the way we develop, market and deliver our products and services, we have identified the following key areas which need to be strengthened to achieve this goal:

- ➤ *Improving customer relationship management systems and processes.* Through our recent technology investments, we have better integration throughout the branch network and more timely access to accurate customer information. Increased integration allows us to make products traditionally targeted at urban centers available to customers in our rural BRI units.
- ➤ *Increasing corporate marketing.* While our brand is well entrenched among the urban and rural low-to-medium income segment, we have developed a marketing blueprint which plans to intensify our corporate marketing program over the next 5 years to strengthen our corporate image throughout all demographic segments of the economy.
- ➤ *Increasing product development and marketing initiatives.* We also aim to leverage our relationships with both State-owned enterprises and large corporations to establish strategic alliances to market and deliver our products and services. As part of this initiative, we recently established nine SME centers for development, which provide value added services such as consultancy and information access and warehousing services in conjunction with the Indonesian Chamber of Commerce and companies like telecommunications provider Telkom. We have over 800 small and medium enterprises registered for such services, and based on this strong response, we plan to open 22 additional centers over the next year. We also launched our first mutual fund investment product, BRIVestama, in August 2003, which is managed by ABN Amro Investment Management and will be distributed selectively throughout our branch network in the first phase of its introduction.
- ➤ *Enhancing staff training programs and cross-selling incentives.* As technology and increased marketing activities enhance our ability to identify and address the needs of our existing and potential customers, we will also focus on empowering our staff to better understand customer profiling techniques, and provide ongoing training on new product and service offerings as well as customer penetration techniques. We expect to spend approximately 5% of personnel costs on employee training programs in each of the next 5 years.

Enhance our product delivery capabilities

To address the increasing competition we expect to see in the Indonesian banking industry and the increasing sophistication of our target customers, we plan to enhance our ability to reach and serve our customers in new and innovative ways. We plan to achieve this by:

- ➤ Using the more accurate and timely access to customer information available through BRINets to more quickly identify cross-selling opportunities or areas for new product development.
- ➤ Utilizing our increasingly integrated banking infrastructure to provide customers access to their account information through a variety of additional channels such as the Internet, mobile phone and ATMs and access to a centralized call center that can provide information on our new products and handle customer requests and questions, reducing the need for direct involvement by branch personnel.
- ➤ Increasing the sales efforts of our branch personnel, which we expect will result from a combination of less time spent completing manual operating processes, greater access to a wider range of customer and market information, continuous training and re-focusing relationship managers and support staff alike on marketing our products and services more actively.

OUR PRINCIPAL BUSINESS ACTIVITIES

We conduct our business through our Micro Business, Retail Business, Commercial Business, Agribusiness, Consumer Banking and Program Loan Divisions, our Syariah Business Unit and our Treasury and International Divisions.

The following table shows, by business division, our loan portfolio as of the dates indicated:

	As of December 31, 2000		2001		2002		As of June 30, 2003	
	Outstanding Amount	Percentage of Total	Outstanding Amount	Percentage of Total	Outstanding Amount	Percentage of Total	Outstanding Amount	Percentage of Total
	(Rp billions, except percentages)							
Micro	7,827	28.9%	9,841	29.4%	12,011	30.5%	13,175	30.3%
Retail(1)	10,156	37.6%	13,914	41.5%	19,042	48.4%	22,514	51.8%
Medium-Scale(2)	9,047	33.5%	9,774	29.2%	8,314	21.1%	7,799	17.9%
Total Loans	27,030	100.0%	33,529	100.0%	39,367	100.0%	43,488	100.0%

(1) Includes Consumer Banking, Program and Syariah loans.
(2) Includes commercial, corporate and agribusiness.

Our deposit base consists primarily of savings accounts and time deposits at our branches, sub-branches and BRI units. Our demand deposits and savings accounts constitute 57.7% of our total deposits as of June 30, 2003. The remainder of our deposit base is comprised of higher-cost time deposits. Deposits at our BRI units are managed by the Micro Business Division. All other deposits are managed by the Consumer Banking Division. Our target mix of funds is comprised of 60.0% demand and savings deposits and the remainder time deposits.

The following table shows, by deposit type, our deposits as of the dates indicated.

	As of December 31, 2000	2001	2002	Percentage of total	As of June 30, 2003		Percentage of total
	(Rp billions)				(Rp billions)	(US$ millions)	
Demand Deposits	7,529	7,516	11,459	16.5%	11,810	1,429	15.9%
Savings Deposits:							
Simpedes(1)	11,904	15,874	16,894	24.3%	17,878	2,163	24.0%
Simaskot(1)	1,964	2,586	2,812	4.0%	2,948	357	4.0%
BritAma	8,772	7,981	8,916	12.8%	9,032	1,093	12.1%
Others	71	88	51	0.1%	1,238	150	1.7%
Total Savings Deposits	22,711	26,529	28,673	41.2%	31,096	3,763	41.8%
Time Deposits	18,977	23,714	29,495	42.3%	31,427	3,802	42.3%
Total Deposits	49,217	57,759	69,627	100.0%	74,333	8,994	100.0%

(1) Savings accounts in our BRI units.

For more detailed information on our loan portfolio, deposit products and customer base, see "Statistical Information".

MICRO BUSINESS

Overview

We were established in 1895 as a microfinance lender and have maintained microfinance as one of our core business lines. We service our customers in this market through our extensive network of BRI units located throughout Indonesia, in both rural and urban areas. We also serve our customers through village service posts (*Pos Pelayanan Desa (PPD)*), which operate as extensions of BRI units and offer more limited services than the BRI units.

Due to the nature of our micro loans, our BRI units experience regular turnover of outstanding loans as borrowers repay loans and reborrow from the BRI unit. As of June 30, 2003, there were approximately three million micro loans outstanding with an aggregate outstanding balance of Rp13,175 billion (US$1,594 million) and an average balance of approximately Rp4.4 million (US$532). In addition, the deposits offered through our BRI units, including our two principal savings deposits, *Simpedes* deposits (savings accounts offered through the rural BRI units) and *Simaskot* deposits (savings accounts offered through the urban BRI units), totaled Rp24,657 billion (US$2,983 million). As of June 30, 2003, micro loans accounted for 14.4% of our total assets and 30.3% of our total loans. Savings deposits at the BRI units accounted for 67.0% of our savings deposits and 28.0% of our total deposits. Deposits at the BRI units consist primarily of savings deposits and exceed loans extended by the BRI units, providing a stable funding source for our SME, corporate and agribusiness lending operations.

During the Indonesian economic crisis, our microfinance business proved to be one of our most resilient businesses. As of June 30, 2003, 2002, non-performing micro loans represented 2.5% of total micro loans. Historically, this sector has been under-served by the banking industry and we believe that it continues to offer growth prospects. Our commitment to this sector is evidenced by the continued growth of our BRI unit network and we believe the time and expense required to build this network serves as a barrier to entry for our competitors. We achieve the growth of our network by opening new BRI units in new locations, splitting existing BRI units into more than one unit, and upgrading village service posts into BRI units, in each case only where we believe there is sufficient business opportunity to justify such growth. The number of our BRI units has increased from 3,724 as of December 31, 2000 to 3,931 as of June 30, 2003. Our network is the largest in Indonesia in terms of both the number of offices and geographical distribution. For additional information on our branch and unit network, see "—Distribution Channels".

The following table sets forth the number of BRI units and village service posts by region for the periods indicated.

	As of December 31,						As of June 30,	
	2000		2001		2002		2003	
Region	BRI units	Village Service Posts	BRI units	Village Service Posts	BRI units	Village Service Posts	BRI units	Village Service Posts
Banda Aceh	113	7	114	6	114	6	114	6
Medan	170	5	177	5	184	5	187	5
Padang	175	35	181	33	191	27	193	22
Palembang	205	24	222	22	235	15	237	14
Jakarta	296	16	304	14	300	15	301	13
Bandung	554	7	562	9	573	8	573	6
Semarang(1)	—	—	—	—	355	9	355	9
Yogyakarta	879	43	893	38	554	20	537	21
Surabaya	611	64	628	47	634	39	651	37
Denpasar	202	39	207	35	214	40	214	39
Makassar	261	31	264	20	273	18	278	17
Banjarmasin	136	10	145	7	158	5	158	6
Manado	122	5	126	4	131	4	133	4
Total	3,724	286	3,823	240	3,916	211	3,931	199

(1) In 2000 and 2001, Semarang was part of the Yogyakarta region.

The growth in the number of our BRI units has been accompanied by the upgrading of information technology systems used in many of our BRI units. We have started deploying the BRINets system, our core bank processing system and, as of June 30, 2003, 115 BRI units had been migrated to BRINets and are now fully integrated with our centralized operating system. We expect to migrate 1,000 more BRI units to BRINets by the end of 2004. See "—Technology—Migration to BRINets" for additional information on the BRINets system. In addition, we are in the process of upgrading the standalone computer systems in those BRI units that will not be migrated to BRINets in the near term, in order to make all BRI units' operating systems consistent and to support increased functions for savings and loan products, reporting and integration with the data warehouse. These technology upgrades are intended to improve the services provided to the customers of our BRI units, to increase the productivity of the BRI units and to permit access to customer data in real-time. We believe these upgrades to our BRI unit network and our technology will both enable us to compete more effectively as other banking institutions enter this sector (especially in urban areas) and better manage our operations, including managing credit risk.

The organization of each BRI unit is standardized across our network. The basic BRI unit staff consists of at least four employees with separate roles and responsibilities:

➤ The unit manager heads a BRI unit, approves loans and is responsible for the BRI unit's performance.

➤ The credit officer markets the unit's products, originates loans, analyzes the loan applications, approves loans, performs field inspections of the enterprises of prospective borrowers, maintains regular contact with customers and collects loans which have fallen into arrears.

➤ The teller serves customers in carrying out cash transactions (mostly deposits, withdrawals, and loan payments).

➤ The clerk helps customers fill out bank forms and is responsible for bookkeeping at the BRI unit.

As the business of a BRI unit grows, additional credit officers, tellers, and clerks are added to ensure that there is a minimum of one credit officer for every 400 loans (excluding consumer fixed income loans), one teller for every 200 daily cash transactions and one clerk per 150 daily transactions. The maximum number of total staff in a BRI unit is 11. Our policy is to split any BRI unit that grows to a point where it would need more than 11 employees into two or more BRI units in order to keep the operation of each BRI unit simple and focused and conveniently located near its customers.

Unit managers and credit officers at each BRI unit are responsible for loan approval and collection as well as business development, with oversight from the branch and regional offices. The financial performance of a BRI unit determines a substantial part of the performance bonuses of its officers and employees. To ensure that each BRI unit seeks to achieve its financial targets, all BRI units must produce their own financial statements on a regular basis.

Village service posts are usually staffed by two people, a teller and a clerk, and are open anywhere from one to six days per week, depending on the volume of business. While they cannot make loans, they can receive loan applications, collect loan payments and collect savings deposits. Village service posts which have a sufficiently large volume of business may be upgraded to full BRI units, while BRI units whose volume of business declines significantly may be downgraded to village service posts.

Lending Products

The BRI units offer one type of loan product, a micro loan known as *Kupedes*, which is tailored to meet the requirements of a borrower. Micro loans may be made in any amount up to Rp50 million. The maturity of the loans may be from six months to five years. Maintaining a single loan product simplifies BRI unit operations, and permits standardized operations and training throughout the BRI unit network. The micro loans are offered only to individuals, either operators of micro businesses or individuals with regular income, and are usually limited to one borrower per household, although spouses with separate businesses may both be eligible for loans. The majority of micro borrowers are long-term customers of the BRI unit and typically reborrow upon repayment of existing loans.

We classify our micro loans into three categories: working capital loans, investment loans and loans to individuals with regular income from their employer, each as described below. As of June 30, 2003, 54.4% of our micro loans were working capital and investment loans and 45.6% were loans to individuals with regular income (which are commonly referred to as "fixed income" loans in Indonesia).

Micro Working Capital Loans and Investment Loans. Working capital loans and investment loans are extended to micro entrepreneurs and other small business operators. We offer these loans for a variety of purposes to individuals operating primarily in the agribusiness and trading industries.

Micro Loans to Individuals with Regular Income. We extend micro loans to individuals earning a regular income from certain private companies, Government organizations and State-owned enterprises, most of whom are civil servants. As part of the loan agreement, the borrower agrees that loan payments will be made directly to us by his or her employer. It is our policy to also enter into an agreement with the employer and pay it a fee equal to a percentage of the collections.

For more details on the credit approval process for micro loans, see "—Risk Management and Compliance—Credit Risk—Micro Business".

Interest on micro loans is charged at a flat rate determined at the time the loan is made. Interest is calculated based on the original principal amount and the payment terms are set so that a borrower pays equal installments each month. Interest is set by the Asset and Liability Committee based upon market conditions and the size of the loan. We offer an incentive refund of 25% of total interest payment to borrowers that make timely payments for six consecutive months. As of June 30, 2003, the interest rate on micro loans was 2.0% per month for loan facilities of up to Rp25 million, which is equivalent to an effective yield of 32.0% (after the incentive refund), and between 1.6% and 1.9% per month for loan facilities between Rp25 million and Rp50 million, which is equivalent to an effective annual yield of between 26.5% and 31.7% (after the incentive refund).

We purchase life insurance in connection with micro loans equal to the principal amount of the loan. If a borrower dies before his or her loan is fully repaid, the insurance proceeds will be paid to us to be applied against the outstanding balance of the loan.

Deposit Products

We offer demand deposits, savings deposits and time deposits (including certificates of deposit) through our BRI units. As of June 30, 2003, our BRI units had total deposits of Rp24,657 billion (US$2,983 million) held in approximately 29 million accounts with an average account size of Rp844,910 (US$102). Our BRI unit savings deposits provide a stable, funding base for our operations. As of June 30, 2003 the BRI units accounted for 28.0% of our total deposits, including 67.0% of our savings deposits. See "—Funding Products".

Marketing and Customers

Our marketing strategy in the BRI units is based on the following:

- *Product.* We develop new products to offer through our BRI units based on market needs and micro business characteristics. As the BRI units are migrated to BRINets, they may also begin offering our other deposit products and services. In order to attract savings deposits, our *Simpedes* depositors may participate in non-cash lotteries and our *Simaskot* depositors participate in cash-prize lotteries through their monitoring branch. In addition, in March 2003 we started offering our *BritAma* savings account at BRI units that have been migrated to BRINets.
- *Price.* Each product involves simple pricing that is intended to be easy to understand.
- *Place.* BRI units are spread across Indonesia and are located in centers of micro business activities, where the unit's look and location are adapted to the surroundings and needs of the customers.
- *Promotion.* Our credit officers sell our products directly to customers and potential customers in the community. In addition, we advertise through newspapers, radio and television.

Our target customers for the BRI units are existing customers, as well as micro entrepreneurs that are non-bank borrowers. We believe we can attract these customers by offering better services and rates to these customers than traditional unlicensed money lenders.

International Visitor Program

Microfinance has gained international recognition as an effective tool to improve the quality of life and living standards of the poor. Our microbanking system has attracted representatives from foreign governments and private banks as well as microfinance practitioners to our offices in Indonesia to study our model of sustainable micro finance. Our mobilization of rural savings through the BRI units provides us with a stable source of funds to finance our micro lending and helped to continue development in rural communities in Indonesia. In 1996, we established an international visitor program in partnership with USAID. We have also established a partnership with the Consultative Group to Assist the Poorest, a World Bank affiliate organization, to develop international training programs, including on-the-job training in our BRI units. Over 1,700 participants from over 45 countries have participated in our training programs. Although this program does not generate significant fee income, the fees received cover the expenses of running the program and we believe the program improves our image and profile, both regionally and globally.

RETAIL BUSINESS

Overview

The Retail Business Division, through our regional offices, branches and sub-branches, provides loans to small and medium-sized enterprises ("SMEs"), including private companies and sole proprietorships, and individuals. The responsibilities of the Retail Business Division include loan product development, monitoring the credit of our retail loan portfolio and institutional relationship management. As of June 30, 2003, our total outstanding retail loans amounted to Rp19,229 billion (US$2,327 million), accounting for 44.2% of our total loans and 21.0% of our total assets. As of June 30, 2003, non-performing retail loans represented 3.0% of our total retail loans.

Lending Products

We offer retail loans from our regional offices, branches and sub-branches. Retail loans include working capital loans and investment loans made to SMEs and consumer fixed income and pension loans to individuals and range in maturity from one to five years in amounts of up to Rp5 billion. Interest rates on our retail loans are set by our Asset and Liability Committee taking into account a number of factors, including our internal cost of funds, operating costs, market credit risk and the competitive environment. Interest rates are set at the time a loan is extended, however, under the terms of our loan agreements, we have the right to review and reset customer interest rates at any time while such loan is outstanding.

Working Capital Loans and Investment Loans. Working capital loans and investment loans are extended to SMEs in Rupiah and US dollars. We offer these loans for a variety of purposes and in several structures to businesses operating primarily in the agribusiness, trading, manufacturing, import/export and construction industries. We have developed several specialty loans for this market segment, including *Kredit Express*, which provides an expedited approval process for working capital and investment loans of up to Rp150 million, and *Kredit Mitra*, which are working capital loans of up to Rp500 million to finance a borrower's purchase or delivery orders from our corporate customers and institutional relationship partners.

Loans to Individuals. We extend consumer fixed income loans to individuals employed by certain private companies, State-owned enterprises and Government institutions and pension loans to pensioners with regular pension income. Loans to individuals are made in Rupiah. The average size of these loans is approximately Rp10 million to Rp15 million. The typical borrowers of consumer fixed income loans are civil servants, soldiers, army officers, police officers, employees of State-owned enterprises and employees of qualified private companies (which must receive credit approval from the branch in accordance with our credit policy). Borrowers of pension loans are retirees who receive regular pension payments through a pension paying agent, such as the post office. As part of the loan agreement, the borrower agrees that loan payments will be made directly to us by his or her employer or pension paying agent. We also enter into agreements with the employer or pension paying agent and pay a fee to the company or paying agent equal to a percentage of the collections.

Deposit and Other Products

We offer our retail customers savings deposit, demand deposit, time deposit and certificates of deposit products, which are managed by the Consumer Banking Division. For a description of such products, see "—Funding Products". We also market and sell other products to our commercial retail customers including letters of credit, bank guarantees, treasury products and mutual funds through our relationship managers.

Marketing, Customers and Competition

We market our retail loans through our dedicated relationship officers, customer visits, brochures, television advertising, our institutional relationship partners and the SME-Center website.

Institutional Relationship Development. We market our retail loans through our alliances with medium and large Indonesian companies, State-owned enterprises (such as Telkom), incubators of small and medium-sized businesses (such as the Indonesian Chamber of Commerce), as well as other institutions which have existing business relationships with SMEs. These companies refer our lending services to their distributors, suppliers and other companies with which they do business. They also provide information about our consumer fixed income loan products to their employees. In addition, many of these institutional partners use our network for bill payment services and payroll services.

SME-Center. We have established an internet-based resource to assist SMEs called "SME-Center" (www.sme-center.com). SME-Center is an information center for SME entrepreneurs that was formed in cooperation with Telkom and the Indonesian Chamber of Commerce and is intended to assist entrepreneurs to easily access market information and transaction and business services. It is designed to provide to SMEs technical business assistance in the areas of business licensing, marketing, technology, consultation, financial management and human resource development. We provide access to the SME-Center website and materials through certain of our branches. As of June 30, 2003, SME-Center was accessible through nine branches in several cities and towns and had 800 members. We believe this resource raises our profile with existing and new SME customers.

Coordination with BRI units. Managers in the branches and sub-branches work with the BRI units' credit officers to maintain relationships as customers move from their local BRI units to the branches and sub-branches as their lending requirements become more sophisticated and the size of their loans increase.

PROGRAM LOAN DIVISION

Overview

We offer and administer several types of Government-supported programs through our Program Loan Division, including commercial program loans and subsidized program loans that appear on our balance sheet and channeling loans for which we provide administrative services only and assume no credit risk. Due to our extensive distribution network and the ability to work with micro and small borrowers, the Government relies upon us as the primary provider of program loans. We believe that our participation in these programs is beneficial to us in two ways. First, the program loans are entered into on commercial terms and we earn interest income on them and, in the case of channeling loans, we receive fee-based income. Second, we access potential borrowers as they outgrow Government-sponsored lending and move to borrowing from commercial banks without Government involvement. In the past, these borrowers have become micro, retail and medium-scale customers. As of June 30, 2003, our total outstanding program loans (excluding channeling loans) amounted to Rp3,181 billion (US$385 million) accounting for 7.3% of our total loans. Non-performing loans accounted for 1.9% of commercial program loans and subsidized program loans as of June 30, 2003.

Program Lending and Loan Administration

Commercial Program Loans. These programs typically benefit micro or small borrowers or borrowers that are working below the poverty line and are otherwise unable to obtain bank financing due to a lack of a proven track record. In addition, we extend commercial program loans for the National Logistics Agency (BULOG) to purchase rice. All of the program loans are extended on commercial terms and are unsecured. Program loans include investment loans, working capital loans, loans to farmers, BULOG loans, loans to village cooperatives and other loans. We fund the program loans from our internally generated funds. In addition, we also received Bank Indonesia liquidity loans until 1999.

Subsidized Program Loans. We provide and administer subsidized program loans to corporate and Government-related entities which finance certain socio-economic investments and projects in Indonesia, such as projects to improve the production of staple foods, fishery projects, industrial restructuring projects and investments in equipment to prevent pollution. The funds for these loans are provided to us at favorable interest rates through the Government from various bilateral and multilateral institutions such as the Asian Development Bank, the International Fund for Agricultural Development, the International Bank for Reconstruction and Development, the Japan Bank for International Cooperation, USAID and the Islamic Development Bank. As of June 30, 2003, 2002, our outstanding subsidized program loans had various maturity dates from 2003 to 2007. Although these loans are extended by us on commercial terms, in order to alleviate the burden on farmers and cooperatives, the Government provides a subsidy for a portion of the interest. Our margins are not affected due to the favorable interest rates that we receive to fund these loans. In the case of foreign currency funding, the Government also absorbs the foreign exchange risk by paying any shortfall. In addition, the loans are guaranteed by the Minister of Finance.

Channeling Loans. We have been appointed by the Government to administer channeling loans in Rupiah and various foreign currencies. Channeling loans are loan commitments extended to eligible Government-related entities for the purpose of financing development projects selected by the Government. These loans are made available by various bilateral, multilateral and international financing institutions. We do not bear any credit risk on channeling loans which are direct agreements between the Government and borrowers to which we are not a party and accordingly these loans are not reflected in our financial statements other than in respect of the fees which we earn for the administrative services we provide. Our responsibility involves the collection of principal, interest and other charges on behalf of the financing institution funding the loan and the maintenance of proper accounting records for these loans. As of June 30, 2003, we were the administrator of Rp7,633 billion (US$924 million) of channeling loans and generated fee revenues of Rp6.8 billion (US$0.8 million) for the first six months of 2003.

Marketing and Customers

In order to maintain our preferred position as a program loan provider and channeling loan administrator, we have developed a program loan product based on commercial terms. Our target borrowers are cooperatives and certain types of micro farming businesses developed adjacent to larger plantations under certain Government programs, commonly referred to in Indonesia as nucleus-plasma programs. In addition, we are increasing our services to BULOG to increase our BULOG lending.

MEDIUM-SCALE BUSINESS

Overview

Our medium-scale business line includes the business divisions that provide lending products to customers with aggregate principal balances over Rp5 billion. Borrowers include SMEs, corporate customers, and State-owned enterprises. This business line is separated into the General Business Division, the Agribusiness Division and the Restructuring and Problem Loan Division. Commercial borrowers are those with total loans of up to Rp50 billion and are not in the agribusiness sector, corporate borrowers are those with total loans of over Rp50 billion and are not in the agribusiness sector and agribusiness customers have total loans of over Rp5 billion. Commercial and corporate lending is managed by our General Business Division. When a medium-scale loan becomes non-performing, it is transferred to our Restructuring and Problem Loan Division.

The medium-scale lending products are offered through our head office, regional offices and branches. Loans are primarily investment loans and working capital loans. The responsibilities of the business divisions include managing and expanding the loan portfolio to these borrowers, marketing treasury and international division products and services, such as letters of credit (both trade and stand-by) and off-balance sheet products to increase our interest and fee-based income and selling and marketing our other products, including our deposit products. Interest rates on our medium-scale loans are set by our Asset and Liability Committee taking into account a number of factors, including our internal cost of funds, operating costs, market credit risk and the competitive environment. Interest rates are set at the time a loan is extended, however, we have the right to review and reset customer interest rates at any time while such loan is outstanding.

As part of our recapitalization, our shareholders and management agreed to impose certain limitations on certain of our medium-scale lending activities. These limitations prohibited new corporate lending except to existing corporate customers and limited the total amount of loans extended to individual agribusiness customers. The limitations also restrict our total lending to borrowers with aggregate principal balances over Rp50 billion to 20.0% of our total loan portfolio. We have submitted to the Ministry of Finance a proposed amendment to the Management Contract lifting these lending limitations that would enable us to extend loans to certain types of corporate borrowers and increase our lending limits to agribusiness customers and we have received preliminary approval of such amendment.

However, even after the proposed amendments, our total lending to borrowers (whether agribusiness or non-agribusiness) with aggregate principal balances over Rp50 billion will still be limited to 20.0% of our total loan portfolio. New loans of over Rp50 billion will primarily be focused on agribusiness borrowers. In addition, we intend to continue to reduce non-agribusiness corporate loans as a percentage of total loans over time as loans to micro, consumer and SME borrowers increase.

As of June 30, 2003, we had Rp7,799 billion (US$944 million) in loans outstanding to our medium-scale customers, representing 17.9% of our total loan portfolio. Of our medium-scale loans, 14.8% were to commercial customers, 45.8% were corporate loans and 39.4% were to agribusiness customers. As of June 30, 2003, non-performing medium-scale loans represented 65.2% of our total non-performing loans and non-performing loans accounted for 2.5% of commercial loans, 25.8% of corporate loans and 1.6% of agribusiness loans.

Commercial

We provide commercial loans to our SME customers in amounts between Rp5 billion and Rp50 billion. The loans are primarily working capital loans with a one-year maturity and investment loans with a maturity of up to seven years. Commercial customers borrow mainly in Rupiah. We also provide US dollar loans for our export-oriented customers. Commercial loans are usually fully secured.

Corporate

The existing corporate loan portfolio is managed at our head office and is mainly booked at the special branch located at that office. Corporate loans are loan facilities of over Rp50 billion and our existing corporate loans were predominantly made prior to the 1997 financial crisis. 67.3% of the corporate portfolio as of June 30, 2003 were foreign currency loans, mainly to manufacturers, and all of our corporate loans were fully secured. In line with the Ministry of State-owned Enterprises' view that we should focus our lending efforts on our micro and SME customers, the amount of loans to customers is limited. As of June 30, 2003, corporate loans constituted 45.8% of our medium-scale loans and 8.2% of our total loan portfolio.

While we intend to selectively increase our corporate loan portfolio primarily to agribusiness borrowers, we expect that non-agribusiness corporate loans as a percentage of total loans will continue to decrease over time.

Agribusiness

Our Agribusiness Division was established in 2001 and is responsible for making and monitoring loans (other than micro loans and retail loans) to borrowers in the agribusiness industry which, for the purposes of this division, includes borrowers active in any of the following types of activities:

- *Upstream Agribusiness.* Includes on-farm and off-farm activities such as crop production, horticulture, plantations, animal husbandry and aquaculture.
- *Downstream Agribusiness.* Includes the processing of raw agriculture products into intermediate and final products.
- *Supporting Agribusiness Activities.* Includes activities that support the upstream and downstream agribusiness sectors such as trading, transportation and distribution. In addition, we provide financing to the agrichemical industry (including pesticides and fertilizer) and the farm machinery and tools industry.

Loans originated and monitored by our Agribusiness Division are to customers with total loans of over Rp5 billion. Under the current limitations imposed under the Management Contract, loans to agribusiness borrowers are subject to the following limitations:

- up to 85.0% of a borrower's legal lending limit for loans for plantations under nucleus-plasma programs;
- For businesses not under nucleus-plasma programs
  - up to 60.0% of an existing borrower's legal lending limit;
  - up to 30.0% of a new borrower's legal lending limit

See "Supervision and Regulation—Legal Lending Limits".

As of June 30, 2003, medium-scale agribusiness loans managed by the Agribusiness Division constituted 39.4% of our medium-scale loans and 7.1% of our total loan portfolio.

In accordance with our corporate business plan, we are targeting an increase in lending to borrowers engaged in the agribusiness areas to a level at which such loans comprise up to 40.0% of our total loans, which increase will take place through our Micro Business, Retail Business and Agribusiness Divisions. As of June 30, 2003, our total agribusiness loans were Rp12,711 billion (US$1,538 million), or 29.2% of our loan portfolio. Agribusiness loans as a percentage of total loans by division are as follows: 9.3% are to micro borrowers, 12.9% are to retail borrowers, including program loans, and 7.1% are to medium-scale agribusiness borrowers. We intend to increase agribusiness loans to existing customers and by referrals from existing borrowers. Under the terms of our recapitalization, loans made to borrowers engaged in the agribusiness sector are subject to per-borrower lending limitations and agribusiness loans to borrowers with total loans above Rp50 billion are included when calculating the 20.0% limitation on corporate loans.

Restructuring and Problem Loans

After a medium-scale loan becomes non-performing, it is transferred to our Restructuring and Problem Loan Division. Loans that are successfully restructured and are reclassified as performing are transferred back to the originating division. As of June 30, 2003, 11.3% of our medium-scale loans were managed by the Restructuring and Problem Loan Division. See “Risk Management and Compliance—Credit Risk—Restructuring and Settlement of Non-performing Loans”.

CONSUMER BANKING

Overview

We offer a range of financial products and services to individual consumers, including deposit and lending products and, beginning in 2004, we intend to begin offering credit cards to our existing customers. The consumer banking division is responsible for managing all of our deposit products. Our consumer loan products include vehicle loans, home loans and bridging loans. The Consumer Banking Division was reorganized in 2001 when we started offering consumer lending products, prior to which it was responsible solely for our deposit taking operations (excluding BRI unit deposits).

Lending Products

Our consumer lending activities commenced in 2001 and our consumer lending is still limited. Our consumer loan products include loans for the financing of motor vehicle purchases, loans for the acquisition of homes and bridging loans. We offer our consumer loan products through our network of branches and sub-branches throughout Indonesia and, for motor vehicle loans, in conjunction with related and third party multifinance companies.

Motor Vehicle Loans. We extend loans for financing purchases of new or used motor vehicles. The term of these loans typically ranges from three to five years, depending on the type of motor vehicle being purchased. The amount of the loan we grant typically ranges from 70.0% to 90.0% of the purchase price of the motor vehicle. Interest on these loans is charged at a flat rate, determined at the time the loan is made. The loan application and approval process is set by our Credit Administration Division. We have entered into agreements with a number of multifinance companies to administer these loans on our behalf. These multifinance companies earn an administration fee and, in certain cases, guarantee the repayment of the loans.

Home Loans. We extend loans for the acquisition, construction or renovation of homes. Our policy is to lend up to Rp500 million and the amount of the loan we grant typically ranges from Rp10 million to Rp500 million. The term of the loans vary, with a maximum duration of 20 years. Partial or full prepayment of these loans is permitted. Our home loans are secured by a mortgage over the property.

Bridging Loans. We extend loans of up to Rp19.5 million to depositors holding *Tabungan Haji* savings accounts, which loans enable the borrowers to meet the minimum savings required to receive an exit visa from the Government for the Muslim haj to Mecca. These are short term loans (usually between three and four months) and do not earn interest although we receive a fee of Rp50,000 per month for the duration of the loan. The funds are deposited directly into the borrowers’ *Tabungan Haji* accounts and may not be withdrawn. Bridging loans are repaid prior to the haj period and therefore there were no outstanding loans as of June 30, 2003.

Interest rates for our consumer lending products are set by the Asset and Liability Committee using a base lending rate plus risk premium. For further information, see "—Risk Management and Compliance—Market Risk—Interest Rate Risk".

Deposit Products

The deposit products we offer through the Consumer Banking Division are demand deposits, savings deposits, time deposits and certificates of deposit. See "—Funding Products".

Other Products

Debit Cards. We launched our debit card services in February 2003 in cooperation with MasterCard International Incorporated under the Maestro brand. All of our ATM cards are also debit cards. Our debit card allows our *BritAma Rupiah* customers to purchase goods from 25,000 retail locations equipped with Maestro terminals in Indonesia and more than 6.8 million merchants globally through the Maestro network and to make ATM cash withdrawals at ATMs connected to the Cirrus, Link or Bersama networks. We intend to begin offering ATM cards and debit cards to savings account holders at the BRI units as the units are migrated to BRINets. We pay MasterCard International monthly service fees in respect of our Maestro debit cards. We are currently negotiating with other merchants and service providers in Indonesia to permit our customers to pay for items or services using our debit cards at their point of sales locations.

Credit Cards. We have entered into an agreement with MasterCard International to offer credit cards to our consumer banking customers. We plan to begin offering these credit cards in the first quarter of 2004. Our strategy is to target our existing low to middle income customers. Each card account will have a credit limit set on the basis of the credit history and income of the customer. We will process these credit card accounts in-house and have set up an IT center in Jakarta for centralized processing.

BRIVestama. We entered into an agreement with ABN-AMRO Investment Management to offer an open-end mutual fund product through our branches and sub-branches under the label "BRIVestama", which was launched in August 2003. Returns on this mutual fund are based primarily on the yield on Government recapitalization bonds that the BRIVestama fund purchases from us. The fund is managed by ABN-AMRO Investment Management. We receive a percentage of the revenues from the distribution of this product.

Bill Payment Service. We offer our customers a bill payment service for electricity, telephone and mobile phone providers at our branches and sub-branches. Customers may also review and pay fixed line and mobile phone bills for certain telephone service providers and Standard Chartered Bank credit card bills through our ATMs. We earn a fee for these services from both our customers and the billing companies.

Funds Transfer Services. We offer funds transfer services both within Indonesia and between Indonesia and other destinations around the world, in a variety of currencies, through our network and our correspondent banking relationships. Fees earned are determined by the size of the transfer, the location of the receiving bank, and the number of days for settlement. Real time settlement (through Bank Indonesia) is only offered for transfers over Rp100 million and involves fees starting at Rp50,000. In addition, we are an agent in Indonesia for Western Union, a leading provider of funds transfer services worldwide. As an agent for Western Union, we form part of an international network of over 117,000 agents and enable our customers to transfer funds to, and from, over 190 countries.

Safe Deposit Boxes. We offer safe deposit box services to our customers at 40 branches. We charge annual fees ranging from Rp110,000 to Rp770,000 (including value added tax) depending on the size of the safe deposit box.

Marketing and Customers

We promote our products through television and other media advertisement. We also encourage referrals and make incentive payments to the referring party in the case of consumer loans. We have an internal marketing program to ensure product knowledge and training of all staff in the branches and sub-branches. All staff are subject to periodic monitoring and evaluation to ensure proper training.

We are steadily increasing the number of ATMs available to our customers through both internal growth and shared ATM networks with other Indonesian banks and international service providers. We are also in the process of improving our service outlets, both conventional and electronic. See "—Distribution Channels".

We have developed institutional relationships with private companies, Government organizations and State-owned enterprises to provide payroll services for their employees throughout Indonesia. These entities make direct deposits to their employees' accounts established with us. We are also working with these entities to cross sell our lending products to their employees.

FUNDING PRODUCTS

We offer savings deposits, demand deposits, time deposits and certificates of deposit to our micro, consumer, SME, State-owned enterprise and Government customers. Our Consumer Banking Division manages our deposit taking operations for all customers other than our micro customers. Our micro deposits are managed by the Micro Business Division. As of June 30, 2003, we had total deposits of Rp74,333 billion (US$8,994 million) of which savings deposits represented 41.8%, demand deposits represented 15.9% and time deposits and certificates of deposits represented 42.3%.

All deposits pay interest rates which are reviewed monthly by the Asset and Liability Committee. Such reviews are carried out more frequently when there are changes in market conditions or applicable regulations. To date, we have maintained, and will seek to continue to maintain, our interest rates at or below the maximum interest rate for which the Government Guarantee Program is applicable in order to remain eligible for such program. See "—Risk Management and Compliance—Market Risk—Interest Rate Risk" and "Overview of the Indonesian Banking Sector—Economic Crisis and Recovery: 1997 through present—Government Guarantee Program".

Savings Deposits. We offer savings deposits through our branches, sub-branches and BRI units in Rupiah and, in the branches and sub-branches, in US dollars. Savings deposits are accounts on which interest is paid monthly and which may be withdrawn by passbook or in the case of *BritAma Rupiah* accounts and BRI units that have been migrated to BRINets, by way of debit or ATM cards. For those BRI units not yet migrated to BRINets, deposits and withdrawals can only be made at the unit where the account records are maintained. As of June 30, 2003, we had aggregate savings deposits of Rp31,096 billion (US$3,762 million) of which Rp20,826 billion (US$2,520 million) were held in the BRI units. Savings deposits bear interest at variable rates. We offer two principal savings accounts through the BRI units, *Simpedes* and *Simaskot*. Our principal savings account offered through the branches is the *BritAma* savings account. We also offer other specialized savings accounts including *Tabungan Haji* (savings deposits required by the Government for any Indonesian applying for a visa for the Muslim haj to Mecca), *Tabungan Pramuka* (a special account for the Boy scouts of Indonesia) and *Takesra Bidik* (an account that benefits under-privileged students).

- ➤ *Simpedes.* The *Simpedes* savings account is the savings product offered through the BRI units located in rural areas. Introduced in 1984, it was designed to attract customers looking for a convenient and safe institution with which to deposit their savings. Interest rates on the Simpedes account are inelastic due to the nature of our customers and the lack of competition. We paid an annual average interest rate on our *Simpedes* deposits of 6.5% for the six months ending June 30, 2003 and 7.3% for the year ending December 31, 2002. As of June 30, 2003, *Simpedes* accounted for 72.5% of total BRI unit deposits and 24.1% of our total deposits.
- ➤ *Simaskot.* The *Simaskot* savings account is the urban counterpart of *Simpedes*. Designed to appeal to urban customers, the *Simaskot* account was introduced in 1989 when we began emphasizing the growth of BRI units in urban areas. The *Simaskot* account generally pays a slightly higher top interest rate than *Simpedes* in order be competitive with a greater number of banks operating in urban locations. We paid an annual average interest rate on our *Simaskot* deposits of 8.4% for the six months ending June 30, 2003 and 8.8% for the year ending December 31, 2002. As of June 30, 2003, *Simaskot* accounted for 12.0% of total BRI unit deposits and 4.0% of our total deposits.
- ➤ *BritAma Rupiah.* *BritAma Rupiah* is a basic savings account product offered to consumers through our branches and sub-branches. *BritAma Rupiah* customers participate in national lotteries where they

may win cash and non-cash prizes including automobiles. We paid an annual average interest rate on our *BritAma Rupiah* deposits of 8.4% for the six months ending June 30, 2003 and 9.1% for the year ending December 31, 2002. As of June 30, 2003, *BritAma Rupiah* accounted for 18.2% of our total deposits (excluding deposits in the BRI units).

- *BritAma Dollar*. We began offering our first foreign currency savings account, *BritAma Dollar*, in April 2003. The terms are similar to *BritAma Rupiah* except that only Rupiah may be withdrawn from *BritAma Dollar* accounts with ATM cards. BritAma dollar accounts are maintained in US dollars but customers may deposit or withdraw funds in either Rupiah or US dollars. In order to attract customers, we offer a slightly higher interest rate on this account than is offered on US dollar savings accounts by our competitors.

For savings deposits, we offer competitive interest rates, prizes, bill payment and prepaid vouchers for cellular phones. We have also introduced new features for our *BritAma* customers including insurance against accidents, standing instruction facilities (such as automatic fund transfer, account sweep or bill payment) and interaccount and interbranch transactions (that take place in real-time).

Demand Deposits. We offer demand deposits through all of our outlets in Rupiah and, in our branches and sub-branches, selected foreign currencies, which are deposits on which interest is paid monthly and which may be withdrawn at any time by check, or other orders of payment or transfer. Demand deposit customers at those outlets on BRINets may also access GIRO online, a facility that allows customers to make deposits and withdrawals by check or bank draft from other branches and sub-branches. The interest rates on demand deposit accounts are variable and are generally much lower than those of our other deposit instruments. For the six months of 2003, the annual average interest rate for Rupiah-denominated demand deposits was 3.3% and for foreign currency-denominated demand deposits was 2.0%. As of June 30, 2003, demand deposits accounted for 15.9% of total deposits.

Time Deposits. We offer our customers time deposits, which are deposits that may be withdrawn upon maturity, in one, two, three, six, 12 and 24 month maturities. At maturity, the principal amount, together with accrued interest, is payable by us to the customer. Our customers may also elect to have interest paid monthly. We set the interest rate on time deposits based on the range set by the Asset and Liability Committee, the size of the deposit and the client relationship. As of June 30, 2003, we had aggregate time deposits of Rp31,427 billion (US$3,802 million), constituting 42.3% of our total deposits. As of June 30, 2003, our Rupiah-denominated time deposits represented 93.6% of our total time deposits and foreign currency accounts, consisting primarily of US dollars, represented the balance. For the first six months of 2003, the annual average interest rate for our Rupiah time deposits was 13.0% and for our foreign currency time deposits was 2.4%. We also offer our customers certificates of deposit.

OTHER PRODUCTS AND SERVICES

International and Trade Finance Services

The International Division supervises our overseas offices, comprising the New York agency, the Cayman Islands branch and the Hong Kong representative office. As of June 30, 2003, total assets of our overseas offices were Rp1,947 billion (US$236 million) or 2.1% of our total consolidated assets. Our international banking services focus primarily on trade finance and lending to Indonesia-related customers, working with our extensive network to reach our traditional customer base. We believe this business will continue to be a source of growth for us as exports from Indonesia increase. In addition, our International Division is responsible for the development of trade finance business.

We provide our customers with a variety of cross-border financing services, including export bills, letters of credit, remittances travellers cheque and bank note services. Our trade finance activities contribute towards our fee-based income and support business development programs for micro, small and medium scale businesses. Our trade finance group follows the credit policies set by the Credit Administration Division in extending these products to our customers.

Our overseas operations are required to comply with our credit procedures and risk assessment criteria as well as all applicable local laws. Our overseas offices are also required to comply with guidelines and procedures set by Bank Indonesia designed to detect and prevent money laundering. See "Supervision and Regulation—Anti-Money Laundering Legislation".

Islamic Banking

In 2002, we created a Syariah business unit to offer Syariah products, including financing, funding and other services that are structured in accordance with Islamic law principles. Under Islamic law, traditional interest bearing instruments are not permitted and our lending and deposit products are therefore structured to provide returns derived from the cashflow of business activities. Before opening any Syariah branches, we completed a feasibility study in order to confirm that this business would be in line with our financial objectives. The primary consideration in implementing Syariah banking facilities was the ability of this economic model to survive economic downturns. In April 2002, our first two Syariah branch offices began operations. As of June 30, 2003, we had eight Syariah branch offices.

We offer deposit and loan products and services through our Syariah branches. We consult our internal supervisory board and the external national supervisory board for Syariah products and services in developing products and services to be sure that such products are compliant with Islamic law. Our deposit products include deposit savings and current accounts, such as our pilgrimage savings account which is a savings account tailored to enable Muslim customers to save for the Muslim haj to Mecca, and *Mudharabah* and *Wadiah* deposit accounts in which customers' deposits are invested in a range of Syariah-compliant investments. Our loan products include *Murabahah, Musyarakah*, *Mudharabah, Istishna*, *Salam* and *Ijarah* financings, which are different forms of Islamic financing structures that comply with Syariah principles.

Our Syariah operations are still limited in scope. Our Syariah business unit markets all of its products using a logo similar to that used by us, under the name "Bank BRI Syariah". Our Syariah business unit primarily provides financing to the trade, agribusiness, manufacturing, construction, consumer and business services sectors.

Treasury Operations

Our Treasury Division comprises four groups: Liquidity and Institutional Funds, Financial Markets (dealing room), Asset and Liability Management and Investment Banking.

➤ The Liquidity and Institutional Funds group manages our liquidity to ensure that we have sufficient funds to meet our financial commitments including our maintenance of reserves requirements.

➤ The Financial Markets group manages our securities positions, trades and provides treasury products and services, including money market and foreign exchange services, such as foreign exchange advisory and transaction services, to our customers and acts as intermediary with regard to hedging products, such as currency swaps, interest rate swaps and forward contracts and fixed income products, primarily to our commercial and institutional customers and to other financial institutions. As of June 30, 2003, our money market and foreign exchange service had approximately 100 customers.

➤ The Asset and Liability Management group manages our balance sheet, our sources and uses of funds, our net interest margin and our management of market and liquidity risk.

➤ The Investment Banking group earns fee-based income through the management of our custodian and trustee services and mutual funds.

Revenue generated from foreign exchange and money market transactions amounted to Rp41 billion (US$5 million) for the first six months of 2003. Revenue generated from fixed income transactions, including both trading and customer transactions, amounted to Rp725 billion (US$88 million).

Our traders are required to comply with trading limits as well as guidelines and procedures set by the Credit Administration Division, in respect of counterparty risk, and the Treasury Division (as approved by the board of directors). In order to protect against any potential trading risks, we have established internal limits to prevent excess exposure to open positions. See "—Risk Management and Compliance—Market Risk".

Custodian and Trustee Services

Custodian Services

We provide the following custodian services to our customers:

➤ safekeeping of securities and other valuable assets;

➤ corporate action services related to rights on securities, such as the collection and non-payment of dividends on shares and interest on bonds and proxy services for our customers' shareholder and bondholder meetings; and

➤ sub-registry services for the settlement of transactions for Government recapitalization bonds and SBIs.

Our fees for these services vary according to the type of transaction and service provided. For certain services, such as proxy and corporate action services, we charge our customers a fixed fee. For other services, such as safekeeping of securities and settlement and handling services, we charge our customers fees based on the total value of the transaction or the number of securities for which the service is provided, subject to a minimum fee for certain transactions.

We had approximately 25 custodial customers as of June 30, 2003 which included pension funds, insurance companies, banks, securities companies and other non-Government-related companies.

Trustee Services

Our trustee services include:

➤ providing documentation support to comply with the requirements of each issue;

➤ monitoring issuer compliance with its obligations under the trust deed relating to an issue;

➤ facilitating bondholders' meetings; and

➤ providing information relating to our duties as trustee to BAPEPAM and the bondholders of each issue, as and when requested.

We acted as trustee for 18 bond issues for 12 customers as of June 30, 2003. Our fees for these services are either an annual fixed fee or a fixed percentage of the amount of the bonds issued for each transaction, subject to a minimum fee. Under Indonesian law, we are not permitted to lend to a customer for which we act as trustee for a bond issuance.

We also provide the related services of escrow agent, paying agent and receiving bank in relation to the issuance of bonds.

DISTRIBUTION CHANNELS

Our extensive distribution network provides the foundation for our business and is one of our key strengths. This network includes regional offices, branches, sub-branches, Syariah branches, BRI units, village service posts and ATMs. We manage our network on a regional basis through our regional offices which are responsible for supervising the branches, sub-branches, BRI units and village service posts in their jurisdiction. Our Syariah branches report directly to the head office. In addition to our branch network, we also have 11 regional inspection offices to conduct our internal audit functions throughout Indonesia. We continuously evaluate the business activity in each of our branches and, through the branches, monitor the activities of our sub-branches, BRI units and village service posts to ensure we are focusing our efforts in productive areas.

The following table sets forth the number of our offices, by office type, as of the dates indicated:

	As of December 31,			As of June 30,
	2000	2001	2002	2003
Head Office	1	1	1	1
Regional Offices	12	12	13	13
Inspection Offices	11	11	11	11
Branch Offices	322	322	324	324
Sub-Branch Offices	44	64	124	147
Syariah Branches	—	—	2	8
BRI units	3,724	3,823	3,916	3,931
Village Service Posts	286	240	211	199
Total Outlets	4,400	4,473	4,602	4,634

Network of Branches and BRI units

We have an extensive and geographically diverse network of outlets throughout Indonesia. Our sub-branches have smaller operations in convenient locations and offer more limited services than the branches. We offer all of our retail, consumer and medium-scale banking services from both our branches and sub-branches. In addition, our regional offices offer our retail and medium-scale loan products, but do not take deposits. Our branches also supervise the operations of our sub-branches and BRI units which submit monthly reports to their monitoring branch. The monitoring branch consolidates reports and forwards them to the regional office for further consolidation prior to sending them to the head office.

We offer our micro financing products through the BRI units and village service posts. Village service posts operate as limited BRI units, providing deposit-related services, such as customer account deposit and withdrawal services and accept loan applications, but do not provide any loan product services. The village service posts act as extensions of the BRI units.

We have increased the number of outlets regularly and intend to steadily increase the number of branches, sub-branches, Syariah branches and BRI units that we operate as new opportunities arise, subject to obtaining required Bank Indonesia approvals.

Our network is organized into 13 geographical regions within Indonesia, each of which is administered from the relevant regional office. The table below sets forth the distribution of our licensed branches, sub-branches, Syariah branches, BRI units, village service posts and ATMs by region as of June 30, 2003.

Region	Branches	Sub-Branches	Syariah Branches	BRI units	Village Service Posts	Total	ATMs[(1)]
Banda Aceh	10	2	—	114	6	132	6
Medan	17	7	—	187	5	216	34
Padang	21	9	—	193	22	245	33
Palembang	28	7	—	237	14	286	41
Jakarta	36	40	2	301	13	392	90
Bandung	25	10	2	573	6	616	57
Semarang	19	11	1	355	9	395	33
Yogyakarta	29	6	1	537	21	594	54
Surabaya	35	22	2	651	37	747	74
Denpasar	27	10	—	214	39	290	41
Makassar	38	8	—	278	17	341	52
Banjarmasin	25	11	—	158	6	200	42
Manado	14	4	—	133	4	155	22
Total	324	147	8	3,931	199	4,609	579

(1) Includes only those ATMs owned by us.

In addition to our domestic branch and BRI unit network, we have a branch office in the Cayman Islands, an agency in New York and a representative office in Hong Kong that provide trade finance products and offshore lending services. See "—Other Products and Services—International and Trade Finance Services".

ATMs

The ATM network available to our customers consists of more than 6,000 ATM machines as of June 30, 2003, located throughout Indonesia. Of these, 579 ATMs are owned by us and are located both in major cities and rural areas at our branches, sub-branches, BRI units that have been migrated to BRINets, shopping centers and universities. Of these, 479 ATM machines are on site and 100 ATM machines are located offsite. In order to provide convenient access to our customers, we intend to continue expanding our network of ATMs through both internal expansion and arrangements with third parties. Part of our technology investment over the next two years also includes installing new ATMs as well as upgrading our older existing terminals. Our customers can use our ATMs to withdraw cash, change personal identification numbers, make balance inquiries, make payments of certain utility bills, telephone bills (fixed and cellular) and credit card bills, purchase prepaid telephone cards and transfer funds between accounts maintained with us. We intend to continue upgrading the quality of services available through our ATMs by increasing the available types of transactions. In order to provide additional ATM access to our customers, we have entered into the following arrangements:

ATM Link. On November 10, 2001, we integrated our ATM network with the networks of three other State-owned banks, Bank Mandiri, Bank Negara Indonesia and Bank Tabungan Negara, providing our customers with access to over 3,632 ATMs. The services available to customers through ATMs belonging to other banks in this network are cash withdrawals and checking account balances. Customers using ATMs of banks in this network that belong to a bank other than their own bank must pay an administration fee of Rp3,000 for a withdrawal transaction and Rp2,500 for a balance inquiry.

ATM Bersama. We also entered into an arrangement with 27 banks in Indonesia in 2000, providing our customers access to an additional 2,484 ATMs. The services available through ATM Bersama are cash withdrawals, balance inquiries and certain bill payments.

Cirrus/Maestro. Our arrangement with Cirrus permits our customers to access ATM services worldwide.

Other Distribution Channels

We provide telephone banking services to our customers through a service called "*Call*BRI". Through *Call*BRI, customers can perform various transactions such as check balance information, obtain information on recent account activity, request financial statements to be sent by fax, transfer funds between accounts maintained with us and make payments of certain telephone, mobile phone, credit card bills and purchasing for prepaid mobile phone voucher. Customers can also access information on the entire range of BRI products and services through *Call*BRI.

*Call*BRI was launched in February 2002. As of December 31, 2002, *Call*BRI had received over 95,000 inquiries and customers had completed more than 12,000 financial transactions. For the first six months of 2003, our average monthly financial transactions were more than 10,000 transactions. In order to facilitate access to *Call*BRI for customers throughout the island of Java, we will begin providing a single access number that will charge only local toll charges starting in the end of October 2003. From the second half of 2003, we will begin serving customers of BRI units that have been added to BRINets through *Call*BRI.

We are also looking into other delivery channels, such as mobile banking and Internet banking. We have enhanced our official web site to provide Bank-related information and will continue developing the web site with a view to providing internet banking services to our customers in the future. We plan to use the web site as the foundation for developing wider e-commerce activities.

TECHNOLOGY

We are currently implementing a centralized information technology system which will standardize our process, product, operation and accounting system throughout our network. We have worked with Anderson Consulting and A.T. Kearney to assist us in developing a comprehensive IT plan (the "Strategic

Plan"). The Strategic Plan identified limitations and constraints inherent in our information technology infrastructure and provided a blue print for improved delivery channel systems, core banking system, middleware systems (designed to interface the delivery channel systems with the core banking system), a management information system and data warehousing. Such improvements are designed to:

- integrate our operating systems to permit interbank transfers and real-time data sharing;
- provide a nationwide communications network;
- service expected business growth;
- facilitate product development;
- integrate delivery channels;
- reduce risk of data-processing errors;
- provide for a centralized repository of customer data across all products; and
- provide a platform for electronic delivery channels, including ATMs, telephone banking and on-line banking.

In 2000-2002, we allocated Rp1,092 billion (US$132 million) for information technology capital expenditure. We have budgeted information technology capital expenditures of Rp654 billion (US$79 million) for 2003 and Rp407 billion (US$49 million) for 2004.

Fundamental information technology initiatives identified in the Strategic Plan include:

- *Implementing our Core Banking System.* We are in the process of migrating our operating systems from the old core banking system to BRINets, an integrated system based on Silverlake/AS400 that allows the central consolidation of our total portfolio. With the implementation of BRINets at our head office, we have integrated our core banking system with Bank Indonesia's system for inter-bank transfer, real-time gross settlement and application for sending financial messages and the SWIFT network, enabling all offices on BRINets to perform activities related to these applications. Other integrated systems include the electronic clearing system, management information system, logistics, human resources information system, trading systems and data warehousing.
- *Migration to BRINets.* As part of our core banking system, we are in the process of migrating all of our branches, sub-branches, BRI units and electronic outlets to BRINets. As of June 30, 2003, the head office, all of the regional offices, 322 branches, 147 sub-branches and 115 BRI units had been successfully migrated to BRINets. We have set a schedule to complete the migration of the branches and sub-branches by October 2003 and are migrating additional BRI units to BRINets each year through 2009. Those BRI units that are not scheduled to be migrated to BRINets by the end of 2004 will have their stand alone systems updated.
- *Developing Communications Infrastructure.* In addition to the development of our core banking system, we are also implementing VSAT broadband to permit cost savings on intra-Bank communications, including telephone and fax communications.
- *Developing Management Information Systems.* In order to address differences in our information systems, we are implementing a bank-wide system for making internal and external reports; implementing credit risk management and sales and financial analysis systems; and improving our liquidity management systems.

We have recently completed a disaster recovery center located in Bali which began limited operations in July 2003 and which we expect will be fully operational in the fourth quarter of 2003. The disaster recovery center provides back up of our key business data, such as our treasury data and data from branches, sub-branches and those BRI units that have been migrated to BRINets, including accounting data. We are also in the initial stages of developing an IT facility in Jakarta that provides support for all of our systems, including core banking, Management Information System (MIS), ATM, *Call*BRI, SWIFT, Real Time Gross Settlement for Rupiah Interbank Transfer System (RTGS), treasury, networking and other systems and will house critical operational units, such as the ATM center, the *Call*BRI center, card authorizations, card productions, SWIFT and treasury back-up offices.

RISK MANAGEMENT AND COMPLIANCE

Risk is inherent in our business and sound risk management is critical to our success. The major types of risk we face are credit risk and market risk, which includes liquidity risk, interest rate risk and exchange rate risk. We also face operational risk. We have been working with external advisors and our regulators to strengthen our internal risk management policies and procedures in order to meet international best practice standards. To this end, we have retained independent consultants, including the Boston Consulting Group in 2001, to assist us in designing a blueprint for strengthening our risk management policies and procedures. The blueprint is a main guideline for us to develop strategies, policies and procedures to identify, monitor and manage risk across the bank. With the Boston Consulting Group we identified 25 initiatives covering the integrated management of credit, market, and operational risks, most of which have now been implemented. We are now focusing on improving and enhancing these three areas of risk management.

The Risk Management Committee is the highest authority in our risk management system. Formed in March 2002, the Risk Management Committee membership consists of our board of directors and a number of our senior managers.

As the reporting division for the Risk Management Committee, the Compliance and Risk Management Division assists the Risk Management Committee in performing its tasks. This division is responsible for implementing an effective risk management system and monitoring the execution of our risk management strategies. It does this through monitoring risk levels and performing stress tests to determine the impact of such risks on the performance and revenues of each operational unit. The division is also responsible for ensuring that we are prepared to anticipate new risks that may arise from new activities or new products and implementing the necessary monitoring and risk management systems for such new activities or products. In the performance of its duties, this division regularly prepares and submits reports on the profile and composition of the risks to the Risk Management Committee and periodically assesses the adequacy and appropriateness of our policies, guidelines and strategies for the implementation of risk management and makes recommendations for changes to the Risk Management Committee.

The function of the Compliance and Risk Management Division is performed in cooperation with the Credit Administration Division, the division responsible for credit risk, and the Treasury Division, the division responsible for market risk. We believe that each of these risk categories is inter-related and we have established a process where our risk management is integrated among all of the divisions responsible for risk management. The Compliance and Risk Management Division accumulates data from the Credit Administration Division, the Treasury Division and other operational units, and produces integrated risk reports that are submitted quarterly to the Risk Management Committee. Among other things, the integrated risk report contains information on risk exposure, risk trend analysis of deviations (from our internal limits as well as from historical levels), profitability and analysis of capital adequacy.

Compliance

The Compliance and Risk Management Division is primarily responsible for two roles: ensuring compliance with our prudential banking principles and monitoring our activities in order to ensure compliance with both Bank Indonesia regulations and our Management Contract. In ensuring compliance with our prudential banking principles, the Compliance and Risk Management Division works with our board of directors to ensure that every resolution passed complies both with external regulations applicable to us as well as with our internal policies and procedures. For example, the Compliance and Risk Management Division monitors our net open position to ensure that it does not exceed the maximum allowed by Bank Indonesia regulations and our legal lending limit to ensure that it is not exceeded for any one borrower, any group or any industry sector. In addition, the Compliance and Risk Management Division is responsible for implementing procedures that ensure that our credit risk procedures are implemented for each loan we make.

In monitoring our activities to ensure compliance with Bank Indonesia regulations and the provisions of our Management Contract, the Compliance and Risk Management Division provides a report to our board of directors, our board of commissioners, Bank Indonesia and the monitoring unit of the Ministry of Finance every month as to the achievement of our stated business plan. In conjunction with this report, the Compliance and Risk Management Division works with our board of directors and our board of commissioners to produce a certification of the status of our achievement of the specific objectives set forth in our business plan.

Credit Risk

Credit risk is the possibility of loss due to the failure of any counterparty to abide by the terms and conditions of any financial contract with us. We identify and manage this risk through (a) our target market definitions, which are reviewed every six months, (b) our credit approval process, (c) our post-disbursement monitoring, and (d) our loan restructuring procedures. We manage our credit risk through three divisions:

- *Credit Administration Division.* The Credit Administration Division is responsible for recommending credit policies and procedures, maintaining relationships with business partners to support the credit division (including insurance agents, appraisers and accountants), implementing credit policies, procedures and standardized documentation and general credit risk management. In addition, the Credit Administration Division monitors our loan portfolio. The originating BRI unit, sub-branch, branch, regional office or head office is responsible for monitoring loans under the oversight of the Credit Administration Division. The Credit Administration Division also monitors applicable regulations and recommends any necessary adjustments to our credit policies to comply with those regulations.
- *Credit Risk Analysis Division.* The Credit Risk Analysis Division is responsible for evaluating loan applications, including an analysis of the borrower's credit quality and collateral value, for all loans above Rp5 billion and any other loan considered to be in a high risk category as determined through our risk scoring system.
- *Restructuring and Problem Loan Division.* The Restructuring and Problem Loan Division, established in November 1999, manages medium-scale loans once they have become non-performing. A restructured loan that becomes performing will be returned to the originating division.

The Credit Administration Division has representatives based in the regional offices and branch offices to ensure compliance with our credit policies and procedures throughout our network. The Credit Risk Analysis Division and the Restructuring and Problem Loan Division have representatives in each of our regional offices.

Credit exposure is determined by aggregating all outstanding commitments and facilities to a borrower and its affiliates and limits are based on this "one obligor" approach. In addition, we monitor total exposure to business and industry segments in order to avoid concentration risk.

We identify our target markets each year based on past performance and general conditions in the relevant industry. Our target customers include existing customers who have a proven track record and new obligors who satisfy our credit underwriting requirements and are primarily private companies. We determine our target micro lending market based on industry and product type. For retail loans, we identify our target market based on industry type and type of business. In the case of consumer banking, we determine our target market based on income levels. For medium-scale lending, we base our target market on industry type and existing loan portfolio concentration.

Credit policymaking is largely centralized in the head office, although the credit approval authority is delegated by the head office to the branches through our tiered credit management structure. The Credit Administration Division delegates the credit approval process to the regional offices. Each regional office is responsible for supervising the branches, sub-branches and BRI units located in its region. The regional office may delegate lending authority to officers in the branches in such amounts as it determines appropriate based on the experience and seniority of the officer, the classification of the branch and the business conditions in the region. BRI units are supervised by a supervising branch, with each branch supervising no more than 40 BRI units. The branch delegates lending authority to unit managers and credit officers in the BRI units. The branch will employ one or more assistant micro business managers or a micro business manager, depending on the number of BRI units that it supervises. The maximum amount of lending authority that may be delegated to each office is summarized below:

➤ BRI units—up to Rp15 million

➤ Sub-branches—up to Rp200 million

➤ Branches—up to Rp2 billion

➤ Regional offices—up to Rp15 billion

➤ Head Office—from Rp5 billion up to Rp20 billion

➤ One Business Director and the Credit Director—from Rp20 billion up to Rp50 billion

➤ Credit Committee—over Rp50 billion

Our credit analysis process is based on the principle that at least two officers (one relationship manager and one credit risk manager) approve all loans and this principle has been implemented by the regional offices, branches and sub-branches. Other than consumer fixed income loans, the credit procedures require a separation of duties between the relationship manager and the credit risk manager. In the case of applications for loans above Rp5 billion and borrowers that are scored in higher risk categories, the credit manager must be a representative from the Credit Risk Analysis Division. The relationship manager is responsible for the customer relationship and ultimate loan recovery. For retail loans, a credit risk manager is responsible for risk management, loan portfolio management and problem loan management. For medium-scale loans, these responsibilities are undertaken by representatives from the Credit Risk Analysis Division.

A credit risk rating system has also been implemented for all banking outlets and retail and medium-scale borrowers (other than consumer fixed income borrowers). The credit risk rating is determined during the credit approval process and at least annually thereafter. We use the credit risk rating for internal monitoring purposes and, for those borrowers in the top categories, to offer reduced interest rates. The credit risk rating is also used in determining loan classifications for loans above Rp350 million. Collateral for credit applications above Rp2.5 billion is appraised by external valuation experts.

Micro Business. The majority of our borrowers and a significant portion of our loans originate from our Micro Business. The credit approval process is designed to be easy to follow and includes the following steps:

➤ Application

➤ Analysis and Evaluation

➤ Determination of loan amount and tenor

➤ Recommendation for approval

➤ Final decision/approval

➤ Agreement and loan disbursement

The relationship officer is responsible for conducting the analysis and evaluation of the applicant. Credit decisions may be made by the relationship officer and the unit manager for loans of up to Rp15 million. For loans above this amount, the credit decision must be approved by the supervising branch. In most cases, micro loans to new loan applicants are approved within four to five days. Loans to customers that have borrowed previously are approved within three days.

When considering a loan application for working capital and investment loans, the unit manager and credit officer analyze the borrower's business in order to determine the capacity of the borrower to repay the loan. In addition, the credit officer will conduct a character check through interviews with the local business community, local political leaders and other members of the community. For loans of over Rp2 million, the BRI unit will typically require security in the form of mortgages over land and buildings, vehicles, savings account passbooks or assignments over other property of the borrower. Borrowers are required to execute all of the necessary security documentation although, for loans under Rp25 million, such documentation is not registered with the relevant authorities unless there is an event of default under the loan agreement.

When considering a consumer fixed income loan application, the credit officer will review the borrower's salary and cost of living. Consumer fixed income loans are typically unsecured.

The relationship officer is responsible for monitoring the loans and recoveries. Non-performing loans are transferred from the relationship manager to another credit officer who will be responsible for restructuring or recovery on the loan. Restructuring typically occurs where events out of the borrower's control occur that lead to its inability to make a payment on its loan (such as the Bali bombing or the recent unstable social and political conditions in Aceh). In these cases, our relationship managers are given authority by the Credit Committee to extend loan repayment terms or provide additional financing. Loans that have been non-performing for more than 361 days are written off.

Consumer Banking. The credit approval process for consumer banking loans is established by the Credit Administration Division and implemented by the branches and sub-branches, and is substantially similar to the micro lending process. In order to determine the repayment capacity of a potential borrower, the account officer will review the borrower's salary, the credit worthiness of its employer, interview community leaders and value property. Approval can be made by the account officer and the branch manager.

Retail and Program Loans. Working capital loans and investment loans, including program loans, are approved in accordance with the credit policies adopted from time to time by the Credit Administration Division. When considering an application, the relationship manager and the credit officer analyze the borrower's financial statements and their industry to determine their ability to repay. They also evaluate the characteristics of the borrower's business through interviews with their business partners. Loans to SMEs are provided on a secured basis. Working capital loans are secured by the project, either inventory or stock, and investment loans are secured by the investment. In addition, almost all SME loans are secured by a mortgage over land and buildings that is registered with the local land office.

Loans to individuals are analyzed through a review of the borrower's salary, cost of living and the nature of their employment. These loans are generally unsecured. In addition, we purchase life insurance for these borrowers to cover the outstanding principal amount of the loan.

Retail credit analysis is done at the originating sub-branch, branch or regional office, with oversight from the Credit Administration Division. The steps required in the credit approval process are substantially the same as described below in medium-scale loans and are updated from time to time by the Credit Administration Division. Retail loans may be extended in amounts of up to Rp5 billion, however, the maximum lending authority at the branch office is Rp2 billion and loans over this amount along with borrowers that receive a score indicating potential credit risk must also be approved in the relevant regional office by an authorized person (either the regional manager or the regional office credit committee, depending on the regional office and the size of the loan). We require collateral for working capital and investment loans covering at least 100.0% of the principal amount of the loan.

The Retail Business loan portfolio is monitored on an office-by-office basis by the relationship manager. If a loan becomes non-performing, responsibility for the loan is transferred from the relationship manager to a non-performing loan officer. Loans may be restructured in accordance with the guidelines adopted by the Restructuring and Problem Loan Division.

Medium-Scale Loans. Our primary commercial, corporate and agribusiness customers are SMEs and State-owned and private companies.

The credit approval process involves the following steps:

- Application for credit
- Analysis and evaluation, by the relationship manager and a representative from the Credit Risk Analysis Division
- Negotiation of credit
- Determination of type/structure of credit

- ➤ Recommendation on decision
- ➤ Preparation of decision form
- ➤ Decision communicated to customer
- ➤ Execution of credit agreement
- ➤ Drawdown

All borrowers must satisfy at least these minimum requirements:

- ➤ Not on the Bank Indonesia black list of borrowers
- ➤ Not on the non-performing debtor list maintained by Bank Indonesia
- ➤ Not on the negative list of the Investment Coordinating Board, *Badan Koordinasi Penanaman Modal*
- ➤ Have valid operating permits
- ➤ Have been in existence and operating in this industry for at least two years
- ➤ Profitability
- ➤ Minimum financial ratios

Credit analysis is based on credit risk rating, quantitative analysis, qualitative analysis and collateral analysis. The Credit Risk Analysis Division is expected to make recommendations in addition to the recommendation of the relationship manager in order to minimize risk. The loan structure and interest rate is dependent on the cash-flow analysis, credit risk rating, credit outstanding and intended use of proceeds and market interest rate. All medium-scale loans are secured by land, buildings or other fixed assets, accounts receivable and inventory which must equal at least 100.0% of the principal amount of the loan. Other forms of security include corporate and personal guarantees.

Loans are reviewed at least once per year unless other information is brought to our attention. We have an early warning system that scores borrowers based on certain financial ratios and changes in certain macroeconomic conditions. The early warning scoring is done at least twice a year for each borrower. Non-performing loans to commercial, corporate and agribusiness borrowers are managed through the Restructuring and Problem Loan Division.

Restructuring and Settlement of Non-performing Loans. Our Restructuring and Problem Loan Division was established in November 1999. Our non-performing retail and medium-scale loans are restructured on a case-by-case basis upon determination by our management that restructuring would be the best means of maximizing value. Like other Indonesian banks, we rarely foreclose on our loans or enforce our collateral due to the time, expense and uncertainty involved in the legal process. We generally restructure loans to debtors that we believe have good operating prospects and are cooperative. Retail loans below Rp500 million are usually restructured at the originating office following a credit approval procedure similar to those described above. Loans that have been classified as loss for over one year can be written off. We currently employ more than 22 credit recovery officers who undertake restructuring and collection work and monitor our written off loans.

Loan restructuring is performed in accordance with written procedures of the Restructuring and Problem Loan Division, which include specific loan restructuring strategies and the circumstances under which they may be applied. Under current regulations, we generally are not permitted to give reductions of principal for our restructured loans, but may give a reduction in the amount of interest due or the rate at which it accrues. We may also ask for additional collateral in the course of a restructuring. At times, we will increase the amount of principal outstanding to these borrowers through additional working capital loans where we feel the customer is experiencing a temporary liquidity problem or where the business is experiencing other temporary difficulties.

According to Bank Indonesia regulations, after restructuring, loans previously classified as "doubtful" or "loss" can be reclassified to "sub-standard", while loans previously classified as "special mention" or "sub-standard" may not be reclassified. Upon the signing of a restructuring agreement with a borrower, we upgrade a non-performing loan to "sub-standard". In accordance with Bank Indonesia regulations, a non-performing loan may only return to performing status ("current" or "special mention"), and accrue interest in our financial statements in accordance with its new terms once the borrower has for a period of at least three months or three consecutive payments (whichever is longer) repaid such loan in accordance with its restructured contractual terms. However, even where a restructured loan has satisfied this requirement, we may still not reclassify the loan as performing if there remain concerns about the ability of the borrower to meet its payment obligations or where the borrower's credit score remains low. Once we classify a restructured loan as "current", we may transfer it from our Restructuring and Problem Loan Division to the relevant business unit.

Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices, as well as how volatile these factors are and how they relate to one another. Market risk arises with respect to all market risk sensitive financial instruments, including securities, loans, deposits, borrowings, foreign exchange contracts and derivative instruments. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss and to reduce our exposure to the volatility inherent in financial instruments. Our market risk is monitored by the Treasury Division and supervised by the Asset and Liability Committee. The Asset and Liability Committee is comprised of the board of directors and certain division heads and meets at least monthly.

Our market risk management process begins with an assessment of current economic parameters affecting us, which are primarily inflation, money supply, rates on Bank Indonesia certificates, the US dollar-Rupiah exchange rate and other macroeconomic factors. The market risks that we focus on identifying, measuring and managing include liquidity risk, interest rate risk, trading risk and foreign exchange risk. To support the accuracy in our risk management reports, we have developed a data warehouse that is expected to be implemented by the end of 2003.

The following briefly describes our policies and procedures with respect to asset liability management, liquidity risk, price risk and other risks.

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 our 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 us to be able, even under adverse conditions, to meet all of our contractual and regulatory financial obligations. We face challenges in our liquidity management due to the quality and timeliness of available data. We are currently implementing improvements to our information technology system in order to improve our access to quality data on a more timely basis.

Bank Indonesia regulations currently require Indonesian banks to maintain statutory reserves, on a daily basis, in the form of non-interest-bearing deposits with Bank Indonesia equal to at least 5.0% of Rupiah-denominated third party deposits and 3.0% of foreign currency-denominated third party deposits. Except for such deposits, Bank Indonesia regulations do not impose any minimum percentage of deposits or assets that must be kept in the form of liquid assets. We maintain our statutory reserve in our current account at Bank Indonesia. As of June 30, 2003, we maintained statutory reserves of 5.4% of Rupiah-denominated third party deposits and 3.0% of foreign currency-denominated third party deposits.

We seek to maintain adequate liquidity to meet our financial commitments on a cost effective basis. The function of managing these liquidity requirements is carried out by our Treasury Division. Our liquid assets consist primarily of placements with Bank Indonesia and other banks, Bank Indonesia certificates, securities, our current account with Bank Indonesia and cash. We can obtain funds on short notice by drawing down any excess in our reserve account with Bank Indonesia, selling Bank Indonesia certificates or borrowing in the inter-bank market. We aim to maintain liquidity by holding sufficient quantities of liquid assets with which to meet actual or potential demands for funds from depositors and borrowing customers, and manage liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept at manageable levels relative to the amount of funds we believe we can generate within such period. We have an internal policy that we maintain liquid assets equal to at least 10.0% of total assets. Our liquid assets, consisting of cash, current account with Bank Indonesia, Bank Indonesia certificates, placements with Bank Indonesia, current accounts and placements with other banks and Government recapitalization bonds and other securities in our trading portfolio, equalled Rp21,066 billion (US$2,549 million) which accounted for 22.9% of our total assets as of June 30, 2003.

Interest Rate Risk

Our principal interest rate sensitive liabilities are deposits and our principal interest rate sensitive assets are loans and Government recapitalization bonds. Our Asset and Liability Committee, working with our Treasury Division, monitors interest rate movements and makes adjustments to deposit and loan rates to account for interest rate movements. Meetings are held at least once a month. Our base lending rate is determined based on costs of funds, the rates charged by our competitors, the type of loan and the size of the loan. 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, the proposed use of the loan and the borrower's credit risk rating.

We seek to maintain our interest rates paid on deposits at or below the maximum rate 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 we offer generally vary according to market and competitive conditions, the maturity and the size and currency of the deposit.

Our primary means of measuring our 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 repricing date, or maturity date. To the extent that there is a difference in the amount of assets and liabilities maturing or being re-priced at a particular date, we are exposed to the risk that the margins on new or re-priced assets and liabilities may change. We expect to implement information systems that will allow us to compute these gap statements more accurately and in a more timely manner by the end of 2003, as part of our migration to our integrated core banking system. The data we need to complete our gap analysis takes at least 30 days to obtain and some of the data needs to be reformatted in order to be utilized in our gap analysis.

Trading Risk

We limit the number of financial products that we may trade to fixed income securities issued by the Government, State-owned enterprises and corporations with investment grade ratings. In order to protect against any potential trading risks, we have established internal limits to prevent excess exposure to open positions. This internal policy limits transactions for the chief dealer to Rp200 billion or US$30 million with contracts of up to six months and Rp400 billion or US$50 million for the Bank as a whole. Credit lines are set by the Treasury Division and approved by the board of directors.

We have improved our operating procedures for the Treasury Division by introducing an integrated system from the front office to the back office using OPICS (Operation Processing Integrated Control System), which was integrated with BRINets in 2003. With the integration of these systems, a transaction initiated by a dealer is automatically processed by OPICS through settlement. Records are maintained based on risk management procedures currently in place and will eventually be upgraded when our data storage system is established.

Foreign Exchange Risk

We comply with the Bank Indonesia requirement that our net open position in all foreign currencies be no more than 20.0% of our total regulatory capital. As of June 30, 2003 our foreign currency net open position was 11.8% of our total capital. We produce reports on our net open position weekly based on daily figures.

Our non-Rupiah liabilities are denominated principally in US dollars and consist primarily of deposits and fund borrowings. We hold US dollar-denominated assets consisting primarily of bank placements and loans. Our foreign exchange revenue is derived principally from customer-related transactions. We are exposed to gains or losses from the revaluation of our net open position.

Derivative Instruments Risk
We provide limited derivative services to selected customers and engage in limited proprietary trading. We hedge our customers' transactions with other financial institutions. Our derivative transactions are subject to counter party risk to the extent obligors are unable to make payment on contracts when due. Our proprietary trading is subject to counterparty and trader limits and consist primarily of foreign exchange forward transactions.

Operational Risk
We have formed an operational risk management working group as part of the Compliance and Risk Management Division, which is responsible for monitoring risks relating to our operations. As with other financial institutions in Indonesia, we are exposed to many types of operational risks. There are four major causes of operational risk: processes, people, systems and external factors. The failure to appropriately identify and manage these sources of operational risk may affect business operations and can potentially lead to processing errors, fraud, human errors and control breakdowns.

As part of our ongoing efforts to implement an integrated risk management system, our management has trained branch employees and employees in other operational units in our risk management policies and procedures, strategies, implementations, and tools. In order to address operational risks from external factors, we established our disaster recovery center this year and are in the process of developing our existing loss event database. As of June 30, 2003, the database was installed in 24 of our branches. The database also has been connected to the Compliance and Risk Management Division in order to report loss events in branches regularly. The data related to loss events is collected and analyzed by the Compliance and Risk Management Division which provides a report quarterly to the Risk Management Committee. In line with developing the database, we are also developing Risk Self Assessment (RSA) to assess operational risks in our operational units. The RSA is intended to increase the sensitivity of our employees to risk management and serve as a reference for our internal audit.

In order to comply with the Money Laundering Criminal Acts in Indonesia, we have assigned a team within the Operational Division responsible for monitoring implementation of the "Know Your Customer" principles and have updated our customer data in compliance with these principles. In addition, every one of our branches, sub-branches and BRI units have been instructed to monitor and report any suspicious transactions to the Compliance and Risk Management Division.

Internal Audit
Our Internal Audit Division is responsible for conducting independent reviews of the adequacy and effectiveness of our internal control structure and the manner in which assigned responsibilities are fulfilled. The Internal Audit Division regularly reviews the quality of our risk management supervision, the soundness of our management structure and controls, the status of compliance with internal policies and procedures and the adequacy of such internal policies and procedures. To ensure independence, the Internal Audit Division reports directly to the Chief Executive Officer (CEO) and the commissioners. The Internal Audit Division also has a regular meeting with the Audit Committee at least quarterly. The Audit Committee was formed in 2001 and is chaired by one of the commissioners.

The Internal Audit Division conducts its audit process in accordance with risk-based guidelines adopted in 2002. Under the risk-based audit approach, the audit process is based on an assessment of relative risk rather than a strict timetable in order to increase the effectiveness and efficiency of the audit process. The Internal Audit Division assesses our risks annually when planning the audit project by incorporating both our historical risks and potential risks based on changes in our structure or products or changes in the business environment.

In order to ensure appropriate monitoring of all aspects of our extensive network, the Internal Audit Division has approximately 500 auditors and we have established 11 regional internal audit offices with oversight responsibilities for each of the branches, sub-branches, BRI units and village service posts in its jurisdiction. The regional internal audit offices report directly to the head office and are also reviewed regularly to assure the quality of their audits.

We have received ISO 9001:2000 certification for our risk-based audit procedures from SGS International Certification Services Pte. Ltd., accredited by the Registered American Bureau (ANSI-RAB) in the United

States, United Kingdom Accredited System (UKAS) in England and Joint Accreditation Systems in Australia and New Zealand (JAS-ANZ).

COMPETITION

We face strong competition in all of our principal lines of business. Our primary competitors in Indonesia are regional banks, other large commercial banks and foreign banks operating in Indonesia. We also face indirect competition from a variety of other types of financial services companies, such as finance and securities companies, savings cooperatives, leasing and factoring companies and venture capital companies, as well as from certain Government-owned or affiliated entities that provide industrial development funding and export/import lending and services.

The following table sets forth unaudited unconsolidated total assets, loans, and deposits (excluding deposits from other banks), as well as market share information, of the ten largest Indonesian banks by total assets as of June 30, 2003:

	As of June 30, 2003					
	Total Assets	Market Share	Total Loans(2)	Market Share	Total Deposits(3)	Market Share
	(Rp billions, except percentages)					
10 Largest Indonesian Banks by Total Assets						
Bank Rakyat Indonesia(1)	91,945	8.7%	43,594	11.2%	74,995	8.8%
Bank Mandiri	256,032	24.2%	64,884	16.6%	183,035	21.5%
Bank Negara Indonesia	123,730	11.7%	39,669	10.2%	97,413	11.4%
Bank Central Asia	116,896	11.0%	22,391	5.7%	102,003	12.0%
Bank Danamon(4)	49,460	4.7%	20,118	5.2%	35,863	4.2%
Bank Internasional Indonesia	34,352	3.2%	7,939	2.0%	27,475	3.2%
Bank Permata	28,728	2.7%	8,402	2.2%	23,254	2.7%
Bank Tabungan Negara	25,891	2.4%	10,866	2.8%	18,917	2.2%
Lippo Bank	23,417	2.2%	4,790	1.2%	20,227	2.4%
Bank Niaga	21,462	2.0%	11,787	3.0%	17,598	2.1%
Total Banking Industry	1,058,146	100.0%	390,563	100.0%	851,073	100.0%

(1) Our financial statements set forth in this table are based on information published in accordance with Bank Indonesia requirements and differ in certain respects from our audited financial statements included elsewhere in this Offering Circular due in part to differences in presentation requirements.

(2) Gross loans before deducting provisions for loan losses.

(3) Customer deposits including certificates of deposits and Syariah deposits, but excluding deposits from other banks.

(4) Excludes Bank Danamon's purchases of loans from IBRA.

Source: For individual banks, published financial statements for Bank Indonesia disclosure purposes and total banking industry, Bank Indonesia.

The following table sets forth unconsolidated information on the net interest margin, cost-to-income ratio, return on average assets, return on average equity, loan-to-deposit ratio and ratio of Government recapitalization bonds to total assets of the ten largest Indonesian banks by total assets as of June 30, 2003:

	As of June 30, 2003					
	Net Interest Margin(2)	Cost-to-Income Ratio(3)	Return on Average Assets(4)	Return on Average Equity(5)	Loan-to-Deposit Ratio(6)	Government Bonds as % of Total Assets(7)
10 Largest Indonesian Banks by Total Assets						
Bank Rakyat Indonesia(1)	8.9%	52.3%	3.5%	45.6%	58.2%	30.5%
Bank Mandiri	3.0%	32.7%	2.4%	30.4%	35.4%	53.2%
Bank Negara Indonesia	3.9%	51.5%	2.6%	43.3%	41.2%	35.8%
Bank Central Asia	5.0%	51.5%	2.5%	20.9%	21.7%	37.8%
Bank Danamon(8)	4.6%	36.7%	2.7%	26.5%	56.4%	26.8%
Bank Internasional Indonesia	1.9%	82.7%	0.8%	17.2%	29.3%	58.3%
Bank Permata	3.9%	57.9%	1.0%	16.7%	36.2%	39.4%
Bank Tabungan Negara	3.0%	71.3%	1.0%	25.1%	57.5%	51.9%
Lippo Bank	4.3%	87.2%	0.8%	4.6%	23.7%	23.2%
Bank Niaga	4.3%	52.5%	2.3%	37.2%	64.1%	22.9%
Mean	4.3%	57.6%	2.0%	26.7%	42.4%	38.0%
Median	4.1%	52.4%	2.4%	25.8%	38.7%	36.8%

(1) Our financial statements set forth in this table are based on information published in accordance with Bank Indonesia requirements and differ in certain respects from our audited financial statements included elsewhere in this Offering Circular due in part to differences in presentation requirements.

(2) Net interest income for the six months ended 30 June 2003 annualized by multiplying by a factor of two, divided by average interest earning assets (month end balances).

(3) Operating expenses (personnel expenses, general and administrative expenses and other expenses) divided by total income. Total income is net interest income plus non-interest income (excluding non-operating income) plus income from Syariah banking.

(4) Profit before tax for the six months ended 30 June 2003 annualized by multiplying by a factor of two, divided by average total assets (month end balances).

(5) Net income for the six months ended 30 June 2003 annualized by multiplying by a factor of two, divided by average Tier 1 capital (month end balances).

(6) Gross loans (before deducting provisions for loan losses) divided by customer deposits. Customer deposits include certificates of deposits and Syariah deposits, but exclude deposits from other banks.

(7) Government recapitalization bonds divided by total assets.

(8) Excludes Bank Danamon's purchases of loans from IBRA.

Source: Published financial statements for Bank Indonesia disclosure purposes.

The following table sets forth unconsolidated information on the gross non-performing loan ratio, gross non-performing asset ratio, coverage ratio, tier I capital adequacy ratio, tier II capital adequacy ratio and total capital adequacy ratio of the ten largest Indonesian banks by total assets as of June 30, 2003:

	As of June 30, 2003					
	Gross NPL Ratio(2)	Gross NPA Ratio(3)	Coverage Ratio(4)	Tier I Ratio(5)	Tier II Ratio(6)	Total CAR(7)
10 Largest Indonesian Banks by Total Assets						
Bank Rakyat Indonesia(1)	6.6%	3.9%	145.0%	10.2%	2.4%	12.4%
Bank Mandiri	7.4%	2.7%	183.6%	16.2%	12.3%	26.4%
Bank Negara Indonesia	5.7%	3.1%	70.5%	10.6%	5.6%	15.3%
Bank Central Asia	2.4%	0.5%	170.6%	34.1%	4.8%	38.3%
Bank Danamon(8)	3.3%	1.5%	247.0%	20.8%	3.6%	24.2%
Bank Internasional Indonesia	5.0%	1.4%	98.4%	15.5%	11.9%	25.9%
Bank Permata	16.6%	5.6%	104.2%	8.0%	3.3%	10.5%
Bank Tabungan Negara	5.0%	3.5%	129.8%	12.3%	2.1%	14.4%
Lippo Bank	12.3%	5.2%	120.0%	13.7%	9.6%	23.2%
Bank Niaga	4.5%	2.6%	90.8%	9.3%	3.9%	12.5%
Mean	6.9%	3.0%	136.0%	15.1%	5.9%	20.3%
Median	5.3%	2.9%	124.9%	13.0%	4.3%	19.2%

(1) Our financial statements set forth in this table are based on information published in accordance with Bank Indonesia requirements and differ in certain respects from our audited financial statements included elsewhere in this Offering Circular due in part to differences in presentation requirements.
(2) Gross non-performing loans (substandard and below; before deducting provisions for loan losses) divided by gross loans (before deducting provisions for loan losses).
(3) Gross non-performing interest earning assets (before deducting provisions) divided by total interest earning assets (before deducting provisions).
(4) Provisions for loan losses divided by gross non-performing loans (substandard and below; before deducting provisions for loan losses).
(5) Tier I capital divided by risk-weighted assets based on Bank Indonesia regulations.
(6) Tier II capital divided by risk-weighted assets based on Bank Indonesia regulations.
(7) Tier I capital plus Tier II capital, less investments in shares of stock, divided by risk-weighted assets.
(8) Excludes Bank Danamon's purchases of loans from IBRA.

Source: Published financial statements for Bank Indonesia disclosure purposes.

As the development and reform of the Indonesian financial sector continues, we expect to face increasing competition from financial institutions that in comparison to us may offer a wider array of banking services and products or have larger lending limits or stronger balance sheets. In addition, our domestic competitors have formed, and can be expected to continue to form, strategic alliances with foreign banks with significantly greater financial, management and other resources than us.

Foreign banks are now allowed to acquire controlling interests in Indonesian banks. This is expected to result in increased competition for lending customers, as well as deposit customers and could result in simultaneous pressure to decrease lending interest rates and increase deposit interest rates, thereby leading to tighter net interest margins.

Micro Business

In micro lending, we compete principally on the extensiveness and convenience of our distribution network. Our BRI units compete principally with village banks and unlicensed money lenders. These tend to be single office operations and their lending rates tend to be substantially higher than our lending rates. In addition, we compete with other large banks for deposits in urban areas, including Bank Negara Indonesia and Bank Central Asia. In order to maintain our position as market leader in this sector, we are currently implementing BRINets in the BRI units and improving customer service.

Retail Business
Similar to our Micro Business division, in this area we compete principally on the extensiveness of our distribution network. We also compete based on our range of products offered and our customer service. In SME lending, our principal competitors are Bank Danamon, Bank Central Asia, Bank Negara Indonesia and Bank Mandiri. In the consumer fixed income and pension loan market, our principal competitors are Bank Negara Indonesia and the local government banks.

Medium-Scale Business
Indonesia has many banks targeting SMEs and corporate customers. In this area, we compete principally on the extensiveness of our distribution network, range of products and customer service. As our profile has historically been as a microfinance provider, we compete against both banks active in this area and customer perceptions. Our primary competitors for SME customers are Bank Central Asia, Bank Danamon, Bank Negara Indonesia, Bank Mandiri and NISP. Our primary competitors for corporate customers are Bank Central Asia, Bank Negara Indonesia and Bank Mandiri. Our primary customers for agribusiness customers are Bank Central Asia, Bank Danamon, Bank Negara Indonesia, Bank Mandiri and Bank Niaga.

Consumer Banking
Our principal competitors in consumer lending are Bank Negara Indonesia, Bank Central Asia, Bank Mandiri and Bank Danamon. Our principal competitors for depositors are Bank Negara Indonesia, Bank Central Asia, Bank Mandiri, Bank Danamon and Bank Tabungan Negara. Our competitors may have larger deposit bases, better information technology and broader product offerings than us. For consumer loan products, we also face competition from foreign banks, including Citibank, N.A., HSBC Bank plc, Standard Chartered Bank and ABN AMRO Bank N.V. In particular, we face strong competition in the areas of fees, products, and location of distribution points, such as branches and ATMs. Many of our competitors in this segment have carried on this business for a much longer time than us.

PRINCIPAL SUBSIDIARIES AND AFFILIATES

Our principal subsidiaries and affiliates, their business activities and our ownership interest, as of June 30, 2003, are described below.

UFJ-BRI Finance. We own 45.0% of the shares in PT UFJ-BRI Finance ("UFJ-BRI Finance"), a financing company located in Jakarta.

Bank Inter-Pacific. In 2002, we resolved to divest our investment in PT Bank Inter-Pacific Tbk ("Bank Inter-Pacific"), a banking institution located in Jakarta. We own 66.79% of the shares in Bank Inter-Pacific. In accordance with Indonesian GAAP, we excluded Bank Inter-Pacific from our consolidated financial statements starting in December 31, 2002. Our investment in Bank Inter-Pacific is classified as a loss and, accordingly, we have reserved 100.0% of the carrying value (Rp48.5 billion) against possible losses.

As of June 30, 2003, we had no consolidated subsidiaries.

PROPERTIES

We own approximately 5,063 real properties in Indonesia, title to some of which are held through more than one applicable title document. The net book value of these properties as of June 30, 2003 was Rp427 billion (US$52 million). We lease all of our other operating properties, which are used as banking offices, branches, BRI units, back offices and warehouses.

In connection with the Indonesian offering, we engaged consultants to perform valuations of our fixed assets in accordance with BAPEPAM requirements. Copies of the valuation reports are available for inspection at our head office during office hours.

EMPLOYEES

The table below provides a breakdown of our full-time employees as of the dates indicated:

	As of December 31, 2000	As of December 31, 2001	As of December 31, 2002	As of June 30, 2003
Director	7	7	7	7
Senior Management[(1)]	83	103	112	111
Department Head	745	733	730	743
Senior Officer	611	666	699	665
Officer	6,232	6,246	6,294	7,941
Clerk	21,515	21,985	22,107	20,455
Trainee	1,370	1,202	1,130	2,049
Total	30,563	30,942	31,079	31,971

(1) Includes Division Heads, Group Heads, regional office Managers and Regional Internal Audit Office Managers.

The following table provides a breakdown of our full-time employees by office as of December 31, 2002 and June 30, 2003:

	As of December 31, 2002	As of June 30, 2003
Head Office	1,183	1,078
Regional Audit Offices	463	518
Regional Offices	777	777
Special Branch[(1)]	114	107
Branches	9,166	7,733
Syariah Branches	44	44
Sub-branches	436	436
BRI units[(2)]	18,896	21,278
Total	31,079	31,971

(1) The special branch is located at the head office and is responsible for managing the corporate loan portfolio.
(2) Including village service posts.

We have established one training center in Jakarta and six regional training centers which are operated by the Human Resources Division. A variety of entry level, skills enhancement and management training programs for both new and existing employees are offered through these training centers. All employees are required to attend regular training sessions which last from two weeks to two months. Employees at the BRI units and employees at the village service posts are required to attend training courses at least once each year.

Almost all of our employees receive a compensation package which includes basic salary, cost of living allowance, bonus (related to both the individual's and our performance and, in the case of employees at the BRI units, the performance of the BRI unit), annual leave, medical package, life insurance and savings and pension plans. Certain employees meeting minimum service period requirements are also eligible for loans for housing, cars and/or utilities. In addition, certain senior employees receive certain benefits such as housing, transportation and utility allowances, healthcare and association membership as part of their employment.

Approximately 80.0% of our employees are unionized and we entered into a collective labor agreement with their union on March 6, 2003 which will be effective through March 6, 2005. We consider our relations with our employees to be good.

We maintain two pension funds, a defined benefit pension plan and a defined contribution pension plan. For our defined benefit plan, we have the ultimate obligation to fund shortfalls under Ministry of Finance regulations. Currently, we must pay a Rp15.5 billion (US$1.9 million) installment each month for previous shortfalls. These payments are expected to continue through December 2005.

The defined benefit plan is managed by Dana Pensiun Bank Rakyat Indonesia, our affiliate. Under the defined benefit plan, each employee is required to pay 7.0% of their pension base salary to the pension fund. We are required to pay 11.0% of the pension base salary. Pension benefits are paid based on an employee's highest pension base salary and the number of years of service. Our contribution to the defined benefit plan totalled Rp147 billion (US$18 million) in 2002 and Rp392 billion (US$47 million) in the first six months of 2003.

We established a defined contribution pension plan for employees in 2002. The defined contribution pension plan is managed by Dana Pensiun Lembaga Keuangan PT Manulife Indonesia. Under the plan, each employee is required to pay 25.0% of their pension contribution and we are required to pay 75.0% of the pension contribution which is equal to 5.0% of an employee's monthly salary. The pension plan provides regular income after an employee retires.

In addition, our employees are given old-age benefits based on the last basic pension income the employee received from us. This benefit plan is managed by Yayasan Kesejahteraan Pegawai Bank Rakyat Indonesia, our affiliate. This plan provides a one time payment to employees when they retire.

In 2000, the Government, through the Minister of Manpower, issued a regulation requiring that all employees dismissed from Indonesian companies receive severance payments. The regulation sets forth the required terms of the severance payments which are dependent, among other things, on the number of years of service. It is our policy to establish reserves to meet this requirement. As of June 30, 2003, we had booked an accrual amounting to Rp64 billion for potential separation, gratuity and compensation benefits.

INSURANCE

Our policy is to adequately insure all of the properties owned by us against fire and other usual risks. As of June 30, 2003, we had insured our premises (excluding land), vehicles and equipment against physical loss or damage for a total coverage amount of Rp1,730 billion (US$209 million), which we believe is adequate to cover the possibility of losses arising in relation to our premises and equipment. We also maintain insurance for operational risks such as the loss of cash or securities through loss or theft. We do not have business interruption insurance covering loss of revenues in the event our operations are affected by unexpected events. We carry no third-party liability insurance for our properties.

We have a policy of requiring appropriate insurance coverage for any collateral provided by our customers. In addition, we purchase life insurance for each of the borrowers in our BRI units to cover the amount of the outstanding principal amount of their loans (up to a maximum of Rp50 million (US$6,050) per borrower).

A substantial portion of our insurance for fixed assets and movable fixed assets is provided by PT Asuransi Bringin Sejahtera Artamakmur, a subsidiary of our pension fund.

LEGAL PROCEEDINGS

We are a party to various legal proceedings in connection with our banking business. A majority of these legal proceedings have been brought by borrowers relating to the sale of collateral securing their loans. In connection with our recapitalization in 2000, we recognized a provision in our balance sheet representing the entire amount of claims in the pending lawsuits filed against us at that time. As of June 30, 2003, the amount of provisions was Rp144 billion (US$17 million). We do not believe that these proceedings, if determined adversely to us, would have a material adverse effect on our business or financial condition.

We were a party to a trade financing transaction in 1994 in which we issued letters of credit on behalf of two of our customers. Bank Pembangunan Indonesia ("Bapindo"), one of the four predecessor banks to Bank Mandiri, was the accepting bank in this transaction. Due to fraudulent acts by the parties to the transaction, including a number of our employees who were subsequently terminated and convicted, these letters of credit were drawn and Bapindo paid the beneficiaries an amount substantially in excess of the facility amounts. After these transactions were discovered in April 1994, we executed a memorandum of understanding with Bapindo to establish our relative losses. Under the terms of the memorandum of understanding, we agreed with Bapindo to cancel the letter of credit and we agreed to bear 60.0% of the loss and Bapindo agreed to bear 40.0% of the loss. We subsequently transferred an amount equal to 60.0% of the total amount drawn under the letter of credit to Bapindo. However, notwithstanding this agreement with Bapindo, we were informed that a claim for the remaining 40.0% drawn under the letter of credit was transferred to IBRA in connection with Bank Mandiri's recapitalization. We have entered into negotiations with IBRA and Bank Mandiri to resolve this issue, however, to date, this issue has not been resolved. Although we believe that the claim is not valid, if a court determined that we were liable under this claim, total damages could exceed Rp225 billion (US$27 million) including principal, accrued interest and penalties.

SUPERVISION OF BKDs

In addition to managing our own branch and unit operations, we also supervise approximately 4,800 Village Credit Units ("BKDs") on behalf of Bank Indonesia. BKDs are classified as Bank Perkreditan Rakyat (BPR) or small holder credit banks under Bank Indonesia regulations and provide small loans to low-income people. See "Overview of the Indonesian Banking Industry" for more information on this sector of the banking industry. All expenses incurred in our supervisory role are reimbursed by Bank Indonesia. For 2003, the BKD supervisory cost is expected to be approximately Rp7,950 million (US$961,887). Although we do not receive a fee for this role, we do accept deposits from and extend loans to BKDs and customers of the BKDs often become our customers as their financing needs become more sophisticated.

Statistical Information

The following information should be read together with our financial statements included elsewhere in this Offering Circular. All amounts presented in this section have been prepared in accordance with Indonesian GAAP.

For 2000 and 2001, average balance sheet data is based on the average of the opening and closing balances as of January 1 and December 31 for such year. For 2002, average balance sheet data is based on the average of the balances as of January 1, June 30 and December 31, 2002, and the balances based on our in-house statements as of March 31 and September 30. For the six-months periods ending June 30, 2002 and June 30, 2003, average balance sheet data is based on averages of the opening and closing balances as of January 1 and June 30 of such year and the balance based on our in-house statements as of March 31. See "Risk Factors—Risks Relating to the Bank—Certain statistical information has not been prepared in accordance with international disclosure standards".

AVERAGE BALANCE SHEET

The following tables set forth the average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the average yields for each period:

	Year ended December 31,									Six months ended June 30,		
	2000			2001			2002			2003		
	Average Balance	Interest Income/ Expense	Average Yield/ Cost(1)	Average Balance	Interest Income/ Expense	Average Yield/ Cost(1)	Average Balance	Interest Income/ Expense	Average Yield/ Cost(1)	Average Balance	Interest Income/ Expense	Average Yield/ Cost(1)(5)
	(Rp billions, except percentages)											
Assets												
Interest-earning assets:												
Bank Indonesia certificates and placements with Bank Indonesia	1,765	258	14.6%	3,375	323	9.6%	6,075	911	15.0%	8,731	537	12.2%
Placements with other banks:												
Rupiah	161	47	29.2%	208	42	20.2%	576	65	11.3%	846	31	7.3%
Foreign currency	434	82	18.9%	575	68	11.8%	743	35	4.7%	940	21	4.5%
Allowance	(30)			(21)			(48)			(177)		
Securities:												
Rupiah	138	42	30.2%	121	18	14.9%	82	12	14.6%	144	4	5.6%
Foreign currency	527	22	4.2%	482	56	11.6%	639	34	5.3%	714	23	6.4%
Allowance	(9)			(6)			(7)			(11)		
Government recapitalization bonds	14,491	1,280	8.8%	28,709	3,516	12.2%	28,598	3,736	13.1%	28,148	1,860	13.0%
Loans(2):												
Rupiah	22,203	5,288	23.8%	24,782	6,319	25.5%	31,764	8,112	25.5%	36,953	4,734	25.6%
Foreign currency	5,230	461	8.8%	5,498	477	8.7%	4,925	361	7.3%	3,892	125	6.4%
Allowance	(4,062)			(3,367)			(4,274)			(4,093)		
Other:												
Rupiah	363	88	24.2%	116	114	98.3%	391	164	41.9%	352	98	55.7%
Foreign currency	630	48	7.6%	1,482	35	2.4%	800	23	2.9%	949	14	3.0%
Allowance	(23)			(34)			(16)			(16)		
Total average interest-earning assets (net)	41,818	7,616	18.2%	61,920	10,968	17.7%	70,248	13,453	19.2%	77,372	7,447	19.3%
Total average interest-earning assets (gross)	45,942	7,616	16.6%	65,348	10,968	16.8%	74,593	13,453	18.0%	81,669	7,447	18.2%
Non interest-earning assets:												
Cash	1,616			1,736			1,731			1,902		
Current account with Bank Indonesia	2,635			3,677			3,781			3,959		
Acceptances receivable (net)	138			258			204			226		
Investment in shares of stock (net)	42			44			51			55		
Premises and equipment (net)	693			770			922			1,198		
Deferred tax assets (net)	435			835			875			858		
Other assets	1,297			2,024			2,110			2,337		
Total average non-interest earning assets	6,856			9,344			9,674			10,535		
Total assets	48,674			71,264			79,922			87,907		

	Year ended December 31, 2000 Average Balance	2000 Interest Income/ Expense	2000 Average Yield/ Cost(1)	2001 Average Balance	2001 Interest Income/ Expense	2001 Average Yield/ Cost(1)	2002 Average Balance	2002 Interest Income/ Expense	2002 Average Yield/ Cost(1)	Six months ended June 30, 2003 Average Balance	2003 Interest Income/ Expense	2003 Average Yield/ Cost(1)(5)
	(Rp billions, except percentages)											
Liabilities												
Interest bearing liabilities Deposit												
Demand deposits:												
Rupiah	5,709	164	2.9%	6,980	192	2.8%	7,920	264	3.3%	9,562	175	3.7%
Foreign currency	464	41	8.8%	543	48	8.8%	472	13	2.8%	1,453	14	1.9%
Savings deposits	20,516	1,785	8.7%	24,620	1,879	7.6%	27,305	2,168	7.9%	29,645	1,159	7.8%
Time deposits(3):												
Rupiah	15,684	1,722	11.0%	19,041	2,728	14.3%	24,190	3,871	16.0%	28,184	1,828	13.0%
Foreign currency	3,268	120	3.7%	2,304	89	3.9%	2,181	77	3.5%	2,263	26	2.3%
Deposits from other banks	972	61	6.3%	2,500	86	3.4%	2,628	77	2.9%	1,689	130	15.4%
Fund borrowings:												
Rupiah	4,399	161	3.7%	1,750	113	6.5%	1,354	105	7.8%	907	62	13.7%
Foreign currency	2,254	122	5.4%	3,041	222	7.3%	2,440	103	4.2%	1,527	28	3.7%
Securities issued	—	—	—	—	—	—	—	—	—	—	—	—
Securities sold with agreement to repurchase	—	—	—	355	10	2.8%	205	22	10.7%	236	15	12.7%
Others:(4)												
Rupiah	—	389	—	—	600	—	1	665	—	9	364	%
Foreign currency	—	258	—	—	39	—	—	8	—	—	5	%
Total average interest-bearing liabilities	53,266	4,823	9.1%	61,134	6,006	9.8%	68,696	7,373	10.7%	75,475	3,806	10.1%
Total average non-interest bearing liabilities	6,525			5,697			5,820			6,252		
Total liabilities	59,791			66,831			74,516			81,727		
Shareholder's equity	(11,117)			4,433			5,406			6,180		
Total liabilities and shareholder's equity	48,674			71,264			79,922			87,907		

(1) *The average yield on average interest-earning assets is the ratio of interest income to average interest-earning assets. The average cost on average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities.*

(2) *The average balances of loans include non-performing loans.*

(3) *The average balance of time deposits includes certificates of deposits.*

(4) *Others mainly consists of life insurance premiums on micro and retail customers, premiums paid on the Government Guarantee Program and fees paid to employers or pension paying agents to collect loan installments from employees or pensioners.*

(5) *Annualized.*

ANALYSIS OF CHANGES IN INTEREST INCOME AND INTEREST EXPENSE AND RATE ANALYSIS

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense between changes in average volume of interest-earning assets and interest-bearing liabilities and changes in average interest rates on interest-earning assets and interest-bearing liabilities:

	Year ended December 31, 2001 vs. Year ended December 31, 2000(1) Increase (Decrease)			Year ended December 31, 2002 vs. Year ended December 31, 2001(1) Increase (Decrease)			Six months ended June 30, 2003 vs. Six months ended June 30, 2002 Increase (Decrease)		
		Due to			Due to			Due to	
	Net Change	Change in Average Volume	Change in Average Rate	Net Change	Change in Average Volume	Change in Average Rate	Net Change	Change in Average Volume	Change in Average Rate
	(Rp billions)								
Interest income									
Bank Indonesia certificates and placements with Bank Indonesia	65	154	(89)	588	405	183	2	216	(214)
Placements with other banks:									
Rupiah	(5)	9	(14)	23	42	(19)	(10)	16	(26)
Foreign Currency	(14)	17	(31)	(33)	8	(41)	2	6	(4)
Securities:									
Rupiah	(24)	(3)	(21)	(6)	(6)	—	(12)	1	(13)
Foreign Currency	34	(5)	39	(22)	8	(30)	7	5	2
Government recapitalization bonds	2,236	1,741	495	220	(15)	235	1	(34)	35
Loans:									
Rupiah	1,031	658	373	1,793	1,783	10	921	936	(15)
Foreign Currency	16	23	(7)	(116)	(42)	(74)	(74)	(44)	(30)
Others:									
Rupiah	26	(243)	269	50	115	(65)	30	9	21
Foreign Currency	(13)	20	(33)	(12)	(20)	8	2	—	2
Total interest-earning assets	3,352	2,371	981	2,485	2,278	207	869	1,111	(242)
Interest expense									
Deposit									
Demand deposits:									
Rupiah	28	35	(7)	72	31	41	62	50	12
Foreign currency	7	7	—	(35)	(2)	(33)	(4)	10	(14)
Savings deposits	94	313	(219)	289	213	76	78	107	(29)
Time deposits(2):									
Rupiah	1,006	481	525	1,143	824	319	(31)	356	(387)
Foreign currency	(31)	(37)	6	(12)	(4)	(8)	(17)	2	(19)
Deposits from other banks	25	53	(28)	(9)	4	(13)	15	(88)	103
Fund borrowings:									
Rupiah	(48)	(171)	123	(8)	(31)	23	2	(30)	32
Foreign currency	100	57	43	(119)	(25)	(94)	(32)	(21)	(11)
Securities issued	—	—	—	—	—	—	—	—	—
Securities sold with agreement to repurchase	10	10	0	12	(16)	28	(7)	(2)	(5)
Others:(3)									
Rupiah	211	211	—	65	65	—	22	22	—
Foreign currency	(219)	(219)	—	(31)	(31)	—	(2)	(2)	—
Total interest-earning liabilities	1,183	740	443	1,367	1,028	339	86	404	(318)

(1) *The changes in net interest income between periods have been reflected as attributable either to volume or rate changes. For the purposes of this table, changes which are due to both volume and rate have been allocated solely to increase or decrease due to changes in average volume.*

(2) *Includes certificates of deposits.*

(3) *Others mainly consists of life insurance premiums on micro and retail customers, premiums paid on the Government Guarantee Program and fees paid to employers or pension paying agents to collect loan installments from employees or pensioners.*

YIELDS, SPREADS AND MARGINS

The following table sets forth, for the periods indicated, the yields, spreads and interest margins on our interest-earning assets:

	Year ended December 31, 2000	2001	2002	Six months ended[5] June 30, 2003	2003
	(Rp billions, except percentages)				(US$ millions)
Interest income	7,616	10,968	13,453	7,448	901
Average interest-earning assets	45,943	65,348	74,593	81,669	9,881
Interest expense	4,823	6,006	7,373	3,806	460
Average interest-bearing liabilities	53,266	61,134	68,696	75,475	9,132
Average total assets	48,674	71,264	79,922	87,907	10,636
Average interest-earning assets as a percentage of average total assets	94.4%	91.7%	93.3%	92.9%	—
Average interest-bearing liabilities as a percentage of average total assets	109.4%	85.8%	86.0%	85.9%	—
Average interest-earning assets as a percentage of average interest-bearing liabilities	86.3%	106.9%	108.6%	108.2%	—
Yield on average interest-earning assets[1]	16.6%	16.8%	18.0%	18.2%	—
Cost of average interest-bearing liabilities[2]	9.1%	9.8%	10.7%	10.1%	—
Spread[3]	7.5%	7.0%	7.3%	8.1%	—
Net interest margin[4]	6.1%	7.6%	8.2%	8.9%	—

(1) Yield on average interest-earning assets is interest income divided by average interest-earning assets.

(2) Cost of average interest-bearing liabilities is interest expense divided by average interest-bearing liabilities.

(3) Spread is the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities.

(4) Net interest margin is net interest income (being interest income less interest expenses) divided by average interest-earning assets.

(5) Six month ratios have been annualized.

RETURN ON AVERAGE EQUITY AND ASSETS

The following table presents selected financial ratios for the periods indicated:

	Year ended December 31, 2000	2001	2002	Six months ended[4] June 30, 2003	2003
	(Rp billions, except percentages)				(US$ millions)
Net profit/(loss)	339	1,064	1,525	1,182	143
Average total assets	48,674	71,264	79,922	87,907	10,636
Average total shareholder's equity	na	4,433	5,406	6,180	748
Average total shareholder's equity as a percentage of average total assets	na	6.2%	6.8%	7.0%	—
Return on average assets[1]	0.7%	1.5%	1.9%	2.7%	—
Return on average equity[2]	na	24.0%	28.2%	38.3%	—
Dividend payout ratio[3]	na	49.5%	50.0%	50.0%	—

(1) Return on average assets is net profit/ (loss) divided by average total assets.

(2) Return on average equity is net profit/ (loss) divided by average total shareholder's equity.

(3) Dividend payout ratio is the dividend paid divided by net profit in the prior year.

(4) Six month ratios have been annualized.

FUNDING

Our funding operations are designed to ensure both stability in cost of funding and effective liquidity management. Our primary sources of funding are third party demand deposits, savings deposits and time deposits obtained from individual and commercial customers, which represented 97.6% of total deposits as of June 30, 2003.

Deposit

As of June 30, 2003, we had total deposits (including deposits from other banks) of Rp76,166 billion (US$9,215 million) representing 89.0% of our total liabilities. We offer a variety of deposit accounts in both Rupiah and selected foreign currencies, including demand, savings and time deposit accounts and certificates of deposit. Our Rupiah-denominated deposit accounts represented 94.4% of our total deposits as of June 30, 2003, with foreign currency accounts, primarily in US dollars, representing the remaining 5.6%.

Deposits by Types of Deposits

The following table shows, by type of deposit and the percentage composition of total deposits, our deposits as of the dates indicated:

	As of December 31,				As of June 30,		
	2000	2001	2002	Percentage of total	2003		Percentage of total
			(Rp billions)			(US$ millions)	
Demand Deposits	7,529	7,516	11,459	16.5%	11,810	1,429	15.9%
Savings Deposits:							
Simpedes[1]	11,904	15,874	16,894	24.3%	17,878	2,163	24.0%
Simaskot[1]	1,964	2,586	2,812	4.0%	2,948	357	4.0%
BritAma	8,772	7,981	8,916	12.8%	9,032	1,093	12.1%
Others	71	88	51	0.1%	1,238	150	1.7%
Total Savings Deposits	22,711	26,529	28,673	41.2%	31,096	3,763	41.8%
Time Deposits	18,977	23,714	29,495	42.3%	31,427	3,802	42.3%
Total Deposits	49,217	57,759	69,627	100.0%	74,333	US$8,994	100.0%

(1) Savings accounts in our BRI units.

Composition and Average Size of Deposits

The following table compares the composition of deposits as of December 31, 2002 and June 30, 2003.

	Number of Accounts as of		Aggregate Balance as of		Percentage of Total Deposits as of		Average deposit size as of	
	Dec 31, 2002	June 30, 2003	Dec 31, 2002	June 30, 2003	Dec 31, 2002	June 30, 2003	Dec 31, 2002	June 30, 2003
	(thousands)		(Rp billion)				(Rp million)	
Demand Deposits	458	538	11,459	11,810	16.5%	15.9%	25.0	21.9
Saving Deposits								
Simpedes	25,500	26,254	16,894	17,878	24.3%	24.0%	0.7	0.7
Simaskot	2,434	2,618	2,812	2,948	4.0%	4.0%	1.2	1.1
BritAma	5,111	5,401	8,916	9,032	12.8%	12.1%	1.7	1.7
Others	282	197	51	1,238	0.1%	1.7%	0.2	6.3
Total Saving Deposit	33,327	34,470	28,673	31,096	41.2%	41.8%	0.9	0.9
Time Deposits	615	670	29,495	31,427	42.3%	42.3%	47.9	46.9
Total Deposits	34,400	35,678	69,627	74,333	100.0%	100.00%		

Collateral Accounts

As of December 31, 2002 and June 30, 2003, Rp564 billion (US$68 million) and Rp853 billion (US$103 million), respectively, of time deposits were designated for use by customers as collateral for bank guarantees and loans.

Fund Borrowings

Our fund borrowings consist of borrowings from Bank Indonesia, credit facilities from Bank Ekspor Indonesia and borrowings from other banks. As of December 31, 2002, we had borrowings of Rp511 billion (US$62 million) from Bank Indonesia and Rp605 billion (US$73 million) from Bank Ekspor Indonesia. As of June 30, 2003, we had borrowings of Rp415 billion (US$50 million) from Bank Indonesia and no borrowings from Bank Ekspor Indonesia. The Government established Bank Ekspor Indonesia in 1999 to assume the role previously held by Bank Indonesia of extending discounted letters of credit for export-orientated companies in Indonesia.

We had Rp889 billion (US$108 million) outstanding in foreign currency fund borrowings as of June 30, 2003, 100% of which was denominated in US dollars.

Fund borrowings also include borrowings under long-term debt incurred by us in the conversion of placements by other banks and other borrowings into new loans guaranteed by Bank Indonesia as part of the 1998 Exchange Offer and the 1999 Exchange Offer as described in "Indonesian Banking Industry—Exchange Offer Programs". As of June 30, 2003, exchange offer loans amounted to Rp875 billion (US$106 million).

The following table provides information on our Rupiah and US dollar-denominated fund borrowings as of the dates indicated:

	As of and for the year ended December 31,			As of and for the six months ended June 30,	
	2000	2001	2002	2003	
	(Rp billions, except percentages)				(US$ millions)
Rupiah					
Period-end balance	1,536	1,964	1,326	613	74
Average balance during period	4,399	1,750	1,354	907	110
Weighted average interest rate during the period(1)	3.65%	6.45%	7.8%	13.6%	—
Weighted average interest as of period-end(2)	10.46%	5.75%	7.9%	20.2%	—
Foreign Currency					
Period-end balance	3,022	3,059	1,699	889	108
Average balance during period	2,254	3,041	2,440	1,527	185
Weighted average interest rate during the period(1)	5.39%	7.3%	4.2%	3.6%	—
Weighted average interest as of period-end(2)	4.02%	7.26%	6.1%	6.2%	—

(1) Represents the ratio of interest expense on fund borrowings to the average balances of fund borrowings.

(2) Represents the weighted average rate of fund borrowings outstanding as of December 31, 2000, 2001 and 2002 and June 30, 2003.

Subordinated Loans

The aggregate principal amount of all of our subordinated loans amounted to Rp509 billion (US$62 million) as of June 30, 2003. We have obtained subordinated two-step loans from various bilateral and multilateral institutions through the Government to finance certain Government programs. See "Business—Program Loans and Loan Administration".

Asset Liability Gap

The following table sets forth, for the period indicated, our asset liability gap position, as of June 30, 2003:

	As of June 30, 2003						
	Less Than One Month	One Month to Three Months	Greater Than Three Months Less Than Six Months	Greater Than Six Months Less Than 12 Months	Greater Than 12 Months	No Maturity	Total
	(Rp billions)						
Assets[1]							
Cash[2]	1,959	—	—	—	—	—	1,959
Current accounts with Bank Indonesia[2]	4,009	—	—	—	—	—	4,009
Current accounts with other banks	1,724	—	—	—	—	—	1,724
Allowance for possible losses	(0)	—	—	—	—	(17)	(17)
Placements with Bank Indonesia and other banks	2,985	98	95	—	—	—	3,178
Allowance for possible losses	—	—	—	—	—	(173)	(173)
Securities	7,696	729	—	—	167	—	8,592
Allowance for possible losses	—	—	—	—	—	(10)	(10)
Export bills	253	108	45	—	—	—	406
Allowance for possible losses	—	—	—	—	—	(5)	(5)
Government recapitalization bonds	2,018	—	—	—	25,989	—	28,007
Securities purchased with agreement to resell	20	—	—	—	—	0	20
Allowance for possible losses	—	—	—	—	—	—	0
Loans	2,783	2,773	5,464	8,105	24,363	—	43,488
Allowance for possible losses	—	—	—	—	—	(4,169)	(4,169)
Syariah financing (net)	—	—	—	—	—	24	24
Acceptances receivables	154	63	39	—	—	—	256
Allowance for possible losses	—	—	—	—	—	(26)	(26)
Investments in shares (net)	—	—	—	—	—	57	57
Premises and equipment (net)	—	—	—	—	—	1,217	1,217
Deferred tax assets	—	—	—	—	—	800	800
Others assets[3]	—	1,532	61	—	—	873	2,466
Total Assets	23,601	5,303	5,704	8,105	50,519	(1,429)	91,803
Liabilities[1]							
Deposits:							
Demand deposits	11,810	—	—	—	—	—	11,810
Savings deposits	31,096	—	—	—	—	—	31,096
Time deposits	18,834	5,718	5,264	1,564	36	—	31,416
Certificates of deposits	—	11	—	—	—	—	11
Total Deposits	61,740	5,729	5,264	1,564	36	—	74,333
Short term liabilities	3,635	—	—	—	—	—	3,635
Deposits from other banks	1,477	356	—	—	—	—	1,833
Securities sold with agreement to repurchase	101	407	—	—	—	—	508
Acceptances payable	154	63	39	—	—	—	256
Fund borrowings	—	23	105	599	775	—	1,502
Estimated losses on commitments and contingencies	—	—	—	—	—	296	296
Other liabilities	—	1,256	275	439		763	2,733
Subordinated loans	5	1	14	22	467	—	509
Total liabilities	67,112	7,835	5,697	2,624	1,278	1,059	85,605
Asset liability gap	(43,511)	(2,532)	7	5,481	49,241	(2,488)	6,198
Cumulative gap	(43,511)	(46,043)	(46,036)	(40,555)	8,686	6,198	12,396
Cumulative gap as a percentage of total assets	–47.4%	–50.2%	–50.2%	–44.2%	9.5%	6.8%	13.5%

(1) Assets and liabilities are classified into the applicable maturity categories based on remaining maturity.

(2) Cash and current accounts include balances with Bank Indonesia to satisfy our reserve requirements.

(3) Other assets include balances with Bank Indonesia to satisfy our reserve requirements.

While the majority of our customer deposits are short-term in nature, historically a significant portion have been regularly rolled over and we have not experienced liquidity difficulties from a significant asset liability mismatch. We classify demand deposits and savings deposits as maturing in less than one month, although, in our experience, these deposits tend to represent a stable base of funding. Further, in the past, we have had a large number of maturing time deposits rolled over. For further information on how we manage our asset liability risk, see "Business—Risk Management and Compliance".

SECURITIES PORTFOLIO

Our securities portfolio is managed by our Treasury Group. It consists of a variety of debt and equity securities and, in accordance with Indonesian GAAP, is divided into two categories:

➤ *Trading.* We hold these securities for short periods of time. We mark to market our securities in the trading account each month (based on daily prices). Any gains or losses from the valuation of these securities are booked against profit and loss.

➤ *Held to maturity.* These debt securities are held at historical cost, subject to any permanent diminution in value.

As of June 30, 2003, our securities portfolio was categorized as follows: Rp2,619 billion (US$317 million) for trading and Rp33,981 billion (US$4,111 million) held to maturity. See Notes 6 and 8 to our financial statements included elsewhere in this Offering Circular.

Securities and Government Recapitalization Bonds

The following table sets forth the book values of our securities portfolio as of the dates indicated:

	As of December 31, 2000		2001		2002		As of June 30, 2003		
	Amount	Percentage of Total[(1)]	Amount	Percentage of Total[(1)]	Amount	Percentage of Total[(1)]	Amount	Amount	Percentage of Total[(1)]
	(Rp billions except percentages)							(US$ millions)	
Trading									
Government recapitalization bonds	1,263	4.3%	2,218	7.2%	2,222	6.5%	2,018	244	5.5%
Corporate debt and other securities	363	1.2%	360	1.2%	465	1.4%	601	73	1.6%
Held to maturity									
Government recapitalization bonds	27,718	93.3%	26,218	84.7%	26,172	77.0%	25,989	3,144	71.0%
SBIs[(2)]	237	0.8%	1,802	5.8%	4,752	14.0%	7,558	914	20.7%
Corporate debt and other securities	128	0.4%	354	1.1%	381	1.1%	434	53	1.2%
Total book value[(3)]	29,709	100.0%	30,952	100.0%	33,992	100.0%	36,600	4,428	100.0%
Less									
Allowance for losses[(4)]	(5)		(7)		(9)		(10)	(1)	
Net book value	29,704		30,945		33,983		36,590	4,427	

(1) Calculated as a percentage of total book value.
(2) Less unamortized interest.
(3) The book value is the aggregate of (i) the historical cost of (a) Government recapitalization bonds in our held to maturity account, (b) SBIs and (c) corporate debt securities and other securities in our held to maturity account and (ii) the marked to market value of securities held in the trading account.
(4) In accordance with Bank Indonesia regulations, we do not make allowances against our Government recapitalization bonds or SBIs.

As of June 30, 2003, 76.5% of our securities portfolio (83.6% as of December 31, 2002), consisted of Government recapitalization bonds. As of June 30, 2003, other than Government recapitalization bonds, we held in our securities portfolio SBIs with a nominal value of Rp7,558 billion (US$914 million), which represented 20.7% of our total gross securities portfolio (including Government recapitalization bonds) and 8.2% of our total assets. We hold corporate debt securities which, as of June 30, 2003, had a market value of Rp601 billion, and consisted principally of exchange offer bonds and notes receivable issued by private entities and entities owned or controlled by the Government.

As of June 30, 2003, our Government recapitalization bonds were made up of fixed rate bonds of Rp21,468 billion (US$2,597 million) and variable rate bonds of Rp6,539 billion (US$791 million).

The following table sets forth the book values of our Government recapitalization bonds as of the dates indicated in more detail categorized by type of account:

	As of December 31,						As of June 30,		
	2000(1)		2001(2)		2002(3)		2003(4)		
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Amount	Percentage of Total
	(Rp billions, except percentages)							(US$ millions)	
Trading									
Fixed rate bonds	1,263	4.4%	2,218	7.8%	2,171	7.6%	2,018	244	7.2%
Variable rate bonds	—	—	—	—	52	0.2%	0	0	
Held to maturity									
Fixed rate bonds	27,718	95.6%	26,218	92.2%	19,632	69.2%	19,450	2,353	69.5%
Variable rate bonds	—	—	—	—	6,539	23.0%	6,539	791	23.3%
Total book value(5)	28,981	100.0%	28,436	100.0%	28,394	100.0%	28,007	3,388	100.0%

(1) In 2000, our holding of Government recapitalization bonds was Rp28,981 billion after the completion of our recapitalization. As of December 31, 2000, the book value of the bonds was lower than the nominal amount of Government recapitalization bonds initially received in our recapitalization as the bonds in our trading account were marked to market below par and we returned fixed rate bonds of Rp85.5 billion to the Government.

(2) In 2001, our holding of Government recapitalization bonds was reduced when we sold fixed rate bonds and as a result of a reduction in value when we marked to market Government recapitalization bonds in our trading account.

(3) In 2002, our holding of Government recapitalization bonds was reduced when we exchanged Rp249 billion Government recapitalization bonds with IBRA for certain non-performing loans, which was partially offset by a mark-to-market increase in our trading account.

(4) As of June 30, 2003, our holding of Government recapitalization bonds was reduced when we sold Government recapitalization bonds in order to take advantage of higher values.

(5) The book value is the aggregate of (i) the historical cost of fixed rate and variable rate Government recapitalization bonds which are classified as held to maturity and (ii) the marked to market value of securities held in the trading account.

In accordance with Bank Indonesia regulations, we are permitted to trade all series of the Government recapitalization bonds we hold in the secondary market. Although we occasionally enter into repurchase agreements with respect to our Government recapitalization bonds, we do not engage in significant trading activities and therefore hold most of our Government recapitalization bonds in our held to maturity account. In August 2003 we started offering our customers a mutual fund product, the returns on which will be based on our Government recapitalization bonds that are purchased by the fund. In 2002 and 2001, we sold Rp254 billion Government recapitalization bonds and Rp1,045 billion Government recapitalization bonds respectively, under repurchase agreements. In addition, in December 2002, we exchanged Rp249 billion Government recapitalization bonds for Rp2,494 billion of non-performing loans from IBRA. For more information on our portfolio of Government recapitalization bonds, see Note 8 to our financial statements included elsewhere in this Offering Circular.

Historically, we held the majority of our Government recapitalization bonds in our held to maturity account with a small percentage held in our trading account. In accordance with Indonesian GAAP, the unsold portion of the Government recapitalization bonds authorized to be traded is marked to market monthly while bonds held to maturity are carried at historical cost. See "Supervision and Regulation—Trading of Government Recapitalization Bonds". While our Government recapitalization bonds are an important tool for our liquidity management, the market value of our Government recapitalization bonds and other Government securities in our held to maturity account may differ significantly from the book value of such bonds and these bonds do not have an active market and may not be saleable.

Reprofiling

On November 20, 2002, the Government completed a reprofiling of certain Government recapitalization bonds, which became necessary due to continuing Government budgetary constraints. The reprofiling sought to allow the Government to better manage its debt by extending the maturity of certain Government recapitalization bonds held by certain State banks, ourselves included. The scheme allowed the Government to replace a portion of the outstanding Government recapitalization bonds held by four State banks (ourselves, Bank Mandiri, Bank Tabungan Negara and Bank Negara Indonesia) which were due to mature between 2004 and 2009 with Government recapitalization bonds that have longer maturity periods.

Under the reprofiling scheme, the Government reprofiled approximately Rp171.8 trillion (US$20.8 billion) of its Government recapitalization bonds held by State banks by extending the maturity profile of such bonds to between 2010 and 2020. The reprofiling affected Rp20,400 billion (US$2,468 million) of our Government recapitalization bonds, including Rp16,800 billion of our fixed rate bonds and Rp3,600 billion of our variable rate bonds, representing approximately 71.8% of our Government recapitalization bonds as of December 31, 2002. The reprofiling provided us with a yield increase of 0.8% on the fixed rate Government recapitalization bonds as the range of yields on these bonds went from 12.0% to 16.5% to 13.15% to 15.575% following the completion of the reprofiling, though the overall maturity profile of our portfolio of Government recapitalization bonds was lengthened. This amounts to an annual increase of Rp180 billion (US$21.8 million) in interest income based on our holding of Government recapitalization bonds as of December 31, 2002. The yield curve utilized by the Government to establish the revised interest rate for the reprofiled Government recapitalization bonds was derived from market yields and established through negotiation between the Government and each of the four State banks affected, individually. The yield curve utilized by the Government to reprofile the Government recapitalization bonds was the same for each of the four State-owned banks affected.

The following table sets out details of the Government recapitalization bonds which were reprofiled and the new Government recapitalization bonds which were issued to replace those reprofiled bonds:

Reprofiled Series	Maturity	Coupon	Nominal Amount	New Series	Maturity	Coupon	Nominal Amount
			(Rp billions)				(Rp billions)
Fixed Rate Bonds							
FR0003[(1)]	May 15, 2005	12.000%	800	FR0011	May 15, 2010	13.550%	800
FR0004[(1)]	Feb 15, 2006	12.125%	8,000	FR0014	Nov 15, 2010	15.575%	500
FR0005[(1)]	Jul 15, 2007	12.250%	7,500	FR0015	Feb 15, 2011	13.400%	4,000
FR0008[(1)]	May 15, 2005	16.500%	500	FR0016	Aug 15, 2011	13.450%	4,000
				FR0017	Jan 15, 2012	13.150%	3,750
				FR0018	Jul 15, 2012	13.175%	3,750
Variable Rate Bonds							
VR0013[(1)]	Jan 25, 2008	SBI-3 months	1,000	VR0020	Apr 25, 2015	SBI-3 months	250
VR0014[(1)]	Aug 25, 2008	SBI-3 months	1,000	VR0021	Nov 25, 2015	SBI-3 months	250
VR0016	Jul 25, 2009	SBI-3 months	1,600	VR0023	Oct 25, 2016	SBI-3 months	500
				VR0026	Jan 25, 2018	SBI-3 months	375
				VR0027	Jul 25, 2018	SBI-3 months	375
				VR0028	Aug 25, 2018	SBI-3 months	375
				VR0029	Aug 25, 2019	SBI-3 months	375
				VR0031	Jul 25, 2020	SBI-3 months	1,100

(1) Not all Government recapitalization bonds of this series held by us was reprofiled.

All of the Government recapitalization bonds that were reprofiled were put into our held to maturity portfolio. We understand that the Government may in the future extend its reprofiling scheme to Government recapitalization bonds held by other State-owned institutions.

Maturities and Yields

Interest income received by us from the Government recapitalization bonds represented a significant proportion of our total interest income (25.0% for the six months ended June 30, 2003, 27.8% for 2002, 32.1% for 2001 and 16.8% for 2000). The interest rate receivable on the variable rate Government recapitalization bonds is equivalent to the three-month SBI rate and is reset two business days prior to the beginning of each quarterly interest period.

The following table sets forth further details on the maturity profile of our investments in Government recapitalization bonds and other securities as of June 30, 2003:

	As of June 30, 2003						
	Total	Up to One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years	More than Five Years
	(Rp billions)						
Rupiah							
Government recapitalization bonds:							
Fixed rate bonds	21,468	—	1,088	1,508	—	2,023	16,849
Variable rate bonds	6,539	—	—	—	—	635	5,904
Other Government securities[1]	7,558	7,558	—	—	—	—	—
Corporate debt securities (net)	303	76	—	—	—	27	200
Total Rupiah interest-earning securities	35,868	7,634	1,088	1,508	—	2,685	22,953
Foreign currency							
Corporate debt securities (net)	722	396	137	—	9	43	137
Total foreign currency interest-earning securities	722	396	137	—	9	43	137
Total book value[2]	36,590	8,030	1,225	1,508	9	2,728	23,090

(1) Other Government securities consist primarily of SBIs.

(2) The book value is the aggregate of (i) the historical cost of (a) fixed rate and variable rate Government recapitalization bonds in our held to maturity account, (b) SBIs and (c) corporate debt securities and other securities in our held to maturity account and (ii) the marked to market value of securities held in the trading account.

LOAN PORTFOLIO

As of June 30, 2003, our gross loan portfolio amounted to Rp43,488 billion (US$5,262 million), or 47.4% of our total assets.

We offer borrowers a variety of credit facilities including micro loans to customers in our BRI units, consumer loans (such as home, motor vehicle and consumer fixed income loans), working capital loans, investment loans, loans made pursuant to certain Government programs and syndicated loans. For a description of our loan products, see "Business—Our Banking Operations".

We also offer letters of credit and bank guarantees, particularly for trade finance. As of June 30, 2003, we had outstanding irrevocable letters of credit amounting to Rp2,758 billion (US$334 million) and had issued bank guarantees and risk-sharing amounting to Rp244 billion (US$30 million). We also had issued standby letters of credit amounting to Rp33 billion (US$4 million) as of June 30, 2003.

Types of Loans

As of the dates indicated our loan portfolio classified by currency and type of loan was as follows:

	As of December 31,			As of June 30,	
	2000	2001	2002	2003	
		(Rp billions)			(US$ millions)
Rupiah					
Micro loans	7,827	9,841	12,011	13,175	1,594
Working capital	5,463	6,662	8,361	9,765	1,181
Consumer fixed income and consumer banking	5,598	7,753	10,035	10,831	1,311
Investment	1,206	1,665	2,094	2,567	311
Program	1,467	1,745	2,415	3,181	385
Syndicated	151	110	248	225	27
Employee	23	23	22	23	3
Other	23	6	21	78	9
	21,758	27,805	35,207	39,845	4,821
Foreign currency					
Working capital	3,425	3,769	3,306	3,142	380
Consumer fixed income	—	—	—	—	—
Investment	1,118	1,226	692	454	55
Syndicated	667	729	90	44	6
Subordinated	62	—	—	—	—
Other	—	—	72	3	0
Total	5,272	5,724	4,160	3,643	441
Total gross loans	27,030	33,529	39,367	43,488	5,262
Less allowance for possible losses	(2,771)	(3,963)	(3,913)	(4,169)	(505)
Total loans (net)	24,259	29,566	35,454	39,319	4,757

Historically, the consumer fixed income, retail working capital and retail investment loans that are managed by our Retail Business Division have together represented the largest percentage of our loan portfolio. As of June 30, 2003, the Retail Business Division managed 44.2% of our total loans. In addition, through both micro working capital and micro loans to individuals with a regular income, we have a leading market position in lending to micro and small businesses.

The following table shows, by business division and product, our loan portfolio as of the dates indicated:

	As of December 31, 2002		As of June 30, 2003		
	(Rp billions)		(Rp billions)	(US$ millions)	
Micro Business:					
Working capital	6,976	17.7%	5,990	725	13.8%
Investment	906	2.3%	1,176	142	2.7%
Fixed income	4,129	10.5%	6,009	727	13.8%
Total Micro Business	12,011	30.5%	13,175	1,594	30.3%
Retail Business:					
Working capital	6,383	16.2%	7,898	956	18.2%
Investment	94	0.2%	500	60	1.1%
Consumer fixed income and consumer banking	10,035	25.5%	10,831	1,310	24.9%
Program	2,415	6.1%	3,181	385	7.3%
Employee	22	0.1%	23	3	0.1%
Other	93	0.2%	81	10	0.2%
Total Retail Business	19,042	48.4%	22,514	2,724	51.8%
Medium-Scale Business:					
Commercial	1,067	2.7%	1,155	140	2.6%
Corporate	4,056	10.3%	3,568	432	8.2%
Agribusiness	3,191	8.1%	3,076	372	7.1%
Total Medium-Scale Business	8,314	21.1%	7,799	944	17.9%
Total	39,367	100.0%	43,488	5,262	100.0%

Maturity and Interest Rate Sensitivity

The Asset and Liability Committee monitors interest rate movements and, on the basis of recommendations by our Treasury Division, makes adjustments to loan rates to account for a number of factors including interest rate movements, operating costs, market credit risk, the competitive environment and a spread over our cost of funds. The annual average interest rate charged on loans provided by us for 2000, 2001, 2002 and the six months ended June 20, 2003 (annualized) was 18.0% to 24.0%, 25.2%, 24.9% and 24.8%, respectively, for Rupiah loans and 10.0% to 12.0%, 9.5%, 8.7% and 6.4%, respectively, for foreign currency loans. The following table sets forth the maturity of our loans as of June 30, 2003:

	As of June 30, 2003			
	Due in One Year or Less	Due in More Than One Year and Up to Five Years	Due After Five Years	Total
	(Rp billions)			
Rupiah				
Micro Business	5,270	7,905	—	13,175
Retail Business:				
Working capital	5,807	1,626	25	7,458
Investment	22	345	133	500
Consumer fixed income and consumer banking	518	9,312	1,001	10,831
Program	2,878	28	275	3,181
Employee	—	—	23	23
Other	32	—	46	78
Total Retail Business	9,257	11,311	1,503	22,071
Medium-Scale Business:				
Commercial	562	313	59	934
Corporate	616	353	197	1,166
Agribusiness	952	501	1,046	2,499
Total Medium-Scale Business	2,130	1,167	1,302	4,599
Total	16,657	20,383	2,805	39,845
Foreign Currency				
Micro Business:				
Working capital	—	—	—	—
Investment	—	—	—	—
Fixed income	—	—	—	—
Total Micro Business	—	—	—	—
Retail Business:				
Working Capital	440	—	—	440
Investment	—	—	—	—
Consumer fixed income and consumer banking	—	—	—	—
Syariah	—	—	—	—
Program	—	—	—	—
Other	—	—	3	3
Total Retail Business	440	—	3	443
Medium-Scale Business:				
Commercial	123	67	31	221
Corporate	1,373	511	518	2,402
Agribusiness	533	30	14	577
Total Medium-Scale Business	2,029	608	563	3,200
Total	19,126	20,991	3,371	43,488

Loan Concentrations

Industry concentrations

The following table sets forth our gross loans outstanding classified by the industry of the borrower and as a percentage of our gross loans in Rupiah or US dollars, respectively, as of the dates indicated. The industry sectors used below follow Bank Indonesia's industry classification scheme:

	As of December 31,						As of June 30,		
	2000		2001		2002		2003		
	(Rp billions, except percentages)							(US$ millions)	%
Manufacturing	4,099	15.2%	6,680	19.9%	5,760	14.6%	5,540	670	12.7%
Agriculture[1]	1,957	7.2%	5,363	16.0%	7,207	18.3%	8,288	1,003	19.1%
Trading, restaurant and hotel	5,047	18.7%	6,409	19.1%	9,936	25.2%	9,957	1,205	22.9%
Construction	588	2.2%	863	2.6%	506	1.3%	529	64	1.2%
Business services	877	3.2%	963	2.9%	929	2.4%	832	101	1.9%
Transportation, warehousing and communications	72	0.3%	76	0.2%	132	0.3%	156	19	0.4%
Electricity, gas and water	196	0.7%	140	0.4%	127	0.3%	129	15	0.3%
Social services	81	0.3%	791	2.4%	76	0.2%	107	13	0.2%
Mining	247	0.9%	181	0.5%	83	0.2%	49	6	0.1%
Others[2]	13,866	51.3%	12,063	36.0%	14,611	37.2%	17,901	2,166	41.2%
Total loans	27,030	100.0%	33,529	100.0%	39,367	100.0%	43,488	5,262	100.0%

(1) Agriculture under Bank Indonesia industry classification guidelines is more limited than our agribusiness loan classification.

(2) Others includes consumer fixed income loans originated by the Micro Business and Retail Business Divisions and consumer banking loans.

Business Group and Individual Borrower Concentrations

As of June 30, 2003, 82.1% of our loans were extended by our micro, retail and consumer banking divisions, with the remainder extended by our medium-scale business divisions. We believe that our large exposure to the micro and retail sectors with limited borrower concentrations reduces our overall risk exposure, especially in economic downturns. The majority of our asset quality weakness is found in our larger loans, and is not indicative of our loan quality in our micro, retail and consumer banking sectors.

The following table sets forth our 10 largest exposures to business group borrowers and individual borrowers for loans as of June 30, 2003. This information includes restructured loans and non-performing loans.

	As of June 30, 2003								
	Industry	Total Facilities		Total Facility as a Percentage of Regulatory of Capital[1]	Outstanding Principal Balance[2]		Outstanding Unfunded Facilities	Loans as a Percentage of Total Loans	Loan Classification[3]
		(Rp billions)	(US$ millions)		(Rp billions)	(US$ millions)	(Rp billions)		
Group 1	Plastic	750	91	12.0%	621	75	125	1.4%	Substandard/Doubtful[5]
Group 2	Paper	635	77	10.2%	583	70	32	1.3%	Special mention
Group 3	Plantation	748	91	12.0%	522	63	—	1.2%	Special mention
Group 4	Plantation	689	83	11.0%	496	60	—	1.1%	Current
Group 5	Textile	544	66	8.7%	378	46	66	0.9%	Current
Group 6	Paper	275	33	4.4%	247	30	—	0.6%	Doubtful
Group 7	Chemical	306	37	4.9%	280	34	—	0.6%	Current
Group 8[4]	Construction	265	32	4.2%	262	32	0	0.6%	Special mention
Group 9	Plantation	269	32	4.3%	174	21	—	0.4%	Loss
Group 10[4]	Footwear	215	26	3.4%	166	20	4	0.4%	Special mention
Total		4,696	568	75.1%	3,729	451	227	8.5%	

(1) Regulatory capital means our regulatory capital as of June 30, 2003, as determined in accordance with Bank Indonesia regulations.

(2) *Outstanding principal balance is the total facility which has been drawndown upon agreement of the borrower and us, but does not include past due interest payments.*
(3) *Loan classification consists of five categories: current, special mention, sub-standard, doubtful and loss. For group borrowers, we make allowances based on the lowest rating of the controlling company within a borrower group. For more information, see "Supervision and Regulation—Asset Classification, Allowance for Possible Losses and Credit Restructuring". This column represents the lowest loan classification for a borrower within each group.*
(4) *Borrower's obligations have been previously restructured.*
(5) *The classification for this group is split due to the difference in the classification of the loans booked at our New York agency from the classification of the loans booked in Indonesia.*

Distribution by Loan Size

The following table sets forth, on an unconsolidated basis, the composition of our loan accounts (by individual loan) as of June 30, 2003:

Size of Loan	Number of Loans as of June 30, 2003	Aggregate Outstanding Balance of Loans as of June 30, 2003		Loans as a Percentage of Total Loans as of June 30, 2003	Average Loan Size as of June 30, 2003
		(Rp billion)	(US$ millions)		(Rp millions)
Less than 100	5,168,943	26,525	3,209	61.0%	5
100 to 350	14,130	2,386	289	5.5%	169
350 to 500	2,039	969	117	2.2%	475
500 to 1,000	1,689	1,268	154	2.9%	751
1,000 to 5,000	843	3,579	433	8.2%	4,246
5,000 to 50,000	235	2,478	300	5.7%	10,545
50,000 to 100,000	21	1,743	211	4.0%	83,000
100,000 to 250,000	16	2,148	260	4.9%	134,250
250,000 or greater	2	2,392	289	5.6%	1,196,000
Total	5,187,918	43,488	5,262	100.0%	

Non-performing Loans

Non-performing loans are loans classified as "sub-standard", "doubtful" and "loss" under Bank Indonesia guidelines. Performing loans include "current" and "special mention". For loans under Rp350 million, we look only to payment default or non-payment as a means of classifying whether or not such loan is non-performing. For loans in excess of such amount, classification rests on various criteria, including payment default, financial condition of the borrower and its affiliates and general market conditions. See "Supervision and Regulation—Asset Classification, Allowance for Possible Losses and Credit Restructuring". Non-performing loans are provided for in accordance with our policy of 100.0% for "loss" loans, 50.0% to 85.0% for "doubtful" loans and 15.0% to 40.0% for "sub-standard loans", in addition to taking into account collateral value.

Net non-performing loans (net in accordance with Bank Indonesia regulations on minimum provisions and on an unconsolidated basis) represented 2.7%, 3.2% and 3.2%, of our total loans (unconsolidated) as of December 31, 2001, December 31, 2002 and June 30, 2003, respectively. In 2001, Bank Indonesia set 5.0% as the target percentage of net non-performing loans to be held by banks in Indonesia by December 31, 2001. To date, we have not failed to meet this target.

The following table sets forth information with respect to our performing and non-performing loans (excluding unfunded facilities) as of the dates indicated:

	As of December 31,						As of June 30,		
	2000		2001		2002		2003		
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Amount	Percentage of Total
	(Rp billions, except percentages)							(US$ millions)	
Performing loans[1]	25,510	94.4%	31,087	92.7%	36,714	93.3%	40,573	4,909	93.3%
Rupiah	20,879	77.2%	26,817	80.0%	33,944	86.2%	38,123	4,613	87.7%
Foreign currency	4,631	17.3%	4,270	12.7%	2,770	7.0%	2,450	296	5.6%
Non-performing loans[2]	1,520	5.6%	2,442	7.3%	2,653	6.7%	2,915	353	6.7%
Rupiah	879	3.2%	989	2.9%	1,263	3.2%	1,721	208	4.0%
Foreign currency	641	2.4%	1,453	4.3%	1,390	3.5%	1,194	145	2.7%
Total loans	27,030	100.0%	33,529	100.0%	39,367	100.0%	43,488	5,262	100.0%
Rupiah	21,758	80.5%	27,806	82.9%	35,207	89.4%	39,844	4,821	91.6%
Foreign currency	5,272	19.5%	5,723	17.1%	4,160	10.6%	3,644	441	8.4%

(1) For 2003, includes restructured loans amounting to Rp958 billion (US$116 million) as of June 30, 2003 restructured in such year.

(2) For 2003, includes restructured loans amounting to Rp880 billion (US$106 million) as of June 30, 2003 restructured in such year which have subsequently become non-performing.

As of June 30, 2003, Rp1,838 billion (US$222 million) of our medium-scale loan portfolio of Rp7,799 billion (US$944 million) had been restructured since January 1, 2000. As of June 30, 2003, we were in the process of restructuring Rp72 billion (US$8.7 million) of our loans. Our restructured loans and loans being restructured represented Rp1,910 billion (US$231 million) or approximately 4.4% of our total loans as of June 30, 2003.

Our Restructuring and Problem Loan Division is responsible for supervision and management of non-performing medium-scale loans. Non-performing micro, retail and consumer banking loans are managed by the originating branch or unit office.

Non-performing Loans—Borrower Concentration

As of June 30, 2003, our 10 largest non-performing loans based on exposures (excluding non-funded facilities) amounted to Rp1,440 billion (US$174 million), and accounted for 49.4% of our non-performing loan portfolio.

	As of June 30, 2003			
	Industry	Type of Banking Arrangement	Gross Principal Outstanding	Loan Classification
			(Rp billions)	
Borrower A[1]	Plastic	Bilateral	621	Sub-standard/Doubtful[2]
Borrower B	Paper	Bilateral	247	Doubtful
Borrower C	Plantation/Palm	Bilateral	84	Loss
Borrower D	Film	Bilateral	5	Doubtful
Borrower E	Retail	Syndication	101	Doubtful
Borrower F	Footwear	Bilateral	96	Loss
Borrower G	Plantation	Bilateral	90	Sub-standard
Borrower H	Steel Products	Bilateral	79	Loss
Borrower I	Steel Products	Bilateral	60	Sub-standard
Borrower J	Textiles	Bilateral	57	Doubtful
Total			1,440	

(1) This borrower is included in Group 8 of our 10 largest exposures to business groups and individual borrowers.

(2) The classification for this group is split due to the difference in the classification of the Loans booked at our New York agency from the classification of the Loans booked in Indonesia.

Loan Portfolio Classification

The following table classifies our loans and other assets by Bank Indonesia loan and asset performance categories as of the dates indicated:

	As of December 31,						As of June 30,		
	2000		2001		2002		2003		
	Outstanding Amount	Percentage of Total Loans	Outstanding Amount	Percentage of Total Loans	Outstanding Amount	Percentage of Total Loans	Outstanding Amount		Percentage of Total Loans
	(Rp billions)		(Rp billions)		(Rp billions)		(Rp billions)	(US$ millions)	
Current[1]	19,510	72.2%	25,574	76.3%	33,341	84.7%	37,407	4,526	86.0%
Special mention[2]	5,999	22.2%	5,513	16.4%	3,373	8.6%	3,166	383	7.3%
Sub-standard[3]	454	1.7%	572	1.7%	549	1.4%	1,102	133	2.5%
Doubtful[4]	590	2.2%	1,043	3.1%	1,549	3.9%	863	105	2.0%
Loss[5]	476	1.8%	827	2.5%	555	1.4%	950	115	2.2%
Total loans	27,030	100.0%	33,529	100.0%	39,367	100.0%	43,488	5,262	100.0%
Other non-performing earning assets	340		44		257		232	—	
Total non-performing earning assets	1,860		2,486		2,910		3,147	—	
Allowances for loans losses	(2,771)		(3,963)		(3,913)		(4,169)	—	
Allowances for non-performing earning assets	(3,108)		(3,986)		(4,147)		(4,386)	—	
Asset quality ratios									
Gross non-performing loans/Total loans	5.6%	—	7.3%	—	6.7%	—	6.7%	—	
Gross non-performing assets/Total assets	2.8%	—	3.4%	—	3.1%	—	3.4%	—	
Allowance for loan losses/Gross non-performing loans	182.3%	—	162.3%	—	147.5%	—	143.0%	—	
Allowance for loan losses/Total loans	10.3%	—	11.8%	—	9.9%	—	9.6%	—	

(1) As of June 30, 2003, Rp217 billion (US$26 million) of our loans categorized as "current" had been restructured, representing 0.6% of all of our "current" loans.

(2) As of June 30, 2003, Rp742 billion (US$90 million) of our loans categorized as "special mention" had been restructured, representing 23.4% of all of our "special mention" loans.

(3) As of June 30, 2003, Rp629 billion (US$76 million) of our loans categorized as "sub-standard" had been restructured, representing 57.1% of all of our "sub-standard" loans.

(4) As of June 30, 2003, Rp100 billion (US$12 million) of our loans categorized as "doubtful" had been restructured, representing 11.6% of all of our "doubtful" loans.

(5) As of June 30, 2003, Rp151 billion (US$18 million) of our loans categorized as "loss" had been restructured, representing 15.9% of all of our "loss" loans.

The increase in the outstanding amount of loss loans as of June 30, 2003 as compared to December 31, 2002, reflects further downgrades of loans by us primarily due to deterioration of the financial conditions of certain of our customers, including our loans to one of our largest borrowers. As of June 30, 2003, of our total loans, 4.3% of our Rupiah denominated loans, by value, were non-performing and 32.8% of our foreign currency denominated loans, by value, were non-performing.

Loan Portfolio Classification by Currency

The following table classifies loans in Rupiah and foreign currency by Bank Indonesia loan performance categories as of June 30, 2003.

	As of June 30, 2003			
	Outstanding Amount		Percentage within Currency	Percentage of Total
	(Rp billions)	(US$ millions)		
Rupiah				
Current	36,157	4,375	90.7%	83.1%
Special mention	1,966	238	4.9%	4.5%
Sub-standard	585	70	1.5%	1.4%
Doubtful	427	52	1.1%	1.0%
Loss	709	86	1.8%	1.6%
Total for Rupiah	39,844	4,821	100.0%	91.6%
Foreign currency				
Current	1,250	151	34.3%	2.9%
Special mention	1,200	145	32.9%	2.7%
Sub-standard	517	63	14.2%	1.2%
Doubtful	436	53	12.0%	1.0%
Loss	241	29	6.6%	0.6%
Total for foreign currency	3,644	441	100.0%	8.4%
Total	43,488	5,262		100.0%

Classified Loan Portfolio by Business Division

The following table sets forth, for the periods indicated, our classified loans:

	As of December 31,						As of June 30,		
	2000		2001		2002		2003		
	Outstanding Amount	Percentage of Total	Outstanding Amount	Percentage of Total	Outstanding Amount	Percentage of Total	Outstanding Amount		Percentage of Total
	(Rp billions)		(Rp billions)		(Rp billions)		(Rp billions)	(US$ billions)	
Micro									
Special mention	115	1.5%	129	1.6%	339	5.6%	397	48	6.5%
Sub-standard	38	0.5%	39	0.5%	96	1.6%	151	18	2.5%
Doubtful	41	0.5%	43	0.5%	49	0.8%	102	12	1.8%
Loss	17	0.2%	19	0.2%	42	0.7%	79	10	1.3%
Retail									
Special mention	357	4.8%	369	4.6%	621	10.3%	780	94	12.8%
Sub-standard	109	1.5%	89	1.1%	165	2.7%	261	32	4.3%
Doubtful	53	0.7%	46	0.7%	82	1.4%	146	18	2.4%
Loss	175	2.3%	69	0.9%	166	2.8%	276	33	4.5%
Total Medium-Scale(1)									
Special mention	5,527	73.5%	5,016	63.0%	2,414	40.0%	1,989	241	32.7%
Sub-standard	307	4.1%	444	5.6%	289	4.8%	690	84	11.3%
Doubtful	496	6.6%	954	12.0%	1,418	23.5%	615	74	10.1%
Loss	284	3.8%	739	9.3%	347	5.8%	595	72	9.8%
Commercial(2)									
Special mention	—	—	—	—	268	4.4%	243	30	4.0%
Sub-standard	—	—	—	—	6	0.1%	27	4	0.4%
Doubtful	—	—	—	—	36	0.6%	1	0	0.0%
Loss	—	—	—	—	4	0.1%	20	2	0.3%
Corporate(2)									
Special mention	—	—	—	—	1,791	29.7%	1,414	171	23.3%
Sub-standard	—	—	—	—	205	3.4%	34	4	0.5%
Doubtful	—	—	—	—	867	14.4%	333	40	5.5%
Loss	—	—	—	—	0	0.0%	123	15	2.0%
Agribusiness(2)									
Special mention	—	—	—	—	355	5.9%	332	40	5.4%
Sub-standard	—	—	—	—	42	0.7%	0	0	0.0%
Doubtful	—	—	—	—	0	0.0%	0	0	0.0%
Loss	—	—	—	—	50	0.8%	30	4	0.5%
Restructured(2)									
Special mention	—	—	—	—	0	0.0%	0	0	0.0%
Sub-standard	—	—	—	—	36	0.6%	629	76	10.4%
Doubtful	—	—	—	—	515	8.5%	281	34	4.6%
Loss	—	—	—	—	293	4.9%	422	51	7.0%
Total classified loans	7,519	100.0%	7,956	100.0%	6,028	100.0%	6,081	736	100.0%

(1) Includes loans of our subsidiary, Bank Inter-Pacific Tbk, in 2000 (Rp549 billion) and 2001 (Rp1,092 billion).

(2) Detailed information regarding medium-scale loans is not available for 2000 and 2001.

Non-performing Loan Portfolio Classification by Loan Type

The following table sets forth information concerning the type of our non-performing loans as of the dates indicated:

	As of December 31, 2002		As of June 30, 2003		
	Outstanding Amount	Percentage of Total	Outstanding	Amount	Percentage of Total
	(Rp billions)		(Rp billions)	(US$ millions)	
Non-performing loans:					
Micro loans	186	7.0%	332	40	11.4%
Working capital loans	1,256	47.3%	1,394	169	47.8%
Consumer fixed income	72	2.7%	121	15	4.1%
Consumer banking	—	—	—	—	—%
Investment	847	31.9%	791	96	27.1%
Program	35	1.3%	60	7	2.1%
Syndicated	167	6.3%	145	17	5.0%
Employee	—	—	—	—	—%
Others	90	3.4%	72	9	2.5%
Gross non-performing loans	2,653	100.0%	2,915	353	100.0%

Analysis of Non-performing Loans by Industry Sector

The following table provides the industry breakdown of our gross loan portfolio by Bank Indonesia industry sector and loan classification as of June 30, 2003:

	As of June 30, 2003						
	Current	Special Mention	Sub-standard	Doubtful	Loss	Total Non-performing loans	Total
				(Rp billions)			
Manufacturing	2,744	1,376	593	491	336	1,420	5,540
Trading, restaurant and hotel	9,007	524	151	184	91	426	9,957
Agriculture	7,574	313	125	20	256	401	8,288
Construction	218	302	5	2	2	9	529
Business services	664	67	5	36	60	101	832
Social services	99	4	1	1	2	4	107
Mining	28	19	1	—	1	2	49
Electricity, gas and water	43	83	3	—	—	3	129
Transportation, warehousing and communications	131	12	10	1	2	13	156
Others(1)	16,899	466	208	128	200	536	17,901
Total loans	37,407	3,166	1,102	863	950	2,915	43,488

(1) *Others includes consumer fixed income loans originated by our Micro Business and Retail Business Divisions and other consumer banking loans.*

Restructuring and Settlement of Non-performing Loans.
The following table provides information on our medium-scale restructured loans for the dates indicated:

	Year ended December 31, 2002	Six months ended June 30, 2003	
	(Rp billions)	(Rp billions)	(US$ millions)
Cumulative balance of restructured loans at beginning of year	1,641	1,915	232
Loans restructured for the first time during the period[1]	547	90	11
Loans repaid during the period	41	54	7
Loans written-off during the period	230	—	—
Adjustment[2]	(2)	(113)	(14)
Restructured loans:			
Balance at end of period	1,915	1,838	222
Performing[3]	1,074	958	116
Non-performing[3]	841	880	106

(1) Does not include the restructuring of loans which we have previously restructured and which then needed to be further restructured.
(2) Translation adjustment arising from fluctuation of foreign exchange rates, fluctuation of outstanding working capital facilities and partial repayments.
(3) As of June 30, 2003, this included loans which had been restructured more than once of Rp590 billion (US$56 million).

The following table sets forth information on our 10 largest restructured loans as of June 30, 2003:

	As of June 30, 2003[1]				
	Industry	Total Outstanding		Date of Restructuring	Loan Classification
		(Rp billions)	(US$ millions)		
Borrower A[2]	Paper	582.9	70.5	April 2000	Special Mention
Borrower B[3]	Plastic	450.8	54.5	March 2003	Sub-standard
Borrower C	Finance	138.5	16.8	June 2000	Current
Borrower D	Retail	100.5	12.2	April 2000	Doubtful
Borrower E[4]	Plantation	90.3	10.9	March 2003	Sub-standard
Borrower F	Nut & Bolt	65.7	8.0	December 2000	Loss
Borrower G	Cold Storage	62.1	7.5	April 2002	Special Mention
Borrower H	Steel & Pipe	60.4	7.3	February 2002	Sub-standard
Borrower I	Retail	51.4	6.2	September 2000	Loss
Borrower J	Finance	29.1	3.5	December 2001	Current
Total		1,631.7	197.4		

(1) Includes all loans restructured since January 1, 2000 that remain under the supervision of the Restructuring and Problem Loan Division.
(2) This borrower is part of Group 2 of our 10 largest exposures to business group and individual borrowers.
(3) This borrower is part of Group 1 of our 10 largest exposures to business group and individual borrowers.
(4) This borrower is part of Group 9 of our 10 largest exposures to business group and individual borrowers.

As of June 30, 2003, Rp1,838 billion (US$222 million) of our loans had been restructured. Some of these loans (having been upgraded) have once again become non-performing as of June 30, 2003. As of June 30, 2003, 55.7% of our non-performing loans had been restructured, and subsequent to our reversals of provisions, became non-performing again. As of June 30, 2003, 41.5% or Rp656 billion (US$79 million) of our "special mention" loans were former non-performing loans that had been restructured. Certain of these loans we have restructured again.

Of our 10 largest restructured loans, 35.1% of these loans representing Rp573 billion (US$69 million) have been restructured at least once since January 1, 2000. The above table does not include loans which we have restructured and which have subsequently been repaid or written-off.

The following table provides, on an unconsolidated basis, the industry breakdown of our restructured loans by Bank Indonesia industry sector and loan classification as of June 30, 2003:

	As of June 30, 2003						
	Current	Special Mention	Sub-standard	Doubtful	Loss	Total Performing[(1)]	Total Non-Performing[(2)]
	(Rp billions)						
Rupiah							
Manufacturing	20	141	61	—	27	161	88
Agriculture	1	12	90	—	—	13	90
Trading, restaurant and hotel	13	12	—	100	—	25	100
Construction	—	9	—	—	—	9	—
Other services	—	—	—	—	—	—	—
Transportation, warehousing and communications	—	—	7	—	—	—	7
Electricity, gas and water	—	—	3	—	—	—	3
Social services	168	—	—	—	58	168	58
Mining	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total Rupiah	202	174	161	100	85	376	346
Foreign currency							
Manufacturing	14	506	458	—	66	520	524
Agriculture	1	—	—	—	—	1	—
Trading, restaurant and hotel	—	62	10	—	—	62	10
Construction	—	—	—	—	—	—	—
Other services	—	—	—	—	—	—	—
Transportation, warehousing and communications	—	—	—	—	—	—	—
Electricity, gas and water	—	—	—	—	—	—	—
Social services	—	—	—	—	—	—	—
Mining	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total Foreign Currency	15	568	468	—	66	583	534
Total loans							
Manufacturing	34	647	519	—	93	681	612
Agriculture	2	12	90	—	—	14	90
Trading, restaurant and hotel	13	74	10	100	—	87	110
Construction	—	9	—	—	—	9	—
Other services	—	—	—	—	—	—	—
Transportation, warehousing and communications	—	—	7	—	—	—	7
Electricity, gas and water	—	—	3	—	—	—	3
Social services	168	—	—	—	58	168	58
Mining	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total for Total loans	217	742	629	100	151	959	880

(1) Total performing restructured loans is the aggregate of current and special mention.
(2) Total non-performing loans is the aggregate of sub-standard, doubtful and loss.

Restructured Medium-Scale Loans

The following table provides a breakdown of our medium-scale loans that had been restructured as of June 30, 2003.

	As of June 30, 2003						
	Current	Special Mention	Sub-Standard	Doubtful	Loss	Total Performing	Total Non-Performing
				(Rp billions)			
Medium-Scale Business:							
Agribusiness	10	79	—	—	—	89	—
General Business[(1)]	207	662	—	—	—	869	—
Restructured[(2)]	—	—	629	100	151	—	880
Total Medium-Scale Business	217	741	629	100	151	958	880

(1) Includes Rp750 billion (US$92 million) corporate loans.
(2) Includes Rp729 billion (US$88 million) corporate loans.

Interest Foregone

Interest foregone is the interest due on non-performing loans that has not been accrued in our books. Interest foregone also includes interest on loans previously accrued and later reversed due to such loans having become non-performing. Accordingly, interest foregone equals the difference between interest due under the terms of such non-performing loans and interest actually received. We cease to accrue interest on a loan as soon as it becomes non-performing.

The following table sets forth, on a consolidated basis, for the periods indicated, the amount of interest foregone:

	Total Interest Foregone
	(Rp billions)
Year ended December 31, 2000	600
Year ended December 31, 2001	754
Year ended December 31, 2002	933
Six months ended June 30, 2003	1,081

Allowances for Loan Losses

Our policy is to classify our loans in accordance with the requirements of Bank Indonesia. We determine our provisioning levels based on a number of factors, including the minimum level of loan loss allowances mandated by Bank Indonesia requirements and Indonesian GAAP. However, although not required by Bank Indonesia, we increase the allowance as loans age. In addition, when making allowances for "sub-standard", "doubtful" or "loss" loans, we are entitled to deduct the value of certain types of collateral under our control (eg, land, buildings or cash) from the amount outstanding, provided that we have obtained an external professional third party appraisal of the collateral's value, and subject to certain other limits. See "Supervision and Regulation—Asset Classification, Allowance for Possible Losses and Credit Restructuring".

The following table sets forth the components of our allowance for loan losses for the periods indicated:

	Year ended December 31, 2000	2001	2002	Six months ended June 30, 2003	
	(Rp billions, except percentages)				(US$ millions)
Balance at beginning of period	5,354	2,771	3,963	3,913	473
Subsidiary deconsolidation	(41)[(3)]	—	(774)[(4)]	—	—
Translation adjustment	375	(91)	(321)	(70)	(9)
Provision/ (reversal) for the period	(1,015)	868	1,334	58	7
Recoveries	429	558	402	328	40
Written-back loans[(1)]	—	499	2,367[(5)]	—	—
Write-offs[(2)]	(2,331)	(642)	(3,058)[(5)]	(60)	(7)
Balance at end of period	2,771	3,963	3,913	4,169	504
Allowances for loan losses/Total loans	10.3%	11.8%	9.9%	9.6%	—
Allowances for loan losses/Gross non-performing loans	182.2%	162.3%	147.5%	143.0%	—
Write-offs/Allowances for loan losses	–84.1%	–16.2%	–78.1%	–1.4%	—
Ratio of write-offs during the period to average loans outstanding during the period	–8.5%	–2.1%	–8.3%	–0.1%	—

(1) Loan recoveries on written-off and written-back loans are added back to provisions in accordance with Indonesian GAAP.

(2) Loan recoveries on written-off loans are added back to provisions in accordance with Indonesian GAAP.

(3) In 2000, we announced our intention to close BRI Finance Limited, Hong Kong and excluded this 100.0% owned subsidiary from our consolidated financial statements from December 31, 2000.

(4) In 2002, we announced our intention to sell BIP and, in accordance with Indonesian GAAP excluded BIP from our consolidated financial statements from December 31, 2002.

(5) In 2002, our written-back loans increased when we exchanged Rp249 billion Government recapitalization bonds with IBRA for certain non-performing loans, which were immediately written off.

The following table provides information on certain movements for our provisions on earning assets for the periods indicated:

	Current Account	Placement with Other Bank	Securities	Export Bills	Receivables Arising from Securities Purchased with Agreement to Resell	Loans	Acceptances Receivables	Investments in Shares of Stocks	Total	Commitments and Contingencies	Total
						(Rp billions)					
2000											
Beginning balance as of January 1, 2000	1	27	1	11	—	5,354	3	—	5,397	153	5,550
Provision/(reversal)(1)	17	6	4	17		(1,015)	6	285	(680)	(97)	(777)
Recoveries	—	—	—	—	—	429	—	—	429	—	429
Written-off	—	—	—	—	—	(2,331)	—	—	(2,331)	—	(2,331)
Others(2)	—	—	—	—	—	334	—	—	334	—	334
Ending balance as of December 31, 2000	18	33	5	28	—	2,771	9	285	3,149	56	3,205
2001											
Beginning balance as of January 1, 2001	18	33	5	28	—	2,771	9	285	3,149	56	3,205
Provision/(reversal)(1)	(3)	(24)	2	(23)	2	869	23	11	857	51	908
Recoveries	—	—	—	—	—	558	—	—	558	—	558
Written-off	—	—	—	—	—	(642)	—	(295)	(937)	—	(937)
Others(2)	—	—	—	—	—	408	—	—	408	—	408
Ending balance as of December 31, 2001	15	9	7	5	2	3,964	32	1	4,035	107	4,142
2002											
Beginning balance as of January 1, 2002	15	9	7	5	2	3,964	32	1	4,035	107	4,142
Provision/(reversal)(1)	(10)	177	1	8	(2)	1,334	(16)	48	1,540	122	1,662
Recoveries	—	—	—	—	—	401	—	—	401	—	401
Written-off	—	—	—	—	—	(3,058)	—	(0)	(3,058)	—	(3,058)
Others(2)	(0)	(1)	(0)	(0)	—	1,272	—	(0)	1,271	—	1,271
Ending balance as of December 31, 2002	5	185	8	13	—	3,913	16	49	4,189	229	4,418
2003 (through June 30, 2003)											
Beginning balance as of January 1, 2003	5	185	8	13	0	3,913	16	49	4,189	229	4,418
Provision/(reversal)(1)	12	(12)	2	(8)	(0)	58	10	—	62	67	129
Recoveries	—	—	—	—	—	328	—	—	328	—	328
Written-off	—	—	—	—	—	(60)	—	—	(60)	—	(60)
Others(2)	—	—	—	—	—	(70)	—	—	(70)	—	(70)
Ending balance as of June 30, 2003	17	173	10	5	0	4,169	26	49	4,449	296	4,745

(1) Loan recoveries on written-off loans are added back to provisions in accordance with Indonesian GAAP.

(2) Others includes translation adjustments arising from different exchange rates on the provisioning and balance sheet dates for foreign currency denominated loans.

The following table sets forth, on a consolidated basis, balances of certain provisions for other liabilities and other assets for the periods indicated:

	Provision for Legal Cases	Provision for Employee Severance and Service Entitlement	Provision for Other Assets	Total
		(Rp billions)		
Balance as of December 31, 2000	178	—	122	300
Balance as of December 31, 2001	178	36	781	995
Balance as of December 31, 2002	177	48	529	754
Balance as of June 30, 2003	144	64	642	850

Management

In accordance with Indonesian law, we have a board of commissioners and a board of directors. The two boards are separate and no individual may be a member of both boards.

BOARD OF COMMISSIONERS

The principal functions of the board of commissioners are to give advice and recommendations to the board of directors and supervise the policies of the board of directors. The board of commissioners is required to perform its duties in good faith and in our best interests.

The board of commissioners is required to be comprised of at least two members, including the President Commissioner. Members of the board of commissioners must be nominated and approved by the holder of the Special Share and are appointed and removed by shareholder vote at a general meeting of shareholders.

The current members of our board of commissioners are as follows:

Name	Position	Age	Position Held Since
Sukanto Reksohadiprodjo	President Commissioner	63	2003
Ferdinand Nainggolan	Commissioner	48	2003
Arbali Sukanal	Commissioner	62	2000
Syahrial Hamid	Commissioner	61	2000

Mr. Sukanto Reksohadiprodjo was elected President Commissioner in May 2003. Mr. Reksohadiprodjo was the Head of the Agency for Financial Education and Training at the Ministry of Finance from 1998 to 1991, as chairman of the Capital Market Supervisory Board (BAPEPAM) from 1991 to 1993, as a member of the board of commissioners of PERURI and PT Jasa Marga from 1988 to 1993, as Rector of Gajah Mada University from 1994 to 1998 and as chairman of the board of commissioners of PT Bank Niaga from 2000 to 2002. At present, he is also chairman of the board of commissioners of PT Bahana Pembinaan Usaha Indonesia. Mr. Reksohadiprodjo graduated from the Faculty of Economics, Gajah Mada University in 1961, earned a Masters of Commerce degree from the University of Illinois Urbana—Champaign in 1964, a PhD in Energy and Environmental Economics and earned an ITP Certificate from Harvard Business School, Boston in 1969 and a Masters of Arts from the University of Colorado in 1981.

Mr. Ferdinand Nainggolan has been a Commissioner since May 2003. He was a Senior Manager of Business Development at PT Usaha Pelindo II during 1997, a director of PT (Persero) Pelabuhan Indonesia III during 1998, and President Director of PT (Persero) Pelabuhan Indonesia III during 2001. Mr. Nainggolan graduated from Den Hedder University in 1991 with a Masters degree in Management Studies, and then earned a Masters degree in Shipping Management from Masstrict, the Netherlands in 1992. He is currently pursuing a PhD at the Surabaya Institute of Technology.

Mr. Arbali Sukanal has been a Commissioner since July 2000. Mr. Sukanal worked for Bank Bumi Daya from 1967 until 1994, reaching the position of director. He was president director of PT Bank Pembangunan Indonesia (Persero) until 1998. He graduated from the School of Economics at Padjadiaran University, Bandung, in 1967, and earned an MBA and a PhD degree from the University of Illinois at Urbana-Champaign in 1987.

Mr. Syahrial Hamid has been a Commissioner since July 2000. Mr. Hamid worked for Bank Indonesia from 1968 to 1998, reaching the position of Head of Internal Audit. From 1998 to 2000, he held the position of Director for Banking and Financial Services Business of the Indonesian State Ministry for State-owned Enterprises, and served as commissioner at PT Jamesostek during the same period. He graduated from the School of Law at the University of North Sumatra, Medan, in 1967, and the School of Information Science, Case Western Reserve University, Cleveland, Ohio in 1983.

BOARD OF DIRECTORS

We are managed on a day-to-day basis by our board of directors. The board of directors is required to perform its duties in good faith and in our best interests.

Under Indonesian banking law, the board of directors is required to be made up of at least three members. Members of the board of directors must be nominated and approved by the holder of the Special Share and are appointed and removed by shareholder vote at a general meeting of shareholders.

The current members of our board of directors are as follows:

Name	Position	Age	Year Appointed
Rudjito	President Director	57	2000
Ahmad Askandar	Director	62	2000
Wayan Alit Antara	Director	55	2000
Krisna Wijaya	Director	48	2000
Gayatri Rawit Angreni	Director	46	2000
Hendrawan Tranggana	Director	47	2000
Akhmad Amien Mastur	Director	51	2000

Mr. Rudjito has been President Director since July 2000. Mr. Rudjito worked at Bank Dagang Negara from September 1972 until July 2000. He also held the position of President Director of PT Kliring & Penjaminan Efek Indonesia for five months during 2000. He currently holds various positions, including Chairman of the Committee for Education and Training of the Indonesian Bankers Institute in Jakarta, Chairman of the Association of State-owned Banks, Chairman of the Federation of Indonesian Banks, Chairman of the Jakarta Chapter of ISEI, Chairman of the Board of Indonesian Risk Professional Association, Member of the Supervisory Board of Asia Pacific Rural and Agricultural Credit Association Consulting Services and Chairman of the ASEAN Bankers Association. He graduated from the School of Economics, the University of Gajah Mada, Yogyakarta, in March 1972.

Mr. Ahmad Askandar has been a Director since July 2000. Mr. Askandar worked at Bank Dagang Negara from 1964 until July 2000. He also holds the positions of Deputy Chairman of the Supervisory Board for Pension Funds, the Foundation of Civil Servants' Welfare, Commissioner of PT Staco Mitra Sedaya Finance, President Commissioner of Bank Susila Bakti and Chairman of the Board of PT Bank Tiara Asia Tbk. as a representative of IBRA. He graduated from the School of Economics at the University of Gajah Mada, Yogyakarta, in 1964 with a major in Finance and Banking.

Mr. Wayan Alit Antara has been a Director since July 2000. Mr. Antara joined us in September 1976. Prior to his appointment as a Director, he was the Head of Treasury Division from 1996-2000. He was also the Deputy Head of Funds & Services Division in 1994, the Deputy General Manager of BRI New York Agency in 1992, the Chief Dealer/Head of Money Market Department in 1988 and the Deputy Branch Manager at Sleman Branch Office in 1985. He graduated from the School of Agriculture at the University of Gajah Mada, Yogyakarta, in 1975.

Mr. Krisna Wijaya has been a Director since July 2000. Mr. Wijaya joined us in 1980. Prior to his appointment as a Director, he was the Head of Education & Training Division from 1998-2000. Previously, he was also the Deputy Head of Education & Training Division in 1995, the Head of Branch Office in Semarang (1994) and in Surakarta (1992) and the Head of Agribusiness Department at Surabaya Regional Office in 1991. He graduated from the Bogor Institute of Agriculture, Bogor in 1980, and earned a Masters degree from the University of Gajah Mada, Yogyakarta, in the field of Agribusiness Concentration in 1990.

Ms. Gayatri Rawit Angreni has been a Director since July 2000. Ms. Angreni joined us in 1980. She served as Team Member of Assigned Directors of Bank Danamon Indonesia in 1998, Director of Bank Danamon Indonesia from 1998 to 1999 and Compliance Director of Bank Danamon Indonesia from 1999 to 2000. Previously she was also the Deputy Head of our Corporate Division in 1996 and the Head of Desk for Corporate Loan Restructuring in 1994. She graduated from the School of Agronomy, Bogor Institute of Agriculture in 1980 and earned a MBA degree from the University of Nebraska, Lincoln, USA, with a major in finance.

Mr. Hendrawan Tranggana has been a Director since July 2000. Mr. Tranggana joined us in 1980. He served as a Team Member of Assigned Directors for Bank Danamon Indonesia in 1998, and as Director of Treasury and International Business of Bank Danamon Indonesia before and after its merger. Previously, he was also Deputy Head of our Treasury Division in 1998, Deputy General Manager BRI New York

Agency in 1996 and Chief Dealer of our Dealing Room in 1992. He graduated from the Department of Fishery, Bogor Institute of Agriculture in 1980 and earned a MBA degree from the Graduate School of Management at the University of Dallas in 1991.

Mr. Akhmad Amien Mastur has been a Director since July 2000. Mr. Mastur worked at Bank Negara Indonesia from 1980 until 2000, during which time he held various positions both in Indonesia and in foreign offices including Head of Risk Control Division, Head of Institutional Relationship Division and Head of BNI Hong Kong Branch Office. He graduated from the School of Economics, the University of Diponegoro in 1978 and earned a MBA degree from the Graduate School of Ohio University, in 1986.

SENIOR MANAGEMENT

Name	Office/Division	Age	With Bank Since
A.M. Nova Christiana	Treasury Division	46	1980
Ali Mudin	Legal Affairs Desk	46	1983
Asmawi Syam	Consumer Banking Division	48	1980
Bambang Suwito	Agribusiness Division	51	1974
David Andrew Malligan	Technology and Information System Division	41	2000
Enny Dyah Ratnawati	Restructuring and Problem Loan Division	52	1978
Giman Supardi	Division of Credit Administration	53	1978
Heru Sukanto	General Business Division	46	1983
Jimmy E. Elias	Compliance and Risk Management Division	47	1981
Karl F. Bohn	Management and Financial Accounting Division	55	2000
Lenny Sugihat	Strategic Planning Division	47	1981
M. Choirul Amien	Educational and Training Division	49	1981
M. Rivai	Micro Business Division	51	1976
Rochhidayat Taepur	Corporate Secretary Division	49	1980
Rulianti	Logistic Management Division	50	1981
Sarwono Sudarto	Internal Audit Division	51	1976
Siti Sundari	Program Loan Division	53	1978
Sjam Isnadi	Operational Division	53	1976
Sri Pranggono	Human Resource Management	54	1975
Suwardi Saropie	Retail Business Division	54	1975
Tamim Yudhi	Syariah Banking Unit	54	1976
Triyana	International Division	45	1985
Wasi Kirana	Credit Risk Analysis Division	52	1978

Ms. A.M. Nova Christiana has been Head of the Treasury Division since July 2000 and has been with us since 1980. She has previously held the positions of Head of Treasury Division since July 2000. Previously she was also a Deputy Head of Accounting Division (1996), Head of Accounting Policy Department (1993) and Deputy Head of Funding (1987). She graduated from Bogor Agriculture University in 1980 and earned a MBA Degree from St. Louis University, USA in 1992.

Mr. Ali Mudin has been Head of the Legal Affairs Desk since February 2001 and has been with us since 1983. He has previously held the position of Branch Manager at several branch offices. He graduated from the Padjajarin University, Bandung in 1981.

Mr. Asmawi Syam has been the Head of Consumer Banking Division since July 2003 and has been with us since 1980. He has previously held the positions of Head of Bandung Regional Office (2001-2003), Head of Denpasar Regional Office (2001), Deputy Head of Regional Offices in Surabaya and Bandung (1997-1998), Branch Manager in several branch offices (1988-1994) and Deputy Manager in several branch offices (1985-1986). He graduated from University of Hasanudin, Makassar in 1979.

Mr. Bambang Suwito has been Head of Agribusiness Division since July 2002 and has been with us since 1974. He has previously held the positions of Deputy Head of Regional Office in Jakarta (2001) and in Surabaya (1998), Branch Manager in several branch offices (1988-1994) and Deputy Manager in several branch offices (1990-1995). He graduated from University of Jember (East Java) in 1979.

Mr. David Andrew Malligan has been the Head of the Technology and Information System Division since April 2000. Previously, he has held the position of Project Director at Bank Negara (1994-2000), Senior Manager of Electronic Banking at Bank Danamon (1993-1994) and various operational positions at Westpac Banking Corporation (1981-1993). He graduated from the University of Technology in Sydney, Australia with a Masters degree in business in 1991.

Ms. Enny Dyah Ratnawati has been Head of Restructuring and Problem Loan Division since February 2001 and has been with us since 1978. She has previously held the positions of Deputy Head of Loan Workout Division (1998), Deputy and then Head of General Credit (Industry and Trading) Department (1987-1991). She graduated from Bogor Agriculture University in 1976 and earned a Magister of Management degree from the STM PPM, Jakarta 2000.

Mr. Giman Supardi has been Head of Credit Administration Division since March 2001 and has been with us since 1978. He has previously held the positions of Head of Palembang Regional Office (1999), Deputy Head of Makassar Regional Office, Branch Manager of several branch offices (1991-1997), and Head of Commercial Business Department at a Regional Office. He graduated from Gajahmada University, Yogyakarta in 1977 and earned a Magister of Management degree from the Universitas Islam Indonesia, Yogyakarta in 1993.

Mr. Heru Sukanto has been Head of General Business Division since July 2002 and has been with us since 1983. He has previously held the positions of Deputy Head of Surabaya Regional Office (2001) and Branch Manager of several branch offices (1990-2001). He graduated from Universitas Airlangga, Surabaya in 1982 and earned a Magister of Management degree from the STM PPM, Jakarta in 2000.

Mr. Jimmy E. Elias has been Head of Compliance and Risk Management Division since July 2002 and has been with us since 1981. He has previously held the positions of Senior Instructor at our Training Division, Deputy Head of Denpasar Regional Office, Deputy Branch Manager at our Special Branch, Branch Manager of several branch offices (1994-1997), and Head of several Departments at Head Office. He graduated from Bogor Institute of Agriculture in 1975 and earned a MBA degree from Georgia State University, USA in 1988.

Mr. Karl F. Bohn has been Head of Management and Financial Accounting Division since joining the Bank in 2000. Mr. Bohn was a Director of PT Sigma Batara (1991-2000) and worked at Bankers Trust Co. (1970-1990), where his last position was CFO of the Asia Pacific Region. He received a Bachelor of Science degree from Columbia University in 1970 and a MBA from New York University in 1977.

Ms. Lenny Sugihat has been Head of Strategic Planning Division since August 1999 and has been with us since 1981. She has previously held the positions of Deputy Head of Strategic Planning Division, Head of Loan Workout Department and Head of Corporate Business at our Special Branch Office. She graduated from Bogor Institute of Agriculture in 1979 and earned a MBA degree from University of Houston, USA in 1993.

Mr. M. Choirul Amien has been Head of Educational and Training Division since July 2000 and has been with us since 1981. He has previously held the positions of Deputy and then Head of Medium-Scale Credit Division (1997), Deputy Head of Banjarmasin Regional Office (1997) and Branch Manager of several branch offices (1992-1996). He graduated from Bogor Institute of Agriculture in 1975.

Mr. M. Rivai has been Head of Micro Business Division since November 2001 and has been with us since 1976. He has previously held the positions of Deputy and then Head of Program Loan Division (1998), Deputy Head of Small Scale Business Division (1996), Branch Manager of Salatiga Branch Offices (1994) and Deputy Head of Credit for Cooperative Department at Head Office. He graduated from Bogor Institute of Agriculture in 1976.

Mr. Rochhidayat Taepur has been Head of Corporate Secretary Division since May 2001 and has been with us since 1980. He has previously held the positions of Head of Agribusiness Division (2001), Head of Medium-Scale Business Division (2000), Deputy Head of Training Division (1999), Deputy Head of Retail Fund Division (1998) Deputy GM Special Branch (1997-1998) and Branch Manager for four branches (1989-1995). He graduated from Bogor Agriculture University in 1979 and earned a Magister of Management degree from the STM PPM, Jakarta 2000.

Ms. Rulianti has been Head of Logistic Management Division since November 2001 and bas been with us since 1981. She has previously held the positions of Deputy and then Head of Micro Business Division (1999), Senior Instructor in Training Division (1995) and Head of Automation Department (1991). She graduated from University of General Soedirman, Purwokerto in 1980.

Mr. Sarwono Sudarto has been Head of Internal Audit Division since 2001 and has been with us since 1976. He has previously held the positions of Head of Business Retail Division (2001), Head of Credit Retail Division (1999), Director of our affiliated company, PT Bank Industri (1995), Deputy General Manager of our subsidiary, Hong Kong Finance Ltd. (1990) and Head of Corporate Department (1988). He graduated from Diponegoro University, Semarang in 1987 and earned an MBA degree from Tulane University, USA in 1987.

Ms. Siti Sundari has been Head of Program Loan Division since October 2002 and has been with us since 1978. She has previously held the positions of Head of International Visitor Program (1998), Deputy Head of Product Management and Marketing Division (1996), Deputy Head of Credit for Small Enterprise and Cooperative Division (1996), Branch Manager at Kemayoran Jakarta Office (1995) and Head of Credit for Small Enterprise Department (1989). She graduated from Bogor Agriculture University in 1977 and earned a Magister of Management degree from the same in 2000.

Mr. Sjam Isnadi has been Head of Operational Division since 2002 and has been with us since 1976. He has previously held the positions of Head of Palembang Region Auditor (2001), Deputy Head of Jakarta Regional Office (2001), Deputy Head of Bandung Regional Office (1999) and Branch Manager of several branch offices (1984-1993). He graduated from Gajahmada University, Yogyakarta in 1975 with a Bachelors degree in law.

Mr. Sri Pranggono has been Head of Human Resource Management since July 2003 and has been with us since 1975. He has previously held the positions of Head of Consumer Banking Division (2002), Head of Jakarta Regional Office (2000), Head of the Logistic Division (1998) and Branch Manager of several branch offices (1984-1993). He graduated from Gajahmada University, Yogyakarta in 1974 and earned a Magister degree from the University of Indonesia, Jakarta in 1999.

Mr. Suwardi Saropie has been Head of the Retail Business Division since July 2001 and has been with us since 1975. He has previously held the positions of Head of Bandung Regional Office (1999), Head of Palembang Regional Office (1998), Head of Medan Regional Office (1998), Head of Kupang Regional Office (1996) and Deputy to Head of several regional offices as well as Branch Manager of several branch offices (1989-1996). He graduated from Bogor Agriculture University in 1975.

Mr. Tamim Yudhi has been Head of the Syariah Business Unit since July 2002 and has been with us since 1976. He has previously held the positions of Head of Regional Audit Office in Bandung (1999), Deputy to Head of Regional Audit Office in Bandung and Jayapura (1998-1999), and Branch Manager of several branch offices (1993-1998). He graduated from Padjadjaran University, Bandung in 1975.

Mr. Triyana has been Deputy Head of the International Division since July 2002 and has been with us since 1985. He has previously held the position of Head of the Trade Finance Department at our Jakarta special branch office from 1994-2002. He graduated from the University of Sebelas Maret, Suarakarta in 1982 and earned a MBA from the University of Miami, Florida in 1993.

Mr. Wasi Kirana has been Head of the Credit Risk Analysis Division since January 2003 and has been with us since 1978. He has previously held the positions of Deputy Head of the Credit Risk Analysis Division, senior staff member to the Deputy Head of the Yogyakarta Regional Office and Branch Manager of several branch offices. He graduated from Gajahmada University, Yogyakarta in 1978.

COMPENSATION

The commissioners and directors receive compensation determined at the annual general meeting of shareholders and are paid monthly each year. No fees are paid to the commissioners or the directors for their attendance at their respective board meetings. For 2002 and the first six months of 2003, the aggregate compensation paid by us to all commissioners and directors was Rp5.5 billion (US$0.7 million) and Rp2.9 billion (US$0.4 million), respectively. In addition, the directors are entitled to certain benefits such as housing, transportation and utility allowances, healthcare and association membership. The commissioners and directors are both entitled to be reimbursed for income tax on compensation received. We do not disclose or otherwise make available public information regarding the compensation of our individual commissioners or directors.

Payment of bonuses to the commissioners and the directors is determined at the annual general meeting of shareholders. Bonuses are paid annually and are based on achievement of the performance targets set by the directors and approved by shareholders at the annual general meeting of shareholders.

We recently introduced performance-based compensation schemes to provide incentives for improved performance for certain of our staff, including our management.

EMPLOYEE STOCK OWNERSHIP PROGRAMS

At an Extraordinary General Meeting of Shareholders held on October 3, 2003, our shareholder approved the introduction of the following Employee Stock Ownership Programs: the Employee Stock Allocation Plan, which is being offered in connection with the Global Offering, and the Management Stock Option Plan. The objectives of the Employee Stock Ownership Programs are to attract, retain and motivate participants, align the interests of participants with those of all shareholders, and reward participants for their contributions. A share may be issued in respect of any of the following plans only if such share has been paid in full.

Employee Stock Allocation Plan

Our Employee Stock Allocation plan, comprising of the Stock Grant plan, stock purchase at discount plan and the additional share purchase plan, must comply with BAPEPAM regulations which permit a maximum of 10.0% of the shares being offered to the public in the Global Offering (excluding any Over-allotment Option Shares and any Over-subscription Option Shares issued) to be reserved on a preferential basis for employees.

1. ***Stock Grant.*** Permanent, full-time employees and certain other service providers will receive a grant of bonus shares. These shares granted will be subject to a lock-up period of one year from the date of listing of the shares on the JSX and the SSX. After the lock-up period is complete, participants are free to sell and transfer the shares granted.

2. ***Stock Purchase at Discount.*** Employees and other service providers under certain criteria have the right to subscribe to the shares being offered to the public at a 20.0% discount to the price of the shares offered in the Indonesian Offering ("Offering Price"). The shares purchased in this way will be subject to a lock-up period of six months from the date of listing of the shares on the JSX and the SSX. The 20.0% discount will have to be repaid if during the lock-up of six months a participant of the plan receives a Punishment (*Hukuman Jabatan*) or Termination (*Pemutusan Hubungan Kerja*) based on the terms stated in our circular letter (*Surat Keputusan*) related to the Employee Stock Ownership Programs.

3. ***Additional Stock Purchase Plan.*** Permanent, full-time employees and certain other service providers have the right to participate in the additional share purchase plan at a 3.0% discount to the Offering Price. These shares will not be subject to any lock-up period.

Management Stock Option Plan

All employees above a certain grade and other selected service providers under certain criteria will be eligible to participate in the management stock option plan. The purpose of this program is to maximize our long term success, ensure a balanced emphasis on both current and long term performance, better align the interests of management with those of shareholders and attract and retain key individuals with outstanding abilities. Under the management stock option plan, the number of new shares to be issued will not be more than 0.72% of our market capitalization, in the first year of the plan, although it is our intention to seek shareholder approval for additional issuances of shares pursuant to this plan over the next two years to total 5.0% of our paid-in capital, which under current regulations is the maximum number of new shares a listed company may issue over a three-year period without granting pre-emptive rights to existing shareholders.

A first grant will be made at the time of the listing of our shares on the JSX and SSX with the exercise price being 110.0% to the Offering Price. These options shall vest in two equal installments, subject to continued service. The first vesting period is to occur one year from the time of the listing of our shares on the JSX and SSX.

The Employee Stock Ownership Programs will be supervised by the board of commissioners.

Overview of the Indonesian Banking Industry

The following information has been derived from various public sources, and has not been independently verified by us, the Selling Shareholder, the Lead International Selling Agent or the Lead Managing Underwriter.

STRUCTURE OF THE INDUSTRY

Prior to November 1988, the Indonesian banking industry consisted of commercial banks, savings banks and development banks. Currently, the Indonesian banking industry consists of commercial banks and small-holder credit banks ("BPR"). In terms of ownership, there are State-owned banks, local government-owned banks, private national banks (including foreign exchange banks), joint venture banks and branches of foreign banks. The following table summarizes the change in the composition of the categories of banks in Indonesia over the past six years:

	Year ended December 31,					
	1997	1998	1999	2000	2001	2002
Commercial banks						
State-owned banks	7	7	5	5	5	5
Local government banks	27	27	27	26	26	26
Private national banks	144	130	92	81	80	80
Foreign banks and joint venture banks	44	44	49	52	48	34
Total	222	208	173	164	159	145
Small-holder credit banks						
BPR—non-rural	1,776	1,787	1,817	1,789	1,725	1,649
BPR—rural	5,345	5,345	5,345	5,345	5,345	5,345
LDKP—Rural Credit and Fund Institution	1,887	1,807	1,626	1,620	1,620	1,620
Total	9,230	9,147	8,961	8,918	8,849	8,614

Source: Bank Indonesia—Indonesian financial statistics, as of December 31, 2002.

PERIOD OF DEREGULATION: 1983-1991

Beginning in 1983, the Government introduced a series of banking deregulation measures which intensified competition. These deregulation measures provided flexibility for banks to set interest rates on loans and deposits, eliminated credit ceilings, reduced Bank Indonesia liquidity credit requirements and introduced money market instruments, including SBIs and other money market negotiable instruments.

Before 1988, the Indonesian banking industry was dominated by the seven State-owned banks, which provided over 60.0% of all outstanding credit. In order to promote the development of the Indonesian banking industry, mobilize domestic savings and encourage competition among banks operating in Indonesia, the Ministry of Finance introduced a package of deregulation reforms in October 1988. One of the principal reforms provided for the easing of the standards for the licensing of new banks, which resulted in a large number of new banks being licensed in the following years. The Ministry's deregulation policies were successful in creating a more competitive environment, and deposits and loans grew rapidly in 1989 and 1990. However, for various reasons, the industry's rapid growth was accompanied by a significant decline in asset quality and higher levels of non-performing loans.

Through subsequent policies, further steps were taken to improve the banking system, as well as to create an improved banking climate. In February 1991, the Government issued new policies that provided greater details to the deregulation package of October 1988. These policies were amended further in the August 1994 package, which set the limit on a bank's foreign exchange net open position at 25.0% of capital. In accordance with the requirements of the Bank for International Settlements, the Government also introduced a minimum capital adequacy ratio of 8.0% for risk-weighted assets, applicable to the whole banking industry, in February 1991.

PERIOD OF ECONOMIC GROWTH: 1991-1996

Following the Government's monetary tightening of early 1991, the Indonesian banking sector experienced a period of consolidation and slower growth that lasted until mid-1993. During this period, some State-owned banks and many private national banks experienced slower loan growth and raised additional capital in order to raise their capital adequacy ratio to the minimum level required by Bank Indonesia.

Throughout most of 1992 and 1993, deposit and loan interest rates declined gradually. Beginning in early 1994, interest rates in Indonesia began to rise again primarily in response to higher offshore interest rates resulting from the US Federal Reserve Board's increases in the discount rate and the US federal funds rate. After the reduction of the federal funds rate in July 1995, interest rates in Indonesia stabilized somewhat and then declined slightly.

As a result both of the deregulation that occurred in the banking sector between 1988 and 1991 and the period of economic growth that Indonesia experienced between 1991 and 1996, the private banking sector's role in the Indonesian economy was greatly increased. Between December 1988 and June 1997, the number of private banks in Indonesia increased from 63 to 160, or 254.0%, while the private banking sector's share of total bank assets in Indonesia increased from 24.0% to 54.0%.

ECONOMIC CRISIS AND RECOVERY: 1997 THROUGH PRESENT

Bank Indonesia Liquidity Support

The economic crisis beginning in mid-1997 brought about a severe burden on the Indonesian banking system and most of the banks in Indonesia encountered serious liquidity problems. As an increasing number of banks failed to comply with the statutory reserve requirements, the Government resorted to the provision of liquidity support.

Liquidity support was offered in the form of a loan given to a bank facing liquidity difficulties in its daily activities. During the economic crisis, liquidity difficulties emerged as a result of, among many causes, massive cash withdrawals by depositors triggered by declining public confidence in the banking system.

A significant portion of the liquidity support was provided to banks experiencing financial difficulties. As a result, many banks were closed and taken over by IBRA, and the responsibility for the repayment of liquidity support obligations to Bank Indonesia was transferred to IBRA.

Indonesian Bank Restructuring Agency

IBRA was established on January 26, 1998 to fulfill the three main objectives of bank resolutions in response to the financial crisis: (i) handling administration of the guarantees granted by the Government to commercial banks in accordance with a presidential decree; (ii) monitoring and restructuring banks that had been declared unsound; and (iii) conducting other legal actions required within the framework of the restructuring of banks. The implementation of IBRA's authority includes restructuring and sale, loan recovery and the monitoring and sale of corporate assets. Under Indonesian banking laws, IBRA was granted extraordinary powers (including certain judicial powers) necessary to execute its objectives efficiently. These include the express power to execute agreements in its name, acquire, manage, transfer and sell bank assets, and the power to restructure and rehabilitate banks under IBRA's supervision, including the ability to conduct mergers or liquidations of banks. The Government's ultimate goal is to have a smaller number of commercially stronger banks with extensive geographic coverage which provide a wide range of services to all income groups and industry segments. IBRA has a statutory existence of five years from February 1999.

Government Guarantee Program

In 1998, the Government, in response to the economic crisis and to support the deteriorating Indonesian banking industry, established the Government Guarantee Program and the Exchange Offer Programs to provide guarantees to bank depositors and creditors.

In general, the obligations that are guaranteed under the Government Guarantee Program include on-balance sheet and off-balance sheet obligations of Indonesian commercial banks (including overseas branches of such banks) owed to foreign and domestic depositors and creditors, including obligations denominated in Rupiah or foreign currencies.

The Government Guarantee Program is automatically extended every six months unless the Minister of Finance, prior to the end of any six-month term, announces that it does not intend to extend the program. See "Risk Factors—Risks Relating to the Indonesian Banking Sector—The discontinuance of the bank deposit guarantee program in Indonesia without any replacement guarantee program may lead to instability in the banking sector".

Exchange Offer Programs

The Exchange Offer Programs were established pursuant to two agreements reached between Bank Indonesia and creditors of certain Indonesian banks. The first Exchange Offer Program was introduced in late 1998 pursuant to an agreement reached on August 18, 1998 and the second was introduced in mid-1999, pursuant to an agreement reached on May 25, 1999. These Government-sponsored programs sought to assist in the restructuring of loans by changing, for example, interest rates or tenor. Under the Exchange Offer Programs, Bank Indonesia provided an unconditional and irrevocable guarantee of the obligations of the obligors.

Under the 1998 Exchange Offer Program, eligible debt was exchanged for new loans which were divided into four tranches with final maturity dates of one, two, three and four years. Participants in the 1999 Exchange Offer Program exchanged eligible debt for new loans which were divided into four tranches with final maturity dates of three, four, five and six years.

For the purpose of the 1998 Exchange Offer Program, eligible debt was defined as outstanding non-Rupiah denominated (i) inter-bank deposit obligations and short-term debt of any obligor maturing prior to April 1, 1999, and (ii) current maturities of medium- and long-term debt of any obligor falling due prior to April 1, 1999. For the purpose of the 1999 Exchange Offer Program, eligible debt was defined as outstanding non-Rupiah denominated (i) inter-bank deposit obligation and other short-term debt of any obligor matured or maturing prior to January 1, 2002, and (ii) current maturities of medium- and long-term debt of any obligor falling due prior to January 1, 2002 (other than as a result of acceleration, unless such acceleration occurred prior to March 15, 1999 pursuant to an existing contractual right). Obligors were defined as Indonesian State-owned commercial banks and private banks and their foreign banking subsidiaries and overseas branches and agencies.

Bank Recapitalization Program

Indonesia's Bank Recapitalization Program aimed to increase the capital adequacy ratio of banks eligible to participate to at least 4.0%.

For certain privately owned banks participating in the Bank Recapitalization Program, the controlling shareholders were obliged to inject a portion of the capital necessary to reach a capital adequacy ratio of 4.0%. Any shareholder was entitled to buy back the shares owned by the Government, although the Government could also sell its shares to the public after first offering the shares to the bank's existing shareholders.

On March 13, 1999, the Government determined that 74 banks were sufficiently sound to continue to operate without participating in the Bank Recapitalization Program. Nine banks were allowed to continue provided they were recapitalized under the Bank Recapitalization Program. In July and September 1999, two banks opted out of the Bank Recapitalization Program and IBRA took over their control.

In 1999, the Government also recapitalized certain banks taken over by IBRA to meet the minimum capital adequacy ratio of 4.0%. The required temporary investment by the Government was determined based on the due diligence review of an independent party appointed by IBRA.

State-owned banks were also recapitalized to reach a capital adequacy ratio of 4.0% under the joint decree of the Minister of Finance and the Governor of Bank Indonesia dated July 29, 1999.

Supervision and Regulation

The following information has been derived from various Indonesian laws and regulations, Government and other public sources and information provided by IBRA, and has not been independently verified by us, the Selling Shareholder, the Lead International Selling Agent or the Lead Managing Underwriter.

Bank Indonesia is the primary Government body overseeing Indonesia's banking system. Prior to 1992, the Indonesian banking system was supervised both by Bank Indonesia and the Minister of Finance. The Minister of Finance continues to play a role in Indonesia's banking system through the issuance of regulations relating to the administration of Government recapitalization bonds issued under the Bank Recapitalization Program, through its responsibility for restructuring the State-owned banks and through receipt of certain reports from IBRA.

Bank Indonesia's principal functions are to: (i) stipulate and implement monetary policy; (ii) regulate and maintain the soundness of the payment system; and (iii) regulate and supervise banks. To support its basic functions, Bank Indonesia is granted the sole authority to issue and control the circulation of the Rupiah. Bank Indonesia also issues guidelines and makes determinations regarding the soundness, solvency and liquidity of banks, regulates credit payment traffic and conducts inter-bank clearing and settlement.

Law No. 7 of 1992 as amended by Law No. 10 of 1998 on Banking (the "Banking Law") and Law No. 23 of 1999 on Bank Indonesia (the "BI Law") are the principal statutes governing bank licensing and regulation. These laws grant extensive enforcement and other powers to Bank Indonesia and to IBRA in relation to banks placed under IBRA's supervision. In addition, Indonesian banks are subject to various regulations, decrees and guidelines issued by Bank Indonesia, IBRA and the Minister of Finance.

LICENSING; LIMITATION OF BUSINESS ACTIVITIES OF BANKS

Under the Banking Law and BI Law, any party engaged in banking activities, which are defined to include deposit taking and the use of such deposits for lending, must obtain a license for such purpose from Bank Indonesia. Bank Indonesia's approval is also required in order to open branch offices and overseas representative offices. Indonesian banks are subject to a number of restrictions on the operation of their business and the conduct of their corporate affairs. In particular, an Indonesian bank may not do the following:

- hold shares in other companies, with the following exceptions:
  - share participation in banks or other companies involved in the area of finance (which includes leasing, venture capital, securities and insurance companies and companies that offer clearing, settlement and custodian services); and
  - shares taken up by the bank temporarily in connection with permissible restructuring of non-performing loans or failure in relation to a financing arrangement provided by the bank on the basis of Syariah principles (as defined in the Banking Law);
- engage in the insurance business (except for share or capital participation or the offering of third party products); or
- engage in any activity prohibited by the Banking Law, such as acting as underwriter for an issuance of commercial paper or participating in trading of shares on a stock exchange.

BANK OWNERSHIP

Under Indonesian law, a bank can list a maximum of 99.0% of its shares on the stock exchange, and all of those shares may be purchased by foreign investors. The remaining 1.0% must be held by Indonesian investors and cannot be listed.

Under a Bank Indonesia decision letter dated May 14, 1999, anyone purchasing bank shares must: (i) not appear in the list of "flawed persons" in the field of banking as determined by Bank Indonesia, and (ii) be considered by Bank Indonesia to be a "fit and proper person" under Bank Indonesia regulations. The concept of a "fit and proper person" is very broad and encompasses an assessment of a person's good character and morals, adherence to the prevailing laws and regulations and commitment to developing a healthy banking system, as well as the person's previous record in the Indonesian banking industry.

The approval of Bank Indonesia is required for any person to purchase shares in a bank, either directly or through a stock exchange, where the purchase is for 25.0% or more of the bank's issued shares or such lower proportion that results in a transfer of control of the bank. However, approval is not required when the purchaser of the bank's shares does not intend to record such shares in the bank's share register as the bank's shareholder. The concept of "person" for this purpose includes natural persons and legal entities. Where a person purchases directly or through a stock exchange 5.0% or more of the issued shares of a bank, such person is required to report the purchase to Bank Indonesia and BAPEPAM within 10 days of the person becoming registered as a shareholder in the bank's share register.

If the person purchasing shares in the bank does not meet the requirements for being a shareholder of the bank in question, such person must transfer the shares to another party who fulfills such requirements within 90 days of notice from Bank Indonesia that the purchaser is an "unfit" purchaser. If such a transfer is not made within the specified period, the purchaser of the shares will be prohibited from acting as a shareholder and cannot have its shares registered in the share registry. Divestment or reduction of a shareholding to an amount below 10.0% is required in a case where an existing shareholder is subsequently deemed not to be a fit and proper person by Bank Indonesia.

BANK MANAGEMENT

In Indonesia, a commercial bank is managed by a board of directors under the supervision of a board of commissioners. The management composition of a commercial bank must include at least three directors and two commissioners. Commercial banks with shares owned by foreign investors can place foreign bankers as members of the board of directors and board of commissioners, provided that at least one member of each of the board of commissioners and board of directors is an Indonesian citizen.

Candidates for the board of commissioners and the board of directors must be approved by Bank Indonesia prior to being appointed. A director is not permitted to also act as a commissioner of a bank, or as a member of the board of directors or hold any other executive position in another banking institution, company or institution while he or she serves as a director of a bank. In addition, members of the board of directors are not permitted, individually or collectively, to own more than 25.0% of the issued capital of any other company.

Members of the board of commissioners are only permitted to act as members of the board of commissioners in one other bank or a credit union bank (Bank Perkreditan Rakyat ("BPR")). A commissioner may only hold office as a member of the board of commissioners, the board of directors or as an executive in not more than two other non-bank or non-BPR institutions.

Pursuant to Bank Indonesia regulations, all commercial banks must appoint one director to act as the compliance director who will ensure that each of these banks complies with Bank Indonesia regulations, other regulations governing the activities of banks and any other agreements and commitments that such bank may enter into with Bank Indonesia.

CAPITAL REQUIREMENTS

Minimum Paid-in Capital

Bank Indonesia regulations also require Indonesian banks to maintain a minimum level of shareholders' equity. Bank Indonesia requires that newly established commercial banks have a minimum paid-in capital of Rp3,000 billion.

Capital Adequacy Requirements

In 1991, Bank Indonesia introduced minimum capital adequacy requirements which were primarily based on the Bank for International Settlements standards set forth in the Basel Accord of 1988, with some modifications. The capital adequacy requirement is an obligation of the bank to maintain minimum capital at a certain percentage of the risk-weighted assets stipulated by Bank Indonesia. Bank Indonesia has further modified these requirements and related calculations. Bank Indonesia issued a regulation on December 13, 2001 which modified these requirements and related calculations. Under this regulation, Indonesian banks are required to maintain a capital adequacy requirement of at least 8.0% of the bank's risk-weighted assets. Indonesian banks which do not satisfy the capital adequacy requirement could be placed under special supervision under the prevailing regulations.

A bank's capital adequacy requirement is derived by dividing its "total capital" by its risk-weighted assets. Under Bank Indonesia regulations, total capital includes both core ("Tier I") capital and supplementary ("Tier II") capital and should be net of any external equity participation of the bank.

Tier I capital consists of paid-in capital and disclosed reserve, and should be net of any goodwill. Disclosed reserves may consist of:

- additional capital (additional capital received from the sale of the bank's shares at a premium over its par value),
- donated capital,
- contributions from retained net earnings,
- appropriated reserves,
- retained earnings net of taxes (including those from previous years the utilization of which the shareholders have yet to determine),
- 50.0% of the net income for the fiscal year,
- any positive currency mismatch from foreign branches, and
- capital provision (additional paid fund intended as additional capital which is yet subject to shareholder's approval).

This disclosed reserve needs to be reduced by:

- reduction in capital (reduction in capital as a result of the sale of the bank's shares at the price lower than nominal value),
- losses from previous years,
- losses for the fiscal year,
- any negative currency mismatch from foreign branches, and
- any decrease in the value of the current portfolio.

Tier II capital consists of:

- fixed assets revaluation reserves,
- provisions on the loss of productive assets of a maximum 1.25% of the risk weighted assets,
- quasi capital (certain types of loans that have similar characteristics to equity),
- subordinated loans (up to a maximum of 50.0% of Tier I capital), and
- any increase in the value of the current portfolio (maximum 45.0% increase).

For the purpose of calculating the capital adequacy requirement, Tier II capital may only be accounted to the extent that it does not exceed 100.0% of Tier I capital. Risk-weighted assets consist of all assets on a bank's balance sheet together with certain off-balance sheet items weighted by certain percentages depending on the risks associated with the type of asset. A Bank Indonesia regulation dated November 8, 2000 requires that the capital adequacy requirement be presented without taking into account deferred income tax.

Bank Indonesia has stated that it will continue to evaluate commercial banks every three months to ensure that they meet the minimum capital adequacy requirements. Should a bank's capital adequacy requirement drop below 4.0%, its shareholders may be required to inject capital until the required capital adequacy requirement is reached. Pursuant to Bank Indonesia regulations, Bank Indonesia may place a commercial bank under special surveillance if the bank's capital adequacy ratio has fallen below 8.0%, the minimum compulsory reserve for Rupiah-denominated deposits has fallen below 5.0%, or it is experiencing a basic liquidity problem. Bank Indonesia may take certain actions with respect to any bank so placed under special surveillance, including, but not limited to, ordering that: (i) the bank be prohibited from making distributions of capital, (ii) the bank be prohibited from making payment on subordinated debt, (iii) the bank be prohibited from engaging in any transaction with affiliated parties or such other parties determined by Bank Indonesia, unless prior approval has been obtained from Bank Indonesia, (iv) the bank report certain changes in its shareholding to Bank Indonesia, and (v) the bank be prohibited from selling or diminishing its assets or increasing its commitments or contingencies without prior approval from Bank Indonesia, except, among others, Bank Indonesia certificates, inter-bank collections and Government bonds.

Bank Indonesia has advised us that it is considering incorporating market risk considerations into the calculation of the capital adequacy requirement and that this may take effect from 2004. However, no further details as to the likely impact on the calculation of the capital adequacy requirement have been released.

ASSET CLASSIFICATION, ALLOWANCE FOR POSSIBLE LOSSES AND CREDIT RESTRUCTURING

Asset Classification

Bank Indonesia requires commercial banks to classify the productive assets in their portfolios into one of five categories. These classifications are used to determine the minimum levels of loss allowances the banks are required to maintain. Performing assets are described as ‘‘current’’ and ‘‘special mention’’. Non-performing assets are divided into three categories, having different specific allowances: ‘‘sub-standard’’, ‘‘doubtful’’ and ‘‘loss’’. As shown in the following chart, assets are classified according to three sets of criteria: (i) business prospects, (ii) financial condition with an emphasis on cash flow, and (iii) capacity for repayment.

Current	Special mention	Sub-standard	Doubtful	Loss
Business Prospects				
1. Industry or business activities have good growth potential	Industry or business activities have limited growth potential	Industry or business activities show very limited or no growth potential	Declining industry or business activities	Continuation of activities is in doubt, industry is declining and recovery prospects are dim Strong likelihood of a discontinuation of business activities
2. Stable market which is not affected by changing economic conditions	Good position in the market, not greatly affected by economic changes	Market is affected by changing economic conditions	Market is affected by changing of market conditions	Losing market share in light of declining economic conditions
Limited competition and strong position in the market	Market share is comparable with competitors	Market position is good but competitors are numerous, however, market share can be recovered by implementing new business strategies	Very intense competition and company’s operations face serious problems	—
3. Very good management	Good management	Fair management	Management lacks experience	Very weak management
4. Affiliated companies or groups are stable and supporting the business	Affiliate companies or groups are stable and do not negatively impact on debtor	Relationship with affiliated companies or groups have somewhat of a negative impact on debtor	Affiliate companies or groups are negatively affecting debtor	Affiliated companies are damaging debtor
5. Adequate number of employees and records of any conflicts or strikes	Adequate number of employees and there is no record of any conflicts or strikes	Too many employees, however, relationship between management and employees is good	Excessive number of employees which may cause unrest	Strikes by employees and employee management relations are poor

Current	Special mention	Sub-standard	Doubtful	Loss
Financial Conditions				
1. Earnings are high and stable	Earnings are adequate, however, there is potential for decline	Low earnings	Earnings are very low or negative	Suffering great loss
			Operational losses are covered by selling assets	Debtor cannot satisfy all of its obligations and business activities cannot be continued
2. Strong capital	Capital is quite good and owners have ability to provide additional capital when required	Debt to capital ratio is quite high	Debt to capital ratio is high	Debt to capital ratio is extremely high
3. Strong liquidity and working capital	Liquidity and working capital are generally good	Lack of liquidity and limited working capital	Very low liquidity	Little or no liquidity
4. Cash flow analysis shows that debtor is able to repay its principal and interest without support from additional funding sources	Cash flow analysis shows that although debtor is able to repay its principal and interest, there is an indication of certain problems which will affect future payments if not resolved	Cash flow analysis shows that debtor can afford to pay interest and only part of principal	Cash flow analysis shows inability to pay principal and interest	Cash flow analysis shows that debtor is unable to cover production costs
5. Some business activities are sensitive to changes in foreign exchange and interest rates are relatively low or risks have been well-protected by hedging	Some business activities are sensitive to changes in foreign exchange and interest rates, however, risks are limited	Business activities are affected by changes in foreign exchange and interest rates Credit extension used to offset financial problems	Business activities are greatly affected by changes in foreign exchange and interest rates New loans are used for covering matured liabilities	Business activities are threatened due to fluctuations in foreign exchange and interest rates New loans are used for covering operational loss
Ability to Repay				
1. Timely repayment and no arrears	Arrears up to 90 days and occasional overdrafts	Arrears range from 91 to 180 days and frequent overdrafts to cover operational loss	Arrears range from 181 to 270 days and permanent overdraft	Arrears exceed 270 days
2. Good relationship with bank and regular financial reporting	Good relationship with bank and regular financial reporting	Compromised bank relationship and unreliable financials	Weak bank relations and financials are unavailable or unreliable	
3. Complete credit documentation and strong collateral	Complete credit documentation and strong collateral	Incomplete credit documentation and weak collateral	Incomplete credit documentation and weak collateral	No credit documentation and/or no collateral
	Breach of principles in credit agreement	Breach of principles in credit agreement Credit extension to cover financial problems	Breach of principles in and basic requirements of credit agreement	

Bank Indonesia decision letters provide that income from assets classified as "sub-standard", "doubtful" and "loss" can only be recognized where payments have been received in cash. Income from assets of the "current" and "special mention" categories which has already been accrued must be corrected where the quality of such assets is downgraded to "sub-standard", "doubtful" or "loss".

Allowances for Possible Losses

Bank Indonesia requires commercial banks to set aside allowances for possible losses on productive assets. Banks are required to establish allowances for possible losses in the form of a "general reserve" and a "special reserve" to cover the risk of possible losses. The general reserve for possible losses must be a minimum of 1.0% of the productive assets that are classified as "current" (excluding SBI and Government bonds). The special reserve for possible losses must be at least 5.0% of the value of the productive assets that are classified as "special mention", 15.0% of the productive assets (after deducting the value of allowable collateral) that are classified as "sub-standard", 50.0% of the productive assets (after deducting the value of allowable collateral) that are classified as "doubtful" and 100.0% of the productive assets (after deducting the value of allowable collateral) that are classified as "loss". We make additional allowances above Bank Indonesia requirements.

The collateral value calculable as a deduction from allowances must be evaluated by independent appraisers in the case of: (i) loans and other credit in excess of Rp1.5 billion (to a borrower or group of borrowers) by banks with capital of up to Rp300 billion; and (ii) loans and other credit in excess of Rp2.5 billion (to a borrower or group of borrowers) by banks with capital of Rp300 billion or more. When making allowances for "sub-standard", "doubtful" or "loss" loans, the bank can deduct the value of collateral under control of the bank (eg, land, buildings or other fixed assets) from the amount outstanding, if the bank has an external professional appraisal of the collateral performed. The table below sets forth the maximum amount of the value of collateral which can be deducted:

Collateral	Appraisal	Collateral Value
Cash and deposits	Not applicable	100.0%
SBIs and Government debentures	Not applicable	100.0%
Negotiable instruments actively traded in the capital markets	Market value registered at the stock exchange at month-end	50.0%
Land	Market value	70.0% for appraisals made in the preceding 6 months 50.0% for appraisals made in the preceding 18 months 30.0% for appraisals made in the preceding 30 months 0% if appraisal is more than 30 months old
Houses	Market value and calculation of costs	
Buildings, aircraft and vessels	Market value, calculation of costs and capitalization of income	

Any violation of the requirement to set aside the requisite allowances for possible losses can lead to the imposition of administrative sanctions, including the revocation of a bank's license.

Asset Restructuring

In a decision letter issued in 1998, as amended by regulations issued in 2000, Bank Indonesia announced restructuring guidelines for commercial banks. These regulations provide that banks may only restructure debts when the borrower has good business prospects but is facing, or is likely to face, difficulty in meeting its payment obligations. In addition, these regulations require that all banks establish written debt restructuring procedures. These regulations are applicable to our loan portfolio.

After an asset is restructured, its classification will be: (i) "sub-standard" for assets that were classified as "doubtful" or "loss" before the restructuring; or (ii) unchanged for assets that were classified as "current", "special mention" or "sub-standard" before the restructuring. The restructured credit may be reclassified to "current" if for a period of three months after restructuring no payment of principal or interest is overdue.

PRUDENTIAL PRINCIPLES ON THE PURCHASE OF IBRA LOANS

Under Bank Indonesia regulations, banks may purchase restructured or unrestructured loans directly from IBRA or through intermediary companies (for example, from an asset management company or a special purpose vehicle). A bank may purchase loans from IBRA at an aggregate purchase price of up to a maximum of 50.0% of the bank's core capital. The purchase price of the loans acquired from IBRA must be based on market value. Banks must record the purchased outstanding claims relating to the loans on its balance sheet. The difference between the outstanding claims and the purchase price must be recorded as deferred income (if the bank executes a new loan agreement with the borrower) or as a provision (if the bank does not enter into a new loan agreement).

Bank Indonesia regulations also provide that banks are required to recognize the income from the purchased loans on a cash basis and must collect the purchase price in full within five years from the date when the purchased loans were recorded in the balance sheets of the bank. Any uncollected outstanding claims at the end of the fifth year must be written off. Banks are permitted to provide additional funds to a borrower whose loans have been purchased. However, banks or their bank subsidiaries are prohibited from providing funds to a borrower for the purpose of repaying loans originally purchased by that bank.

LEGAL LENDING LIMITS

Under Bank Indonesia regulations, a bank may not extend credit in excess of 10.0% of its capital to affiliates and 20.0% of its capital to non-affiliates. For the purpose of determining legal lending limit violations:

"affiliates" include borrowers and groups of borrowers who are:

- shareholders holding 10.0% or more of the shares in the bank;
- members of the board of directors of the bank;
- members of the board of commissioners of the bank;
- family members of any of the parties described above;
- bank officials;
- companies in which any of the above-mentioned persons have a 10.0% or more interest or are able (in the absence of shareholding) to influence the operation, supervision or decision making of that company; and
- subsidiaries of banks where the bank holds 25.0% or more of the shares of the company and/or where the bank controls the relevant company.

"non-affiliates" are borrowers or groups of borrowers who do not fall within the definition of affiliate.

The determination of whether borrowers are part of the same group is based on a number of factors, including ownership of capital, common management, and financial relationships that indicate business control, including where:

- 25.0% or more of the shares in the company are controlled by another company or individual, or those shares are held jointly by members of the same family;
- a common holding company holds 25.0% or more of two or more companies' shares;
- two or more have common management, such as interlocking boards of directors;
- in the absence of the ownership and/or management relations as set out in (a), (b) and (c), two or more companies are considered to be a group if the following financial relations exist between them:
  - one company acts as the guarantor of the credit facility of the other company; or
  - one company provides financial assistance to the other company, thereby obtaining control of the business of the company to which it provided assistance.

Banks are required to submit monthly reports to Bank Indonesia specifying any violations of the legal lending limits and the amount of the funds extended to Affiliates and Non-Affiliates. Any violations of legal lending limits arising from the change in exchange rates and/or decrease in capital in the credits already extended are not considered to be a violation of the legal lending limits.

STATUTORY RESERVES AND LIQUIDITY

Bank Indonesia requires Indonesian banks to maintain statutory reserves, on a daily basis, in the form of non-interest bearing deposits with Bank Indonesia equivalent to at least 5.0% of its Rupiah-denominated third-party deposits (excluding liabilities to other banks) and at least 3.0% of foreign currency-denominated third-party deposits (including liabilities to other banks).

The penalty for a shortfall in statutory reserves denominated in Rupiah is as follows:

- 150.0% of the average overnight JIBOR for every violation;
- 200.0% of the average overnight JIBOR for any violation exceeding a period of seven consecutive working days; and
- 400.0% of the average overnight JIBOR for any violation exceeding a period of 14 consecutive working days.

The penalty for any shortfall in statutory reserves denominated in foreign currency is 0.04% per day, which is charged in Rupiah on the basis of the middle exchange rate for export transactions issued by Bank Indonesia on the date the shortfall occurs.

A bank must also settle any negative balances before the next clearing submission day. In a case where the bank cannot settle its negative balance, the bank can be suspended from any further clearing activity. A penalty of 500.0% of the average overnight JIBOR may be imposed if the bank cannot settle its negative balance.

PRIORITY LENDING GUIDELINES

Bank Indonesia encourages (but does not require) banks to lend part of its funds for small business credits (Kredit Usaha Kecil or "KUK") in Rupiah and/or foreign currency with the maximum credit of Rp500,000,000 for funding of productive businesses.

COMMERCIAL PAPER

Bank Indonesia regulates the issuance and trading of commercial paper. Banks are prohibited from acting as arrangers, issuing agents, paying agents or dealers of commercial paper that (i) is issued by companies that are considered to be part of the bank's business group, or (ii) is issued by a company whose debts are categorized as "doubtful" or "loss" at any bank.

A bank is also prohibited from acting as guarantor of commercial paper. However, a bank given a "sound" rating by Bank Indonesia for a period of at least 12 months is allowed to act as an arranger, issuing agent, paying agent or dealer of commercial paper that has an investment grade rating according to the Indonesian rating agency.

REPORTS OF OFFSHORE BORROWING

Bank Indonesia regulations require Indonesian banks to report their offshore borrowings to Bank Indonesia. Such offshore borrowings include foreign currencies and/or Rupiah which are based on loan agreements, negotiable paper or other agreements (ie, commercial debts) except liabilities of banks in the form of GIRO funds, savings and time deposits belonging to non-residents, amounting to US$500,000 or its equivalent in other currencies at the exchange rate prevailing on the signing date of such agreements. The reports that are required to be submitted to Bank Indonesia state principal and realization information respecting the offshore borrowing, and must be submitted to Bank Indonesia within 15 working days of signing the underlying borrowing documents. In addition, a report on the performance of these borrowings must be submitted to Bank Indonesia on the 15th day of each month.

LIMITS ON FOREIGN EXCHANGE EXPOSURE

Bank Indonesia limits a commercial bank's net open position to a maximum of 20.0% of its capital at the end of each working day. Under guidelines issued by Bank Indonesia, "net open position" means the sum of the absolute values of (i) the net differences between asset and liability balances for each foreign currency, and (ii) the net differences between claims and liabilities in the form of both commitments and contingencies in administrative accounts, for each foreign currency, which is denominated in Rupiah and calculated by consolidating all branch offices located in and outside Indonesia.

INTEREST RATE REGULATION

Bank Indonesia does not formally regulate the interest rates charged by banks on loans or paid on deposits, except with regard to those that are guaranteed by the Government. It does, however, indirectly monitor interest rates being charged and paid by Indonesian banks on an informal basis to help ensure that changes in rates offered by the banks are not likely to frustrate the Government's monetary policies and are consistent with an environment of competition among banks.

EXCHANGE CONTROL POLICY

Indonesia currently has limited foreign exchange controls. Foreign currency is generally freely transferable within or from Indonesia. However, Indonesian banks are prohibited from conducting the following transactions: (i) provision of loan overdrafts (in Rupiah and foreign currency denominations); (ii) fund allocation in Rupiah denominations, including transfer of Rupiah to a bank domiciled outside Indonesia or to an off-shore branch of an Indonesian bank; and (iii) any investment in Rupiah denomination with foreign parties and/or Indonesian parties domiciled or permanently residing outside Indonesia. These regulations also restrict the nominal value of currency derivative transactions involving Rupiah entered into by banks to a maximum nominal amount of US$3 million or its equivalent. In addition, Bank Indonesia has the authority to request information and data concerning the foreign exchange activities of all people and legal entities that are domiciled, or plan to domicile, in Indonesia for at least one year. Bank Indonesia regulations also require banks to report all data concerning their foreign currency activities to Bank Indonesia.

BANK RATING

Bank Indonesia rates each Indonesian bank as "sound", "fairly sound", "less sound" or "insolvent" in order to assist the bank's management in assessing whether or not the bank is being managed in line with prudent banking principles and in accordance with Bank Indonesia regulations. Since December 2000, we have continually been rated as "sound". The ratings are conducted primarily on the basis of a number of quantitative and qualitative factors relating to the growth and financial condition of the bank, including capital, asset quality, management, earnings and liquidity. The rating is also affected by the degree to which a bank complies with the various regulatory requirements.

PERIODIC REPORTS

Bank Indonesia regulations require Indonesian banks to file quarterly financial statements and annual audited financial statements with Bank Indonesia and publish their financial reports in a newspaper. Banks are also required to submit monthly reports to Bank Indonesia on the results of their operations and financial position and weekly reports on their financial and liquidity positions.

AUDITS AND INSPECTIONS

Bank Indonesia conducts periodic audits of each bank and is entitled to conduct inspections and investigations and to request additional information to ensure compliance with its regulations or obtain information it may need for enforcement purposes. Bank Indonesia may appoint a public accountant to act on its behalf in performing an audit of a bank.

TRADING OF GOVERNMENT RECAPITALIZATION BONDS

Pursuant to Bank Indonesia regulations, banks holding Government recapitalization bonds issued as part of the Bank Recapitalization Program may trade up to 100.0% of their holding of such bonds in the secondary market. Only bonds which are held in a bank's trading account may be used as security. In accordance with these regulations, any trade of Government recapitalization bonds must be reported to Bank Indonesia.

ANTI-MONEY LAUNDERING LEGISLATION

On April 17, 2002, Indonesia issued its first legislation on money laundering. The law defines money laundering as all transactions, whether intentional or negligent and whether on behalf of oneself or a third party, involving "illegal assets". Illegal assets are defined as all forms of assets valued at Rp500 million or more which have been obtained through criminal activities including, among other activities, terrorism, corruption and smuggling.

Effective on October 17, 2003, the law requires financial service providers, such as banks, to report suspicious financial transactions to the Center for Reporting and Analyzing Financial Transactions, as well as cash financial transactions with a cumulative value of Rp500 million and non-cash financial transactions utilizing other instruments of equal value where such financial transaction is carried out within one working day. In fulfilling these anti-money laundering requirements, banks are exempt from any rules providing for banking secrecy that might otherwise apply.

"KNOW YOUR CUSTOMER" PRINCIPLES

Banks are also required by Bank Indonesia to implement certain prudential banking principles, referred to as "Know Your Customer" principles. These regulations require that, at a minimum, before embarking on a business relationship (including prior to the opening of a deposit account for a potential customer), the bank must request the following information from the potential customer: (i) the identity of the potential customer (supported by proper documentation), (ii) the purpose and objective of the customer in having a business relationship with the bank, (iii) other information about the customer that would allow the bank to be aware of the profile of the potential customer, and (iv) the identity of any third party for whom or on whose behalf the potential customer acts.

ENFORCEMENT

If a bank faces liquidity or other problems that jeopardize its business activities, the Banking Law authorizes Bank Indonesia to do any of the following:

- require the shareholders of the bank to inject further capital into the bank;
- require the shareholders to change the members of the board of directors and the board of commissioners;
- require the bank to write-off its bad loans and account for its losses with its capital;
- require the merger or consolidation of the bank with another bank;
- require that the bank be purchased by a third party who is willing to assume the bank's liabilities;
- require the bank to hand over the management of all or part of the bank's activities to another party; and
- require the bank to sell part, or all, of its assets and/or liabilities to another bank or party.

If Bank Indonesia considers that these steps are insufficient to overcome the difficulties faced by the bank or to protect the interests of the Indonesian banking system as a whole, it may revoke the bank's license. If the bank's licence is revoked, the board of directors of the bank is obliged to hold a general meeting of shareholders to approve the dissolution of the bank and to establish a liquidation committee. If the directors do not hold such a meeting, Bank Indonesia can have the bank dissolved based on a court order. Alternatively, Bank Indonesia may place the bank under IBRA's authority as a "bank in restructuring".

The power and authorities given to IBRA as the temporary "special government agency" are set out in Article 37A of the Banking Law, read in conjunction with Government Regulation No. 17 of 1999 and its amendments ("Regulation 17"). IBRA's power over banks under its supervision (referred to as "banks in restructuring") are extremely broad. IBRA's power includes the right to:

- take over the authority of management and the shareholders (including the right and authority of the general meeting of shareholders of a bank);
- assign the management of a bank and the bank's assets to third parties;
- sell or transfer the assets of a bank, its directors, its commissioners and certain shareholders of the bank involved in causing the bank's financial difficulties, whether located in Indonesia or outside Indonesia;
- sell or transfer bank receivables without approval from the bank's debtors; and
- require controlling shareholders to inject additional capital into a bank.

Based on the broad authorities set out in the Banking Law, Regulation 17 grants IBRA the power to reach settlements with banks, bank owners and debtors under IBRA's supervision. In reaching such settlements, Regulation 17 empowers IBRA to take any legal action in relation to a "bank in restructuring" and its assets and liabilities as well as in relation to the assets of any shareholders, directors or commissioners of such bank whose fault, negligence or improper actions have caused the bank a loss.

Under Bank Indonesia regulations, Bank Indonesia has the authority to determine a bank's status as: (i) "BDP" (restructured bank) and place it under IBRA's supervision, if, among other things, by or before March 2002, or June 2002 for publicly-listed banks (with an extension of up to three months available) ("Corporate Action Period"), a bank had a capital adequacy ratio of less than 8.0% but had the potential to reach a capital adequacy ratio of or above 8.0% at the end of a restructuring program conducted by IBRA; or (ii) "BBKU" (bank whose activities are frozen) if, during the Corporate Action Period, the condition of the bank has deteriorated to a capital adequacy ratio of less than 2.0% and is deemed not to have the potential to increase its capital adequacy ratio to 8.0% or if its Rupiah Minimum Mandatory Reserve ratio (the minimum reserve of funds that must be maintained in reserves with Bank Indonesia in proportion to a bank's total third party Rupiah funds) is less than 0.0% or if at the end of the Corporate Action Period, the bank's capital adequacy ratio is less than 8.0% and the bank's condition is unrecoverable and cannot be placed under BDP status.

If a bank fails to comply with regulations issued by Bank Indonesia, Bank Indonesia has the authority to impose administrative sanctions, which may include the imposition of monetary penalties, a decrease in the rating of the bank (which may prevent the bank from opening new branches), restrictions on participation in clearing activities, suspension of all or part of the activities of the bank, employees of the bank and shareholders being placed on the list of persons who are not fit and proper persons to act in the field of banking and those penalties mentioned above.

Description of Our Shares

Our authorized capital is Rp15,000 billion (US$1,815 million) divided into 29,999,999,999 common shares and the Special Share, each with a par value of Rp500 per share. Prior to the Global Offering, the Special Share and 9,999,999,999 common shares were outstanding, all of which were fully subscribed and paid for as of the date hereof, and none of which has been listed on any securities exchange.

The following is a summary of material rights and restrictions related to our shares under applicable provisions of Indonesian law and the provisions of our Articles of Association. This description does not purport to be complete.

COMMON SHARES

All transfers of our common shares must be evidenced by an instrument of transfer signed by or on behalf of the transferor and by or on behalf of the transferee or based on other documents that give satisfactory evidence of such transfer in the opinion of the board of directors. In addition, any transfer of our shares must comply with rules and regulations applicable in the Indonesian capital markets and of the Jakarta Stock Exchange. Transfers of shares take effect only after the transfer is registered in our register of shareholders (the "Register"). The transferor of any shares will be treated as the owner of such shares until the name of the transferee has been recorded in the Register by the board of directors. Under the scripless system, PT Kustodian Sentral Efek Indonesia ("KSEI") will be registered as the holder of the shares in our Register, in its capacity as the central securities depositary institution that holds the shares on behalf of KSEI participants that in turn hold the shares on behalf of the investors ("Beneficial Shareholders").

The holders of shares whose names are recorded in the Register ("Registered Shareholders") are entitled to pre-emptive rights in the event we issue new shares, convertible bonds, warrants or other securities convertible into equity securities, except as provided below. See "Risk Factors—Risks Relating to Ownership of Our Shares—Your right to participate in our rights offerings could be limited, which would cause dilution to your holdings". For shares deposited with KSEI, all ownership rights are automatically distributed by KSEI, through KSEI participants, to investors ultimately holding the shares as Beneficial Shareholders (or their assignees). Such pre-emptive rights may be sold and transferred to third parties without our consent to the extent permitted by the rules and regulations applicable in the Indonesian capital markets and of the Jakarta Stock Exchange. If the Registered Shareholders or the Beneficial Shareholders (or their respective assignees) do not exercise their pre-emptive rights within a period of time determined by the board of directors (in accordance with the prevailing regulations) after the issuance of new securities, the board of directors may issue such shares, convertible bonds, warrants or other securities to third parties on the same terms and conditions.

In accordance with our Articles of Association, we may increase our capital without providing a pre-emptive right to the Registered Shareholders or the Beneficial Shareholders to subscribe for securities if we comply with the following provisions:

(1) if within any three-year period, the increase in our authorized share capital without pre-emptive rights attaching is no more than 5.0% of the paid-in capital; or

(2) if the main objective of the increase in our authorized share capital is to improve our financial position, under one of the following conditions:

  (i) we have received a loan from Bank Indonesia or from another Government institution in an amount greater than 200.0% of paid-in capital or any other condition that may cause our restructuring by an authorized Government agency; or

  (ii) we have defaulted or are not capable of avoiding default in payment of our liabilities with a non-affiliated provider of a loan, and the loan provider or non-affiliated creditor agrees to receive our shares or convertible bonds to settle the loan.

Other than as described above, our authorized share capital may be increased or decreased by a resolution of an extraordinary general meeting of shareholders and amendment of our Articles of Association. Any such amendment will be effective only after obtaining approval from the Minister of Justice and Human Rights. In the case of a decrease in our authorized share capital, the approval from the Minister of Justice and Human Rights may only be given if (i) approved by a general meeting of shareholders; (ii) there are no objections from our creditors; (iii) a settlement has been reached on any objection raised; or (iv) any creditors' lawsuit as the result of objections by creditors has obtained a final and binding judgment rendered by the court.

The Special Share

All shares issued by us are registered shares and registered under the name of the holder recorded in our Register. The shares consist of an A Share (the Special Share), which can only be owned by the Government, and B Shares (common shares), which can be owned by the public. The Special Share is not transferable. All candidates for election to the board of commissioners and to the board of directors must be nominated by the holder of the Special Share.

The holder of the Special Share also has rights such that its approval is required for certain of our decisions, including decisions to:

- approve an increase in capital (Article 4 paragraph 9);
- elect and remove directors and commissioners (Articles 11 paragraph 3 and 14 paragraph 3);
- approve amendments to the Articles of Association (Article 27 paragraph 5);
- approve a merger, consolidation and acquisition of the Bank (Article 28 paragraph 1.d); and
- approve dissolution and liquidation (Article 29 paragraph 4).

Otherwise, the material rights and restrictions that are applicable to common shares are also applicable to the Special Share.

Ownership of Shares by Non-Indonesians

Under Indonesian laws, foreign investors are permitted to purchase up to 100.0% of the listed shares of Indonesian banks. However, only 99.0% of the registered shares of an Indonesian bank may be publicly listed, and the remaining 1.0% must be held by an Indonesian investor and cannot be listed. See "Supervision and Regulation—Bank Ownership".

Shareholders' Meetings and Voting Rights

Each share entitles the owner thereof to cast one vote in general meetings of shareholders. In the case of shares held by KSEI, prior to our taking corporate action, KSEI must provide details to us concerning the share entitlements of all the Beneficial Shareholders on whose behalf shares are held. A KSEI participant holding the shares on behalf of a Beneficial Shareholder is obliged to notify such Beneficial Shareholder of the exercise of any pre-emptive rights, delivery of annual reports and other notices issued by us as well as notices of general meetings of shareholders. Beneficial Shareholders or their legal representatives have the right to be present and vote at our general meetings of shareholders. See "Indonesian Capital Markets".

Our annual general meeting of shareholders must be held by no later than June 30 of each year. At such annual general meeting, the board of directors must (i) report on our affairs and management and the results for the most recent financial year; (ii) submit for approval and ratification the audited balance sheet and audited profit and loss statement for the prior financial year; (iii) submit a plan for the use of profits and the amount of dividends, if any, to be declared with respect to the prior financial year; (iv) to the extent necessary, propose for election and appointment by the shareholders members of the board of commissioners and the board of directors; (v) submit all other matters to be addressed in the meeting; and (vi) propose, for appointment by the shareholders, the registered public accountant. All materials described above must be made available in our office for inspection by any shareholder from the day such shareholder is notified of the annual general meeting through the date of the annual general meeting. Proposals duly submitted by shareholders representing at least 10.0% of our subscribed shares must be included in the agenda of such meeting, provided that such proposals are received by the board of directors at least seven days prior to such notification.

Either the board of directors or the board of commissioners may convene an extraordinary general meeting of shareholders. An extraordinary general meeting of shareholders must be convened upon receipt of written notice requesting a meeting from one or more shareholders owning an aggregate of at least

10.0% of our subscribed shares. In the event neither the board of directors nor the board of commissioners convenes such a meeting within 30 days of receipt of such written notice, the applicable shareholders may call a meeting at our expense after obtaining the approval of the District Court.

At least 14 days prior to the issuance of notice of both extraordinary general meetings and annual general meetings of shareholders, an announcement must be made by placing an advertisement in at least two daily newspapers published in Indonesia, one of which must have a wide circulation in Indonesia and the other circulating in our domicile or at the places where our shares are listed, that a shareholders' meeting is to be called. Notice to the shareholders of the meeting must also be by newspaper advertisement, as described above, published at least 14 days before the date of the meeting (excluding the date of the notice and the date of the meeting).

The quorum for a general meeting of shareholders is shareholders and/or authorized proxies representing more than 50.0% of the issued shares, with voting rights represented either in person or by a power of attorney at such meeting (except for a general meeting of shareholders concerning certain transaction such as (i) the transfer or disposal of rights or encumbrances of all or more than 50.0% of our total assets, which requires the quorum for such general meeting of shareholders to be shareholders and/or authorized proxies representing more than 75.0% of the issued shares, with voting rights represented either in person or by a power of attorney at such meeting, (ii) amendments to our Articles of Association, which requires the quorum for such general meeting of shareholders to be shareholders and/or authorized proxies representing more than 66.7% of the issued shares, with voting rights represented either in person or by power of attorney at such meeting or (iii) a merger consolidation or acquisitions, which requires the quorum for such general meeting of shareholders to be shareholders and/or authorized proxies representing more than 75.0% of the rights represented either in person or by a power of attorney at such meeting).

Shareholders may be represented in a general meeting of shareholders by any person holding a power of attorney, provided that if the proxy is our commissioner, director or employee then the vote of any such proxy shall not be counted. In order to be adopted, resolutions must receive the affirmative votes of shareholders holding more than 50.0% of the shares who are either present or represented in the meeting (except for resolutions concerning certain transactions such as (i) the transfer or disposal of rights or encumbrances of all or more than 50.0% of our total assets, which requires the votes of more than 75.0% of the shares represented at such meeting, (ii) amendments to our Articles of Association, which requires the votes of more than 66.7% of the shares represented at such meeting, or (iii) a merger, consolidation or acquisitions, which requires the votes of more than 75.0% of the shares represented at such meeting).

DIVIDENDS

A portion of our profits, as determined by an annual general meeting of shareholders, after deduction of corporate tax, must be used as a reserve fund for dividends and certain other purposes.

Dividends, if any, are paid in accordance with a resolution adopted by an annual general meeting of shareholders, which resolution must establish the dividend payment amount. All shares that are fully paid and outstanding at the time a dividend or other distribution is declared are entitled to share equally in such dividend or other distribution. Dividends are payable to the persons whose names are recorded in the Register. Our Articles of Association provide that dividends unclaimed after a period of five years will be placed in a special reserve fund. However, shareholders may still exercise their rights to collect their dividends from the special reserve fund within the five-year period running from the date dividends are first payable.

A reserve fund, up to an amount of 20.0% of our subscribed capital, may be established to cover future losses and the amount to be placed in such reserve fund is determined by the general meeting of shareholders. Amounts in the reserve fund that exceed 20.0% of our subscribed capital may be used for working capital or other purposes, subject to the approval of our general meeting of shareholders. Any interest or other profit earned from such reserve fund must be entered in our profit and loss account.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Amendments to our Articles of Association can only be effected pursuant to a resolution at an extraordinary general meeting of shareholders attended and approved by shareholders or their proxies representing at least two-thirds of the votes cast with respect thereto, the holder of the Special Share must be present and resolution adopted at such meeting must be approved by the holder of the Special Share. Any amendment that would change our name, domicile or objectives and purpose, or would increase or reduce our authorized capital, reduce the subscribed capital or change our status will only be effective upon approval by the Minister of Justice and Human Rights. Any other amendments will only be effective if such amendments have been reported to the Ministry of Justice and Human Rights (which report must occur within 14 days of the date of passage of the related resolution) and registered with the Department of Trade and Industry. A resolution reducing our capital must be delivered to our creditors and published in the State Gazette of the Republic of Indonesia and in at least two newspapers published in Indonesia with wide circulation within seven days after such resolution has been passed. If a quorum for such extraordinary general meeting is not obtained, then no earlier than 10 days and no later than 21 days after the date of such original extraordinary general meeting, a second meeting may be held to render a legal and binding resolution on matters that were not resolved at the first meeting. The second meeting must be attended by shareholders representing at least two-thirds of the total issued shares, the holder of the Special Share must be present and resolutions adopted at such a meeting must be approved by the affirmative of the total votes cast at the meeting and must be approved by the holder of the Special Share.

LIQUIDATION

A resolution for our dissolution must be approved at a general meeting of shareholders attended by holders of at least three-quarters of the total number of shares outstanding and approved by at least three-fourths of the total votes cast at the meeting, including the approving vote of the holder of the Special Share. In the event we are wound up, dissolved or declared bankrupt, subject to insolvency or for any other reason provided under the Law No. 1 (1995) on Limited Liability Company (the "Company Law"), the general meeting of shareholders must appoint a liquidator to perform the liquidation procedures. If the general meeting of shareholders fails to appoint a liquidator, the board of directors shall act as the liquidator.

The liquidators must register the resolution for our dissolution in the Company Register, publish it in the State Gazette and two daily newspapers published in Indonesia and notify our creditors, the Minister of Justice and Human Rights, the Jakarta Stock Exchange and BAPEPAM.

RIGHTS OF SHAREHOLDERS

In general, Indonesian law has traditionally afforded shareholders fewer rights than those available in common law jurisdictions such as the United States and the United Kingdom. See "Risk Factors—Risks Relating to Ownership in Our Shares—You may be subject to limitations on minority shareholders rights". The Company Law affords certain rights to shareholders, and certain additional rights to one or more shareholders collectively representing at least 10.0% of all voting shares of a company ("Minority Shareholders").

A shareholder generally has the right to lodge a legal action against us if it has been harmed by any unfair and unreasonable action we have taken. In addition, each shareholder of a public company has the right to request us to repurchase the shareholder's shares at the then prevailing market price if such shareholder disagrees with certain of our actions which harm our interests or the interests of such shareholder. These actions include the amendment of our Articles of Association; the sale, pledge or exchange of all or a substantial amount of our assets; or our merger, consolidation or acquisition. Under the Company Law, we may repurchase shares, provided that such repurchase (i) may only be performed from our net profits and must not cause our net assets (as stated in our most recent balance sheet, as approved by the shareholders within the last six months) to fall below paid-in capital and reserves; and (ii) may not cause us and our subsidiaries to own more than 10.0% of our outstanding shares. To the extent that a request to repurchase shares exceeds these limitations, we are required to seek a third-party purchaser for such shares. Under Article 33 of the Company Law, shares repurchased by us may not be used to cast a vote in a general meeting of shareholders, and will not be counted in determining the quorum that has to be achieved in accordance with the Company Law and our Articles of Association. Such a limitation also applies to our shares that are purchased by our subsidiaries.

Our Minority Shareholders have certain other rights, which include the right to call a general meeting of shareholders in the event that the directors or commissioners fail to convene such meeting within the stipulated time and the right to lodge a derivative action on our behalf against directors or commissioners who, through error or negligence, have caused us losses. Under the Company Law, directors and commissioners are obliged to act in good faith, with full responsibility and in our best interests when carrying out their corporate duties. The Minority Shareholders may request that we be examined by a court-appointed third party if there is suspicion that we or any of our directors or commissioners has committed an act contrary to law. Minority Shareholders may also apply to a court for our dissolution. However, the Company Law does not specify the circumstances for which such application may be made.

Indonesian Capital Markets

The following information has been derived from publicly available information and has not been independently verified by us, the Selling Shareholder, the Lead International Selling Agent or the Lead Managing Underwriter.

BACKGROUND AND DEVELOPMENT

In 1976, the Government established a regulatory agency, the Capital Market Operations Board, *Badan Pelaksana Pasar Modal*, or BAPEPAM, and a national investment trust company, PT Danareksa Sekuritas, to reactivate and promote the development of a securities market in Indonesia. The first share issue listed on the JSX took place in August 1977. Up until the end of 1988, the shares of 24 companies were listed on the JSX and the volume of shares traded was relatively low.

Over the last twelve years, a number of reform measures affecting the Indonesian capital markets have been announced. These have led to the privatization of the JSX and its establishment as a limited liability company incorporating 221 securities trading companies as its shareholders. The operational transfer of the exchange from BAPEPAM to the JSX commenced effectively as of April 16, 1992. BAPEPAM is now operating under its new name, the International Supervisory Agency or Badan Pengawas Pasar Modal, with its principal function to ensure the orderly and fair operation of the securities exchanges.

The various reforms over the past few years have sought to strengthen the operational and supervisory framework of the Indonesian securities market and to improve the Indonesian securities market's trading environment. The measures also established an over-the-counter market *(Bursa Paralel)* and private stock exchanges outside Jakarta, the first of which, the SSX, was established in Surabaya.

Other reforms were also introduced to provide increased protection for minority shareholders, to improve disclosure requirements and clarify listing procedures. As of March 31, 2003, there were 331 firms listed on the JSX, with a market capitalization of Rp252 trillion (US$28 billion), compared to 24 listed companies with a capitalization of approximately Rp100 billion in December 1987, just prior to the introduction of the capital market reform measures.

OVERVIEW OF THE JAKARTA STOCK EXCHANGE

As of March 31, 2003, the JSX was comprised of 172 members. Of these 172 members, the top 20 most active members in total trading volume handled transactions for 14,439 million shares for the three months ended March 31, 2003, about 51.5% of total shares traded on the JSX during that period. In trading value, the top 20 most active members accounted for Rp17,207 billion in trading, or about 65.9% of the overall value of buying and selling transactions on the JSX for the three months ended March 31, 2003.

Trading rules on the JSX are, at present, generated in the form of decisions by the JSX. There are currently two daily trading sessions for regular market, negotiated market and cash market from Monday to Thursday, 9.30 am to 12.00 noon, followed by an afternoon session from 1.30 pm to 4.00 pm. There are two trading sessions on Friday, from 9.30 am to 11.30 am and from 2.00 pm to 4.00 pm. There is only one cash market trading session from Monday to Thursday, 9.30 am to 12.00 noon, and on Friday, 9.30 am to 11.30 am.

Trading is divided into three market segments: regular market, negotiated market and cash market. The regular market is the mechanism for trading stock in standard lots on a continuous auction market during exchange hours. Regular market trading is generally carried out in unit lots of 500 shares, except for bank shares which must trade in unit lots of 5,000. Auctioning takes place according to price priority and time priority. Price priority gives priority to buying orders at a higher price or selling orders at a lower price. If buying or selling orders are placed at the same price, priority is given to the buying or selling order placed first (ie, time priority).

The negotiated market trading consists of: (i) block trading of unit lots of 200,000 shares or more; (ii) odd lot trading with round lots of less than 500 shares for shares other than bank shares and round lots of less than 5,000 for bank shares; and (iii) crossing by an exchange member receiving buying and selling orders for the same number of shares at the same price agreed by the parties. Odd lots may not be traded more than 5.0% above or below the latest price on the regular market. Odd lot dealers may set prices within a range of not more than 7.0% above or below the regular market price, and must buy or sell stock direct to and from customers through cross trades and without charging commission. In the case of newly listed or newly traded shares which have yet to establish a market price, the benchmark price is the initial public offering price.

Transactions on the JSX regular market and negotiated market are required to be settled no later than the third trading day after the transactions, except for cross trading. Transactions on the JSX cash market are required to be settled on the trading day of the transactions. In case of a default by an exchange member on settlement, cash market trading takes place, pursuant to which trading of securities by means of direct negotiation on cash and carry terms will be conducted. All cash market transactions must be reported to the JSX. An exchange member defaulting in settlement is subject to sanctions by JSX, including a fine of up to Rp500,000,000, a written warning and suspension.

All transactions involving shares listed only on the JSX which use the services of brokers must be conducted on the JSX. In order for a trade to be made on the JSX, both the cash and securities settlement must be conducted through the facilities of the JSX. Engaging in short selling is prohibited under the applicable regulations. Furthermore, the JSX may cancel a transaction if proof exists of fraud, manipulation or the use of insider information. The JSX may also suspend trading if there are indications of fraudulent transactions or artificial inflation of share prices, misleading information, use of insider information, counterfeit securities or securities blocked from trading, or any other material event. The JSX may suspend trading of certain securities or suspend certain members of the stock exchange. For transactions involving shares listed on both the JSX and the SSX, either exchange may be used to effect the trade.

Members of the JSX charge a brokerage fee for their services, based on agreement with their client, up to a maximum of 1.0% of the transaction value. When conducting share transactions on the JSX, exchange members are required to pay a transaction levy equal to the cumulative transaction value for each month based on 0.04% (subject to a minimum fee of Rp250,000 a month) of transactions for shares and other registered securities. Exchange members pass on the cost of this levy to their clients. These clients are also responsible for paying a 10.0% value added tax on the amount of brokerage fee and transaction levy. Also, Indonesian sellers are required to pay a withholding tax of 0.1% (0.6% for founder shares) of the total transaction value. Additionally, stamp duty of Rp3,000 is payable on any transaction with a value between Rp250,000 and Rp1,000,000 and stamp duty of Rp6,000 is payable on every transaction with a value of more than Rp1,000,000.

Shareholders or their appointees may request the issuer or a securities administration bureau appointed by the issuer of such shares at any time during working hours to register their shares in the issuer's registry of shareholders. Reporting of share ownership to BAPEPAM is mandatory for shareholders whose ownership has reached 5.0% or more of issued and fully paid up capital, upon meeting such share ownership level.

The following table sets forth key figures for the JSX for the years 1998 to 2002:

JAKARTA STOCK EXCHANGE

	1998	1999	2000	2001	2002
Market capitalization (trillion Rp)	176	452	260	239	252
Trading volume (million shares)	90,621	178,847	134,531	148,381	171,207
Average daily trading value (million shares)	367	723	513	603	699
Trading volume (billion Rp)	99,685	147,880	122,775	97,523	120,763
Average daily trading value (billion shares)	404	599	513	396	493
Number of listed companies	288	277	287	316	331

Source: Bank Indonesia

OFFERING, LISTING AND REPORTING REGULATIONS

BAPEPAM, on behalf of the Minister of Finance, regulates and monitors securities issues which are publicly offered or listed in Indonesia. Initial securities offerings are generally conducted as underwritten public offers for sale by subscription. BAPEPAM regulates offering and allocation procedures.

Unless waived, companies are required to meet certain historical financial requirements in order to become listed on the JSX. Requirements for the listing on JSX were changed by certain rules issued in June 2000, as last amended in July 2001.

JSX Listing, Delisting and Corporate Governance Rules

In June 2000, the JSX issued new listing rules for equity securities and regulations aimed at enhancing good corporate governance and clarifying listing and delisting criteria. The new listing rules also introduced the two board system, comprising the Main Board and the Development Board.

The Main Board serves as the flag-carrier of the JSX and is intended for companies fulfilling standard regional listing standards relating to size, track record and liquidity. The Development Board allows both large and small companies with prospects, but not yet qualified to list on the Main Board, as well as companies in the phase of recovery, to be listed on the JSX.

The rules allow a company listed in the Development Board for at least 12 months to be promoted to the Main Board if it fulfils the requirement for listing on the Main Board. A company may also be moved to the Development Board if it, among other things, books a loss for the past two years or has assets under Rp300 billion based on its latest audited report.

A company can be delisted if, among other things, it suffers a retained loss for four consecutive years and has negative equity for three consecutive years.

Under the JSX regulations, a listed company must have:

- Independent Commissioners in a number proportionate to the number of shares owned by the non-controlling shareholders, provided that the number of the Independent Commissioners must be at least 30.0% of the total number of members of the Commissioners;
- an Audit Committee; and
- a Corporate Secretary.

An Independent Commissioner in a listed company may not:

- have an affiliated relationship with the controlling shareholder of the listed company concerned;
- have an affiliated relationship with the other directors and/or commissioners of the listed company concerned; and
- concurrently hold a position as a director of another company affiliated to the listed company concerned.

An Independent Commissioner is also required to be knowledgeable with respect to the statutes and regulations relating to capital markets.

The Audit Committee must be comprised of at least three members, one of whom will be the Independent Commissioner of the listed company who will serve as chairman of the Audit Committee. The other members must also be independent persons, at least one of whom must be an expert in the field of accounting and/or finance.

The following persons are prohibited by JSX regulations from becoming members of the Audit Committees of a listed company:

- any public accountant that personally audits the financial statements of the company;
- any public accountant employed by any public accounting firm that audits the financial statements of the company;
- any external legal counsel of the company;

- any legal counsel employed by an external legal firm than represents the company;
- any controlling party that is not a commissioner, director or employee of the company; and
- any employee or commissioner of an affiliated company.

Scripless Trading

In 1997, a private limited company, the Indonesian Central Securities Depositary, PT Kustodian Sentral Efek Indonesia or KSEI, was established to serve as the central securities clearing house. BAPEPAM has implemented regulations to provide for a scripless trading system. Only shares held through KSEI (and which have not been pledged or foreclosed upon based on a court order, or seized for the purpose of criminal proceedings) may be traded on the JSX. Under the scripless system, a member broker, sub-broker or local custodian (''KSEI Participant'') may deposit certificates in respect of securities with KSEI, who becomes the registered holder of the securities. Any institution becoming a KSEI Participant is required to open at least one account with KSEI for deposit, withdrawal or transfer of securities. After KSEI has accepted a deposit of securities, it will hold such securities on behalf of its participants or its participants' clients and as such, rather than as ''direct owners'', investors will obtain a beneficial interest in the shares which are convertible into a physical share certificate at the direction of the investor. Sales and purchases of securities are settled by offsetting the relevant securities deposit accounts by way of a computer system and at the end of each trading day, KSEI delivers a statement showing the balance of securities held for each participant.

BAPEPAM regulations require issuers of shares to register their shares in a central depositary. Each KSEI Participant holding securities on behalf of a client is required to:

- establish a securities sub-account on behalf of each client and record each client's securities in such sub-account;
- take measures to ensure that the identity of each client is properly recorded by the KSEI Participant; and
- take measures to ensure that the securities sub-account balance of each client is and remains correct.

Transfers of Shares

Under Indonesian law, ownership of shares is based on the registration of ownership in a company's share register. To be valid against the issuing company, a request for an entry of the transfer into a share registry must be received by the company. To be valid against a third party, the entry of the transfer must actually be made into the share register.

Transfers of scripless shares are made by way of appropriate instructions to the relevant brokers, sub-brokers or custodians with whom the transferor and the transferee involved maintain securities accounts in accordance with the individual arrangements with such brokers, sub-brokers or custodians. Upon receipt of appropriate instructions, the relevant brokers, sub-brokers or custodians will, in accordance with such arrangements, effect the relevant changes in the register they are required to maintain for rights and entitlements purposes.

Taxation

The following discussion is a summary of certain Indonesian income tax and stamp duty consequences and certain US federal income tax consequences under present law of the purchase, ownership and disposition of our shares. It addresses only purchasers who will hold our shares as capital assets and, in the case of the US discussion, use the US dollar as their functional currency. It does not address the tax treatment of investors subject to special rules including banks, dealers, insurance companies, tax-exempt entities, holders of 10.0% or more of our voting shares, and persons holding shares as part of a hedge, straddle, conversion or constructive sale transaction. It does not address state, local and foreign tax consequences of ownership and disposition of our shares.

EACH PROSPECTIVE PURCHASER IS ADVISED TO CONSULT ITS TAX ADVISORS ABOUT THE PARTICULAR TAX CONSEQUENCES TO IT OF AN INVESTMENT IN OUR SHARES.

INDONESIAN TAXATION

The following is a summary of the principal Indonesian tax consequences of the ownership and disposition of shares for a non-resident individual or non-resident entity (a "Non-Indonesian Holder") that holds shares in an Indonesian company. As used in the preceding sentence, a "non-resident individual" is a foreign national who does not reside in Indonesia or is not physically present in Indonesia for more than 183 days during any twelve month period, and a "non-resident entity" is a corporation or non corporate body that is established under the laws of a jurisdiction other than Indonesia, is not domiciled in Indonesia and does not have a fixed place of business or permanent establishment in Indonesia during an Indonesian tax year in which such non-Indonesian entity receives income in respect of the ownership or disposition of shares.

Taxation of Dividends

Dividends declared by us out of retained earnings and distributed to a Non-Indonesian Holder in respect of shares are subject to Indonesian withholding tax, currently at the rate of 20.0%, on the amount of the distribution (in the case of cash dividends) or on the shareholders' proportional share of the value of the distribution (normally par value in the case of stock dividends). A lower rate provided under certain double taxation treaties may be applicable provided that, among others, the recipient is the beneficial owner of the dividend and is a resident of a treaty country. The recipient has to provide us with the original Certificate of Tax Residence issued by the competent tax authorities or its designee, of the jurisdiction where the recipient Non-Indonesian holder is domiciled. This Certificate is only valid for one year from the date of issuance and must be renewed subsequently. However, if the Certificate is issued in respect of a bank, it will continue to be valid for as long as the bank has not changed its address as stated in the Certificate and a copy of the Certificate is submitted to the appropriate Indonesian tax office that has jurisdiction over us.

Tax Treaties

Indonesia has concluded double taxation treaties with a number of countries including Australia, Belgium, Canada, France, Germany, Japan, The Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America. Under the US-Indonesia tax-treaty, the withholding tax on dividends is generally reduced to 15.0%.

Taxation on the Disposition of Shares

Under the Indonesian Income Tax Law, the sale of unlisted shares by a Non-Indonesian Holder is subject to final Indonesian withholding tax, currently at the rate of 20.0%, on the estimated net income. In accordance with Decree of the Minister of Finance No. 434/KMK.04/1999, effective August 24, 1999, the estimated net income for the sale of unlisted shares is 25.0% of the sale price resulting in an effective final withholding tax rate of 20.0% multiplied by 25.0%, or 5.0% of the sale price (irrespective of whether or not there is a profit on the sale of the unlisted shares). The obligation to pay the final withholding tax lies with the buyer (if it is an Indonesian taxpayer) or us (if the buyer is also a Non-Indonesian Holder). Exemption from the 5.0% final withholding tax on the sale of unlisted shares may be available to non-resident sellers of shares depending on the provisions of the applicable double taxation treaties. In order to benefit from the exemption under the relevant double taxation treaty, the non-resident seller must provide a Certificate of Tax Residence issued by the competent authority, or its designee, of the jurisdiction where the non-resident seller is domiciled to the buyer (or us if the buyer is a Non Indonesian Holder) and to the Indonesian tax office that has jurisdiction over the buyer (or over us if the buyer is a Non-Indonesian Holder).

Pursuant to Government regulation No. 41 of 1994 regarding Withholding Tax on Income from Share Trading Transactions on the Stock Exchange dated December 23, 1994 and its amendments in Government Regulation No. 14 of 1997 dated May 29, 1997, the sale or transfer of shares that are listed on an Indonesian stock exchange is subject to final withholding tax of 0.1% of the gross amount of the transaction value and should be withheld by the broker handling the transaction. An additional 0.5% final tax (amounting to a total tax of 0.6%) is imposed on the share value for the holding of the founder shares (except for the founder shares of a mutual fund). The imposition of 0.5% withholding tax will occur at the time of the initial Public Offering for shares traded on the stock exchange on or after January 1, 1997. The imposition of 0.5% withholding tax on the founder shares is not compulsory. The tax regulations provide an option for the taxpayer to elect to substitute the 0.5% additional final tax with the taxation of actual capital gains (if any) resulting from the sale of the founder shares subject to the normal tax rates (progressive rate with a maximum of 30.0% for corporate taxpayers or 35.0% for individual taxpayers). Currently, the tax regulations for listed shares do not contain any provision in respect of treaty protections. In practice, the 0.1% final withholding tax is applied irrespective of the fact that there may be treaty exemptions. Indonesian tax authorities have a general rule regarding refunds, which may be used in case of an applicable treaty exemption.

Taxation of Rights Issue

Our grant of statutory subscription rights for our shares in compliance with Indonesian Law (a "Rights Issue") should not be subject to Indonesian tax. Any income from the sale of a Rights Issue by a Non-Indonesian Holder is not subject to Indonesian tax since the relevant implementing regulation has not yet been issued.

Stamp Duty

According to Government Regulation No. 24 of 2000, a document that effects a sale of Indonesian shares is subject to stamp duty. Currently, the nominal amount of the Indonesian stamp duty is Rp6,000 for transactions having a value greater than Rp1,000,000 and Rp3,000 for transactions having a value of up to Rp1,000,000. Generally, the stamp duty is due at the time the document is executed.

UNITED STATES FEDERAL INCOME TAXATION

The following is a summary of the material US federal income tax consequences of the acquisition, ownership and disposition of shares by a US Holder (as defined below). This summary deals only with initial purchasers of shares that are US Holders and that will hold the shares as capital assets. The discussion does not cover all aspects of US federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of shares by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10.0% or more of our voting stock, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws (such as banks, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the shares as part of straddles, hedging transactions or conversion transactions for US federal income tax purposes or investors whose functional currency is not the US dollar).

As used herein, the term "US Holder" means a beneficial owner of shares that is (i) a citizen or resident of the United States for US federal income tax purposes, (ii) a corporation, or other entity treated as a corporation, created or organized under the laws of the United States or any State thereof, or the District of Columbia, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable Treasury regulations to be treated as a US Person.

If a partnership holds shares, the US federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. A US Holder that is a partner of a partnership holding shares should consult its own tax advisors.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the ''Code''), its legislative history, existing and proposed Treasury regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and Indonesia (the ''Treaty'') all as currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET FORTH BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE SHARES, INCLUDING THE ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Dividends

- *General.* Subject to the application of the PFIC rules discussed below, distributions paid on shares out of our current or accumulated earnings and profits (as determined under US federal income tax principles) will generally be taxable to a US Holder as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to US corporations in respect of dividends received from other US corporations. Distributions in excess of our current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the US Holder's basis in the shares and thereafter as capital gain.

- Dividend income of a noncorporate US Holder with respect to dividends paid by a domestic corporation or ''qualified foreign corporation'' generally is subject to maximum 15.0% US tax rate. A ''qualified foreign corporation'' generally includes a foreign corporation if (i) its shares are readily tradable on an established securities market in the United States or (ii) it is eligible for benefits under a comprehensive United States income tax treaty that includes an exchange of information provision and that the secretary of the Treasury has determined to be satisfactory for this purpose. The US Treasury Department and the US Internal Revenue Service (''IRS'') recently issued a Notice indicating that the Treaty meets these criteria and the Company believes that it should be eligible for benefits under the Treaty. As a result, the Company may be treated as a qualified foreign corporation. However, if the Company is treated as a passive foreign investment company (a ''PFIC''), as discussed below under ''— Passive Foreign Investment Company Considerations,'' it will not be a qualified foreign corporation. If the Company is a qualified foreign corporation, dividends paid to an individual US Holder with respect to the shares should, subject to generally applicable limitations, be taxed at a maximum rate of 15.0%. The maximum 15.0% tax rate is effective with respect to dividends included in income during the period beginning on or after January 1, 2003, and ending December 31, 2008. However, there can be no assurance that such reduced rate will apply and each US Holder should consult its own tax advisor regarding the treatment of dividends.

- *Foreign Currency Dividends.* Dividends paid in Indonesian Rupiah will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the Indonesian Rupiah are converted into US dollars at that time. If dividends received in Indonesian Rupiah are converted into US dollars on the day they are received, the US Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

- *Effect of Indonesian Withholding Taxes.* As discussed in ''Indonesian Taxation—Taxation of Dividends'', under current law, payments of dividends by us to foreign investors are subject to a 20.0% Indonesian withholding tax. The rate of withholding tax applicable to US Holders that are eligible for benefits under the Treaty is reduced to a maximum of 15.0%. For US federal income tax purposes, US Holders will be treated as having received the amount of Indonesian taxes withheld by us, and as then having paid over the withheld taxes to the Indonesian taxing authorities. As a result of this rule, the amount of dividend income included in gross income for US federal income tax purposes by a US Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the US Holder from us with respect to the payment.

US Holders will generally be entitled, subject to certain limitations, to a credit against their US federal income tax liability, or a deduction in computing their US federal taxable income, for Indonesian income taxes withheld by us. US Holders that are eligible for benefits under the Treaty but who fail to provide the necessary "Certificate of Tax Residence" (as described in "Indonesian Taxation—Taxation of Dividends") will not be entitled to a foreign tax credit for the amount of any Indonesian taxes withheld in excess of the 15.0% maximum rate. For purposes of the foreign tax credit limitation, foreign source income is classified in one of several "baskets", and the credit for foreign taxes on income in any basket is limited to the US federal income tax allocable to that income. Dividends paid by the Company generally will constitute foreign source income in the "passive income" basket or, in the case of certain holders, the "financial services income" basket. In certain circumstances, a US Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the US Holder (i) has not held the shares for at least 16 days in the 30-day period beginning 15 days before the ex dividend date, or (ii) holds the shares in arrangements in which the US Holder's expected profit, after non-US taxes, is insubstantial. To the extent a US Holder has claimed a reduced US tax rate on dividends as described above, this will affect the computation of the foreign tax credit.

US Holders that are accrual basis taxpayers must translate Indonesian taxes into US dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all US Holders must translate taxable dividend income into US dollars at the spot rate on the date received. This difference in exchange rates may reduce the US dollar value of the credits for Indonesian taxes relative to the US Holder's US federal income tax liability attributable to a dividend.

The rules governing foreign tax credits are complex and prospective purchasers should consult their tax advisors regarding their application to the particular circumstances of such holder.

Sale or Other Disposition

Subject to the application of the PFIC rules discussed below, upon a sale or other disposition of shares, a US Holder generally will recognize capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the US Holder's adjusted tax basis in the shares. This capital gain or loss will be long-term capital gain or loss if the US Holder's holding period in the shares exceeds one year and, in the case of a noncorporate US Holder, may be long-term capital loss regardless of its holding period to the extent any "extraordinary" dividends entitled to the reduced 15.0% rate described above are received. For an individual US Holder, the maximum long-term capital gains rate for taxable years beginning on or after May 6, 2003 and ending before January 1, 2009, is 15.0%. Any gain or loss will generally be US source, except that losses will be treated as foreign source to the extent the US Holder received dividends that were includible in the financial services income basket during the 24-month period prior to the sale. The deductibility of capital losses may be subject to limitations.

As discussed in "Indonesian Taxation—Taxation on the Disposition of Shares," sales of shares by US Holders will be subject to Indonesian withholding tax. Such Indonesian tax withheld generally may only be claimed as a foreign tax credit by the US Holder if the US Holder has sufficient other passive foreign source income.

A US Holder that receives Indonesian Rupiah on the sale or other disposition of shares will realize an amount equal to the US dollar amount calculated by reference to the exchange rate in effect on the date of sale (or in the case of cash basis and electing accrual basis taxpayers, the US dollar value of the Indonesian Rupiah on the settlement date). Gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such Indonesian Rupiah will be ordinary income or loss, and will generally constitute US source income or loss. Accordingly, due to limitations described above, the holder may be unable to credit any Indonesian tax that is imposed in connection with such sale, conversion or disposition.

Passive Foreign Investment Company Considerations

A foreign corporation will be classified as a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to the applicable "look-through rules," either (i) 75.0% or more of its gross income is "passive income" or (ii) 50.0% or more of the average quarterly value of its assets is attributable to assets, which produce passive income or are held for the production of passive income. For this purpose, interest income is generally treated as passive income. Proposed Treasury regulations and IRS administrative pronouncements provide special rules for treating income from active banking activities as active income for purposes of the PFIC rules. While our activities predominately constitute active banking activities, interpretation of these rules as applied to our particular circumstances may not be entirely clear and final regulations have not been issued. Accordingly, we cannot assure you that we will not be a PFIC. However, based on our current and future operations, we do not believe that we currently are, or will become a PFIC.

If we were treated as a PFIC in any year during which a US Holder owns shares, and the US Holder has not made a mark to market or qualified electing fund election (each as described below), the US Holder would generally be subject to special rules (regardless of whether the Company continued to be a PFIC) with respect to (i) any "excess distribution" (generally, any distributions received by the US Holder on the shares in a taxable year that are greater than 125.0% of the average annual distributions received by the US Holder in the three preceding taxable years or, if shorter, the US Holder's holding period for the shares) and (ii) any gain realized on the sale or other disposition of shares. Under these rules (a) the excess distribution or gain would be allocated ratably over the US Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

Additionally, dividends paid by the Company will not be eligible for the special reduced rate of tax described above under "—General". If we were treated as a PFIC, a US Holder of shares would generally be subject to similar rules with respect to distributions to us by, and dispositions by us of the stock of, any direct or indirect subsidiaries of ours that are also PFICs. If after becoming a PFIC we cease to be a PFIC, a US Holder may make an election (a "deemed sale election") to be treated for US federal income tax purposes as having sold its shares on the last day of our last taxable year during which we were a PFIC. A US Holder that makes a deemed sale election will cease to be treated as owning stock in a PFIC. However, gain recognized by a US Holder as a result of making the deemed sale election will be subject to the rules described above.

US Holders can avoid the interest charge by making a mark to market election with respect to the shares, provided that the shares are "marketable" for the first taxable year in which they own the shares and each taxable year thereafter. Shares will be marketable if they are regularly traded on certain US stock exchanges, or on a foreign stock exchange if (i) the foreign exchange is regulated or supervised by a governmental authority of the country in which the exchange is located; (ii) the foreign exchange has trading volume, listing, financial disclosure, surveillance and other requirements designed to prevent fraudulent and manipulative acts and practices, remove impediments to, and perfect the mechanism of, a free and open, fair and orderly, market and to protect investors; (iii) the laws of the country in which the exchange is located and the rules of the exchange ensure that these requirements are actually enforced; and (iv) the rules of the exchange ensure active trading of listed stocks. For these purposes, the shares will be considered regularly traded during any calendar year during which they are traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. Any trades that have as their principal purpose meeting this requirement will be disregarded.

We expect that the JSX will satisfy these criteria and that the mark to market election will therefore be available to US Holders. However, there can be no assurance that the IRS would agree with this view, and the continued availability of the mark to market election will depend on the continuing satisfaction of these criteria by the JSX.

A US Holder that makes a mark to market election, when available, must include in ordinary income for each year an amount equal to the excess, if any, of the fair market value of the shares at the close of the taxable year over the US Holder's adjusted basis in the shares. An electing holder may also claim an ordinary loss deduction for the excess, if any, of the US Holder's adjusted basis in the shares over the fair market value of the shares at the close of the taxable year, but this deduction is allowable only to the extent of any net mark to market gains for prior years. A US Holder's adjusted tax basis in the shares would be adjusted to reflect any income or loss resulting from the mark to market election. Gains from an actual sale or other disposition of the shares will be treated as ordinary income, and any losses incurred on a sale or other disposition of the shares will be treated as an ordinary loss to the extent of any net mark to market gains for prior years. Once made, the election cannot be revoked without the consent of the IRS unless the shares cease to be marketable. If we were a PFIC for any year in which the US Holder owns the shares but before a mark to market election is made, the interest charge rules described above will apply to any mark to market gain recognized in the year the election is made.

In some cases, a shareholder of a PFIC can avoid the interest charge and the other adverse PFIC consequences described above by making a "qualified electing fund" ("QEF") election to be taxed currently on its share of the PFIC's undistributed income. We do not, however, expect to provide to US Holders the information regarding this income that would be necessary in order for a US Holder to make a QEF election with respect to our shares.

If we were treated as a PFIC, each US Holder would be required to make an annual return on IRS Form 8621, reporting distributions received and gains realized with respect to each PFIC in which it holds a direct or indirect interest. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

Information Reporting and Backup Withholding

Payments of dividends and other proceeds with respect to shares by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US Holders (including, among others, corporations) are not subject to backup withholding. US Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Plan of Distribution

THE GLOBAL OFFERING

We are offering 1,764,705,000 of our common shares and the Selling Shareholder is offering 2,047,060 of our common shares (together, the "Underwritten Shares") in the Global Offering, together with any Over-subscription Option Shares and any Over-allotment Option Shares (each as defined below). The Global Offering consists of the concurrent International Offering and Indonesian Offering. The closing of the International Offering is conditional upon the closing of the Indonesian Offering.

International Selling Agents participating in the International Offering are: UBS AG (the "Lead International Selling Agent"), PT Bahana Securities ("Bahana" or the "Lead Managing Underwriter"), CLSA Singapore Pte Ltd, Fox-Pitt Kelton N.V. and DBS Bank Ltd.

Underwriters participating in the Indonesian Offering are: Bahana; PT BNI Securities; PT Danareksa Sekuritas; PT Inter-Pacific Securities; PT Mandiri Sekuritas; PT Alpha Sekuritas Indonesia; PT Niaga Sekuritas; PT Sucorinvest Central Gani; PT Bapindo Bumi Sekuritas; PT Madani Securities; PT Rifan Financindo Sekuritas; PT Sinarmas Sekuritas; PT Panin Sekuritas; PT Trimegah Securities; PT Artha Securities Tbk; PT ABN Amro Asia Securities Indonesia; PT Ciptadana Sekuritas; PT Dhanawibawa Arthacemerlang; PT ING Securities Indonesia; PT Kresna Securities; PT NC Securities; PT UBS Securities Indonesia; PT Asjaya Indosurya Securities; PT Bali Securities; PT Danatama Makmur; PT Danpac Sekuritas; PT Dongsuh Kolibindo Securities; PT Equity Development Securities; PT Evergreen Capital; PT Harita Securities; PT Investindo Nusantara; PT Mega Akses Securities; PT qMitra Investdana Sekurindo; PT Samuel Sekuritas; PT Sarijaya Securities; PT Suprasurya Sekuritas; PT Topas Multi Securities; PT Victoria Sekuritas; PT Wanteg Securindo; PT Andalan Artha Advisindo; PT Bhakti Capital Indonesia Tbk; PT Danawitta Securities; PT Dinamika Usahajaya; PT GK Goh Indonesia; PT Kim Eng Securities; PT Pratama Penaganartha; PT Transpacific Securindo; PT Aldira Corporatama; PT Amantara Securities; PT BNP Paribas; PT Danasakti Securities; PT Eurocapital Peregrine; PT Financorpindo Nusa; PT Harumdana Securities; PT Indokapital Securities; PT Indosurya Securities; PT Interasia Securitindo; PT Intifikasa Securindo; PT Kapita Sekurindo; PT Makindo Securities; PT Mandari Securities; PT Nikko Securities Indonesia; PT Nomura Indonesia; PT Nusadana Capital Indonesia; PT Okansa Capital; PT PDFCI Securities and PT Waterfront Securities Indonesia.

As compensation to the Underwriters for their commitments to purchase the Underwritten Shares, we and the Selling Shareholder will pay or cause to be paid to Bahana and PT UBS Securities Indonesia ("UBS Indonesia"), on behalf of the Underwriters, an amount equal to Rp 28.4375 per share underwritten by the Underwriters. Purchasers of our shares in the International Offering may be required to stamp taxes and other similar charges in accordance with the laws and practices of the country of purchase, in addition to the Offering Price or discounted Offering Price, as applicable. Retail investors in the Indonesian Offering will not be required to pay brokerage. We and the Selling Shareholder have agreed to reimburse the Underwriters for certain expenses and taxes in connection with the Global Offering.

THE INTERNATIONAL OFFERING

In connection with the International Offering, the Underwriters and the International Selling Agents have entered into a Selling Agency and Managers' Agreement dated October 29, 2003 pursuant to which the International Selling Agents have agreed to procure international investors to purchase shares at the Offering Price. Subject to the terms and conditions of the Selling Agency and Managers' Agreement, the International Selling Agents have severally agreed to purchase from the Underwriters the following minimum number of Underwritten Shares:

UBS AG	1,659,007,500
PT Bahana Securities	525,492,500
CLSA Singapore Pte Ltd	128,500,000
Fox-Pitt Kelton N.V.	128,500,000
DBS Bank Ltd.	128,500,000
Total	2,570,000,000

Pursuant to an International Coordination Agreement dated October 29, 2003, we and the Selling Shareholder have agreed to indemnify the International Selling Agents against certain liabilities in connection with the offer and sale of the shares, and to contribute to payments which the International Selling Agents may make in respect thereof. In addition, we and the Selling Shareholder have agreed to reimburse the International Selling Agents for certain expenses and taxes in connection with the Global Offering.

THE INDONESIAN OFFERING

In connection with the Indonesian Offering, we and the Selling Shareholder have entered into an Underwriting Agreement dated October 8, 2003, as may be amended or supplemented (the "Underwriting Agreement") with the Underwriters. The Underwriters have agreed, upon the terms and conditions specified in the Underwriting Agreement, to offer the Underwritten Shares on our behalf and on behalf of the Selling Shareholder at the Offering Price, except that shares purchased by our customers, up to 5.0% of the Underwritten Shares, will be offered a 3.0% discount to the Offering Price. If any of the Underwritten Shares are not subscribed and paid for pursuant to the Indonesian Offering, the Underwriters have agreed to subscribe and pay for such shares at the Offering Price, less underwriting discounts and commissions. No offer of shares is being made to Indonesian citizens or Indonesian residents pursuant to this Offering Circular.

In addition, under our employee stock allocation plan, which covers up to 10.0% of the Underwritten Shares, we are paying:

- 100.0% of the price of shares purchased by us on behalf of our employees as a grant of bonus shares. These shares will be subject to a lock-up period of one year from the date of listing of the shares on the JSX and the SSX.
- 20.0% of the price of shares purchased by certain eligible employees under our discounted share purchase plan. These shares will be subject to a lock-up period of six months from the date of listing of the shares on the JSX and the SSX.

The remaining shares under the employee stock allocation plan will be entitled to a 3.0% discount to the Offering Price. These shares will not be subject to any lock-up period.

The aggregate cost to us of the employee stock allocation plan will not exceed Rp210.36 billion (US$25.5 million). For more information, see "Management—Employee Stock Ownership Program".

Bahana, PT BNI Securities, PT Danareksa Sekuritas, PT Mandiri Sekuritas, PT Niaga Sekuritas, PT Bapindo Bumi Sekuritas and PT Bali Securities, all of which are Underwriters, are Government-owned entities and under common control with the Bank.

IMPORTANT DATES

The following events have taken place or are expected to take place on the following dates in connection with the Global Offering:

Event	Date
Effective date of BAPEPAM registration statement	October 31, 2003
Offering Period	November 3 to November 5, 2003
Last date for exercise of Over-subscription Option	November 7, 2003
Allotment of shares to successful applicants	November 7, 2003
Payment due by investors in the International Offering	November 10, 2003
Settlement Date	November 10, 2003
Listing of shares on the JSX and the SSX	November 10, 2003

REGISTRATION WITH BAPEPAM

We submitted a Registration Statement to BAPEPAM on October 8, 2003 in accordance with BAPEPAM Rule No. IX A 7 as attached to the Decision of the Chairman of BAPEPAM No. KEP45/PM/2000 dated October 27, 2000. The Chairman of BAPEPAM issued a letter, dated October 31, 2003, declaring the registration statement effective, and stating that we may proceed with the offering and the listing of the shares.

OFFERING PERIOD

The Offering Period is expected to begin on November 3, 2003 and end on November 5, 2003. The Lead Managing Underwriter and the Lead International Selling Agent may offer their customers preferential allocations through a fixed allotment of shares (as described under "Allotment of Shares" below) and through the allotment of the Over-allotment Option Shares and Over-subscription Option Shares.

It is expected that the Lead Managing Underwriter and the Lead International Selling Agent will make payment of the net proceeds to us and to the Selling Shareholder on November 10, 2003 and that listing of the shares on the JSX and the SSX will occur on November 10, 2003.

APPLICATION FOR SHARES

In accordance with Indonesian regulations, each non-Indonesian citizen and non-Indonesian resident must properly complete and submit a share application form in order to be eligible to purchase shares in the International Offering. The Lead Managing Underwriter and the Lead International Selling Agent may prepare share application forms on behalf of non-Indonesian citizens and non-Indonesian residents. Share applications and allocations in connection with the International Offering and the Indonesian Offering are regulated by BAPEPAM regulations. UBS Indonesia will be responsible for preparing share application forms on behalf of purchasers in the International Offering.

Share applications must be for a minimum amount of 500 shares and multiples thereof. Each investor may only submit one share application form. The Lead Managing Underwriter and the Lead International Selling Agent are entitled to accept or refuse a share application in full or in part. Multiple share applications submitted using more than one share application form may either be treated as a single application for allotment purposes or treated, in full or in part, as invalid applications at the sole discretion of the Lead Managing Underwriter and the Lead International Selling Agent.

Full payment by non-Indonesian citizens and non-Indonesian residents for the number of shares will be made in immediately available funds on November 10, 2003. Information as to wire transfer instructions will be made available by the Lead Managing Underwriter or the Lead International Selling Agent to eligible investors upon request. All bank and transfer charges with respect to these payments will be borne by the investors.

ALLOTMENT OF SHARES

Fixed Allotment and Pooling

At the conclusion of the Offering Period, the allotment of the Underwritten Shares will be made by the Lead Managing Underwriter using a combined system of "fixed allotment" and "pooling" in accordance with BAPEPAM Rule No. IX A 7 as attached to the Decision of the Chairman of BAPEPAM No. Kep-45/PM/2000 dated October 17, 2000. Under this rule, underwriters may determine how to apportion the allotment of the shares between the "fixed allotment" and "pooling" systems. The last date by which the Lead Managing Underwriter will determine the number of Underwritten Shares allotted for each applicant is expected to be November 7, 2003.

The Lead Managing Underwriter has determined that the equivalent of 95.0% of the Underwritten Shares being offered will be subject to a fixed allotment system. The allotment of the equivalent of 5.0% or the Underwritten Shares being offered will be by a system of pooling. The equivalent of up to 10.0% and 5.0%, respectively, of the Underwritten Shares (subject to fixed allotment) may be allocated to our employees pursuant to the discounted share purchase program described under "The Indonesian Offering" above and to our customers.

The Over-allotment Option Shares and the Over-subscription Option Shares will be allocated at the discretion of the Lead Managing Underwriter and the Lead International Selling Agent.

Allocation to Foreign Institutions

Based on a Minister of Finance Decree, there is generally no limit on the purchase of shares by foreign institutions. If foreign institutions are purchasing the shares of an Indonesian bank, only 99.0% of the registered shares may be publicly listed and therefore be purchased by foreigners (the remaining unlisted 1.0% must be held by an Indonesian investor). Allocation to foreign institutions will be on the same basis as to domestic institutions.

Allocation to Affiliated Parties

"Affiliated Applicants" include our commissioners, directors or employees seeking to purchase shares outside of the discounted share purchase program, or other parties holding at least 20.0% of the share capital in the Lead Managing Underwriter or the Lead International Selling Agent or any other party affiliated with persons involved in the Global Offering. Affiliated Applicants will only be allotted shares being offered if there are excess shares. Once the applications of non-Affiliated Applicants are satisfied, Affiliated Applicants may be allocated the remaining shares on a pro-rata basis.

DELIVERY OF SHARES

We expect that delivery of the shares will be made against payment therefor on or about November 10, 2003, which will be the business day immediately following the expected date of final allotment of the shares in the Global Offering. Our shares may not be traded by the purchasers thereof prior to the listing of our shares on the JSX and the SSX.

CANCELLATION OF THE OFFERINGS

Prior to the close of and during the Offering Period, we, the Selling Shareholder, the Lead Managing Underwriter and UBS Indonesia each retains the right to cancel the Indonesian Offering under certain circumstances pursuant to the Underwriting Agreement. The closing of the International Offering is conditional upon the closing of the Indonesian Offering. In addition, the Lead International Selling Agent is entitled to terminate the International Coordination Agreement and Selling Agency and Managers' Agreement in certain circumstances.

OVER-SUBSCRIPTION OPTION AND OVER-ALLOTMENT OPTION

The Selling Shareholder has agreed to grant to Bahana, as agent for and on behalf of the Lead Managing Underwriter and the Lead International Selling Agent, an option (the "Over-subscription Option"), exercisable in whole or in part, at any time and from time to time, from the end of the International Offering until the final allotment of the shares in the Global Offering, to acquire up to an additional 381,176,000 shares at the Offering Price, less any applicable underwriting discounts and commissions.

In addition, the Selling Shareholder has agreed to grant to Bahana, as agent for and on behalf of the Lead Managing Underwriter and the International Selling Agent, an option (the "Over-allotment Option"), exercisable in whole or in part, at any time and from time to time, until the date thirty days following the listing of our shares, to acquire up to an additional 571,764,000 shares at the Offering Price, less any applicable underwriting discounts and commissions. Bahana has an option to borrow up to 571,764,000 existing shares from the Selling Shareholder to meet the delivery obligations of the Underwriters and the International Selling Agents for over-allotment shares. Shares borrowed by Bahana for this purpose must be redelivered to the Selling Shareholder on or before the date which is 30 days from the listing of the shares.

RESTRICTIONS ON THE DISPOSITION OF OUR SHARES

We have agreed that, for a period of twelve months following the effective date of the registration statement with BAPEPAM, we will not, and we will procure that none of our subsidiaries will, offer, sell, contract to sell, pledge or otherwise dispose of (or enter into any transaction (including swap transactions) which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by us or any of our subsidiaries, directly or indirectly, of any of our shares or any securities convertible into or exchangeable or exercisable for (including swap transactions) or warrants or other rights to purchase our shares, or publicly disclose the intention to effect any such transaction, without the prior written consent of the Lead Managing Underwriter and the Lead International Selling Agent. The Selling Shareholder has agreed to a similar restriction for a period of six months following the effective date of the registration statement with BAPEPAM. In addition to the consent of the Lead Managing Underwriter and the Lead International Selling Agent, we and the Selling Shareholder may require the consent of BAPEPAM before the applicable lock-up can be waived.

STABILIZING TRANSACTIONS

In connection with the Global Offering, UBS Indonesia (acting through one or more agents), as agent for and on behalf of the Lead Managing Underwriter and the Lead International Selling Agent may purchase and sell shares in the open market, including in stabilizing transactions. Stabilizing transactions consist of certain bids or purchases of shares made for the purpose of preventing or retarding a decline in the market price thereof. UBS Indonesia may also impose a penalty bid. Penalty bids permit UBS Indonesia to reclaim a selling concession from an Underwriter when, in making stabilizing purchases, it repurchases shares originally sold by such Underwriter. Stabilizing transactions are not currently regulated in Indonesia. Accordingly, UBS Indonesia will conduct such activities in accordance with guidelines that would be applicable in the United Kingdom.

REGISTRATION OF THE SHARES IN KSEI

The shares have been registered into the depository facilities of KSEI in accordance with the Agreement for the Registration of Shares into Central Deposit entered into between KSEI and us on October 1, 2003.

By registering the shares in KSEI, we will not issue individual share certificates to successful applicants, but any shares allotted to an investor will be distributed electronically. In order to submit an application for shares, each investor must hold a securities account with a securities company or custodian bank which is a KSEI participant to manage and administer any shares allotted to it on the investor's behalf.

At the end of the Offering Period, the Lead Managing Underwriter will undertake the allotment in the manner set out above and report the allotment result to us and the Selling Shareholder. We will issue to KSEI a confirmation of registration in our register of shares, in the name of KSEI, of the number of shares allotted as part of the Global Offering. We will then instruct KSEI to credit the Lead Managing Underwriter and the Lead International Selling Agent's securities accounts with KSEI to receive and hold the shares allotted to the successful applicants. The Lead Managing Underwriter will then instruct KSEI to distribute the number of shares allotted to a successful applicant from their securities accounts to the securities account of the relevant KSEI participant.

As evidence of the allotment of the shares, the Lead Managing Underwriter will deliver allotment confirmation forms to the KSEI participants, which must then be passed on to the relevant investor, in exchange for a subscription receipt. Distribution of the allotment confirmation forms is expected to occur at the latest three working days after the last day of the Offering Period. UBS Indonesia will receive the allotment confirmation forms on behalf of purchasers in the International Offering. Proof of ownership of the shares will be in the form of a written confirmation letter from KSEI or the KSEI participant charged with managing the relevant investor's shares.

The transfer of shares held with KSEI will be by way of electronic book-entry between securities accounts. The shareholder holding our shares through KSEI will be entitled to withdraw its shares from central deposit and receive a share certificate registered in its name. Only those shares which are registered in KSEI will be tradable over the JSX or the SSX.

Article 60 of the Indonesian Capital Market Law provides that all rights attaching to shares held with KSEI, including dividends, interest bonuses and other ownership entitlements on securities will be automatically distributed by KSEI to a beneficial shareholder holding through the depository system via its KSEI participant who holds the shares on such beneficial shareholder's behalf. The KSEI participant is obliged to immediately pass such rights and entitlements onto its customers.

Prior to corporate action being taken by us, KSEI must provide details to us concerning the share entitlements of all the beneficial shareholders on whose behalf shares are held. A KSEI participant is obliged to notify a beneficial shareholder of the exercise of any pre-emptive rights, delivery of annual reports and other notices by us as well as notices of General Meetings of Shareholders. The beneficial shareholder, the KSEI participant it holds through, or its legal representative, has the right to be present and vote at our General Meetings of Shareholders.

KSEI is obliged to give us details of the KSEI participants holding shares on behalf of beneficial shareholders either:

- within one working day after the record date set for the purposes of assessing the identity of the shareholders entitled to a dividend or other such rights attaching to shares which have been declared by us; or
- prior to the holding of our General Meeting of Shareholders; or
- at our request based on an instruction from an authorized person or agency to us in accordance with the prevailing laws and regulations.

A beneficial shareholder that wishes to obtain a share certificate may withdraw its shares from the depository once all of those shares have been distributed to the securities account of its KSEI participant. An application for the withdrawal of shares must be forwarded to KSEI by the KSEI participant, on behalf of the beneficial shareholder, in a specified form. Collective share certificates in the name of the beneficial shareholder will be issued for any shares that are withdrawn from KSEI no later than five business days from the receipt of the withdrawal request by KSEI, unless KSEI rejects the withdrawal of shares based on written orders from BAPEPAM or certain other authorized persons if required for the purposes of civil or criminal court proceedings. Only shares remaining in KSEI, and which have not been pledged, foreclosed upon based on a court order or seized for the purposes of criminal court investigation, can be traded on the JSX or the SSX. Investors wishing to trade withdrawn shares on the JSX or the SSX must return them to KSEI. The process of depositing withdrawn shares can take up to five business days.

DECLARATION OF INTEREST

The International Selling Agents and the Underwriters have engaged in, and may in the future engage in, investment banking or financial consulting activities and other commercial dealings in the ordinary course of business with us. They have received and expect to continue to receive customary fees and commissions for these transactions.

Distribution and Solicitation Restrictions

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of our shares is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe those restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

UNITED STATES OF AMERICA

Our shares have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S) except to qualified institutional buyers in reliance on Rule 144A under the Securities Act.

Each International Selling Agent has agreed that, except as permitted by the Purchase Agreement, it will not offer or sell our shares within the United States or to, or for the account or benefit of, US persons, except in accordance with Rule 903 of Regulation S or Rule 144A. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of our shares are restricted as described under "Transfer restrictions".

Our shares are being offered and sold outside the United States to non-US persons in reliance on Regulation S and inside the United States only to qualified institutional buyers in reliance on Rule 144A. The International Coordination Agreement provides that the Lead International Selling Agent may, through its United States broker-dealer affiliates, arrange for the offer and sale of our shares in the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Global Offering, an offer or sale of our shares within the United States by a broker-dealer (whether or not it is participating in the Global Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

UNITED KINGDOM

Each International Selling Agent has severally represented and agreed that (i) it has not offered or sold and, prior to the date six months after the date of delivery of the shares, will not offer or sell any shares, to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances that have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (ii) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the sale of any shares in circumstances in which Section 21(1) of the FSMA does not apply to the Selling Shareholder.

HONG KONG

Each International Selling Agent has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any shares other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong and (ii) it has not issued and will not issue any advertisement, invitation or document relating to the shares, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

SINGAPORE

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

JAPAN

Our shares have not been and will not be registered under the Securities and Exchange Law of Japan, and each International Selling Agent has represented that it has not offered or sold, and has agreed that it will not offer or sell, any of our shares, directly or indirectly in Japan or to, or for the account of, any resident of Japan except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

INDONESIA

This Offering Circular may only be distributed outside Indonesia to persons who are neither citizens of Indonesia (wherever located) nor residents of Indonesia.

GERMANY

Under the International Coordination Agreement, each International Selling Agent has represented and agreed that (i) this Offering Circular is not a Securities Selling Prospectus within the meaning of the German Securities Prospectus Act of December 13, 1990 (as announced on September 9, 1998 and amended from time to time) and has not been filed with and approved by the German Federal Financial Supervisory Authority *(Bundesanstalt fur Finanzdienstleistungsaufsicht)* or any other competent German authority under the relevant laws; and (ii) it has not offered or sold and will not offer or sell any of the shares or distribute copies of this Offering Circular or any document relating to the shares, directly or indirectly, in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act of December 13, 1990 (as announced on September 9, 1998 and amended from time to time) and by doing so has not taken, and will not take, any steps which would constitute a Public Offering of the shares in Germany.

ITALY

Each International Selling Agent has represented and agreed that it has not offered or sold or will not offer or sell, directly or indirectly, any shares in Italy other than to "professional investors" as that term is defined in Article 31 (2) of Consob Regulation No. 11522 of July 1, 1998, as amended, ("Regulation 11522/98") (but excluding (i) individual persons referred to in article 31 (2); (ii) management companies ("società di gestione del risparmio") acting exclusively in connection with the management of individual portfolios on behalf on third parties, and (iii) fiduciary companies (società fiduciarie) managing individual portfolios pursuant to article 60, Paragraph 4, of Decree No. 415 of July 23, 1996).

AUSTRALIA

This Offering Circular does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the "Australian Corporations Act") and will not be lodged with the Australian Securities and Investments Commission. Each International Selling Agent has represented and agreed that the shares will be offered to persons who receive offers in Australia only to the extent that such offers of shares for sale do not need disclosure to investors under Part 6D.2 of the Australian Corporations Act. Any offer of the shares received in Australia is void to the extent that it needs disclosure to investors under the Australian Corporations Act. In particular, offers for sale of the shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by Section

708 of the Australian Corporations Act. Any person to whom shares are sold pursuant to an exemption under Section 708 of the Australian Corporations Act must not, within 12 months after the sale, permit offers for sale of those shares to be received in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

FRANCE

Each International Selling Agent has represented and agreed that, in connection with their initial distribution (i) it has not offered or sold and will not offer or sell, directly or indirectly, any shares to the public in the Republic of France, and (ii) offers and sales of the shares will be made in the Republic of France only to qualified investors as defined and in accordance with Articles L. 411-1 and L. 411-2 of the French *Code monetaire et financier* and Decree No. 98-880 dated October 1, 1998 relating to offers to qualified investors.

In addition, neither this Offering Circular nor any offering material related to the shares has been distributed or caused to be distributed and will be distributed or caused to be distributed in the Republic of France, other than to those investors to whom offers and sales of the shares may be made as described above.

THE NETHERLANDS

Each International Selling Agent has represented and agreed that it has not offered, transferred, delivered or sold and will not offer, transfer, deliver or sell any shares in or from The Netherlands as part of their initial distribution or as part of any re-offering, and that it may not distribute the Offering Circular or any other document in respect of the Offering in or from The Netherlands, other than to individuals or legal entities that trade or invest in securities in the conduct of their profession or trade (which includes banks, investment banks, securities firms, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises), and the offer and each announcement of the offer state that the offer is exclusively made to persons who trade or invest in securities in the conduct of their profession or trade.

Transfer Restrictions

Because the following restrictions will apply to the offering of the shares, purchasers are advised to consult their own legal counsel prior to making any offer, resale, pledge or transfer of the shares.

The shares have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) persons in offshore transactions in reliance on Regulation S.

RULE 144A

Each purchaser of shares within the United States pursuant to Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a qualified institutional buyer, (b) acquiring such shares for its own account or for the account of a qualified institutional buyer and (c) aware, and each beneficial owner of such shares has been advised, that the sale of such shares to it is being made in reliance on Rule 144A.

(2) It understands that such shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in the United States in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

(3) It understands that such shares (to the extent they are in certificated form), unless otherwise agreed by us in accordance with applicable law, will bear a legend to the following effect:

"THESE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON TS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THESE SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARES MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY FACILITY IN RESPECT OF THE SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK".

(4) Ourselves, the Selling Shareholder, the Lead International Selling Agent, the Lead Managing Underwriter and their Affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any shares for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

REGULATION S

Each purchaser of shares outside the United States pursuant to Regulation S and each subsequent purchaser of such shares in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the shares, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time shares are purchased will be, the beneficial owner of such shares and (a) it is not a US person and it is located outside the United States (within the meaning of Regulation S), (b) it is purchasing the shares in an offshore transaction pursuant to Regulation S, and (c) it is not our affiliate or a person acting on behalf of such affiliate.

(2) It understands that such shares have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such shares except (a) in the United States in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or the account of a qualified institutional buyer, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

(3) Ourselves, the Selling Shareholder, the Lead International Selling Agent, the Lead Managing Underwriter and their Affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Legal Matters

Certain legal matters in connection with the Global Offering will be passed upon for us and the Selling Shareholder by Milbank, Tweed, Hadley & McCloy LLP, as to certain matters of US law and by Makes & Partners, as to certain matters of Indonesian law. Certain legal matters in connection with the Global Offering will be passed upon for the Lead International Selling Agent and the Lead Managing Underwriter by Shearman & Sterling LLP, as to certain matters of US law and by Hadiputranto, Hadinoto & Partners, as to certain matters of Indonesian law.

Independent Auditors

Our financial statements as of December 31, 2002 and for the year then ended, and our interim six-month financial statements as of June 30, 2003, included in the Offering Circular, have been audited by Ernst & Young Prasetio, Sarwoko & Sandjaja, independent auditors, as stated in their report appearing herein.

Our consolidated financial statements as of December 31, 2000 and December 31, 2001 and for each of the two years then ended were audited by Prasetio, Utomo & Co., a former affiliate of Andersen Worldwide, and is included herein in reliance upon the authority of such firm as experts in giving such report. Prasetio, Utomo & Co. has informed us that the Ministry of Finance withdrew its business license in August 2002 and no longer operates as a public accounting firm. Accordingly, we are no longer able to obtain, after reasonable efforts, signed, reissued reports of Prasetio, Utomo & Co. for its consolidated financial statements included elsewhere herein.

Principal Differences between Indonesian GAAP and US GAAP

The financial statements of the Bank appearing elsewhere in this Offering Circular, are prepared and presented in accordance with accounting principles generally accepted in Indonesia (“Indonesian GAAP”), which differs in certain significant respects from accounting principles generally accepted in the United States of America (“US GAAP”). As required by US GAAP, such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures which have not been described.

Certain significant difference between Indonesian GAAP and US GAAP relevant to the Bank’s financial statements are summarized below. The summary should not be construed to be exhaustive. In making an investment decision, investors must rely upon their own examination of the Bank, the terms of the offering and the Bank’s financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Indonesian GAAP and US GAAP and how these differences might affect the financial information herein. Additionally, no attempt has been made to identify future differences between Indonesian GAAP and US GAAP as the result of prescribed changes in accounting standards and regulations. Regulatory bodies that promulgate Indonesian GAAP and US GAAP have significant projects on going that could affect future comparison such as this one. Finally, no attempt has been made to identify all future differences between Indonesian GAAP and US GAAP that may affect the Bank’s financial statements as a result of transactions or events that may occur in the future.

ALLOWANCE FOR LOAN LOSSES

In Indonesia, provisions are established to cover the possibility of losses arising from uncollectible loans. This provision is, at a minimum, based on standard percentages prescribed by Bank Indonesia based on the classification of loans into five risk-based categories: (1) current, (2) special mention, (3) sub-standard, (4) doubtful, and (5) loss. Provisions in addition to the minimum required by Bank Indonesia may be established based on management’s review of the quality of the loan portfolio.

Under US GAAP, there are no standard percentages used to determine the minimum provision required for possible losses on a loan portfolio. The determination for a provision is based on a number of factors, and a provision should be recorded when a loss is probable and estimable. In addition, US GAAP requires that impaired loans be measured at the present value of expected future cash flows discounted at the loan’s effective interest rate. Finally, it is common practice in the United States for all loans classified as “loss” to be written-off against reserves.

REGULATORY PROVISIONS

In Indonesia, minimum provisions based on Bank Indonesia requirements are required for all earning assets.

Under US GAAP, there are no minimum provision requirements for earning assets. A provision is only recorded if a loss is deemed probable and estimable.

RECOGNITION OF INTEREST INCOME ON NON-PERFORMING LOANS

In 2000, in accordance with PSAK No. 31 (Accounting for Banking Industry), we recognized interest income on non-performing loans upon the collection of cash. Beginning January 1, 2001, we have adopted PSAK No. 31 (Revision 2000). The revised PSAK No. 31 requires that cash receipts related to non-performing loans classified as “doubtful” and “loss”, first be used to reduce credit principal. Cash receipts for non-performing loans classified as “sub-standard” continued to be recognized first as the settlement of interest.

Under PSAK No. 31 (Revision 2000), interest income for non-performing loans is recognized in a manner substantially similar to US GAAP.

PENSION COSTS—DEFINED BENEFIT PLAN

Indonesian GAAP does not prescribe a specific actuarial valuation method to determine the benefit obligations. Current service cost of a defined benefit plan is recognized as expense in the current period, while past service costs, experience adjustments, effects of changes in actuarial assumptions and effects of program amendments with respect to existing employees are recognized as expense or income systematically over the estimated average remaining working lives of the employees.

Under US GAAP, contributions to defined benefit schemes are determined based on the value of the retirement scheme assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations, and are determined on the basis of actuarial valuation using the projected unit credit method. Actuarial gains and losses are amortized over the average remaining service period of active employees expected to receive benefits under the plan.

OTHER EMPLOYEE BENEFITS

Under the Indonesian GAAP, there is no specific actuarial method for the recognition of an employer's liability for old-age benefits and employee benefits other than pension. These benefits are recognized as an estimated liability when there is a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation amount. The Bank has adopted the Projected Unit Credit Method to determine the present value of obligations and the related current service cost, where applicable, the past service cost. The recognition of expense or income considers the: service cost, interest cost, expected return on assets, amortization of changes in liability at transition and recognition of adjustment due to difference of accruals.

Under US GAAP, these benefits are accounted for over the estimated service period of the enterprise's employees based on actuarial assumptions which are similar to those provided by SFAS No, 106, "Employer's Accounting for Post Retirement Benefits Other than Pensions."

ACCOUNTING FOR DERIVATIVES

Under Indonesian GAAP, Statement of Financial Accounting Standard Accounting Standard (SFAS) No. 55, Accounting for Derivative Instruments and Hedging Activities, which is effective for reporting periods beginning on January 1, 2001, has requirements similar to US GAAP FASB 133. However, SFAS No. 55 of the Indonesian GAAP has not yet been updated to adopt the revisions/amendments made to FASB No. 133 as contained within FASB No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—An Amendment of FASB No. 133," and other accounting rules and interpretations of the US GAAP.

DEFERRED TAXATION

The accounting for deferred taxes under Indonesian and US GAAP are similar except as follows:

Under Indonesian GAAP, deferred tax assets are only recognized if it is probable that future taxable profits will be available against which the deferred tax assets can be utilized. The carrying amount is reviewed periodically and reduced if appropriate.

Under US GAAP, the measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that based on available evidence, are not expected to be realized. A valuation allowance is provided if it is more likely than not that all or a portion of the deferred tax assets will be realized.

ACCOUNTING FOR DEBT RESTRUCTURING

Under Indonesian GAAP, a previously written-off loan may be written back onto the balance sheet when it is likely to be restructured and will be able to perform under the restructured terms, and future cash flows are probable.

Under US GAAP, a loan that has been previously been written-off will not be written back onto the balance sheet when it has been restructured. Instead, any payments received will be credited to loan recoveries until the full amount of the write-off has been received and then it will be credited to income.

DISCONTINUED OPERATIONS

In the past three years, the board of directors has decided to cease operations of certain subsidiaries and liquidate the assets. Under Indonesian GAAP, subsidiaries are deconsolidated and the investments in the subsidiaries are carried at net realizable value when a decision has been made by the board of directors to discontinue and liquidate the subsidiary.

Under US GAAP, subsidiaries that are subject to liquidation as a result of a decision by the board of directors are not deconsolidated unless they meet certain specific criteria. As a result, in some circumstances consolidation continues and the assets and liabilities of the subsidiary are accounted for in accordance with the applicable standards for each item.

QUASI-REORGANIZATION

Conditions

Under Indonesian GAAP, the following conditions must be satisfied by an enterprise to perform a quasi-reorganization: 1) the enterprise has a material deficit; 2) the enterprise must be a going concern and with good future prospects when the quasi-reorganization takes place; 3) the enterprise is not facing a petition for bankruptcy; 4) the enterprise is not in contravention of prevailing laws or regulations; and 5) after the quasi-reorganization, the balance of the equity in the enterprise must be positive.

Under US GAAP, all of the following conditions must be met in order for a quasi-reorganization to be effected: 1) earned surplus, as of the effective date, is exhausted; 2) upon consummation of the quasi-reorganization, no deficit exists in any surplus account; 3) the entire procedure is made known to all persons entitled to vote on matters of general corporate policy and the appropriate consents to the particular transactions are obtained in advance in accordance with applicable law and charter provisions; and 4) the procedure accomplishes, with respect to the accounts, substantially what might be accomplished in a reorganization by legal proceedings.

Effective Date of a Quasi-Reorganization

Under Indonesian GAAP, the effective date of the quasi-reorganization can be earlier than the date when the appropriate consents are obtained as long as the effective date of the reorganization is clearly stated in the consents.

Under US GAAP, a quasi-reorganization is not considered to have been effected until the appropriate consents and approvals are obtained in accordance with applicable law and charter provisions.

Index to Financial Statements

PT BANK RAKYAT INDONESIA (PERSERO)
FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2003 AND DECEMBER 31, 2002
WITH COMPARATIVE FIGURES FOR YEARS ENDED DECEMBER 31, 2001 AND 2000

PT BANK RAKYAT INDONESIA (PERSERO)
FINANCIAL STATEMENTS JUNE 30, 2003
(AUDITED) AND CONSOLIDATED FINANCIAL
STATEMENTS JUNE 30, 2002 (UNAUDITED)

[THIS PAGE INTENTIONALLY LEFT BLANK]

Independent Auditors' Report

Report No. RPC-1295/02

The Stockholder and the Boards of Commissioners and Directors
PT Bank Rakyat Indonesia (Persero)

We have audited the balance sheets of PT Bank Rakyat Indonesia (Persero) (herein referred to as "BRI") as of June 30, 2003 before and after Quasi-Reorganization, and the related statements of income, changes in stockholder's equity and cash flows for the six months ended June 30, 2003. We have also audited the balance sheet of BRI as of December 31, 2002 and the related statements of income, changes in stockholder's equity and cash flows for the year ended December 31, 2002. These financial statements are the responsibility of BRI's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of BRI's overseas branches as of and for the year ended December 31, 2002 which statements reflect total assets of 3.2% of the assets and total net income of 1.1% of the net income. Those statements were audited by other auditors, whose report furnished to us expressed an unqualified opinion on those statements, and our opinion, insofar as it relates to the amounts included for those overseas branches, is based solely on the reports of the other auditors. The consolidated financial statements of BRI and Subsidiary as of and for the years ended December 31, 2001 and 2000, were audited by other auditors who have ceased operations and whose report dated April 26, 2002 expressed an unqualified opinion on those statements and included explanatory paragraphs for the adoption of Statement of Financial Accounting Standards (PSAK) No. 31 (Revised 2000) on "Accounting for Banking" and Accounting Guidelines for Indonesian Banking (PAPI), PSAK No. 46 on "Accounting for Income Tax", and the effects of the economic condition in Indonesia to BRI.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Accountants. 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. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of BRI as of June 30, 2003 and December 31, 2002, and the results of its operation and its cash flows for the six months ended June 30, 2003 and for the year ended December 31, 2002 in conformity with generally accepted accounting principles in Indonesia.

As discussed in Notes 2c and 3 to the financial statements, in connection with the implementation of the Quasi-Reorganization effective June 30, 2003, BRI has eliminated the deficit as of June 30, 2003 against the additional paid-in capital. Since the fair value of the net assets (assets less liabilities) of BRI as of said date is higher than the book value of net assets, BRI did not book such difference in the net assets and still recognized the book value of the assets and liabilities on the date of implementation of the Quasi-Reorganization.

As discussed in Note 44 to the financial statements, there have been some indications of improvement in the economy, such as the Rupiah exchange rate has stabilized and the interest rates have significantly decreased. The economic conditions in Indonesia still continue to be affected by social and political conditions. These economic conditions have also affected the ability of BRI's customers to fulfill their obligations when they mature. Note 44 also disclosed the measures BRI had implemented and plans to implement in response to the economic conditions. The accompanying financial statements include the effects of the 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 Government, actions that are beyond the control of BRI. It is not possible to determine the future effects of the economic conditions on BRI's earnings and realization of its earning assets, including the effects flowing through and from BRI's customers, depositors, creditors and stockholders.

We have previously issued independent auditors' report No. RPC-1224/02 dated September 30, 2003 No. RPC-1245/02 dated October 6, 2003 and No. RPC-1248/02 dated October 7, 2003 in respect of the financial statements of BRI as of June 30, 2003 and December 31, 2002 and for the six-month ended June 30, 2003 and the year ended December 31, 2002. BRI reissued its financial statements as of June 30, 2003 and December 31, 2002 and for the six months ended June 30, 2003 and the year ended December 31, 2002 in connection with the registration statements relating to the initial public offering (IPO) of BRI with certain changes and additional disclosures in the notes to financial statements as described in Note 48 to the financial statements on the reissuance of the financial statements.

PRASETIO, SARWOKO & SANDJAJA

Drs. Soemarso S. Rahardjo, ME
Public Accountant License No. 98.1.0064

October 29, 2003

The accompanying financial statements are not intended to present the financial position, results of operations, and 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 financial statements are those generally accepted and applied in Indonesia.

The following is a copy of the report previously issued by Prasetio, Utomo & Co., then the member firm of Andersen Worldwide in Indonesia. This audit report has not been reissued by Prasetio, Utomo & Co. and Prasetio, Utomo & Co. has not consented to its inclusion herein.

Independent Auditors' Report

Report No. 37144S

The Stockholder and the Boards of Commissioners and Directors
PT Bank Rakyat Indonesia (Persero)

We have audited the consolidated balance sheets of PT Bank Rakyat Indonesia (Persero) ("BRI") and Subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of BRI's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2001 and 2000 financial statements of BRI's overseas branches which statements reflect total assets of 6.16% and 6.97%, respectively, of the consolidated assets and total net income of 2.80% and 1.74%, respectively, of the consolidated net income. Those statements were audited by other independent auditors whose qualified reports due to omission of the presentation of the fair value or related information of the branches' financial instruments, furnished to us and our opinion, insofar as it relates to the amounts included for those overseas branches, is based solely on the reports of the other independent auditors.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Accountants. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BRI and Subsidiary as of December 31, 2001 and 2000, and the results of their operations, the changes in their stockholder's equity and their cash flows for the years then ended in conformity with generally accepted accounting principles in Indonesia.

As discussed in Notes 2 and 3 to the consolidated financial statements, BRI and Subsidiary have adopted the Statement of Financial Accounting Standards (PSAK) No. 31 (Revised 2000) on "Accounting for Banking" issued by the Indonesian Institute of Accountants (IAI) and the Accounting Guidelines for Indonesian Banking (PAPI) issued by Bank Indonesia and IAI which became effective on January 1, 2001. BRI has also adopted PSAK No. 46 on "Accounting for Income Tax" issued by the IAI effective January 1, 2001 for non-public companies. The adoption of PSAK No. 31 and PAPI and PSAK No. 46 required BRI and Subsidiary to restate or reclassify certain accounts in the consolidated financial statements as of December 31, 2000 to conform with the 2001 consolidated financial statements presentation.

As discussed in Note 42 to the consolidated financial statements, Indonesia has experienced adverse economic conditions which had been characterized by volatile exchange rates, tight liquidity and the lack of public confidence in the country's banking system, which have significantly affected the banking sector, including the operations of BRI and Subsidiary and other economic sectors. These economic conditions have also affected the operation of BRI's and Subsidiary's debtors, thereby increasing the inherent credit risk in the earning assets portfolio of BRI and Subsidiary. Furthermore, the economic conditions have also affected the cost of funds of BRI and Subsidiary. The volatility of exchange rates has also increased the exposure of BRI and Subsidiary to foreign exchange risk. The banking industry in general continues to experience minimal lending activities. Although there have been slight indications of improvement in the economy, the economic conditions in Indonesia in 2001 and 2000 still continue to be affected by significant uncertainties. Note 42 describes the measures BRI had implemented and plans to implement in response to the economic conditions. As discussed in Note 28, in connection with the recapitalization program for all state-owned banks, the Government determined that the final recapitalization requirement for BRI to achieve 4% CAR amounted to Rp 29.064 trillion. As discussed in Note 43, the Indonesian Government, based on Presidential Decree No. 26 of 1998, as implemented by the Decree of the Minister of Finance dated January 28, 1998 and the Joint Decree dated March 6, 1998 of Bank Indonesia (BI) and Indonesian Bank Restructuring Agency (IBRA) with the latest amendment on May 26, 2000, is guaranteeing certain obligations of all commercial banks incorporated in Indonesia. The accompanying consolidated financial statements include the effects of the 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 Government, actions that are beyond the control of BRI and Subsidiary. It is not possible to determine the future effects of the economic conditions on BRI's and Subsidiary's earnings and realization of their earning assets, including the effects flowing through their customers, depositors, creditors and stockholders.

PRASETIO, UTOMO & CO.
License No. 98.2.0024

Drs. Nunu Nurdiyaman
License No. 98.1.0062

April 26, 2002

NOTICE TO READERS

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

PT BANK RAKYAT INDONESIA (PERSERO)

BALANCE SHEETS
June 30, 2003 and December 31, 2002
With Comparative Figures for December 31, 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data)

		June 30, 2003 (Notes 2c and 3)				
		Before Quasi-	After Quasi-		December 31,	
	Notes	Reorganization	Reorganization	2002	2001	2000
					(Note 2b)	(Note 2b)
ASSETS						
CASH	2a	1,959,462	1,959,462	2,028,103	1,795,739	1,676,867
CURRENT ACCOUNTS WITH BANK INDONESIA	2a, 4	4,009,420	4,009,420	4,211,589	4,522,236	2,831,080
CURRENT ACCOUNTS WITH OTHER BANKS	2a, 2d, 2e, 2f, 5, 42					
Third parties		1,723,510	1,723,510	496,101	1,278,789	788,252
Related parties		—	—	—	2,279	9,191
		1,723,510	1,723,510	496,101	1,281,068	797,443
Allowance for possible losses		(17,235)	(17,235)	(4,961)	(15,063)	(18,395)
Net		1,706,275	1,706,275	491,140	1,266,005	779,048
PLACEMENTS WITH BANK INDONESIA AND OTHER BANKS AND FINANCIAL INSTITUTIONS—net of unamortized interest of Rp1,028, Rp1, and Rp1,794 as of December 31, 2002, 2001 and 2000, respectively	2a, 2d, 2e, 2g, 6, 42					
Third parties		3,024,967	3,024,967	5,423,597	3,345,929	2,844,489
Related parties		153,044	153,044	165,728	56,266	30,546
		3,178,011	3,178,011	5,589,325	3,402,195	2,875,035
Allowance for possible losses		(173,294)	(173,294)	(184,655)	(8,886)	(32,797)
Net		3,004,717	3,004,717	5,404,670	3,393,309	2,842,238
SECURITIES—net of unamortized interest and discount of Rp34,908, Rp37,216, Rp9,518 and Rp558 as of June 30, 2003 and December 31, 2002, 2001 and 2000, respectively	2a, 2e, 2h, 7	8,592,448	8,592,448	5,598,142	2,515,842	727,528
Allowance for possible losses		(10,348)	(10,348)	(8,457)	(7,128)	(4,895)
Net		8,582,100	8,582,100	5,589,685	2,508,714	722,633
EXPORT BILLS	2e, 2j, 8	405,356	405,356	356,556	441,079	477,039
Allowance for possible losses		(4,947)	(4,947)	(12,909)	(5,409)	(27,776)
Net		400,409	400,409	343,647	435,670	449,263
GOVERNMENT BONDS	2h, 9	28,007,544	28,007,544	28,393,561	28,436,257	28,981,600
SECURITIES PURCHASED WITH AGREEMENT TO RESELL	2e, 2k, 10	19,837	19,837	21,482	202,392	—
Allowance for possible losses		(198)	(198)	(215)	(2,024)	—
Net		19,639	19,639	21,267	200,368	—
LOANS	2a, 2d, 2e, 2l, 11, 42					
Third parties		43,297,634	43,297,634	39,188,337	33,376,400	26,791,025
Related parties		190,284	190,284	179,082	152,785	238,934
		43,487,918	43,487,918	39,367,419	33,529,185	27,029,959
Allowance for possible losses		(4,168,806)	(4,168,806)	(3,913,097)	(3,963,445)	(2,770,665)
Net		39,319,112	39,319,112	35,454,322	29,565,740	24,259,294
SYARIAH FINANCING	2a, 2e, 2i	24,553	24,553	5,668	—	—
Allowance for possible losses		(321)	(321)	(51)	—	—
Net		24,232	24,232	5,617	—	—
ACCEPTANCES RECEIVABLE	2a, 2e, 2m, 12	255,709	255,709	207,903	272,002	285,189
Allowance for possible losses		(25,859)	(25,859)	(16,311)	(31,932)	(9,200)
Net		229,850	229,850	191,592	240,070	275,989
INVESTMENTS IN SHARES OF STOCK	2b, 2e, 2n, 13	105,421	105,421	102,585	45,647	327,621
Allowance for possible losses		(48,504)	(48,504)	(48,504)	(456)	(284,765)
Net		56,917	56,917	54,081	45,191	42,856
PREMISES AND EQUIPMENT	2o, 2p, 14					
Cost		2,691,213	2,691,213	2,543,031	2,029,471	1,807,723
Accumulated depreciation		(1,473,630)	(1,473,630)	(1,383,810)	(1,216,939)	(1,079,833)
Net book value		1,217,583	1,217,583	1,159,221	812,532	727,890
DEFERRED TAX ASSETS	2ad, 35	799,767	799,767	856,221	800,951	869,746
OTHER ASSETS	2q, 2r, 15	2,465,884	2,465,884	2,140,180	2,172,413	1,875,150
TOTAL ASSETS		91,802,911	91,802,911	86,344,896	76,195,195	66,333,654

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

PT BANK RAKYAT INDONESIA (PERSERO)

BALANCE SHEETS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for December 31, 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data)

	Notes	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	After Quasi-Reorganization	December 31, 2002	2001 (Note 2b)	2000 (Note 2b)
LIABILITIES AND STOCKHOLDER'S EQUITY						
LIABILITIES						
SHORT-TERM LIABILITIES	2s, 16	3,634,664	3,634,664	1,887,141	1,295,978	2,595,769
DEPOSITS FROM CUSTOMERS						
Demand Deposits	2d, 2t, 17, 42					
Third parties		11,805,147	11,805,147	11,455,442	7,493,887	7,527,181
Related parties		3,382	3,382	2,825	22,256	1,723
Total Demand Deposits		11,808,529	11,808,529	11,458,267	7,516,143	7,528,904
Wadiah Demand Deposits	2a, 2t	1,877	1,877	468	—	—
Savings Deposits	2d, 2t, 18, 42					
Third parties		31,087,982	31,087,982	28,671,056	26,528,611	22,711,036
Related parties		348	348	420	—	—
Total Saving Deposits		31,088,330	31,088,330	28,671,476	26,528,611	22,711,036
Mudharabah Savings Deposits	2a,2t	7,332	7,332	1,561	—	—
Time Deposits	2d, 2t, 19, 42					
Third parties		31,224,176	31,224,176	29,356,515	23,155,320	18,524,711
Related parties		187,668	187,668	125,670	550,831	449,309
Total Time Deposits		31,411,844	31,411,844	29,482,185	23,706,151	18,974,020
Mudharabah Time Deposits	2a, 2t	3,708	3,708	1,746	—	—
Certificates of Deposits—net of unamortized interest of Rp144, Rp37, Rp1,284 and Rp6 as of June 30, 2003 and December 31, 2002, 2001 and 2000, respectively	2t, 20	11,476	11,476	10,953	7,553	2,697
Total Deposits From Customers		74,333,096	74,333,096	69,626,656	57,758,458	49,216,657
DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS	2d, 2t, 21, 42					
Third parties		1,832,683	1,832,683	1,721,496	2,668,670	1,943,379
Related parties		—	—	339,461	387,776	—
Total Deposits From Other Banks and Financial Institutions		1,832,683	1,832,683	2,060,957	3,056,446	1,943,379
SECURITIES SOLD WITH AGREEMENT TO REPURCHASE	2u, 22	508,406	508,406	200,688	710,533	—
ACCEPTANCES PAYABLE	2m, 12	255,709	255,709	207,903	272,002	285,189
FUND BORROWINGS	2d, 2p, 23, 42					
Third parties		1,313,534	1,313,534	2,828,467	4,710,677	4,192,326
Related parties		188,432	188,432	196,775	312,360	366,425
Total Fund Borrowings		1,501,966	1,501,966	3,025,242	5,023,037	4,558,751
ESTIMATED LOSSES ON COMMITMENTS AND CONTINGENCIES	2a, 2e, 24	295,609	295,609	228,644	107,188	55,766
OTHER LIABILITIES	2v, 25, 39	2,733,606	2,733,606	2,793,246	2,617,844	3,189,658
SUBORDINATED LOANS	26	509,501	509,501	520,315	516,979	420,806
Total Liabilities		85,605,240	85,605,240	80,550,792	71,358,465	62,265,975
MINORITY INTEREST IN NET ASSETS OF CONSOLIDATED SUBSIDIARY	2b	—	—	—	23,026	14,893
STOCKHOLDER'S EQUITY						
Capital stock—Rp1,000,000 par value per share Authorized—5,000,000 shares Issued and fully paid—5,000,000 shares in 2003 and 1,728,000 shares in 2002, 2001 and 2000	1, 27, 47	5,000,000	5,000,000	1,728,000	1,728,000	1,728,000
Additional paid-in capital	2c, 3, 27, 47	25,791,536	1,092,149	29,063,536	29,063,536	29,063,536
Revaluation increment on premises and equipment	20	786	786	786	786	786
Differences arising from translation of foreign currency financial statement	2ab, 27	104,736	104,736	104,110	106,066	232,799
Retained earning (Deficit)—(deficit of Rp24,699,387 has been eliminated on the quasi-reorganization as of June 30, 2003)	2c, 3, 27	(24,699,387)	—	(25,102,328)	(26,084,684)	(26,972,335)
Stockholder's Equity—Net		6,197,671	6,197,671	5,794,104	4,813,704	4,052,786
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		91,802,911	91,802,911	86,344,896	76,195,195	66,333,654

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

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENTS OF INCOME
For Six Months Ended June 30, 2003 and the Year Ended December 31, 2002
With Comparative Figures for the Years Ended December 31, 2001 and 2000
(Expressed in Millions of Rupiah)

	Notes	June 30, 2003	2002	December 31, 2001	2000
				(Note 2b)	(Note 2b)
INCOME AND EXPENSES FROM OPERATIONS					
Interest, Investment and Syariah Financing Income					
Interest and investment income	2a, 2w, 28	7,311,621	13,241,590	10,800,701	7,499,238
Fees and commissions	2x, 29	135,308	211,833	167,031	116,913
Syariah income	2a, 2i, 2y	716	206	—	—
Total Interest, Investment and Syariah Financing Income		7,447,645	13,453,629	10,967,732	7,616,151
Interest, Syariah and Other Financing Charges					
Interest and other financing charges	2w, 30	3,805,739	7,373,119	6,006,140	4,823,125
Syariah charges	2a, 2y	142	72	—	—
Total Interest, Syariah and Other Financing Charges		3,805,881	7,373,191	6,006,140	4,823,125
Interest Income—Net		3,641,764	6,080,438	4,961,592	2,793,026
Other Operating Income					
Gain from increase in value of securities and Government Bonds	2h, 7, 9	186,944	383,840	—	—
Gain on sale of securities and Government Bonds	2h, 7, 9	18,475	27,815	—	—
Other fees and commissions	2x	138,668	290,375	101,749	104,569
Gain on foreign exchange—net	2aa	—	—	150,334	—
Others	16, 35	193,019	342,632	901,139	649,742
Total Other Operating Income		537,106	1,044,662	1,153,222	754,311
Reversal of allowance (provision) for possible losses on earning assets	2e, 31	(62,276)	(1,540,469)	(889,977)	564,992
Reversal of allowance (provision) for estimated losses on commitments and contingencies	2e, 24b	(66,965)	(123,774)	(51,555)	96,855
Reversal of allowance (provision) for possible losses on other assets		103,011	(91,127)	(661,310)	—
Other Operating Expenses					
Salaries and employees' benefits	2z, 25, 32	1,685,215	2,644,135	1,961,861	2,474,788
General and administrative expenses	33	465,961	1,081,806	949,565	909,623
Other fees and commissions	2x	6,166	14,353	11,502	58,713
Loss on foreign exchange—net	2aa	128,169	49,076	—	337,300
Loss from decline in value of securities and Government Bonds	2h, 7, 9	—	—	374,308	95,187
Loss from sale of securities and Government Bonds	2h, 7, 9	—	—	28,540	—
Others		475,433	118,353	70,173	5,814
Total Other Operating Expenses		2,760,944	3,907,723	3,395,949	3,881,425
INCOME FROM OPERATIONS		1,391,696	1,462,007	1,116,023	327,759
NON-OPERATING INCOME—NET	13, 34	373,336	7,663	24,795	8,036
INCOME BEFORE TAX BENEFIT (EXPENSE)		1,765,032	1,469,670	1,140,818	335,795
TAX BENEFIT (EXPENSE)	2a, 2ad, 35				
Current		(526,668)	—	—	—
Deferred		(56,454)	55,270	(68,795)	3,649
INCOME BEFORE MINORITY INTEREST		1,181,910	1,524,940	1,072,023	339,444
MINORITY INTEREST IN NET INCOME OF CONSOLIDATED SUBSIDIARY	2b	—	—	(8,133)	(416)
NET INCOME		1,181,910	1,524,940	1,063,890	339,028

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

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
For Six Months Ended June 30, 2003 and the Year Ended December 31, 2002
With Comparative Figures for the Years Ended December 31, 2001 and 2000
(Expressed in Millions of Rupiah)

	Notes	Capital Stock Issued and Fully Paid	Additional Paid-in Capital	Revaluation Increment on Premises and Equipment	Differences Arising from Translation of Foreign Currency Financial Statement	Retained Earnings (Deficit) Appro-priated	Unappro-priated	Total	Stockholder's Equity—Net
Balance as of January 1, 2000 as reported		1,728,000	5	786	161,826	43,904	(28,221,364)	(28,177,460)	(26,286,843)
Adjustment relating to the adoption of new accounting standard on income tax	2ad	—	—	—	—	—	866,097	866,097	866,097
Balance as of January 1, 2000 as restated		1,728,000	5	786	161,826	43,904	(27,355,267)	(27,311,363)	(25,420,746)
Additional paid-in capital from the Indonesian Government in connection with recapitalization program	9, 27	—	29,063,531	—	—	—	—	—	29,063,531
Additional differences arising from translation of foreign currency financial statement	2ab, 27	—	—	—	70,973	—	—	—	70,973
Net income during the year		—	—	—	—	—	339,028	339,028	339,028
Balance as of December 31, 2000		1,728,000	29,063,536	786	232,799	43,904	(27,016,239)	(26,972,335)	4,052,786
Reduction in differences arising from translation of foreign currency financial statement	2ab, 27	—	—	—	(126,733)	—	—	—	(126,733)
Distribution of income	27								
Cash dividends		—	—	—	—	—	(167,689)	(167,689)	(167,689)
Addition to general and special reserves		—	—	—	—	150,705	(150,705)	—	—
Appropriation for small scale industries and cooperatives		—	—	—	—	—	(8,550)	(8,550)	(8,550)
Net income during the year	2b	—	—	—	—	—	1,063,890	1,063,890	1,063,890
Balance as of December 31, 2001		1,728,000	29,063,536	786	106,066	194,609	(26,279,293)	(26,084,684)	4,813,704
Reduction in differences arising from translation of foreign currency financial statement	2ab, 27	—	—	—	(1,956)	—	—	—	(1,956)
Distribution of income	27								
Cash dividends		—	—	—	—	—	(531,946)	(531,946)	(531,946)
Addition to general and special reserves		—	—	—	—	450,325	(450,325)	—	—
Appropriation for small scale industries and cooperatives		—	—	—	—	—	(9,600)	(9,600)	(9,600)
Appropriation for environmental development fund		—	—	—	—	—	(1,038)	(1,038)	(1,038)
Net income during the year	2b	—	—	—	—	—	1,524,940	1,524,940	1,524,940
Balance as of December 31, 2002		1,728,000	29,063,536	786	104,110	644,934	(25,747,262)	(25,102,328)	5,794,104
Additional differences arising from translation of foreign currency financial statement	2ab, 27	—	—	—	626	—	—	—	626
Distribution of income	27								
Cash dividends		—	—	—	—	—	(762,470)	(762,470)	(762,470)
Addition to general and special reserves		—	—	—	—	741,682	(741,682)	—	—
Appropriation for small scale industries and cooperatives		—	—	—	—	—	(15,249)	(15,249)	(15,249)
Appropriation for environmental development fund		—	—	—	—	—	(1,250)	(1,250)	(1,250)
Addition in paid-in capital through conversion of recapitalization amount	27, 47	3,272,000	(3,272,000)	—	—	—	—	—	—

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY—(Continued)
For Six Months Ended June 30, 2003 and the Year Ended December 31, 2002
With Comparative Figures for the Years Ended December 31, 2001 and 2000
(Expressed in Millions of Rupiah)

	Notes	Capital Stock Issued and Fully Paid	Additional Paid-in Capital	Revaluation Increment on Premises and Equipment	Differences Arising from Translation of Foreign Currency Financial Statement	Retained Earnings (Deficit) Appro-priated	Unappro-priated	Total	Stockholder's Equity—Net
Utilization of general reserves and special reserves to cover the deficit	27, 47	—	—	—	—	(1,386,616)	1,386,616	—	—
Net income during the period	2b	—	—	—	—	—	1,181,910	1,181,910	1,181,910
Balance as of June 30, 2003 before Quasi-Reorganization		5,000,000	25,791,536	786	104,736	—	(24,699,387)	(24,699,387)	6,197,671
Reclassification of deficit into paid-in capital in connection with quasi-reorganization	2c, 3	—	(24,699,387)	—	—	—	24,699,387	24,699,387	—
Balance as of June 30, 2003 after Quasi-Reorganization		5,000,000	1,092,149	786	104,736	—	—	—	6,197,671

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

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENTS OF CASH FLOWS
For Six Months Ended June 30, 2003 and the Year Ended December 31, 2002
With Comparative Figures for the Years Ended December 31, 2001 and 2000
(Expressed in Millions of Rupiah)

	June 30, 2003 (Notes 2c and 3)		December 31,		
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
CASH FLOWS FROM OPERATING ACTIVITIES					
Revenues from interest, investment income, fees and commissions and syariah income	6,743,127	6,743,127	13,833,952	10,967,732	7,638,322
Payments of interest, syariah and other financing charges	(3,787,371)	(3,787,371)	(7,522,282)	(6,006,140)	(5,689,937)
Bad debt recoveries	328,499	328,499	401,549	575,426	551,062
Other operating income	130,967	130,967	236,078	1,149,792	550,734
Other operating expenses	(2,655,128)	(2,655,128)	(3,441,396)	(3,771,880)	(2,584,567)
Non-operating income—net	372,867	372,867	6,055	21,921	6,287
Income before changes in operating assets and liabilities	1,132,961	1,132,961	3,513,956	2,936,851	471,901
Changes in operating assets and liabilities:					
Decrease (increase) in operating assets:					
Placements with Bank Indonesia and other banks and financial institutions	2,411,314	2,411,314	(2,187,130)	(551,071)	(2,266,346)
Securities	71,551	71,551	306,412	5,456	219,735
Export bills	(48,800)	(48,800)	84,522	39,838	35,960
Securities purchased with agreement to resell	1,645	1,645	180,910	(200,368)	—
Loans	(4,255,918)	(4,255,918)	(7,260,505)	(6,499,226)	(2,013,789)
Syariah financing	(18,614)	(18,614)	(5,668)	—	—
Other assets	481,824	481,824	(348,088)	(297,068)	(422,946)
Increase (decrease) in operating liabilities:					
Short-term liabilities	1,220,853	1,220,853	591,164	(1,299,791)	(32,612)
Deposits from customers:					
Demand	350,262	350,262	3,942,124	3,817,575	2,833,419
Wadiah demand	1,409	1,409	468	—	—
Savings	2,416,854	2,416,854	2,142,865	(12,761)	4,389,125
Mudharabah savings	5,771	5,771	1,561	—	—
Time deposits	1,929,658	1,929,658	5,776,034	4,732,131	2,121,176
Mudharabah time deposits	1,962	1,962	1,746	—	—
Certificates of deposits	522	522	3,400	4,856	79,344
Deposits from other banks	(228,274)	(228,274)	(995,489)	1,113,067	460,828
Securities sold with agreement to repurchase	307,719	307,719	(509,845)	710,533	—
Other liabilities	(90,858)	(90,858)	303,421	(571,814)	182,312
Net Cash Provided by Operating Activities	5,691,841	5,691,841	5,541,858	3,928,208	6,058,107
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of premises and equipment	(154,503)	(154,503)	(598,607)	(230,739)	(218,722)
Proceeds from sale of Government Bonds	582,328	582,328	438,367	126,460	—
Proceeds from sale of premises and equipment	3,502	3,502	68,961	2,874	1,750
Increase in held to maturity securities	(2,858,547)	(2,858,547)	(2,977,062)	(1,791,537)	—
Purchase of Government Bonds in connection with recapitalization	—	—	—	—	(29,063,531)
Receipt of dividends	4,410	4,410	1,260	900	—
Net Cash Used in Investing Activities	(2,422,810)	(2,422,810)	(3,067,081)	(1,892,042)	(29,280,503)

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENTS OF CASH FLOWS—(Continued)
For Six Months Ended June 30, 2003 and the Year Ended December 31, 2002
With Comparative Figures for the Years Ended December 31, 2001 and 2000
(Expressed in Millions of Rupiah)

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi-Reorganization	December 31, 2002	December 31, 2001	December 31, 2000
				(Note 2b)	(Note 2b)
CASH FLOWS FROM FINANCING ACTIVITIES					
Redemption (payment) of fund borrowings	(1,523,275)	(1,523,275)	(1,997,795)	464,286	(5,276,311)
Receipt (payment) of subordinated loans	(10,814)	(10,814)	3,336	96,173	20,082
Distribution of income for dividends, small scale industries and cooperatives environmental development fund	(778,969)	(778,969)	(542,585)	(176,239)	—
Additional paid-in capital	—	—	—	—	29,063,531
Net Cash Provided by (Used in) Financing Activities	(2,313,058)	(2,313,058)	(2,537,044)	384,220	23,807,302
NET EFFECT OF DIFFERENCES ARISING FROM TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS ON CASH AND CASH EQUIVALENTS	626	626	(1,955)	(126,733)	70,973
NET EFFECT OF DECONSOLIDATION OF SUBSIDIARY	—	—	(799,028)	—	(58,266)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	956,599	956,599	(863,250)	2,293,653	597,613
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,735,793	6,735,793	7,599,043	5,305,390	4,707,777
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	7,692,392	7,692,392	6,735,793	7,599,043	5,305,390
Cash and cash equivalents consist of:					
Cash	1,959,462	1,959,462	2,028,103	1,795,739	1,676,867
Current accounts with Bank Indonesia	4,009,420	4,009,420	4,211,589	4,522,236	2,831,080
Current accounts with other banks	1,723,510	1,723,510	496,101	1,281,068	797,443
Total Cash and Cash Equivalents	7,692,392	7,692,392	6,735,793	7,599,043	5,305,390
SUPPLEMENTAL NON-CASH FLOW INFORMATION					
Activities non affecting cash flows:					
Conversion of addition paid-in capital into paid-in capital	3,272,000	—	—	—	—
Utilization of general reserves and special reserves to cover deficit	1,386,616	—	—	—	—
Reclassification of deficit into paid-in capital in connection with quasi-reorganization (Notes 2c and 3c)	—	24,699,387	—	—	—
Governments Bonds swapped with IBRA's loans	—	—	249,473	—	—
Government bonds reprofiling	—	—	20,400,000	—	—

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

1. GENERAL

PT Bank Rakyat Indonesia (Persero) (hereinafter referred to as "BRI") was established in the Republic of Indonesia on December 18, 1968 based on Law No. 21 of 1968. On April 29, 1992, based on the Government of the Republic of Indonesia Regulation No. 21 of 1992, BRI acquired its status as a limited liability corporation (Persero). The change in the status of BRI to become a limited liability corporation was covered by notarial deed No. 133 dated July 31, 1992 of Muhani Salim, S.H., which was approved by the Minister of Justice in his Decision Letter No. C2-6584.HT.01.01.TH.92 dated August 12, 1992, and published in Supplement No. 3A of the State Gazette No. 73 dated September 11, 1992. BRI's Articles of Association have been amended several times, among others by notarial deed No. 7 dated September 4, 1998 of Imas Fatimah, S.H., pertaining to Article 2 on "Corporate Term" and Article 3 on "Purpose, Objectives and Business Activities" to comply with Law No. 1 of 1995 on "Limited Liability Corporation". Such changes were approved by the Minister of Justice in his Decision Letter No. C2-24930.HT.01.04.Th.98 dated November 13, 1998 and were published in Supplement No. 7216 of the State Gazette No. 86 dated October 26, 1999. The latest amendment is based on the notarial deed No. 7 dated October 3, 2003 of Imas Fatimah, S.H., among others regarding the changes in the articles of association of BRI. This change has been approved by the Ministry of Justice and Human Rights with Decision Letter No. C-23726 HT.01.04.TH.2003 dated October 6, 2003 (see Note 47f).

According to Article 3 of the latest Articles of Association, BRI's objective is to conduct and support the Government's policy and program in the economic sector and in the national development in general, particularly in the banking sector in accordance with prevailing acts and regulations, including activities based on syariah principles.

As realization of the recapitalization program for commercial banks which is set forth in Government Regulation No. 52 of 1999 regarding the Increase in Investments in Shares by the Republic of Indonesia in state-owned bank, BRI received the recapitalization amount of Rp29,149,000 in the form of Government bonds in two tranches in their nominal amounts of Rp20,404,300 on July 25, 2000 and Rp8,744,700 on October 31, 2000 (see Notes 9 and 27). Furthermore, as stated in the Management Contract between the Republic of Indonesia as represented by the Government of the Republic of Indonesia ("Government") through the Minister of Finance and BRI dated February 28, 2001, the Government determined that the final recapitalization amounts to achieve 4% of CAR was Rp29,063,531. Therefore, BRI returned the excess of recapitalization amounting to Rp85,469 in the form of Government bonds to the Republic of Indonesia on November 5, 2001 (see Notes 9 and 27).

On September 30, 2003, the Ministry of Finance of the Republic of Indonesia issued Decision Letter No. 427/KMK.02/2003 dated September 30, 2003 on the final amount and the implementation of Government's rights from the additional investment of the Republic of Indonesia in the capital of PT Bank Rakyat Indonesia (Persero) under the recapitalization program for commercial banks. Based on this decision letter, the Ministry of Finance affirmed that the final recapitalization of BRI amounted to Rp29,063,531 (see Notes 27 and 47e).

BRI's head office is located in BRI I Building, Jl. Jenderal Sudirman Kav. 44-46, Jakarta.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

As of June 30, 2003 and December 31, 2002, 2001 and 2000, BRI has the following regional offices, inspection offices, branches and units:

	June 30, 2003	December 31, 2002	2001 (Note 2b)	2000 (Note 2b)
Regional Offices	13	13	12	12
Inspection Offices	11	11	11	11
Domestic Branches	324	324	322	322
Special Branch	1	1	1	1
Overseas Branch/Agency	2	2	2	2
Sub-branches/Cash Offices	147	124	64	44
BRI Units	3,931	3,916	3,823	3,724
Village Service Units	199	211	240	286
Syariah Business Units ("BRI Syariah")	8	2	—	—

As of June 30, 2003 and December 31, 2002, 2001 and 2000, BRI has an overseas branch located in Cayman Islands and an agency in New York.

As of June 30, 2003 and December 31, 2002, 2001 and 2000, BRI has a total of 31,971, 31,079, 30,942 and 30,563 employees, respectively (unaudited).

The composition of the Boards of Commissioners and Directors based on the letter of Ministry of State Own Enterprise, No. KEP-195/MBU/2003 dated May 5, 2003, the letters of the Minister of Finance No. 290/KMK.01/2000 dated July 17, 2000 and No. 291/KMK.01/2000 dated July 18, 2000 follows:

	As of June 30, 2003	As of December 31, 2002	2001 and 2000
Board of Commissioners			
President Commissioner	Sukanto Reksohadiprodjo	—	Sukadji Ranuwihardjo
Commissioner	Ferdinand Nainggolan	—	Ronny K. Muntoro
Commissioner	Arbali Sukanal	Arbali Sukanal	Arbali Sukanal
Commissioner	Syahrial Hamid	Syahrial Hamid	Syahrial Hamid
Board of Directors			
President Director	Rudjito	Rudjito	Rudjito
Director	Ahmad Askandar	Ahmad Askandar	Ahmad Askandar
Director	Wayan Alit Antara	Wayan Alit Antara	Wayan Alit Antara
Director	Krisna Wijaya	Krisna Wijaya	Krisna Wijaya
Director	Gayatri Rawit Angreni	Gayatri Rawit Angreni	Gayatri Rawit Angreni
Director	Hendrawan Tranggana	Hendrawan Tranggana	Hendrawan Tranggana
Director	Akhmad Amien Mastur	Akhmad Amien Mastur	Akhmad Amien Mastur

Based on the Stockholder's Extraordinary General Meeting on January 11, 2002, the stockholder approved the retirement of Sukadji Ranuwihardjo as President Commissioner and Ronny K. Muntoro as Member of Commissioners.

Based on the Stockholder's Extraordinary General Meeting on December 19, 2000, the stockholder agreed to the appointment of Gayatri Rawit Angreni as Compliance Director. Bank Indonesia based on its letter No. 2/122/DGS/DPIP/Rahasia dated November 21, 2000 has approved the appointment. On January 23, 2003, the President Director, with the approval of the Board of Commissioners, appointed

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Hendrawan Tranggana to replace Gayatri Rawit Anggreni as Compliance Director of BRI. The appointment was approved by Bank Indonesia through its Letter No. 5/23/DGS/DPIP/Rahasia dated February 28, 2003.

Based on the Board of Commissioners' Decision Letter No. 02-KOM/BRI/06/2003 dated June 3, 2003 and No. 03-KOM/BRI/09/2000 dated September 29, 2000, BRI's Audit Committee consists of:

	As of June 30, 2003	As of December 31, 2002	2001 and 2000
Chairman	Arbali Sukanal	—	Ronny K. Muntoro
Member	Yusuf Subianto	Yusuf Subianto	Yusuf Subianto
Member	Slamet Kurniawan	Slamet Kurniawan	Slamet Kurniawan
Member	—	—	Istini Tatiek Siddharta

Based on the Board of Commissioners' Decision Letter No. 06-KOM/BRI/01/2002 dated January 23, 2002, the Board of Commissioners approved the retirement of Ronny K. Muntoro as Chairman of BRI's Audit Committee and Istini Tatiek Siddharta as a Member of BRI's Audit Committee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Financial Statements

The financial statements have been prepared in conformity with Statement of Financial Accounting Standards (PSAK) No. 31 (Revised 2000) on "Accounting for Banking" issued by the Indonesian Institute of Accountants (IAI) and the Accounting Guidelines for Indonesian Banking (PAPI) published by Bank Indonesia and IAI, and, where applicable, prevailing banking industry practices and accounting and reporting guidelines prescribed by the bank regulatory authority in Indonesia and Capital Markets Supervisory Agency (Bapepam) regulation No. VIII.G.7 attachment to the Decision of the Chairman of Bapepam, No. KEP-06/PM/2000 dated March 13, 2000 regarding Guidelines for Financial Statements Presentation.

The Indonesian Institute of Accountants issued PSAK No. 59 "Accounting for Syariah Banking" effective January 1, 2003. Effective January 1, 2003, BRI Syariah Branches which are engaged in banking activities with Syariah principles present their financial statements in accordance with Syariah accounting principles under PSAK No. 59.

The financial statements have been prepared on:

1) accrual basis, except for interest income on non-performing assets and interest income on Village General Loans (Kupedes) which is immaterial in individual amounts and recorded on cash basis;

2) historical cost, except for certain premises and equipment which were revalued based on Government regulation, certain investments which are recorded under equity method, certain securities, government bonds and derivative transactions which are stated at market value and repossessed assets which are stated at net realizable value.

The statements of cash flows have been prepared using direct method which classified cash flows into operating, investing and financing activities. For presentation in the statements of cash flows, cash and cash equivalents consist of cash, current accounts with Bank Indonesia and current accounts with other banks.

b. Consolidation

The consolidated financial statements for 2001 and 2000 included the consolidated financial statements of BRI and PT Bank Inter-Pacific Tbk ("BIP"), in which BRI is a majority shareholder. BIP is located in Jakarta and is mainly engaged in banking. BRI has a 66.79% ownership interest in BIP as of December 31, 2001 and 2000. Significant intercompany balance and transactions had been eliminated.

As of June 30, 2003 and December 31, 2002, the financial statements of BIP had been excluded from the consolidation of BRI's financial statements because BRI resolved to divest the investment in BIP in accordance with BRI's Director letter to BIP No. R.205-DIR/KUI/TRY/12/02 dated December 16, 2002 (see Notes 2n and 47b).

In 2000, the financial statements of another subsidiary, BRI Finance Limited, Hong Kong which was domiciled in Hong Kong, mainly engaged in deposit-taking and in which BRI had a 100% ownership interest, had been excluded from the consolidation of BRI's financial statements since it was decided on December 22, 2000 to close its operations.

c. Quasi-Reorganization

Based on PSAK No. 51 on "Accounting for Quasi-Reorganization", quasi-reorganization is an accounting procedure which will enable an enterprise to restructure its equity by eliminating a deficit and revaluing all of its assets and liabilities based on fair values without a legal reorganization. With quasi-reorganization, the company will have a fresh start with a balance sheet showing current values without a deficit as the deficit is eliminated/offset against the additional paid-in capital account.

The estimate of fair values of assets and liabilities of BRI in relation to the quasi-reorganization is based on the best information available that is related to the characteristic of the assets or liabilities, with consideration to the level of related risks. If the market value is unavailable, the estimate of fair value is determined based on the values of similar types of assets, present value or discounted cash flow. For the assets and liabilities, the valuation is undertaken in accordance with the related PSAK.

Based on BRI's Stockholder's Extraordinary General Meeting on October 3, 2003 based on notarial deed No. 6 dated October 3, 2003 of Imas Fatimah, S.H. (see Notes 3 and 47f), the stockholder has approved the quasi-reorganization of BRI effective June 30, 2003.

BRI performed revaluation of its assets and liabilities accounts in conjunction with the quasi-reorganization as of June 30, 2003. Since the fair value of net assets (assets less liabilities) of BRI is greater than the net book value of the net assets, based on the prevailing practice in the implementation of the quasi-reorganization and PSAK No. 21 on "Accounting for Equity", BRI did not book the excess difference in the mentioned net assets to the deficit and still used the book values of the assets and liabilities on the implementation of the quasi-reorganization.

As a result of the quasi-reorganization, BRI's deficit that was offset against the additional paid-in capital account amounted to Rp24,699,387.

Bank Indonesia in letter No. 5/105/DPwB2/PwB24 dated September 19, 2003 stated that in undertaking the quasi-reorganization, BRI should refer to PSAK 51 and with consideration to the other related aspects in implementing the quasi-reorganization.

d. Transactions with Related Parties

Related parties are defined under PSAK No. 7 "Related Party Disclosures" as follows:

1) enterprises that, through one or more intermediaries, control or are controlled by, or are under common control with, the reporting enterprise (including holding companies, subsidiaries and fellow subsidiaries);

2) associated companies;

3) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them significant influence over the enterprise, and close members of the family of any such individuals (close members of a family are defined as those members who are able to exercise influence or can be influenced by such individuals in their transactions with the reporting enterprise);

4) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise, including commissioners, directors and managers of the enterprise and close members of the families of such individuals; and

5) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in 3) or 4) above, or over which such a person is able to exercise significant influence. This definition includes enterprises owned by the commissioners, directors or major stockholders of the reporting enterprise and enterprises that have a common member of key management as the reporting enterprise.

All significant transactions with related parties, whether or not made under similar terms and conditions as those conducted with third parties, are disclosed in the financial statements. Transactions among BRI and other stated-owned companies and entities in relation to the bank and corporate restructuring with Indonesian Bank Restructuring Agency (IBRA), are not considered as transactions with related parties based on PSAK No. 7.

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

Earning assets consist of current accounts with other banks, placements with other banks and financial institutions, securities, derivative transactions, export bills, securities purchased with agreement to resell, loans, syariah financing, acceptances receivable and investments in shares of stock. Commitments bearing credit risk consist of outstanding irrevocable letters of credit (L/C) and domestic L/C (SKBDN). Contingencies bearing credit risk consist of bank guarantees issued and standby L/C. Earning assets are further explained in Notes 2f, 2g, 2h, 2i, 2j, 2k, 2l, 2m, 2n and 2ac.

Allowance for possible losses on earning assets and estimated losses on commitments and contingencies are provided based on management's review of the quality of each asset and commitments and contingencies bearing credit risk at every reporting date with minimum allowance for possible losses in accordance with the Director of Bank Indonesia Decision Letter No. 31/147/KEP/DIR dated November 12, 1998 regarding the classification of the quality of earning assets and commitments and contingencies bearing credit risk (Current, Special Mention, Substandard, Doubtful and Loss) and the Director of Bank Indonesia Decision Letter No. 31/148/KEP/DIR dated November 12, 1998 regarding Provision of Allowance for Possible Losses on Earning Assets and Commitments and Contingencies. The management's evaluation includes the debtors' business prospects, financial condition and ability to repay. Estimated losses on commitments and contingencies bearing credit risk is recorded under liabilities.

The Bank Indonesia guidelines for the recognition of allowance for possible losses and estimated losses on commitments and contingencies are the following:

1. General reserve, at the minimum of 1% of earning assets and commitments and contingencies classified as Current, excluding Bank Indonesia-Rupiah Intervention, Bank Indonesia Certificates and Government Bonds.

2. Special reserve, at the minimum of:

   a) 5% of earning assets and commitments and contingencies classified as Special Mention; and

   b) 15% of earning assets and commitments and contingencies classified as Substandard, net of deductible collateral; and

   c) 50% of earning assets and commitments and contingencies classified as Doubtful, net of deductible collateral; and

   d) 100% of earning assets and commitments and contingencies classified as Loss, net of deductible collateral.

For Village General Loans (Kupedes), BRI had until 2001, determined the collectibility and allowance for possible losses based on Bank Indonesia's letter No. B.28/39/UPPB/APP dated April 10, 1995. Effective 2002, BRI determined the collectibility of Kupedes in accordance with Bank Indonesia Regulation No. 31/147/KEP/DIR dated November 12, 1998 on the Classification of the Quality of Earning Assets and Bank Indonesia Regulation No. 31/148/KEP/DIR dated November 12, 1998 on the Allowance for Possible Losses on Earning Assets.

Deductible collaterals from the calculation of provision for possible losses on earning assets and estimated losses on commitments and contingencies include Rupiah and foreign currency current accounts, time deposits, savings and guarantee payments, which have been restricted and require authorizations to undertake clearing, Bank Indonesia Certificates and government debentures, 50% of the market value of securities traded in the stock exchanges, certain percentage of the market value of land, certain percentage of the market value and calculation of costs of residential houses, and certain percentages of the market value, calculation of cost and capitalization of income of buildings, aircrafts and ships.

The outstanding balance of earning assets is written-off against the respective allowance for possible losses when management believes that the assets are determined to be definitely uncollectible. Recovery of earning assets previously written-down is recorded as an addition to the allowance for possible losses during the period of recovery. If the recovery exceeds the principal amount, the excess will be recognized as interest income.

f. Current Accounts with Other Banks

Current accounts with other banks are stated at their outstanding balances net of allowance for possible losses.

g. Placements with Bank Indonesia and Other Banks and Financial Institutions

Placements with Bank Indonesia and other banks and financial institutions include placements with Bank Indonesia in the form of Rupiah Intervention and inter-bank call money, and time deposits. These accounts are stated at the amount entrusted by the Bank or contract amount net of unamortized interest and allowance for possible losses.

h. Securities and Government Bonds

Securities consist of securities traded in the money market such as Bank Indonesia Certificates, notes receivable, subordinated notes, money market securities (SBPU), mutual fund units, stocks and exchange offer, and bonds traded in the stock exchanges.

Government Bonds are bonds issued by the Government of the Republic of Indonesia in connection with the recapitalization program for commercial banks and purchased from secondary market.

Securities and Government bonds are classified based on management's intention when the Bank purchased these securities and based on the following classifications under PSAK No. 50 on "Accounting for Certain Investments in Securities":

1) Securities for trading purposes are reported at fair value. Unrealized gains or losses resulting from the increase/decrease in fair value are recognized in the current period's/year's profit and loss. When the securities and Government Bonds traded were sold, the difference between the selling price and their carrying fair value was recorded as gain or loss on sale of securities and Government Bonds.

2) Held-to-maturity securities are stated at cost adjusted for the amortization of discount or premium, if any.

3) Available-for-sale securities are reported at fair value. Unrealized gains or losses resulting from the increase/decrease in fair value are not recognized in the current period's/year's operations but are presented separately under stockholder's equity. Gains or losses are recognized in the current operations upon realization.

For securities and Government Bonds traded, fair value is usually determined based on the market value offered in the stock exchange on balance sheet date. For securities and Government Bonds which have no market value, the estimated fair value is determined using expected market yield approach.

The permanent decline in value of the securities is charged to current period's/year's operations. The allowance for possible losses is reported as deduction from the amount of the securities.

i. Syariah Financing

BRI Syariah financing consists of "*mudharabah*" financing and "*murabahah*" financing.

Mudharabah financing is a joint financing made between BRI Syariah which provides the capital (*shahibul maal*) and the customer who manages the project (*mudharib*) in a certain period. The profit sharing from the project is distributed according to a predetermined ratio (*nisbah*). *Mudharabah* financing is stated at its outstanding balance net of allowance for possible losses.

Murabahah financing is a sales contract between the customer and BRI Syariah, where BRI Syariah finances the investment and working capital needs of the customer with a price which includes a profit margin agreed by both parties. Repayment is conducted by installments within a specified period. *Murabahah* financing is stated at its outstanding balance net of unamortized margin and allowance for possible losses.

j. Export Bills

Export bills represent negotiated export bills that have been discounted and guaranteed by other banks. Export bills are stated at the purchase amount after deduction of discount and allowance for possible losses. The discount has been recorded in the current period's/year's profit and loss as the amount is immaterial.

k. Securities Purchased with Agreement to Resell

Securities purchased under agreement to resell are recognized as receivables and recorded at their resale value reduced by unearned interest and allowance for possible losses. The difference between the purchase and selling price is treated as unearned interest and recognized over the period from the time of purchase to the time of resale.

l. Loans

Loans represent the lending of money or equivalent receivables under contracts with borrowers, whereby the borrowers are required to repay their debts with interest after a specified time. Loans are stated at their outstanding balance net of allowance for possible losses.

The restructuring of loans involves the modification of terms (e.g. modification of interest rate and extension of payment maturity date), and does not involve the receipt of assets (including receipt of shares) from the debtor. BRI records the effects of the restructuring prospectively and does not change the recorded carrying value of the loan receivable at the time of restructuring, except if the recorded amount exceeds the total future cash receipts specified by the new terms. The excess is deducted from the recorded amount of the loan and charged as loss from current period's/year's operations.

Loans extended under syndication agreement, channeling loans and two-step loans are recognized to the extent of the amount of risk borne by BRI.

m. Acceptances Receivable and Payable

Acceptances receivable and payable represent letters of credit (L/C) that have been accepted by the accepting bank. Acceptances receivable are stated at nominal amount or realization value of the L/C net of allowance for possible losses while acceptances payable are stated at nominal amount or realization value of the L/C.

n. Investments in Shares of Stock

Investments in shares of stock represent mainly long-term investments in non-publicly-listed companies engaged in the financing industry.

Investments in shares of stock with ownership interest of 20% up to 50% are recorded based on the equity method. Under this method, investments are stated at cost and adjusted for the share in the net earnings or losses of the investees and reduced by dividends earned since the acquisition date.

Investments in shares of stock with ownership interest of less than 20% are recorded based on the cost method reduced by allowance for possible losses. Investment in shares of stock with ownership interest of more than 20% in BIP is also recorded based on the cost method reduced by allowance for possible losses because it has been resolved to be divested.

o. Premises and Equipment

Premises and equipment are stated at cost, except for certain premises and equipment which were revalued in accordance with government regulation, less accumulated depreciation. The increment of values of premises and equipment resulting from the revaluation is reported under "Revaluation Increment on

Premises and Equipment" Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings	15
Transportation equipment	5
Computers and peripherals	3 and 5
Furniture and fixtures	5

Landrights and museum assets are stated at cost and not depreciated.

The cost of repairs and maintenance is charged to operations as incurred; significant renewals and betterments which lengthen the useful lives or giving useful economic value in the future in the form of increase in capacity or standard of performance are capitalized on the related premises and equipment. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in the current period's/year's operations.

PSAK No. 48 on "Impairment in Asset Value", requires the companies' management to review the asset value for any impairment and write-down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

p. Accounting for Leases

Lease transactions in which BRI is the lessee are accounted for as capital lease when all of the criteria under PSAK No. 30 on "Accounting for Leases" are met. If one of the criteria is not met, the lease transaction is accounted for as operating lease. Assets under capital lease (included as part of "Premises and Equipment") are stated at the present value of the minimum lease payments at the beginning of the lease term plus the residual value (option price) to be paid at the end of the lease period. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Obligations under capital lease are stated at the present value of the lease payments and classified under "Fund Borrowings".

q. Repossessed Assets

Repossessed assets acquired in settlement of loans (included as part of "Other Assets") are recognized at their net realizable value. Net realizable value is the fair value of the collateral after deducting the estimated costs of disposal. Excess in loans balance which has not been paid by debtors over repossessed assets value is charged to allowance for possible losses on loans. The difference between the value of the collateral and the proceeds from sale thereof is recognized as a gain or loss at the time of the sale.

r. Prepaid Expenses

Prepaid expenses (included as part of "Other Assets") are amortized over the periods benefited using the straight-line method.

s. Short-term Liabilities

Short-term liabilities represent the obligation to outside parties that, based on a contract or on an order by those having the authority, have to be settled immediately. Short-term liability is stated at the amount of the liability to the account holders.

t. Deposits

Demand deposits represent funds deposited by another party, customer or other banks, the withdrawal of which can be done at any time by use of a check, a bank draft or other forms of payment order, or through a transfer order. These deposits are stated at the amount of the liability to the account holder.

Wadiah demand deposits represent third party funds on which the customers receive bonus based on BRI Syariah policy.

Savings deposits represent customers' funds which the depositors are entitled to withdraw under certain conditions. These deposits are stated at the amounts due to the account holders.

Mudharabah savings deposits represent third party funds whereby the customers receive predetermined profit-sharing return ratio (*nisbah*) from income derived by BRI Syariah from the use of such funds.

Time deposits represent funds deposited by another party, customers and other banks, to BRI that can be withdrawn only at a certain point in time as stated in the contract. Time deposit is stated at the amount of principal deposit or at the amount stated in the agreement.

Mudharabah time deposits represent third party funds that can be withdrawn only at a certain point in time based on the agreement between the customer and BRI Syariah. *Mudharabah* time deposits are stated at the amount as agreed by the customer and BRI Syariah.

Certificates of deposits represent time deposits covered by negotiable certificates. These certificates are stated at nominal value reduced by unamortized interest.

Interbank call money represents funds received from other banks through the issuance of promissory notes which have terms of 90 days or less. The interbank call money is stated at the nominal amount of promissory notes.

u. Securities Sold with Repurchase Agreement

Securities sold with repurchase agreement are recognized as liability at the agreed purchase price, reduced by prepaid expense. The difference between the selling price and the repurchase price is treated as a prepaid expense and are recognized as interest expense over the period from the sale of the securities up to the time of repurchase.

v. Allowance for Timely-Payment Incentives on BRI's Unit

Allowance for Timely-Payment Incentives [*Cadangan Insentif Pembayaran Tepat Waktu* (CIPTW)] represents allowance provided for timely-payment incentives, which are given to borrowers of Village General Loans (*Kupedes)* who settle their liabilities on time. The amount of CIPTW is 1/4 of interest on *Kupedes* working capital and *Kupedes* investment received monthly. CIPTW is included as part of "Other Liabilities".

Timely-Payment Incentives [*Insentif Pembayaran Tepat Waktu* (IPTW)] represent incentives given to *Kupedes* borrowers who pay their liabilities in accordance with the agreed installment schedules. The amount of IPTW is 1/4 of interest received from either *Kupedes* working capital or *Kupedes* investment. IPTW is reported as deduction from interest income on loans.

w. Interest Income and Interest Expense

Interest income and interest expense are recognized on the accrual basis. Interest income on non-performing earning assets (Substandard, Doubtful and Loss) and the immaterial amount of interest income on Kupedes are recognized to the extent of cash collections received (cash basis). Interest receivable which has been accrued is reversed when the productive asset has been classified as non-performing in the current year. Interest income from non-performing asset that has not been received (Interest Receivables on Non-performing Loans) is reported under notes to the financial statements on information of commitments and contingencies.

Cash collections from loans which had been classified as doubtful or loss will be first reduced from the loan principal. The excess collections from outstanding balances are recognized as income in the statement of income.

x. Fees and Commissions

Significant fees and commissions which are directly related to lending activities and/or having specific time periods are deferred and amortized using the straight-line method over their respective time periods. The balances of unamortized fees and commissions relating to loans settled prior to maturity are recognized upon settlement. Other fees and commissions which are not directly related to either lending activities or specific time periods are recognized at the transaction date.

y. Syariah Income and Charges

Income from *murabahah* transactions are recognized by using accrual method. Income from *istishna* transactions and profit sharing from *mudharabah* and *musyarakah* financing are recognized upon receipt of cash installment payment.

Syariah charges represent profit sharing for *mudharabah* savings deposits and *mudharabah* time deposits, and bonus expenses for wadiah demand deposits, which are recognized when the liability for profit sharing arises (every month-end) based on the predetermined ratio (*nisbah*).

z. Pension Plan and Employee Benefits

BRI has defined benefit pension plans covering substantially all of its employees. Under the defined benefit pension plans, normal cost is charged to current operations. Past service cost, actuarial adjustment and the effect of changes in assumptions for active participants are amortized over the expected future years of service of existing employees as determined by the actuary. In addition, BRI employees are also given old-age benefits.

The Bank recognized liabilities in accordance with the Minister of Manpower Decree No. Kep. 150/Men/2000 (KEP-150) regarding "The Settlement of Work Dismissal and Determination of Separation Gratuity and Compensation Payments by Companies". Provision for employee benefit under KEP-150 is accrued based on the result of an actuarial valuation. As of March 25, 2003, the Labor Law No. 13 year 2003 (UU No. 13/2003) was enacted. Management believes the employee benefits already recognized under the defined benefit plan, defined contribution plan, old-age benefit and KEP-150 are sufficient to cover the minimum requirement of the UU No. 13/2003.

aa. Foreign Currency Transactions and Balances

BRI 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 using the Reuters spot rates at 4.00 p.m. WIB (Western Indonesian time) on June 30, 2003 and December 31, 2002 and 2001, and using the Bank Indonesia middle exchange rates as of December 31, 2000. The resulting gains or losses are credited or charged to the current period's/year's profit and loss.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

As of June 30, 2003 and December 31, 2002, 2001 and 2000, the exchange rates used in translation of foreign exchange currencies amounts into Rupiah are as follows (in full amount):

		December 31,		
	June 30, 2003	2002	2001	2000
1 United States Dollar	8,265	8,950	10,400	9,595
1 UK Pound Sterling	13,656	14,405	15,081	14,299
100 Japanese Yen	6,907	7,542	7,918	8,357
1 European Euro	9,464	9,367	9,203	8,912

ab. Translation of the Financial Statements of Overseas Business Units

BRI has a branch office in Cayman Islands and an agency in New York that are separate foreign entities.

For financial statements combination purposes, the accounts of the overseas branch and agency are translated into Rupiah as follows:

- Assets and liabilities, commitments and contingencies—at middle rates published by Bank Indonesia on balance sheet date.
- Revenues, expenses, gains and losses—at the average middle rate during the month. The period/years-end balances consist of the sum of the translated amounts per month during the period/years.
- Stockholder's equity—Capital Stock and Additional Paid-in Capital at historical rates.
- Statements of cash flows—at the middle rate published by Bank Indonesia at balance sheet date, except for the revenues, expenses, gains and losses which are translated at the average middle rates and stockholder's equity which are translated at the historical rates.

The resulting net translation adjustment is reported under the Stockholder's equity section as "Differences arising from translation of foreign currency financial statements".

ac. Derivative Transactions

Effective January 1, 2001, based on PSAK No. 55 on "Accounting for Derivative Instruments and Hedging Transactions", all derivative instruments are recognized as either assets or liabilities based on the positive or negative difference between the contract amount and the fair value of the derivative. The difference represents the unrealized gains or losses as of report date. The changes in the fair value of the derivative instruments that are not designated as hedging or do not meet the criteria for classification as hedging are credited or charged to current operations. For accounting purposes, BRI's derivative transactions are not designated as hedging.

ad. Income Tax

Effective January 1, 2001, BRI adopted retroactively PSAK No. 46 on "Accounting for Income Taxes" which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial reporting and tax reporting. PSAK No. 46 also requires the recognition of deferred tax assets due to accumulated tax loss carryforward, when there is a very strong probability of recovery against future taxable income.

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, when the result of the appeal is determined.

ae. Segment Reporting

In 2000, the Indonesian Institute of Accountants (IAI) issued PSAK No. 5 (Revised 2000) "Segment Reporting" effective for financial statements covering the period starting January 1, 2002. PSAK No. 5 requires the identification and disclosure of financial information based on the type of operation segment (product or service) rendered and geographies of the Company's operation segment. BRI disclosed the information for segment reporting based on geographical segments. The prior years' segment data are restated for comparative presentation.

af. Use of Estimates

In the preparation of the financial statements in accordance with generally accepted accounting principles, the management used estimates and assumptions that affect the reported amounts in the financial statements. There is inherent risk in making estimates such that actual amounts reported in future periods may differ from the estimated amounts.

3. IMPLEMENTATION OF THE QUASI-REORGANIZATION

As a result of the effects of the economic conditions as discussed in Note 44, BRI incurred significant losses in 1998 and 1999 totalling Rp28,221,364. After BRI's recapitalization in July and October 2000, the allowance for possible losses on the earning assets of BRI had been significantly reduced when the non-performing earning assets were transferred to the Indonesian Bank Restructuring Agency (IBRA). Although BRI recorded net income in 2000, 2001 and 2002 and the first semester of 2003, BRI still has accumulated losses (deficit) amounting to Rp24,699,387 in the balance sheet as of June 30, 2003.

In order to have a fresh start with a balance sheet showing current values without a deficit, BRI implemented a quasi-reorganization as of June 30, 2003 (see Note 2c).

BRI's management has prepared projections of financial statements that show strong profitability and sound capital adequacy ratio (CAR) based on the primary strength of BRI as a major bank in Indonesia that focused on micro-finance and strong consumer sector, small and middle business and agribusiness sectors.

The financial position of BRI as of June 30, 2003 before and after quasi-reorganization is as disclosed in the balance sheet.

Since the effect of the fair value revaluation will increase the book value of the net assets (assets less liabilities), based on the prevailing practice on the implementation of the quasi-reorganization and in accordance with PSAK No. 21 "Accounting for Equity" paragraph 43, BRI did not book the excess difference in net assets but still used the book value of the assets and liabilities on the date of the implementation of the quasi-reorganization. Therefore, the difference of the assets and liabilities of BRI as of June 30, 2003 before and after quasi-reorganization is nil, and only the deficit as of June 30, 2003 is eliminated against the Additional Paid-in Capital.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

4. CURRENT ACCOUNTS WITH BANK INDONESIA

Current accounts with Bank Indonesia consist of:

	June 30, 2003 (Notes 2c and 3)		December 31,		
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Rupiah	3,819,424	3,819,424	4,026,626	4,284,404	2,596,706
United States Dollar	189,996	189,996	184,963	237,832	234,374
Total	4,009,420	4,009,420	4,211,589	4,522,236	2,831,080

Based on regulation of Bank Indonesia, banks are required to maintain minimum legal reserve (GWM) in Bank Indonesia of 5% from deposits in Rupiah and 3% from deposits in foreign currencies.

GWM of BRI (unaudited) is as follows:

		December 31,		
	June 30, 2003	2002	2001	2000
			(Note 2b)	(Note 2b)
Rupiah	5.36%	5.82%	7.51%	5.25%
United States Dollar	3%	3%	3%	3%

5. CURRENT ACCOUNTS WITH OTHER BANKS

a. By Currency:

	June 30, 2003 (Notes 2c and 3)		December 31,		
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Third parties					
Rupiah	2,241	2,241	10,395	18,244	13,391
United States Dollar	490,603	490,603	294,043	1,127,321	673,223
Japanese Yen	57,455	57,455	88,234	48,944	52,726
European Euro	1,143,024	1,143,024	70,022	37,064	22,642
UK Pounds Sterling	11,414	11,414	11,637	12,516	16,393
Singapore Dollar	5,312	5,312	9,117	6,371	5,637
Australian Dollar	6,260	6,260	8,032	2,600	—
Others	7,201	7,201	4,621	25,729	4,240
	1,723,510	1,723,510	496,101	1,278,789	788,252
Related parties					
Hong Kong Dollar	—	—	—	2,279	7,090
United States Dollar	—	—	—	—	2,101
	—	—	—	2,279	9,191
Total	1,723,510	1,723,510	496,101	1,281,068	797,443
Less allowance for possible losses	(17,235)	(17,235)	(4,961)	(15,063)	(18,395)
Net	1,706,275	1,706,275	491,140	1,266,005	779,048

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

b. By Bank:

	June 30, 2003 (Notes 2c and 3)			December 31,	
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Third parties					
Rupiah	2,241	2,241	10,395	18,244	13,391
Foreign currencies					
Dresdner Bank, Frankfurt	691,968	691,968	82,333	11,895	6,603
Chase Manhattan Bank (New York, London and Frankfurt)	436,665	436,665	18,960	51,246	91,723
Bank of New York, New York	216,610	216,610	38,313	125,446	497,971
Bank of America, New York	73,872	73,872	272,111	810,614	161,506
Others	302,154	302,154	73,989	261,344	17,058
	1,721,269	1,721,269	485,706	1,260,545	774,861
	1,723,510	1,723,510	496,101	1,278,789	788,252
Foreign currencies					
Related parties					
BRI Finance Limited, Hong Kong	—	—	—	2,279	9,191
Total	1,723,510	1,723,510	496,101	1,281,068	797,443
Loss allowance for possible losses	(17,235)	17,235)	(4,961)	(15,063)	(18,395)
Net	1,706,275	1,706,275	491,140	1,266,005	779,048

c. Collectibility

As of June 30, 2003 and December 31, 2002, 2001 and 2000, all current accounts with other banks are classified as Current, except current accounts with a related party (BRI Finance Limited Hong Kong) amounting to Rp2,279 and Rp9,191 in 2001 and 2000, respectively, which are classified as Loss (see Note 2b).

d. Annual Average Interest Rates

The annual average interest rate for current accounts with other banks were 3.17%, 3.68%, and 3.28% for Rupiah and 0.69%, 1.16%, and 3.34% for foreign currency in 2003, 2002 and 2001, respectively.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

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

	June 30, 2003		December 31,		
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Rupiah					
Beginning balance	104	104	178	4	5
Beginning balance of Subsidiary which was deconsolidated in 2002	—	—	(4)	—	—
Provision (reversal of allowance) during the period/year	(82)	(82)	(70)	174	(1)
	22	22	104	178	4
Foreign Currencies					
Beginning balance	4,857	4,857	14,885	18,391	804
Beginning balance of Subsidiary which was deconsolidated in 2002	—	—	(377)	—	—
Provision (reversal of allowance) during the period/year	12,356	12,356	(9,651)	(3,506)	17,587
	17,213	17,213	4,857	14,885	18,391
Total	17,235	17,235	4,961	15,063	18,395

The minimum allowance for possible losses on current accounts with other banks that should be provided based on Bank Indonesia regulation amounted to Rp17,235, Rp4,961, Rp15,063 and Rp17,074 in 2003, 2002, 2001 and 2000, respectively.

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

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

6. PLACEMENTS WITH BANK INDONESIA AND OTHER BANKS AND FINANCIAL INSTITUTIONS

a) By Currency and Type:

	June 30, 2003 (Notes 2c and 3)		December 31,		
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Third parties					
Rupiah					
Bank Indonesia—Rupiah Intervention	1,000,000	1,000,000	3,532,000	2,502,000	2,210,498
Unamortized interest	—	—	(1,028)	(1)	(1,794)
	1,000,000	1,000,000	3,530,972	2,501,999	2,208,704
Call money					
The Hong Kong and Shanghai Bank Corporation Limited	285,000	285,000	180,000	—	—
Standard Chartered Bank	200,000	200,000	175,000	—	—
ABN Amro Bank, N.V.	150,000	150,000	—	—	80,000
PT Bank Negara Indonesia (Persero) Tbk	130,000	130,000	—	—	—
PT Bank Mandiri (Persero)	130,000	130,000	200,000	—	—
American Express Bank, Ltd.	120,000	120,000	—	—	—
Citibank, NA	95,000	95,000	305,000	—	—
PT Bank Bukopin	65,000	65,000	—	20,000	—
PT Bank Buana Indonesia Tbk	40,000	40,000	40,000	—	—
JP Morgan Chase Bank	30,000	30,000	—	—	—
PT Bank Mizuho Indonesia	30,000	30,000	—	—	—
PT Bank Panin Tbk	25,000	25,000	40,000	—	—
PT Bank Rabobank International Indonesia	20,000	20,000	20,000	—	—
Sumitomo-Mitsui Banking Corporation	15,000	15,000	—	—	—
PT Bank Finconesia	10,000	10,000	—	—	—
PT Bank Bumiputera Indonesia Tbk	10,000	10,000	—	—	—
Deutsche Bank AG	—	—	25,000	25,000	—
PT Bank Mega Tbk	—	—	25,000	—	2,000
PT Bank OCBC—NISP	—	—	10,000	—	—
PT Bank Tabungan Negara (Persero)	—	—	—	—	132,500

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	After Quasi-Reorganization	2002	December 31, 2001 (Note 2b)	2000 (Note 2b)
PT Danareksa Investment Management	—	—	—	—	45,000
PT Bank Lippo Tbk	—	—	—	—	20,000
PT Bank Chinatrust Indonesia	—	—	—	—	11,000
	1,355,000	1,355,000	1,020,000	45,000	290,500
Time deposits					
PT Bank Mandiri (Persero)	—	—	—	9,650	5,400
PT Bank Mega Tbk	—	—	—	2,000	2,000
PT Bank Panin Tbk	—	—	—	—	3,500
	—	—	—	11,650	10,900
	2,355,000	2,355,000	4,550,972	2,558,649	2,510,104
Foreign currencies					
Call money					
Wachovia Bank N.A.	206,625	206,625	89,500	—	—
PT Bank Mandiri (Persero)	165,300	165,300	156,625	—	14,392
ABN-Amro Bank, N.V.	109,098	109,098	179,000	208,000	119,938
Deutsche Bank AG	85,631	85,631	—	14,560	—
PT Bank Negara Indonesia (Persero) Tbk	82,650	82,650	268,500	260,000	23,987
Indosesische Overzeese Bank	—	—	89,500	—	—
First Union Bank	—	—	—	208,000	—
Bangkok Bank, Plc	—	—	—	14,560	—
The Bank of Tokyo—Mitsubishi, Ltd	—	—	—	10,400	—
PT Bank BNP Paribas Indonesia	—	—	—	10,400	—
Credit Agricole Indosuez	—	—	—	10,400	—
PT ING Indonesia Bank	—	—	—	10,400	9,595
PT Bank Chinatrust Indonesia	—	—	—	9,360	8,156
PT Bank Finconesia	—	—	—	5,200	—
PT Bank Mega Tbk	—	—	—	5,200	—
Key Bank Ohio	—	—	—	—	95,950
PT Bank Fuji International Indonesia	—	—	—	—	14,392
PT Indosuez Indonesia Bank	—	—	—	—	9,595
PT Bank OCBC—NISP	—	—	—	—	9,595

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	After Quasi-Reorganization	December 31, 2002	2001 (Note 2b)	2000 (Note 2b)
PT Bank Maybank Indocorp	—	—	—	—	9,595
Credit Lyonnais Bank	—	—	—	—	9,595
	649,304	649,304	783,125	766,480	324,790
Time deposits					
UFJ Bank Ltd.	20,663	20,663	89,500	20,800	9,595
	669,967	669,967	872,625	787,280	334,385
	3,024,967	3,024,967	5,423,597	3,345,929	2,844,489
Related parties					
Rupiah					
Call money					
PT UFJ-BRI Finance	—	—	—	56,266	1,761
Foreign Currencies					
Call money					
PT Bank Inter-Pacific Tbk	153,044	153,044	165,728	—	—
BRI Finance Limited, Hong Kong	—	—	—	—	28,785
	153,044	153,044	165,728	56,266	30,546
Total	3,178,011	3,178,011	5,589,325	3,402,195	2,875,035
Less allowance for possible losses	(173,294)	(173,294)	(184,655)	(8,886)	(32,797)
Net	3,004,717	3,004,717	5,404,670	3,393,309	2,842,238

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

b) By Period:
The placements are grouped by their remaining period to maturity as follows:

	June 30, 2003	December 31, 2002	2001 (Note 2b)	2000 (Note 2b)
Third parties				
Rupiah				
≤1 month	2,355,000	4,375,972	2,558,649	2,499,204
>1 month — 3 months	—	175,000	—	10,900
	2,355,000	4,550,972	2,558,649	2,510,104
Foreign Currencies				
≤1 month	571,938	792,075	676,000	—
>1 month — 3 months	98,029	80,550	100,880	334,385
>3 months — 6 months	—	—	10,400	—
	669,967	872,625	787,280	334,385
	3,024,967	5,423,597	3,345,929	2,844,489
Related parties				
Rupiah				
≤1 month	—	—	55,000	1,761
>3 months — 6 months	—	—	1,266	—
	—	—	56,266	1,761
Foreign Currencies				
≤1 month	57,855	103,078	—	28,785
>3 months — 6 months	95,189	62,650	—	—
	153,044	165,728	—	28,785
	153,044	165,728	56,266	30,546
Total	3,178,011	5,589,325	3,402,195	2,875,035
Less allowance for possible losses	(173,294)	(184,655)	(8,886)	(32,797)
Net	3,004,717	5,404,670	3,393,309	2,842,238

c) Collectibility
The placements with Bank Indonesia and other banks and financial institutions are classified as Current, except call money in foreign currency with related parties amounting to Rp153,044 in 2003 (BIP), Rp165,728 in 2002 (BIP) and Rp28,785 in 2000 (BRI Finance Limited, Hong Kong), which are classified as Loss (see Note 2b).

d) Related parties
The placements in call money in foreign currency with a related party in 2003 and 2002 represent placements with BIP and in 2000 placements with BRI Finance Limited, Hong Kong. The placements in call money in Rupiah with related party in 2001 and 2000 represent placements with PT UFJ-BRI Finance (associated company, formerly PT Sanwa BRI Finance).

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

e) **Annual average interest rates in 2003, 2002 and 2001 and range in 2000 are as follows:**

	June 30, 2003	December 31, 2002	2001 (Note 2b)	2000 (Note 2b)
Rupiah				
Rupiah Intervention	10.35%	15.56%	15.47%	10.88% to 11.63%
Call Money	10.08%	15.39%	15.81%	9.25% to 16.25%
Time Deposits	—	—	14.70%	9.00% to 13.00%
Foreign currencies				
Call Money	1.36%	1.78%	3.87%	5.00% to 10.22%
Time Deposits	1.21%	1.18%	1.48%	6.00% to 10.47%

f) **Movement of allowance for possible losses on placements with Bank Indonesia and other banks and financial institutions:**

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	After Quasi-Reorganization	December 31, 2002	2001 (Note 2b)	2000 (Note 2b)
Rupiah					
Beginning balance	10,200	10,200	1,013	2,923	452
Provision (reversal of allowance) during the period/year	3,350	3,350	9,187	(1,910)	2,471
	13,550	13,550	10,200	1,013	2,923
Foreign currencies					
Beginning balance	174,455	174,455	7,873	29,874	26,423
Beginning balance of Subsidiary which was deconsolidated in 2002	—	—	(905)	—	—
Provision (reversal of allowance) during the period/year	(14,711)	(14,711)	167,487	(22,001)	3,451
	159,744	159,744	174,455	7,873	29,874
Total	173,294	173,294	184,655	8,886	32,797

The minimum allowance for possible losses on placement with Bank Indonesia and other banks and financial institutions that should be provided based on Bank Indonesia regulation amounted to Rp173,294, Rp184,655, Rp8,886 and Rp34,956 in 2003, 2002, 2001 and 2000, respectively.

Management believes that the allowance for possible losses on placement with Bank Indonesia and other banks and financial institutions is adequate.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

7. SECURITIES

a) By Currency and Type:

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi-Reorganization	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Third parties					
Rupiah					
Held to maturity:					
Bank Indonesia certificates	7,591,437	7,591,437	4,788,378	1,811,473	237,500
Unamortized interest	(33,747)	(33,747)	(35,894)	(9,518)	(558)
	7,557,690	7,557,690	4,752,484	1,801,955	236,942
SBPU	361	361	690	—	—
Bonds	—	—	—	3,000	2,572
	7,558,051	7,558,051	4,753,174	1,804,955	239,514
Trading:					
Subordinated bonds	199,823	199,823	—	—	—
Bonds	53,586	53,586	51,640	107,798	126,982
Mutual funds	50,074	50,074	345	345	345
Shares	—	—	—	30	28
	303,483	303,483	51,985	108,173	127,355
Foreign Currencies					
Held to maturity:					
Notes receivable	266,697	266,697	198,019	251,160	60,951
Subordinated notes (net unamortized discount of Rp1,161 as of June 30, 2003 and Rp1,322 as of December 31, 2002)	139,344	139,344	150,828	—	—
Bonds	27,566	27,566	31,090	99,934	64,047
	433,607	433,607	379,937	351,094	124,998
Trading:					
Exchange offer	209,755	209,755	338,451	140,532	184,263
Notes receivable	44,092	44,092	74,595	111,088	51,398
Medium term notes	43,460	43,460	—	—	—
	297,307	297,307	413,046	251,620	235,661
Total	8,592,448	8,592,448	5,598,142	2,515,842	727,528
Less allowance for possible losses	(10,348)	(10,348)	(8,457)	(7,128)	(4,895)
Net	8,582,100	8,582,100	5,589,685	2,508,714	722,633

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

b) Collectibility
As of June 30, 2003 and December 31, 2002, 2001 and 2000 all securities are classified as Current.

c) By Period:
The securities are grouped by their remaining period to maturity as follows:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Third parties				
Rupiah				
≤1 month	7,146,225	4,099,702	1,910,128	364,297
>1 month — 3 months	715,309	705,457	—	—
>3 months — 1 year	—	—	—	2,572
>1 year — 5 years	—	—	3,000	—
	7,861,534	4,805,159	1,913,128	366,869
Foreign Currencies				
≤1 month	550,490	611,065	445,538	235,661
>1 month — 3 months	13,513	—	20,800	—
>1 year — 5 years	27,566	31,090	136,376	124,998
>5 years	139,345	150,828	—	—
	730,914	792,983	602,714	360,659
Total	8,592,448	5,598,142	2,515,842	727,528
Less allowance for possible losses	(10,348)	(8,457)	(7,128)	(4,895)
Net	8,582,100	5,589,685	2,508,714	722,633

d) By Issuer:

d.1. Exchange Offer:

	June 30, 2003	December 31, 2002	2001	2000
Trading (fair values)				
PT Bank Negara Indonesia (Persero) Tbk	106,959	208,056	44,437	27,636
PT Bank Mandiri (Persero)	102,796	130,395	79,600	85,036
PT Bank Internasional Indonesia Tbk	—	—	13,402	68,838
PT Bank Tabungan Negara (Persero)	—	—	3,093	2,753
Total	209,755	338,451	140,532	184,263

The exchange offer is grouped by their remaining period to maturity as follows:

	June 30, 2003	December 31, 2002	2001	2000
>3 months — 1 year	133,667	139,338	65,322	101,176
>1 year — 5 years	76,088	199,113	75,210	83,087
Total	209,755	338,451	140,532	184,263

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Annual average interest rates for exchange offer were 3.84%, 4.61% and 7.90% in 2003, 2002 and 2001, respectively and range from 7.31% to 10.34% in 2000.

BRI earns interest every six months, on February 25 and August 25 of each year for the Exchange Offer I, and on June 1 and December 1 of each year for the Exchange Offer II. The interest rate on the exchange offer is determined every six months.

The exchange offer is guaranteed by Bank Indonesia.

d.2. Notes Receivable:

	June 30, 2003		December 31, 2002	
	Cost/Fair Value	Maturity Date	Cost/Fair Value	Maturity Date
Held to maturity (Cost)				
Evergreen	58,897	July 1, 2003	—	—
Federal National Mortgage Association (FANNIE MAE)	19,836	July 1, 2003	21,480	January 2, 2003
Bemis Co. Inc.	19,836	July 1, 2003	—	—
Merrill Lynch & Co.	19,836	July 7, 2003	—	—
Greyhawk Funding LLC	19,836	July 1, 2003	—	—
Koch Industries Inc.	19,836	July 1, 2003	—	—
Paccar Fin Corp.	19,836	July 1, 2003	—	—
Credit Suisse First Boston Inc. (CSFB)	19,811	July 1, 2003	21,453	January 6, 2003
Morgan Stanley, Inc. Co.	19,803	July 1, 2003	21,444	January 6, 2003
General Electric Capital Co.	19,695	July 1, 2003	21,355	January 6, 2003
Sheffield Receivables	5,620	July 2, 2003	21,480	January 3, 2003
Amstel Funding Corp.	4,133	August 21, 2003	—	—
Neptune Funding Corp.	4,133	August 1, 2003	—	—
Three Pillar Funding	4,133	July 1, 2003	—	—
Special Purp Accounts Receivable	4,133	July 8, 2003	—	—
Scaldis & Scaldis Join	2,769	August 15, 2003	—	—
Victory Receivables Corp.	2,479	August 1, 2003	—	—
Ness LLC	2,075	July 1, 2003	—	—
Federal Home Loan Mortgage (FHLMTG)	—	—	26,367	January 2, 2003
Federal Home Loan Bank (FHLB)	—	—	21,480	January 6, 2003
Gannet Co, Inc.	—	—	21,480	January 3, 2003
American Express	—	—	21,480	January 2, 2003
	266,697		198,019	
Trading (Fair Value)				
PT Bank Mandiri (Persero)	35,259	December 13, 2004	28,263	December 13, 2004
PT Bank Negara Indonesia (Persero) Tbk	8,833	February 15, 2007	46,332	February 15, 2007
	44,092		74,595	
Total	310,789		272,614	

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31,			
	2001		2000	
	Cost/Fair Value	Maturity Date	Cost/Fair Value	Maturity Date
Held to maturity (Cost)				
General Electric Capital Co.	45,895	January 2, 2002	12,252	January 2, 2001
Morgan Stanley, Inc. Co.	45,812	January 2, 2002	12,742	January 2, 2001
Credit Suisse First Boston Inc. (CSFB)	45,011	January 2, 2002	—	—
Federal Home Loan Bank (FHLB)	43,535	—	—	—
Federal National Mortgage Association (FANNIE MAE)	26,572	—	—	—
Federal Home Loan Mortgage (FHLMTG)	23,535	—	—	—
Govco, Inc.	20,800	—	—	—
Associates Finance Co.	—	—	12,929	January 2, 2001
Ford Motor Credit Co.	—	—	11,514	January 2, 2001
American Express	—	—	11,514	January 2, 2001
	251,160		60,951	
Trading (Fair Value)				
PT Bank Mandiri (Persero)	65,477	November 14, 2002	8,180	November 14, 2002
PT Bank Negara Indonesia (Persero) Tbk	45,611	August 22, 2005	16,743	August 22, 2005
PT Bank Mandiri (Persero)	—	—	22,061	September 19, 2002
PT Bank Negara Indonesia (Persero) Tbk	—	—	4,414	October 25, 2001
	111,088		51,398	
Total	362,248		112,349	

Annual average interest rates for notes receivable were 1.90%, 3.44% and 5.37% in 2003, 2002 and 2001, respectively and ranged from 6.48% to 7.84% in 2000.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The ratings of notes receivable based on Standard & Poor's ratings as of June 30, 2003 and December 31, 2002 are as follows:

	June 30, 2003	December 31, 2002
General Electric Capital Co.	A-1+	A-1+
Sheffield Receivables	A-1+	A-1+
Credit Suisse First Boston (CSFB)	A-1+	A-1
Morgan Stanley Group, Inc.	A-1+	A-1
Merrill Lynch & Co.	A-1+	—
Greyhawk Funding LLC	A-1+	—
Koch Industries Inc.	A-1+	—
Paccar Fin Corp.	A-1+	—
Amstel Funding Corp.	A-1+	—
Scaldis & Scaldis Join	A-1+	—
Ness LLC	A-1	—
Neptune Funding Corp.	A-1	—
Three Pillar Funding	A-1	—
Special Purp Accounts Receivable	A-1	—
Victory Receivables Corp.	A-1	—
Bemis Co. Inc.	A-1	—
Federal Home Loan Mortgage (FHLMTG)	—	AAA
Federal Home Loan Bank (FHLB)	—	AAA
Federal National Mortgage Association (FANNIE MAE)	—	AAA
Gannet Co, Inc.	—	A-1
American Express Credit Corp.	—	A-1

d.3. Subordinated Notes:

	June 30, 2003			
	Nominal Amount			
	US Dollar (Full Amount)	Rupiah Equivalent	Unamortized Discount	Net
Held to maturity				
PT Bank Mandiri (Persero)	10,000,000	82,650	(640)	82,010
PT Bank Negara Indonesia (Persero) Tbk	7,000,000	57,855	(521)	57,334
Total	17,000,000	140,505	(1,161)	139,344

	December 31, 2002			
	Nominal Amount			
	US Dollar (Full Amount)	Rupiah Equivalent	Unamortized Discount	Net
Held to maturity				
PT Bank Mandiri (Persero)	10,000,000	89,500	(731)	88,769
PT Bank Negara Indonesia (Persero) Tbk	7,000,000	62,650	(591)	62,059
Total	17,000,000	152,150	(1,322)	150,828

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The subordinated notes of PT Bank Mandiri (Persero) will be due on August 2, 2012 with the option to buy back on August 2, 2007. The notes bear a fixed annual interest rate of 10.625% until the option date and the interest is receivable every six months.

The subordinated notes of PT Bank Negara Indonesia (Persero) Tbk will be due on November 15, 2012 with the option to buy back on November 15, 2007. The notes bear a fixed annual interest rate of 10% until the option date and the interest is receivable every six months.

These subordinated notes have the same rights as the other non-guaranteed debts of PT Bank Mandiri (Persero) and PT Bank Negara Indonesia (Persero) Tbk which have been existing and will exist in the future.

d.4. Bonds:

	June 30, 2003		December 31, 2002	
	Cost/Fair Value	Maturity Date	Cost/Fair Value	Maturity Date
Held to maturity (Cost)				
Foreign currencies				
Astra	27,566	June 28, 2005	31,090	June 28, 2005
Trading (Fair Value)				
Rupiah				
PT Perusahaan Listrik Negara (Persero) VI B	18,685	August 8, 2007	16,830	August 8, 2007
PT Bank DKI	17,894	June 18, 2004	17,640	June 18, 2004
Perum Pegadaian V	9,110	July 8, 2003	9,090	July 8, 2003
Perum Pegadaian VI	7,897	September 8, 2007	8,080	September 8, 2007
	53,586		51,640	
Total	81,152		82,730	

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2001 (Note 2b) Cost/Fair Value	December 31, 2001 (Note 2b) Maturity Date	December 31, 2000 (Note 2b) Cost/Fair Value	December 31, 2000 (Note 2b) Maturity Date
Held to maturity (Cost)				
Rupiah				
Perum Pegadaian	3,000	June 12, 2006	—	—
PT Jasa Marga (Persero)	—	—	2,572	September 21, 2001
Foreign currencies				
PT Semen Gresik	57,200	January 29, 2002	44,857	January 29, 2002
Astra	42,734	June 28, 2005	—	—
Indonesia Government	—	—	19,190	January 20, 2001
	99,934		64,047	
	102,934		66,619	
Trading (Fair Value)				
Rupiah				
PT Duta Pertiwi III	31,500	August 4, 2002	36,675	August 4, 2002
PT Bank DKI	14,850	June 18, 2004	17,123	June 18, 2004
PT Perusahaan Listrik Negara (Persero) VI B	14,310	August 8, 2007	13,590	August 8, 2007
PT Bank NISP Tbk	8,883	June 16, 2002	8,788	June 16, 2002
Perum Pegadaian V	8,460	July 8, 2003	9,170	July 8, 2003
Perum Pegadaian VI	7,840	September 8, 2007	7,920	September 8, 2007
Perum Pegadaian IV	7,680	July 3, 2002	7,574	July 3, 2002
PT Bank Tabungan Negara (Persero)	6,615	July 18, 2002	6,965	July 18, 2002
PT Duta Pertiwi II	5,110	April 17, 2002	5,548	April 17, 2002
PT Bank Nagari	2,550	July 16, 2002	2,917	July 16, 2002
PT Perusahaan Listrik Negara (Persero) V B	—	—	4,910	August 21, 2001
PT Perusahaan Listrik Negara (Persero) V B	—	—	4,802	November 15, 2001
Perum Pegadaian III	—	—	1,000	July 12, 2001
	107,798		126,982	
Total	210,732		193,601	

Annual interest rates for bonds based on average in 2003, 2002 and 2001 and range in 2000 are as follows:

	June 30, 2003	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Rupiah	14.95%	14.95%	15.98%	12.78% to 26.06%
Foreign currencies	4.08%	5.88%	7.70%	8.14%

The ratings of bonds as reported by PT Pemeringkat Efek Indonesia (Pefindo) as of June 30, 2003 and December 31, 2002 are as follows:

	June 30, 2003	December 31, 2002
Perum Pegadaian	idAA	idAA–
PT Bank DKI	idBBB–	idBBB–
PT Perusahaan Listrik Negara (Persero)	idBB–	idBB–
Astra Bond	—	—

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

d.5. Mutual Fund Units

As of June 30, 2003, BRI owned 50,000,000 units of Brivestama Pasti's Mutual Fund with a net asset value of Rp1,000 (full amount) per unit. As of June 30, 2003, the mutual fund value amounted to Rp50,074. BRI also acts as sponsor of the Brivestama Pasti Mutual Fund Public Offering. The placement in Mutual Fund units is redeemable after 1 year.

Mutual Fund units as of December 31, 2002, 2001 and 2000 represent Bahadana Investasi Abadi Mutual Fund amounting to Rp345 which was due and collected in February 2003.

d.6. Subordinated Bonds

As of June 30, 2003, BRI had subordinated bonds of PT Bank Pan Indonesia Tbk in the amount of Rp199,823 which will be due on June 18, 2013 with the option to buy back on June 18, 2008. The bonds bear a fixed annual interest rate of 14% for the first 5 years and 23% for the next 5 years. The interest is receivable every three months.

d.7. Medium Term Notes

As of June 30, 2003, BRI had Medium Term Notes (MTNs) of PT Bank Mandiri (Persero) with a nominal amount of US$5,000,000 which will be due on April 22, 2008. The MTNs bear a fixed annual interest rate of 7% which is receivable every six months.

e) **Movement of allowance for possible losses on securities:**

	June 30, 2003 (Notes 2c and 3)			December 31,	
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Rupiah					
Beginning balance	527	527	1,101	1,288	1,135
Beginning balance of Subsidiary which was deconsolidated in 2002	—	—	(20)	—	—
Provision (reversal of allowance) during the period/year	2,512	2,512	(554)	(187)	153
	3,039	3,039	527	1,101	1,288
Foreign Currencies					
Beginning balance	7,930	7,930	6,027	3,607	—
Provision (reversal of allowance) during the period/year	(621)	(621)	1,903	2,420	3,607
	7,309	7,309	7,930	6,027	3,607
Ending Balance	10,348	10,348	8,457	7,128	4,895

The minimum allowance for possible losses on securities that should be provided based on Bank Indonesia regulation amounted to Rp10,348, Rp8,457, Rp7,128 and Rp4,895 in 2003, 2002, 2001 and 2000, respectively.

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

f) BRI recognized a net gain from increase in value of trading securities amounting to Rp5,040, Rp15,907 and Rp16,033 in 2003, 2002 and 2001, respectively, and a net loss from decline in value of trading securities of Rp13,256 in 2000 resulting from the valuation of the trading securities, which are recorded under "Gain from increase in value and sale of securities and Government Bonds" in 2003 and 2002 and "Loss from decline in value and sale of securities and Government Bonds" in 2001 and 2000.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

g) BRI recognized a net gain resulting from the sale of securities amounting to Rp1,588 and Rp1,880 in 2003 and 2002, respectively, which are recorded under "Gain from increase in value and sale of securities and Government Bonds".

8. EXPORT BILLS

a) By Collectibility:

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi-Reorganization	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Third parties					
Rupiah					
Current	2,341	2,341	—	—	—
Foreign Currencies					
Current	402,455	402,455	347,165	440,098	457,351
Loss	560	560	9,391	981	19,688
	403,015	403,015	356,556	441,079	477,039
Total	405,356	405,356	356,556	441,079	477,039
Less allowance for possible losses	(4,947)	(4,947)	(12,909)	(5,409)	(27,776)
Net	400,409	400,409	343,647	435,670	449,263

b) By Period:
The classification of export bills based on the remaining period to maturity is as follows:

	June 30, 2003	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Third Parties				
≤1 month	252,378	194,073	130,925	141,599
>1 month — 3 months	108,355	139,091	100,388	108,572
>3 months — 6 months	44,623	23,392	189,892	205,374
>6 months — 1 year	—	—	19,874	21,494
Total	405,356	356,556	441,079	477,039
Less allowance for possible losses	(4,947)	(12,909)	(5,409)	(27,776)
Net	400,409	343,647	435,670	449,263

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

c) **Annual interest rates for export bills were 10% in 2003 and 8.25% in 2002, 2001 and 2000.**

d) **Movement of allowance for possible losses on export bills is as follows:**

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	After Quasi-Reorganization	2002	December 31, 2001	2000
				(Note 2b)	(Note 2b)
Beginning balance	12,909	12,909	5,409	27,776	10,549
Beginning balance of Subsidiary which was deconsolidated in 2002	—	—	(33)	—	—
Provision (reversal of allowance) during the period/year	(7,962)	(7,962)	7,533	(22,367)	17,227
Ending balance	4,947	4,947	12,909	5,409	27,776

The minimum allowance for possible losses on export bills that should be provided based on Bank Indonesia regulation amounted to Rp4,608, Rp12,862, Rp5,382 and Rp24,262 in 2003, 2002, 2001 and 2000, respectively.

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

9. GOVERNMENT BONDS

In connection with the recapitalization program, BRI received Government bonds in the total amount of Rp29,149,000 in two tranches at nominal amounts of Rp20,404,300 on July 25, 2000 and Rp8,744,700 on October 31, 2000, all of which are bonds with fixed interest rates. Based on the Management Contract dated February 28, 2001 between the Government on behalf of the Republic of Indonesia with BRI and the board of directors and commissioners of BRI, it was agreed that the total Government bonds needed for BRI's recapitalization amounted to Rp29,063,531 (see Note 27) and therefore the excess recapitalization of Rp85,469 should be returned to the Government and BRI will not earn the corresponding interest income on such bonds. On November 5, 2001, BRI returned the Government bonds amounting to Rp85,469 including the related interest to the Government.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The details of Government Bonds are as follows:

a) **By Purpose and Period:**

	June 30, 2003 (Notes 2c and 3)			December 31,	
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Held to maturity (Cost)					
>1 year — 5 years	3,434,823	3,434,823	2,800,000	17,001,859	8,285,527
>5 years — 10 years	18,954,471	18,954,471	19,771,694	9,216,334	19,432,666
>10 years	3,600,000	3,600,000	3,600,000	—	—
	25,989,294	25,989,294	26,171,694	26,218,193	27,718,193
Trading (Fair Value)					
≤1 year	—	—	51,682	—	—
>1 year — 5 years	1,819,069	1,819,069	2,170,185	1,857,764	1,263,407
>5 years — 10 years	199,181	199,181	—	360,300	—
	2,018,250	2,018,250	2,221,867	2,218,064	1,263,407
Total	28,007,544	28,007,544	28,393,561	28,436,257	28,981,600

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

b) By Type:

June 30, 2003

Series	Maturity Date	Annual Interest Rate	Amount
Held to maturity			
Fixed rates			
FR0004	Feb 15, 2006	12.125%	1,300,000
FR0005	July 15, 2007	12.250%	1,500,000
FR0011	May 15, 2010	13.550%	800,000
FR0014	Nov 15, 2010	15.575%	500,000
FR0015	Feb 15, 2011	13.400%	4,000,000
FR0016	Aug 15, 2011	13.450%	3,950,000
FR0017	Jan 15, 2012	13.150%	3,650,000
FR0018	July 15, 2012	13.175%	3,750,000
			19,450,000
Variable rates			
VR0013	Jan 25, 2008	SBI 3 months	634,823
VR0014	Aug 25, 2008	SBI 3 months	634,824
VR0016	July 25, 2009	SBI 3 months	1,669,647
VR0020	Apr 25, 2015	SBI 3 months	250,000
VR0021	Nov 25, 2015	SBI 3 months	250,000
VR0023	Oct 25, 2016	SBI 3 months	500,000
VR0026	Jan 25, 2018	SBI 3 months	375,000
VR0027	July 25, 2018	SBI 3 months	375,000
VR0028	Aug 25, 2018	SBI 3 months	375,000
VR0029	Aug 25, 2019	SBI 3 months	375,000
VR0031	July 25, 2020	SBI 3 months	1,100,000
			6,539,294
			25,989,294
Trading			
Fixed rates			
Acquired from recapitalization program			
FR0003	May 15, 2005	12.000%	302,655
FR0004	Feb 15, 2006	12.125%	207,977
FR0005	July 15, 2007	12.250%	512,333
FR0008	May 15, 2005	16.500%	785,634
FR0016	Aug 15, 2011	13.450%	4,112
FR0017	Aug 15, 2011	13.150%	100,000
FR0021	Dec 15, 2010	14.500%	25,625
			1,938,336
Purchased from secondary market			
FR0002	June 15, 2009	14.000%	33,105
FR0005	July 15, 2007	12.250%	10,470
FR0010	Mar 15, 2010	13.150%	36,339
			79,914
			2,018,250
Balance as of June 30, 2003			28,007,544

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

December 31, 2002

Series	Maturity Date	Annual Interest Rate	Amount
Held to maturity			
Fixed rates			
FR0004	Feb 15, 2006	12.125%	1,300,000
FR0005	July 15, 2007	12.250%	1,500,000
FR0011	May 15, 2010	13.550%	800,000
FR0014	Nov 15, 2010	15.575%	500,000
FR0015	Feb 15, 2011	13.400%	4,000,000
FR0016	Aug 15, 2011	13.450%	4,000,000
FR0017	Jan 15, 2012	13.150%	3,750,000
FR0018	July 15, 2012	13.175%	3,750,000
FR0021	Dec 15, 2010	14.500%	32,400
			19,632,400
Variable rates			
VR0013	Jan 25, 2008	SBI 3 months	634,823
VR0014	Aug 25, 2008	SBI 3 months	634,824
VR0016	July 25, 2009	SBI 3 months	1,669,647
VR0020	Apr 25, 2015	SBI 3 months	250,000
VR0021	Nov 25, 2015	SBI 3 months	250,000
VR0023	Oct 25, 2016	SBI 3 months	500,000
VR0026	Jan 25,2018	SBI 3 months	375,000
VR0027	July 25, 2018	SBI 3 months	375,000
VR0028	Aug 25, 2018	SBI 3 months	375,000
VR0029	Aug 25, 2019	SBI 3 months	375,000
VR0031	July 25, 2020	SBI 3 months	1,100,000
			6,539,294
			26,171,694
Trading			
Fixed rates			
Acquired from recapitalization program			
FR0003	May 15, 2005	12.000%	279,992
FR0004	Feb 15, 2006	12.125%	296,183
FR0005	July 15, 2007	12.250%	660,246
FR0008	May 15, 2005	16.500%	813,346
			2,049,767
Purchased from secondary market			
FR0005	July 15, 2007	12.250%	41,476
FR0008	May 15, 2005	16.500%	62,538
FR0009	May 15, 2005	10.000%	16,404
			120,418
			2,170,185

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

December 31, 2002

Series	Maturity Date	Annual Interest Rate	Amount
Variable rates			
Purchased from secondary market			
VR0002	Feb 25, 2003	SBI 3 months	51,682
			2,221,867
Balance as of December 31, 2002			28,393,561

December 31, 2001

Series	Maturity Date	Annual Interest Rate	Amount
Held to maturity			
Fixed rates			
FR0003	May 15, 2005	12.000%	4,613,983
FR0004	Feb 15, 2006	12.125%	9,516,333
FR0005	July 15, 2007	12.250%	9,216,334
FR0009	May 15, 2005	10.000%	2,871,543
			26,218,193
Trading			
Fixed rates			
FR0003	May 15, 2005	12.000%	576,043
FR0004	Feb 15, 2006	12.125%	76,230
FR0005	July 15, 2007	12.250%	360,300
FR0008	May 15, 2005	16.500%	1,153,509
FR0009	May 15, 2005	10.000%	51,982
			2,218,064
Balance as of December 31, 2001			28,436,257

December 31, 2000

Series	Maturity Date	Annual Interest Rate	Amount
Held to maturity			
Fixed rates			
FR0003	May 15, 2005	12.000%	5,343,984
FR0004	Feb 15, 2006	12.125%	9,716,333
FR0005	July 15, 2007	12.250%	9,716,333
FR0009	May 15, 2005	10.000%	2,941,543
			27,718,193
Trading			
Fixed rates			
FR0008	May 15, 2005	16.500%	1,263,407
Balance as of December 31, 2000			28,981,600

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

c) Other Significant Information

In accordance with Bank Indonesia Regulation No. 3/18/DPM dated July 31, 2001, Commercial Banks which hold Government bonds are allowed to trade all series of Government bonds in the secondary market, up to a maximum of 100% of the total Government bonds received in connection with the Commercial Banks Recapitalization Program, wherein the realization has to be reported to Bank Indonesia.

In accordance with the Minister of Finance letter No. S-84/MK.01/2002 dated March 26, 2002 regarding the conversion of Government bonds Series FR to Government bonds Series VR, the Government bonds with fixed interest rate amounting to Rp6,539,294 were converted to Government bonds with variable interest rate on March 26, 2002.

The composition of the Government bonds which were exchanged are as follows:

Series	Government Bonds Delivered	Government Bonds Received
FR0003	3,597,751	—
FR0009	2,941,543	—
VR0013	—	1,634,823
VR0014	—	1,634,824
VR0016	—	3,269,647
Total	6,539,294	6,539,294

In accordance with the Minister of Finance letter No. S-382/MK.01/2002 dated November 20, 2002 regarding the re-profiling of Government bonds in the four Government banks, on November 2002 the Government bonds with a fixed interest rate amounting to Rp16,800,000 and the Government bonds with a variable interest rate amounting to Rp3,600,000 were converted to the new series of Government bonds with longer maturities.

The Government bonds which were exchanged in connection with the re-profiling program are as follows:

Series	Government Bonds Delivered	Government Bonds Received
FR0003	800,000	—
FR0004	8,000,000	—
FR0005	7,500,000	—
FR0008	500,000	—
FR0011	—	800,000
FR0014	—	500,000
FR0015	—	4,000,000
FR0016	—	4,000,000
FR0017	—	3,750,000
FR0018	—	3,750,000
	16,800,000	16,800,000

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Series	Government Bonds Delivered	Government Bonds Received
VR0013	1,000,000	—
VR0014	1,000,000	—
VR0016	1,600,000	—
VR0020	—	250,000
VR0021	—	250,000
VR0023	—	500,000
VR0026	—	375,000
VR0027	—	375,000
VR0028	—	375,000
VR0029	—	375,000
VR0031	—	1,100,000
	3,600,000	3,600,000
Total	20,400,000	20,400,000

Government bonds amounting to Rp569,180, Rp254,654 and Rp1,045,000 have been sold under agreements to repurchase in 2003, 2002 and 2001 (see Note 22).

On December 20, 2002, BRI exchanged Government Bonds which were classified as trading (Series FR0003) amounting to Rp249,473 with some non-performing loans which had been written-off but not yet transferred to BPPN during the Bank Recapitalization Program (see Notes 11e and 43c).

The market value of the Government Bonds held for trading based on the expected market yield for similar securities ranged from 100% to 114.4% as of June 30, 2003, from 91.64% to 104.23% as of December 31, 2002, from 72.06% to 89.40% as of December 31, 2001 and 93.91% as of December 31, 2000, such that BRI recognized a net gain from increase in value amounting to Rp181,904 and Rp367,933 in 2003 and 2002, respectively which is recorded under "Gain from increase in value and sale of securities and Government Bonds" and a net loss from decline in value amounting to Rp390,341 and Rp81,931 in 2001 and 2000, respectively, which is recorded under "Loss from decline in value of securities and Government Bonds".

As of June 30, 2003 and December 31, 2002, 2001 and 2000, the market values for the Government Bonds classified under trading for short-term funding facility and intra-day liquidity facility as published by Bank Indonesia are as follows:

Series	June 30, 2003	December 31, 2002	2001	2000
FR0002	109.81%	—%	—%	—%
FR0003	94.35	94.35	95.05	100.82
FR0004	103.30	93.63	76.60	100.00
FR0005	104.41	92.17	100.00	100.00
FR0008	110.55	104.23	90.88	100.00
FR0009	—	91.64	74.26	100.00
FR0010	106.88	—	—	—
FR0016	103.75	—	—	—
FR0021	114.21	—	—	—
VR0002	—	99.89	—	—

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

BRI recognized net gain from sales of Government Bonds amounting to Rp16,887 and Rp25,935 in 2003 and 2002, respectively, which are recorded under "Gain on sale of securities and Government Bonds" and a net loss from sales of Government Bonds amounting to Rp28,540 in 2001 which is recorded under "Loss on sale of securities and Government Bonds".

10. SECURITIES PURCHASED WITH AGREEMENT TO RESELL

Securities purchased with agreement to resell consist of:

	June 30, 2003 (Notes 2c and 3)						
	Terms	**Resale Date**	**Nominal**	**Resale Price**	**Unearned Interest**	**Net Value Before Quasi-Reorganization**	**Net Value After Quasi-Reorganization**
Commercial papers							
Deutsche Securities	1 day	July 1, 2003	19,836	19,837	—	19,837	19,837
Less allowance for possible losses						(198)	(198)
						19,639	19,639

	December 31, 2002					
	Terms	**Resale Date**	**Nominal**	**Resale Price**	**Unearned Interest**	**Net Value**
Commercial paper						
Deutsche Securities	3 days	January 2, 2003	21,480	21,482	—	21,482
Less allowance for possible losses						(215)
						21,267

	December 31, 2001					
	Terms	**Resale Date**	**Nominal**	**Resale Price**	**Unearned Interest**	**Net Value**
Government Bonds Series VR 0011	90 days	March 11, 2002	275,000	210,250	(7,858)	202,392
Less allowance for possible losses . .						(2,024)
						200,368

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The securities purchased with agreement to resell are classified as Current.

Movement of allowance for possible losses on securities purchased with agreement to resell is as follows:

	June 30, 2003 (Notes 2c and 3)		December 31,	
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001
				(Note 2b)
Beginning balance	215	215	2,024	—
Provision (reversal of allowance) during the period/year	(17)	(17)	(1,809)	2,024
Ending balance	198	198	215	2,024

The minimum allowance for possible losses on securities purchased with agreement to resell that should be provided based on Bank Indonesia regulation amounted to Rp198, Rp215, and Rp2,024 in 2003, 2002 and 2001, respectively.

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

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

11. LOANS

a) By Currency and Type:

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	After Quasi-Reorganization	2002	December 31, 2001 (Note 2b)	2000 (Note 2b)
Third parties					
Rupiah					
Kupedes	13,174,951	13,174,951	12,010,780	9,841,267	7,827,333
Consumer	10,830,803	10,830,803	10,035,129	7,752,893	5,598,123
Working capital	9,597,863	9,597,863	8,203,772	6,532,369	5,307,955
Program	3,180,663	3,180,663	2,415,468	1,744,710	1,467,125
Investment	2,567,322	2,567,322	2,094,024	1,664,607	1,206,079
Syndicated	224,762	224,762	247,938	110,500	151,127
Others	77,884	77,884	20,680	6,439	22,793
	39,654,248	39,654,248	35,027,791	27,652,785	21,580,535
Foreign Currencies					
Working capital	3,142,121	3,142,121	3,305,955	3,768,800	3,425,369
Investment	453,860	453,860	692,391	1,226,017	1,118,451
Syndicated	44,297	44,297	89,885	728,798	666,646
Consumer	—	—	—	—	24
Others	3,108	3,108	72,315	—	—
	3,643,386	3,643,386	4,160,546	5,723,615	5,210,490
	43,297,634	43,297,634	39,188,337	33,376,400	26,791,025
Related parties					
Rupiah					
Working capital	167,566	167,566	157,196	129,739	154,928
Employee	22,718	22,718	21,886	23,046	22,500
	190,284	190,284	179,082	152,785	177,428
Foreign Currencies					
Subordinated	—	—	—	—	61,506
	190,284	190,284	179,082	152,785	238,934
Total	43,487,918	43,487,918	39,367,419	33,529,185	27,029,959
Less allowance for possible losses	(4,168,806)	(4,168,806)	(3,913,097)	(3,963,445)	(2,770,665)
Net	39,319,112	39,319,112	35,454,322	29,565,740	24,259,294

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

b) By Economic Sector:

	June 30, 2003	December 31, 2002	December 31, 2001	December 31, 2000
			(Note 2b)	(Note 2b)
Third parties				
Rupiah				
Manufacturing	2,506,626	2,587,530	2,201,277	1,946,422
Trading, hotel and restaurant	9,649,507	9,586,376	6,222,700	3,718,068
Agriculture	8,287,593	7,207,134	5,363,378	1,734,911
Construction	261,468	191,868	433,756	91,167
Business services	633,002	547,655	301,574	281,345
Social services	106,998	75,646	790,750	80,862
Mining	48,932	55,752	124,507	28,546
Electricity, gas and water	128,692	127,486	125,157	151,146
Transportation, warehousing and communication	156,028	131,907	76,265	71,707
Others	17,875,402	14,516,437	12,013,421	13,476,361
	39,654,248	35,027,791	27,652,785	21,580,535
Foreign Currencies				
Manufacturing	3,032,983	3,172,242	4,478,993	2,152,373
Trading, hotel and restaurant	306,977	349,800	185,951	1,329,304
Agriculture	644	—	—	222,224
Construction	267,811	314,519	429,000	496,692
Business services	31,863	224,008	531,545	379,533
Mining	—	27,662	56,572	218,353
Electricity, gas and water	—	—	14,402	44,901
Others	3,108	72,315	27,152	367,110
	3,643,386	4,160,546	5,723,615	5,210,490
	43,297,634	39,188,337	33,376,400	26,791,025
Related parties				
Rupiah				
Business services	167,566	157,196	129,739	154,928
Others	22,718	21,886	23,046	22,500
	190,284	179,082	152,785	177,428
Foreign Currencies				
Business services	—	—	—	61,506
	190,284	179,082	152,785	238,934
Total	43,487,918	39,367,419	33,529,185	27,029,959
Less allowance for possible losses	(4,168,806)	(3,913,097)	(3,963,445)	(2,770,665)
Net	39,319,112	35,454,322	29,565,740	24,259,294

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

c) By Period:
The classification of loans based on the remaining period to maturity are as follows:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Third parties				
Rupiah				
≤1 month	2,115,718	2,432,325	977,526	659,934
>1 month – 3 months	2,610,484	2,312,949	1,955,052	1,319,867
>3 months – 1 year	11,762,422	8,660,344	8,797,737	5,939,403
>1 year – 2 years	5,614,817	5,421,234	6,230,817	4,170,695
>2 years – 5 years	14,768,239	13,088,188	6,057,011	6,217,402
>5 years	2,782,568	3,112,751	3,634,642	3,273,234
	39,654,248	35,027,791	27,652,785	21,580,535
Foreign Currencies				
≤1 month	666,945	1,002,384	250,481	204,951
>1 month – 3 months	162,492	350,763	500,961	409,901
>3 months – 1 year	1,639,519	1,434,840	2,254,326	1,844,555
>1 year – 2 years	22,083	35,118	525,698	447,298
>2 years – 5 years	586,245	694,399	725,042	559,904
>5 years	566,102	643,042	1,467,107	1,743,881
	3,643,386	4,160,546	5,723,615	5,210,490
	43,297,634	39,188,337	33,376,400	26,791,025
Related parties				
Rupiah				
>3 months – 1 year	167,566	157,196	129,739	154,928
>5 years	22,718	21,886	23,046	22,500
	190,284	179,082	152,785	177,428
Foreign Currencies				
>5 years	—	—	—	61,506
	190,284	179,082	152,785	238,934
Total	43,487,918	39,367,419	33,529,185	27,029,959
Less allowance for possible losses	(4,168,806)	(3,913,097)	(3,963,445)	(2,770,665)
Net	39,319,112	35,454,322	29,565,740	24,259,294

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

d) By Collectibility:

	June 30, 2003	2002	December 31, 2001	2000
			(Note 2b)	(Note 2b)
Current	37,406,394	33,341,413	25,573,556	19,510,331
Special mention	3,166,506	3,373,514	5,513,133	5,999,326
Substandard	1,101,903	548,818	572,284	454,424
Doubtful	863,609	1,548,858	1,043,079	589,858
Loss	949,506	554,816	827,133	476,020
Total	43,487,918	39,367,419	33,529,185	27,029,959
Less allowance for possible losses	(4,168,806)	(3,913,097)	(3,963,445)	(2,770,665)
Net	39,319,112	35,454,322	29,565,740	24,259,294

e) **Other Significant Information:**

1) Annual interest rates for loans based on averages in 2003, 2002 and 2001 and range in 2000 are as follows:

	June 30, 2003	2002	December 31, 2001	2000
			(Note 2b)	(Note 2b)
Rupiah	24.79%	24.91%	25.24%	18.00% to 24.00%
Foreign Currencies	6.40%	8.68%	9.45%	10.00% to 12.00%

2) The loans are generally collateralized by registered mortgages or by power of attorney to mortgage or sell, demand deposits, time deposits or by other guarantees generally accepted by banks (see Notes 17 and 19).

3) Working capital and investment loans represent loans to customers for capital goods requirements and working capital.

4) Consumer loans consist of housing, car and other personal loans.

5) Program loans represent BRI's loan facilities based on the guidelines from the Indonesian Government to support the development of Indonesia's small scale industry, middle and Cooperative Units and to finance the procurement of food supply by the National Logistics Agency (BULOG).

6) Kupedes loans represent BRI's credit facilities through BRI's Units. The target of these loans is micro business and fixed income employees that require additional funds and within the limit amount stated in the Kupedes manual. The economic sectors covered under Kupedes include agriculture, manufacturing, trading, fixed income and others.

7) The syndicated loans represent loans provided to customers under syndication agreements with other banks. BRI's share in syndicated loans as lead manager as of June 30, 2003 and December 31, 2002 and 2001 (1 debtor) was 25.72% and as of December 31, 2000 (2 debtors) were 25.72% and 26.74%. BRI's participation as member in the syndicated loans ranged from 2% to 45.45% of the total syndicated loans in 2003, 2002, 2001 and 2000.

8) The loans to BRI's employees (related party) amounting to Rp22,718, Rp21,886, Rp23,046 and Rp22,500 as of June 30, 2003 and December 31, 2002, 2001 and 2000, respectively, consist of loans which are intended for acquisitions of vehicles, houses and other personal properties. These loans bear

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

annual interest of 5% and have maturities ranging from three to twenty years and are collected through monthly payroll deduction.

9) The loans granted to related parties, other than loans to employees, include loans to PT Bringin Srikandi Finance classified as current amounting to Rp138,511 and Rp157,196, as of June 30, 2003 and December 31, 2002, respectively, and classified as special mention amounting to Rp129,739 and Rp154,928 as of December 31, 2001 and 2000, respectively; PT Bringin Indotama Sejahtera Finance classified as current amounting to Rp29,055 as of June 30, 2003; and loan to BRI Finance Limited, Hong Kong classified as loss amounting to Rp61,506 as of December 31, 2000.

10) Loans that have been restructured and are still in the process of restructuring are as follows:

	June 30, 2003	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Restructured	552,512	817,265	303,621	1,564,644
In the process of restructuring	108,948	683,732	1,348,900	210,661

The terms of restructuring consist of modification of interest rate and extension of payment maturity dates.

11) Based on the Trade and Transfer of Receivables Agreement dated December 18, 2002, Exchange Agreement dated December 18, 2002 and Transfer of Right on Receivables Agreement dated December 23, 2002, respectively between BRI and IBRA, BRI repurchased some loans from IBRA with balances below Rp5,000 that had been written-off amounting to Rp2,381,900 and bad debts balances above Rp5,000 that had been written-off amounting to Rp112,829 or both amounting to Rp2,494,729 at price of Rp249,473 or 10% from the bad debts amount which must be transferred to IBRA during the recapitalization program. The payment for purchasing of those bad debts was made by swapping with Government Bonds amounting to Rp249,473 (see Notes 9c and 43c). At purchase date, BRI recorded the loans as bad debts with allowance for possible losses as contra account. Furthermore, based on managements' decision, all of the bad debts had been written-off.

12) BRI, in its report on Legal Lending Limit (LLL) to Bank Indonesia as of June 30, 2003 and December 31, 2002, 2001 and 2000, indicated that no debtor whether related party or third party exceeds the LLL. On the other hand, as of December 31, 2001, BIP, (Subsidiary) (see Note 2b) reported excess in the LLL requirement on thirty one (31) borrowers and/or group debtors, in an excess amount ranging from Rp1,400 (3.24%) to Rp60,419 (139.95%) (see Note 45c).

13) The gross non-performing loans (consisting of Sub-standard, Doubtful and Loss) of BRI and BIP (Subsidiary) which are determined based on management's evaluation of the debtors' business prospect, financial condition and ability to repay and the guidelines prescribed by Bank Indonesia regarding the classification of earning assets (see Note 2e) are as follows:

Collectibility	June 30, 2003	December 31, 2002
Sub-standard	1,101,903	548,818
Doubtful	863,609	1,548,858
Loss	949,506	554,816
Total non-performing loans	2,915,018	2,652,492
Total loans	43,487,918	39,367,419
% non-performing loans (Gross NPL)	6.70%	6.74%

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2001 (Note 2b)			December 31, 2000 (Note 2b)		
Collectibility	**BRI**	**BIP**	**Consolidated**	**BRI**	**BIP**	**Consolidated**
Sub-standard	450,668	121,616	572,284	435,234	19,190	454,424
Doubtful	991,675	51,404	1,043,079	589,858	—	589,858
Loss	153,976	673,157	827,133	281,515	194,505	476,020
Total non-performing loans	1,596,319	846,177	2,442,496	1,306,607	213,695	1,520,302
Total loans	32,357,625	1,171,560	33,529,185	26,367,171	662,788	27,029,959
% non-performing loans (Gross NPL)	4.93%	72.23%	7.28%	4.96%	32.24%	5.62%

14) Movement of allowance for possible losses on loans:

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi-Reorganization	December 31, 2002
Beginning balance	3,913,097	3,913,097	3,963,445
Beginning balance of Subsidiary which was deconsolidated in 2002	—	—	(773,884)
Translation adjustments	(70,072)	(70,072)	(321,177)
Provision during the period/year	57,633	57,633	1,333,962
Bad debt recoveries	328,499	328,499	401,549
Recording back of written-off loans (see Note 42c)	—	—	2,367,006
Loans written-off	(60,351)	(60,351)	(3,057,804)
Ending balance	4,168,806	4,168,806	3,913,097

	December 31, 2001 (Note 2b)			December 31, 2000 (Note 2b)		
	BRI	**BIP**	**Consolidated**	**BRI**	**BIP**	**Consolidated**
Beginning balance	2,518,431	252,234	2,770,665	4,760,166	593,460	5,353,626
Beginning balance of Subsidiary which was deconsolidated in 2000	—	—	—	(40,496)	—	(40,496)
Translation adjustments	(104,291)	13,115	(91,176)	313,273	61,241	374,514
Provision (reversal of allowance) during the year	868,470	—	868,470	(1,044,354)	29,133	(1,015,221)
Bad debt recoveries	523,391	34,854	558,245	417,233	11,584	428,817
Recording back of written-off loans	—	498,993	498,993	—	—	—
Loans written-off	(616,440)	(25,312)	(641,752)	(1,887,391)	(443,184)	(2,330,575)
Ending balance	3,189,561	773,884	3,963,445	2,518,431	252,234	2,770,665

The above allowance for possible losses includes allowance for possible losses amounting to Rp926,925, Rp1,239,884, Rp1,033,190 and Rp893,117 in 2003, 2002, 2001 and 2000, respectively, provided by BRI for debtors in riot-torn areas in accordance with Bank Indonesia approval under letter No. 3/360/DPWB2 dated April 10, 2001.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Bad debts recoveries of BRI in 2001 included collections from loans that had been written-off in connection with the recapitalization program amounting to Rp127,723 representing bad debts with balances below Rp5 billion (see Note 43c).

In 2001, BIP (Subsidiary) recorded back for restructuring certain loans that had been written-off amounting to Rp498,993 with allowance for possible losses amounting to Rp498,993.

The minimum allowance for possible losses on loans that should be provided based on Bank Indonesia regulation amounted to Rp2,096,088, Rp1,784,444, Rp2,117,185 and Rp1,494,589 in 2003, 2002, 2001 and 2000, respectively (see Note 2e).

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

14) Channeling loans

Besides the loans recorded in the balance sheets, BRI also manages some loans based on appointment and/or joint agreement with the Government whereby BRI has been appointed as an administrator of certain loans granted by the Government of the Republic of Indonesia to third parties.

BRI's responsibility, among others, involves the collection of principal, interest and other charges and the maintenance of proper accounting records for these loans. BRI does not have any credit risk on such loans. As compensation, BRI receives administration fees.

The details of channeling loans based on sources of funds are as follows:

			December 31,	
	June 30, 2003	2002	2001	2000
			(Note 2b)	(Note 2b)
Rupiah				
Bank Indonesia funds				
Small scale and micro businesses loans (KPKM)	14,602	159,597	79,493	24,113
Agriculture business loans (KUT)				
Paddy	1,462,283	1,411,133	979,917	1,452,542
Crops	618,916	600,912	540,402	621,392
Horticulture	852,044	827,689	477,816	868,233
Business services	187,926	209,595	919,797	1,987
Others	428,481	331,995	28,499	—
Overseas funds				
BUMN/BUMD/Pemda	948,558	1,004,607	999,122	—
Drinking water	41,078	14,513	18,486	1,150,956
Farmers prime plantation (PIR)	—	100,929	323,041	376,843
Savings and loan cooperatives/micro financial institution	3,450	63,410	155,347	46,392
Animal husbandry development	97,813	35,110	112,973	114,061
Others	6,643	18,013	44,059	49,821
Government funds	12,290	24,759	79,243	86,249
Foreign currencies	2,958,628	3,128,263	2,676,531	2,316,794
Total	7,632,712	7,930,525	7,434,726	7,109,383

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The difference between the channeling loans received and granted under BRI's administrative process is shown under Other Liabilities (see Note 25).

12. ACCEPTANCES RECEIVABLE AND PAYABLE

Acceptances receivable in foreign currencies consist of:

a) **By Collectibility:**

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi-Reorganization	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Third parties					
Receivables from customers					
Current	14,304	14,304	62,091	61,698	207,138
Special Mention	211,266	211,266	112,562	166,841	70,882
Substandard	698	698	19,396	—	—
Doubtful	28,784	28,784	13,626	43,463	7,169
Loss	657	657	228	—	—
Total	255,709	255,709	207,903	272,002	285,189
Less allowance for possible losses	(25,859)	(25,859)	(16,311)	(31,932)	(9,200)
Net	229,850	229,850	191,592	240,070	275,989

Acceptances payable represent the same amount as acceptances receivable from customers.

b) **By Period:**
The classification of acceptances receivable based on the remaining period to maturity is as follows:

	June 30, 2003	December 31, 2002	December 31, 2001	December 31, 2000
≤1 month	154,053	109,611	39,678	55,583
>1 month – 3 months	63,232	47,708	133,676	179,510
>3 months – 6 months	37,360	50,480	98,648	50,096
>6 months – 1 year	1,064	104	—	—
Total	255,709	207,903	272,002	285,189
Less allowance for possible losses	(25,859)	(16,311)	(31,932)	(9,200)
Net	229,850	191,592	240,070	275,989

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

c) **Movement of allowance for possible losses on acceptances receivables:**

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi-Reorganization	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Beginning balance	16,311	16,311	31,932	9,200	3,422
Provision (reversal of allowance) during the period	9,548	9,548	(15,621)	22,732	5,778
Ending balance	25,859	25,859	16,311	31,932	9,200

The minimum allowance for possible losses on acceptances receivable that should be provided based on Bank Indonesia regulation amounted to Rp25,859, Rp16,200, Rp30,690 and Rp9,200 in 2003, 2002, 2001 and 2000, respectively.

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

13. INVESTMENTS IN SHARES OF STOCK

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

Investee Company	Nature of Business	Percentage of Ownership	Cost	June 30, 2003 (Note 2c and 3) Accumulated Equity in Net Earnings Asosiasi	Carrying Value Before Quasi Reorganization	Carrying Value After Quasi Reorganization
Equity Method						
PT UFJ-BRI Finance (Formerly PT Sanwa BRI Finance)	Financing	45.00%	24,750	30,528	55,278	55,278
Cost Method						
PT Bank Inter-Pacific Tbk	Banking	66.79%			48,487	48,487
PT Kustodian Sentral Efek Indonesia	Central settlement and depository institution	3.00			900	900
PT Sarana Bersama Pembiayaan Indonesia	Investment	8.00			536	536
PT Pemeringkat Efek Indonesia	Credit rating	1.40			210	210
PT Graha Sidang Pratama	Property	0.02			10	10
					50,143	50,143
Total					105,421	105,421
Less allowance for possible losses					(48,504)	(48,504)
Net					56,917	56,917

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

			December 31, 2002		
Investee Company	**Nature of Business**	**Percentage of Ownership**	**Cost**	**Accumulated Equity in Net Earnings**	**Carrying Value**
Equity Method					
PT UFJ-BRI Finance (Formerly PT Sanwa BRI Finance)	Financing	45.00%	24,750	27,692	52,442
Cost Method					
PT Bank Inter-Pacific Tbk	Banking	66.79			48,487
PT Kustodian Sentral Efek Indonesia	Central settlement and depository institution	3.00			900
PT Sarana Bersama Pembiayaan Indonesia	Investment	8.00			536
PT Pemeringkat Efek Indonesia	Credit rating	1.40			210
PT Graha Sidang Pratama	Property	0.02			10
					50,143
Total					102,585
Less allowance for possible losses					(48,504)
Net					54,081

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

		December 31, 2001 (Note 2b)			
Investee Company	**Nature of Business**	**Percentage of Ownership**	**Cost**	**Accumulated Equity in Net Earnings**	**Carrying Value**
Equity Method					
PT UFJ-BRI Finance (Formerly PT Sanwa BRI Finance)	Financing	45.00%	24,750	18,840	43,590
Cost Method					
PT Kustodian Sentral Efek Indonesia	Central settlement and depository institution	3.00			900
PT Sarana Bersama Pembiayaan Indonesia	Investment	8.00			536
PT Pemeringkat Efek Indonesia	Credit rating	1.40			210
PT Kawasan Industri Jababeka Tbk	Property	0.20			156
PT Bursa Efek Jakarta	Stock exchange	0.87			135
PT Bursa Efek Surabaya	Stock exchange	0.50			60
PT Bina Usaha Indonesia	Financial institution	1.00			50
PT Graha Sidang Pratama	Property	0.02			10
					2,057
Total					45,647
Less allowance for possible losses					(456)
Net					45,191

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

			December 31, 2000 (Note 2b)		
Investee Company	Nature of Business	Percentage of Ownership	Cost	Accumulated Equity in Net Earnings (Losses)	Carrying Value
Equity Method					
BRI Finance Limited, Hong Kong	Deposit-taking	100.00%	1,033,641	(749,005)	284,636
PT Sanwa-BRI Finance	Financing	45.00	24,750	16,334	41,084
			1,058,391	(732,671)	325,720
Cost Method					
PT Kustodian Sentral Efek Indonesia	Central settlement and depository institution	3.00	900	—	900
PT Sarana Bersama Pembiayaan Indonesia	Investment	8.00	536	—	536
PT Pemeringkat Efek Indonesia	Credit rating	1.40	210	—	210
PT Bursa Efek Jakarta	Stock exchange	0.87	135	—	135
PT Bursa Efek Surabaya	Stock exchange	0.50	60	—	60
PT Bina Usaha Indonesia	Financial institution	1.00	50	—	50
PT Graha Sidang Pratama	Property	0.02	10	—	10
			1,901	—	1,901
Total			1,060,292	(732,671)	327,621
Less allowance for possible losses					(284,765)
Net					42,856

The investments are classified as Current, except the investment in PT Bank Inter-Pacific Tbk in 2003 and 2002 and the investment in BRI Finance Limited, Hong Kong ("BRIFL-HK") in 2000, which were classified as Loss.

BRI received cash dividends from PT UFJ-BRI Finance amounting to Rp4,410, Rp1,260 and Rp900 from the distribution of income for the years 2002, 2001 and 2000, respectively.

On December 16, 2002, in its letter No. R.205-DIR/KUI/TRY/12/02 to PT Bank Inter-Pacific Tbk ("BIP") the Board of Directors of BRI resolved to divest all of the investment in BIP. The decision for divestment was approved by The Minister of State-Owned Enterprises in his letter No. S-476/MBU/2002 dated October 17, 2002 and No. S-565/M-MBU/2002 dated August 28, 2002. In accordance with these decisions, the financial statements of BIP were not consolidated (see Note 2b) with BRI's financial statements, but were recorded using the cost method with carrying value of Rp48,487 (see Note 47b).

Based on the letter Nota Dinas No. R.038-IVB/INT/HLN/12/00 dated December 22, 2000, BRI's Board of Directors resolved to close the operations of BRIFL-HK. This was approved by BRI's Board of Commissioners in its decision letter No. B.22-KOM/03/2001 dated March 8, 2001 and was approved by the Minister of Finance in letter No. S-269/KMK.06/2001 dated May 4, 2001. As such, the investment in shares of stock of BRIFL-HK was not included in the consolidated financial statements despite BRI's ownership interest of more than 50%, but was accounted for using the equity method with 100% provision for possible losses (see Note 2b). In 2001, investment in BRIFL-HK had been written-off. On April 15, 2002, BRI appointed liquidators to undertake the liquidation of BRIFL-HK. During the six months ended June 30, 2003, BRI received cash distribution from the liquidators amounting to Rp364,582 which was recorded as recovery under "Non-Operating Income".

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Movement of allowance for possible losses on investments in shares of stock:

	June 30, 2003 (Notes 2c and 3)		December 31,		
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Beginning balance	48,504	48,504	456	284,765	121
Beginning balance of Subsidiary which was deconsolidated in 2002	—	—	(4)	—	—
Provision during the period/year	—	—	48,102	11,113	284,644
Written-off during the period/year	—	—	(50)	(295,422)	—
Ending balance	48,504	48,504	48,504	456	284,765

The minimum allowance for possible losses on investment in shares of stocks that should be provided based on Bank Indonesia regulation amounted to Rp48,504, Rp48,504, Rp456 and Rp285,064 in 2003, 2002, 2001 and 2000, respectively.

Management believes that the allowance for possible losses on investment in shares of stocks is adequate.

14. PREMISES AND EQUIPMENT

The details of premises and equipment are as follows:

	June 30, 2003 (Notes 2c and 3)				
Description	Beginning Balance	Additions	Deductions	Ending Balance Before Quasi-Reorganization	Ending Balance After Quasi-Reorganization
Carrying Value					
Direct Ownership					
Land rights	146,616	5,336	—	151,952	151,952
Buildings	636,746	22,254	15	658,985	658,985
Transportation equipment	135,778	13,384	1,107	148,055	148,055
Computers and peripherals	992,183	109,032	1,017	1,100,198	1,100,198
Furniture and fixtures	249,421	1,027	3,086	247,362	247,362
Museum assets	184	—	—	184	184
	2,160,928	151,033	5,225	2,306,736	2,306,736
Assets under capital leases	382,103	3,470	1,096	384,477	384,477
Total Carrying Value	2,543,031	154,503	6,321	2,691,213	2,691,213

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	June 30, 2003 (Notes 2c and 3)				
Description	**Beginning Balance**	**Additions**	**Deductions**	**Ending Balance Before Quasi-Reorganization**	**Ending Balance After Quasi-Reorganization**
Accumulated Depreciation					
Direct Ownership					
Buildings	349,200	34,378	15	383,563	383,563
Transportation equipment	106,729	10,454	1,107	116,076	116,076
Computers and peripherals	482,139	39,548	1,016	520,671	520,671
Furniture and fixtures	188,602	6,222	54	194,770	194,770
	1,126,670	90,602	2,192	1,215,080	1,215,080
Assets under capital leases	257,140	2,506	1,096	258,550	258,550
Total Accumulated Depreciation	1,383,810	93,108	3,288	1,473,630	1,473,630
Net book value	1,159,221			1,217,583	1,217,583

	December 31, 2002			
Description	**Beginning Balance**	**Additions**	**Deductions**	**Ending Balance**
Carrying Value				
Direct Ownership				
Land rights	135,365	17,912	6,661	146,616
Buildings	594,002	56,699	13,955	636,746
Transportation equipment	108,258	33,948	6,428	135,778
Computers and peripherals	663,229	362,674	33,720	992,183
Furniture and fixtures	186,159	67,993	4,731	249,421
Museum assets	389	—	205	184
	1,687,402	539,226	65,700	2,160,928
Assets under capital leases	342,069	59,381	19,347	382,103
Total Carrying Value	2,029,471	598,607	85,047	2,543,031
Accumulated Depreciation				
Direct Ownership				
Buildings	313,922	37,989	2,711	349,200
Transportation equipment	95,946	15,594	4,811	106,729
Computers and peripherals	386,962	99,868	4,691	482,139
Furniture and fixtures	178,124	14,625	4,147	188,602
	974,954	168,076	16,360	1,126,670
Assets under capital leases	241,985	17,265	2,110	257,140
Total Accumulated Depreciation	1,216,939	185,341	18,470	1,383,810
Net book value	812,532			1,159,221

The carrying value of premises and equipment in 2002 amounting to Rp4,380 and the related accumulated depreciation amounting to Rp3,604 of the deconsolidated subsidiary is included in deductions.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2001 (Note 2b)			
Description	**Beginning Balance**	**Additions**	**Deductions**	**Ending Balance**
Carrying Value				
Direct Ownership				
Land rights	134,042	5,016	3,693	135,365
Buildings	589,321	8,986	4,305	594,002
Transportation equipment	82,401	28,721	2,864	108,258
Computers and peripherals	435,804	228,210	785	663,229
Furniture and fixtures	165,942	22,014	1,797	186,159
Museum assets	184	205	—	389
	1,407,694	293,152	13,444	1,687,402
Assets under capital leases	400,029	27,483	85,443	342,069
Total Carrying Value	1,807,723	320,635	98,887	2,029,471
Accumulated Depreciation				
Direct Ownership				
Buildings	279,993	35,881	1,952	313,922
Transportation equipment	80,761	17,842	2,657	95,946
Computers and peripherals	319,502	68,139	679	386,962
Furniture and fixtures	162,211	17,362	1,449	178,124
	842,467	139,224	6,737	974,954
Assets under capital leases	237,366	6,873	2,254	241,985
Total Accumulated Depreciation	1,079,833	146,097	8,991	1,216,939
Net book value	727,890			812,532

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2000 (Note 2b)			
Description	Beginning Balance	Additions	Deductions	Ending Balance
Carrying Value				
Direct Ownership				
Land rights	128,707	5,335	—	134,042
Buildings	583,328	6,334	341	589,321
Transportation equipment	75,182	10,100	2,881	82,401
Computers and peripherals	287,008	150,315	1,519	435,804
Furniture and fixtures	160,275	10,208	4,541	165,942
Museum assets	184	—	—	184
	1,234,684	182,292	9,282	1,407,694
Assets under capital leases	363,753	36,430	154	400,029
Total Carrying Value	1,598,437	218,722	9,436	1,807,723
Accumulated Depreciation				
Direct Ownership				
Buildings	239,152	40,886	45	279,993
Transportation equipment	72,794	10,707	2,740	80,761
Computers and peripherals	288,380	32,159	1,037	319,502
Furniture and fixtures	154,783	11,586	4,158	162,211
	755,109	95,338	7,980	842,467
Assets under capital leases	184,651	52,833	118	237,366
Total Accumulated Depreciation	939,760	148,171	8,098	1,079,833
Net book value	658,677			727,890

The Bank has lease contracts with various leasing companies mainly for computers and peripherals and vehicles under lease contracts for 3 and 5 years (see Note 23).

Depreciation charged to profit and loss (see Note 32) amounted to Rp93,108, Rp185,341, Rp146,097 and Rp148,171 in 2003, 2002, 2001 and 2000, respectively.

Management believes that there is no permanent impairment in the value of fixed assets as of June 30, 2003 and December 31, 2002, 2001 and 2000.

BRI have insured with PT Asuransi Bringin Sejahtera Artamakmur, subsidiary of Dana Pensiun BRI (related party), their premises and equipment (excluding land rights) for risks of fire and theft for a total coverage amount as of June 30, 2003 and December 31, 2002 of Rp1,730,418. Management believes that the sum insured is adequate to cover the possibility of losses arising in relation to premises and equipment.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

15. OTHER ASSETS

Other assets consist of:

	June 30, 2003 (Notes 2c and 3) Before Quasi-Reorganization	After Quasi-Reorganization	December 31, 2002	2001	2000
				(Note 2b)	(Note 2b)
Rupiah					
Interest receivable					
Government bonds	1,229,830	1,229,830	622,250	1,136,692	867,602
Others	352,946	352,946	262,738	107,237	162,147
Prepaid expenses	207,917	207,917	226,573	89,177	70,411
Office supplies	106,419	106,419	99,201	101,302	86,851
Foreclosed collaterals	12,813	12,813	12,895	8,137	30,011
Claims on overpayment of income tax (Note 35b)	—	—	—	57,102	57,102
Others	996,221	996,221	1,013,552	1,326,276	456,668
	2,906,146	2,906,146	2,237,209	2,825,923	1,729,792
Foreign Currency					
Interest receivable					
Others	10,114	10,114	3,384	24,767	23,000
Prepaid expenses	4,359	4,359	3,358	3,376	4,599
Others	187,638	187,638	424,117	99,771	240,042
	202,111	202,111	430,859	127,914	267,641
Total	3,108,257	3,108,257	2,668,068	2,953,837	1,997,433
Less allowance for possible losses	(642,373)	(642,373)	(527,888)	(781,424)	(122,283)
Net	2,465,884	2,465,884	2,140,180	2,172,413	1,875,150

Allowance for possible losses mainly consists of allowance for interoffice transactions, suspense accounts in branches, certain differences in nostro account and differences of conversion arising in the course of information system integration and modernization.

Management believes that allowance for possible losses on other assets is adequate.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

16. SHORT-TERM LIABILITIES

Short-term liabilities consist of:

	June 30, 2003 (Notes 2c and 3)		December 31,		
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Rupiah					
Taxes payable	947,467	947,467	—	1,589	2,655
Remittances for transfer	244,428	244,428	119,263	79,867	1,053,041
Tax deposits	101,403	101,403	84,771	78,133	55,499
Deposits for channeling loans	65,500	65,500	67,739	67,501	72,972
Deposits for clearing	26,450	26,450	17,040	62,220	89,032
Bank drafts and BRI travelers' checks (Cepebri)	26,218	26,218	37,052	38,785	47,033
Risk sharing fund deposits	25,900	25,900	22,764	56,759	77,918
Customers' guaranteed funds	17,008	17,008	140,657	140,657	390,210
Guaranteed deposits	6,179	6,179	7,583	—	—
Others	2,068,911	2,068,911	1,312,719	541,301	668,023
	3,529,464	3,529,464	1,809,588	1,066,812	2,456,383
Foreign Currency					
Rediscounted export bills to Bank Indonesia and other banks	58,148	58,148	26,395	44,689	5,975
Guaranteed deposits	15,181	15,181	7,629	4,414	4,681
Remittances for transfer	10,266	10,266	5,265	46,102	45,690
Others	21,605	21,605	38,264	133,961	83,040
	105,200	105,200	77,553	229,166	139,386
Total	3,634,664	3,634,664	1,887,141	1,295,978	2,595,769

Taxes payable as of June 30, 2003 consist of corporate income tax for payable the six months ended June 30, 2003 amounting to Rp526,668 and the tax liability in 2002 amounting to Rp420,799 related to the tax assessment on corporate income tax (see Notes 35a and 47d).

Customers' guaranteed funds represent funds received by BRI from IBRA for immediate payments to guaranteed customers of banks whose operations had been suspended (BBO and BBKU) (see Note 43b).

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

17. DEMAND DEPOSITS

Demand deposits consist of:

	June 30, 2003 (Notes 2c and 3)		December 31,		
	Before Quasi Reorganization	After Quasi Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Third parties					
Rupiah	9,633,394	9,633,394	10,906,901	6,962,564	6,972,124
Foreign Currencies	2,171,753	2,171,753	548,541	531,323	555,057
	11,805,147	11,805,147	11,455,442	7,493,887	7,527,181
Related parties					
Rupiah	3,303	3,303	2,757	22,250	1,723
Foreign Currencies	79	79	68	6	—
	3,382	3,382	2,825	22,256	1,723
Total	11,808,529	11,808,529	11,458,267	7,516,143	7,528,904

Annual interest rates for demand deposits based on average in 2003, 2002 and 2001 and annual interest rate in 2000, are as follows:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Rupiah	3.30%	3.91%	3.49%	5.00%
Foreign Currencies	2.00%	2.02%	2.93%	3.00%

Demand deposits used as collateral for banking facilities granted by BRI amounted to Rp3,770 in 2003.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

18. SAVINGS DEPOSITS

Savings deposits consist of:

	June 30, 2003 (Notes 2c and 3) Before Quasi Reorganization	After Quasi Reorganization	2002	December 31, 2001 (Note 2b)	2000 (Note 2b)
Third parties					
Rupiah					
Simpedes	17,878,436	17,878,436	16,894,459	15,873,900	11,903,645
Britama and TabanasBri	9,027,807	9,027,807	8,915,186	7,981,347	8,772,482
Simaskot	2,947,441	2,947,441	2,811,642	2,585,848	1,963,843
Others	1,230,019	1,230,019	49,769	87,516	71,066
	31,083,703	31,083,703	28,671,056	26,528,611	22,711,036
Foreign Currencies					
Britama	4,279	4,279	—	—	—
	31,087,982	31,087,982	28,671,056	26,528,611	22,711,036
Related parties					
Rupiah					
Britama and TabanasBri	339	339	420	—	—
Foreign Currencies					
Britama	9	9	—	—	—
	348	348	420	—	—
Total	31,088,330	31,088,330	28,671,476	26,528,611	22,711,036

Annual average interest rates for savings deposits were 7.80%, 8.07% and 7.61% in 2003, 2002 and 2001, respectively and ranged from 4.00% to 9.00% in 2000.

19. TIME DEPOSITS

Time deposits consist of:

	June 30, 2003 (Notes 2c and 3) Before Quasi Reorganization	After Quasi Reorganization	2002	December 31, 2001 (Note 2b)	2000 (Note 2b)
Third parties					
Rupiah	29,226,842	29,226,842	26,816,017	20,717,255	16,358,010
Foreign Currencies	1,997,334	1,997,334	2,540,498	2,438,065	2,166,701
	31,224,176	31,224,176	29,356,515	23,155,320	18,524,711
Related parties					
Rupiah	187,668	187,668	125,670	550,107	446,117
Foreign Currencies	—	—	—	724	3,192
	187,668	187,668	125,670	550,831	449,309
Total	31,411,844	31,411,844	29,482,185	23,706,151	18,974,020

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Time deposits based on their period to maturity are follows:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Third parties				
Rupiah				
Deposits on call	1,864,581	1,518,627	669,309	111,721
Deposits				
1 month	12,324,882	12,694,257	17,430,260	11,248,949
3 months	5,340,993	6,547,152	1,154,171	2,753,572
6 months	5,010,988	2,305,567	618,843	1,737,444
12 months	3,139,029	2,254,273	672,133	486,549
More than 12 months	1,546,369	1,496,141	172,539	19,775
	29,226,842	26,816,017	20,717,255	16,358,010
Foreign Currencies				
Deposits on call	390,108	181,942	4,160	55,011
Deposits				
1 month	994,743	1,537,172	2,204,145	1,619,376
3 months	356,412	560,563	130,414	184,920
6 months	150,025	139,593	43,388	135,017
12 months	103,566	106,924	54,393	145,926
More than 12 months	2,480	14,304	1,565	26,451
	1,997,334	2,540,498	2,438,065	2,166,701
	31,224,176	29,356,515	23,155,320	18,524,711
Related parties				
Rupiah				
Deposits				
1 month	56,873	7,045	3,550	—
3 months	57,445	41,025	546,557	446,117
6 months	31,750	39,000	—	—
12 months	41,600	38,600	—	—
	187,668	125,670	550,107	446,117
Foreign Currencies				
Deposits				
1 month	—	—	—	—
3 months	—	—	724	3,192
	—	—	724	3,192
	187,668	125,670	550,831	449,309
Total	31,411,844	29,482,185	23,706,151	18,974,020

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Annual interest rates for time deposits based on averages in 2003, 2002 and 2001 and range in 2000 are as follows:

	June 30, 2003	December 31, 2002	December 31, 2001	December 31, 2000
			(Note 2b)	(Note 2b)
Rupiah	13.00%	15.06%	14.70%	11.00% to 12.00%
Foreign currency	2.36%	2.62%	4.16%	5.00% to 5.50%

Time deposits used as collateral for banking facilities granted by BRI amounted to Rp853,185, Rp563,977 and Rp308,086 in 2003, 2002 and 2001, respectively.

20. CERTIFICATES OF DEPOSITS

Certificates of deposit in Rupiah based on their contract period to maturity are as follows:

	June 30, 2003 (Notes 2c and 3) Before Quasi Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi Reorganization	December 31, 2002	December 31, 2001	December 31, 2000
				(Note 2b)	(Note 2b)
Third parties					
3 months	11,620	11,620	10,990	8,837	2,703
Less unamortized interest	(144)	(144)	(37)	(1,284)	(6)
Total	11,476	11,476	10,953	7,553	2,697

Annual average interest rates for certificates of deposits were 10.20%, 14.65% and 13.05% in 2003, 2002 and 2001, respectively, and year end rate was 12% in 2000.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

21. DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

Deposits from other banks and financial institutions consist of:

	June 30, 2003 (Notes 2c and 3) Before Quasi Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi Reorganization	2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Third parties					
Rupiah					
Demand deposits	230,736	230,736	226,681	144,560	105,860
Savings	66,063	66,063	67,336	48,362	—
Time deposits	925,884	925,884	910,479	766,919	48,785
Certificates of deposits	—	—	—	100,029	29
Interbank call money	610,000	610,000	517,000	652,000	455,000
	1,832,683	1,832,683	1,721,496	1,711,870	609,674
Foreign Currencies					
Certificates of deposits	—	—	—	956,800	1,151,400
Interbank call money	—	—	—	—	182,305
	—	—	—	956,800	1,333,705
	1,832,683	1,832,683	1,721,496	2,668,670	1,943,379
Related party					
Foreign Currencies					
Interbank call money	—	—	339,461	387,776	—
Total	1,832,683	1,832,683	2,060,957	3,056,446	1,943,379

Interbank call money from related party in 2002 and 2001 belongs to BRI Finance Limited, Hong Kong, a Subsidiary (see Note 2b).

Annual interest rates for deposits from other banks and financial institutions based on averages in 2003, 2002 and 2001 and range in 2000 are as follows:

	Rupiah June 30, 2003	Rupiah 2002	Rupiah December 31, 2001 (Note 2b)	Rupiah December 31, 2000 (Note 2b)	Foreign Currency June 30, 2003	Foreign Currency 2002	Foreign Currency December 31, 2001 (Note 2b)	Foreign Currency December 31, 2000 (Note 2b)
Demand deposits	2.30%	3.91%	3.49%	5.00%	—	—	—	—
Savings	3.73%	8.07%	7.61%	—	—	—	—	—
Time deposits	14.92%	15.06%	14.07%	11.00% to 12.00%	—	—	—	—
Certificate of deposits	—	—	13.05%	12.00%	—	—	Six months Libor + 1.2%	Six months Libor + 1.2%
Interbank call money	8.46%	14.00%	14.51%	9.12% to 14.88%	—	3.22%	4.95%	5.31% to 10.47%

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Deposits from other banks and financial institutions based on their remaining period to maturity are as follows:

	June 30, 2003					
	On call	**≤ 1 month**	**> 1 - 3 months**	**> 3 - 6 months**	**> 12 months**	**Total**
Third parties						
Demand deposits	230,736	—	—	—	—	230,736
Savings	66,063	—	—	—	—	66,063
Time deposits	1,000	889,125	35,759	—	—	925,884
Interbank call money	—	290,000	320,000	—	—	610,000
Total	297,799	1,179,125	355,759	—	—	1,832,683

	December 31, 2002					
	On call	**≤ 1 month**	**> 1 - 3 months**	**> 3 - 6 months**	**> 12 months**	**Total**
Third parties						
Demand deposits	226,681	—	—	—	—	226,681
Savings	67,336	—	—	—	—	67,336
Time deposits	64,000	128,859	319,662	397,958	—	910,479
Interbank call money	—	137,000	380,000	—	—	517,000
	358,017	265,859	699,662	397,958	—	1,721,496
Related parties						
Interbank call money	—	339,461	—	—	—	339,461
Total	358,017	605,320	699,662	397,958	—	2,060,957

	December 31, 2001					
	On call	**≤ 1 month**	**> 1 - 3 months**	**> 3 - 6 months**	**> 12 months**	**Total**
			(Note 2b)			
Third parties						
Demand deposits	144,560	—	—	—	—	144,560
Savings	48,362	—	—	—	—	48,362
Time deposits	181,100	585,819	—	—	—	766,919
Certificates of deposits	—	—	328,829	728,000	—	1,056,829
Interbank call money	652,000	—	—	—	—	652,000
	1,026,022	585,819	328,829	728,000	—	2,668,670
Related parties						
Interbank call money	387,776	—	—	—	—	387,776
Total	1,413,798	585,819	328,829	728,000	—	3,056,446

	December 31, 2000					
	On call	**≤ 1 month**	**> 1 - 3 months**	**> 3 - 6 months**	**> 12 months**	**Total**
			(Note 2b)			
Third parties						
Demand deposits	105,860	—	—	—	—	105,860
Time deposits	—	48,785	—	—	—	48,785
Certificates of deposits	—	—	29	—	1,151,400	1,151,429
Interbank call money	637,305	—	—	—	—	637,305
Total	743,165	48,785	29	—	1,151,400	1,943,379

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

22. SECURITIES SOLD WITH AGREEMENT TO REPURCHASE

Securities sold with agreement to repurchase consist of Government Bonds sold to PT Bank Buana Indonesia Tbk and Deutsche Bank AG (Jakarta) as of June 30, 2003 and PT Bank Buana Indonesia Tbk as of December 31, 2002 and 2001 (see Note 9) as follows:

	June 30, 2003						
	Terms	Repurchase Date	Nominal	Repurchase Price	Unamortized Interest Expenses	Net Value Before Quasi Reorganization	Net Value After Quasi Reorganization
				(Notes 2c and 3)			
Government Bonds							
Series FR0005	90 days	August 6, 2003	234,590	205,800	(2,384)	203,416	203,416
Series FR0005	90 days	August 4, 2003	234,590	205,800	(2,256)	203,544	203,544
Series FR0017	56 days	July 15, 2003	100,000	101,975	(529)	101,446	101,446
Total			569,180	513,575	(5,169)	508,406	508,406

The bonds were repurchased by BRI on agreed repurchase dates.

	December 31, 2002					
	Terms	Repurchase Date	Nominal	Repurchase Price	Unamortized Interest Expenses	Net Value
Government Bonds						
Series FR0005	91 days	March 24, 2003	254,654	206,951	(6,263)	200,688

The bonds were repurchased by BRI on March 24, 2003.

	December 31, 2001					
	Terms	Repurchase Date	Nominal	Repurchase Price	Unamortized Interest Expenses	Net Value
Government Bonds						
Series FR0003	90 days	February 25, 2002	292,000	209,185	(5,613)	203,572
Series FR0003	90 days	February 27, 2002	292,000	209,185	(5,817)	203,368
Series FR0003	90 days	March 4, 2002	146,000	104,593	(3,164)	101,429
Series FR0005	90 days	March 11, 2002	315,000	209,275	(7,111)	202,164
Total			1,045,000	732,238	(21,705)	710,533

The bonds were repurchased by BRI on agreed repurchase dates.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

23. FUND BORROWINGS

Fund borrowings consist of:

	June 30, 2003 (Notes 2c and 3)		December 31,		
	Before Quasi Reorganization	After Quasi Reorganization	2002	2001	2000
				(Note 2b)	(Note 2b)
Third parties					
Rupiah					
Borrowing from Bank Indonesia:					
Liquidity loans	377,840	377,840	466,897	900,557	1,237,376
Borrowings for investment in premises and equipment	36,722	36,722	43,691	32,273	32,273
Obligations under capital lease	34	34	647	1,971	3,348
Notes payable	—	—	605,000	826,590	—
Others	9,946	9,946	12,900	12,211	9,165
	424,542	424,542	1,129,135	1,773,602	1,282,162
Foreign Currencies					
Exchange offer loans	875,264	875,264	1,691,998	2,552,160	2,910,164
Notes payable	—	—	—	384,041	—
Others	13,728	13,728	7,334	874	—
	888,992	888,992	1,699,332	2,937,075	2,910,164
	1,313,534	1,313,534	2,828,467	4,710,677	4,192,326
Related parties					
Rupiah					
Obligations under capital lease	143,206	143,206	151,549	130,067	178,500
Borrowings from pension fund	45,226	45,226	45,226	60,301	75,376
	188,432	188,432	196,775	190,368	253,876
Foreign Currencies					
Revolving loans	—	—	—	121,992	112,549
	188,432	188,432	196,775	312,360	366,425
Total	1,501,966	1,501,966	3,025,242	5,023,037	4,558,751

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The classification of fund borrowings based on their remaining period to maturity is as follows:

	June 30, 2003	December 31, 2002	December 31, 2001	December 31, 2000
			(Note 2b)	(Note 2b)
Third parties				
Rupiah				
≤1 month	—	—	—	9,346
>1 month – 3 months	22,916	564,887	826,590	—
>3 months – 1 year	34,399	135,519	187,999	240,419
>1 year – 5 years	223,805	241,958	615,543	847,519
>5 years	143,422	186,771	143,470	184,878
	424,542	1,129,135	1,773,602	1,282,162
Foreign Currencies				
≤1 month	—	—	—	—
>1 month – 3 months	—	—	384,041	—
>3 months – 1 year	620,380	734,074	236,954	500,859
>1 year – 5 years	268,612	965,258	2,316,080	2,409,305
>5 years	—	—	—	—
	888,992	1,699,332	2,937,075	2,910,164
	1,313,534	2,828,467	4,710,677	4,192,326
Related parties				
Rupiah				
>3 months – 1 year	49,103	86,300	75,906	99,975
>1 year – 5 years	139,329	110,475	114,462	153,901
	188,432	196,775	190,368	253,876
Foreign Currencies				
>3 months – 1 year	—	—	121,992	112,549
	188,432	196,775	312,360	366,425
Total	1,501,966	3,025,242	5,023,037	4,558,751

Other significant information relating to fund borrowings are as follows:

(a) **Bank Indonesia Liquidity Loans**
This account represents credit facilities obtained from Bank Indonesia that are channeled to BRI's debtors for purposes such as investment loans, Primary Cooperatives of Sugar Cane Farmers Loans, BULOG and Village Cooperative Units Loans, Permanent Working Capital Loans, Fertilizer and others.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Classification of Bank Indonesia liquidity loans based on their remaining period to maturity as of June 30, 2003, December 31, 2002 and 2001 is as follows:

	June 30, 2003	December 31, 2002	2001
>1 month – 3 months	12,970	19,887	—
>3 months – 1 year	34,365	61,972	173,817
>1 year – 5 years	223,805	241,958	615,543
>5 years	106,700	143,080	111,197
Total	377,840	466,897	900,557

Annual average interest rates on these loans were 6.5% in 2003, 2002 and 2001.

(b) Borrowings from Bank Indonesia for Investment in Premises and Equipment
This account represents non-interest bearing loans for the construction of certain office units for BRI's micro banking in Indonesia.

Annual average interest rates on these loans were 5.0% in 2003 and 2002 and non-interest bearing in 2001 and 2000, respectively. The borrowings will mature in 2016.

(c) Exchange Offer Loans
In accordance with the Government's debt restructuring program for banks, BRI and BIP (Subsidiary) exchanged some of their foreign currency 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:

	US Dollar (Full Amount)				Rupiah Equivalent			
	June 30, 2003	December 31, 2002	2001	2000	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)			(Note 2b)	(Note 2b)
Exchange Offer Loan I	—	—	10,600,000	62,800,000	—	—	110,240	602,566
Exchange Offer Loan II	105,900,000	189,050,000	234,800,000	240,500,000	875,264	1,691,998	2,441,920	2,307,598
Total	105,900,000	189,050,000	245,400,000	303,300,000	875,264	1,691,998	2,552,160	2,910,164

The Exchange Offer Loan I (with original maturity before April 1, 1999) matured in four (4) tranches each on August 25 starting 1999 until 2002. Exchange Offer Loan II (with original maturity before January 1, 2002) mature in four (4) tranches each on June 1 starting 2002 until 2005. These borrowings bear interest which is payable every six months with the rate equal to LIBOR for the six months period plus an applicable margin which has been determined for each period of the tranche.

Annual average interest rates for Exchange Offer Loans were 3.83%, 4.64% and 4.51% in 2003, 2002 and 2001, respectively and ranged from 7.31% to 10.34% in 2000.

BRI made partial payment earlier than maturity on Exchange Offer Loan II amounting to US$3,000,000 in 2003 and US$9,750,000 in 2002.

(d) Notes Payable
This account represents facilities from PT Bank Ekspor Indonesia (Persero) for financing, guarantee and supporting export activities, with a term of 1 year from February 16, 2001 and can be extended every

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

year. As of February 13, 2003, this facility had been extended until February 12, 2004. As of June 30, 2003, there are no withdrawal of notes payable from this facility.

Annual average interest rates for notes payable are as follows:

	2003	2002	2001
Rupiah	12.75%	12.75%	13.00%
Foreign currency	—	4.00%	4.75%

(e) **Obligations Under Capital Leases**
Obligations under capital leases (see Notes 2p and 14) consist of:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Third parties				
PT Armada Finance	34	538	774	1,211
PT Swadharma Surya Finance	—	109	1,197	2,137
	34	647	1,971	3,348
Related parties				
PT Bringin Srikandi Finance (Subsidiary of Dana Pensiun BRI)	128,190	145,433	111,304	136,196
PT Bringin Indotama Sejahtera Finance (Subsidiary of Dana Pensiun BRI)	14,893	5,087	11,220	29,204
PT UFJ-BRI Finance (associated company, formerly PT Sanwa-BRI Finance)	123	1,029	7,543	13,100
	143,206	151,549	130,067	178,500
Total	143,240	152,196	132,038	181,848

Annual average interest rates for obligations under capital leases were 21.00%, 21.67% and 22.00% in 2003, 2002 and 2001, respectively and ranged from 22.00% to 24.00% in 2000.

The installments of obligations under capital lease based on the remaining period to maturity as of June 30, 2003 and December 31, 2002 and 2001 are as follows:

	June 30, 2003	December 31, 2002	2001
> 3 months – 1 year	34,061	71,872	62,802
> 1 year – 5 years	109,179	80,324	69,236
Total	143,240	152,196	132,038

(f) **Revolving Loan**
In 2001 and 2000, this account represented BIP's (Subsidiary) revolving facilities received from the Sanwa Bank Limited Singapore, a related party, amounting to US$11,730,000. Annual average interest rates for revolving loans are 5.22% and 8.98% in 2001 and 2000, respectively. The loans matured on June 29, 2002.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

(g) **Borrowings from Pension Fund**

This account represents the loan facility from Dana Pensiun Bank Rakyat Indonesia, a related party, for land acquisition or building construction with a term of 15 years since December 10, 1990, with installments amounting to Rp15,075 each year. Interest rate is based on the prevailing annual interest rate on one-year time deposits of BRI.

24. ESTIMATED LOSSES ON COMMITMENTS AND CONTINGENCIES

a) Estimated losses on commitments and contingencies bearing credit risk (see Note 2e) are as follows:

	June 30, 2003 (Notes 2c and 3) Before Quasi Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi Reorganization	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Rupiah					
Outstanding irrevocable letters of credit	1,941	1,941	8,573	1,496	236
Guarantees issued	22,549	22,549	38,328	12,731	2,175
	24,490	24,490	46,901	14,227	2,411
Foreign Currencies					
Outstanding irrevocable letters of credit	218,655	218,655	115,560	18,870	11,570
Guarantees issued	39,042	39,042	66,094	73,987	30,990
Spot foreign currency bought	1,024	1,024	89	104	528
Forward foreign currency bought	12,398	12,398	—	—	10,267
	271,119	271,119	181,743	92,961	53,355
Total	295,609	295,609	228,644	107,188	55,766

b) Movement of estimated losses on commitments and contingencies:

	June 30, 2003 (Notes 2c and 3) Before Quasi Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi Reorganization	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Rupiah					
Beginning balance	46,901	46,901	14,227	2,411	802
Provision (reversal of allowance) during the period	(22,411)	(22,411)	32,674	11,816	1,609
	24,490	24,490	46,901	14,227	2,411
Foreign Currencies					
Beginning balance	181,743	181,743	92,961	53,355	151,819
Provision (reversal of allowance) during the period	89,376	89,376	88,782	39,606	(98,464)
	271,119	271,119	181,743	92,961	53,355
Total	295,609	295,609	228,644	107,188	55,766

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The minimum estimated losses on commitments and contingencies that should be provided based on Bank Indonesia regulation amounted to Rp286,247, Rp219,414, Rp106,521 and Rp106,244 in 2003, 2002, 2001 and 2000, respectively.

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

c) The collectibility of commitments and contingencies bearing credit risk (see Notes 2e and 40) is as follows:

	June 30, 2003					
	Current	Special Mention	Substandard	Doubtful	Loss	Total
Third parties						
Rupiah						
Outstanding irrevocable letters of credit	1,425	—	6,716	—	919	9,060
Guarantees issued	34,584	35,007	2,873	1,427	19,309	93,200
	36,009	35,007	9,589	1,427	20,228	102,260
Foreign Currencies						
Outstanding irrevocable letters of credit	1,212,503	1,315,655	70,237	59,926	90,885	2,749,206
Guarantees issued	58,166	90,776	580	1,101	33,283	183,906
Spot foreign currency bought	102,444	—	—	—	—	102,444
Forward foreign currency bought	1,239,750	—	—	—	—	1,239,750
	2,612,863	1,406,431	70,817	61,027	124,168	4,275,306
Total	2,648,872	1,441,438	80,406	62,454	144,396	4,377,566

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2002					
	Current	Special Mention	Substandard	Doubtful	Loss	Total
Third parties						
Rupiah						
Outstanding irrevocable letters of credit	5,121	—	—	15,140	919	21,180
Guarantees issued	50,562	72,026	—	45,294	11,574	179,456
	55,683	72,026	—	60,434	12,493	200,636
Foreign Currencies						
Outstanding irrevocable letters of credit	136,701	1,231,082	9,774	41,106	30,653	1,449,316
Guarantees issued	13,358	176,075	—	582	47,635	237,650
Spot foreign currency bought	8,950	—	—	—	—	8,950
	159,009	1,407,157	9,774	41,688	78,288	1,695,916
Total	214,692	1,479,183	9,774	102,122	90,781	1,896,552

	December 31, 2001					
	Current	Special Mention	Substandard	Doubtful	Loss	Total
Third parties						
Rupiah						
Outstanding irrevocable letters of credit	1,298	—	—	2,965	—	4,263
Guarantees issued	20,019	66,992	—	18,862	—	105,873
	21,317	66,992	—	21,827	—	110,136
Foreign Currencies						
Outstanding irrevocable letters of credit	520,376	66,593	—	19,340	26,757	633,066
Guarantees issued	647,967	369,927	—	20,059	40,133	1,078,086
Spot foreign currency bought	10,400	—	—	—	—	10,400
	1,178,743	436,520	—	39,399	66,890	1,721,552
Total	1,200,060	503,512	—	61,226	66,890	1,831,688

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2000					
	Current	Special Mention	Substandard	Doubtful	Loss	Total
Third parties						
Rupiah						
Outstanding irrevocable letters of credit	7,069	3,316	—	—	—	10,385
Guarantees issued	33,437	36,808	—	—	—	70,245
	40,506	40,124	—	—	—	80,630

	December 31, 2000					
	Current	Special Mention	Substandard	Doubtful	Loss	Total
Foreign Currencies						
Outstanding irrevocable letters of credit	745,063	82,393	—	—	—	827,456
Guarantees issued	1,300,641	326,577	47,975	—	44,937	1,720,130
Spot foreign currency bought	52,773	—	—	—	—	52,773
Forward foreign currency bought	1,026,665	—	—	—	—	1,026,665
	3,125,142	408,970	47,975	—	44,937	3,627,024
Total	3,165,648	449,094	47,975	—	44,937	3,707,654

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

25. OTHER LIABILITIES

Other liabilities consist of:

	June 30, 2003 (Notes 2c and 3) Before Quasi Reorganization	June 30, 2003 (Notes 2c and 3) After Quasi Reorganization	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Rupiah					
Bonuses and incentives	990,118	990,118	829,479	454,692	334,154
Defined benefit pension costs (Note 39a)	392,031	392,031	414,867	423,679	443,717
Allowance for Timely-Payment Incentives (Note 2v)	275,311	275,311	259,149	210,438	171,805
Allowance for litigation liabilities (Note 43h)	144,408	144,408	177,422	177,911	177,911
Unsettled import draft	139,427	139,427	138,592	—	—
Interest payable	105,121	105,121	87,698	214,531	269,240
Kep-150/MEN/2000 benefits (Note 39d)	63,646	63,646	48,365	35,943	—
Allowance for gratuity benefit	28,699	28,699	28,699	128,800	73,600
Channeling loans (Note 11e)	17,917	17,917	55,706	6,721	169,254
Old-age benefits (Note 39b)	—	—	—	208	295,700
Allowance for defined contribution pension (Note 39c)	—	—	—	178,000	178,000
Others	349,740	349,740	660,130	265,129	296,010
	2,506,418	2,506,418	2,700,107	2,096,052	2,409,391
Foreign Currencies					
Interest payable	14,805	14,805	13,717	35,973	20,730
Unsettled import draft	6,790	6,790	70,756	203,373	580,255
Channeling loans (Note 11e)	—	—	—	—	11,410
Others	205,593	205,593	8,666	282,446	167,872
	227,188	227,188	93,139	521,792	780,267
Total	2,733,606	2,733,606	2,793,246	2,617,844	3,189,658

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

26. SUBORDINATED LOANS

BRI received subordinated loans in Rupiah currency from the Government of the Republic of Indonesia through the Ministry of Finance as stockholder of BRI, as follows:

	June 30, 2003 (Notes 2c and 3) Before Quasi Reorganization	After Quasi Reorganization	December 31 2002	2001	2000
Conversion of two-step loans	401,321	401,321	412,135	408,799	312,626
Other	108,180	108,180	108,180	108,180	108,180
Total	509,501	509,501	520,315	516,979	420,806

The conversion of two-step loans represents subordinated loans from the Export-Import Bank of Japan (Exim Bank of Japan), Asian Development Bank (ADB), International Bank for Reconstruction and Development (IBRD), IFAD, USAID and IDB in accordance with the letter of Minister of Finance No. S-548/MK.016/1994 dated July 14, 1994, with several annual interest rates and terms ranging from 15 to 40 years. Annual average interest rates for conversion of two-step loans were 7.29%, 7.66% and 7.50% in 2003, 2002 and 2001, respectively. These loans will mature at various dates from 2003 to 2007.

The other loan represents subordinated loan to cover the capital shortage and to meet capital adequacy ratio requirements as stated in loan agreement No. RDI-303/DP3/1996 dated August 30, 1996. This loan will mature on June 30, 2006 with an annual interest rate of 6% in 2003, 2002, 2001 and 2000.

The classification of subordinated loans based on their remaining period to maturity as of June 30, 2003 and December 31, 2002, 2001 and 2000 is as follows:

	June 30, 2003	December 31, 2002	2001	2000
≤ 1 month	5,398	11,367	5,397	—
> 1 month – 3 months	1,379	1,380	1,307	—
> 3 months – 1 year	35,539	31,200	14,941	—
> 1 year – 5 years	242,155	250,860	180,310	157,128
> 5 years	225,030	225,508	315,024	263,678
Total	509,501	520,315	516,979	420,806

27. EQUITY

a. Capital Stock

BRI is wholly-owned by the Republic of Indonesia as represented by the Minister of Finance. In accordance with Article 4 of BRI's Articles of Association, Notarial deed No. 133 dated July 31, 1992 of Notary Muhani Salim S.H., was approved by the Minister of Justice in his Decision Letter No. C2-6584.HT.01.01.TH.92 dated August 12, 1992 and was published in the State Gazette No. 73 Supplement No. 3A dated September 11, 1992, BRI's authorized capital is Rp5,000,000 consisting of 5,000,000 shares with a par value of Rp1 million (full amount) per share.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The issued and fully paid capital stock as of June 30, 2003 and December 31, 2002, 2001 and 2000 is as follows:

		December 31,		
	June 30, 2003	**2002**	**2001**	**2000**
Republic of Indonesia				
Number of shares	5,000,000	1,728,000	1,728,000	1,728,000
Nominal amount	Rp5,000,000	Rp1,728,000	Rp1,728,000	Rp1,728,000

On September 30, 2003, the Ministry of Finance of the Republic of Indonesia issued Decision Letter No. 427/KMK/2003 dated September 30, 2003 regarding the final amount and the implementation of the Government's rights arising from the additional investment of the Republic of Indonesia in the capital of the Limited Liability Company (Persero) PT Bank Rakyat Indonesia in connection with the recapitalization program for commercial banks (see Note 47). Based on the Decision Letter, the Ministry of Finance determined that the final recapitalization amount of BRI was Rp29,063,531. Furthermore, the Government's rights arising from the additional investment in shares by the Republic of Indonesia in PT Bank Rakyat Indonesia was implemented as follows:

➤ Rp3,272,000 of the recapitalization amount was converted to 3,272,000 new shares issued by BRI with a par value of Rp1 million per share.

➤ Rp25,791,531 of the recapitalization amount is still recorded as additional paid-in capital in BRI's Capital Structure.

The Decision of Ministry of Finance is implemented retroactively as of June 30, 2003.

Based on the Stockholder's Extraordinary General Meeting dated October 3, 2003, which is covered by notarial deed of Imas Fatimah, S.H. No. 6 dated October 3, 2003, BRI's Stockholder resolved (see Note 47f), among others:

➤ Approved the capital restructuring of BRI as of June 30, 2003 to increase BRI's issued and fully paid capital stock owned by the Republic of Indonesia from Rp1,728,000 consisting of 1,728,000 shares with a par value of Rp1 million per share to Rp5,000,000 consisting of 5,000,000 shares with the same par value, which increase was taken from the recapitalization amounts of Rp29,063,531, and the balance of Rp25,791,531 remains recorded as additional paid-in capital.

➤ Approved the changes in par value (stock split) from Rp1 million (full amount) to Rp500 (full amount).

➤ Approved the increase in paid-in capital from Rp5 trillion divided into 5 million shares with par value of Rp1 million (full amount) per share to Rp15 trillion divided into 30 billion shares with par value of Rp500 (full amount) per share.

➤ Approved the changes in classification of BRI's shares to Series A (Dwi Warna) and Series B shares.

➤ Approved the utilization of the general and special reserves as of June 30, 2003 amounting to Rp1,386,616 to cover the accumulated losses as of June 30, 2003.

The changes in BRI's Articles of Association in connection with the above decisions from the Stockholder's Extraordinary General Meeting was notarized by deed No. 7 dated October 3, 2003 of Notary Imas Fatimah, S.H., and was approved by the Ministry of Justice and Human Rights with letter No. C-23726 HT.01.04.TH.2003 dated October 6, 2003 (see Note 47f).

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

b. Additional Paid-In Capital

As realization of the recapitalization program for commercial banks set forth in Government Regulation No. 52 of 1999 regarding the Increase in Investments by the Republic of Indonesia in state-owned banks, BRI received the recapitalization amount of Rp29,149,000 in the form of Government bonds in two tranches in their nominal amounts of Rp20,404,300 on July 25, 2000 and Rp8,744,700 on October 31, 2000 (see Note 9). Furthermore, as stated in the Management Contract between the Republic of Indonesia as represented by the Government of the Republic of Indonesia ("Government") through the Ministry of Finance and BRI dated February 28, 2001, the Government determined that the final recapitalization amount to achieve 4% of CAR is Rp29,063,531. BRI returned the excess of recapitalization amounting to Rp85,469 in the form of Government bonds to the Republic of Indonesia on November 5, 2001 (see Note 9). As of December 31, 2002, the authorized and issued capital of BRI has not yet been increased to cover the additional capital from the above recapitalization program. Therefore, the additional capital from the Government amounting to Rp29,063,531 is reported under "Additional Paid-in Capital" together with the previous additional paid-in capital of Rp5 from the Government.

Based on the Decision Letter from the Ministry of Finance No. 427/KMK/2003 dated September 30, 2003 as stated in point (a) above, from the final recapitalization of BRI amounting to Rp29,063,531, Rp3,272,000 is converted to paid-in capital and the remainder of Rp25,791,531 is recorded as additional paid-in capital.

c. Differences in Foreign Currency Translation

This account represents the exchange rate differentials resulting from the translation of the financial statements of the overseas branch/agency (Cayman Islands and New York) from United States Dollars to Indonesian Rupiah (see Note 2aa). Assets and liabilities as well as commitments and contingencies denominated in foreign currencies were translated into Rupiah using the Reuters spot rates at 4.00 p.m. WIB (Western Indonesian time) on June 30, 2003 and December 31, 2002 and 2001, and using the Bank Indonesia middle exchange rates as of December 31, 2000, which were Rp8,265, Rp8,950, Rp10,400 and Rp9,595 to US$1, respectively, all in full amounts). The statements of income for the respective period are derived from the accumulation of the monthly income statement balances which were translated into Rupiah using the average exchange rate for the respective months.

d. Distribution of Net Income

Based on the Stockholder's Annual General Meeting of BRI dated June 25, 2003, June 24, 2002 and June 27, 2001, the Stockholder agreed to distribute net income in 2002, 2001 and 2000 for the following:

	2003	2002	2001
Dividends	762,470	531,946	167,689
General and Special reserves	741,682	450,325	150,705
Appropriation for developing of small-scale Industry and cooperatives	15,249	9,600	8,550
Appropriation for environmental development	1,250	1,038	—

In addition, the stockholder also agreed to give bonuses to the Boards of Directors and Commissioners amounting to Rp4,289 and Rp4,131 taken from the net income of 2002 and 2001, respectively and additional bonuses to employees amounting to Rp66,850 taken from the 2001 net income and also incentives for the Boards of Directors, Commissioners and employees amounting to Rp8,434 taken from the 2000 net income. The bonuses and incentives distribution is reported in the current year's profit and loss.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

28. INTEREST AND INVESTMENT INCOME

Interest and investment income are derived from the following:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Rupiah				
Loans	4,599,971	7,906,482	6,165,124	5,171,171
Government Bonds	1,859,633	3,735,770	3,516,458	1,280,366
Securities				
Bank Indonesia Certificates and Rupiah Intervention	536,914	911,382	322,763	257,681
Others	3,764	11,955	17,656	42,410
Placements with other banks and financial institutions				
Call money	31,076	65,121	41,627	36,714
Certificates of deposits	6	—	19,651	9,892
Others	98,317	163,761	94,383	87,833
	7,129,681	12,794,471	10,177,662	6,886,067
Foreign Currencies				
Loans	124,604	355,086	463,979	461,432
Securities	22,639	34,135	55,819	21,704
Placements with other banks and financial institutions	20,504	35,427	68,174	81,779
Others	14,193	22,471	35,067	48,256
	181,940	447,119	623,039	613,171
Total	7,311,621	13,241,590	10,800,701	7,499,238

29. FEES AND COMMISSIONS INCOME

Fees and commissions income are derived from the following:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Rupiah				
Loans	134,404	205,483	153,739	100,808
Others	85	79	132	100
	134,489	205,562	153,871	100,908
Foreign Currencies				
Loans	819	6,271	13,160	16,005
Total	135,308	211,833	167,031	116,913

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

30. INTEREST AND OTHER FINANCING CHARGES

This account represents interest and other financing charges incurred on the following:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Rupiah				
Time deposits	1,826,940	3,867,950	2,726,766	1,721,185
Savings deposits	1,158,580	2,168,536	1,879,148	1,785,373
Demand deposits	175,139	263,661	192,109	164,240
Deposits from other banks and financial institutions	129,750	56,985	85,607	61,199
Premium paid on government guarantee program (Note 45)	94,348	148,329	150,257	120,527
Life insurance premiums on micro and retail customers	81,776	151,008	159,079	133,739
Fund borrowings	62,455	104,760	112,835	160,710
Securities sold with agreement to repurchase (repo)	14,873	21,704	10,533	—
Certificates of deposits	599	3,045	1,013	787
Others	187,622	365,420	290,987	134,838
	3,732,082	7,151,398	5,608,334	4,282,598
Foreign Currencies				
Fund borrowings	27,616	102,976	222,008	326,911
Time deposits	26,389	77,026	88,674	119,767
Demand deposits	14,344	33,321	47,907	41,114
Others	5,189	8,398	39,217	52,735
	73,538	221,721	397,806	540,527
Total	3,805,620	7,373,119	6,006,140	4,823,125

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

31. REVERSAL OF ALLOWANCE (PROVISION) FOR POSSIBLE LOSSES ON EARNING ASSETS

This account consists of:

	June 30, 2003	2002	December 31, 2001	2000
			(Note 2b)	(Note 2b)
Current account with other banks (Note 5)	(12,274)	9,721	3,332	(17,586)
Placement with Bank Indonesia and other banks and financial institutions (Note 6)	11,361	(176,674)	23,911	(5,922)
Securities (Note 7)	(1,891)	(1,349)	(2,233)	(3,760)
Export bills (Note 8)	7,962	(7,533)	22,367	(17,227)
Securities purchase with agreement to resell (Note 10)	17	1,809	(2,024)	—
Loans (Note 11)	(57,633)	(1,333,962)	(868,470)	1,015,221
Acceptances receivable (Note 12)	(9,548)	15,621	(22,732)	(5,778)
Investments in shares of stock (Note 13)	—	(48,102)	(11,113)	(284,644)
Others	(270)	—	(33,015)	(115,312)
Total	(62,276)	(1,540,469)	(889,977)	564,992

32. SALARIES AND EMPLOYEES' BENEFITS

This account consists of:

	June 30, 2003	2002	December 31, 2001	2000
			(Note 2b)	(Note 2b)
Salaries, wages and allowances	824,222	1,274,157	1,102,500	853,558
Bonuses and incentives	394,570	838,680	405,831	396,901
Defined benefit pension costs (Note 39a)	237,251	138,199	137,408	443,717
Medical allowance	38,613	64,232	62,167	35,284
Training and development	29,492	63,652	44,839	30,340
Gratuity benefit costs (Note 25)	—	—	55,200	73,600
Old-age benefits (Note 39b)	—	—	13,266	314,018
Defined contribution pensions (Note 39c)	—	—	—	178,000
Others	161,067	265,215	140,650	149,370
Total	1,685,215	2,644,135	1,961,861	2,474,788

"Others" include old-age benefits income amounting to Rp24,975 for the six months ended June 30, 2003 and Rp32,260 for the year ended December 31, 2002 (see Note 39b).

Salaries and allowances for the Boards of Directors, Commissioners and executives of BRI amounted to Rp2,868 for the six months ended June 30, 2003 and Rp5,494, Rp5,705 and Rp4,468 for the years ended December 31, 2002, 2001 and 2000, respectively.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Bonuses and incentives for the Boards of Directors, Commissioners and Executives of BRI for the six months ended June 30, 2003 and for the years ended December 31, 2002, 2001 and 2000 are Rp30,347, Rp32,342, Rp21,940 and Rp10,722, respectively.

33. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Rent	106,815	222,184	217,668	268,920
Depreciation (Note 14)	93,108	185,341	146,097	148,171
Repairs and maintenance	69,077	131,900	116,469	83,901
Electricity and water	33,423	59,577	42,461	34,257
Office supplies	32,588	55,198	50,954	16,649
Transportation	30,538	90,756	69,247	36,934
Promotion and product development	23,625	—	40,441	19,825
Communications	22,060	41,630	34,796	36,597
Printing and postage	21,034	48,205	47,041	43,366
Honorarium	15,072	28,932	88,178	71,710
Computer installation	4,510	21,712	12,344	17,401
Others	14,111	196,371	83,869	131,892
Total	465,961	1,081,806	949,565	909,623

34. NON-OPERATING INCOME—NET

This account consists of:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Cash distribution from liquidation result of BRI Finance Limited, Hong Kong (see Notes 2b and 13)	364,582	—	—	—
Rent	1,789	4,202	13,861	6,639
Gain on sale of premises and equipment—net	469	1,608	2,874	908
Others—net	6,496	1,853	8,060	489
Net	373,336	7,663	24,795	8,036

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

35. TAXATION

a) Corporate Income Tax Expense

The reconciliation between income before tax benefit (expense) per statements of income and estimated taxable income for six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000 is as follows:

	June 30, 2003	2002	December 31, 2001	2000
			(Note 2b)	(Note 2b)
Income before tax benefit (expense) per statements of income	1,765,032	1,469,670	1,140,818	335,795
Income before corporate income tax of consolidated Subsidiary (BIP)	—	—	(24,486)	(1,255)
Income before corporate income tax of BRI	1,765,032	1,469,670	1,116,332	334,540
Temporary differences:				
Provision for loan losses	14,553	35,264	458,451	(695,521)
Provision for possible losses on earning assets except loans	(270,075)	426,389	506,049	(12,728)
Depreciation of premises and equipment	(14,550)	(66,717)	(19,677)	43,551
Lease installments	(67,174)	(64,838)	(76,971)	(83,985)
Bonus and incentives	4,289	—	—	—
Income of Subsidiary (Equity Method)	—	(11,348)	(2,506)	—
Increase in value of securities	(205,419)	(432,028)	—	—
	(538,376)	(113,278)	865,346	(748,683)
Permanent differences:				
Rent, repairs and maintenance of house for officer's use	1,252	7,418	10,524	8,214
Representation and donations	4,991	9,645	7,550	5,042
Sports and religious activities	1,677	3,631	2,419	1,440
Loss of Subsidiary (Equity Method)	—	—	—	962,174
Defined benefit pension costs	92,963	—	—	—
Tax expense (see Note 47d)	420,799	—	—	—
Others	7,252	118	90	2,691
	528,934	20,812	20,583	979,561
Estimated taxable income of BRI before estimated tax loss carryforward	1,755,590	1,377,204	2,002,261	565,418
Estimated accumulated tax loss carryforward at beginning of year	(15,439,527)	(16,816,731)	(18,818,992)	(22,694,564)
Adjustment from 1999, 2001 and 2002 tax assessments (see Note 47d)	15,439,527	—	—	—
Adjustment from 1998 tax assessment	—	—	—	3,310,154
Estimated taxable income (Balance of estimated tax loss carryforward)	1,755,590	(15,439,527)	(16,816,731)	(18,818,992)

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The computation of corporate income tax benefit are as follows:

	June 30, 2003	December 31, 2002	December 31, 2001 (Note 2b)	December 31, 2000 (Note 2b)
Estimated taxable income	1,755,590	—	—	—
Corporate income tax expense-current				
Corporate income tax payable (see Note 16)	526,668	—	—	—

For the years ended December 31, 2002, 2001 and 2000, BRI did not provide for corporate income tax expense because the estimated accumulated tax loss carryforward of BRI was more than the estimated taxable income for those years. Under current Indonesian tax regulations, tax losses may be carried forward and utilized to offset taxable income for up to five (5) years after year in which the tax loss was incurred. Based on the latest tax assessments on September 26, 29 and 30, 2003 (see Note 47d), the accumulated tax loss carryforward had been fully utilized until fiscal year 2002.

BRI's taxable income for the years ended December 31, 2002, 2001 and 2000 are the same as BRI's Annual Tax Returns (SPT) and its amendments which were submitted to the Indonesian Tax Office. Under Indonesian taxation laws, BRI submits 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).

b) Tax Assessments

b.1. On September 26, 2003, BRI received tax decision letter No. KEP-357/WPJ.07/BD.03/2003 from the Directorate General of Taxes for corrections of tax decision letter No. KEP-188/WPJ.06/BD.03/2001 dated March 15, 2001. On September 29, 2003, BRI received tax assessment letter No. 00016/506/99/051/03 for its 1999 corporate income tax. On September 30, 2003, BRI also received tax assessments letters No. 0007/506/01/051/03 and No. 0001/206/02/051/03 for its 2001 and 2002 corporate income tax, respectively, and tax decision letter No. KEP-162/WPJ.07/KP.0109/2003 from the Directorate General of Taxes for corrections of tax decision letter No. KEP-103/WPJ.07/BD.0109/2003 dated July 11, 2003 (see Note 47d).

b.2. On April 19, 2002, BRI received tax assessment Letter No. 00106/406/00/051/02 dated April 19, 2002 for its 2000 corporate income tax. The assessment stated that BRI has taxable income of Rp5,159,048, nil corporate income tax in 2000 due to available tax loss carryforward, and an overpayment of corporate income tax of Rp57,102 (see Note 15). This overpayment had been received by BRI on May 24, 2002.

BRI contested the assessment and sent a letter of objection No. 473-DIR/KUI/AMK/07/02 dated July 17, 2002 requesting the tax authorities to reassess the results of the examination. The Directorate General of Taxes through its decision letter No. KEP-103/WPJ.07/KP.0109/2003 dated July 11, 2003 accepted part of BRI's objections. The decision letter stated the taxable income is reduced from Rp5,159,048 to Rp3,250,246. The Directorate General of Taxes issued decision letter No. KEP-162/WPJ.07/KP.0109/2003 dated September 30, 2003 to correct tax decision letter No. KEP-103/WPJ.07/KP.0109/2003 dated July 11, 2003, for the taxable income to become Rp4,398,081 (see Note 47d).

b.3. In decision letter No. KEP.188/WPJ.06/BD.03/2001 dated March 15, 2001 on BRI's tax objection for 1998 overpayment of income tax, the Directorate General of Taxes approved that the tax loss for the year 1998 amounted to Rp16,378,300. As a result, BRI received a tax refund amounting to Rp285,160 in

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

2001 which was recorded in "Other Operating Income" in 2001. Based on the decision letter of the Directorate General of Taxes No. KEP-357/WPJ.07/BD.03/2003 dated September 26, 2003 to correct the decision letter of the Directorate General of Taxes No. KEP-188/WPJ.06/BD.03/2001 dated March 15, 2001, the tax loss for 1998 amounted to Rp18,547,404 (see Note 47d).

b.4. On March 25, 1999, BRI filed an Objection Letter on the tax assessments for 1997 and 1996. On March 22, 2000, the tax office accepted part of BRI's tax objections amounting to Rp44,508 for 1997 and Rp93,876 for 1996. On the other hand, BRI received tax refund of Rp221,934 on August 15, 2000 and the corresponding interest of Rp 54,813 on October 24, 2000 relating to tax objections for 1995 income tax. The tax refund totaling Rp415,131 was recorded under "Other Operating Income—Others" in 2000.

c) **Deferred Tax Assets**
The computation of tax benefit (expense) for deferred tax of BRI (tax effects of temporary differences using 30% maximum tax rate) is as follows (see Note 2ad):

			December 31,	
	June 30, 2003	2002	2001	2000
Provision for possible losses on earning assets	28,456	75,608	156,428	113,771
Estimated losses on commitments and contingencies	20,090	36,437	12,707	(27,363)
Tax loss carryforward	(105,000)	(56,775)	(237,930)	(82,759)
Total estimated deferred tax income (expense)	(56,454)	55,270	(68,795)	3,649

The tax effects on significant temporary differences between commercial reporting and tax purposes (recorded under Deferred Tax Assets) are as follows (see Note 2ad):

			December 31,	
	June 30, 2003	2002	2001	2000
Allowance for possible losses on earning assets	711,084	682,628	607,020	450,591
Estimated losses on commitments and contingencies	88,683	68,593	32,156	19,450
Tax loss carryforward	—	105,000	161,775	399,705
Total	799,767	856,221	800,951	869,746

Tax losses carryforward considered for deferred tax asset computation represent amounts deductible from taxable income for five (5) years since the tax loss was incurred. BRI estimates that out of the accumulated tax losses in 2002, 2001 and 2000 amounting to Rp15,439,527, Rp16,816,731 and Rp18,818,992, respectively, the amounts deductible based on BRI's projected taxable income for the applicable years will only amount to Rp 350,000, Rp539,250 and Rp1,332,350 in 2002, 2001 and 2000, respectively. Accordingly, the deferred tax assets of BRI arising from these tax losses amounted to Rp105,000, Rp161,775 and Rp399,705 as of December 31, 2002, 2001 and 2000, respectively. As a result of tax assessments made by the tax office on September 26, 29 and 30, 2003, BRI's accumulated tax losses carryforward accepted by the tax office was fully utilized in the fiscal year 2002. Accordingly, no deferred tax assets from tax loss carryforward had been recognized as of June 30, 2003 (see Note 47d).

Deferred tax assets resulting from allowance for possible losses on earning assets and estimated losses on commitments and contingencies will be deductible in future years for tax purposes when the reversal of allowance for possible losses and estimated losses on commitments and contingencies and/or write-off on the relevant earning assets and commitments and contingencies occur.

Management believes that no valuation allowance is necessary for the deferred tax asset as of June 30, 2003.

36. RISK MANAGEMENT

On March 8, 2002, BRI's Risk Management Committee (RMC) was organized based on the Decision Letter No. KEP.96-DIR/KMR/03/02. RMC as the highest authority in BRI's risk management system, has members consisting of the Board of Directors and senior management of BRI. The risk management working units in BRI are the Credit Administration Division for credit risk, Treasury Division for market risk and Compliance and Risk Management Division for operational and integrated risks.

Risk Management Process

Risk in BRI is managed using the four-stage approach of identification, measurement, control and monitoring. Any risk that affects and becomes relevant to the bank's activities can be identified and classified into three types such as credit risk, market risk and operational risk.

In 2002, BRI prepared the draft policy manual on risk management (KPMR) to meet the Bank Indonesia Regulation (PBI) No. 2/27/PBI/2000 dated December 15, 2000 on Commercial Banks and PBI No. 5/8/2003 dated on May 19, 2003, on implementation of Risk Management in Commercial Bank. BRI has also prepared risk modules, such as Credit Risk Management (CRM), Market Risk Management (MRM), Operational Risk Management (ORM) and Integrated Risk Management (IRM).

Credit Risk Management

Credit risk is measured in terms of the probability of default in the future. In 2001, BRI put together a set of policies regarding credit risks rating (CRR) which were evaluated and rolled out in 2002. The calculation of the probability of default will be the basis for the calculation of allowance (PPAP), capital (capital at risk), pricing and capital allocation and portfolio management. Credit risk management involves: credit risk control aimed at limiting exposure and enforcing remedial activities so that potential losses can be minimized; the four-eyes principles as one of the methods to control credit risk during the credit approval stage undertaken by each working unit; and the early warning system (EWS) as one of the means to detect the probability of a potential borrower default. These systems will support the overall monitoring process of loans, identification of necessary remedial actions, and enhancement of effective follow-up measures.

Market Risk Management

The assessment of market risk uses the two risk-driver approach, namely, interest rate sensitivity analysis for interest rate risk and net exchange position analysis for foreign exchange rate risk. Market risks are controlled by setting limits especially for trading transactions. These limits include counterparty limit and position limit. The monitoring of market risks involves the monitoring of gap position and net exchange position. Liquidity risk management is included in the market risk management process. Liquidity risk monitoring is performed through maximum cash outflow management.

Operational Risk Management

According to the development phase, the operational risk management is currently focused on improvement in policy and procedures, increase in employees' knowledge by periodic training, internal control and increase in the risk awareness and culture for BRI's management and employees. BRI is currently directing its efforts in improving the function, duties and the responsibilities of internal controllers (IC) in branches to focus more on supporting the on-site risk management process.

The monitoring of operational risk that is currently done through using the report of internal audit, will be gradually changed with the BRI Loss Event Database (LEDB) that is created based on 6 risks categories: Credit Process, Non-Credit Process, Treasury Process, Human Fraud, Information Technology System and External Events for use as tools to have a consolidated as well as systematic and centralized operational risk data. Data in the LEDB will be used as material for analysis and preparation of operational risk profile which will be the basis of the predictive operational risk model. LEDB had been tried out in 24 branches.

Integrated Risk Management
Integrated risk management process in BRI integrates the results of credit risk management, market risk management and operational risk management with the following targets:

1. Protect the bank's capital
2. Optimize risk and return

The integrated risk management process framework starts with the risk identification and measurement under the risk manager. The consolidation of results of risk identification and measurement will be followed by integrated monitoring and control. The integration phase is performed with analysis of results of measurement of capital risk and business profitability. The capital risk is obtained from the simulation of the business profitability under normal through stress conditions. The results of the analysis on capital condition and business profitability will be used as input to the capital management, creation and recommendation on integrated risk policy and procedure and business strategic plan.

The above framework still faces constraints from limited supporting data and information and not yet fully developed credit, market and operational risk management processes such that the implementation process is not yet fully applied.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

37. MATURITY PROFILE

The following table presents the analysis of the maturities of BRI's assets and liabilities from the remaining period up to maturity as of June 30, 2003, December 31, 2002, 2001 and 2000:

			June 30, 2003			
Description	**Total**	**Up to 1 month**	**More than 1 month– 3 months**	**More than 3 months– 1 year**	**More than 1 year**	**Others that have no maturities**
Assets						
Cash	1,959,462	1,959,462	—	—	—	—
Current accounts with Bank Indonesia	4,009,420	4,009,420	—	—	—	—
Current account with other banks	1,723,510	1,723,510	—	—	—	—
Allowance for possible losses	(17,235)	—	—	—	—	(17,235)
Placements with Bank Indonesia and other banks and financial institutions	3,178,011	2,984,793	98,029	95,189	—	—
Allowance for possible losses	(173,294)	—	—	—	—	(173,294)
Securities	8,592,448	7,696,715	728,822	—	166,911	—
Allowance for possible losses	(10,348)	—	—	—	—	(10,348)
Export bills	405,356	252,378	108,355	44,623	—	—
Allowance for possible losses	(4,947)	—	—	—	—	(4,947)
Government bonds	28,007,544	2,018,250	—	—	25,989,294	—
Securities purchased with agreements to resell	19,837	19,837	—	—	—	—
Allowance for possible losses	(198)	—	—	—	—	(198)
Loans	43,487,918	2,782,663	2,772,976	13,569,507	24,362,772	—
Allowance for possible losses	(4,168,806)	—	—	—	—	(4,168,806)
Syariah financing—net	24,232	—	—	—	—	24,232
Acceptances receivable	255,709	154,053	63,232	38,424	—	—
Allowance for possible losses	(25,859)	—	—	—	—	(25,859)
Investments in shares of stock—net	56,917	—	—	—	—	56,917
Premises and equipment—net	1,217,583	—	—	—	—	1,217,583
Deferred tax assets	799,767	—	—	—	—	799,767
Other assets	2,465,884	—	1,531,410	61,480	—	872,994
Total	91,802,911	23,601,081	5,302,824	13,809,223	50,518,977	(1,429,194)
Liabilities						
Short-term liabilities	3,634,664	3,634,664	—	—	—	—
Deposits	74,333,096	61,739,518	5,728,971	6,828,608	35,999	—
Deposits from other banks and financial institutions	1,832,683	1,476,924	355,759	—	—	—
Securities sold with agreement to repurchase	508,406	101,446	406,960	—	—	—
Acceptances payable	255,709	154,053	63,232	38,424	—	—
Fund borrowings	1,501,966	—	22,916	703,882	775,168	—
Estimated losses on commitments and contingencies	295,609	—	—	—	—	295,609
Other liabilities	2,733,606	—	1,256,261	713,958	—	763,387
Subordinated loans	509,501	5,398	1,379	35,539	467,185	—
Total	85,605,240	67,112,003	7,835,478	8,320,411	1,278,352	1,058,996
Maturity gap	6,197,671	(43,510,922)	(2,532,654)	5,488,812	49,240,625	(2,488,190)

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

			December 31, 2002			
Description	**Total**	**Up to 1 month**	**More than 1 month— 3 months**	**More than 3 months— 1 year**	**More than 1 year**	**Others that have no maturities**
Assets						
Cash	2,028,103	2,028,103	—	—	—	—
Current accounts with Bank Indonesia	4,211,589	4,211,589	—	—	—	—
Current account with other banks	496,101	496,101	—	—	—	—
Allowance for possible losses	(4,961)	—	—	—	—	(4,961)
Placements with Bank Indonesia and other banks and financial institutions	5,589,325	5,271,125	255,550	62,650	—	—
Allowance for possible losses	(184,655)	—	—	—	—	(184,655)
Securities	5,598,142	4,710,767	705,457	—	181,918	—
Allowance for possible losses	(8,457)	—	—	—	—	(8,457)
Export bills	356,556	194,073	139,091	23,392	—	—
Allowance for possible losses	(12,909)	—	—	—	—	(12,909)
Government bonds	28,393,561	—	51,682	—	28,341,879	—
Securities purchased with agreements to resell	21,482	21,482	—	—	—	—
Allowance for possible losses	(215)	—	—	—	—	(215)
Loans	39,367,419	3,434,709	2,663,712	10,252,380	23,016,618	—
Allowance for possible losses	(3,913,097)	—	—	—	—	(3,913,097)
Syariah financing—net	5,617	—	—	—	—	5,617
Acceptances receivable	207,903	109,611	47,708	50,584	—	—
Allowance for possible losses	(16,311)	—	—	—	—	(16,311)
Investments in shares of stock—net	54,081	—	—	—	—	54,081
Premises and equipment—net	1,159,221	—	—	—	—	1,159,221
Deferred tax assets	856,221	—	—	—	—	856,221
Other assets	2,140,180	100,598	377,291	410,484	—	1,251,807
Total	86,344,896	20,578,158	4,240,491	10,799,490	51,540,415	(813,658)
Liabilities						
Short-term liabilities	1,887,141	1,887,141	—	—	—	—
Deposits	69,626,656	57,921,763	6,149,157	5,468,748	83,213	3,775
Deposits from other banks and financial institutions	2,060,957	963,337	699,662	397,958	—	—
Securities sold with agreement to repurchase	200,688	—	200,688	—	—	—
Acceptances payable	207,903	109,611	47,708	50,584	—	—
Fund borrowings	3,025,242	—	564,887	955,893	1,504,462	—
Estimated losses on commitments and contingencies	228,644	—	—	—	—	228,644
Other liabilities	2,793,246	—	310,763	1,577,578	—	904,905
Subordinated loans	520,315	11,367	1,380	31,200	476,368	—
Total	80,550,792	60,893,219	7,974,245	8,481,961	2,064,043	1,137,324
Maturity gap	5,794,104	(40,315,061)	(3,733,754)	2,317,529	49,476,372	(1,950,982)

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2001 (Note 2b)					
Description	**Total**	**Up to 1 month**	**More than 1 month— 3 months**	**More than 3 months— 1 year**	**More than 1 year**	**Others that have no maturities**
Assets						
Cash	1,795,739	1,795,739	—	—	—	—
Current account with Bank Indonesia	4,522,236	4,522,236	—	—	—	—
Current accounts with other banks	1,281,068	1,281,068	—	—	—	—
Allowance for possible losses	(15,063)	—	—	—	—	(15,063)
Placements with Bank Indonesia and other banks and financial institutions	3,402,195	3,289,649	100,880	11,666	—	—
Allowance for possible losses	(8,886)	—	—	—	—	(8,886)
Securities	2,515,842	2,355,666	20,800	—	139,376	—
Allowance for possible losses	(7,128)	—	—	—	—	(7,128)
Export bills	441,079	130,925	100,388	209,766	—	—
Allowance for possible losses	(5,409)	—	—	—	—	(5,409)
Government bonds	28,436,257	—	—	2,218,064	26,218,193	—
Securities purchased with agreement to resell	202,392	—	202,392	—	—	—
Allowance for possible losses	(2,024)	—	—	—	—	(2,024)
Loans	33,529,185	1,228,007	2,456,013	11,181,802	18,663,363	—
Allowance for possible losses	(3,963,445)	—	—	—	—	(3,963,445)
Acceptances receivable	272,002	39,678	133,676	98,648	—	—
Allowance for possible losses	(31,932)	—	—	—	—	(31,932)
Investments in shares of stock—net	45,191	—	—	—	—	45,191
Premises and equipment—net	812,532	—	—	—	—	812,532
Deferred tax assets	800,951	—	—	—	—	800,951
Other assets	2,172,413	—	575,587	699,678	57,102	840,046
Total	76,195,195	14,642,968	3,589,736	14,419,624	45,078,034	(1,535,167)
Liabilities						
Short-term liabilities	1,295,978	1,295,978	—	—	—	—
Deposits	57,758,458	45,511,459	8,067,944	2,263,487	1,915,568	—
Deposits from other banks and financial institutions	3,056,446	1,999,617	328,829	728,000	—	—
Securities sold with agreement to repurchase	710,533	—	710,533	—	—	—
Acceptances payable	272,002	39,678	133,676	98,648	—	—
Fund borrowings	5,023,037	—	1,210,631	622,851	3,189,555	—
Estimated losses on commitments and contingencies	107,188	—	—	—	—	107,188
Other liabilities	2,617,844	—	595,332	1,212,746	—	809,766
Subordinated loans	516,979	5,397	1,307	14,941	495,334	—
Total	71,358,465	48,852,129	11,048,252	4,940,673	5,600,457	916,954
Maturity gap	4,836,730	(34,209,161)	(7,458,516)	9,478,951	39,477,577	(2,452,121)

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

			December 31, 2000 (Note 2b)			
Description	**Total**	**Up to 1 month**	**More than 1 month— 3 months**	**More than 3 months— 1 year**	**More than 1 year**	**Others that have no maturities**
Assets						
Cash	1,676,867	1,676,867	—	—	—	—
Current account with Bank Indonesia	2,831,080	2,831,080	—	—	—	—
Current account with other banks	797,443	797,443	—	—	—	—
Allowance for possible losses	(18,395)	—	—	—	—	(18,395)
Placements with Bank Indonesia and other banks and financial institutions	2,875,035	2,529,750	345,285		—	—
Allowance for possible losses	(32,797)	—	—	—	—	(32,797)
Securities	727,528	599,958	—	2,572	124,998	—
Allowance for possible losses	(4,895)	—	—	—	—	(4,895)
Export bills	477,039	141,599	108,572	226,868	—	—
Allowance for possible losses	(27,776)	—	—	—	—	(27,776)
Government bonds	28,981,600	—	—	1,263,407	27,718,193	—
Loans	27,029,959	877,795	1,755,590	7,900,154	16,496,420	—
Allowance for possible losses	(2,770,665)	—	—	—	—	(2,770,665)
Acceptances receivable	285,189	55,583	179,510	50,096	—	—
Allowance for possible losses	(9,200)	—	—	—	—	(9,200)
Investments in shares of stock—net	42,856	—	—	—	—	42,856
Premises and equipment—net	727,890	—	—	—	—	727,890
Deferred tax assets	869,746	—	—	—	—	869,746
Other assets	1,875,150	—	623,250	465,108	57,102	729,690
Total	66,333,654	9,510,075	3,012,207	9,908,205	44,396,713	(493,546)
Liabilities						
Short-term liabilities	2,595,769	2,595,769	—	—	—	—
Deposits	49,216,657	42,162,243	3,872,953	1,718,397	1,463,064	—
Deposits from other banks and financial institutions	1,943,379	791,950	29	—	1,151,400	—
Acceptances payable	285,189	55,583	179,510	50,096	—	—
Fund borrowings	4,558,751	—	—	963,149	3,595,602	—
Estimated losses on commitments and contingencies	55,766	—	—	—	—	55,766
Other liabilities	3,189,658	—	1,064,883	1,482,982	—	641,793
Subordinated loans	420,806	—	—	—	420,806	—
Total	62,265,975	45,605,545	5,117,375	4,214,624	6,630,872	697,559
Maturity gap	4,067,679	(36,095,470)	(2,105,168)	5,693,581	37,765,841	(1,191,105)

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The above assets and liabilities of BRI are spread during the period based on the remaining period of the contracts with customers. Historically, a significant portion from deposits during the year is considered as core funds that on the average are within a certain level during the period/year, consisting of:

	2003	2002	2001	2000
Demand deposits	7,806,315	5,125,000	3,935,000	3,266,000
Saving deposits	28,226,121	25,918,000	22,561,000	18,000,000
Time deposits	28,639,319	22,773,000	18,310,000	16,065,074

The liquidity of BRI and the impact of the changes in interest rates are under control through the stable increase of funds dominant in retail and micro.

BRI has undertaken action to overcome the maturity gap, among others, by decreasing the gap with trying to shift short-term deposits to long-term deposits with positive yield curve against deposit pricing and besides this, undertake a persuasive approach to the funding officers in the operational divisions that has maximum authority limit (to shorten/extend).

38. SEGMENT INFORMATION

The information concerning the geographical segments of BRI are as follows:

	June 30, 2003			
	Domestic	Overseas	Elimination	Total
Earning assets	90,102,504	2,110,701	(2,035,332)	90,177,873
Total Assets	91,940,234	1,946,727	(2,084,050)	91,802,911
Deposits	76,165,588	24,814	(24,623)	76,165,779
Fund borrowings	1,568,913	808,317	(875,264)	1,501,966
Equity	6,197,671	5,297	(5,297)	6,197,671
Interest income—net	3,666,247	11,868	(36,351)	3,641,764
Income from operations	1,423,472	4,575	(36,351)	1,391,696
Net income	1,212,653	5,608	(36,351)	1,181,910

	December 31, 2002			
	Domestic	Overseas	Elimination	Total
Earning assets	82,323,035	2,732,535	(3,020,278)	82,035,292
Total Assets	86,614,849	2,757,663	(3,027,616)	86,344,896
Deposits	71,687,455	28,678	(28,520)	71,687,613
Fund borrowings	2,609,067	2,702,089	(2,285,914)	3,025,242
Equity	5,794,104	15,788	(15,788)	5,794,104
Interest income—net	6,162,753	32,196	(114,511)	6,080,438
Income from operations	1,560,338	16,180	(114,511)	1,462,007
Net income	1,622,709	16,742	(114,511)	1,524,940

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2001				
	Domestic	Overseas	(Note 2b) Subsidiary	Elimination	Total
Earning assets	67,802,264	4,636,836	1,466,390	(3,779,823)	70,125,667
Total Assets	74,920,184	4,683,355	719,622	(4,127,966)	76,195,195
Deposits	60,754,813	27,196	168,070	(135,175)	60,814,904
Fund borrowings	4,598,405	4,598,458	474,830	(4,648,656)	5,023,037
Equity	4,813,704	20,196	68,861	(89,057)	4,813,704
Interest income—net	5,163,047	37,433	38,258	(277,146)	4,961,592
Income from operations	1,354,337	14,390	24,442	(277,146)	1,116,023
Net income	1,296,865	19,687	24,484	(277,146)	1,063,890

	December 31, 2000				
	Domestic	Overseas	(Note 2b) Subsidiary	Elimination	Total
Earning assets	60,244,239	4,536,094	943,051	(4,221,970)	61,501,414
Total Assets	65,272,557	4,623,491	720,573	(4,282,967)	66,333,654
Deposits	51,122,250	44,812	37,623	(44,649)	51,160,036
Fund borrowings	3,600,402	4,491,977	614,053	(4,147,681)	4,558,751
Equity	4,052,786	5,570	44,378	(49,948)	4,052,786
Interest income—net	3,036,195	31,881	21,690	(296,740)	2,793,026
Income from operations	622,244	1,888	1,207	(297,580)	327,759
Net income	629,877	5,891	1,257	(297,997)	339,028

39. PENSION PLAN

a. Defined Benefit Pension Plans

BRI established defined benefit pension plans covering all their eligible employees. Under the plans, pension benefits are to be paid based on the employees' highest pension-base salary and number of years of service.

BRI's pension plan is managed by Dana Pensiun Bank Rakyat Indonesia (DPBRI). The employees' contributions are equivalent to 7% of the employees' pension-base salary and any remaining amount required to fund DPBRI is contributed by BRI. BRI's contributions to the Dana Pensiun amounted to Rp124,856 for the six months ended June 30, 2003 and Rp147,011 and Rp157,446 for the years ended December 31, 2002 and 2001, respectively.

The actuarial calculation of BRI's pension costs as of June 30, 2003 and December 31, 2002 was prepared by PT Dayamandiri Dharmakonsilindo and as of December 31, 2001 was prepared by PT Watson Wyatt Purbajaga, both licensed actuarial consulting firms, using the "Projected Unit Credit" which considers the following assumptions:

	2003	2002	2001
Annual discount rate	10.5%	12.0%	12.0%
Annual pension-base salary growth rate	7.5%	10.5%	10.5%
Annual pension benefit increase rate	4.0%	4.0%	4.0%

The assets of DPBRI principally consist of time deposits, securities and long-term investments in shares of stock and property.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The status of the Pension Plan in 2003, 2002 and 2001 based on actuarial calculation is as follows:

	2003	2002	2001
Assets at fair value	3,446,818	3,161,067	2,708,123
Actuarial liability	(4,007,511)	(3,802,304)	(3,150,315)
Funded status	(560,693)	(641,237)	(442,192)
Unrecognized past service cost	103,064	105,336	100,916
Unrecognized actuarial adjustments	(73,904)	121,034	(82,403)
Unrecognized changes in actuarial assumptions	139,502	—	—
Pension liabilities (Note 25)	(392,031)	(414,867)	(423,679)

Pension expense in 2003, 2002 and 2001 based on actuarial calculation is as follows:

	2003	2002	2001
Current service cost	60,118	80,892	69,088
Interest expense of pension liability	24,892	51,053	53,246
Amortization of unrecognized past service cost	8,178	4,488	15,074
Adjustment of accrual differences	8,832	1,766	—
Pension expense (Note 32)	102,020	138,199	137,408

Unrecognized past service cost and unrecognized actuarial adjustments in assumption for active participants are amortized over 13.55 years, the expected years of service of existing employees as determined by actuary.

b. Old-Age Benefits Plans

In addition, BRI's employees are given old-age benefits based on the employees' latest pension-base salary. BRI's old-age benefits plans is managed by Yayasan Kesejahteraan Pegawai Bank Rakyat Indonesia (YKP-BRI).

The actuarial calculation of BRI's old-age benefits as of June 30, 2003 and December 31, 2002 was prepared by PT Dayamandiri Dharmakonsilindo and as of December 31, 2001 was prepared by PT Watson Wyatt Purbajaga, licensed actuarial consulting firms, using the "Projected Unit Credit" which considers the following assumptions:

Annual discount rate	12.0%
Annual pension-base salary growth rate	5.0%

The status of the old-age benefits in 2003, 2002 and 2001 based on actuarial calculation is as follows:

	2003	2002	2001 (Note 2b)
Assets at fair value	1,066,858	1,010,561	895,675
Present value of defined benefits liability	(796,986)	(711,287)	(749,331)
Old-age benefits funded status	269,872	299,274	146,344
Unrecognized income	(78,766)	(129,936)	(12,442)
Unrecognized decrease in liability at transitions	(87,189)	(104,626)	(134,110)
Prepaid old age benefits (obligation) (Notes 15 and 25)	103,917	64,712	(208)

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

As of June 30, 2003, BRI did not recognize the prepaid old-age benefits as management has no plans to reduce BRI's contributions in the future.

Old-age benefits expense based on actuarial calculation in 2003, 2002 and 2001 are as follows:

	2003	2002	2001
			(Note 2b)
Current service cost	12,142	27,187	33,506
Interest expense	42,022	85,654	77,044
Return of assets expectations	(60,609)	(108,362)	(63,756)
Amortization of decrease in liability at transitions	(17,438)	(34,875)	(33,528)
Current period/year amortization	(1,092)	—	—
Adjustment of accrual differences	—	(1,864)	—
Old-age benefits expense (benefits) (Note 32)	(24,975)	(32,260)	13,266

c. Defined Contribution Pension Plan

BRI also established defined contribution pension plan for employees in accordance with the BRI's Board of Directors decision which is effective since October 2000. BRI has made initial allowance contributions amounting to Rp178,000 (see Note 25). BRI's defined contribution pension plan is managed by Dana Pensiun Lembaga Keuangan PT Manulife Indonesia.

d. KEP-150/MEN/2000 and Labor Law No. 13/2003

The actuarial calculation of BRI's liability for the provision of settlement of work dismissal and determination of separation, gratuity and compensation payment of by the companies under the decree of Ministry of Manpower No. Kep-150/Men/2000 (KEP-150) as of June 30, 2003 and December 31, 2002 was prepared by PT Dayamandiri Dharmakonsilido and December 31, 2001 was prepared by PT Watson Wyatt Purbajaga, both licensed actuarial consulting form, using the "Projected Unit Credit" which considers among others, the following assumptions:

	2003	2002	2001
Annual discount rate	9.5%	12.0%	12.0%
Future salary increase	7.5%	10.5%	10.5%
Decrements:			
• Mortality (Using Commissioners Standards Ordinary (CSO))	CSO 1958	CSO 1958	CSO 1958
• Disability	10% of CSO 1980	10% of CSO 1980	10% of CSO 1980
• Resignation	Using age range for turn over rate	Using age range for turn over rate	Using age range for turn over rate
Normal retirement age	56 years	56 years	55 years

Based on the actuarial report, BRI made allowance for KEP-150 amounting to Rp63,646, Rp48,365 and Rp35,943 as of June 30, 2003 and December 31, 2002 and 2001, respectively, and recorded in Other Liabilities (see Note 25).

On March 25, 2003, Labor Law No. 13 year 2003 (UU No. 13/2003) was enacted. Management believes that the existing employee benefits consisting of defined benefit plan, defined contribution plan, old-age benefits and KEP-150 benefit are sufficient to meet the minimum requirements of this labor law.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

40. INFORMATION OF COMMITMENTS AND CONTINGENCIES

The significant information of commitments and contingencies are as follows:

a. Commitments and contingencies transactions

	June 30, 2003	December 31, 2002	December 31, 2001	December 31, 2000
			(Note 2b)	(Note 2b)
Commitments				
Commitment Receivables				
Spot foreign currencies bought (Note 24)	102,444	8,950	10,400	52,773
Unused fund borrowings facility	—	—	32,327	141,991
Forward foreign currencies bought (Note 24)	1,239,750	—	—	1,026,665
Total Commitment Receivables	1,342,194	8,950	42,727	1,221,429
Commitment Liabilities				
Unused credit facility granted	6,722,240	7,446,713	4,344,458	3,926,275
Outstanding irrevocable letters of credit (Note 24)	2,758,266	1,470,496	637,329	837,841
Forward foreign currencies sold	24,795	—	52,000	—
Spot foreign currencies sold	259,459	8,950	20,800	52,773
Total Commitment Liabilities	9,764,760	8,926,159	5,054,587	4,816,889
Commitments—net	(8,422,566)	(8,917,209)	(5,011,860)	(3,595,460)
Contingencies				
Contingent Receivables				
Interest receivables on nonperforming loans	1,080,828	932,547	753,835	599,975
Guarantees received in the form:				
Standby L/C	223,323	401,978	34,470	68,249
Total Contingent Receivables	1,304,151	1,334,525	788,305	668,224
Contingent Liabilities				
Guarantees issued in the form: (Note 24)				
Standby L/C	33,353	39,982	647,708	1,159,279
Bank guarantees and risk sharing	243,753	377,124	536,251	631,096
Total Contingent Liabilities	277,106	417,106	1,183,959	1,790,375
Contingencies—net	1,027,045	917,419	(395,654)	(1,122,151)
Commitments and Contingencies—Net	(7,395,521)	(7,999,790)	(5,407,514)	(4,717,611)

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

b. Derivative Transactions
As of June 30, 2003, BRI had outstanding derivative transactions as follows:

• *Forward Foreign Currencies Bought Contract*

	Nominal Original Currency (US$)	Rupiah Equivalent	Contract Amount
The Hongkong Shanghai Banking Corporation, Ltd.	26,000,000	214,890	215,582
Citibank, NA	21,500,000	177,698	177,345
American Express Bank, Ltd.	17,500,000	144,637	145,511
PT Bank Negara Indonesia (Persero), Tbk	17,000,000	140,505	141,840
ABN-AMRO Bank, N.V.	17,000,000	140,505	141,183
PT Bank Central Asia, Tbk	12,000,000	99,180	99,857
PT Mandiri (Persero)	12,000,000	99,180	99,360
PT Lippo Bank, Tbk	11,000,000	90,915	91,240
Standard Chartered Bank	5,000,000	41,325	41,747
PT Bank Danamon Indonesia, Tbk	5,000,000	41,325	41,309
Sumitomo Mitsui Indonesia	3,000,000	24,795	25,048
Deutsche Bank AG	3,000,000	24,795	24,866
Total	150,000,000	1,239,750	1,244,888

These contracts were due on various dates, the latest on August 1, 2003.

• *Forward Foreign Currencies Sold Contract*
BRI had outstanding forward foreign currency sold contracts in United States Dollar (US$) with PT UFJ-BRI Finance, a related party, with total notional amount of US$3,000,000 and contract amount of Rp24,825. These contracts were due on July 9, 2003 and July 14, 2003. The unrealized loss on these transactions amounting to Rp877 was recorded under Other Liabilities-Others (see Note 25).

As of December 31, 2002, BRI has no outstanding derivative transactions.

BRI's outstanding derivative transactions as of December 31, 2001 and 2000, are as follows:

• *Forward Foreign Currencies Sold Contract*
As of December 31, 2001, BRI had outstanding forward foreign currency sold contract in United States Dollar (US$) with PT UFJ-BRI Finance, a related party, with a notional amount of US$5,000,000 and contract amount of Rp51,110. This contract was due on January 4, 2002. The unrealized loss on this transaction amounting to Rp952 was recorded under Other Liabilities—others (see Note 25).

• *Interest Rate Swaps*
As of December 31, 2001 and 2000, BRI's New York Agency had an outstanding interest rate swap transaction with notional amount of US$5,500,000 with foreign financial institution. Based on the contract, BRI paid annual fixed interest at the rate of 8.14% and received floating interest based on six months LIBOR plus 1.5%. The interest rate swap matured on January 29, 2002. The differences between the notional principal amount and the fair value amount on such transaction as of December 31, 2001 was not presented in the consolidated balance sheets of BRI since the amount is immaterial.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

41. NET OPEN POSITION

Based on the prevailing Bank Indonesia regulations, the net open position represents the total of absolute amounts of the net differences between assets and liabilities denominated in foreign currency in the balance sheet and administrative accounts.

The following is BRI's net open position:

	June 30, 2003 (Notes 2c and 3)					
	Assets		Liabilities		Net Open Position	
	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah
United States Dollar	1,079,083,345	8,918,624	1,009,621,631	8,344,523	69,461,714	574,101
European Euro	123,477,987	1,168,560	123,843,594	1,172,020	365,607	3,460
Australian Dollar	1,152,241	6,364	883,735	4,881	268,506	1,483
Singapore Dollar	5,293,810	24,888	95,079	447	5,198,731	24,441
UK Pounds Sterling	1,946,060	26,575	122,146	1,668	1,823,914	24,907
Japanese Yen	1,830,525,264	126,434	557,568,554	38,511	1,272,956,710	87,923
Others		27,898		3,152		24,746
Total NOP Absolute		10,299,343		9,565,202		741,061
Equity (Before Quasi-Reorganization)						5,636,177
NOP percent to equity (Before Quasi-Reorganization)						13.15%
Equity (After Quasi-Reorganization)						6,255,360
NOP percent to equity (After Quasi-Reorganization)						11.85%

	December 31, 2002					
	Assets		Liabilities		Net Open Position	
	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah
United States Dollar	1,240,785,011	11,105,026	1,219,667,101	10,916,021	21,117,910	189,005
European Euro	11,628,941	108,940	6,133,503	57,459	5,495,438	51,481
Australian Dollar	3,233,155	16,386	517,470	2,623	2,715,685	13,763
Singapore Dollar	4,794,664	24,712	2,014,946	10,385	2,779,718	14,327
UK Pounds Sterling	1,655,671	23,850	454,641	6,549	1,201,030	17,301
Japanese Yen	2,133,222,856	160,909	1,031,591,542	77,813	1,101,631,314	83,096
Others		29,517		4,558		24,959
Total NOP Absolute		11,469,340		11,075,408		393,932
Equity						5,052,482
NOP percent to equity						7.79%

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	December 31, 2001					
	Assets		Liabilities		Net Open Position	
	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah
United States Dollar	890,384,814	9,260,002	858,526,861	8,928,679	31,857,953	331,323
European Euro	7,354,675	67,578	96,578	888	7,258,097	66,690
Australian Dollar	606,029	3,218	7,918	42	598,111	3,176
Singapore Dollar	1,180,166	6,634	118,907	668	1,061,259	5,966
UK Pounds Sterling	835,078	12,593	283,024	4,268	552,054	8,325
Japanese Yen	663,092,242	52,488	17,059,052	1,350	646,033,190	51,138
Others		13,056		33,544		20,488
Total NOP Absolute		9,415,569		8,969,439		487,106
Equity						4,273,058
NOP percent to equity						11.40%

	December 31, 2000					
	Assets		Liabilities		Net Open Position	
	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah
United States Dollars	1,124,079,136	10,785,539	1,102,705,934	10,580,463	21,373,202	205,076
Japanese Yen	642,266,962	53,674	4,782,936	399	637,484,026	53,275
European Euro	6,044,316	53,866	297,685	2,653	5,746,631	51,213
UK Pound Sterling	1,152,784	16,484	365,550	5,227	787,234	11,257
Singapore Dollars	1,080,340	5,984	110,813	614	969,527	5,370
Australian Dollars	11,110	59	50,100	266	38,990	207
Others		338,339		10,209		328,130
Total NOP Absolute		11,253,945		10,599,831		654,528
Equity						3,763,964
NOP percent to equity						17.39%

42. RELATED PARTY TRANSACTIONS

Related parties are the management or key personnel of the Bank and entities that are owned directly or indirectly by the Bank.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

Related by ownership and/or management:

Related parties	Nature of relationship
— BRI Finance Limited, Hong Kong	— Ownership
— PT UFJ-BRI Finance	— Ownership
— PT Bank Inter-Pacific Tbk	— Ownership
— UFJ Bank Limited, Singapore	— Ownership
— PT Bringin Srikandi Finance	— Ownership with Dana Pensiun Bank Rakyat Indonesia
— PT Bringin Indotama Sejahtera Finance	— Ownership with Dana Pensiun Bank Rakyat Indonesia
— Dana Pensiun Bank Rakyat Indonesia	— Management
— Yayasan Kesejahteraan Pegawai Bank Rakyat Indonesia	— Management

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

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Assets				
Current account with other banks (Note 5)				
BRI Finance Limited, Hong Kong	—	—	2,279	9,191
Placement with Bank Indonesia and other banks and financial institutions (Note 6)				
BRI Finance Limited, Hong Kong	—	—	—	28,786
PT UFJ-BRI Finance	—	—	56,266	1,761
PT Bank Inter-Pacific Tbk	153,044	165,728	—	—
Loans (Note 11)				
PT Bringin Srikandi Finance	138,511	157,196	129,739	154,928
PT Bringin Indotama Sejahtera Finance	29,055	—	—	—
BRI Finance Limited, Hong Kong	—	—	—	61,506
Others	22,718	21,886	23,046	22,500
Investment in shares of stocks (Note 13)				
PT UFJ-BRI Finance	55,278	52,442	43,590	41,084
PT Bank Inter-Pacific Tbk	48,487	48,487	—	—
BRI Finance Limited, Hong Kong	—	—	—	284,635
Total assets from related parties	447,093	445,739	254,920	604,391
Total Assets	91,802,911	86,344,896	76,195,195	66,333,654
Percentage of assets from related parties to total assets	0.49%	0.52%	0.33%	0.91%

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Liabilities				
Demand deposits (Note 17)	3,382	2,825	22,256	1,723
Savings deposits (Note 18)	348	420	—	—
Time deposits (Note 19)	187,668	125,670	550,831	449,309
Deposits from other banks (Note 21)				
BRI Finance Limited, Hong Kong	—	339,461	387,776	—
Fund borrowings (Note 23)				
PT Bringin Srikandi Finance	128,190	145,433	111,304	136,196
PT Bringin Indotama Sejahtera Finance	14,893	5,087	11,220	29,204
PT UFJ-BRI Finance	123	1,029	7,543	13,100
UFJ Bank Limited, Singapore	—	—	121,992	112,549
Dana Pensiun Bank Rakyat Indonesia	45,226	45,226	60,301	75,376
Total liabilities to related parties	379,830	665,151	1,273,223	817,457
Total Liabilities	85,605,240	80,550,792	71,358,465	62,265,975
Percentage of liabilities to related parties	0.44%	0.83%	1.78%	1.31%
Salary, allowance and bonuses of the Boards of Directors and Commissioners and Executive Officers (Note 32)	2,868	5,494	5,705	4,468

The following table presents certain related party items expressed as a percentage of BRI's total assets and liabilities:

	June 30, 2003	December 31, 2002	2001	2000
			(Note 2b)	(Note 2b)
Assets				
Current accounts with other banks (Note 5)	—%	—%	0.00%	0.01%
Placements with Bank Indonesia and other banks and financial institutions (Note 6)	0.17	0.19	0.07	0.05
Loans (Note 11)	0.21	0.21	0.20	0.36
Investment in shares of stocks (Note 13)	0.11	0.12	0.06	0.49
Total	0.49%	0.52%	0.33%	0.91%
Liabilities				
Demand deposits (Note 17)	0.00%	0.00%	0.03%	0.00%
Savings deposits (Note 18)	0.00	0.00	—	—
Time deposits (Note 19)	0.22	0.16	0.77	0.72
Deposits from other banks and financial institutions (Note 21)	—	0.43	0.54	—
Fund borrowings (Note 23)	0.22	0.24	0.44	0.59
Total	0.44%	0.83%	1.78%	1.31%

43. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

a. Management Contract

In connection with BRI's recapitalization, a Management Contract was signed between the Government acting through the Minister of Finance and the members BRI's boards of directors and commissioners (the "Management Contract"). BRI has ongoing obligations to the Government under the Management Contract.

Pursuant to the Management Contract, BRI adopted a business plan establishing certain performance targets and related time frames for, among other things:

- the strict control of overhead expenses
- the divestment of non-agribusiness corporate loans in order to reduce the portion of corporate loans to the maximum of 20% of the total loan portfolio
- the divestment of share ownership in PT Bank Inter-Pacific Tbk
- the reduction of non-performing loans
- the implementation of a new information technology system.

The Management Contract also provides that a special committee established under the Ministry of Finance must monitor the implementation of the business plan and the board of directors must file quarterly reports with the Ministry of Finance setting out the progress and any problems BRI has encountered in achieving the targets specified in the business plan. Under the Management Contract, the board of directors and board to commissioners are required to ensure that BRI operates in accordance with the business plan. If BRI defaults on commitments as stipulated in the Management Contract, the consequences are the replacement of the board of directors and commissioners or adjustment of the targets if the reasons for non-achievement are beyond BRI's control. The Management Contract will expire on December 31, 2003, however, the Management Contract maybe extended by the Ministry of Finance by at least one year.

b. Paying Agent Assignment

In 1999, BRI entered into an agreement with the Indonesian Bank Restructuring Agency (IBRA) No. 62/BPPN/SP/1999—No. 221-DIR/RTL/DOK/1999 dated March 25, 1999 and No. 75/BPPN/SP/1999 dated March 31, 1999, whereby IBRA appointed BRI as paying agent for payments to guaranteed customers of banks whose operations had been suspended (BBKO and BBKU). In 2003, all activities as Paying Agent for guaranteed customers of BBO ceased and BRI received fees amounting to Rp123,649 which was recorded in "Other Operating Income—Others". In 2001, all activities as Paying Agent for guaranteed customers of BBKU ceased and BRI received fee amounting to Rp256,643 which was recorded in "Other Operating Income—Others".

c. Transfer of Loans Written-off Below Rp5 billion and Other Loans Written-off to IBRA

In connection with the recapitalization program for commercial banks, on March 31, 1999 and December 31, 1999, BRI entered into an Earnings Assets Transfer Agreement with IBRA based on the Joint Decree of the Minister of Finance No. 53/KMK.017/1999 and the Governor of Bank Indonesia No. 31/12/KEP.GBI/1999 dated February 8, 1999. Under the agreement, BRI transferred most of its loss category earning assets with individual amounts of Rp5,000 and above to IBRA. The assets were transferred at zero price as indicated in the agreement.

On November 26, 2002, the Committee on Financial Sector Policy (Komite Kebijakan Sektor Keuangan or KKSK) issued a Decree No. KEP.01/K.KKSK/11/2002 stating that all loans had been written-off should be transferred to IBRA in 2002 and IBRA would exchange the loans with recapitalization bonds (Assets Bond Swap) with a value of 10% of the total transferred loans. Total loans below Rp5 billion that had been written-off by BRI amounting to Rp2,381,900. In addition, BRI also had other loans with individual amountings of Rp5 billion and above which had been written-off amounting Rp112,829 but were not transferred to IBRA during the recapitalization program. In accordance with the Assets Bond Swap, BRI is entitled to future recoveries related to such loans under this agreement.

Following the KSKK Decree, BRI entered into Sell-Buy Agreement No. 7256/L/XII/2002 and Exchange and Cessie Agreement No. 7257/L/XII/2002 dated December 18, 2002 with IBRA which was notarized by DR. H. Teddy Anwar. SH. Spn, BRI transferred written-off loans amounting to Rp2,494,729 and then repurchased the loans with Government Bonds (series FR0003) amounting to Rp249,473 (at nominal amount) (see Note 9c and 11e).

d. Integrated Banking Solution

On April 30, 2000, BRI entered into a License Agreement with PT Silverlake Informatikama for the Implementation of Silverlake Integrated Banking Solution, called "BRINETS". The scope of implementation based on the agreement includes Licensed Programs, Application Support Services, Pilot Branch Implementation and Software Maintenance Services for an approximate contract value of US$7.5 million. The project was completed in 2002.

e. Procurement and Installation of Automatic Teller Machines (ATM)

In 2000, BRI entered into a agreement with PT Diebold Indonesia for the procurement and installation of 385 units of ATMs for contract value of US$6,583,500 (full amount). As of June 30, 2003, all ATMs had been received and installed.

f. Communication Services Agreement

In 2003, BRI entered into an agreement with PT Citra Sari Makmur in relation to SATCOM services/ communication services from July 1, 2003 through June 30, 2006 for contract value of Rp207,787.

g. Procurement and Installation of IBM AS/400

On July 7, 2003, BRI entered into an agreement with PT Mitra Infosarana for the procurement of IBM AS/400 machinery for contract value of US$12,855,000. As of September 30, 2003, all IBM AS/400 machinery had been received and installed.

h. Contingent Liabilities

In the ordinary course of business, BRI is a defendant in various litigation actions and claims mainly with respect to matters of contractual compliance. Although there can be no assurances, BRI 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 June 30, 2003 and December 31, 2002, 2001 and 2000, BRI has provided a provision (included in "Other Liabilities") for several pending lawsuits filed against BRI amounting to Rp144,408, Rp177,422, Rp177,911 and Rp177,911, respectively (see Note 25). Management believes that the provision is adequate to cover possible losses arising from pending litigation, or litigation cases currently in progress.

44. ECONOMIC CONDITIONS

In recent years, the economic conditions in Indonesia have shown indications of improvement, including the stabilization of the Rupiah exchange rate and the significant decrease in interest rates. The economic conditions in Indonesia still continue to be affected by the uncertainty in social and political conditions.

The economic conditions have affected the ability of bank customers in Indonesia, including BRI's customers, to fulfill their obligations when they mature. In addition to the allowance for possible losses on earning assets and estimated losses on commitments and contingencies amounting to Rp4,745,121 recorded by BRI as of June 30, 2003, there could be additional losses in future periods that would be recognized when they are probable and estimable.

In response to these economic conditions, BRI has adopted a Business Plan to improve BRI's business performance and to comply with prudent practices. The Bank's strategies outlined in the business plan, include among others:

- Assets rehabilitation plans, especially on the quality of the loans granted, whether through restructuring of existing loans or preventing new bad loans by segregation of function;
- Extension of credit with focus on micro/retail businesses;
- Use of information technology to increase operating efficiency;
- Enhancement and strengthening of risk management systems to manage credit, market and operational risks; and
- Increase service network and enhance product delivery capabilities.

BRI also continues to maintain firm control on overhead cost.

BRI expects to improve its performance through the consistent implementation of the business plan and management is fully committed to implement the measures and meet the targets (see Note 43a).

The financial statements for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000 include the effects of the 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 Government, actions that are beyond the control of BRI. It is not possible to determine the future effects of the economic conditions on BRI's earnings and realization of its earning assets, including the effects of funds flowing through and from BRI's customers, depositors, creditors and stockholders.

45. GOVERNMENT GUARANTEE ON OBLIGATIONS OF COMMERCIAL BANKS

Based on Presidential Decree No. 26 of 1998 as implemented by the Decree of the Minister of Finance dated January 28, 1998 and the Joint Decrees of the Director of Bank Indonesia and Head of IBRA No. 30/270/KEP/DIR and No. 1/BPPN/1998 dated March 6, 1998, the Government of Indonesia provided a guarantee on certain obligations of locally incorporated commercial banks. Based on the latest amendment under the Decree of the Minister of Finance No. 179/KMK.017/2000 dated May 26, 2000, the guarantee is valid from January 26, 1998 up to January 31, 2001 and with automatic extension of the guarantee period every 6 (six) months, unless there is a notice from the Minister of Finance within at least six months before the maturity of the guarantee period or its extension period which the Minister of Finance will announce to end or change the guarantee program to the public. For this guarantee, the Government charges premium which is computed based on a certain percentage in accordance with the prevailing regulations (see Note 30).

On the other hand, based on the Minister of Finance Decree No. 179/KMK.017/2000 mentioned above, the participating banks under the guarantee program should request approval from stockholders not to distribute dividends to the stockholders during the guarantee period, or as long as the liabilities of the participating banks to the Government under the guarantee program have not been paid, as further regulated by IBRA.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

46. OTHER DISCLOSURES

a. Capital Adequacy Ratio (CAR)

Based on Bank Indonesia regulation No. 3/21/PBI/2001 dated December 13, 2001 on Capital Adequacy Ratio of commercial banks, the minimum CAR should be 8% by the end of 2001 and 4% for the years before 2001.

As of June 30, 2003 and December 31, 2002, 2001 and 2000, BRI's CAR reached to 14.75% (after quasi-reorganization), 12.62%, 13.32% and 14.35%, respectively.

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

The calculation of BRI's CAR as of June 30, 2003 and December 31, 2002, 2001 and 2000 is as follows:

	June 30, 2003		December 31,		
	Before Quasi-Reorganization	After Quasi-Reorganization	2002	2001	2000
	(Notes 2c and 3)			(Note 2b)	(Note 2b)
Core capital					
Paid up capital	5,000,000	5,000,000	1,728,000	1,728,000	1,728,000
Additional paid-in capital	25,791,536	1,092,149	29,063,536	29,063,536	29,063,536
Appropriated retained earnings	—	—	644,935	194,609	43,904
Differences in foreign currency translation	104,736	104,736	104,110	106,065	232,799
Additional capital reserve					
Previous retained earnings (-/-)	(26,737,519)(*)	—	(28,141,948)(*)	(28,212,930)(*)	(28,221,364)(*)
Current profit after tax (50%)	619,182	—	734,835	566,343	167,690
Deferred tax assets	—	(799,767)	—	—	—
Total core capital	4,777,935	5,397,118	4,133,468	3,445,623	3,014,565
Supplementary Capital (maximum 100% of Core Capital)					
Revaluation increment on premises and equipment	786	786	786	786	786
Classified assets allowance (1.25% RWA)	453,376	453,376	500,498	400,957	327,806
Subordinated loans	509,501	509,501	520,315	516,979	420,807
Total supplementary capital	963,663	963,663	1,021,599	918,722	749,399
Less:					
Investments in shares of stock	(105,421)(**)	(105,421)(**)	(102,585)(**)	(91,288)(**)	—
Total Core Capital and Supplementary Capital	5,636,177	6,255,360	5,052,482	4,273,057	3,763,964
Risk Weighted Assets (RWA)	42,413,585	42,413,585	40,039,824	32,076,538	26,224,447
Total CAR					
Available	13.29%	14.75%	12.62%	13.32%	14.35%
Required	8.00%	8.00%	8.00%	8.00%	4.00%

(*) *Excluding deferred tax assets effect amounting to Rp856,221, Rp800,951, Rp869,746 and Rp866,096 as of June 30, 2003 (before Quasi-Reorganization) and December 31, 2002, 2001 and 2000 respectively.*

(**) *Based on Bank Indonesia regulation No. 3/21/PBI/2001 dated December 13, 2001, Bank Indonesia has revised Capital Adequacy ratio calculation effective from the date of the issuance of the regulation to decrease investments in shares of stock in subsidiaries from banks' capital.*

(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

b. Net Open Position (NOP)

Based on the Bank Indonesia Decision Letter (SKBI) No. 31/178/KEP/DIR dated December 31, 1998, starting June 30, 2000, commercial banks are allowed to maintain NOP (in balance sheet and administrative accounts) up to a maximum of 20% of capital.

As of June 30, 2003 and December 31, 2002, 2001 and 2000, BRI's net open position were 11.85% (after quasi-reorganization), 7.79%, 11.40% and 17.39% of equity, respectively (see Note 41).

c. Legal Lending Limit (LLL)

Based on decision letter No. 31/177/KEP/DIR dated December 31, 1998 of the Directors of Bank Indonesia regarding the legal lending limit of commercial banks, the maximum legal lending limit is as follows:

1. Related party

➤ 10% of capital, for individuals and/or group debtors.

➤ 10% of capital, for the total related parties.

2. Third party

For individuals and/or group debtors, the maximum amounts are as follows:

➤ 30% of capital from December 31, 1998 up to December 31, 2001.

➤ 25% of capital from January 1, 2002 up to December 31, 2002.

➤ 20% of capital from January 1, 2003 up to December 31, 2003.

Based on the legal lending limit report submitted to Bank Indonesia as of June 30, 2003 and December 31, 2002, 2001 and 2000, BRI has reported no excess in legal lending limit requirement both from related parties and third parties. As of December 31, 2001, BIP (Subsidiary) has exceeded the legal lending limit requirement to 31 (thirty-one) debtors and/or group debtors at the exceeded amount ranging from Rp1,400 (3.24%) to Rp60,419 (139.95%) (see Note 11e).

d. Non-performing Loans (NPL)

Based on Bank Indonesia regulation No. 2/11/PBI/2000 dated March 31, 2000, the ratio of non-performing loan should be within the maximum of 5% of bank's total loans. As of June 30, 2003 and December 31, 2002, 2001 and 2000, BRI's non-performing loans to total loans ratio are as follows (BRI only):

		December 31,		
	June 30, 2003	2002	2001	2000
Gross NPL ratio (Note 11e)	6.70%	6.74%	4.93%	4.96%
Net NPL ratio	3.15%	3.15%	2.72%	2.52%

Net NPL ratio is calculated by NPL net of minimum provision in accordance with Bank Indonesia regulations to total gross loans.

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)
June 30, 2003 and December 31, 2002
With Comparative Figures for 2001 and 2000
(Expressed in Millions of Rupiah, Except Share Data or Otherwise Stated)

e. Classified Earning Assets Ratio

Collectibility	June 30, 2003	December 31, 2002
Special Mention	4,819,211	4,965,259
Substandard	1,183,006	577,988
Doubtful	954,847	1,664,606
Loss	1,248,164	869,431
Total classified earnings assets	8,205,228	8,077,284
Total earning assets	90,177,873	82,035,292
Ratio	9.10%	9.85%

Collectibility	December 31, 2001			December 31, 2000		
	BRI	BIP	Consolidated	BRI	BIP	Consolidated
		(Note 2b)			(Note 2b)	
Special Mention	5,434,192	245,782	5,679,974	5,735,299	334,909	6,070,208
Substandard	450,668	121,616	572,284	435,234	19,190	454,424
Doubtful	1,035,138	51,404	1,086,542	597,027	—	597,027
Loss	157,236	673,157	830,393	623,815	194,505	818,320
Total classified earnings assets	7,077,234	1,091,959	8,169,193	7,391,375	548,604	7,939,979
Total earning assets	68,897,963	1,466,390	70,125,667	60,765,786	943,051	61,501,414
Ratio	10.27%	74.47%	11.65%	12.16%	58.17%	12.91%

f. Custodial Operations

BRI has rendered custodial services since 1996 based on operating license for custodial services on BAPEPAM Decision Letter No. 91/PM/1996 dated April 11, 1996.

The custodial services business which is part of the Treasury Division provides a full range of custodial services such as:

- Safekeeping services
- Settlement/transaction handling
- Income collection
- Corporate actions and proxy services
- Reporting services.

BRI has 25, 19, 14 and 13 custodial operations customers in 2003, 2002, 2001 and 2000, respectively. The customers are primarily pension funds, finance institutions, securities companies, mutual funds and other companies.

The custodial fees and commission earned in for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000 amounted to Rp935, Rp1,229, Rp796 and Rp710, respectively.

g. Trust Operations

BRI has rendered trust services since 1990. The operating license of BRI for trust services has been approved by the Minister of Finance decision letter No. 1554/KMK.013/1990 dated December 6, 1990 and registered to BAPEPAM in conformity with its operating license for trust services No. 08/STTD-WA/PM/1996 dated June 11, 1996.

The trust services business which is part of the Treasury Division provides a full range of trust services such as:

➤ Trust services

➤ Security agent

➤ Payment agent

➤ Sinking fund agent.

BRI has 11 and 10 operations customers in 2003 and 2002, respectively and 6 in 2001 and 2000. The total value of bonds issuance on behalf of bonds issuers managed by BRI amounted to Rp7,350,000 and Rp5,950,000 in 2003 and 2002 and Rp1,600,000 in 2001 and 2000.

The fees and commission on trust services and other related services (payment agent) earned for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000 amounted to Rp1,271, Rp1,236, Rp1,021 and Rp1,358, respectively.

47. SUBSEQUENT EVENTS

a. Plans for Initial Public Offering (IPO) of Shares

Based on the plan for BRI's initial public offering (''IPO'') of shares during the second semester of the year 2003, as stipulated in the 2002 Annual Stockholder's Meeting of BRI, on September 8, 2003, the Parliament of Republic Indonesia (DPR) in its letter No. PW.001/4690/DPR RI/2003 approved the privatization of BRI through the IPO.

b. Divestment of PT Bank Inter-Pacific Tbk

Based on the minutes of the Stockholders' Extraordinary General Meeting for PT Bank Inter-Pacific Tbk (''BIP'') (BRI's subsidiary held for divestment, see Note 13) dated September 15, 2003, BRI, UFJ Bank Limited and Credit Commercial de France (the ''stockholders''), approved two (2) potential buyers of their shares in BIP. The stockholders appointed the board of directors of BIP to obtain approval from Bank Indonesia of the potential buyers.

c. Issuance of Subordinated Notes

On September 25, 2003, BRI, acting through its Cayman Island Branch, issued US$150,000,000 (full amount) Subordinated Notes (the ''Notes'') listed on the Singapore Exchange. The Notes were issued at 99.471% of their principal amount. The Notes bear interest at 7.75% per annum from and including September 25, 2003 to but excluding September 25, 2008, if notice of redemption has not been given prior to such date, or October 30, 2008 if notice has been given, and interest will be payable semi-annually in arrears on March 25 and September 25 of each year, commencing March 25, 2004. Unless the notes are previously redeemed, the interest rate from and including September 25, 2008 to but excluding October 30, 2013 will be reset at the U.S. Treasury Rate plus 7.24% per annum and interest will be payable semi-annually in arrear on March 25 and September 25 of each year commencing March 25, 2009 except the Notes are redeemed. The Notes will mature on October 30, 2013, if not redeemed earlier.

The net proceeds of the issue of the Notes will be used for general corporate purposes, including to provide additional Tier II capital to strengthen BRI's capital base. The Notes constitute unsecured and subordinated obligations of BRI and will rank *pari passu* and without preference among themselves, but in priority to the rights and claims of holders of all classes of BRI's equity securities, including holders of preference shares, if any.

The issuance and classification of the Notes as Subordinated Debts have been approved by Bank Indonesia ("BI"), through its letter No. 5/426/DLN dated September 3, 2003.

d. Tax Assessments
On September 26, 2003, the Directorate General of Taxes issued tax decision letter No. KEP-357/WPJ.07/BD.03/2003 regarding the correction on the decision of the Directorate General of Taxes No. KEP-188/WPJ.06/BD.03/2001 dated March 15, 2001 stating the taxable income of BRI for the year 2000 should be Rp4,398,081. On September 29, 2003, the Directorate General of Taxes issued Tax Assessment Letter No. 00016/506/99/051/03 stating that BRI's corporate income tax liability is nil for 1999. On September 30, 2003, the Directorate General of Taxes also issued tax decision letters No. 00007/506/01/051/03 and No. 00001/206/02/051/03 stating that BRI's corporate income tax liability is nil for 2001 and Rp420,799 for 2002. On September 30, 2003, the Directorate General of Taxes also issued tax decision letter No. KEP-357/WPJ.07/BD.03/2003 dated September 26, 2003 regarding the correction of the decision letter of the Directorate General of Taxes No. KEP-188/WPJ.06/BD.03/2001 dated March 15, 2001 which states that BRI's tax losses for the tax year 1998 should be Rp18,547,404.

As of June 30, 2003, BRI recognized the related tax liabilities amounting to Rp420,799 based on the above tax decision letters.

e. The Decision of the Ministry of Finance of the Republic of Indonesia
On September 30, 2003, the Ministry of Finance of the Republic of Indonesia issued Decision Letter No. 427/KMK.02/2003 regarding the final amount of recapitalization and the implementation of the rights of the Government arising from the additional investment of the Republic of Indonesia into the capital of the limited liability company (Persero), PT Bank Rakyat Indonesia in connection with the recapitalization program for commercial banks.

Based on the above decision letter, the Ministry of Finance decided and confirmed that:

(1) The recapitalization amount of BRI from the investment by the Republic of Indonesia through the issuance of recapitalization bonds for the commercial banks based on Government Regulation No. 52 year 1999, amounted to Rp29,149,000.

(2) From the recapitalization amount stated in point (1) above, based on the due diligence undertaken by Public Accountant for Bank Rakyat Indonesia, the excess recapitalization amounted to Rp85,469.

(3) The excess recapitalization amounting to Rp85,469 had been returned on November 5, 2001.

(4) Based on the explanations in point (1) and (2) above, the final recapitalization amount of Bank Rakyat Indonesia amounted to Rp29,063,531.

The Government's rights arising from the additional investment by the Republic of Indonesia in PT Bank Rakyat Indonesia based on the final recapitalization mentioned above are implemented as follows:

➤ Rp3,272,000 of the recapitalization amount thereon is converted to 3,272,000 new shares issued by Bank Rakyat Indonesia with a par value of Rp1 million (full amount) per share.

➤ Rp25,791,531 of the recapitalization amount, is still recorded under the additional paid-in capital in BRI's capital structure.

The Decision of the Ministry of Finance above is effective since June 30, 2003.

f. The Stockholder's Extraordinary General Meeting of BRI
In the Stockholder's Extraordinary General Meeting on October 3, 2003 based on the notarial deed No. 6 dated October 3, 2003, of Notary Imas Fatimah, SH., BRI's Stockholder, among others:

I. Confirmed BRI's capital structure and increase in authorized, issued and fully paid capital.

I.1. Confirmed BRI's capital structure as follows:

➤ Confirmed that based on the Stockholder's General Meeting of BRI, undertaken on the same day, the capital structure of BRI based on prevailing laws and regulation including the Articles of Association of BRI is as follows:

➤ The authorized capital of BRI amounting to Rp5 trillion (full amount) is divided into 5,000,000 shares with each share having a par value of Rp1 million (full amount);

➤ From the authorized capital, the issued capital of the Republic of Indonesia consists of 1,728,000 shares, amounting to Rp1,728,000;

➤ 100% of the par value for each share issued is fully paid by the Republic of Indonesia;

I.2. Approved utilization of the reserves as of June 30, 2003 amounting to Rp1,386,616 consisting of Rp355,711 of general reserves and Rp1,030,905 of special reserves for offset against the accumulated losses/deficit as of June 30, 2003 which includes profit for the first semester of 2003;

I.3. Approved the capital restructuring of BRI as of June 30, 2003 with an increase in the issued and fully paid capital stock of BRI from Rp1,728,000 to Rp5,000,000 by the issuance of new shares amounting to Rp3,272,000 which are partially taken by the Republic of Indonesia from the recapitalization amount of Rp29,063,531, while the remaining recapitalization amount of Rp25,791,531 is recorded as the Additional Paid-in Capital, based on the Decision of the Ministry of Finance No. 427/KMK.02/2003 dated September 30, 2003 regarding the final amount and the implementation of the rights of the Government arising from the additional investment in shares by the Republic of Indonesia into the capital of the limited liability company (Persero) PT Bank Rakyat Indonesia in connection with the Recapitalization Program for Commercial Banks;

I.4. With the issuance of new shares amounting to Rp3,272,000 as described above, the issued and fully paid capital by the Republic of Indonesia (after approval of the amendment to the Articles of Association of BRI regarding the increase has been obtained from the concerned institutions and with consideration to prevailing regulations) will be Rp5,000,000;

I.5. Approved the change in par value (stock split) from Rp1 million (full amount) to Rp500 (full amount);

I.6. Approved the increase in authorized capital of BRI from Rp5 trillion to Rp15 trillion divided into 30,000,000,000 shares with each share having a par value of Rp500 (full amount) per share; and

I.7. Approved the change in the classification of BRI's shares to Series A (Dwiwarna) and Series B shares.

II. Approved the Quasi Reorganization

II.1. Approved in principle the Quasi Reorganization of BRI as of June 30, 2003 to eliminate the accumulated losses/deficit against the recorded Additional Paid-In Capital;

III. Approved the IPO

III.1. Approved the IPO as follows:

a) Approved BRI's plan to undertake the IPO and sale of shares to the public through the capital markets so as to change BRI's status from a limited liability company to a public company;

b) Approved the registration with the Indonesian Stock Exchange, along with an offering of shares to the global investors through Rule 144A of the US Securities and Exchange Commission (SEC);

III.2. Approved the structure of the IPO as follows:

a) Sale of shares by the Republic of Indonesia (divestment) up to a maximum of 30% of the issued and fully paid capital whereby after effect of the IPO whereby this maximum 30% offering, includes the over subscription option shares and over allotment option shares;

b) Issue new shares from the authorized capital of BRI up to a maximum of 1,764,705,000 shares;

The listing should be undertaken in accordance with the prevailing laws and with the approval of Government Regulation in connection with the sale of shares owned by the Republic of Indonesia (divestment).

IV. Amendments to the Articles of Association

IV.1. Approved the change in the status of BRI to a publicly listed limited liability company, with a name change from "PT Bank Rakyat Indonesia (Persero)" to "Perusahaan Perseroan (Persero) PT Bank Rakyat Indonesia (Persero) Tbk" shortened to "PT Bank Rakyat Indonesia (Persero) Tbk";

IV.2. Approved all necessary changes to the Articles of Association of BRI with revisions in accordance with the Law No. 8 year 1995 on the Capital Market and Decision of the Chairman of the Capital Markets Supervisory Agency (BAPEPAM) No. KEP-13/PM/1997 dated April 30, 1997 on the main provisions of the Articles of Association of a company that undertakes an Initial Public Offering of Shares and Public Company.

The amendment in BRI's Articles of Association in connection with the above decision from the Stockholder's Extraordinary General Meeting had been notarized by deed No. 7 dated October 3, 2003 of Notary Imas Fatimah S.H., and has been approved by the Ministry of Justice and Human Rights based on Decision Letter No. C-23726 HT.01.04.TH.2003 dated October 6, 2003.

g. Submission of Registration Statements in Connection with IPO
Based on the letter of the Board of Directors of PT Bank Rakyat Indonesia No. B.40-DIR/IPO/10/2003 dated October 7, 2003, BRI has submitted the registration statements to Bapepam in connection with the IPO amounting to 2,047,060,000 Series B ordinary shares which are divestment shares of the Republic of Indonesia and 1,764,705,000 new Series B ordinary shares which are issued from the authorized capital stock of BRI with a par value of Rp500 (full amount) per share and offering price of Rp875 per share. An over-subscription option granted to the underwriters can be executed anytime from the end of offering period until the allotment date to increase the shares offered by 381,176,000 Series B ordinary shares owned by the Government of the Republic of Indonesia (divestment) and an over-allotment option granted to the underwriters can be executed within 30 calendar days from the listing date by an additional 571,764,000 Series B ordinary shares owned by the Government of the Republic of Indonesia (divestment).

h. Issuance of Regulation of the Government of Republic of Indonesia (PP) No. 49 year 2003
On October 13, 2003, the President of the Republic of Indonesia declared PP No. 49 year 2003 regarding the selling of shares in BRI. The PP determined, among others:

- The sale of shares of BRI will be done as follows:
  1) The Republic of Indonesia will sell part of its shares of BRI through the capital markets or directly to investors.
  2) BRI will issue new shares which are not taken up by the Government but will be sold through the capital markets or directly to investors.
- The shares to be sold by the Republic of Indonesia are up to a maximum of 30% of the total Republic's issued and fully paid capital in BRI.
- The amount and value of shares that will be issued and sold by the Republic of Indonesia and BRI are to be determined by the Minister of State Owned Enterprises based on the Stockholder's General Meeting.

i. Others (unaudited)
BRI has recently identified several instances of possible unauthorized fund transfers and pledges of cash which appear to involve or affect BRI's employees, customers and other parties. While the amount of losses resulting from these transactions has not been determined, BRI may provide provisions for possible losses for these incidents of up to Rp 294 billion in the third quarter ended September 30, 2003.

48. REISSUANCE OF FINANCIAL STATEMENTS

BRI has previously issued its financial statements as of June 30, 2003 and December 31, 2002 and for the six months ended June 30, 2003 and the year ended December 31, 2002 as a basis of information to the Ministry of Finance of the Republic of Indonesia in relation to the capital restructuring of BRI and the Stockholder's Extraordinary General Meeting; BRI's financial statements as of June 30, 2003 and December 31, 2002 and for the six months ended June 30, 2003 and the year ended December 31, 2002 to reflect the decision of the Ministry of Finance of the Republic of Indonesia and the decision of the Stockholder's Extraordinary General Meeting of BRI on the capital restructuring and the Quasi-Reorganization plan of BRI; and BRI's financial statements as of June 30, 2003 and December 31, 2002 and for the six months ended June 30, 2003 and year ended December 31, 2002 in connection with the implementation of the Quasi-Reorganization of BRI and BRI's plan for IPO.

There are no material differences between the two financial statements used as a basis of information to the Ministry of Finance of the Republic of Indonesia regarding the capital restructuring of BRI and Stockholder's Extraordinary General Meeting of BRI with the financial statements to reflect the decision of the Ministry of Finance of the Republic of Indonesia and the decision of Stockholder's Extraordinary General Meeting of BRI regarding BRI's capital restructuring and BRI's plan for Quasi-Reorganization, except that in the latest financial statements, the issued and fully paid capital stock of BRI increased by Rp3,272,000 and the additional paid-in capital decreased by the same amount, and additional disclosures in the notes to the financial statements on the decision of the Ministry of Finance of the Republic of Indonesia and the decision of BRI's Stockholder's Extraordinary General Meeting regarding the capital restructuring of BRI and the approval of Quasi-Reorganization for BRI.

There are no significant differences between the financial statements to reflect the decision of the Ministry of Finance of the Republic of Indonesia and the decision of Stockholder's Extraordinary General Meeting of BRI on BRI's capital restructuring and BRI's plan for Quasi-Reorganization compared to the financial statements in connection with the implementation of Quasi-Reorganization of BRI and BRI's plan for the IPO, except that in the latest financial statements, the balance sheets of BRI as of June 30, 2003 shows amounts before Quasi-Reorganization and after Quasi-Reorganization. The balance sheets after Quasi-Reorganization show that the deficit balance amounting to Rp24,699,387 had been eliminated against the Paid-in Capital and include additional information regarding the implementation of Quasi-Reorganization (see Notes 2c and 3).

BRI reissued its financial statements as of June 30, 2003 and December 31, 2002 and for the six months ended June 30, 2003 and year ended December 31, 2002 in connection with registration statements relating to BRI's IPO with certain changes and additional disclosures in the notes to the financial statements as described in Notes 2, 5, 6, 9 11, 13, 15, 26, 31, 37, 42, 46 and 47 to the financial statements.

PT BANK RAKYAT INDONESIA (PERSERO)

BALANCE SHEET
June 30, 2003
and
CONSOLIDATED BALANCE SHEET
June 30, 2002
(Expressed In Millions of Rupiah, Except Share Data)

	Notes	June 30, 2003	2002
		(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
ASSETS			
CASH	2	1,959,462	1,580,282
CURRENT ACCOUNTS WITH BANK INDONESIA	2, 4	4,009,420	3,264,124
CURRENT ACCOUNTS WITH OTHER BANKS	2, 5, 38		
Third parties		1,723,510	412,832
Related parties		—	1,913
		1,723,510	414,745
Allowance for possible losses		(17,235)	(6,041)
Net		1,706,275	408,704
PLACEMENTS WITH BANK INDONESIA AND OTHER BANKS AND FINANCIAL INSTITUTIONS	2, 6, 38		
Third parties		3,024,967	1,576,611
Related parties		153,044	26,000
		3,178,011	1,602,611
Allowance for possible losses		(173,294)	(11,453)
Net		3,004,717	1,591,158
SECURITIES—net of unamortized interest and discount of Rp34,908 as of June 30, 2003	2, 7	8,592,448	5,524,737
Allowance for possible losses		(10,348)	(6,896)
Net		8,582,100	5,517,841
EXPORT BILLS	2, 8	405,356	416,328
Allowance for possible losses		(4,947)	(12,909)
Net		400,409	403,419
GOVERNMENT BONDS	2, 9	28,007,544	28,829,929
SECURITIES PURCHASED WITH AGREEMENT TO RESELL	2, 10	19,837	20,955
Allowance for possible losses		(198)	(209)
Net		19,639	20,746
LOANS	2, 11, 38		
Third parties		43,297,634	36,579,250
Related parties		190,284	160,312
		43,487,918	36,739,562
Allowance for possible losses		(4,168,806)	(4,388,201)
Net		39,319,112	32,351,361
SYARIAH FINANCING	2	24,553	837
Allowance for possible losses		(321)	(8)
Net		24,232	829

PT BANK RAKYAT INDONESIA (PERSERO)

BALANCE SHEET
June 30, 2003
and
CONSOLIDATED BALANCE SHEET
June 30, 2002—(Continued)
(Expressed In Millions of Rupiah, Except Share Data)

	Notes	June 30, 2003	2002
		(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
ACCEPTANCES RECEIVABLE	2,12	255,709	185,942
Allowance for possible losses		(25,859)	(16,311)
Net		229,850	169,631
INVESTMENTS IN SHARES OF STOCK	2, 13	105,421	49,986
Allowance for possible losses		(48,504)	(511)
Net		56,917	49,475
PREMISES AND EQUIPMENT	2, 14		
Cost		2,691,213	2,135,393
Accumulated depreciation		(1,473,630)	(1,280,974)
Net book value		1,217,583	854,419
DEFERRED TAX ASSETS	2	799,767	932,363
OTHER ASSETS	2, 15	2,465,884	1,989,865
TOTAL ASSETS		91,802,911	77,964,146

PT BANK RAKYAT INDONESIA (PERSERO)

BALANCE SHEET
June 30, 2003
and
CONSOLIDATED BALANCE SHEET
June 30, 2002—(Continued)
(Expressed In Millions of Rupiah, Except Share Data)

	Notes	June 30, 2003	2002
		(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
LIABILITIES AND STOCKHOLDER'S EQUITY			
LIABILITIES			
SHORT-TERM LIABILITIES	2, 16	3,634,664	1,726,507
DEPOSITS FROM CUSTOMERS			
Demand Deposits	2, 17, 38		
Third parties		11,805,147	7,405,900
Related parties		3,382	1,781
Total Demand Deposits		11,808,529	7,407,681
Wadiah Demand Deposits	2	1,877	—
Savings Deposits	2, 18, 38		
Third parties		31,087,982	27,547,871
Related parties		348	—
Total Saving Deposits		31,088,330	27,547,871
Mudharabah Savings Deposits	2	7,332	746
Time Deposits	2, 19, 38		
Third parties		31,224,176	25,747,520
Related parties		187,668	31,962
Total Time Deposits		31,411,844	25,779,482
Mudharabah Time Deposits	2	3,708	13
Certificates of Deposits (net of unamortized interest of Rp 144 as of June 30, 2003)	2, 20	11,476	5,981
Total Deposits From Customers		74,333,096	60,741,774
DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS	2, 21, 38		
Third parties		1,832,683	2,651,075
Related parties		—	5
Total Deposits From Other Banks and Financial Institutions		1,832,683	2,651,080
SECURITIES SOLD WITH AGREEMENT TO REPURCHASE	2, 22	508,406	—
ACCEPTANCES PAYABLE	2, 12	255,709	185,942
FUND BORROWINGS	2, 23, 38		
Third parties		1,313,534	3,309,047
Related parties		188,432	161,340
Total Fund Borrowings		1,501,966	3,470,387
ESTIMATED LOSSES ON COMMITMENTS AND CONTINGENCIES	2, 24	295,609	228,644

PT BANK RAKYAT INDONESIA (PERSERO)

BALANCE SHEET
June 30, 2003
and
CONSOLIDATED BALANCE SHEET
June 30, 2002—(Continued)
(Expressed In Millions of Rupiah, Except Share Data)

	Notes	June 30, 2003	June 30, 2002
		(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
OTHER LIABILITIES	2, 25	2,733,606	3,040,350
SUBORDINATED LOANS	26	509,501	531,057
Total Liabilities		85,605,240	72,575,741
MINORITY INTEREST IN NET ASSETS OF CONSOLIDATED SUBSIDIARY	2	—	27,554
STOCKHOLDER'S EQUITY			
Capital stock—Rp 1,000,000 par value per share			
Authorized—5,000,000 shares			
Issued and fully paid—5,000,000 shares in 2003 and 1,728,000 shares in 2002	1, 27	5,000,000	1,728,000
Additional paid-in capital	27	1,092,149	29,063,536
Revaluation increment on premises and equipment		786	786
Differences arising from translation of foreign currency financial statements	2, 27	104,736	103,544
Retained earnings (Deficit)—(deficit as of June 30, 2003 amounting to Rp24,699,387 has been eliminated on the quasi-reorganization as of June 30, 2003)	27	—	(25,535,015)
Stockholder's Equity—Net		6,197,671	5,360,851
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		91,802,911	77,964,146

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND CONSOLIDATED STATEMENT OF INCOME
For The Six Months Ended June 30, 2002
(In Millions of Rupiah)

	Notes	June 30, 2003 (Audited)	June 30, 2002 (Unaudited) (Note 2)
INCOME AND EXPENSES FROM OPERATIONS			
Interest, Investment and Syariah Financing Income			
Interest and investment income	2, 28	7,311,621	6,464,783
Fees and commissions	2, 29	135,308	114,066
Syariah income	2, 2	716	—
Total Interest, Investment and Syariah Financing Income		7,447,645	6,578,849
Interest, Syariah and Other Financing Charges			
Interest and other financing charges	2, 30	3,805,620	3,719,734
Syariah charges	2	261	4
Total Interest, Syariah and Other Financing Charges		3,805,881	3,719,738
Interest Income—Net		3,641,764	2,859,111
Other Operating Income			
Gain from increase in value of securities and Government bonds—net	2, 7, 9	205,419	351,077
Other fees and commissions	2	138,668	119,999
Others		193,019	117,736
Total Other Operating Income		537,106	588,812
Provision for possible losses on earning assets	2	(62,276)	(509,686)
Provision for estimated losses on commitments and contingencies	2	(66,965)	(121,456)
Reversal of allowance (provision) for possible losses on other assets		103,011	(69,733)
Other Operating Expenses			
Salaries and employees' benefits	2, 25, 31	1,685,215	1,150,934
General and administrative expenses	32	465,961	432,332
Other fees and commissions	2	6,166	8,354
Loss on foreign exchange—net	2	128,169	85,412
Others		475,433	115,889
Total Other Operating Expenses		2,760,944	1,792,921
INCOME FROM OPERATIONS		1,391,696	954,127
NON-OPERATING INCOME—NET	33	373,336	11,240
INCOME BEFORE TAX BENEFIT (EXPENSE)		1,765,032	965,367
TAX BENEFIT (EXPENSE)	2		
Current		(526,668)	—
Deferred		(56,454)	131,412
INCOME BEFORE MINORITY INTEREST		1,181,910	1,096,779
MINORITY INTEREST IN NET INCOME OF CONSOLIDATED SUBSIDIARY	2	—	(4,527)
NET INCOME		1,181,910	1,092,252

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2002 (In Millions of Rupiah)

	Notes	Capital Stock Issued and Fully Paid	Additional Paid-in Capital	Revaluation Increment on Premises and Equipment	Differences Arising from Translation of Foreign Currency Financial Statements	Retained Earnings (Deficit) Appro-priated	Retained Earnings (Deficit) Unappro-priated	Retained Earnings (Deficit) Total	Stockholder's Equity—Net
Balance as of January 1, 2002 as reported	2, 27	1,728,000	29,063,536	786	106,066	194,609	(26,279,293)	(26,084,684)	4,813,704
Reduction in differences arising from translation of foreign currency financial statements for the six months ended June 30, 2002		—	—	—	(2,521)	—	—	—	(2,521)
Distribution of income	27								
Cash dividends		—	—	—	—	—	(531,946)	(531,946)	(531,946)
Addition to general and special reserves		—	—	—	—	450,325	(450,325)	—	—
Appropriation for small scale industries and cooperatives		—	—	—	—	—	(9,600)	(9,600)	(9,600)
Appropriation for environmental development fund		—	—	—	—	—	(1,038)	(1,038)	(1,038)
Net income for the six months ended June 30, 2002	2	—	—	—	—	—	1,092,252	1,092,252	1,092,252
Balance as of June 30, 2002		1,728,000	29,063,536	786	103,545	644,934	(26,179,950)	(25,535,016)	5,360,851
Addition in differences arising from translation of foreign currency financial statements for the six months ended December 31, 2002	2, 27	—	—	—	565	—	—	—	565
Distribution of income	27								
Cash dividends		—	—	—	—	—	—	—	—
Addition to general and special reserves		—	—	—	—	—	—	—	—
Appropriation for small scale industries and cooperatives		—	—	—	—	—	—	—	—
Appropriation for environmental development fund		—	—	—	—	—	—	—	—
Net income for the six months ended December 31, 2002	2	—	—	—	—	—	432,688	432,688	432,688
Balance as of December 31, 2002		1,728,000	29,063,536	786	104,110	644,934	(25,747,262)	(25,102,328)	5,794,104
Balance as of December 31, 2002		1,728,000	29,063,536	786	104,110	644,934	(25,747,262)	(25,102,328)	5,794,104
Addition in differences arising from translation of foreign currency financial statements for the six months ended June 30, 2003	2, 27	—	—	—	626	—	—	—	626
Distribution of income	27								
Cash dividends		—	—	—	—	—	(762,470)	(762,470)	(762,470)
Addition to general and special reserves		—	—	—	—	741,682	(741,682)	—	—
Appropriation for small scale industries and cooperatives		—	—	—	—	—	(15,249)	(15,249)	(15,249)
Appropriation for environmental development fund		—	—	—	—	—	(1,250)	(1,250)	(1,250)
Additional paid-in capital through conversion of recapitalization amount		3,272,000	(3,272,000)	—	—	—	—	—	—
Utilization of general and special reserves to cover the deficit		—	—	—	—	(1,386,616)	1,386,616	—	—
Net income the six months ended June 30, 2003	2	—	—	—	—	—	1,181,910	1,181,910	1,181,910
Reclassification of deficit into paid-in capital in connection with quasi-reorganization	2, 3	—	(24,699,387)	—	—	—	24,699,387	24,699,387	—
Balance as of June 30, 2003 after quasi-reorganization		5,000,000	1,092,149	786	104,736	—	—	—	6,197,671

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENT OF CASH FLOW
For The Six Months Ended June 30, 2003 and
CONSOLIDATED STATEMENT OF CASH FLOW
For The Six Months Ended June 30, 2002
(In Millions of Rupiah)

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues from interests, investment income, fees and commissions and syariah income	6,743,127	6,458,696
Payments of interests, syariah and other financing charges	(3,787,371)	(3,673,640)
Bad debt recoveries	328,499	174,341
Other operating income	130,967	236,475
Other operating expenses	(2,655,128)	(1,857,125)
Non-operating income—net	372,867	9,924
Income before changes in operating assets and liabilities	1,132,961	1,348,671
Changes in operating assets and liabilities:		
Decrease (increase) in operating assets:		
Placements with Bank Indonesia and other banks and financial institutions	2,411,314	1,799,584
Securities	71,551	251,524
Export bills	(48,800)	24,750
Securities purchased with agreement to resell	1,645	181,436
Loans	(4,255,918)	(3,490,322)
Syariah financing	(18,614)	(829)
Other assets	481,824	372,434
Increase (decrease) in operating liabilities:		
Short-term liabilities	1,220,853	430,530
Deposits from customers:		
Demand	350,262	(108,461)
Wadiah demand	1,409	—
Savings	2,416,854	1,019,260
Mudharabah savings	5,771	746
Time deposits	1,929,658	2,073,331
Mudharabah time deposits	1,962	13
Certificates of deposits	522	(1,572)
Deposits from other banks and financial institutions	(228,274)	(405,366)
Securities sold with agreement to repurchase	307,719	(710,533)
Other liabilities	(90,858)	373,113
Net Cash Provided by Operating Activities	5,691,841	3,158,309
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of premises and equipment	(154,503)	(113,852)
Proceeds from sale of Government bonds	582,328	(393,673)
Proceeds from sale of premises and equipment	3,502	1,317
Increase in held to maturity securities	(2,858,547)	(2,909,576)
Receipt of dividends	4,410	1,260
Net Cash Used in Investing Activities	(2,422,810)	(3,414,524)

PT BANK RAKYAT INDONESIA (PERSERO)

STATEMENT OF CASH FLOW—(Continued)
For The Six Months Ended June 30, 2003 and
CONSOLIDATED STATEMENT OF CASH FLOW
For The Six Months Ended June 30, 2002
(In Millions of Rupiah)

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment in fund borrowings	(1,523,275)	(1,552,650)
Receipt (payment) in subordinated loans	(10,814)	14,078
Distribution of income for dividends, and small scale industries and cooperatives environmental development fund	(778,969)	(542,584)
Additional paid in capital	—	—
Net Cash Used in Financing Activities	(2,313,058)	(2,081,156)
NET EFFECT OF DIFFERENCES ARISING FROM TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENT ON CASH AND CASH EQUIVALENTS	626	(2,521)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	956,599	(2,339,892)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,735,793	7,599,043
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7,692,392	5,259,151
Cash and cash equivalents consist of:		
Cash	1,959,462	1,580,282
Current accounts with Bank Indonesia	4,009,420	3,264,124
Current accounts with other banks	1,723,510	414,745
Total Cash and Cash Equivalents	7,692,392	5,259,151
SUPPLEMENTAL NON-CASH FLOW INFORMATION		
Reclassification of deficit into paid-in Capital in connection with quasi-reorganization (See Notes 2 and 3)	24,699,387	—

1. GENERAL

PT Bank Rakyat Indonesia (Persero) (hereinafter referred to as "BRI") was established in the Republic of Indonesia on December 18, 1968 based on Law No. 21 of 1968. On April 29, 1992, based on the Government of the Republic of Indonesia Regulation No. 21 of 1992, BRI acquired its status as a limited liability corporation (Persero). The change in the status of BRI to become a limited liability corporation was covered by notarial deed No. 133 dated July 31, 1992 of Muhani Salim, S.H., which was approved by the Minister of Justice in his Decision Letter No. C2-6584.HT.01.01.TH.92 dated August 12, 1992, and published in Supplement No. 3A of the State Gazette No. 73 dated September 11, 1992. BRI's Articles of Association have been amended several times, the last by notarial deed No. 7 dated September 4, 1998 of Imas Fatimah, S.H., pertaining to Article 2 on "Corporate Term" and Article 3 on "Purpose, Objectives and Business Activities" to comply with Law No. 1 of 1995 on "Limited Liability Corporation". Such changes were approved by the Minister of Justice in his Decision Letter No. C2-24930.HT.01.04.Th.98 dated November 13, 1998 and were published in Supplement No. 7216 of the State Gazette No. 86 dated October 26, 1999. The latest amendment is based on the notarial deed No. 7 dated October 3, 2003 of Imas Fatimah, S.H. among others regarding the changes in the articles of association of BRI. This change had been approved by the Ministry of Justice and Human Rights with Decision letter No. C-23726 HT.01.04.TH.2003 dated October 6, 2003.

According to Article 3 of the latest Articles of Association, BRI's objective is to conduct and support the Government's policy and program in the economic sector and in the national development in general, particularly in the banking sector in accordance with prevailing acts and regulations, including activities based on syariah principles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Financial Statements

The financial statements have been prepared in conformity with Statement of Financial Accounting Standards (PSAK) No. 31 (Revised 2000) on "Accounting for Banking" issued by the Indonesian Institute of Accountants (IAI) and the Accounting Guidelines for Indonesian Banking (PAPI) published by Bank Indonesia and IAI, and where applicable, prevailing banking industry practices accounting and reporting guidelines prescribed by the bank regulatory authority in Indonesia and Capital Markets Supervisory Agency (Bapepam) regulation No. VIII.G.7 attachment of the Decision of the Chairman of Bapepam No. KEP-06/PM/2000 dated March 13, 2000 regarding Guidelines for Financial Statements Presentation.

The Indonesian Institute of Accountants issued PSAK No. 59 "Accounting for Syariah Banking" effective January 1, 2003. Effective January 1, 2003 BRI Syariah Branches which are engaged in banking activities with Syariah principles present their financial statements in accordance with accounting principles under PSAK No. 59.

The financial statements have been prepared on:

1) accrual basis, except for interest income on non-performing assets and interest income on Village General Loans (Kupedes) which is immaterial in individual amounts and recorded on cash basis;

2) historical cost, except for certain premises and equipment which were revalued based on Government regulation, certain investments which are recorded under equity method, certain securities, government bonds and derivative transactions which are stated at market value and repossessed assets which are stated at net realizable value.

The statements of cash flows have been prepared using direct method which classified the cash flows into operating, investing and financing activities. For presentation in the statements of cash flows, cash and cash equivalents consist of cash, current accounts with Bank Indonesia and current accounts with other banks.

b. Consolidation

The consolidated financial statements for the six months ended June 2002 included the consolidated financial statements of BRI and PT Bank Inter-Pacific Tbk (“BIP”) in which BRI is a majority shareholder. BIP is located in Jakarta and is mainly engaged in banking. BRI has 66.79% ownership interest in BIP as of June 30, 2002. Significant intercompany balance and transactions had been eliminated.

As of June 30, 2003, the financial statements of BIP had been excluded from the consolidation of BRI’s financial statements because BRI resolved to divest the investment in BIP in accordance with BRI’s Director letter to BIP No. R.205-DIR/KUI/TRY/12/02 dated December 16, 2002 (see Note 2).

In 2000, the financial statements of another subsidiary, BRI Finance Limited, Hong Kong which was domiciled in Hong Kong, mainly engaged in deposit-taking and in which BRI had 100% ownership interest has been excluded from the consolidation of BRI’s financial statements since it was decided on December 22, 2000 to close its operations.

c. Quasi-Reorganization

Based on PSAK No. 51 on “Accounting for Quasi-Reorganization”, quasi-reorganization is an accounting procedure which will enable an enterprise to restructure its equity by eliminating a deficit and revaluing all of its assets and liabilities based on fair values without a legal reorganization. With quasi-reorganization, the company will have a fresh start with a balance sheet showing current values without a deficit as the deficit is eliminated/offset against the additional paid-in capital account.

The estimate of fair values of assets and liabilities of BRI in relation to the quasi-reorganization is based on the best information available that is related to the characteristic of the assets or liabilities, with consideration to the level of related risks. If the market value is unavailable, the estimate of fair value is determined based on the values of similar type of assets, present value or discounted cash flow. For the assets and liabilities the valuation is undertaken in accordance with the related PSAK.

Based on BRI’s Stockholder’s Extraordinary General Meeting on October 3, 2003 based on notarial deed No. 6 dated October 3, 2003 of Notary Imas Fatimah, S.H. (see Note 3), the stockholder has approved the quasi-reorganization of BRI effective June 30, 2003.

BRI performed revaluation of its assets and liabilities accounts in conjunction with the quasi-reorganization as of June 30, 2003. Since the fair value of net assets (assets less liabilities) of BRI is more than the net book value of the net assets, based on the prevailing practice in the implementation of the quasi-reorganization and PSAK No. 21 on “Accounting for Equity”, BRI did not book the excess difference in the mentioned net assets to the deficit and still used the book values of the assets and liabilities as of the implementation of the quasi-reorganization.

As a result of the quasi-reorganization, BRI’s deficit that was offset against the additional paid-in capital account amounted to Rp24,699,387.

Bank Indonesia in letter No. 5/105/DPwB2/PwB24 dated September 19, 2003 stated that in undertaking the quasi-reorganization, BRI should refer to PSAK 51 and with consideration to the other related aspects in implementing the quasi-reorganization.

d. Transactions with Related Parties

Related parties are defined under PSAK No. 7 “Related Party Disclosures” as follows:

1) enterprises that, through one or more intermediaries, control or are controlled by, or are under common control with, the reporting enterprise (including holding companies, subsidiaries and fellow subsidiaries);

2) associated companies;

3) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them significant influence over the enterprise, and close members of the family of any such

individuals (close members of a family are defined as those members who are able to exercise influence or can be influenced by such individuals in their transactions with the reporting enterprise);

4) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise, including commissioners, directors and managers of the enterprise and close members of the families of such individuals; and

5) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in 3) or 4) above, or over which such a person is able to exercise significant influence. This definition includes enterprises owned by the commissioners, directors or major stockholders of the reporting enterprise and enterprises that have a common member of key management as the reporting enterprise.

All significant transactions with related parties, whether or not made under similar terms and conditions as those conducted with third parties, are disclosed in the financial statements. Transactions among BRI and other stated-owned companies and entities in relation to the bank and corporate restructuring with Indonesian Bank Restructuring Agency (IBRA), are not disclosed as transactions with related parties based on PSAK No. 7.

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

Earning assets consist of current accounts with other banks, placements with Bank Indonesia and other banks and financial institutions, securities derivative transaction, export bills, government bonds, securities purchased with agreement to resell, loans, syariah financing, acceptances receivable and investments in shares of stock. Commitments bearing credit risk consist of outstanding irrevocable letters of credit (L/C) and domestic L/C (SKBDN). Contingencies bearing credit risk consist of bank guarantees issued and standby L/C. Earning assets are further explained in Notes 2f, 2g, 2h, 2i, 2j, 2k, 2l, 2m, 2n and 2ac.

Allowance for possible losses on earning assets and estimated losses on commitments and contingencies are provided based on management's review of the quality of each asset and commitments and contingencies bearing credit risk at every reporting, date with minimum allowance for possible losses in accordance with the Director of Bank Indonesia Decision Letter No. 31/147/KEP/DIR dated November 12, 1998 regarding the classification of the quality of earning assets and commitments and contingencies bearing credit risk (Current, Special Mention, Substandard, Doubtful and Loss) and the Director of Bank Indonesia Decision Letter No. 31/148/KEP/DIR dated November 12, 1998 regarding Provision of Allowance for Possible Losses on Earning Assets and Commitments and Contingencies. The management's evaluation includes the debtors' business prospects, financial condition and ability to repay. Estimated losses on commitments and contingencies bearing credit risk is recorded under liabilities.

The outstanding balance of earning assets is written-off against the respective allowance for possible losses when management believes that the assets are determined to be definitely uncollectible. Recovery of earning assets previously written-down is recorded as an addition to the allowance for possible losses during the period of recovery. If the recovery exceeds the principal amount, the excess will be recognized as interest income.

f. Current Accounts with Other Banks

Current accounts with other banks are stated at their outstanding balances net of allowance for possible losses.

g. Placements with Bank Indonesia and Other Banks and Financial Institutions

Placements with Bank Indonesia and other banks and financial institutions include placements with Bank Indonesia in the form of Rupiah Intervention and inter-bank call money, and time deposits. These accounts are stated at the amount entrusted by the Bank or contract amount net of unamortized interest and allowance for possible losses.

h. Securities and Government Bonds

Securities consist of securities traded in the money market such as Bank Indonesia Certificates, notes receivable, subordinated notes, money market securities (SBPU), mutual fund units, stocks and exchange offer, and bonds traded in the stock exchanges.

Government Bonds are bonds issued by the Government of the Republic of Indonesia in connection with the recapitalization program for commercial banks and purchased from secondary market.

Securities and Government bonds are classified based on management's intention when the Bank purchased these securities and based on the following classifications under PSAK No. 50 on "Accounting for Certain Investments in Securities":

1) Securities for trading purposes are reported at fair value. Unrealized gains or losses resulting from the increase/decrease in fair value are recognized in the current period profit and loss.

2) Held-to-maturity securities are stated at cost adjusted for the amortization of discount or premium, if any.

3) Available-for-sale securities are reported at fair value. Unrealized gains or losses resulting from the increase/decrease in fair value are not recognized in the current operations but are presented separately under stockholder's equity. Gains or losses are recognized in the current operations upon realization.

For securities and Government Bonds traded, fair value is usually determined based on the market value offered in the stock exchange on balance sheet date. For securities and Government Bonds which have no market value, the estimated fair value is determined using the expected market yield approach.

The permanent decline in value of the securities is charged to current operations. The allowance for possible losses is reported as deduction from the amount of the securities.

i. Syariah Financing

BRI Syariah financing consists of "*mudharabah*" financing and "*murabahah*" financing.

Mudharabah financing is a joint financing made between BRI Syariah which provides the capital (*shahibul maal*) and the customer who manages the project (*mudharib*) in a certain period. The profit sharing from the project is distributed according to a predetermined ratio (*nisbah*). *Mudharabah* financing is stated at its outstanding balance net of allowance for possible losses.

Murabahah financing is a sales contract between the customer and BRI Syariah, where BRI Syariah finances the investment and working capital needs of the customer with a price which includes a profit margin agreed by both parties. Repayment is conducted by installments within a specified period. *Murabahah* financing is stated at its outstanding balance net of unamortized margin and allowance for possible losses.

j. Export Bills

Export bills represent negotiated export bills that have been discounted and guaranteed by other banks. Export bills are stated at the purchase amount after deduction of discount and allowance for possible losses. The discount has been recorded in the current year's profit and loss as the amount is immaterial.

k. Securities Purchased with Agreement to Resell

Securities purchased under agreement to resell are recognized as receivables and recorded at their resale value reduced by unearned interest and allowance for possible losses. The difference between the purchase and selling price is treated as unearned interest and recognized over the period from the time of purchase to the time of resale.

l. Loans

Loans represent the lending of money or equivalent receivables under contracts with borrowers, whereby the borrowers are required to repay their debts with interest after a specified time. Loans are stated at their outstanding balance net of allowance for possible losses.

The restructuring of loans involves the modification of terms (e.g. modification of interest rate and extension of payment maturity date), and does not involve the receipt of assets (including receipt of shares) from the debtor. BRI records the effects of the restructuring prospectively and does not change the recorded carrying value of the loan receivable at the time of restructuring, except if the recorded amount exceeds the total future cash receipts specified by the new terms. The excess is deducted from the recorded amount of the loan and charged as loss from current operations.

Loans extended under syndication agreement, channeling loans and two-step loans are recognized to the extent of the amount of risk borne by BRI.

m. Acceptances Receivable and Payable

Acceptances receivable and payable represent letters of credit (L/C) that have been accepted by the accepting bank. Acceptances receivable are stated at nominal amount or realization value of the L/C net of allowance for possible losses while acceptances payable are stated at nominal amount or realization value of the L/C.

n. Investments in Shares of Stock

Investments in shares of stock represent mainly long-term investments in non-publicly-listed companies engaged in the financing industry.

Investments in shares of stock with ownership interest of 20% up to 50% are recorded based on the equity method. Under this method, investments are stated at cost and adjusted for the share in the net earnings or losses of the investees and reduced by dividends earned since the acquisition date.

Investments in shares of stock with ownership interest of less than 20% are recorded based on the cost method reduced by allowance for possible losses. Investment in shares of stock in BIP which is for divestment is recorded based on the cost method reduced by allowance for possible losses.

o. Premises and Equipment

Premises and equipment are stated at cost, except for certain premises and equipment which were revalued in accordance with government regulation, less accumulated depreciation. The increment of values of premises and equipment resulting from the revaluation is reported under "Revaluation increment of premises and equipment". Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

	Year
Buildings	15
Transportation equipment	5
Computers and peripherals	3 and 5
Furniture and fixtures	5

Landrights are not depreciated.

The cost of repairs and maintenance is charged to operations as incurred; significant renewals and betterments which lengthen the useful lives or giving useful economic value in the future in the form of increase in capacity or standard of performance are capitalized on the related premises and equipment. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in the current operations.

PSAK No. 48 on "Impairment in Asset Value", requires the companies' management to review the asset value for any impairment and write-down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

p. Accounting for Leases

Lease transactions in which BRI is the lessee are accounted for as capital lease when all of the criteria under PSAK No. 30 on "Accounting for Leases" are met. If one of the criteria is not met, the lease transaction is accounted for as operating lease. Assets under capital lease (included as part of "Premises and Equipment") are stated at the present value of the minimum lease payments at the beginning of the lease term plus the residual value (option price) to be paid at the end of the lease period. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Obligations under capital lease are stated at the present value of the lease payments and classified under "Fund Borrowings".

q. Repossessed Assets

Repossessed assets acquired in settlement of loans (included as part of "Other Assets") are recognized at their net realizable value. Net realizable value is the fair value of the collateral after deducting the estimated costs of disposal. Excess in loans balance which has not been paid by debtors over repossessed assets value is changed to allowance for possible losses on loans. The difference between the value of the collateral and the proceeds from sale thereof is recognized as a gain or loss at the time of the sale.

r. Prepaid Expenses

Prepaid expenses (included as part of "Other Assets") are amortized over the periods benefited using the straight-line method.

s. Short-term Liabilities

Short-term liabilities represent the obligation to outside parties that, based on a contract or on an order by those having the authority, have to be settled immediately. Short-term liability is stated at the amount of the liability to the account holders.

t. Deposits

Demand deposits represent funds deposited by another party, customer or other banks, the withdrawal of which can be done at any time by use of a check, a bank or other forms of payment order, or through a transfer order. These deposits are stated at the amount of the liability to the account holder.

Wadiah demand deposits represent third party funds on which the customers receive bonus based on BRI Syariah policy.

Savings deposits represent customers' funds which the depositors are entitled to withdraw under certain conditions. These deposits are stated at the amounts due to the account holders.

Mudharabah savings deposits represent third party funds whereby the customers receive predetermined profit-sharing return ratio (*nisbah*) from income derived by BRI Syariah from the use of such funds.

Time deposits represent funds deposited by another party, customers and other banks, to BRI that can be withdrawn only at a certain point in time as stated in the contract. Time deposit is stated at the amount of principal deposit or at the amount stated in the agreement.

Mudharabah time deposits represent third party funds that can be withdrawn only at a certain point in time based on the agreement between the customer and BRI Syariah. *Mudharabah* time deposits are stated at the amount as agreed by the customer and BRI Syariah.

Certificates of deposits represent time deposits covered by negotiable certificates. These certificates are stated at nominal value reduced by unamortized interest.

Interbank call money represents funds received from other banks through the issuance of promissory notes which have terms of 90 days or less. The interbank call money is stated at the nominal amount of promissory notes.

u. Securities Sold with Repurchase Agreement

Securities sold with repurchase agreement are recognized as liability at the agreed purchase price, reduced by prepaid expense. The difference between the selling price and the repurchase price is treated as a prepaid expense and are recognized as interest expense over the period from the sale of the securities up to the time of repurchase.

v. Allowance for Timely-Payment Incentives on BRI's Unit

Allowance for Timely-Payment Incentives [*Cadangan Insentif Pembayaran Tepat Waktu* (CIPTW)] represents allowance provided for timely-payment incentives, which are given to borrowers of Village General Loans (*Kupedes)* who settle their liabilities on time. The amount of CIPTW is 1/4 of interest on *Kupedes* working capital and *Kupedes* investment received monthly. CIPTW is included as part of "Other Liabilities".

Timely-Payment Incentives [*Insentif Pembayaran Tepat Waktu* (IPTW)] represent incentives given to *Kupedes* borrowers who pay their liabilities in accordance with the agreed installment schedules. The amount of IPTW is 1/4 of interest received from either *kupedes* working capital or *Kupedes*investment. IPTW is reported as deduction from interest income on loans.

w. Interest Income and Interest Expense

Interest income and interest expense are recognized on the accrual basis. Interest income on non-performing earning assets (Substandard, Doubtful and Loss) and the immaterial amount of interest income on Kupedes are recognized to the extent of cash collections received (cash basis). Interest receivable which has been accrued is reversed when the productive asset has been classified as non-performing in the current year. Interest income from non-performing asset that has not been received (Interest Receivables on Non-performing Loans) is reported under notes to the financial statements on information of commitments and contingencies.

Cash collections from loans which had been classified as doubtful or loss will be first reduced from the loan principal. The excess collections from outstanding balances are recognized as income in the statement of income.

x. Fees and Commissions

Significant fees and commissions which are directly related to lending activities and/or having specific time periods are deferred and amortized using the straight-line method over their respective time periods. The balances of unamortized fees and commissions relating to loans settled prior to maturity are recognized upon settlement. Other fees and commissions which are not directly related to either lending activities or specific time periods are recognized at the transaction date.

y. Syariah Income and Charges

Income from *murabahah* transactions are recognized by using accrual method. Income from *istishna* transactions and profit sharing from *mudharabah* and *musyarakah* financing are recognized upon receipt of cash installment payment.

Syariah charges represent profit sharing for *mudharabah* savings deposits and *mudharabah* time deposits, and bonus expenses for wadiah demand deposits, which are recognized when the liability for profit sharing arises (every month-end) based on the predetermined ratio (*nisbah*).

z. Pension Plan

BRI has defined benefit pension plans covering substantially all of its employees. Under the defined benefit pension plans, normal cost is charged to current operations. Past service cost, actuarial adjustment and the effect of changes in assumptions for active participants are amortized over the expected future years of service of existing employees as determined by the actuary. In addition, BRI employees are also given old-age benefits.

The Bank recognized employee benefit liabilities in accordance with the Ministry of Manpower Decree No. Kep. 150/Men/2000 (KEP-150) regarding ''The Settlement of Work Dismissal and Determination of Separation Gratuity and Compensation Payments by Companies''. Provision for employee benefit under KEP 150 is accrued based on the result of an actuarial valuation. As of March 25, 2003, the Labor Law No. 13 year 2003 (UU No. 13/2003) was enacted. Management believes the employee benefits already recognized under the defined benefit plan, defined contribution plan, old-age benefit and KEP-150 are sufficient to cover the minimum requirement of the UU No. 13/2003.

aa. Foreign Currency Transactions and Balances

BRI 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 balance sheet date, all foreign currency monetary assets and liabilities are translated into Rupiah using the Reuters spot rates at 16.00 WIB (Western Indonesian time) on June 30, 2003 and 2002 and the resulting gains or losses from direct transactions with customers and correspondent banks are credited or charged to current periods' profit and loss. As of June 30, 2003 and 2002, the Reuters spot rates at 16.00 WIB used were Rp8,265 (in full amount) and Rp8,740 (in full amount), respectively, to US$1.

ab. Translation of the Financial Statements of Overseas Business Units

BRI has a branch office in Cayman Islands and an agency in New York that are separate foreign entities.

For financial statements combination purposes, the accounts of the overseas branch and agency are translated into Rupiah as follows:

➤ Assets and liabilities, commitments and contingencies—at middle rates published by Bank Indonesia on balance sheet date.

➤ Revenues, expenses, gains and losses—at the average middle rate during the month. The current balances consist of the sum of the translated amounts per month during the periods.

➤ Stockholder's equity—Capital Stock and Additional Paid-in Capital at historical rates.

➤ Statements of cash flows—at the middle rate published by Bank Indonesia at balance sheet date, except for the revenues, expenses, gains and losses which are translated at the average middle rates and stockholder's equity which are translated at the historical rates.

The resulting net translation adjustment is reported under the Stockholder's equity section as ''Differences in Foreign Currency Translation''.

ac. Derivative Transactions

Effective January 1, 2001, based on PSAK No. 55 on ''Accounting for Derivative Instruments and Hedging Transactions'', all derivative instruments are recognized as either assets or liabilities based on the positive or negative difference between the contract amount and the fair value of the derivative. The difference represents the unrealized gains or losses as of report date. The changes in the fair value of the derivative instruments that are not designated as hedging or do not meet the criteria for classification as hedging are credited or charged to current operations. For accounting purposes, BRI's derivative transactions are not designated as hedging.

ad. Income Tax

Effective January 1, 2001, BRI adopted retroactively PSAK No. 46 on ''Accounting for Income Taxes'' which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial reporting and income tax purposes including tax loss carryforward. PSAK No. 46 also requires the recognition of future tax benefits, such as tax loss carryforward, when there is a very strong probability of recovery against future taxable income.

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, when the result of the appeal is determined.

ae. Segment Reporting

In 2000, the Indonesian Institute of Accountants (IAI) issued PSAK No. 5 (Revised 2000) "Segment Reporting" effective for financial statements covering the period starting January 1, 2002. PSAK No. 5 requires the identification and disclosure of financial information based on the segment, type of product or services produced or rendered by the company and geographies of the company's operation. BRI disclosed the information for segment reporting based on geographical segments. The prior years' segment data are restated for comparative presentation.

af. Use of Estimates

In the preparation of the financial statements in accordance with generally accepted accounting principles, the management used estimates and assumptions that affect the reported amounts in the financial statements. There is inherent risk in making estimates such that actual amounts reported in future periods may differ from the estimated amounts.

3. IMPLEMENTATION OF THE QUASI-REORGANIZATION

As a result of the effects of the economic conditions, BRI incurred significant losses in 1998 and 1999 totalling Rp28,221,364. After BRI's recapitalization in July and October 2000, the allowance for possible losses on the earning assets of BRI had been significantly reduced when the non-performing earning assets were transferred to the Indonesian Bank Restructuring Agency (IBRA). Although BRI recorded net income in 2000, 2001 and 2002 and the first semester of 2003, BRI still has accumulated losses (deficit) amounting to Rp24,699,387 in the balance sheet as of June 30, 2003.

In order to have a fresh start with a balance sheet showing current values without a deficit, BRI implemented a quasi-reorganization as of June 30, 2003 (see Note 2c).

BRI's management has prepared projections of financial statements that show strong profitability and sound capital adequacy ratio (CAR) based on the primary strength of BRI as a major bank in Indonesia that focused on micro-finance and consumer sector, small and middle business and agribusiness sectors.

The financial position of BRI as of June 30, 2003 after quasi-reorganization is as disclosed in the balance sheet.

Since the effect of the fair value revaluation will increase the book value of the net assets (assets less liabilities), based on the prevailing practice on the implementation of the quasi-reorganization and in accordance with PSAK No. 21 "Accounting for Equity" paragraph 43, BRI did not book the excess difference in net assets but still used the book value of the assets and liabilities on the date of the implementation of the quasi-reorganization. Therefore, the difference of the assets and liabilities of BRI as of June 30, 2003 after quasi-reorganization is nil, and only the deficit as of June 30, 2003 is eliminated against the Additional Paid-in Capital.

NOTES TO FINANCIAL STATEMENTS—(Continued)

4. CURRENT ACCOUNTS WITH BANK INDONESIA

Current accounts with Bank Indonesia consist of:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Rupiah	3,819,424	3,097,348
United States Dollars	189,996	166,776
Total	4,009,420	3,264,124

5. CURRENT ACCOUNTS WITH OTHER BANKS

Current accounts with other banks consist of:

a. By Currency:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah	2,241	24,368
United States Dollar	490,603	319,568
European Euro	1,143,024	18,779
Japanese Yen	57,455	32,004
UK Pounds Sterling	11,414	7,864
Australian Dollar	6,260	—
Singapore Dollar	5,312	7,207
Others	7,201	3,042
	1,723,510	412,832
Related party		
United States Dollar	—	1,913
	—	1,913
Total	1,723,510	414,745
Less allowance for possible losses	(17,235)	(6,041)
Net	1,706,275	408,704

b. By Collectibility:
As of June 30, 2003 and 2002, all current accounts with other banks are classified as current, except current accounts with a related party (BRI Finance Limited Hong Kong), a subsidiary which has been liquidated in 2001, amounting to Rp1,913 as of June 30, 2002 which is classified as loss (see Note 2).

NOTES TO FINANCIAL STATEMENTS—(Continued)

c. Movement of allowance for possible losses on current accounts with other banks:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Rupiah		
Beginning balance	104	178
Provision (reversal of allowance) during the periods	(82)	66
	22	244
Foreign Currencies		
Beginning balance	4,857	14,885
Provision (reversal of allowance) during the periods	12,356	(9,088)
	17,213	5,797
Total	17,235	6,041

6. PLACEMENTS WITH BANK INDONESIA AND OTHER BANKS AND FINANCIAL INSTITUTIONS

a) By Currency and Type:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
Rupiah		
Bank Indonesia—Rupiah intervention	1,000,000	458,150
Unamortized interest	—	(843)
	1,000,000	457,307
Call money	1,355,000	426,950
	2,355,000	884,257
Foreign Currencies		
Call money	649,304	674,894
Time deposits	20,663	17,460
	669,967	692,354
	3,024,967	1,576,611
Related party		
Rupiah		
Call money	—	26,000
Foreign Currencies		
Call money	153,044	—
	153,044	26,000
Total	3,178,011	1,602,611
Less allowance for possible losses	(173,294)	(11,453)
Net	3,004,717	1,591,158

NOTES TO FINANCIAL STATEMENTS—(Continued)

b) **By Period:**
The placements are grouped by their remaining period to maturity as follows:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah		
≤1 month	2,355,000	872,307
>1 month—3 months	—	11,950
	2,355,000	884,257
Foreign Currencies		
≤1 month	571,938	674,894
>1 month—3 months	98,029	17,460
>3 months—6 months	—	
	669,967	692,354
	3,024,967	1,576,611
Related parties		
Rupiah		
≤1 month	—	26,000
>3 months—6 months	—	—
	—	26,000
Foreign Currencies		
≤1 month	57,855	—
>3 months—6 months	95,189	—
	153,044	—
	153,044	26,000
Total	3,178,011	1,602,611
Less allowance for possible losses	(173,294)	(11,453)
Net	3,004,717	1,591,158

c) **By Collectibility:**
The placements with Bank Indonesia and other banks and financial institutions are classified as current, except call money with BIP amounting to Rp153,044 as of June 30, 2003 and PT UFJ-BRI Finance (Formerly PT Sanwa BRI Finance), related parties, amounting to Rp26,000 as of June 30, 2002.

d) Movement of allowance for possible losses on placements with Bank Indonesia and others banks and financial institutions:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Rupiah		
Beginning balance	10,200	1,013
Provision during the periods	3,350	3,516
	13,550	4,529
Foreign Currencies		
Beginning balance	174,455	7,874
Reversal of allowance during the periods	(14,711)	(950)
	159,744	6,924
Total	173,294	11,453

7. SECURITIES

a) By Currency and Type:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah		
Held to maturity:		
Bank Indonesia certificates	7,591,437	4,876,158
Unamortized interest	(33,747)	(40,998)
	7,557,690	4,835,160
SBPU	361	992
Bonds	—	3,800
	7,558,051	4,839,952
Trading:		
Subordinated bonds	199,823	—
Bonds	53,586	68,425
Mutual fund units	50,074	345
	303,483	68,770

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Foreign Currencies		
Held to maturity:		
Notes receivable	266,697	191,650
Subordinated notes (net of unamortized interest Rp1,161 of as of June 30, 2003)	139,344	—
Bonds	27,566	34,023
	433,607	225,673
Trading:		
Exchange offer	209,755	289,306
Notes receivable	44,092	101,036
Medium term notes	43,460	—
	297,307	390,342
Total	8,592,448	5,524,737
Less allowance for possible losses	(10,348)	(6,896)
Net	8,582,100	5,517,841

b) By Collectibility:
As of June 30, 2003 and 2002 all securities are classified as Current.

c) Period:
The securities are grouped by their remaining period to maturity as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
Rupiah		
≤1 month	7,146,225	4,232,697
>1 month—3 months	715,309	598,168
>3 months—1 year	—	74,057
>1 year—5 years	—	3,800
	7,861,534	4,908,722
Foreign Currencies		
≤1 month	550,490	581,993
>1 month—3 months	13,513	—
>1 year—5 years	27,566	34,022
>5 years	139,345	—
	730,914	616,015
Total	8,592,448	5,524,737
Less allowance for possible losses	(10,348)	(6,896)
Net	8,582,100	5,517,841

d) By Issuer:

d.1. Exchange Over:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Trading (fair values)		
PT Bank Negara Indonesia (Persero) Tbk	106,959	197,915
PT Bank Mandiri (Persero)	102,796	67,899
PT Bank Internasional Indonesia Tbk	—	20,873
PT Bank Tabungan Negara (Persero)	—	2,619
Total	209,755	289,306

The exchange offer are grouped by their remaining period to maturity as follows:

	June 30, 2003	2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
>3 months—1 year	133,667	151,939
>1 year—5 years	76,088	137,367
Total	209,755	289,306

BRI earns interest every six months, on February 25 and August 25 of each year for the Exchange Offer I, and on June 1 and December 1 of each year for the Exchange Offer II. The interest rate on the exchange offer is determined every six months.

The exchange offer is guaranteed by Bank Indonesia.

NOTES TO FINANCIAL STATEMENTS—(Continued)

d.2. Notes receivable

	June 30, 2003		June 30, 2002	
	Cost/ Fair Value	Maturity Date	Cost/ Fair Value	Maturity Date
	(Audited) (Notes 2 and 3)		(Unaudited) (Note 2)	
Held to maturity (Cost)				
Evergreen	58,897	July 1, 2003	—	—
Federal National Mortgage Association (FANNIE MAE)	19,836	July 1, 2003	20,952	July 1, 2002
Bemis Co. Inc.	19,836	July 1, 2003	—	—
Merrill Lynch & Co.	19,836	July 7, 2003	—	—
Greyhawk Funding LLC	19,836	July 1, 2003	—	—
Koch Industries Inc.	19,836	July 1, 2003	—	—
Paccar Fin Corp.	19,836	July 1, 2003	—	—
Credit Suisse First Boston Inc (CSFB)	19,811	July 1, 2003	20,952	July 1, 2002
Morgan Stanley, Inc. Co.	19,803	July 1, 2003	20,952	July 1, 2002
General Electric Capital Co.	19,695	July 1, 2003	20,900	July 1, 2002
Sheffield Receivables	5,620	July 2, 2003	—	—
Amstel Funding Corp.	4,133	August 21, 2003	—	—
Neptune Funding Corp.	4,133	August 1, 2003	—	—
Three Pillar Funding	4,133	July 1, 2003	—	—
Special Purp Accounts Receivable	4,133	July 8, 2003	—	—
Scaldis & Scaldis Join	2,769	August 15, 2003	—	—
Victory Receivables Corp.	2,479	August 1, 2003	—	—
Ness LLC	2,075	July 1, 2003	—	—
Fairway Finance	—	—	20,952	July 2, 2002
Giro Balance Corp.	—	—	20,952	July 2, 2002
Compass Sec LLC	—	—	20,952	July 2, 2002
Salomon Smith Barney	—	—	17,460	July 1, 2002
Mcdonald's Corp.	—	—	17,460	July 1, 2002
CIESCO.	—	—	10,118	July 5, 2002
	266,697		191,650	
Trading (Fair Value)				
PT Bank Mandiri (Persero)	35,259	December 13, 2004	43,606	November 14, 2002
PT Bank Mandiri (Persero)	—	December 13, 2004	18,157	December 31, 2004
PT Bank Negara Indonesia (Persero) Tbk	8,833	February 15, 2007	39,274	August 22, 2005
	44,092		101,037	
Total	310,789		292,687	

NOTES TO FINANCIAL STATEMENTS—(Continued)

The ratings of notes receivable based on Standard & Poor's ratings as of June 30, 2003 and 2002 is as follows:

	June 30, 2003	June 30, 2002
Sheffield Receivables	A-1+	—
Credit Suisse First Boston (CSFB)	A-1+	A-1+
Morgan Stanley Group, Inc.	A-1+	A-1+
General Electric Capital Co.	A-1+	A-1+
Merrill Lynch & Co.	A-1+	—
Greyhawk Funding LLC	A-1+	—
Koch Industries Inc.	A-1+	—
Paccar Fin Corp	A-1+	—
Amstel Funding Corp.	A-1+	—
Scaldis & Scaldis Join	A-1+	—
Ness LLC	A-1	—
Neptune Funding Corp.	A-1	—
Three Pillar Funding	A-1	—
Special Purp Accounts Receivable	A-1	—
Victory Receivables Corp.	A-1	—
Bemis Co. Inc.	A-1	—
Federal National Mortgage Association (FANNIE MAE)	AAA	—
Mcdonald's Corp.	—	A-1+
Compass Sec LLC	—	A-1+
Salomon Smith Barney	—	A-1+
CIESCO LLP	—	A-1+
Fairway Finance	—	A-1
Giro Balance Corp.	—	A-1

d.3. Subordinated notes:

	June 30, 2003			
	Nominal Amount			
	US Dollar (Full Amount)	Rupiah Equivalent	Unamortized Discount	Net
		(Audited) (Notes 2 and 3)		
Held to maturity				
PT Bank Mandiri (Persero)	10,000,000	82,650	(640)	82,010
PT Bank Negara Indonesia (Persero) Tbk	7,000,000	57,855	(521)	57,334
Total	17,000,000	140,505	(1,161)	139,344

The subordinated notes of PT Bank Mandiri (Persero) will be due on August 2, 2012 with option to buy back on August 2, 2007. The notes bear fixed annual interest rate at 10.625% until the option date and the interest is receivable every six months.

The subordinated notes of PT Bank Negara Indonesia (Persero) Tbk will be due on November 15, 2012 with option to buy back on November 15, 2007. The notes bear fixed annual interest rate at 10% until the option date and the interest is receivable every six months.

These subordinated notes have the same rights as the other non-guaranteed debts of PT Bank Mandiri (Persero) and PT Bank Negara Indonesia (Persero) Tbk which have been existing and will exist in the future.

d.4. Bonds:

	June 30, 2003		June 30, 2002	
	Cost/ Fair Value	Maturity Date	Cost/ Fair Value	Maturity Date
	(Audited) (Notes 2 and 3)		(Unaudited) (Note 2)	
Held to maturity (Cost)				
Rupiah				
Perum Pegadaian	—	—	2,800	June 12, 2006
PT Jasa Marga	—	—	1,000	March 27, 2008
	—		3,800	
Foreign currencies				
Astra	27,566	June 28, 2005	34,023	June 28, 2005
	27,566		37,823	
Trading (Fair Value)				
Rupiah				
PT Perusahaan Listrik Negara (Persero) VI B	18,685	August 8, 2007	16,380	August 8, 2007
PT Bank DKI	17,894	June 18, 2004	16,920	June 18, 2004
Perum Pegadaian V	9,110	July 8, 2003	9,090	July 8, 2003
Perum Pegadaian VI	7,897	September 8, 2007	8,120	September 8, 2007
Perum Pegadaian IV	—		7,980	July 3, 2002
PT Bank Tabungan Negara (Persero)	—		6,965	July 18, 2002
PT Bank Nagari	—		2,970	July 16, 2002
	53,586		68,425	
Total	81,152		106,248	

The ratings of bonds as reported by PT Pemeringkat Efek Indonesia (Pefindo) as of June 30, 2003 and 2002 are as follows:

	June 30, 2003	2002
Perum Pegadaian	idAA	idA+
PT Bank DKI	idBBB–	idBB+
PT Perusahaan Listrik Negara (Persero)	idBB–	idB
PT Bank Tabungan Negara (Persero)	—	idBB–
PT Bank Nagari	—	idBBB–
PT Jasa Marga	—	idA+

d.5. Mutual Fund Units

As of June 30, 2003, BRI had 50,000,000 unit of Brivestama Pasti's Mutual Fund with nominal Rp1,000 (full amount) per unit as of June 30, 2003, the mutual fund value amounted to Rp50,074. BRI acts as sponsor of this mutual fund which is redeemable after 1 year. Mutual fund units as of June 30, 2002 represents Bahadana Investasi Abadi mutual fund amounting to Rp345 which was due and collected in February 2003.

d.6. Subordinated Bonds

As of June 30, 2003, BRI had subordinated bonds of PT Bank Pan Indonesia Tbk amounting to Rp199,823 which will be due on June 18, 2013 with option to buy back on June 18, 2008. The bonds bear fixed annual interest rate at 14% for the first 5 years and 23% for the next 5 years. The interest is receivable every three months.

NOTES TO FINANCIAL STATEMENTS—(Continued)

d.7. Medium Term Notes
As of June 30, 2003, BRI had the Medium Term Notes (MTNs) of PT Bank Mandiri (Persero) with a nominal amount US$ 5,000,000 which will be due on April 22, 2008 and bear fixed annual interest rate at 7% which is receivable every six months.

e) **Movement of allowance for possible losses on securities:**

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Rupiah		
Beginning balance	527	1,101
Provision (reversal of allowance) during the periods	2,512	(375)
	3,039	726
Foreign Currencies		
Beginning balance	7,930	6,027
Provision (reversal of allowance) during the periods	(621)	143
	7,309	6,170
Total	10,348	6,896

f) BRI recognized a net gain amounting to Rp 5,040 and Rp 11,336 in June 30, 2003 and 2002, respectively, resulting from the revaluation of trading securities which are reported under "Gain from Increase in Value of Securities and Government Bonds".

8. EXPORT BILLS

Export bills consist of:

a) **By Collectibility:**

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third Parties		
Rupiah		
Current	2,341	—
	2,341	—
Foreign Currencies		
Current	402,455	407,494
Loss	560	8,834
	403,015	416,328
	405,356	416,328
Allowance for possible losses	(4,947)	(12,909)
Net	400,409	403,419

NOTES TO FINANCIAL STATEMENTS—(Continued)

b) **By Period:**
The classification of export bills based on the remaining period to maturity is as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third Parties		
Rupiah		
≤1 month	2,341	—
	2,341	—
Foreign Currencies		
≤1 month	250,037	226,607
>1 month—3 months	108,355	162,408
>3 months—6 months	44,623	27,313
	403,015	416,328
	405,356	416,328
Allowance for possible losses	(4,947)	(12,909)
Net	400,409	403,419

c) **Movement of allowance for possible losses on export bill:**

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Beginning balance	12,909	5,409
Provision (reversal of allowance) during the periods	(7,962)	7,500
Ending Balance	**4,947**	**12,909**

9. GOVERNMENT BONDS

The details of Government Bonds are as follows:

a) **By Purpose and period:**

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Held to maturity (cost)		
>1 year—5 years	3,434,823	10,532,565
>5 years—10 years	18,954,471	15,755,629
>10 years	3,600,000	—
	25,989,294	26,288,194
Trading (fair value)		
>1 year—5 years	1,819,069	2,104,435
>5 years—10 years	199,181	437,300
	2,018,250	2,541,735
Total	**28,007,544**	**28,829,929**

NOTES TO FINANCIAL STATEMENTS—(Continued)

b) By Type:

	June 30, 2003 (Audited) (Notes 2 and 3)		
Series	Maturity Date	Annual Interest Rate	Amount
Held to maturity			
Fixed rates			
FR0004	Feb 15, 2006	12.125%	1,300,000
FR0005	July 15, 2007	12.250%	1,500,000
FR0011	May 15, 2010	13.550%	800,000
FR0014	Nov 15, 2010	15.575%	500,000
FR0015	Feb 15, 2011	13.400%	4,000,000
FR0016	Aug 15, 2011	13.450%	3,950,000
FR0017	Jan 15, 2012	13.150%	3,650,000
FR0018	July 15, 2012	13.175%	3,750,000
			19,450,000
Variable rates			
VR0013	Jan 25, 2008	SBI 3 months	634,823
VR0014	Aug 25, 2008	SBI 3 months	634,824
VR0016	July 25, 2009	SBI 3 months	1,669,647
VR0020	Apr 25, 2015	SBI 3 months	250,000
VR0021	Nov 25, 2015	SBI 3 months	250,000
VR0023	Oct 25, 2016	SBI 3 months	500,000
VR0026	Jan 25, 2018	SBI 3 months	375,000
VR0027	July 25, 2018	SBI 3 months	375,000
VR0028	Aug 25, 2018	SBI 3 months	375,000
VR0029	Aug 25, 2019	SBI 3 months	375,000
VR0031	July 25, 2020	SBI 3 months	1,100,000
			6,539,294
			25,989,294
Trading			
Fixed rates			
FR0002	June 15, 2009	14.000%	33,105
FR0003	May 15, 2005	12.000%	302,655
FR0004	Feb 15, 2006	12.125%	207,977
FR0005	July 15, 2007	12.250%	522,803
FR0008	May 15, 2005	16.500%	785,634
FR0010	March 15, 2010	13.150%	36,339
FR0016	August 15, 2011	13.450%	4,112
FR0017	August 15, 2011	13.150%	100,000
FR0021	Dec 15, 2010	14.500%	25,625
			2,018,250
Balance as of June 30, 2003			28,007,544

Series	Maturity Date	Annual Interest Rate	Amount
	June 30, 2002 (Unaudited) (Note 2)		
Held to maturity			
Fixed rates			
FR0003	May 15, 2005	12.000%	1,016,232
FR0004	Feb 15, 2006	12.125%	9,516,333
FR0005	July 15, 2007	12.250%	9,216,334
			19,748,899
Variable rates			
VR0013	Jan 25, 2008	16.74767%	1,634,824
VR0014	Aug 25, 2008	16.29139%	1,634,824
VR0016	July 25, 2009	16.74767%	3,269,647
			6,539,295
			26,288,194
Trading			
Fixed rates			
FR0003	May 15, 2005	12.000%	665,087
FR0004	Feb 15, 2006	12.125%	89,706
FR0005	July 15, 2007	12.250%	437,301
FR0008	May 15, 2005	16.500%	1,342,710
FR0009	May 15, 2005	10.000%	6,931
			2,541,735
Balance as of June 30, 2002			28,289,929

c) **Other Significant Information:**

In accordance with Bank Indonesia Regulation No. 3/18/DPM dated July 31, 2001, Commercial Banks which hold Government bonds are allowed to trade all series of Government bonds in the secondary market, up to a maximum of 100% of the total Government bonds received in connection with the Commercial Banks Recapitalization Program, wherein the realization has to be reported to Bank Indonesia.

In accordance with the Minister of Finance letter No. S-84/MK.01/2002 dated March 26, 2002 regarding the conversion of Government bonds series FR to Government bonds Series VR, part of the Government bonds with fixed interest rate amounting to Rp6,539,294 were converted to Government bonds with variable interest rate on March 26, 2002.

NOTES TO FINANCIAL STATEMENTS—(Continued)

As of June 30, 2003 and 2002, the market values for the Government bonds classified under trading for short-term funding facility and intra-day liquidity facility as published by Bank Indonesia are as follows:

Series	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
FR0002	109.81%	—
FR0003	94.35	95.05%
FR0004	103.30	88.65
FR0005	104.41	84.26
FR0008	110.55	100.75
FR0010	106.88	106.88
FR0016	103.75	103.75
FR0021	114.21	114.21
FR0009	—	86.65

10. SECURITIES PURCHASED WITH AGREEMENT TO RESELL

Securities purchased with agreement to resell consist of:

	June 30, 2003 (Audited) (Notes 2 and 3)					
	Terms	Resale Date	Nominal	Resale Price	Unearned Interest	Net Value
Commercial paper						
Deutsche Securities	1 day	July 1, 2003	19,836	19,837	—	19,837
Less allowance for possible losses						(198)
Total						19,639

	June 30, 2002 (Unaudited) (Note 2)					
	Terms	Resale Date	Nominal	Resale Price	Unearned Interest	Net Value
Commercial paper						
Deutsche Securities	1 days	July 1, 2002	20,952	20,955	—	20,955
Less allowance for possible losses						(209)
Total						20,746

The securities purchased with agreement to resell are classified as Current.

Movement of allowance for possible losses on securities purchased with agreement to resell is as follows:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Beginning balance	215	2,024
Reversal of allowance during the periods	(17)	(1,815)
Ending Balance	198	209

NOTES TO FINANCIAL STATEMENTS—(Continued)

11. LOANS

Loan portfolio consist of:

a) **By Currency and Type:**

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah		
Kupedes	13,174,951	10,859,084
Consumer	10,830,803	8,717,775
Working capital	9,597,863	6,981,096
Program	3,180,663	2,341,888
Investment	2,567,322	2,466,799
Syndicated	224,762	148,681
Others	77,884	385,083
	39,654,248	31,900,406
Foreign Currencies		
Working capital	3,142,121	3,297,204
Investment	453,860	1,235,725
Syndicated	44,297	145,915
Others	3,108	—
	3,643,386	4,678,844
	43,297,634	36,579,250
Related parties		
Rupiah		
Working capital	167,566	138,214
Employees	22,718	22,098
	190,284	160,312
Total	43,487,918	36,739,562
Less allowance for possible losses	(4,168,806)	(4,388,201)
Net	39,319,112	32,351,361

NOTES TO FINANCIAL STATEMENTS—(Continued)

b) By Economic Sector:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah		
Manufacturing	2,506,626	2,559,861
Trading, hotel and restaurant	9,649,507	8,245,951
Agriculture	8,287,593	6,719,631
Construction	261,468	170,684
Business services	633,002	372,674
Social services	106,998	66,048
Mining	48,932	49,565
Electricity, gas and water	128,692	53,359
Transportation, warehousing and communication	156,028	115,363
Others	17,875,402	13,547,270
	39,654,248	31,900,406
Foreign Currencies		
Manufacturing	3,032,983	3,625,154
Trading, hotel and restaurant	306,977	188,985
Agriculture	644	—
Construction	267,811	340,451
Business services	31,863	331,655
Mining	—	132,544
Electricity, gas and water	—	54,504
Others	3,108	5,551
	3,643,386	4,678,844
	43,297,634	36,579,250
Related parties		
Rupiah		
Business services	167,566	138,214
Others	22,718	22,098
	190,284	160,312
Total	43,487,918	36,739,562
Less allowance for possible losses	(4,168,806)	(4,388,201)
Net	39,319,112	32,351,361

c) By Period:

Loans based on their remaining period up to maturity date are as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
Rupiah		
≤1 month	2,115,718	1,663,218
>1 month—3 months	2,610,484	2,061,321
>3 months—1 year	11,762,422	6,948,823
>1 year—2 years	5,614,817	5,267,019
>2 years—5 years	14,768,239	11,176,403
>5 years	2,782,568	4,783,622
	39,654,248	31,900,406
Foreign Currencies		
≤1 month	666,945	763,930
>1 month—3 months	162,492	317,378
>3 months—1 year	1,639,519	1,639,387
>1 year—2 years	22,083	446,732
>2 years—5 years	586,245	491,582
>5 years	566,102	1,019,835
	3,643,386	4,678,844
	43,297,634	36,579,250
Related parties		
Rupiah		
>3 months—1 year	167,566	137,123
>1 year—2 years	—	1,091
>5 years	22,718	22,098
	190,284	160,312
Total	43,487,918	36,739,562
Less allowance for possible losses	(4,168,806)	(4,388,201)
Net	39,319,112	32,351,361

d) By Collectibility:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Current	37,406,394	29,313,128
Special mention	3,166,506	4,397,619
Substandard	1,101,903	611,645
Doubtful	863,609	1,237,233
Loss	949,506	1,179,937
Total	43,487,918	36,739,562
Less allowance for possible losses	(4,168,806)	(4,388,201)
Net	39,319,112	32,351,361

e) **Other significant information relating to loans are as follows:**

1) The loans are generally collateralized by registered mortgages or by power of attorney to mortgage or sell, demand deposits, time deposits or by other guarantees generally accepted by banks.

2) Working capital and investment loans represent loans to customers for capital goods requirements and working capital.

3) Consumer loans consist of housing, car and other personal loans.

4) Program loans represent BRI's loan facilities based on the guidelines from the Indonesian Government to support the development of Indonesia's small scale industry, middle and Cooperative Units and to finance the procurement of food supply by the National Logistics Agency (BULOG).

5) Kupedes loans represent BRI's credit facilities through BRI's Units. The target of these loans is micro business and fixed income employees that require additional funds and within the limit amount stated in the Kupedes manual. The economic sectors covered under Kupedes include agriculture, manufacturing, trading, fixed income and others.

6) The loans to BRI's employees (related party) amounting to Rp22,718 and Rp22,098 as of June 30, 2003 and 2002, respectively, consist of loans which are intended for acquisitions of vehicles, houses and other personal properties. These loans bear annual interest of 5% and have maturities ranging from three to twenty years and are collected through monthly payroll deduction.

7) The loans granted to related parties, other than loans to employees are as follows:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
PT Bringin Srikandi Finance		
Current	138,511	
Special mention	—	137,123
PT Bringin Indotama Sejahtera Finance		
Current	29,055	
Special mention	—	1,091

8) BRI, in its report on Legal Lending Limit (LLL) to Bank Indonesia as of June 30, 2003 and 2002, indicated that no debtor whether related party or third party exceeds the LLL.

9) Movement of allowance for possible losses on loans:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Beginning balance	3,913,097	3,963,445
Translation adjustments	(70,072)	(258,545)
Provision during the period	57,633	526,171
Bad debt recoveries	328,499	174,341
Loans written-off	(60,351)	(17,211)
Ending balance	4,168,806	4,388,201

10) Channeling loans

Besides the loans recorded in the balance sheets, BRI also manages some loans based on appointment and/or joint agreement with the Government whereby BRI has been appointed as an administrator of certain loans granted by the Government of the Republic of Indonesia to third parties.

BRI's responsibility, among others, involves the collection of principal, interest and other charges and the maintenance of proper accounting records for these loans. BRI does not have any credit risk on such loans. As compensation, BRI receives administration fees.

Balance of channeling loans as of June 30, 2003 and 2002 amounting to Rp7,632,712 and Rp7,092,930, respectively.

The difference between the channeling loans received and granted under BRI's administrative process is shown under Other Liabilities (see Note 25).

12. ACCEPTANCES RECEIVABLE AND PAYABLE

Acceptances receivable in foreign currencies consist of:

a) **By Collectibility:**

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
Receivables from customers		
Current	14,304	55,532
Special Mention	211,266	100,672
Substandard	698	17,347
Doubtful	28,784	12,187
Loss	657	204
Total	255,709	185,942
Less allowance for possible losses	(25,859)	(16,311)
Net	229,850	169,631

Acceptances payable represent the same amount as acceptances receivable from customers.

b) **By Period:**
The classification of acceptances receivable based on the remaining period to maturity is as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
≤1 month	154,053	98,033
>1 month—3 months	63,232	42,609
>3 months—6 months	37,360	45,300
>6 months—1 year	1,064	—
Total	255,709	185,942
Less allowance for possible losses	(25,859)	(16,311)
Net	229,850	169,631

NOTES TO FINANCIAL STATEMENTS—(Continued)

c) **Movement of allowance for possible losses on acceptances receivables:**

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Beginning balance	16,311	31,932
Provision (reversal of allowance) during the periods	9,548	(15,621)
Ending balance	25,859	16,311

13. INVESTMENTS IN SHARES OF STOCK

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

Investee Company	Nature of Business	Percentage of Ownership	June 30, 2003 Cost	Accumulated Equity in Net Earnings	Carrying Value
			(Audited) (Notes 2 and 3)		
Equity Method					
PT UFJ-BRI Finance (Formerly PT Sanwa BRI Finance)	Financing	45.00%	24,750	30,528	55,278
Cost Method					
PT Bank Inter-Pacific Tbk	Banking	66.79			48,487
PT Kustodian Sentral Efek Indonesia	Central settlement and depository institution	3.00			900
PT Sarana Bersama Pembiayaan Indonesia	Investment	8.00			536
PT Pemeringkat Efek Indonesia	Credit rating	1.40			210
PT Graha Sidang Pratama	Property	0.02			10
					50,143
Total					105,421
Less allowance for possible losses					(48,504)
Net					56,917

NOTES TO FINANCIAL STATEMENTS—(Continued)

			June 30, 2002		
Investee Company	Nature of Business	Percentage of Ownership	Cost	Accumulated Equity in Net Earnings	Carrying Value
			(Unaudited) (Note 2)		
Equity Method					
PT UFJ-BRI Finance (Formerly PT Sanwa BRI Finance)	Financing	45.00%	24,750	23,375	48,125
Cost Method					
PT Kustodian Sentral Efek Indonesia	Central settlement and depository institution	3.00			900
PT Sarana Bersama Pembiayaan Indonesia	Investment	8.00			536
PT Pemeringkat Efek Indonesia	Credit rating	1.40			210
PT Bursa Efek Jakarta	Stock Exchange	0.87			135
PT Bursa Efek Surabaya	Stock Exchange	0.50			60
PT Kawasan Industri Jababeka Tbk	Property	0.20			10
PT Graha Sidang Pratama	Property	0.02			10
					1,861
Total					49,986
Less allowance for possible losses					(511)
Net					49,475

The investments are classified as Current, except investment in PT Bank Inter-Pacific Tbk as of June 30, 2003 which was classified as Loss.

On December 16, 2002, in its letter No. R.205-DIR/KUI/TRY/12/02, the Board of Directors of BRI resolved to divest all of the investment in PT Bank Inter-Pacific Tbk (BIP). The decision for divestment was approved by The Minister of State-Owned Enterprises in his letter No. S-476/MBU/2002 dated October 17, 2002 and No. S-565/M-MBU/2002 dated August 28, 2002. In accordance with these decisions, the financial statements of BIP were not consolidated (see Note 2) with BRI's financial statements, but BRI's investment in BIP was recorded using the cost method with carrying value of Rp48,487.

Movement of allowance for possible losses on investments in shares of stock:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Beginning balance	48,504	456
Provision during the periods	—	105
Written-off during the periods	—	(50)
Ending balance	48,504	511

NOTES TO FINANCIAL STATEMENTS—(Continued)

14. PREMISES AND EQUIPMENT

The details of premises and equipment are as follows:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Carrying Value		
Direct Ownership		
Land rights	151,952	134,749
Buildings	658,985	599,987
Transportation equipment	148,055	117,973
Computers and peripherals	1,100,198	661,510
Furniture and fixtures	247,362	268,344
Museum assets	184	292
	2,306,736	1,782,855
Assets under capital leases	384,477	352,538
Total Carrying Value	2,691,213	2,135,393
Accumulated Depreciation		
Direct Ownership		
Buildings	383,563	328,804
Transportation equipment	116,076	99,020
Computers and peripherals	520,671	407,290
Furniture and fixtures	194,770	179,719
Museum assets	—	54
	1,215,080	1,014,887
Assets under capital leases	258,550	266,087
Total Accumulated Depreciation	1,473,630	1,280,974
Net book value	1,217,583	854,419

The Bank has lease contracts with various leasing companies mainly for computers and peripherals and vehicles under lease contracts for 3 and 5 years.

Depreciation charged to year's profit and loss (see Note 32) amounted to Rp93,108 and Rp71,965 as of June 30, 2003 and 2002, respectively.

Management believes that there is no permanent impairment in the value of fixed assets as of June 30, 2003 and 2002.

NOTES TO FINANCIAL STATEMENTS—(Continued)

15. OTHER ASSETS

Other assets consist of:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Rupiah		
Interest receivable		
Government bonds	1,229,830	1,222,853
Others	352,946	146,386
Prepaid expenses	207,917	158,484
Office supplies	106,419	104,764
Foreclosed collaterals	12,813	13,713
Others	996,221	1,053,115
	2,906,146	2,699,315
Foreign Currency		
Interest receivable		
others	10,114	19,607
Prepaid expenses	4,359	3,303
Others	187,638	118,797
	202,111	141,707
Total	3,108,257	2,841,022
Less allowance for possible losses	(642,373)	(851,157)
Net	2,465,884	1,989,865

Allowance for possible losses mainly consists of allowance for interoffice transactions, suspense accounts in branches, certain differences in nostro account and differences of conversion arising in the course of information system integration and modernization.

NOTES TO FINANCIAL STATEMENTS—(Continued)

16. SHORT-TERM LIABILITIES

Short-term liabilities consist of:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Rupiah		
Tax payable	947,467	616
Remittances for transfer	244,428	96,585
Tax deposits	101,403	78,818
Deposits for channeling loans	65,500	87,994
Deposits for clearing	26,450	102,988
Bank drafts and BRI travelers' checks (Cepebri)	26,218	32,209
Risk sharing fund deposits	25,900	23,134
Customers' guaranteed funds	17,008	140,657
Guaranteed deposits	6,179	15,327
Others	2,068,911	744,379
	3,529,464	1,322,707
Foreign Currency		
Rediscounted export bills to Bank Indonesia and other banks	58,148	19,480
Guaranteed deposits	15,181	4,306
Remittances for transfer	10,266	338,323
Others	21,605	41,691
	105,200	403,800
Total	3,634,664	1,726,507

17. DEMAND DEPOSITS

Demand deposits consist of:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
Rupiah	9,633,394	6,998,163
Foreign Currencies	2,171,753	407,737
	11,805,147	7,405,900
Related parties		
Rupiah	3,303	1,232
Foreign currencies	79	549
	3,382	1,781
Total	11,808,529	7,407,681

NOTES TO FINANCIAL STATEMENTS—(Continued)

18. SAVINGS DEPOSITS

Savings deposits consist of:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah		
Simpedes	17,878,436	16,330,900
Britama and TabanasBri	9,027,807	7,695,361
Simaskot	2,947,441	2,689,917
Others	1,230,019	831,693
	31,083,703	27,547,871
Foreign Currencies		
Britama	4,279	—
	31,087,982	27,547,871
Related parties		
Rupiah		
Britama and TabanasBri	339	—
Foreign Currencies		
Britama	9	—
	348	—
Total	31,088,330	27,547,871

19. TIME DEPOSITS

Time deposits consist of:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah	29,226,842	23,783,949
Foreign currencies	1,997,334	1,963,571
	31,224,176	25,747,520
Related parties		
Rupiah	187,668	30,060
Foreign currencies	—	1,902
	187,668	31,962
Total	31,411,844	25,779,482

PT BANK RAKYAT INDONESIA (PERSERO)

NOTES TO FINANCIAL STATEMENTS—(Continued)

Time deposits based on their period to maturity are follows:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah		
Deposits on call	1,864,581	1,266,064
Deposits		
1 month	12,324,882	19,791,099
3 months	5,340,993	1,560,093
6 months	5,010,988	459,337
12 months	3,139,029	503,838
More than 12 months	1,546,369	203,518
	29,226,842	23,783,949
Foreign Currencies		
Deposits on call	390,108	50,075
Deposits		
1 month	994,743	1,764,887
3 months	356,412	95,107
6 months	150,025	19,321
12 months	103,566	32,867
More than 12 months	2,480	1,314
	1,997,334	1,963,571
	31,224,176	25,747,520
Related parties		
Rupiah		
Deposits		
1 month	56,873	—
3 months	57,445	—
6 months	31,750	—
12 months	41,600	—
More than 12 months	—	30,060
	187,668	30,060
Foreign Currencies		
Deposits		
More than 12 months	—	1,902
	—	1,902
	187,668	31,962
Total	31,411,844	25,779,482

NOTES TO FINANCIAL STATEMENTS—(Continued)

20. CERTIFICATES OF DEPOSITS

Certificates of deposit in Rupiah based on their contract period to maturity are follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
3 months	11,620	6,000
Less unamortized interest	(144)	(19)
Total	11,476	5,981

21. DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

Deposits from other banks and financial institutions consist of:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
Rupiah		
Demand deposits	230,736	203,863
Savings	66,063	26,615
Time deposits	925,884	1,789,966
Interbank Call money	610,000	214,600
	1,832,683	2,235,044
Foreign Currencies		
Interbank Call money	—	416,031
	—	416,031
	1,832,683	2,651,075
Related party		
Foreign currencies		
Demand deposits	—	5
Total	1,832,683	2,651,080

Deposits from other banks and financial institutions based on their remaining period to maturity are as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)					
	On call	≤1 month	>1-3 months	>3-6 months	>12 months	Total
Third parties						
Demand deposits	230,736	—	—	—	—	230,736
Savings	66,063	—	—	—	—	66,063
Time deposits	1,000	889,125	35,759	—	—	925,884
Interbank call money	—	290,000	320,000	—	—	610,000
Total	297,799	1,179,125	355,759	—	—	1,832,683

	June 30, 2002 (Unaudited) (Note 2)					
	On call	1 month	>1-3 months	>3-6 months	>12 months	Total
Third parties						
Demand deposits	203,868	—	—	—	—	203,868
Savings	26,615	—	—	—	—	26,615
Time deposits	1,933	1,718,902	69,131	—	—	1,789,966
Interbank call money	—	214,600	—	—	—	214,600
	232,416	1,933,502	69,131	—	—	2,235,049
Related parties						
Interbank call money	—	416,031	—	—	—	416,031
Total	232,416	2,349,533	69,131	—	—	2,651,080

22. SECURITIES SOLD WITH AGREEMENT TO REPURCHASE

Securities sold with agreement to repurchase consists of Government bonds sold to PT Bank Buana Indonesia Tbk and Deutsche Bank AG (Jakarta) as of June 30, 2003 with agreement to repurchase (see Note 9) as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)					
	Terms	Repurchase Date	Nominal	Repurchase Price	Unamortized Interest Expenses	Net Value
Government bonds						
Series FR0005	90 days	August 6, 2003	234,590	205,800	(2,384)	203,416
Series FR0005	90 days	August 4, 2003	234,590	205,800	(2,256)	203,544
Series FR0017	56 days	July 15, 2003	100,000	101,975	(529)	101,446
Total			569,180	513,575	(5,169)	508,406

The bonds were repurchased by BRI at March 24, 2003.

23. FUND BORROWINGS

Fund borrowings consist of:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Third parties		
Rupiah		
Borrowing from Bank Indonesia:		
Liquidity loans	377,840	408,460
Borrowings for investment in premises and equipment	36,722	32,273
Notes payable	—	504,200
Obligations under capital lease	34	1,113
Others	9,946	9,709
	424,542	955,755

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Foreign Currencies		
Exchange offer loans	875,264	1,935,619
Notes payable	—	315,153
Others	13,728	102,520
	888,992	2,353,292
	1,313,534	3,309,047
Related parties		
Rupiah		
Obligations under capital lease	143,206	101,039
Borrowings from pension fund	45,226	60,301
	188,432	161,340
Total	1,501,966	3,470,387

The classification of fund borrowings based on their remaining period to maturity is as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
Rupiah		
≤1 month	—	50,000
>1 month—3 months	22,916	272,069
>3 months—1 year	34,399	329,284
>1 year—5 years	223,805	235,247
>5 years	143,422	69,155
	424,542	955,755
Foreign Currencies		
>1 month—3 months	—	407,696
>3 months—1 year	620,380	882,170
>1 year—5 years	268,612	1,063,426
	888,992	2,353,292
	1,313,534	3,309,047
Related parties		
Rupiah		
>1 month—3 months	—	23,170
>3 months—1 year	49,103	44,723
>1 year—5 years	139,329	93,447
	188,432	161,340
Foreign currencies		
>3 months—1 year	—	—
	188,432	161,340
Total	1,501,966	3,470,387

Other significant information relating to fund borrowings are as follows:

NOTES TO FINANCIAL STATEMENTS—(Continued)

(a) **Bank Indonesia Liquidity Loans**
This account represents credit facilities obtained from Bank Indonesia that are channeled to BRI's debtors for purposes such as investment loans, Primary Cooperatives of Sugar Cane Farmers Loans, Bulog and Village Cooperative Units Loans, Permanent Working Capital Loans, Fertilizer and others.

Classification of liquidity loans based on their remaining period to maturity as of June 30, 2003, and 2002 is as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
>1 month—3 months	12,970	27,444
>3 months—1 year	34,365	114,238
>1 year—5 years	223,805	229,896
>5 years	106,700	36,882
Total	377,840	408,460

(b) **Borrowings from Bank Indonesia for investment in premises and equipment**
This account represents non-interest bearing loans for the construction of certain office units for BRI's micro banking in Indonesia. The borrowings will mature in 2016.

(c) **Exchange Offer Loans**
In accordance with the Government's debt restructuring program for banks, BRI and BIP (Subsidiary) exchanged some of their foreign currency 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:

	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
	US Dollar (Full Amount)		Rupiah Equivalent	
Exchange Offer Loan I	—	10,600,000	—	92,543
Exchange Offer Loan II	105,900,000	211,100,000	875,264	1,843,076
Net	105,900,000	221,700,000	875,264	1,935,619

The exchange Offer Loan I (with original maturity before April 1, 1999) will mature in four (4) tranches each on August 25 starting 1999 up to 2002. Exchange Offer Loan II (with original maturity before January 1, 2002) will mature in four (4) tranches each on June 1 starting 2002 up to 2005. These borrowings bear interest which is payable every six months with the rate equal to LIBOR for the six months period plus applicable margin which have been determined for each period of the tranche.

BRI made partial payment earlier than maturity on Exchange Offer Loan II amounting to US$ 3,000,000 and US$ 5,000,000 as of June 30, 2003 and 2002, respectively.

(d) **Notes Payable**
This account represents facilities from PT Bank Ekspor Indonesia (Persero) for financing, guarantee and supporting export activities, with a term of 1 year from February 16, 2001 and can be extended every year. As of June 30, 2003, there are no outstanding notes payable from this facility.

NOTES TO FINANCIAL STATEMENTS—(Continued)

(e) **Obligations Under Capital Leases**
Obligations under capital leases (see Notes 2 and 14) consist of:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Third parties		
PT Armada Finance	34	676
PT Swadharma Surya Finance	—	437
	34	1,113
Related parties		
PT Bringin Srikandi Finance (subsidiary of Dana Pensiun BRI)	128,190	96,118
PT Bringin Indotama Sejahtera Finance (subsidiary of Dana Pensiun BRI)	14,893	1,465
PT UFJ-BRI Finance (associated company, formerly PT Sanwa-BRI Finance)	123	3,456
	143,206	101,039
Total	143,240	102,152

The installments of obligations under capital lease based on the remaining period to maturity as of June 30, 2003 and 2002 are as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
>1 month—3 months	—	23,437
>3 months—1 year	34,061	30,494
>1 year—5 years	109,179	48,221
Total	143,240	102,152

(f) **Borrowings from Pension Fund**
This account represents the loan facility from Dana Pensiun Bank Rakyat Indonesia, a related party, for land acquisition or building construction with a term of 15 years since December 10, 1990, with installment amounting to Rp 15,075 each year. Interest rate is based on the prevailing annual interest rate on one-year time deposits of BRI.

24. ESTIMATED LOSSES ON COMMITMENTS AND CONTINGENCIES

a) Estimated losses on commitments and contingencies bearing credit risk (see Note 2) are as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)	June 30, 2002 (Unaudited) (Note 2)
Rupiah		
Outstanding irrevocable letters of credit	1,941	8,573
Guarantees issued	22,549	38,328
	24,490	46,901

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Foreign Currencies		
Outstanding irrevocable letters of credit	218,655	115,560
Guarantees issued	39,042	66,094
Spot foreign currency bought	1,024	89
Forward foreign currency bought	12,398	—
	271,119	181,743
Total	295,609	228,644

b) Movement of estimated losses on commitments and contingencies:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Rupiah		
Beginning balance	46,901	14,227
Provision (reversal of allowance) during the periods/year	(22,411)	32,674
	24,490	46,901
Foreign Currencies		
Beginning balance	181,743	92,961
Provision during the periods/year	89,376	88,782
	271,119	181,743
Total	295,609	228,644

c) The collectibility of commitments and contingencies bearing credit risk (see Notes 2 and 36) is as follows:

	June 30, 2003 (Audited) (Notes 2 and 3)					
	Current	Special Mention	Substandard	Doubtful	Loss	Total
Third parties						
Rupiah						
Outstanding irrevocable letters of credit	1,425	—	6,716	—	919	9,060
Guarantees issued	34,584	35,007	2,873	1,427	19,309	93,200
	36,009	35,007	9,589	1,427	20,228	102,260
Foreign Currencies						
Outstanding irrevocable letters of credit	1,212,503	1,315,655	70,237	59,926	90,885	2,749,206
Guarantees issued	58,166	90,776	580	1,101	33,283	183,906
Spot foreign currency bought	102,444	—	—	—	—	102,444
Forward foreign currency bought	1,239,750	—	—	—	—	1,239,750
	2,612,863	1,406,431	70,817	61,027	124,168	4,275,306
Total	2,648,872	1,441,438	80,406	62,454	144,396	4,377,566

NOTES TO FINANCIAL STATEMENTS—(Continued)

	June 30, 2002 (Unaudited) (Notes 2)					
	Current	Special Mention	Substandard	Doubtful	Loss	Total
Third parties						
Rupiah						
Outstanding irrevocable letters of credit	1,899	—	—	5,616	341	7,856
Guarantees issued	103,978	148,117	—	93,145	23,801	369,041
	105,877	148,117	—	98,761	24,142	376,897
Foreign currencies						
Outstanding irrevocable letters of credit	84,733	763,073	6,058	25,479	19,000	898,343
Guarantees issued	25,273	333,135	—	1,101	90,126	449,635
Spot foreign currency bought	45,833	—	—	—	—	45,833
Forward foreign currency bought	96,030	—	—	—	—	96,030
	251,869	1,096,208	6,058	26,580	109,126	1,489,841
Total	357,746	1,244,325	6,058	125,341	133,268	1,866,738

25. OTHER LIABILITIES

Other liabilities consist of:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3	(Unaudited) (Note 2
Rupiah		
Bonuses and incentives	990,118	666,898
Defined benefit pension costs	392,031	589,063
Allowance for Timely-Payment Incentives (Note 2)	275,311	230,783
Allowance for litigation liabilities	144,408	177,610
Unsettled import draft	139,427	—
Interest payable	105,121	202,560
Kep-150/MEN/2000 benefits	63,646	55,076
Allowance for gratuity benefit	28,699	—
Channeling loans (Note 11)	17,917	61,887
Old-age benefits	—	208
Others	349,740	531,072
	2,506,418	2,515,157
Foreign Currencies		
Interest payable	14,805	1,846
Unsettled import draft	6,790	112,374
Others	205,593	410,973
	227,188	525,193
Total	2,733,606	3,040,350

NOTES TO FINANCIAL STATEMENTS—(Continued)

26. SUBORDINATED LOANS

BRI received subordinated loans in Rupiah currency from the Government through the Minister of Finance as shareholder of BRI, as follows:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Conversion of two-step-loans	401,321	422,877
Other	108,180	108,180
Total	509,501	531,057

The conversion of two-step loan represents subordinated loans from the Export-Import Bank of Japan (Exim Bank of Japan), Asian Development Bank (ADB), International Bank for Reconstruction and Development (IBRD), IFAD, USAID and IDB in accordance with the letter of Ministry of Finance No. S.548/MK.016/1994 dated July 14, 1994, with several annual interest rates and terms ranging from 15 to 40 years.

The other loans represents subordinated loan to cover the capital shortage and to meet capital ratio requirements as stated in loan agreement No. RDI-303/DP3/1996 dated August 30, 1996. This loan will mature on June 30, 2006 with annual interest rate of 6% in 2003 and 2002.

The classification of subordinated loans based on their remaining period up to maturity as of June 30, 2003 and 2002 is as follows:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
$\leq$ 1 month	5,398	5,398
$>$ 1 month—3 months	1,379	1,308
$>$ 3 months—1 year	35,539	14,941
$>$ 1 year—5 years	242,155	264,249
$>$ 5 years	225,030	245,161
Total	509,501	531,057

27. EQUITY

a) Capital Stock

BRI is wholly-owned by the Republic of Indonesia as represented by the Minister of Finance. In accordance with Article 4 of BRI's Articles of Association, Notarial deed No. 133 dated July 31, 1992 of Notary Muhani Salim S.H., was approved by the Minister of Justice in his Decision Letter No. C2-6584.HT.01.01.TH.92 dated August 12, 1992 and was published in the State Gazette No. 73 Supplement No. 3A dated September 11, 1992. As of June 30, 2003, BRI's authorized capital is Rp5,000,000 consisting of 5,000,000 shares with a par value of Rp1 million (full amount) per share.

The issued and fully paid capital stock as of June 30, 2003 and 2002 is as follows:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Republic of Indonesia		
Number of shares	5,000,000	1,728,000
Nominal amount	Rp5,000,000	Rp1,728,000

On September 30, 2003, the Ministry of Finance of the Republic Indonesia issued Decision Letter No. 427/KMK/2003 dated September 30, 2003 regarding the final amount and the implementation of

Government Right arising from the additional investment in shares by the Republic of Indonesia in the capital of the Limited Liability Company (Persero) PT Bank Rakyat Indonesia in connection with the recapitalization program for commercial banks. Based on the Decision Letter, the Ministry of Finance determined that the final recapitalization amount of BRI was Rp29,063,531. Furthermore, the Government's Rights arising from the additional investment in shares by the Republic of Indonesia in PT Bank Rakyat Indonesia was implemented as follows:

- Rp3,272,000 of the recapitalization amount was converted to 3,272,000 new shares issued by BRI with a par value Rp1 million per share.
- Rp25,791,531 of the recapitalization amount is still recorded as additional paid-in capital in BRI's Capital Structure.

The Decision of Ministry of Finance will be implemented retroactively as of June 30, 2003.

Based on the Stockholder's Extraordinary General Meeting dated October 3, 2003, which is covered by notarial deed of Imas Fatimah, S.H. No. 6 dated October 3, 2003, BRI's Stockholder resolved, among others:

- Approved the capital restructuring of BRI as of June 30, 2003 to increase BRI's issued and fully paid capital stock owned by the Republic of Indonesia from Rp1,728,000 consisting of 1,728,000 shares with a par value of Rp1 million per share to Rp5,000,000 consisting of 5,000,000 shares with the same par value, which increase was taken from the recapitalization amounts of Rp29,063,531, and the balance of Rp25,791,531 remains recorded as additional paid-in capital.
- Approved the changes in par value (stock split) from Rp1 million (full amount) to be Rp500 (full amount).
- Approved the increase in paid-in capital from Rp5 trillion divided into 5 billion shares with par value of Rp1 million (full amount) per share to Rp15 trillion divided into 30 billion shares with par value of Rp500 (full amount) per share.
- Approved the changes in classification of BRI's share to Series A (Dwi Warna) and Series B share.
- Approved the utilization of the general and special reserves as June 30, 2003 amounting to Rp1,386,616 to cover the accumulated losses as of June 30, 2003.

The changes BRI's Articles of Association in connection with the above decisions from the Stockholder's Extraordinary General Meeting was notarized by deed No. 7 dated October 3, 2003 of Notary Imas Fatimah, S.H., and was approved by the Ministry of Justice and Human Rights with letter No. C-23726 HT.01.04.TH.2003 dated October 6, 2003.

b) Additional Paid-In Capital

As realization of the recapitalization program for commercial banks set forth in Government Regulation No. 52 of 1999 regarding the Increase in Investments in Shares by the Republic of Indonesia in state-owned banks, BRI received the recapitalization amount of Rp29,149,000 in the form of Government bonds in two tranches in their nominal amounts of Rp20,404,300 on July 25, 2000 and Rp8,744,700 on October 31, 2000. Furthermore, as stated in the Management Contract between the Republic of Indonesia as represented by the Government of the Republic of Indonesia ("Government") through the Ministry of Finance and BRI dated February 28, 2001, the Government determined that the final recapitalization amount to achieve 4% of CAR is Rp29,063,531. BRI returned the excess of recapitalization amounting to Rp85,469 in the form of Government Bonds to the Republic of Indonesia on November 5, 2001. As of December 31, 2002, the authorized and issued capital of BRI has not yet been increased to cover the additional capital from the above recapitalization program. Therefore, the additional capital from the Government amounting to Rp29,063,531 is reported under Additional Paid-in Capital together with the previous additional paid-in capital of Rp5 from the Government.

Based on the Decision Letter from the Ministry of Finance No. 427/KMK/2003 dated September 30, 2003 as stated in point (a) above, from the final recapitalization of BRI amounting to Rp29,063,531, Rp3,272,000 is converted to paid-in capital and Rp25,791,531 is recorded as additional paid-in capital.

c) Differences in Foreign Currency Translation

This account represents the exchange rate differentials resulting from the translation of the financial statements of the overseas branch/agency (Cayman Islands and New York) from United States Dollar to Indonesian Rupiah (see Note 2). Assets and liabilities as well as commitments and contingencies denominated in foreign currencies were translated into Rupiah using the Reuters spot rates at 4.00 p.m. WIB (Western Indonesian time) on June 30, 2003 and 2002, which are Rp8,265 and Rp8,740 to US$ 1, respectively, all in full amounts. The statements of income for the respective period are derived from the accumulation of the monthly income statement balances which were translated into Rupiah using the average exchange rate for the respective months.

d) Distribution of Net Income

Based on the Stockholder's Annual General Meeting of BRI dated June 25, 2003 and June 24, 2002, the Stockholder agreed to distribute net income in 2002 and 2001 for the following:

	June 30, 2003	June 30, 2002
	(Audited) (Notes 2 and 3)	(Unaudited) (Note 2)
Dividends	762,470	531,946
General and Special reserves	741,682	450,325
Appropriation for developing of small-scale industry and cooperatives	15,249	9,600
Appropriation for environmental development	1,250	1,038

In addition, the stockholder also agreed to give bonuses to the Boards of Directors and Commissioners amounting to Rp4,289 and Rp4,131 taken from the net income of 2002 and 2001, respectively and additional bonuses to employees amounting to Rp66,850 taken from the 2001 net income and also incentives for the Boards of Directors, Commissioners and employees amounting to Rp8,434 taken from the 2000 net income. The bonuses and incentives distribution is reported in the current year's profit and loss.

NOTES TO FINANCIAL STATEMENTS—(Continued)

28. INTEREST AND INVESTMENT INCOME

Interest and investment income are derived from the following:

	June 30, 2003	June 30, 2002
	(Audited)	(Unaudited) (Note 2)
Rupiah		
Loans	4,599,971	3,704,006
Government bonds	1,859,633	1,858,871
Securities		
Bank Indonesia Certificates and Rupiah Intervention	536,914	535,562
Others	3,764	15,931
Placements with other banks and financial institutions		
Call money	31,076	41,187
Certificates of deposits	6	1
Others	98,317	68,250
	7,129,681	6,223,808
Foreign currencies		
Loans	124,604	194,194
Placements with other banks and financial institutions	20,504	19,088
Securities	22,639	16,053
Others	14,193	11,640
	181,940	240,975
Total	7,311,621	6,464,783

29. FEES AND COMMISSIONS INCOME

Fees and commissions income are derived from the following:

	June 30, 2003	June 30, 2002
	(Audited)	(Unaudited) (Note 2)
Rupiah		
Loans	134,404	109,450
Others	85	216
	134,489	109,666
Foreign currencies		
Loans	819	4,400
Total	135,308	114,066

NOTES TO FINANCIAL STATEMENTS—(Continued)

30. INTEREST AND OTHER FINANCING CHARGES

This account represents interest and other financing charges incurred on the following:

	June 30, 2003	June 30, 2002
	(Audited)	(Unaudited) (Note 2)
Rupiah		
Time deposits	1,826,940	1,858,746
Savings deposits	1,158,580	1,080,978
Demand deposits	175,246	113,552
Deposits from other banks and financial institutions	129,750	115,131
Premium paid on government guarantee program	94,348	81,401
Life insurance premiums on micro and retail customers	81,776	84,705
Fund borrowings	62,455	59,802
Securities sold with agreement to repurchase (repo)	14,873	21,732
Certificates of deposits	599	644
Others	187,634	175,757
	3,732,201	3,592,448
Foreign Currencies		
Fund borrowings	27,616	60,436
Time deposits	26,389	42,674
Demand deposits	14,344	17,559
Others	5,189	6,617
	73,538	127,286
Total	3,805,739	3,719,734

31. SALARIES AND EMPLOYEES' BENEFITS

This account consists of:

	June 30, 2003	June 30, 2002
	(Audited)	(Unaudited) (Note 2)
Salaries, wages and allowances	824,222	572,888
Bonuses and incentives	394,570	357,068
Defined benefit pension costs	237,251	52,792
Medical allowance	38,613	31,460
Training and development	29,492	19,967
Others	161,067	116,759
Total	1,685,215	1,150,934

NOTES TO FINANCIAL STATEMENTS—(Continued)

32. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	June 30, 2003	June 30, 2002
	(Audited)	(Unaudited) (Note 2)
Rent	106,815	109,373
Depreciation (Note 14)	93,108	71,965
Repairs and maintenance	69,077	53,010
Electricity and water	33,423	26,043
Office supplies	32,588	24,529
Transportation	30,538	43,206
Promotion and product development	23,625	23,943
Communications	22,060	19,251
Printing and postage	21,034	19,978
Honorarium	15,072	10,808
Computer installation	4,510	3,738
Others	14,111	26,488
Total	465,961	432,332

33. NON-OPERATING INCOME—NET

This account consists of:

	June 30, 2003	June 30, 2002
	(Audited)	(Unaudited) (Note 2)
Cash distribution from liquidation result of BRI Finance Limited, Hong Kong (see Note 2)	364,582	—
Rent	1,789	2,096
Gain on sale of premises and equipment—net	469	1,317
Others—net	6,496	7,827
Net	373,336	11,240

34. MATURITY PROFILE

The following table presents the analysis of the maturities of BRI's assets and liabilities from the remaining periods up to the maturities as of June 30, 2003 and 2002:

			June 30, 2003			
Description	Total	Up to 1 month	More than 1 month- 3 months	More than 3 months- 1 year	More than 1 year	Others that have no maturities
			(Audited) (Notes 2 and 3			
Assets						
Cash	1,959,462	1,959,462	—	—	—	—
Current accounts with Bank Indonesia	4,009,420	4,009,420	—	—	—	—
Current account with other banks	1,723,510	1,723,510	—	—	—	—
Allowance for possible losses	(17,235)	—	—	—	—	(17,235)
Placements with Bank Indonesia and other banks and financial institutions	3,178,011	2,984,793	98,029	95,189	—	—
Allowance for possible losses	(173,294)	—	—	—	—	(173,294)
Securities	8,592,448	7,696,715	728,822	—	166,911	—
Allowance for possible losses	(10,348)	—	—	—	—	(10,348)

Description	Total	Up to 1 month	More than 1 month-3 months	More than 3 months-1 year	More than 1 year	Others that have no maturities
			June 30, 2003 (Audited) (Notes 2 and 3)			
Export bills	405,356	252,378	108,355	44,623	—	—
Allowance for possible losses	(4,947)	—	—	—	—	(4,947)
Government bonds	28,007,544	2,018,250	—	—	25,989,294	—
Securities purchased with agreements to resell	19,837	19,837	—	—	—	—
Allowance for possible losses	(198)	—	—	—	—	(198)
Loans	43,487,918	2,782,663	2,772,976	13,569,507	24,362,772	—
Allowance for possible losses	(4,168,806)	—	—	—	—	(4,168,806)
Syariah financing—net	24,232	—	—	—	—	24,232
Acceptances receivable	255,709	154,053	63,232	38,424	—	—
Allowance for possible losses	(25,859)	—	—	—	—	(25,859)
Investments in shares of stock—net	56,917	—	—	—	—	56,917
Premises and equipment — net	1,217,583	—	—	—	—	1,217,583
Deferred tax assets	799,767	—	—	—	—	799,767
Other assets	2,465,884	—	1,531,410	61,480	—	872,994
Total	91,802,911	23,601,081	5,302,824	13,809,223	50,518,977	(1,429,194)
Liabilities						
Short-term liabilities	3,634,664	3,634,664	—	—	—	—
Deposits	74,333,096	61,739,518	5,728,971	6,828,608	35,999	—
Deposits from other banks and financial institutions	1,832,683	1,476,924	355,759	—	—	—
Securities sold with agreements to repurchase	508,406	101,446	406,960	—	—	—
Acceptances payable	255,709	154,053	63,232	38,424	—	—
Fund borrowings	1,501,966	—	22,916	703,882	775,168	—
Estimated losses on commitments and contingencies	295,609	—	—	—	—	295,609
Other liabilities	2,733,606	—	1,256,261	713,958	—	763,387
Subordinated loans	509,501	5,398	1,379	35,539	467,185	—
Total	85,605,240	67,112,003	7,835,478	8,320,411	1,278,352	1,058,996

Description	Total	Up to 1 month	More than 1 month-3 months	More than 3 months-1 year	More than 1 year	Others that have no maturities
			June 30, 2002 (Unaudited) (Note 2)			
Assets						
Cash	1,580,282	1,580,282	—	—	—	—
Current accounts with Bank Indonesia	3,264,124	3,264,124	—	—	—	—
Current account with other banks	414,745	414,745	—	—	—	—
Allowance for possible losses	(6,041)	—	—	—	—	(6,041)
Placements with Bank Indonesia and other banks and financial institutions	1,602,611	1,573,201	29,410	—	—	—
Allowance for possible losses	(11,453)	—	—	—	—	(11,453)
Securities	5,524,737	4,814,690	598,168	74,057	37,822	—
Allowance for possible losses	(6,896)	—	—	—	—	(6,896)
Export bills	416,328	226,607	162,408	27,313	—	—
Allowance for possible losses	(12,909)	—	—	—	—	(12,909)
Government bonds	28,829,929	2,541,735	—	—	26,288,194	—
Securities purchased with agreements to resell	20,955	20,955	—	—	—	—
Allowance for possible losses	(209)	—	—	—	—	(209)
Loans	36,739,562	2,427,148	2,378,699	8,725,333	23,208,382	—
Allowance for possible losses	(4,388,201)	—	—	—	—	(4,388,201)
Syariah financing	837	837	—	—	—	—

Description	Total	Up to 1 month	More than 1 month-3 months	More than 3 months-1 year	More than 1 year	Others that have no maturities
	June 30, 2002 (Unaudited) (Note 2)					
Allowance for possible losses	(8)	—	—	—	—	(8)
Acceptances receivable	185,942	98,033	42,609	45,300	—	—
Allowance for possible losses	(16,311)	—	—	—	—	(16,311)
Investments in shares of stock—net	49,986	—	—	—	—	49,986
Allowance for possible losses	(511)	—	—	—	—	(511)
Premises and equipment—net	854,419	—	—	—	—	854,419
Deferred tax assets	932,363	—	—	—	—	932,363
Other assets	1,989,865	—	1,322,966	65,880	—	601,019
Total	77,964,146	16,962,357	4,534,260	8,937,883	49,534,398	(2,004,752)
Liabilities						
Short-term liabilities	1,726,507	1,726,507	—	—	—	—
Deposits	60,741,774	58,598,880	1,347,377	708,016	87,501	—
Deposits from other banks and financial institutions	2,651,080	2,581,949	69,131	—	—	—
Acceptances payable	185,942	98,033	42,609	45,300	—	—
Fund borrowings	3,470,387	50,000	702,935	1,256,177	1,461,275	—
Estimated losses on commitments and contingencies	228,644	—	—	—	—	228,644
Other liabilities	3,040,350	—	983,678	881,941	—	1,174,731
Subordinated loans	531,057	5,398	1,308	14,941	509,410	—
Total	72,575,741	63,060,767	3,147,038	2,906,375	2,058,186	1,403,375

35. SEGMENT INFORMATION

The information concerning the geographical segments of BRI are as follows:

	Domestic	Overseas	Elimination	Total
	June 30, 2003 (Audited) (Notes 2 and 3)			
Earning assets	90,102,504	2,110,701	(2,035,332)	90,177,873
Total Assets	91,940,234	1,946,727	(2,084,050)	91,802,911
Deposits	76,165,588	24,814	(24,623)	76,165,779
Fund borrowings	1,568,913	808,317	(875,264)	1,501,966
Equity	6,197,671	5,297	(5,297)	6,197,671
Interest income—net	3,666,247	11,868	(36,351)	3,641,764
Income from operations	1,423,472	4,575	(36,351)	1,391,696
Net income	1,212,653	5,608	(36,351)	1,181,910

	Domestic	Overseas	Subsidiary	Elimination	Total
	June 30, 2002 (Unaudited) (Note 2)				
Earning assets	74,723,229	3,088,107	1,217,386	(3,376,352)	75,652,370
Total Assets	77,863,164	2,933,402	552,049	(3,384,469)	77,964,146
Deposits	63,361,228	29,790	124,597	(122,761)	63,392,854
Fund borrowings	3,183,405	2,876,181	329,119	(2,918,318)	3,470,387
Equity	5,360,851	9,195	82,489	(91,684)	5,360,851
Interest income—net	2,885,307	17,641	20,849	(64,686)	2,859,111
Income from operations	995,203	9,974	13,636	(64,686)	954,127
Net income	1,132,994	10,316	13,628	(64,686)	1,092,252

36. INFORMATION OF COMMITMENTS AND CONTINGENCIES

The significant information of commitments and contingencies are as follows:

a. Commitments and contingencies transactions

	June 30, 2003 (Audited)	June 30, 2002 (Unaudited) (Note 2)
Commitments		
Commitment Receivables		
Spot foreign currencies bought (Note 24)	102,444	45,833
Forward foreign currencies bought (Note 24)	1,239,750	96,030
Total Commitment Receivables	1,342,194	141,863
Commitment Liabilities		
Unused credit facility granted	6,722,240	6,057,978
Outstanding irrevocable letters of credit (Note 24)	2,758,266	906,199
Forward foreign currencies sold	24,795	52,380
Spot foreign currencies sold	259,459	45,833
Total Commitment Liabilities	9,764,760	7,062,390
Commitments—net	(8,422,566)	(6,920,527)
Contingencies		
Contingent Receivables		
Interest receivables on nonperforming loans	1,080,828	1,092,144
Guarantees received in the form: Standby L/C	223,323	377,091
Total Contingent Receivables	1,304,151	1,469,235
Contingent Liabilities		
Guarantees issued in the form (Note 24):		
Standby L/C	33,353	298,491
Bank guarantees	243,753	520,185
Total Contingent Liabilities	277,106	818,676
Contingencies—net	1,027,045	650,559
Commitments and Contingencies—Net	(7,395,521)	(6,269,968)

NOTES TO FINANCIAL STATEMENTS—(Continued)

b. Derivative Transactions

As of June 30, 2003 and 2002, BRI had outstanding derivative transactions as follows:

➤ Forward Foreign Currencies Bought Contract

	June 30, 2003 Nominal Original Currency (US$)	Rupiah Equivalent	Contract Amount
		(Audited)	
Hongkong Shanghai Banking Corporation, Ltd.	26,000,000	214,890	215,582
Citibank, NA	21,500,000	177,698	177,345
American Express Bank, Ltd.	17,500,000	144,637	145,511
PT Bank Negara Indonesia (Persero), Tbk	17,000,000	140,505	141,840
ABN Amro	17,000,000	140,505	141,183
PT Bank Central Asia, Tbk	12,000,000	99,180	99,857
PT Bank Mandiri (Persero)	12,000,000	99,180	99,360
PT Bank Lippo, Tbk	11,000,000	90,915	91,240
Standard Chartered Bank	5,000,000	41,325	41,747
PT Bank Danamon Indonesia, Tbk	5,000,000	41,325	41,309
Sumitomo Mitsui Indonesia	3,000,000	24,795	25,048
Deutsche Bank AG	3,000,000	24,795	24,866
	150,000,000	1,239,750	1,244,888

These contracts were due on various dates, latest on August 1, 2003.

	June 30, 2002 Nominal Original Currency (US$)	Rupiah Equivalent	Contract Amount
		(Unaudited) (Note 2)	
ABN Amro	4,000,000	34,920	35,050
American Express Bank, Ltd.	2,000,000	17,460	18,164
PT Bank Mandiri (Persero), Tbk	5,000,000	43,650	44,080
	11,000,000	96,030	97,294

These contracts were due on various dates, latest on August 1, 2002.

➤ Forward Foreign Currencies Sold Contact

As of June 30, 2003 and 2002, BRI had outstanding forward foreign currency sold contracts in United States Dollar (US$) with PT UFJ-BRI Finance, a related party, with a notional amounts of US$ 3,000,000 for contract amount of Rp24,825 and US$ 6,000,000 for contract amount of Rp53,220, respectively. These contracts were due on various dates, latest on July 14, 2003 as of June 30, 2003 and August 1, 2002 as of June 30, 2002.

37. NET OPEN POSITION

Based on the prevailing Bank Indonesia regulations, the net open position represents the total of absolute amounts of the net differences between assets and liabilities denominated in foreign currency in the balance sheet and administrative accounts.

NOTES TO FINANCIAL STATEMENTS—(Continued)

The following is BRI's net open position:

	June 30, 2003 (Audited) (Notes 2 and 3)					
	Assets		Liabilities		Net Open Position	
	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah
United States Dollar	1,079,083,345	8,918,624	1,009,621,631	8,344,523	69,461,714	574,101
European Euro	123,477,987	1,168,560	123,843,594	1,172,020	365,607	3,460
Australian Dollar	1,152,241	6,364	883,735	4,881	268,506	1,483
Singapore Dollar	5,293,810	24,888	95,079	447	5,198,731	24,441
UK Pounds Sterling	1,946,060	26,575	122,146	1,668	1,823,914	24,907
Japanese Yen	1,830,525,264	126,434	557,568,554	38,511	1,272,956,710	87,923
Others		27,898		3,152		24,746
Total NOP Absolute		10,299,343		9,565,202		741,061
Equity						6,255,360
NOP percent to equity						11.85%

	June 30, 2002 (Unaudited) (Note 2)					
	Assets		Liabilities		Net Open Position	
	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah	Original Foreign Currencies	Rupiah
United States Dollars	844,607,618	7,381,871	851,354,216	7,493,276	6,746,598	111,405
European Euro	5,759,460	49,927	298,188	2,585	5,461,272	47,342
Australian Dollar	992,843	4,896	44,623	220	948,220	4,676
Singapore Dollar	1,471,010	7,266	303,182	1,497	1,167,828	5,769
UK Pounds Sterling	592,206	7,891	290,519	3,871	301,687	4,020
Japanese Yen	694,937,774	50,814	17,143	1,254	694,920,631	49,560
Others		38,167		4,571		33,596
Total NOP Absolute		7,540,832		7,507,274		256,368
Equity						4,990,487
NOP percent to equity						5.14%

38. RELATED PARTY TRANSACTIONS

Related parties are the management or key personnel of the Bank and entities that are owned directly or indirectly by the Bank.

Related by ownership and/or management:

- BRI Finance Limited, Hong Kong (Ownership)
- PT UFJ-BRI Finance (Ownership)
- PT Bank Inter-Pacific Tbk (Ownership)
- PT Beringin Srikandi Finance (Ownership with Dana Pensiun Bank Rakyat Indonesia)

- PT Bringin Indotama Sejahtera Finance (Ownership with Dana Pensiun Bank Rakyat Indonesia)
- Dana Pensiun Bank Rakyat Indonesia (Management)
- Yayasan Kesejahteraan Pegawai Bank Rakyat Indonesia (Management)

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

OUR REGISTERED OFFICE

PT Bank Rakyat Indonesia (Persero)
BRI I Building
Jl. Jenderal Sudirman Kav. 44-46
Jakarta Pusat 10210
Indonesia

REGISTERED OFFICE OF THE SELLING SHAREHOLDER

Ministry of State-owned Enterprises
Ministry of Finance New Building
Jl. Dr. Wahidin No. 1-2
Jakarta 10710
Indonesia

LEGAL ADVISORS TO US AND THE SELLING SHAREHOLDER

as to Indonesian law

Makes & Partners
Menara Batavia
Jl. K.H. Mas Mansyur Kav. 126
Jakarta 10220
Indonesia

as to US law

Milbank, Tweed, Hadley & McCloy LLP
30 Raffles Place
#14-00 Caltex House
Singapore 048622

LEGAL ADVISORS TO THE LEAD INTERNATIONAL SELLING AGENT AND THE LEAD MANAGING UNDERWRITER

as to Indonesian law

Hadiputranto, Hadinoto & Partners
The Jakarta Stock Exchange Building
Tower II, Floor 21
Jl. Jendral Sudirman Kav. 52-53
Jakarta 12190
Indonesia

as to US law

Shearman & Sterling LLP
6 Battery Road
#25-03
Singapore 049909

AUDITORS

Ernst & Young
Prasetio, Sarwoko & Sandjaja
Wisma 46, Kota BNI,
Level 25-28, 30-31
Jl. Jend. Sudirman, Kav. 1
Jakarta 10220
Indonesia

SHARE REGISTRAR

PT Datindo Entrycom
Wisma Diners Club Annex
Jl. Jend. Surdirman, Kav. 34-35
Jakarta 10220
Indonesia

TABLE OF CONTENTS

BANK RAKYAT INDONESIA

PT Bank Rakyat Indonesia (Persero)

3,811,765,000 Common Shares
(subject to the exercise of the Over-subscription Option and the Over-allotment Option)

Joint Global Co-ordinator, Joint Bookrunner
and Lead International Selling Agent

UBS Investment Bank

Joint Global Co-ordinator, Joint Bookrunner
and Lead Managing Underwriter

Bahana Securities