Strategic Plan

1999 - 2004

BPPN | Badan Penyehatan Perbankan Nasional
The Indonesian Bank Restructuring Agency (IBRA)

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EXECUTIVE SUMMARY

- Since mid-1997 the Indonesian economy has been in recession as a consequence of the currency crisis which expanded rapidly to become a very deep financial and economic crisis. Although the government at that time adopted a series of monetary and fiscal policies, including the widening of the exchange rate bands, increasing interest rates and fiscal tightening, the implementation of these policies was accompanied by a pronounced lack of consistency and a great deal of irresolution.

- The currency crisis eventually became a very serious liquidity crisis due to unresolved structural weaknesses in the real and the banking sectors such as high levels of unhedged foreign short-term debt and low levels of capitalization in the domestic banking sector.

- This situation gave rise to a vicious circle. On the one hand the banking sector experienced a liquidity crisis and a loss of confidence, which increased the costs of bank financing. On the other hand, the real sector deprived of sufficient working capital and lacked liquidity, resulting in declining asset quality in the banking sector negative capital adequacy ratios.

- In order to avoid the total meltdown of the Indonesian economy, the government adopted strategic policies in three principal fields:

    - **The rehabilitation of the banking sector.** A guarantee scheme was put into effect to restore confidence in the Indonesian banking sector and to restructure and recapitalize the banking sector.

    - **The reduction of the debt burden.** Facilities were provided to hedge foreign private sector debt in order to promote the debt restructuring. Also, an exchange offer scheme was introduced to extend the maturity profile of the banking sector's foreign debt.

    - **The restructuring of private sector debt.** This involved improving the bankruptcy law, providing negotiating facilities for creditors and debtors and carrying out coordination among the related agencies to facilitate private sector debt restructuring

- In order to implement the mutually related strategic policies, the government established the Indonesian Bank Restructuring Agency (IBRA) which was given the task of implementing the government's guarantee scheme and banking sector restructuring program, including the restructuring of corporate debt. To achieve this end, IBRA works in cooperation with other bodies established by the government, such as the Indonesian Debt Restructuring Agency (INDRA) and the Jakarta Initiative.

IBRA Strategy

- In undertaking its duties, IBRA has a systematic and comprehensive restructuring strategy which consists of the following aspects:

  - **The Commercial Bank Liabilities Guarantee Program.** Implementation of the government's guarantee program while closely monitoring budgetary and balance of payment pressures.

  - **Bank Restructuring and Rehabilitation.** Recapitalization of selected banks sectoral consolidation through bank merger and closures.

  - **Corporate Debt and Bank Asset Restructuring.** The servicing and restructuring of corporate debt and the reviving of the real sector.

  - **Shareholder Settlement.** Maximizing the recovery of government funds provided to banks by allocating losses to banks' controlling shareholders which violated legal lending limits.

  - **Assets Divestment and Recovery of Government Funds.** The recovery of government funds through divestment and asset sale programs. Based on their sources, IBRA's assets are divided into three categories, namely: i) bank equity, ii) restructured portfolio loans, and iii) corporate assets and debt recovered through shareholders settlement and assets arising from the conversion of restructured debt into equity.

IBRA's Contribution to Economic Recovery

- The proceeds of IBRA's asset sales will fund the government's liabilities under the guarantee program through the payment of interest and the redemption of government bonds. In the 1999/2000 government budget, IBRA has been targeted to contribute Rp 17 trillion for the payment of interest on bonds. This will help to reduce the overall cost of the bank restructuring program.

- The private sector debt restructuring and bank restructuring programs being implemented by IBRA will assist the government's efforts in accelerating the economic recovery, resurrecting the real sector and improving the prospects for the government's tax receipts, which will increase state budget revenues.

- IBRA's efforts in restoring the banking sector and restructuring the private sector debt will provide support to companies in restarting their operations, increase employment and restore the economy.

Prerequisites for IBRA's Success

- The Indonesian economic and banking crisis is deeper and more complex than the crisis experienced by other Southeast Asian Nations (*see Appendix 1.3*). Consequently, IBRA requires the full support of the government to properly carry out its duties. Such support is necessary in the following forms:

  - **Legal Basis under Government Regulation No. 17.** In effectively restructuring the banking and real sectors, the role of Government Regulation No. 17 is essential in helping IBRA deal with various constraints posed by prevailing laws.

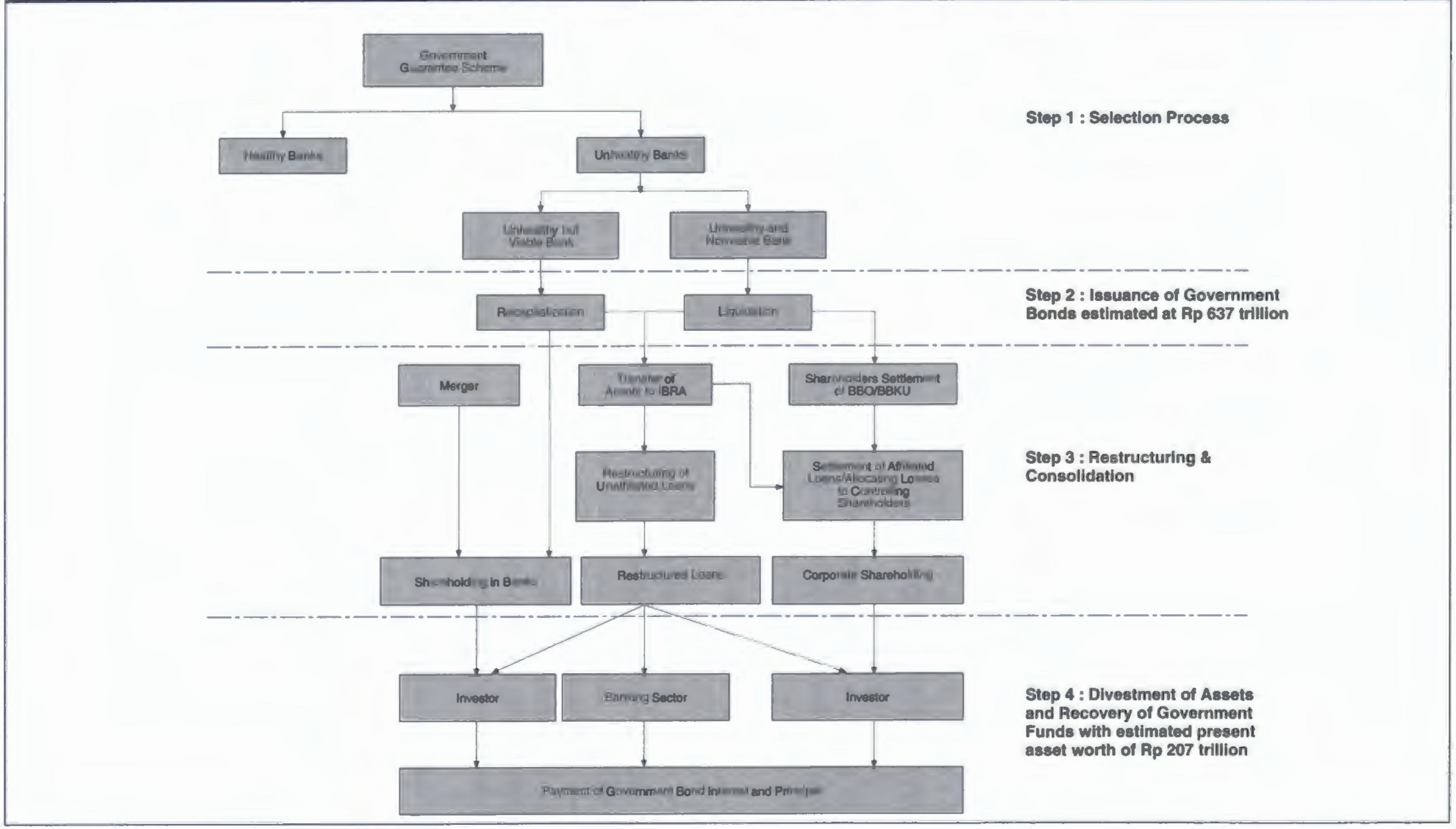
  - **Law enforcement.** IBRA greatly requires support from various government institutions, particularly from Bank Indonesia, the judicial system and the Attorney General's office in implementing IBRA's programs and decision in accordance with the mandate given by Law No. 7 of 1992 as amended by Law No. 10 of 1998.

  - **Freedom to undertake asset sales in a transparent and market-oriented manner.** IBRA requires full authority and freedom to undertake the restructuring program and asset sales consistent with market norms and other accepted commercial principles.

  - **Supporting Laws and Regulations.** A number of current laws and regulations require amendment in order to stimulate the economy. Such laws and regulations include those in the areas of taxation, foreign investment, banking, bankruptcy, collateral, civil procedural law, tenders, etc

  - **Political support from the community, Government organs and other political forces** will minimize the impact of the economic recovery program on the state budget.

Flow Chart of the Guarantee Program and Bank Restructuring



I. ECONOMIC CRISIS AND POLICIES FOR RECOVERY

1.1 Background of the Economic Crisis and Loss of Confidence

Starting in mid-1997 the Indonesian economy began to deteriorate as a result of the sharp devaluation of the Rupiah. This situation subsequently worsened rapidly to become a deep financial and economic crisis. This crisis was precipitated by the fall in the value of Rupiah which followed the fall in the value of the Baht.

As an initial step, a series of monetary and fiscal policies were adopted by the government in an effort to stabilize the Rupiah. The policies were as follows:

- Widening of the exchange rate trading band to allow monetary authorities the flexibility to carry out intervention while preserving prudent foreign currency reserve levels. The subsequent free float of the Rupiah allowed the currency to move in accordance with market forces.

- Increasing SBI rates in order to check capital flight and reduce the Rupiah's fall.

- Tightening fiscal policy through the postponement of a number of major government capital projects to reduce the strain on the state budget and the balance of payments.

These policies were however applied inconsistently and unconvincingly, as evidenced by the following facts:

- The postponement of a number of major projects was rescinded, including projects involving the families and relatives of the ruling regime. These decisions were made shortly after the policy to postpone these projects was adopted. This revision had a direct impact on the growth of Rupiah supply in the market and had a negative impact on the exchange rate. The greatest impact of this policy change was the loss of trust in the government among market players.

- SBI rates were reduced at the request of a group of businesspeople who asserted that increased interest were burdensome for their companies.

In November 1997, with the support of multilateral institutions such as the IMF, the World Bank and the ADB, the government adopted comprehensive policies, which not only involved a macroeconomic stabilization program using monetary and fiscal policies, but also a program of financial and real sector reform.

However, this policy package did not include measures to combat the various structural problems related to the large amount of unhedged short-term foreign debt. The absence of policies for stretching out short-term foreign debt and the lack of facilities for protecting against exchange rate volatility led money market players to speculate on a continued fall in the Rupiah's value. Consequently a self-fulfilling destructive prophecy was brought about.

The continued decline in the Rupiah's value resulted in a loss of confidence in the Rupiah which in turn led to panic buying of the USD. In addition to buying the USD, individuals began sending money offshore. At the same time, companies and businesses with unhedged foreign debts experienced similar feelings of panic. The losses suffered as a consequence of the Rupiah's free fall resulted in companies purchasing large amounts of USD.

The result of all this was that, notwithstanding BI intervention through supplying USD 7.4 billion to the market, at the end of 1997 the Rupiah was still depreciating and the USD appreciated over 100% compared to its pre-crisis value. Furthermore, as a result of the cessation of foreign capital inflows from the start of the crisis and the resulting high SBI rates, the banking sector began to experience a liquidity crisis in respect to both the Rupiah and USD. This situation placed great pressure on the nation's balance of payments.

Structural Problems in Indonesia's Economy

The currency crisis developed into a full blown liquidity crisis due to unresolved fundamental weaknesses in Indonesia's economy. (see Appendix 1.3). Some of these weaknesses are as follows:

a. **Currency Markets and Capital Markets.** Since the financial crisis of 1990, the currency and capital markets in Indonesia have grown rapidly. This growth, however, has not been supported by proper infrastructure so that the currency and capital markets are susceptible to exchange rate volatility. Some of these structural weaknesses are set out below:

   - Indonesia experienced a rapid growth of short-term foreign capital. The policy of a controlled free float and free capital movement resulted in the Indonesian financial markets being flooded with short-term loans from foreign financial institutions. Prior to the crisis it was estimated that 50% of all private sector foreign loans would mature in less than one year.

   - The majority of the foreign debt was unhedged.

   - The capital markets did not develop optimally. The growth in the debt and equity capital markets, which was inferior to the growth of the banking sector, resulted in corporate capital structures and investment being highly dependent on the banking sector. In addition, foreign investors still played a dominant role in the capital markets.

b. **The Banking Sector.** Since the liberalization of the bank sector with the policy package of October 1988 (Pakto 88), the Indonesian banking sector has grown very rapidly. This growth, however, was not accompanied by the development of the required infrastructure such as comprehensive, detailed and well defined prudential banking regulations, while enforcement of existing laws and regulations remained week (see Appendix 1.4). This involves the following weaknesses:

- There are a large number of banks and non-bank financial institutions resulting in tight competition and a neglect of asset quality.
- A lack of capable human resources for managing banks prudently and professionally.
- Imbalanced asset and liability structures whereby the average effective maturity for loan assets is typically longer than the maturity date for bank funding sources. This has resulted in volatile short-term domestic interest rates.
- Equity levels relatively lower than those of other countries.
- An abundance of loans to related parties and a high level of lending to particular sectors (property).
- A high level of off balance sheet liabilities compared to total assets in the banking sector (approximately 63%), many of which are undisclosed or not properly hedged.

c. **Companies in the Real Sector.** Fundamental weaknesses in Indonesia's real sector include the following:

- Imbalanced financing structures whereby long-term investments are funded by short-term financing.
- Mismatches between the currency used for financing and the currency in which corporate income is received and a lack of hedging.
- Over investment in particular sectors.
- Project mark-ups resulting in inflated book values.
- Weak managerial skills and a lack of specialized human resources.
- Lack of adequate corporate governance and proper reporting systems resulting in companies becoming mere vehicles for the interests of controlling shareholders or political interests.

1.2 The Banking Sector Crisis

The poor liquidity and the loss of public confidence in the banking sector was worsened by the revocation of 16 insolvent banks' licenses as part of a comprehensive policy sponsored by the multilateral institutions. These efforts were originally intended to restore confidence in the banking sector but were not accompanied by transparent criteria and processes for selecting the banks to be liquidated. This fact, together with the lack of a guarantee program, resulted in a large scale run on the banks. The liquidity crisis, the Rupiah depreciation and high interest rates led to a loss of popular confidence and a vicious circle involving the loss of confidence, and the collapse of the Rupiah and the banking sector.

As a consequence, a number of banks experienced negative balances in their clearing accounts with Bank Indonesia. In order to avoid a domino effect on healthier banks due to the increased risk in respect to the overall banking system (systematic risk), Bank Indonesia acted as the lender of last resort and provided liquidity assistance (Bank Indonesia Liquidity Assistance). As of the end of December 1997, Bank Indonesia had provided liquidity assistance to the tune of Rp 63 trillion. This figure continued to increase so that by the first quarter of 1998 it amounted to more than Rp 140 trillion.

Although the government had already taken steps to stabilize the banking sector and to restore popular confidence through the guarantee program, at the start of 1998 the banking sector entered the next stage of the crisis. The high cost of funds resulting from the liquidity crisis led to banks experiencing negative interest margins. The banks' attempts to combat the negative interest margin by increasing interest rates were restricted by the reduced asset quality. Consequently, the capital adequacy ratios of the banks, which even before the crisis were quite low, began to move into negative territory.

1.3 The Real Sector Crisis

In the meantime, companies and businesses in the real sector also started to experience liquidity problems. In addition to the increased interest rates and the Rupiah's weakness, companies and businesses also experienced a drastic drop in income. The halting of working capital facilities and trade finance facilities by the banking sector resulted in declining production, rising inflation and reduced purchasing power on the part of the public. Given these conditions, both private sector and state-owned companies started to experience difficulties in not only repaying the principal on their loans but also in paying interest. As a consequence, asset quality continued to deteriorate and the capital adequacy ratios of banks became negative.

The conditions described above gave rise to a new vicious circle. The decline in asset quality and the fall in capital adequacy ratios meant that the banks were unable to extend new loans and even had to close working capital and trading loan facilities which had not yet been drawn down. The lack of such facilities resulted in reduced production levels and increased inflation. This increase in inflation led to a reduction in corporate income and increased costs as a result of rising interest rates.

The economic situation caused the fair value of the assets pledged as collateral to banks to become on average below or only slightly above the nominal value of the loan concerned. This meant that if loans stopped performing, banks would have a relatively small cushion for the value of the loan. The currency crisis which pushed the inflation rate to an extremely high level, 85.63% per annum in September 1998, resulted in the reduction of people's ability to obtain income and cash. As a consequence, the fair value of assets declined even further, thus worsening the situation and reducing the chance for banks to recover the value of their loans.

1.4 Strategic Steps Taken By the Government

The extended economic crisis described above could have resulted in the complete destruction of Indonesia's banking system. The collapse of the banking system would mean that the payments system would revert to a primitive system incapable of supporting trade and production. The collapse of the banking system would also halt the flow of capital from depositors to investors. Production in the real sector would be stopped because the supply of working capital would stop, resulting in increased unemployment. Simply put, the absence of a banking system in the Indonesian economy would result in the overall destruction of the economic system.

In order to avoid such an eventuality, the Indonesia government adopted three related policies in the context of restoring the economy to health. These three policies are as follows:

- **Rehabilitation of the Banking Sector**
    - The implementation of a guarantee program to restore confidence in the Indonesian banking sector.
    - Restructuring of the banking sector.
- **Measures to reduce pressure on the balance of payments**
    - These are designed to restructure private sector foreign debt, to provide hedging facilities for private sector foreign debt as incentive for extending the repayment term for a minimum of 8 years.
    - Extending the maturity dates of banking sector foreign debts.
- **Restructuring of Private Sector Debt**
    - Improving the bankruptcy law and the establishment of a commercial court.
    - Providing negotiating facilities between creditors and debtors.
    - Undertaking coordination with related agencies to facilitate the restructuring of private sector debt.

1.5 Establishment of Restructuring Agencies

In order to implement the strategic programs and policies, the government established the following agencies:

- The Indonesian Bank Restructuring Agency (IBRA) which is responsible for the administration of the guarantee program and the banking sector restructuring program.

- The Indonesian Debt Restructuring Agency (INDRA) which is responsible for providing hedging facilities to encourage the restructuring of private sector foreign debt (including that of financial institutions) which will subsequently take pressure off the balance of payments.

- The Jakarta Initiative which functions as a mediator in restructuring corporate debt.

- The Commercial Court which is a vehicle for settling disputes and implementing the bankruptcy law.

II. IBRA'S STRATEGY

2.1 General Overview

2.1.1 Mission

IBRA's mission is to aid economic recovery through the restructuring of the banking sector and corporate debt, and to maximize the recovery of state funds to reduce pressure on the government budget.

2.1.2 Strategic Direction

To fulfill its mission, IBRA has developed a systematic, consistent and comprehensive restructuring strategy. The execution of the mission is always in accordance with the prevailing legal requirements (see Appendix 3.1).

- **Commercial Banks Liabilities Guarantee Program.** In addition to administering the guarantee program, IBRA also strives to extend the maturity dates of commercial bank liabilities both in respect of foreign creditors, through participation in the exchange offer, and domestic creditors, through trade finance schemes.

- **Bank Restructuring and Rehabilitation.** The banking sector recovery program is implemented in conjunction with other government agencies and involves dividing banks into three categories, namely; i) healthy banks which will be included in the recapitalization scheme, ii) potentially viable banks which will be included in the rehabilitation program by BI and taken over and managed by IBRA (BTO), and iii) non-viable banks whose operations will be frozen (BBO or BBKU).

- **Restructuring of Corporate Debt and Bank Assets.** Loan restructuring involves the servicing of loans through direct collection or sale, restructuring or seizure and liquidation of assets. In this regard IBRA works together with INDRA and the Jakarta Initiative.

- **Shareholder Settlement of Bank Liabilities.** This policy is applied to BBO/BBKU banks and BTO banks which have been transferred to IBRA and where former controlling shareholders have liabilities arising from their violations of legal lending limits.

- **Sale of Assets and Recovery of State Funds.** In order to maximize the potential for the return of state funds and to reduce the burden on the state budget, IBRA will undertake a divestment and asset sale program. Based on their sources, IBRA's assets are divided into the following three categories: i) banks which are under IBRA's control, ii) loan portfolio and corporate assets which have been restructured and part or all of their shares are controlled by IBRA, iii) corporate assets and debt assets pledged through shareholder settlements related to BTO, BBO and BBKU banks which are under IBRA's control.

2.1.3 Guiding Principles

In exercising its duties, IBRA adheres to the following basic principles:

- **Fairness.** In exercising its duties from the closure of a bank to the settlement of third party claim and asset valuation, IBRA applies the principle of fairness to every process. This includes the allocation of loss and the respect for existing rights while protecting of the government's interests. Although in many cases losses in the Indonesian financial sector were due to systematic factors, there are many cases where losses were due to management error and fraud. In such cases, the responsible parties will be held accountable.

- **Transparency** is key to maintaining public support for IBRA and the overall integrity of the institution. IBRA always strives to be open and to clarify the basis for its decisions in order to gain the support and participation of all parties in carrying out IBRA's mandate.

- **Accountability** is the principle by which IBRA professionally exercises its authority and carries out its mandate provided by its founding legislation. This principle will increase IBRA's credibility and confidence in the Indonesian banking system, and therefore accelerate Indonesia's economic recovery.

- **Maximizing value** of the assets controlled by IBRA. IBRA is aware that cash flow at present is more valuable than future cash flows. Accordingly, the sale of assets will be carried out as expeditiously as possible, and with regard to existing market potential, without damaging asset value

- **Indonesia First.** There is potential for a negative impact on the Indonesian public as a result of IBRA's actions. Given the current difficult economic conditions, IBRA always opts for alternatives which minimize the detrimental impact on employment and the welfare of the public.

2.1.4 Legal Basis

IBRA was established on January 26th, 1998 based upon RI Presidential Decree number 27 of 1998, dated January 26th, 1998 (Presidential Decree No. 27). The weakness of the domestic banking industry at that time, resulting from exchange rate volatility and the poor performance of the national economy, required the government to establish a special body to supervise, develop and restore the banking system.

In accordance with Presidential Decree No. 27, the duties of IBRA at the time of its establishment were as follows:

- Administering the government's Commercial Banks Liabilities Guarantee Program under Presidential Decree No. 26;
- Supervising, developing and restoring banks to health, including the restructuring of banks declared unhealthy by Bank Indonesia;
- Carrying out any other legal acts deemed necessary for the recovery of the banking system.

By virtue of the Amendment of Law number 7 of 1992 by Law number 10 of 1998, Article 37A, IBRA was given a special mandate and authority to rehabilitate the financial sector and was granted wide autonomy.

In undertaking the banking sector restoration program, IBRA is vested, inter alia, with the following authority:

- Taking over the rights and authority of management and shareholders;
- Controlling and managing bank assets and undertaking action in respect thereof;
- Reviewing, canceling, terminating and amending contracts which are detrimental to banks;
- Selling or transferring bank claims to third parties;
- Assigning the management of banks and bank assets to third parties;
- Participating in bank equity on a temporary basis;
- Undertaking the confiscation of land and buildings to which a bank is entitled but which are controlled by third parties;
- Calculating and determining the losses suffered by banks placed in the restructuring program and allocating the losses which have been incurred due to the actions of management or shareholders;
- Determining the total additional capital which must be paid by a bank's shareholders.

IBRA is a special agency established as part of the effort to overcome the banking sector crisis. Should the government decide that IBRA has completed its tasks, it may declare that IBRA's duties are completed.

Subsequently, with the implementation of Law number 10 of 1998 Article 37A, on February 27th, 1999 the government issued Government Regulation number 17 of 1999 which granted IBRA the authority to reach settlements with banks, bank owners and debtors. The duties of IBRA under Government Regulation No. 17 are as follows:

a. Restructuring the banks transferred to IBRA by Bank Indonesia;

b. Recovering bank assets including both physical assets and loans owed by debtors through the Asset Management Unit; and

c. Recovering state funds provided to banks through the settlement of Assets Undergoing Restructuring.

In order to improve transparency and accountability, and to facilitate the exercise of IBRA's duties, the following bodies have been established:

a. The Independent Review Committee (IRC), an advisory body consisting of representatives from international institutions (the IMF, World Bank and ADB) and two former civil servants from the Department of Finance and Bank Indonesia.

b. The Financial Sector Action Committee, a supervisory body consisting of ministers in the fields of the economy, finance and industry, and the Governor of Bank Indonesia.

2.2 Strategic Approach

2.2.1 Commercial Bank Liabilities Guarantee Program

Given the importance of a functioning banking sector in creating a vibrant economy, the government has issued a policy of guaranteeing the liabilities of commercial banks in order to restore public confidence, stabilize the banking sector, and restore the banking sector as the heart of the national economy. This program was designed to have a minimal impact on the government budget and the balance of payments.

2.2.1.1 Implementation Principles

- **Efficiency in payment processes.** The repayment of claims arising from commercial banks liabilities must be carried expeditiously to improve confidence in the banking sector and reduce creditor losses.

- **Payment under the guarantee program.** Payment is made based upon eligible commercial bank liabilities, with liabilities to related parties or originating from related party transactions ineligible.

- **Interim guarantee program.** The guarantee program will not be carried out indefinitely by the government, as it should in reality be the responsibility of the market. Accordingly, the government guarantee program will only be maintained until a guarantee institution which operates based upon market principles has been established.

- **Allocation of Losses.** Efforts shall be made to fairly recover every payment made under the guarantee program from the responsible parties.

2.2.1.2 Implementation Strategy

- **Cooperation with Bank Indonesia and outsourcing.** Bearing in mind the severity of the task and the difficulties in obtaining data for verification purposes, IBRA will cooperate with Bank Indonesia in the implementation of the program and, if necessary, will outsource to third party consultants. Outsourcing will accelerate the process and reduce costs, as input from independent parties should reduce the possibility of disputes.

- **Limit on the types of liabilities guaranteed.** All commercial bank liabilities, excluding liabilities to related parties or arising from related party transactions, is currently guaranteed in full by the government. The government shall limit in stages the types of liabilities included in the program in accordance with the guarantee provisions prevailing at the moment.

- **Establishment and preparation of a guarantee institution.** In tandem with the curtailment of the types of liability which are guaranteed, the government will also establish a guarantee institution to take over control of the guarantee program.

- **Exchange offer.** In order to reduce pressure on the state budget and balance of payments, the government will set out an exchange offer which will be designed to extend the maturity dates of the claims of foreign creditors on Indonesian banks.

- **Bank Recapitalization.** Banks with good performing assets are capable of meeting their own liabilities without the involvement of the government. Nevertheless, given the extent of non-productive assets in the banking sector, many banks will be unable to meet all of their liabilities and the government will become responsible for these liabilities. As a follow up to the guarantee program, the government will also institute a bank recapitalization program.

- **Shareholder Settlements.** Through shareholder settlements, IBRA will strive to recover the costs of the guarantee program from responsible bank shareholders.

2.2.2 Bank Restructuring Program

The purpose of the bank restructuring program is to create a healthy banking system characterized by globally competitive banks that meet international standards and have good management and adequate risk management.

2.2.2.1 Implementation Principles

- **Equal Treatment.** Restructuring policies will be applied consistently to each bank transferred to IBRA with regard to its role in the economy and the payments system.

- **Fairness.** Determination of the recapitalization requirement shall be carried out using independent professional services. Shareholders shall continue to enjoy the first opportunity to carry out recapitalization provided they comply with the requirements.

- **Temporary Participation.** Government capital participation shall be of a temporary nature and shall only continue for as long as required.

- **Recapitalization shall only be carried out once.** In order to avoid moral hazard, government participation in recapitalization shall be a one-time measure.

2.2.2.2 Implementation Strategy

IBRA is aware that the realization of its objectives is constrained by a number of structural factors, such as the large number of banks which makes it difficult to achieve satisfactory economies of scale to operate efficiently, and limited human resources and capital. Consequently, IBRA has adopted the following policies:

- **Consolidation of the Banking Sector.** IBRA has carried out a series of activities including the closing of unhealthy and non-viable banks, and the recapitalization and merger of banks deemed to be unhealthy but viable. These activities have been undertaken both in cooperation with controlling shareholders and by IBRA acting alone.

- **Restructuring of Bank Assets.** Banks have been compelled to make adequate provisions so that they may be protected from even greater losses resulting from further depreciation in asset quality. Banks are also required to transfer non-performing loans to IBRA for restructuring. Restructured non-performing loans will be transferred back to the banking system to reduce the government's liabilities.

- **Improving Bank Management.** This involves a series of programs designed to improve the quality of bank management. These programs encompass contract management, technical assistance, and the establishment of adequate incentive programs for both management and staff. The most important program is designed to correct the deficiencies in the existing reporting system and to improve the level of compliance with Bank Indonesia regulations.

Through bank sector restructuring the number of banks in Indonesia will be dramatically reduced and the remaining banks will be resilient and healthier. A number of regional banks will also continue to serve their respective regions and some smaller banks will continue serving their niche markets. These measures will be achieved through the continued restructuring and consolidation of the banking system in cooperation with Bank Indonesia.

2.2.3 Corporate Debt Restructuring

The purpose of corporate debt restructuring is to aid real sector recovery through improving corporate financing structures so that the provision of credit may subsequently be returned to the banking system. This will have a positive impact on the value of assets managed by IBRA.

2.2.3.1 Principles of Implementation

- **Developing healthy debtor-creditor relations** through, inter alia, the following measures:
    - Maintaining corporate value. This will be achieved through debt restructuring, improving corporate governance and managerial control, and supplying working capital in cooperation with the banks.
    - Employing various models for resolving bad debts.
    - Reaching comprehensive settlements in respect to liabilities of business groups through the restructuring of the individual companies under the one obligor concept.
    - Working together with other parties if required, including shareholders, other creditors, the Jakarta Initiative and INDRA.
    - Promoting compliance with the laws and regulations in effect in Indonesia, such as the Companies' Law and the Anti-Monopoly (Antitrust) Law, and internationally accepted standards of transparency and good corporate governance.

- **Creating Resilient Corporations** through the restructuring of companies where IBRA has a large exposure.

- **Preserving Employment Opportunities** through government programs to assist small and medium-scale businesses so that they may absorb the labor force, and the support of labor-intensive industries in accordance with the Indonesia First principle.

2.2.3.2 Implementation Strategy

The restructuring of loans by IBRA covers the recovery of loans both from direct collection or through restructuring and the seizure and liquidation of assets. In undertaking loan restructuring, IBRA's strategy includes the following measures:

- **Categorizing Corporate Debt.** In order to optimize the use of IBRA resources, the corporate debt controlled by IBRA will be categorized based upon the amount of debt, commercial prospects and potential recovery, good faith on the part of debtors, and the position of IBRA relative to other creditors.

- **Approaching debt restructuring using the one obligor concept.** IBRA will cooperate with the controlling shareholders of each group to restructure the debt of their member companies.

- **Restructuring Large-scale Corporate Debt**. In the case of large-scale debt and debtor corporations, IBRA requires the services of consultants, including the services of experts in the fields of finance and law, so as to achieve fast and credible restructurings.

- **Outsourcing medium-scale, small-scale and retail debt.** This involves the employment of third party services for the active management of medium-scale debt and the sale of retail and small-scale debt.

- **Litigation.** In the case of debtors who lack good faith, matters shall be settled through litigation.

- **Cooperation with other related agencies.** In order to maximize the efficiency and effectiveness of the restructuring process, IBRA shall work in cooperation with other interest parties such as related government agencies, other creditors, shareholders and the Jakarta Initiative and INDRA.

2.2.4 Shareholder Settlements

The program for the settlement of shareholder liabilities is designed to maximize the recovery of government funds provided to banks undergoing restructuring through the allocation of banks losses to their shareholders.

2.2.4.1 Principles of Implementation

- **Focus on Shareholder Settlements of Bank Liabilities.** This policy is applied to controlling shareholders of BBO/BBKU and BTO banks in cases where the shareholders have liabilities arising from the breaching of legal lending limits. Bank shareholders who are liable for losses will be requested to settle their liabilities with IBRA.

- **Fair and Consistent Treatment for all Shareholders.** All bank shareholders shall be treated equally and there shall be no differences in the criteria applied to the settlement of their liabilities.

2.2.4.2 Implementation Strategy

- **Determining Shareholders' Liabilities and Negotiating Settlements.** Bank losses and liabilities resulting from a shareholder's actions shall become the responsibility of that shareholder. It is expected that such liabilities will be settled in cash. Nevertheless, if shareholders have insufficient funds, they may transfer liquid assets, consumer goods or export oriented companies, or other assets, with a jointly agreed upon value.

- **Safeguarding and increasing the value of transferred assets.** In order to accommodate and manage the transferred assets, holding companies shall be set up by IBRA. If deemed appropriate and necessary, shareholders may participate in the management of such assets in order to preserve the integrity and value of the companies concerned.

2.2.5 Forensic Accounting and Asset Tracing

A special unit has been established in order to investigate and recover assets or cash controlled by the owners of banks and debtors under IBRA control, particularly in the case of assets or cash held abroad.

The unit was set up following the discovery of irregularities and the practice of side streaming and fraud that caused losses to companies. The exact extent of irregularities is still uncertain but is believed to have had a major impact on the shareholder settlement process and ultimately on the value of the assets recovered by IBRA.

In carrying out these forensic activities, IBRA has applied the following strategies:

- **Employment of experts** who have experience in the forensic, legal and investigative fields.

- **Security approach.** Bearing in mind that these activities require confidentiality, care and a high level of security, they are carried out in a confidential manner and reported to only a limited number of parties.

- **Cooperation with external investigative bodies** such as the police and the prosecutors office in the effort to trace assets held domestically, and with Interpol and the Department of Foreign Affairs in the case of assets held abroad.

2.2.6 Asset Divestment and Recovery of Government Funds

The principal objective of divesting IBRA's assets is maximizing the recovery of state funds while keeping in mind the national interest.

2.2.6.1 Implementation Principles

- **Optimizing Sale Proceeds.** Selling at the appropriate time will optimize sale proceeds and avoid fire sales.

- **Fair and Transparent Process.** In the divestment process, IBRA will give equal opportunity to all potential investors by adopting the most open procedures possible in order to preserve the integrity of the divestment program.

- **Prioritizing Indonesian Interests.** IBRA will sell assets using procedures which will guarantee the continuity of essential services for the Indonesian people and which will improve wealth distribution. Requests from potential investors shall be required to comply with the criteria outlined by the government in respect of social needs, employment and preservation of the environment.

- **Control of the Divestment Process by IBRA.** In order to maintain the integrity of the divestment process and to ensure that the principles outlined continue to be applied, it is essential that control remains with IBRA, rather than the former owners.

2.2.6.2 Implementation Strategy

- **Optimization through synergy.** The large number of debtor companies which have been placed under the control of IBRA gives IBRA an opportunity to institute restructuring programs in order to create economies of scale and synergies, taking into account market capacity and demand dynamics.

- **Divestment by Groups and in Stages.** In order to avoid competition and potential value reduction from the simultaneous sale of similar assets, the marketing program will be carried out in stages in accordance with market capacity and demand.

- **Divestment through the Public Equity Markets.** Where demand exists, IBRA will divest its holding through public offerings to achieve maximum liquidity. The benefits arising from public market listings include optimum sale proceeds for IBRA, wide ownership distribution and an increase in corporate professionalism due to reporting and transparency requirements.

- **Inviting the greatest possible number of investors.** Whenever feasible, the greatest possible number of investors will be invited to participate in IBRA's asset divestment program in order to maximize competition.

- **Employment of Consultants.** In order to realize a proper sale value, IBRA cooperates with consultants in carrying out due diligence and valuing the companies which are scheduled for divestment.

- **Coordination with third parties.** For the purpose of obtaining the maximum possible proceeds, IBRA will coordinate with interested parties such as other shareholders and creditors.

2.3 Strategy Implementation

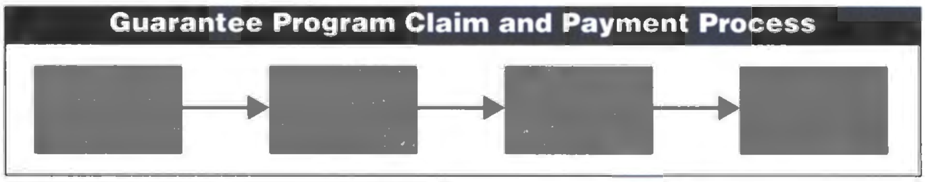
2.3.1 Commercial Bank Liabilities Guarantee Program

As a guide to the implementation of the government's policy guaranteeing the liabilities of commercial banks, a manual has been published under the title "Guidelines for the Implementation of the Government Guarantee Program for the Liabilities of Commercial Bank". This manual is in the form of Joint Decision of the Board of Directors of Bank Indonesia No. 30/270/KEP/DIR/ and Chairman of IBRA No. 1/IBRA/1998, dated March 6th, 1998 (SKB No. 30).

The guarantee is extended to all banks that have agreed to participate in the guarantee program. Like guarantee programs in general, every participant must pay a premium of 0.25% per annum of its average monthly savings and liabilities which are guaranteed. These premiums are paid in advance to IBRA every six months.

Guarantee claim submission and payment procedures as set out in Joint Decision of the Board of Directors of Bank Indonesia No. 32/46/KEP/DIR and Chairman of IBRA No. 181/IBRA/0599 (SKB No. 32), which is a revision of SKB No. 30 (see Appendix 2), require creditors and debtors to register the liability which is to be guaranteed not later than 60 days subsequent to the date of the Joint Decision or 60 days from the date on which the liability was booked.

In brief the guarantee program claim and payment process is as follows:



- **Receipt of claims.** Claim requests regarding due and payable bank liabilities by a depositor or creditor are submitted directly to the bank concerned. If the bank is unable to pay its liability, it then submits a claim to IBRA. Should a debtor bank be a bank whose operations have been frozen (BBO), the creditor bank may also submit a claim to IBRA.

- **Verification Process.** All claims are verified by Bank Indonesia. Additionally, IBRA, or another party appointed by IBRA, also verifies the claims. Should a debtor bank be a bank whose operations have been frozen (BBO), verification shall be carried out by the Settlement Team or the Interim Management Team or by another party appointed by IBRA, with the recommendations then forwarded to IBRA.

- **Claim Approval.** Verified claims are submitted by the Bank Liabilities Division to the Executive Committee of IBRA for approval. The Executive Committee consists of the Chairman and the Vice-Chairmen of IBRA.

- **Payment of Claims.** After being approved by the Executive Committee, the Bank Liabilities Division will request the Operations Division to make payment.

In order to accelerate the payment process, IBRA may outsource the verification process to independent third parties.

The implementation of the guarantee program will be phased out in stages according to market preparedness and the level of public confidence. At present all commercial bank liabilities are guaranteed by the government, except for liabilities to related parties or arising from related party transactions. In the subsequent stage, the guarantee program will be confined to deposits and trade finance facilities. Eventually, the program will be restricted to deposits and will be handed over to the guarantee institution.

2.3.2 Bank Restructuring Program

As was explained in the preceding section, the banking sector recapitalization program is part of the government's integrated effort to restore the banking sector to health (see Appendices 3.1 & 3.2). The program is coordinated with the related departments in the case of state-owned banks.

2.3.2.1 Selection Process for Bank Restructuring

The policies regarding the recapitalization program for private sector banks are outlined in the Joint Resolution of the Minister of Finance and Governor of Bank Indonesia, Number 53/KMK.017/1999 and 31/12/KEP/GBI of 1999, which states that recapitalization will be carried out only in selected banks. This selection process is conducted in stages by three committees, namely the Technical Committee, the Evaluation Committee and the Policy Committee. Each of these committees consists of members drawn from IBRA, the Ministry of Finance and Bank Indonesia.

The selection process conducted by these committees, with the assistance of reputable international banking consultants, consists of the following three principal appraisals:

- **Financial Appraisal.** An appraisal of the financial condition of the bank is made using very strict international standards in order to determine the suitability of the bank to participate in the recapitalization process. This appraisal is carried out by an internationally reputable independent accounting firm. Banks which have Capital Adequacy Ratios (CAR) of more than 4% are grouped as Category A Banks, and may continue to operate without government interference. Banks having a CAR of between 4% and negative 25% are referred to as Category B Banks and those having a CAR of less than negative 25% are Category C Banks. Category C Banks unable to increase their CAR to at least negative 25% have their operations frozen (BBKU).

An appraisal process is then conducted on Category B Banks and Category C Banks which have increased their CAR to at least negative 25%. This further appraisal consists of the following:

- **Appraisal of Commercial Prospects.** After the appraisal of the financial position, the selection process continues with an appraisal of commercial prospects taking into account franchise value.

- **Fit & Proper Test.** In addition to commercial prospects, an appraisal is also conducted on the capabilities and integrity of management and the controlling shareholders (fit & proper test). The outcome of this test determines the suitability of the bank's management and controlling shareholders to participate in the recapitalization program.

Based on the results of this appraisal, bank selection was carried out as follows:

- Category B Banks which passed the further appraisals (viable banks) and whose controlling shareholders were willing to contribute a minimum of 20% of the recapitalization cost as of December 31st, 1998 were entered in the private sector bank restructuring and recapitalization program.

- Category B Banks which passed the further appraisal but whose shareholders were unwilling to participate in the recapitalization were taken over by the government (BTO).

- Category B Banks which failed to pass the further appraisal have their operations frozen (BBKU), save in the case of a number of banks which had more than 80,000 depositors which were taken over by the government (BTO).

2.3.2.2 Restructuring and Recapitalization of Private Sector Banks.

In undertaking recapitalization, the government entered into an Investment Agreement with the bank and its controlling shareholder. The principal provisions of this agreement were as follows:

- The controlling shareholders pledged their willingness to participate with a minimum investment of 20% of the recapitalization need as of December 31st, 1998.
- The government funds the remaining recapitalization need as recalculated by an independent public accountant, in cooperation with the bank's shareholder.
- The transfer of Category 5 Loans to IBRA.

- The bank shall repay liquidity assistance and correct the legal lending limit violations within one year.
- IBRA agrees not to participate in the day-to-day management of the bank.
- The bank agrees to comply with financial and operational targets set out in the business plan (see Appendix 3.3).

To date IBRA has recapitalized seven private sector banks through the issuance of government bonds and become a shareholder in these banks. Public participation in the recapitalization of these banks has reduced the government's ownership so that it has an average of 63% ownership, versus the 80% originally forecast.

List of Recapitalized Banks

Bank	Recapitalization Requirements (Rp billion)	Government Portion (Rp billion)	Government Ownership (%)
BII Tbk	11,114	6,628	60
Lippo Tbk	8,737	4,787	55
Universal Tbk	5,063	4,098	81
Arta Media	165	130	79
Bukopin	476	370	78
Patriot	62	51	83
Prima Express	584	531	91
Total	**26,201**	**16,595**	

2.3.2.3 Bank Taken Over (BTO)

The resolution and recapitalization of BTOs are carried out based upon Joint decision of the Minister of Finance and the Governor of Bank Indonesia No. 117/KMK.017/1999 and 31/15/KEP/GBI of 1999.

IBRA has undertaken a series of activities in connection with the restructuring of BTOs:

- **Taking Over of Management.** IBRA plays an active role in the management of BTOs through placing IBRA managers in each BTO.

- **Shareholder Settlements.** IBRA also coordinates shareholder settlements whereby former controlling shareholders are requested to pay all of their groups' liabilities.

- **Resolution.** IBRA recapitalizes designated BTOs by means of temporary capital participation. In the case of BTOs which are not designated for recapitalization, IBRA will pursue a recovery program through a merger and or a divestiture to interested investors.

- **Assets Transfers.** All BTOs are required to transfer Category 5 Loans to IBRA.

To date 13 banks have been taken over by IBRA and these are divided into three groups. IBRA teams have evaluated the strengths and weaknesses of each bank and have determined the appropriate restructuring processes and selling strategies.

- The first group of BTOs consists of four banks whose operations were taken over by IBRA in 1998. These banks include BCA which was taken over on May 28th, 1998, and Bank Tiara Asia, Bank Danamon and Bank PDFCI which were taken over on April 4th, 1998.

- The second group of BTOs consists of seven banks, Bank Duta, Bank Nusa Nasional, Bank Pos, Bank Jaya, Bank Tamara, Bank Rama and Bank Risjad Salim Internasional, which were all taken over on March 13th, 1999. The banks in this group will not be recapitalized as autonomous banks. All of these BTOs will be merged with other BTOs.

- The third group of BTOs consists of Bank Niaga, which was taken over on July 2nd, 1999, and Bank Bali which was taken over on July 23rd, 1999. Both of these banks were previously included in the private sector bank recapitalization program but their status was changed as their controlling shareholders did not participate in the recapitalization process.

  Among the 13 banks taken over are some of the largest banks in Indonesia.

List of BTOs

Bank	Assets Value (Rp billion)
Bank Central Asia	67,654
Bank Danamon	18,868
Bank Tiara	2,287
Bank PDFCI	878
Bank Nusa Nasional	6,033
Bank Duta	5,750
Bank Tamara	3,764
Bank Risjad Salim	2,716
Bank Rama	1,484
Bank Jaya International	1,133
Bank Pos Nusantara	743
Bank Niaga	12,255
Bank Bali	10,016

2.3.2.4 Frozen Banks (BBO/BBKU)

In the case of banks whose operations have been frozen (BBO and BBKU), IBRA has carried out the following actions:

- **Payment of Bank Liabilities.** In accordance with the government's guarantee program, IBRA will pay all the eligible liabilities of the BBO and BBKU banks.

- **Transfer of Bank Assets.** All the assets of banks whose operations have been frozen are transferred to IBRA.

- **Management of Bank Assets.** IBRA will service performing loans and restructure non-performing loans.

- **Shareholder Settlements.** If there were any violations of banking regulations by a bank's controlling shareholder, IBRA will seek to recover the liabilities from the controlling shareholder.

- **Liquidation.** In the final stages, IBRA will assist Bank Indonesia in liquidating the BBO and BBKU banks to avoid any subsequent claims against IBRA.

To date 48 banks have had their operations frozen. This group includes 10 BBOs whose operations were frozen in 1998 with seven of them being frozen on April 4th, 1998 and three on August 21st, 1998. The other group consists of 38 BBKU banks whose commercial activities were frozen on March 13th, 1999.

2.3.3 Corporate Debt Restructuring

In order to facilitate restructuring and maximize the use of resources, debt restructuring is segmented based on the outstanding debt balance, commercial and recovery prospects, debtor cooperation and IBRA's position relative to other creditors. (see Appendices 4.1 & 4.2)

2.3.3.1 Debt Classification

- **Classification of debtors based upon commercial prospects and cooperation.** Debtors are classified based upon their commercial prospects and the level of their cooperation in conducting negotiations.
  - Category A: Good business prospects and cooperative.
  - Category B: Poor business prospects and cooperative.
  - Category C: Good business prospects but uncooperative.
  - Category D: Poor business prospects and uncooperative.

- **Classification according to amount of debt.** The second step taken by IBRA is to identify the largest debtors and begin formulating debt restructuring plans. To date, IBRA has accepted the transfer of approximately 250,000 debtors. IBRA will directly restructure the 800 largest debtors, representing 80% of the total debt value under IBRA.

- **Classification according to IBRA's position relative to other creditors.** The nature of IBRA's role in corporate debt restructuring is dependent on the percentage of the corporate debt held by IBRA and whether IBRA is the sole creditor, majority creditor or minority creditor.

- **Classification according to industry and corporate characteristics.** In order to increase the efficiency of the restructuring process, IBRA classifies its debtor companies into groups including state-owned enterprises, multi-finance companies, IBRA controlled companies and others.

2.3.3.2 General Approach

- **Direct debt restructuring** is undertaken by IBRA in the case of large scale Category A and B Debtors where IBRA is the dominant creditor (see Appendix 4.2). The steps taken are as follows:

    - Legal and financial advisers are appointed to conduct due diligence, prepare a work plan, a business plan, financial projections and a restructuring plan.
    - Evaluation of the debtor's business plan, assumptions and cash flow projections in order to determine debt-repayment capacity and the optimum methods of refinancing the company.
    - Negotiations with the company's shareholders and other creditors in order to reach agreement on the debt restructuring and other corporate finance needs.

- **Debt restructuring in cooperation** with the steering committee in the case of Category A and B debtors with large-scale debts where IBRA is the minority creditor. In this process, the majority creditors control the restructuring and IBRA cooperates with and participates in the restructuring process and negotiations. In such a case IBRA will study the business plan and restructuring proposal to ensure that the process and solution are acceptable to IBRA.

- **IBRA/Government as shareholder in a debtor company.** In the case of a company controlled by IBRA or a state-owned enterprise, the restructuring process may be accelerated as IBRA or the government can act as both creditor and shareholder thus removing the conflicts that generally arise in the restructuring of corporate debt.

- **Transfer of claims to the litigation team** in the case of Category C and D Debtors with quite significant debts. This process covers case preparation, litigation and coordination with the asset investigation and forensic team.

- **Handling of debt through outsourcing** in the case of medium-scale, small-scale and retail debtors (see Appendix 4.3)

    - Utilizing the services of third parties or banks controlled by IBRA to manage and recover the debts of medium-scale companies.
    - The sale of small-scale and retail debts to third parties or banks controlled by IBRA.

2.3.3.3 Transfer of Loans

- **Assets received by IBRA.** IBRA received all the assets of the frozen banks (both BBO and BBKU). In the case of banks taken over (BTO), recapitalized banks and state banks which have been recapitalized by IBRA, only Category 5 loans are transferred.

- **Progress to date.** The loan portfolios of 10 BBO banks, seven state banks, four BTOs and seven recapitalized banks have been transferred to IBRA. IBRA is also in the process of accepting the transfer of the loan portfolios of BBKU banks and the two newest BTO banks (Bank Niaga and Bank Bali). IBRA estimates that it has received the transfer of loans amounting to Rp 235 trillion. Of this amount, Rp 203 trillion has already been legally transferred (see Appendix 7.1)

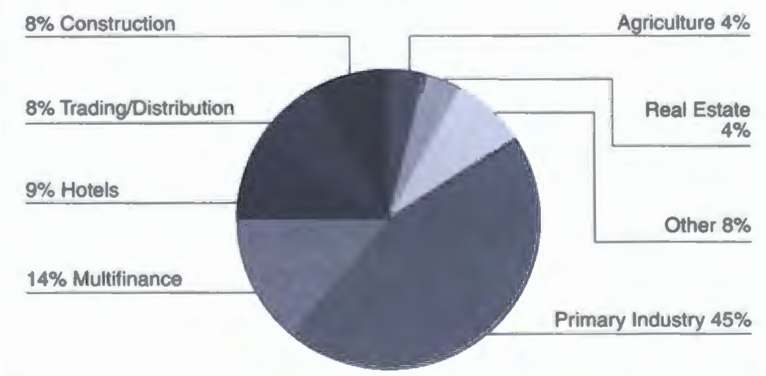
IBRA Portfolio (as of September 1999)

Bank	Assets Transferred	Status	# Account	# Debtor	Balance (Rp trillion)
38 frozen banks (BBKU)*	All	In process	121,149	101,110	28.5
10 banks with frozen operation (BBO)	All	Completed	63,618	29,963	33.5
4 Original Banks Taken Over (BTO)	Category 5	Completed	28,641	16,563	36.6
Second round BTO's*)	Category 5	In process	8,866	6,579	8.3
7 Recapitalized Banks	Category 5	Completed	7,803	5,729	16.2
7 Bank BUMN	Category 5	Completed	33,497	14,745	111.0
Total			**263,574**	**174,689**	**234.1**

**) The administrative process concerning transfers by Bank Rama, Duta, Jaya and 37 banks with frozen commercial activities has not yet been completed.*
The above figures are recorded as presented by the original banks. IBRA is still verifying the said figures using independent public accountants.

The portfolio of financial assets and other bank assets, including the debt portfolio taken over by IBRA, is as follows:

Distribution of Assets Transferred to IBRA (September 1999)



The largest component of IBRA's loan portfolio is primary industry, which includes forestry and basic industries such as the chemicals and tires. The second largest component is the property sector.

Of the entire loan portfolio, IBRA directly manages all debtors who have debt balances of over Rp 50 billion. There are 879 of these debtors representing 72% of the total value of the portfolio.

IBRA has settled claims amounting to Rp 2.8 trillion consisting of USD 78 million and Rp 2.3 trillion. This was achieved through debt restructuring with cooperative debtors.

IBRA Loan Recovery
(as of September 1999)

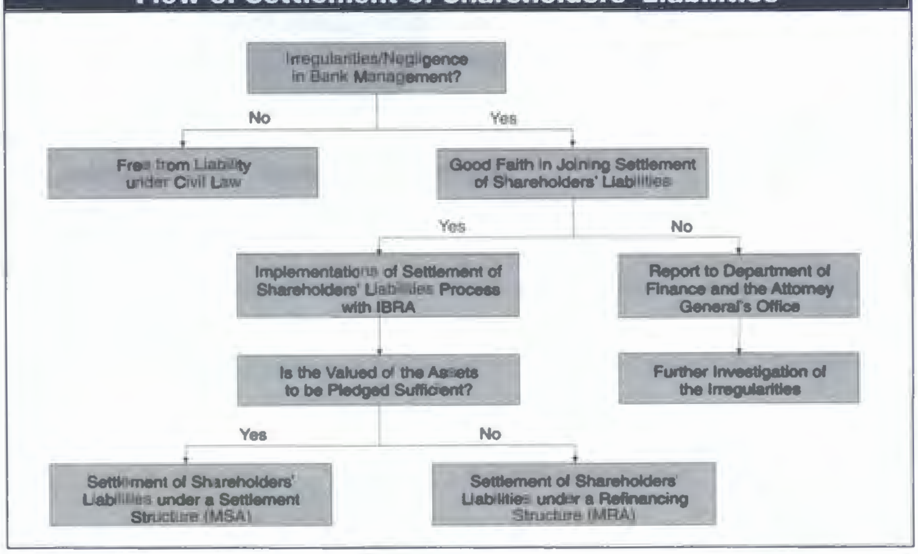
Recovered Loans	USD (million)	Rp (billion)
First 10 Frozen Banks (BBO)	11.9	1,122.7
38 Frozen Banks BBKU	24.8	742.5
First 4 BTO	28.1	180.6
7 State-owned Banks	10.8	208.7
7 Recapitalized Banks	2.4	42.8
Total	**78.0**	**2,297.3**

2.3.4 Shareholder Settlements

Settlement of controlling shareholders liabilities in banks undergoing restructuring is divided into two groups in accordance with the Government Announcement dated November 10th, 1998, namely settlement of shareholders' liabilities on banks taken over (BTOs), and frozen banks (both BBO and BBKU) (see Appendix 5.1).

In implementing shareholder settlements of liabilities (see Appendix 5.2), IBRA carries out the following steps:

Flow of Settlement of Shareholders' Liabilities



2.3.4.1 Calculating and Settling Liabilities

- **Calculate Shareholders Total Liabilities and US$ allocation among the shareholders** (see Appendix 5.2)

  a. Banks whose operations have been frozen (both BBO and BBKU)
     - Total Shareholder Liabilities = Gross Book Value of Bank Liabilities – Net Reasonable/Market Value of bank Assets and Third Party Assets
       or
     - Total Shareholder Liabilities = Net Book Value of Shareholder Borrowings in Bank + Negative Equity of the Bank.
     - Should there be more than one controlling shareholder, the allocation of total liabilities is carried out in accordance with the value of the borrowing of each shareholder in the Bank, plus the value of losses divided proportionately according to the percentage of borrowing or ownership of each shareholder in the bank.

  b. Banks Taken Over (BTOs)
     - Total Shareholder Liabilities = Net Book Value of Shareholder Borrowings in the Bank.
     - Should there be more than one controlling shareholder, the allocation of total liabilities is carried out in accordance with the amount of the loans or other facilities extended to the bank's shareholders.

- **Criteria for assets used by shareholders in settling their liabilities.** It is anticipated that liabilities will be settled in cash. Notwithstanding this, if shareholders have insufficient cash, they may transfer liquid assets and shares in export orientated and consumer products companies or any other assets with a jointly agreed value (see Appendix 5.4).

- **Method of appraising assets which have been transferred by shareholders to settle their liabilities.** The appraisal of assets transferred to IBRA is conducted in accordance with internationally accepted practices and principles (see Appendix 5.5)

2.3.4.2 Asset Management

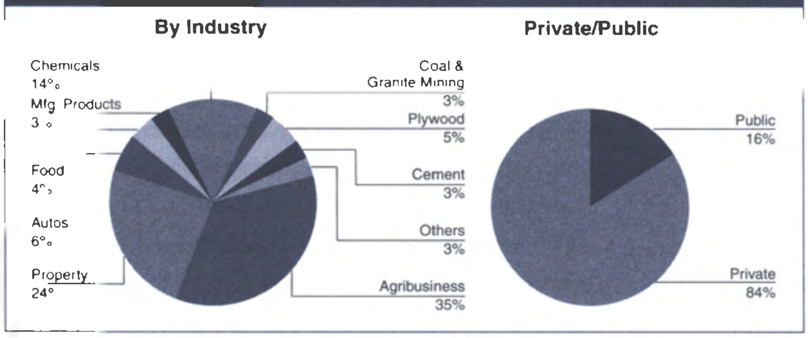
- **Establishment of Holding Companies.** To accommodate and manage assets transferred to IBRA, holding companies are established, and where shareholders exhibit high levels of integrity, they may participate in the management of the assets (see Appendix 5.6).

- **Cooperation with Shareholders.** The purpose of establishing holding companies is to maximize asset value through prudent management and cooperation with the former bank shareholder. This is carried out through a management contract. This structure, which requires the shareholder to continue managing the assets, is set up to mutually benefit IBRA and the shareholder by maximizing corporate value. Nevertheless, IBRA retains full control over the divestment process.

2.3.4.3 Management Assets

The total value of the assets successfully obtained from former controlling shareholders of BTOs and BBOs through Shareholder Settlements amounts to Rp 112 trillion (see Appendix 7.2). It is expected that this figure will continue to rise in line with the additional assets to be obtained from the shareholder settlements process being conducted by IBRA with 38 former owners of BBKUs. Which additional assets are estimated at Rp 25 trillion.

Holding Company Asset Profile
(September 1999)



Of total Holdco assets, the agribusiness sector represents the largest share of assets (35%). This category includes a shrimp farm business with the largest site in the world and the largest integrated palm oil producer in Indonesia.

Property, which represents 24% of the total value of the portfolio, is the second largest industry in the portfolio and includes hotels, housing estates, office properties and shopping centers located throughout Jakarta, Bali, Bintan, Batam and other locations.

Many of the portfolio companies are market leaders in their respective industries, both domestically and globally. Companies controlled by the Holdcos include the following:

- The largest tire manufacturer in Southeast Asia
- One of the largest palm oil plantations in the world and its associated production facilities
- The largest and second largest car manufacturers in Indonesia
- The top ranked private television station in Indonesia
- The largest property development project in Indonesia
- A pulp plant in Indonesia

In addition to being the majority shareholder in these private companies, the Holdcos assets also include minority stakes in some of the highest profile public companies in Indonesia, including the largest food processing, cement and automotive companies.

IBRA has assigned professional managers to its Holdcos who are responsible for monitoring the portfolio of assets transferred in order to maintain and maximize their value. IBRA does not intend to exercise management control except in special cases. However, IBRA will continue to supervise the asset portfolio to ensure that targets are met and to control costs, capital distributions and other strategic decisions.

2.3.5 Forensic Accounting and Asset Tracing

The duties conducted by this section are primarily focussed on intelligence activities, forensic accounting and foreign asset tracing.

The unit carries out its duties based upon input obtained from other IBRA work units, particularly the Asset Management Investment Unit (AMI) and the Asset Management Credit Unit (AMC) based upon the results of due diligence conducted by these units in both the legal and financial fields. In exercising its duties, the forensic unit may utilize the services of international consultants who have experience in forensic accounting and asset tracing.

The activities of the unit may be broken down into three segments:

- **Forensic accounting.** Upon uncovering irregularities through due diligence, the forensic unit carries out a forensic accounting process by examining the transactions and documents concerned.

- **Asset Tracing.** Should further examination reveal irregularities, the unit will trace and investigate the assets or funds concerned with the goal of asset recovery.

- **Blocking of Assets.** Any assets discovered will then be blocked and subsequently taken over through the appropriate legal measures available within Indonesia or overseas.

2.3.6 Asset Divestment and the Recovery of Government Funds

In order to meet the asset divestment targets set in its annual budget, IBRA will categorize and prepare assets for sale paying close attention to market demand.

In undertaking asset divestment, IBRA will use various methods that are adapted to the requirements of the assets, with the purpose of maximizing their sale value. The selling methods employed include the following (see Appendix 6):
- Sale of company shares to strategic investors
- Initial Public Offerings
- Loan and financial asset sales
- Monetizing assets through securitizations

2.3.6.1 Sale of shares to strategic investors

The method of sale of each company will be dependent upon market conditions, prospective investor interest, business and industrial sector potential, the size of the company and the size of IBRA's shareholding. In addition, debt restructuring requirements and negotiations with the creditors of each company are taken into consideration.

Based upon reasonable appraisals and forecasts, a number of selling methods are employed, namely:
- Public offering/auction;
- Exclusive/negotiated sale; or
- Hybrid public auction and exclusive process;

In principle, each transaction is unique and the method and structure of the sale will be determined on a case by case basis to maximize the benefit for IBRA.

Generally speaking, IBRA favors the **public offering process.** A prerequisite for a public offering is the presence of a number of prospective investors who are interested in the offered asset. Such a process maximizes transparency and competition in asset sales.

Should there be only one party who shows keen and certain interest, particularly where that party is another shareholder or joint venture partner of the company concerned, and where such person has preemptive rights, the public offering process will be preceded by an **exclusive offer period for the preferred bidder**. By employing this hybrid bidding process, an opportunity is given to the preferred bidder to make an exclusive bid while at the same time allowing IBRA to invite other competitive bidders.

The exclusive offering process while facilitating a quicker realization of cash proceeds tends not to produce optimal results given the lack of transparency and competition involved. In this process only a small number of prospective bidders who are deemed to be very interested and serious will be approached and requested to undertake due diligence.

In addition to the methods described above, there are a number of other structural options that may be chosen. In certain cases a prospective purchaser may be given the opportunity to offer a pure management contract, an option to acquire the company in stages, a combination of both of these methods or a direct acquisition. A direct acquisition is deemed to be the optimal method if the objective of the Indonesian government is to maximize value and receive cash proceeds as quickly as possible. If there is insufficient investor interest or there are complexities in the company's business making a direct acquisition undesirable, numerous agreements can be reached whereby the investor can initially become a minority owner, enter into a management contract combined with an ownership option structure, or acquire the company in stages.

Pure contract management or an ownership option structure is the least desirable option and will only be applied when faced with little investor interest.

2.3.6.2 Initial Public Offering

This option is very compelling if capital market conditions are favorable. The benefits of this method include the facilitation of capital inflows through widespread ownership while existing management can be maintained. The prospective equity investors include fund managers, pension funds, retail and small-scale investors and others. The sale of shares to retail and small-scale investors will assist the government in its efforts to expand the public ownership of domestic companies.

The weakness of this method is that the opportunity to sell to a strategic investor, who typically offers the most competitive price, is lost.

2.3.6.3 Sale of Loan Assets

IBRA's divestment strategy for loan and financial assets is broken down as follows:

- The sale of loan portfolios will be carried out after IBRA has successfully concluded the restructuring process, in order to increase asset values. Included in this program will be IBRA's shareholdings in companies whose shares were transferred to IBRA as part of debt restructuring agreements.

- The sale of portfolios of small and medium-scale corporate loans, and also retail loans, will take place as soon as possible, giving banks and financial investors the opportunity to manage the assets until they are subsequently sold to an end investor.

- The sale of other bank assets such as property and other financial investments (non-core assets) will be carried out by category and in accordance with the demand for such assets.

Although IBRA's objective is to sell the financial assets it owns, it will ensure that asset value is maintained through careful loan management. Corporate loan portfolios will be managed directly by IBRA while small-scale, medium-scale, and consumer credit portfolios will be managed by third party agents (outsourcing), including the original banks extending the loans.

When ready to sell the assets, IBRA will approach interested investors or hold a public tender. The choice will depend upon the type of asset and investor interest. IBRA will use various structures in forming financial asset portfolios to maximize the value of the assets. The structures which may be employed include receivables-backed securities, collateral financing or any other structure which has been carefully considered by IBRA.

Investors who may be interested in purchasing such restructured debt portfolios include domestic and foreign banks, financial investors, multi-finance companies, fund managers and portfolio investors. In addition to requiring payment in cash, IBRA may sell the said debt portfolios to both BTOs and recapitalized banks in exchange for government bonds held by those banks. This method facilitates the repurchase of government bonds, assists in the recovery of state funds, and reduces future interest payments.

2.3.6.4 Monetizing Assets through Securitization

Another method is the securitization of corporate earnings, through the issue of various types of debt instruments that are guaranteed by the cash flows of the issuing company. In addition, the possibility of issuing convertible bonds, whereby upon maturity the investor is given the option of choosing between receiving cash or a number of shares in a selected company, needs to be explored. The choice of the best companies to issue such instruments will be based upon the quality of their revenue and cash flow. The best candidates are export-orientated companies, which have long-term contracts with reputable multi-national companies, with good growth potential.

2.4 Organizational Structure and Support Facilities

2.4.1 Organizational Structure

IBRA's organizational development strategy involves the establishment of an organizational structure that will facilitate the execution of IBRA's mandate. The structure developed includes a chairman, a vice-chairman and five deputy chairmen.

In general, the chairman coordinates between IBRA's internal and external activities. External relations include those with government institutions such as ministries, Bank Indonesia and no less importantly, high state institutions such as Parliament, the Supreme Court, and other institutions. Additionally coordination is also carried out with international financial institutions such as the IMF, World Bank and ADB.

The duty of the vice-chairman is to assist the chairman in carrying out internal coordination in IBRA, particularly in regard to complying with the external requirements that have been developed in consultation with IBRA's chairman. In the exercise of their duties, the vice-chairman are assisted by deputy chairmen.

The duties and responsibilities of the deputy chairmen are as follows:

1. **The Asset Management Investment (AMI)** unit is responsible for assets in the form of investments or government shareholding in companies whether banks or otherwise. This area is also responsible for the bank restructuring and recapitalization processes.

2. **The Asset Management Credit (AMC)** unit is responsible for the management and restructuring of loans, and the non-core assets, which have been transferred to IBRA.

3. **The Forensic and Asset Investigation** area is responsible for, inter alia, the conducting of financial and forensic investigations concerning the possibility of irregularities, side streaming and or fraud which were uncovered during the due diligence process. If necessary, this area is able to conduct asset tracing in the effort to recover the assets of the company concerned.

4. **The Asset Divestment** area is responsible for the process of selling assets, including those managed by the AMI and the AMC.

5. **The General and Administrative** area is responsible for providing support for IBRA's operations, including the employment of information technology and satisfactory software and hardware systems. In addition this area also covers finance, accounting, treasury, human resources, systems and procedures development, and IBRA's general affairs section.

In addition to the five areas described above, IBRA also has numerous support units such as Internal Audit and the Agency Secretariat which report directly to the Chairman, and the Legal and Secretarial Bureau, the Institutional Planning Unit, and the Risk Management Unit, which are accountable to the vice-chairman (see Appendix 8.1).

2.4.2 Human Resources

IBRA's human resources strategy is as follows:

- **Recruitment.** Recruitment is carried out selectively based upon established criteria and with competitive remuneration being provided in accordance with duty and responsibility.

- **Development of quality human resources.** In this regard IBRA cooperates with Hewitt Konsultan Indonesia in the application of a Review, Analyze and Design process, a Redesign of Job Evaluation & Grading System process, and Employee Competence Assessment process, and the development of Human Resources Strategies. In addition to cultivating quality, it is also anticipated that a transfer of knowledge from consultants to IBRA will take place.

- **Use of third party services (outsourcing).** Bearing in mind IBRA's significant workload and time constraints some work of a non-routine nature (crash programs) is subcontracted to third parties.

- **Outplacement.** Given IBRA's limited lifespan, upon the completion of its duties, an outplacement program will be developed for IBRA staff. Such programs will be designed in accordance with the expertise and experience of each staff member.

  As of August 1999, IBRA had 634 employees, compared to approximately 25 employees in August 1998. This growth is a reflection of IBRA's increased duties and responsibilities.

2.4.3 Management Information Systems

The strategy for the development of efficient management information systems is as follows.

- **Development of systems and procedures.** IBRA is preparing Standard Operating Procedures (SOP) which are based upon the characteristics of the work found in IBRA. The SOPs for IBRA's various tasks have been formulated and are set out in Appendix 8.5.

- **Computerization.** A computerized system that supports financial and accounting operations, administrative processes, and communications among IBRA personnel, will accelerate the reporting system.

  In order to support the reporting system and the accounting and financial database, an Oracle Data Warehousing system has been developed. This system will be capable of accommodating internal requirements and interacting with the systems used by the banks under IBRA's control. (see Appendix 8.2).

- **Development of Communications System.** The Lotus Notes System is used in supporting the workflow, the numbering of letters and memos, and the overall decision making process. The exchange and e-mail servers are used to back up the office automation system in order to facilitate and accelerate IBRA's internal communications processes (see Appendix 8.3)

- BPPN Net Global is currently being developed to integrate all the information systems that are related to IBRA's operations (see Appendix 8.4)

2.4.4 Communications

The purpose of Agency Secretariat is to maintain support from the public at large for IBRA, through providing correct, timely and complete information on IBRA and its activities.

The information can be divided between general information on IBRA and information on specific programs and their implementation. The parties that IBRA seeks to communicate with include investors, debtors, creditors, the government, the general public and within IBRA itself.

Based upon the type of information, IBRA determines the appropriate media mix to achieve its communications goals.

2.4.4.1 Public Information

The dissemination of public information enhances IBRA's image both internally and among the general public. In order to achieve these objectives, IBRA undertakes the following activities:

- Utilizing the mass media, including the print media through advertorials, press releases and interviews, and the electronic media through advertorials, talk shows and interviews.
- Organizing courses and seminars for students and academics in particular.
- Giving one-on-one presentations to government and non-government agencies, and non-governmental organizations (NGO).

- Issuing newsletters and updates for both internal and external requirements.
- Operating a website, www.bppn.go.id, as an information center.

2.4.4.2 Information on Special Activities

In addition to the above activities, and in order to provide information on IBRA to potential investors and other parties with a special interest in IBRA, the following methods are also employed:
- An Information Center has been established for Investors and Website ads.
- The holding of analyst meetings and investor forums (road shows).

For the purpose of carrying out its duties, the communications division is divided into three sections:

1. Promotion and Marketing. Designing and formulating communications strategies for each target

2. Public Relations. Widely disseminating information regarding IBRA's programs.

3. Investor Relations. Communicating with potential investors who may participate in the asset divestment program.

2.5 Supervision and Risk Management

2.5.1 Supervision

IBRA is aware of the importance of both internal and external supervision in maintaining its principles and achieving its mission.

2.5.1.1 Internal Supervision

Internal supervision is an important part of IBRA management's vision and mission. The elements of internal supervision and management control encompass: i) organizational structure and job description, (ii) procedures, planning, recording and reporting, iii) quality human resources, and iv) internal review.

As a management tool, internal review is an important process for examining the functioning of management. Internal review of IBRA's operations is the function of the Risk Management Division and the Internal Audit Division.

The purpose of the Internal Audit Division is not to analyze the merits of particular transactions, but rather to conduct an ongoing consultative process that addresses the weakness in the management control functions. The internal review function carried out by the Risk Management and Internal Audit Division includes audits, reviews of management reports and procedures, and consultation with managers. In order to produce optimum and comprehensive results, internal review takes the following steps.

- **Financial Audit**, focussed on the reasonableness, carefulness, comprehensiveness and accuracy of management reporting.

- **Operational Audit**, focussed on the compliance, efficiency, and effectiveness of an activity or organizational unit with the objective of providing recommendations for improving management control.

- **Special Purpose Audit**, focussed on obtaining facts and giving recommendations in respect to special cases.

- **Information System Audit**, focussed on the efficiency and effectiveness of the management information systems in supporting management objectives.

- **Review of Operating Procedures**

- **Review of the Appointment** of accounting consultants and auditors.

2.5.1.2 External Supervision

To maintain transparency, IBRA's operational activities are subject to reviews and audits conducted by independent parties. A number of institutions have the right to conduct independent audits or reviews on their own initiative or at the request of IBRA. These include the House of People's Representatives (DPR), the Supreme Audit Board (BPK), the IRC, and public accountants. In connection with the management's policy of transparency, IBRA submits periodic reports to the Minister of Finance and the IRC.

2.5.2. Risk Management

The purpose of Risk Management processes is to enable the company to achieve its stated objectives and targets. Risk Management is carried out by identifying and controlling all risk factors which may interfere with the company's efforts to achieve its stated objectives. In that regard, the objective and strategy of the Risk Management Unit should be consistent with the overall objectives of IBRA.

The objectives of Risk Management Unit are as follow:
- To identify all risk factors that have the potential of interfering with IBRA's efforts to achieve its objectives;
- To implement adequate risk management procedures in the calculation, control and monitoring of such risks in order to minimize its impact over the successful achievement of IBRA's overall objectives;
- To develop risk management strategies, policies and working procedures designed to achieve a balance between acceptable risk levels and the accomplishment of determined objectives;
- To cultivate a suitable risk management environment at IBRA, in order that all decisions and transactions are carried out in a consistent, transparent and objective manner.

2.5.2.1. IBRA Risk Management Strategy

IBRA was established as a non-profit organisation, with the primary task of carrying out debt restructuring, including the collection of debts. IBRA plays a vital function in revitalizing the banking sector as well as the economy in general. Therefore, IBRA's risk management strategy is based on the principle of risk aversion.

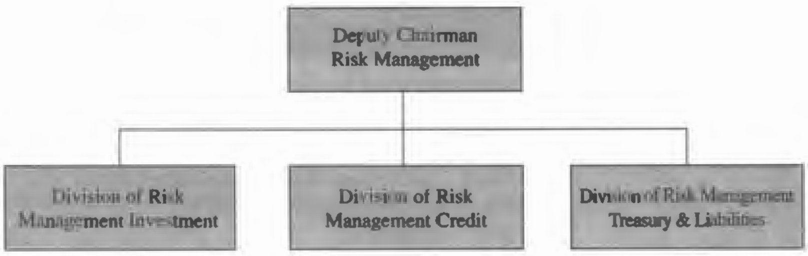
The following are strategies of IBRA's Risk Management Unit:
- To avoid, or transfer, all risks whenever possible. In cases where these are not possible, suitable control or monitoring procedures are to be carried out to minimize risks within acceptable levels;
- To lower, as much as possible, the tolerance level towards indisputably risk-bearing activities;
- To utilize internationally-accepted practices in identifying, controlling and monitoring all business risks;
- To carry out risk evaluation within a predetermined framework in order to ensure that risk management efforts are focused on those factors that carry the biggest potential impact on IBRA's objectives;
- To develop and operate the Risk Management Unit so as to ensure the proper utilization of available resources within the respective fields of expertise;

- The allocation of risk management responsibilities are as follows:
  a) Deputy Chairman in charge of Risk Management, to be responsible at the highest level for all risks borne by IBRA.
  b) Head of Risk Management - Credit Division, to be responsible for certain risk pertaining to the Asset Management Credit (AMC).
  c) Head of Risk Management - Investment, to be responsible for certain risk pertaining to the Asset Management Investment (AMI).
  d) Head of Risk Management Treasury & Liabilities Division, to be responsible for certain risks pertaining to the Treasury and Bank Liabilities activities.

The above strategies will be reviewed from time to time to keep up with internal and external changes at IBRA. The strategy will be revised on the event a significant change is identified. The Deputy Chairman in charge of Risk Management will be responsible to ensure that these processes are carried out efficiently, effectively and in a timely manner.

2.5.2.2. The Structure of IBRA Risk Management Unit

Below is the structure of IBRA Risk Management Unit.



This organizational structure of Risk Management Unit was constructed in accordance to risk allocation strategy mentioned on 2.5.2.

2.6 Financial Strategy

2.6.1 Financial Position

The cost of the guarantee program and the bank recovery program will be funded by the government. Liquidity assistance provided to the banking sector reached Rp 144 trillion by August of 1998. In addition, the government has issued Rp 103.8 trillion in notes to fund the bank recapitalization, and Rp 53.8 trillion to fund the guarantee program. It is expected that more government notes will be issued with the recapitalization of government banks. The total Government notes issued is approximately Rp 637 trillion.

IBRA's projected balance sheet is shown below:

Assets Controlled by the Government under Banking Sector Restructuring (Rp billion)

Government Controlled Assets	Transfer Value	Estimated Market Value	Recovery Rate
1. Corporate equity from Settlement of Shareholder Liabilities			
BBO/BTO-1	111,645	64,543	58%
BBKU	25,000	12,500	50%
2. Investment in recapitalized banks/BTO			
BTO-1	70,162	21,476	31%
BTO-2	21,000	721	3%
BTO-3	13,155	3,253	25%
Recapitalized Banks	22,125	15,932	72%
State Banks	267,000	11,600	4%
3. Loan and other Banks Assets			
a. Categories 1-4; (1)	-	17,994	45%
b. Categories 5; (2)			
Certificate of Entitlement/COE Bank (Recapitalized Banks)	-	-	35%
Non-COE (BTO-1)	-	13,359	37%
Non-COE (BTO-2 & 3)	-	3,041	37%
Non-COE (BBO/BBKU)	-	8,035	37%
Non-COE (State Bank)	-	33,855	31%
c. Other bank assets	3,175	1,588	50%
TOTAL ASSETS	**533,263**	**207,897**	

Government Liabilities under the Bank Sector Restructuring Program (Rp billion)

Notes Issued	
1 Government Recapitalization Notes	
BTO 1 - Index	50,564
Bank 1 and private sector recapitalized banks	61,724
Regional development bank (BPD)	1,230
BTO 2 (7 banks)*	21,000
BTO 3 (2 banks)*	13,155
State-owned Banks* (BUMN)	267,000
Subtotal	414,673
2 Government Debt/Shareholder Settlement Guarantee	
Index - Ex BLBI	113,972
Non - index	60,877
Index - New 28 May 99	53,779
Sub total	228,628
TOTAL LIABILITIES	**643,301**
Estimated Asset Recovery Rate	**32,32%**
Notes :	
Gross Book Value	
(1) Category 1-4 Assets	*40,087*
(2) Category 5 Assets	
Certificate of Entitlement (COE)	*16,215*
Non-COE (BTO-1)	*36,704*
Non-COE (BTO-2 & 3)	*8,332*
Non-COE (BBO/BBKU)	*22,014*
Non-COE (Government Banks)	*112,053*
Total	*235,405*
** Still in process*	

2.6.2 Estimated Market Value of IBRA Assets

IBRA control various types of assets which are classified into three categories based upon their acquisition source.

a. Corporate assets of holding companies related to the shareholder settlements, and corporate assets resulting from the conversion of corporate debt.

b. Shares of banks recapitalized by IBRA.

c. Loan portfolio assets, whether performing or non-performing, which have been transferred from the banking system to IBRA. This category includes all bank assets.

IBRA estimates that the gross value of the assets it controls will reach some Rp 533 trillion. This places a major responsibility on IBRA to develop an asset divestment program that embodies the principles of fairness, transparency, and accountability, while maximizing value.

Of all the assets IBRA controls, it is forecast that the assets acquired through shareholder settlements will provide the highest recovery rate. The majority of these assets, particularly those originating from shareholders who completely settled their obligations, will realize high recovery values compared to their value determined during the settlement negotiations. In contrast to these assets, the investment in BTOs and recapitalized banks were made to recapitalize banks from negative capital, as evidenced by the high price to book value ratio of 12 times upon recapitalization. This will result in a relatively low recovery rate, as the normal price to book value ratio in the market is between two and three times.

The assets originating from BBO, BTO, state owned and recapitalized banks non-performing loans have specific characteristics. Although the majority of these loans were originally extended with sufficient collateral, the impact of the economic crisis, particularly the depreciation of the Rupiah and the rise in interest rates, affected the capacity of the debtor companies to meet their obligations. To improve the prospects for recovery, these loans will be restructured by IBRA under the authority granted by Government Regulation 17. In addition, in certain cases, it may be possible to employ the HoldCo structure, as used in the shareholder settlements, where corporate debts which cannot be repaid by debtor companies will be paid through the surrender of assets belonging to their controlling shareholders.

2.6.3 Divestment Program for Fiscal Year 1999/2000

As of October 1999, IBRA had already completed the sale of certain assets and has adopted an asset divestment plan for fiscal year 1999/2000 in order to meet the target of Rp 17 trillion set by the government.

Divestment Program
(Rp billion, as of October 1999)

	Up to Jun 99	Jul-Sep 99	Oct-Dec 99	Jan 00	Feb 00	Mar 00	TOTAL
Asset Management Investment							
Banks							
Bank Danamon	-	-		-			-
BCA	-	-		-		3,000	3,000
BII	-	2,086			-		2,086
Lippobank		2,942	-	-	-	-	2,942
Bali		900	-	-			900
Universal	-	488	-	-	-		488
Bukopin	-	10	-				10
Patriot	-	5	-	-	-		5
Prima Express	-	3	-				3
Sub-total	-	6,434			-	3,000	9,434
Company							
Statomer	0	120	-	-		-	120
Indofood		368					368
PIPI	34		-	-	-		34
Beechcraft Planes	25	-		-	-	-	25
Indo American Ceramics	47	-	-	-	-		47
First Pacific	-	-				1,500	1,500
Astra International	-	-	-	-	2,000	-	2,000
Sub-total	106	488	-	-	2,000	1,500	4,094
AMI Sub-Total	**106**	**6,922**	**-**	**-**	**2,000**	**4,500**	**13,528**
Asset Management Credit							
Debt Repayment	775	825	1,157	-	-	1,161	3,918
Loan Sales		-	363	-	-	851	1,214
Non-core Sales	106	45	84	-	-	77	312
AMC Sub-Total	**881**	**870**	**1,604**	**-**	**-**	**2,089**	**5,444**
TOTAL	**987**	**7,792**	**1,604**	**-**	**2,000**	**6,589**	**18,972**

2.6.4 Overall Divestment Program

Based on the agreement between the Indonesian government and the IMF, as stated in the Letter of Intent (LOI), IBRA's duty is to recover government funds through asset divestment in order to fund the payment of principal and interest on government bonds.

Two primary factors, interest rates and the Rupiah exchange rate, will strongly influence the overall recovery rate. These factors are also a reflection of the inflation rate and the performance of the economy, which are greatly influenced by domestic economic and political stability.

The IMF and the government are currently projecting a fall in interest rates with a target of approximately 7% by the end of fiscal 2001/2002. Although the effect of falling interest rates will be to increase the value of IBRA assets in the coming years, it is nonetheless essential for IBRA to carry out its asset divestment program as quickly as possible. This view is based upon the following considerations:

- Meeting the funding targets for the interest payments on the government notes used to fund the bank recapitalization program;
- Improving the efficiency level of corporate assets through private sector and professional management;
- Improving IBRA's credibility through successfully divesting assets
- Providing opportunities to all investors, both domestic and foreign to acquire IBRA's assets. It is also anticipated that the divestment program will simultaneously stimulate the development of the domestic capital markets.
- Fulfilling IBRA's secondary mandate to assist in the development of the domestic capital markets.

IBRA Asset Divestment Program
(Rp trillion)

Fiscal Year (ending March 31st)			*1999-2000*	*2000-2001*	*2001-2002*	*2002-2003*	*2003-2004*
Government Bond Interest Burden			**34.0**	**50.8**	**42.8**	**42.0**	**42.5**
AMI							
	Sale of Banks		9.4	3.8	7.8	6.9	7.7
	Sale of Companies		4.1	12.6	14.4	14.7	20.6
AMC							
	Revenue	Interest	2.1	4.2	2.8	1.3	0.3
		Repayment of Debt Principal	1.8	1.8	1.7	1.8	0.8
		Debt Sale	1.5	4.6	10.8	9.8	5.7
	Government obligations swapped						
		Index	-	-	-	-	-
		Variable Interest Rates	-	10.8	14.6	10.1	1.3
		Fixed Interest Rates	-	-	-	-	-
IBRA Investment Recovery Targets			**18.9**	**37.8**	**52.2**	**44.6**	**36.4**
	Cash Recovery Value		**17.0**	**27.0**	**37.5**	**34.5**	**35.2**
	Retired Government Bonds		-	10.8	14.6	10.1	1.3
Government Liabilities			**610.6**	**648.2**	**645.4**	**647.8**	**659.7**
Net Burden on Budget			**17.0**	**23.8**	**5.3**	**7.5**	**7.3**
% of GDP			**1.5%**	**1.9%**	**0.4%**	**0.5%**	**0.4%**

The assumptions used in calculating the recovery targets and IBRA's contribution to the government budget are outlined below:

- The government's interest expense burden is calculated based on the balance and composition of bonds for the next five fiscal years, using IMF and government assumptions concerning interest rates.
- The sale of corporate debt for cash and or the swapping of debt for government bonds in respect to BTO and recapitalized banks.

- Should the cash value obtained by IBRA exceed the funding requirement for bond interest, IBRA will use the funds to repurchase government bonds from BTO and recapitalized banks.

It is estimated that the recovery rate for IBRA's asset divestment program will be 57% for Holdco assets, 14% for bank equity investments and 33% for corporate debt assets, with a weighted average recovery rate of 32%. The recovery rate of assets to total issued bonds will be 32%. The projected recovery rates will be highly correlated with the degree of economic and political recovery and stability.

All figures, projections and assumptions presented above are based upon existing IBRA data and estimates. These projections may change in line with changes in policy direction, assumptions, and further findings from the verification processes currently underway.

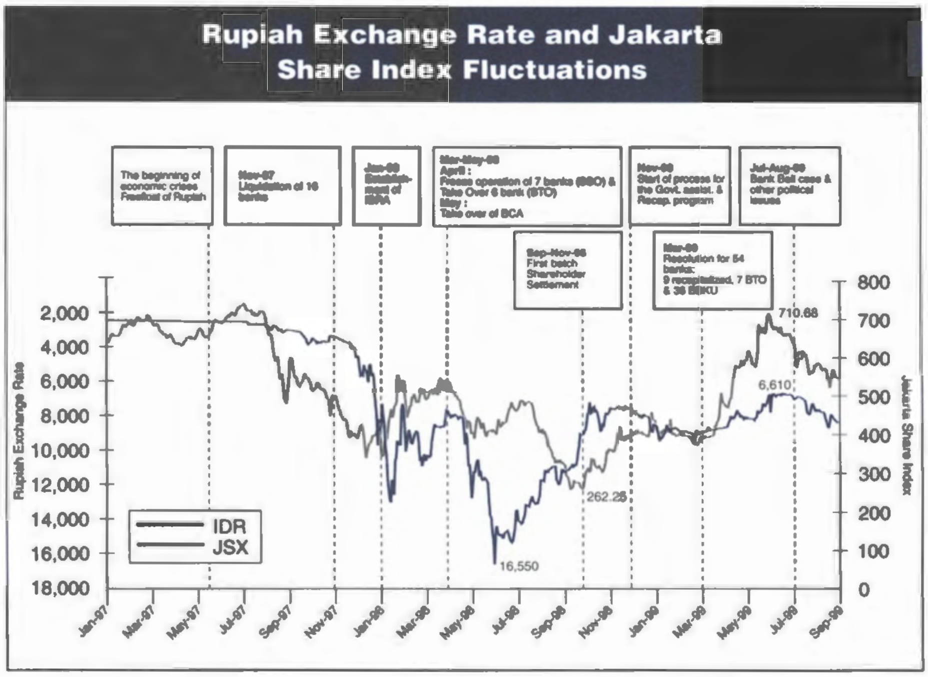
III. NATIONAL ECONOMIC RECOVERY

3.1 IBRA's Contribution to National Economic Recovery

3.1.1 Strengthening and Stabilizing the Rupiah

IBRA's consistently applied policies of stabilizing and restructuring the banking sector, as well as the process of corporate debt restructuring, have had a positive impact on public and market confidence. Those who previously purchased USD and sent funds abroad have started to return their funds in the form of Rupiah deposits with Indonesian banks.

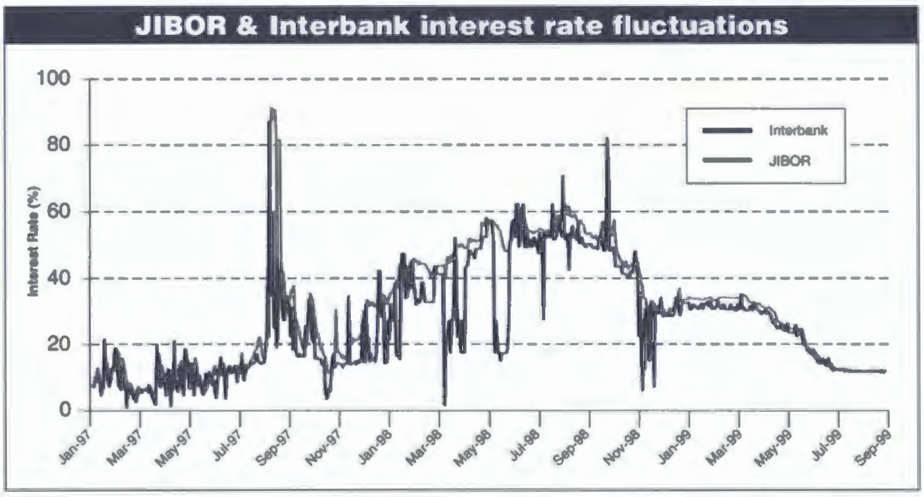
In addition to the strengthening of Rupiah, growing public confidence has led to Rupiah stability, as reflected in reduced exchange rate volatility compared with the volatility experienced at the outset of the crisis.

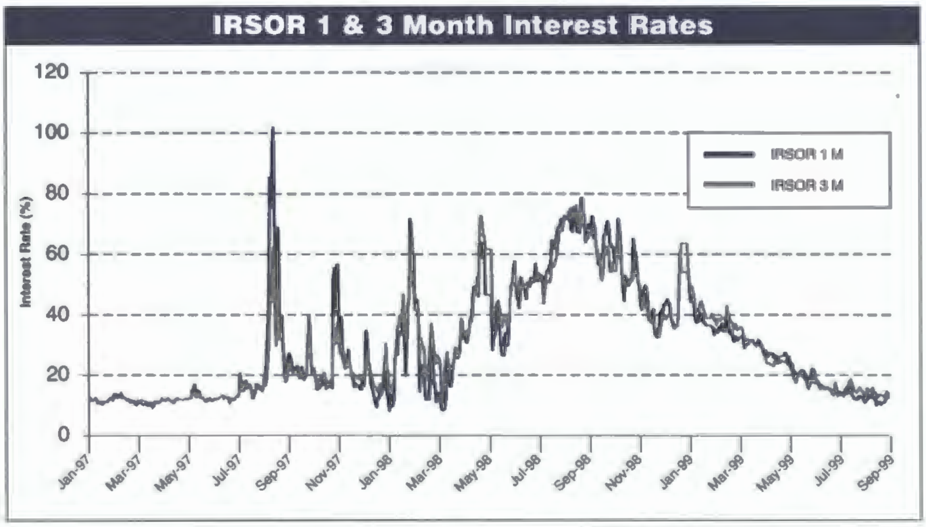


3.1.2 Return of Confidence and Reducing Interest Rates

Public market confidence in the Indonesian banking sector has also begun to return. The measures taken by IBRA have been successful in halting deposit runs, and in returning funds held by Indonesians abroad and outside of the banking system, providing sufficient liquidity for the banking sector.

Increased liquidity will encourage a reduction in SBI rates, which in turn will lead to a reduction in deposit interest rates and the cost of bank funding. A reduction in interest rates will remove the likelihood of negative interest margins, a situation the banking sector has experienced for some time.





3.1.3 Reduction in Inflation Rate

As has been seen, high inflation during the crisis was heavily influenced by the supply side. Increased production costs resulting from the strengthening of the USD and high interest rates resulted in a decline of goods and services in the market. The appreciation of the Rupiah and the decline in interest rates as a consequence of the return of public confidence has stimulated the production of goods, the provision of services, and the return of imported goods and services. This has led to a decline in inflation, with the months of March through August 1999 experiencing deflation.

In addition to the two factors mentioned above, the private sector corporate debt restructuring program will help restore companies to a healthy condition. With the return of working capital and trade facilities as a consequence of the bank restructuring program, businesses can be expected to return to more optimal production levels. This will certainly help to maintain a relatively low inflation rate.

3.1.4 Government Finances

3.1.4.1 Receipts from Assets Sales

All of the assets acquired by IBRA will eventually be sold in accordance with the asset sales program. The proceeds of these sales will be used to repay IBRA's and the government's obligations related to the guarantee program and other government debt obligations, including the payment of interest and the redemption of government bonds. In the 1999/2000 State Budget, IBRA is budgeted to contribute Rp 17 trillion for the payment of interest on government bonds.

3.1.4.2 Increasing Tax Receipts

In addition to meeting the targets set out in the government budget, IBRA's activities will indirectly assist the budget through increasing tax receipts. Increased tax receipts will result from the success of the programs implemented by IBRA, including restoring banks to health and restructuring private sector debt.

The restructuring of private sector debt will have a direct impact on the taxable profits of corporations. Both a reduction in debt balances and debt to equity conversions will reduce interest expense and increase corporate earnings. Furthermore, restructuring will improve corporate liquidity and increase production levels. At the end of the day, this will increase corporate profits.

3.1.5 Real Sector Recovery

The success of IBRA in restoring the banking sector will have a positive impact on the overall economy while assisting in the recovery of government funds and contributing to the government budget. A healthy banking sector will encourage companies to resume operations, which will stimulate the economy and lead to a recovery.

- **Foreign Trade.** After being restructured, it is anticipated that banks, including independent banks and those that are controlled by IBRA, will be able to resume extending loans for both investment and working capital purposes. Through the process of debt restructuring companies which have good prospects can be identified and banks can resume lending and lower their risk profiles. Thus the spread between deposit interest rates and loan interest rates can be minimized while at the same time giving banks the opportunity to record profits. Another positive impact will be increased confidence on the part of foreign banks in domestic banks. This will facilitate the issuance of LCs related to import and export requirements and improve the climate for foreign trade.

- **Employment.** It is anticipated that corporate debt restructuring will improve corporate liquidity and allow companies to resume normal operations. With the resurrection of the real sector, bankruptcies and lay-offs can be avoided. Employment opportunities will also increase with corporate growth, which in turn will lead to a reduction in unemployment. Increased employment will reduce the risk of social unrest.

- **Foreign Investment.** With increased public confidence in the market and economic recovery, and with the return of political stability, foreign investors will be encouraged to return and invest in the Indonesian market. This will lead to increased foreign exchange earnings.

- **GDP.** Public confidence in the domestic economy will revive growth in both investment and consumption. This will eventually result in increased GDP as a result of the multiplier effect.

3.2 Requirements for Success

3.2.1 Economic and Political Stability

Stable social, political and economic conditions are prerequisites for the success of IBRA's bank restructuring program. The economics aspects of stability include:

- **Rupiah Exchange Rate.** Volatility in the exchange rate will produce difficulties for the business community in accurately developing business strategies. Businesses will also be faced with difficulties in anticipating the market and will be unable to optimize their operations. Under such conditions, businesses generally conduct their operations on a cash basis to avoid exchange rate risk.

  Faced with an uncertain and high-risk exchange rate environment, business will be conducted on a cash basis, which will greatly slow down and even stall the wheels of the economy. Under normal conditions, risks arising from currency fluctuations can be hedged, but with a highly volatile exchange rate environment, no financial institutions is willing to extend hedging facilities.

  Furthermore, currency depreciation may cause inflation, which would lead to an overall worsening of the economy. The market would find it difficult to determine supply and demand resulting in a spiral down effect. High inflation tends to produce high interest rates. This would of course hurt IBRA's performance.

- **Interest Rates.** High interest rates will reduce the value of the assets owned by IBRA and will increase IBRA's liabilities. In terms of the overall economy, higher interest rates will discourage investment due to the high cost of debt.

- **Capital Markets.** Uncertain conditions in the capital markets will complicate IBRA's asset divestment program. Foreign investors will also lack the confidence to participate in the market.

Social and political conditions will have a major effect on the economic recovery program. With the success of the June 1999 general elections, the general session of the People's Consultative Assembly (MPR) and the appointment of a new cabinet under an elected President, the democratization process has reached an advanced stage. It is hoped that the political situation in Indonesia can maintain a level of stability conducive for economic recovery and growth.

3.2.2 Legal Authority and Other Support

3.2.2.1 Law No. 10 and Government Regulation No. 17

The principal function of IBRA, besides the effecting of bank restructuring and recovery, is to minimize government cost of the rehabilitation and restructuring of the banking sector. The bank restructuring program effects government spending as evidenced by the issuance of government bonds for bank recapitalization and the closure of banks (BBO and BBKU). Interest costs arising from the issuance of government bonds for bank recapitalization will become a burden on the general public.

To address this potential burden, the bank restructuring program, in accordance with Law No. 10 and Government Regulation No. 17, grants IBRA the right to own and control the assets recovered from the restructuring process. These include assets surrendered by bank owners through shareholder settlements, the assets of closed banks, and the Category 5 loans and other assets of recapitalized banks. These assets, which will be sold in stages, represent a source of financing for the bank restructuring program. Maximizing the sale value of the assets controlled by IBRA is key to minimizing government cost.

3.2.2.2 Other Legal Supports

The bank restructuring program and the resurrection of the real sector to support economic recovery requires assistance and support from various agencies and institutions. In addition, the following amendments to current regulations are required:

- **Abolition of restrictions on foreign investment.** In order to raise foreign investor interest in Indonesia and IBRA assets, the government needs to facilitate access for foreign investors through, for example, abolishing the restrictions on foreign investment in the property sector, and removing any other equity ownership restrictions on foreign investors.

- **Removal of regulations requiring reserves for restructured debt.** To support the transfer of restructured loans back to the banking sector, it will be necessary to adjust the regulations regarding reserves for restructured loans. Currently, banks are required to maintain reserves for loans arising from restructured debt for a period of 6 months before the loan can be upgraded. This constrains the transfer of loans restructured by IBRA back to the banking sector, as the required reserves would reduce bank capital ratios. Adjustments to these regulations that relate the reserve requirement to the credit quality of the debtor company are required.

- **Reducing the tax burden.** IBRA is currently treated as a taxable entity. The payment of tax by IBRA will reduce IBRA's contribution to the government budget. Accordingly, it would be better if IBRA were exempted from all forms of taxation. In addition, the recovery of state funds through the asset divestment program is closely related to the value of the assets owned by IBRA, thus the levying of tax can reduce the value of these assets. For example, if a bank under IBRA's control were to carry out a quasi-reorganization through the adjustment of its share premium in order to achieve a positive retained earnings position, it should be able to keep the tax loss carry forward generated prior to the recapitalization which would last five years.

- **Indemnification.** In carrying out its routine duties, IBRA and its employees are forced to make decisions fraught with uncertainty and risk. Some decisions must be made immediately to expedite IBRA programs and IBRA's larger objectives. In order to facilitate their routine work, IBRA staff should be protected from liability arising from their decisions.

- **Extending the life of forestry, land use, mining and other concessions.** By extending concession terms, the value of assets owned by IBRA which are connected with those concessions will be increased, as will government proceeds related to the concessions. In addition, such extensions will raise the interest level of foreign investors, facilitating IBRA's asset divestment program.

3.2.3 Political and Public Support

As IBRA's programs impact the social, economic and political arenas, as well as the government budget, political and public support are required to achieve IBRA's objectives. Support for IBRA's initiatives from the judicial system (the Supreme Court, Attorney General's Office), the legislature (People's Consultative Assembly (MPR) and People's Representative Assembly (DPR)), and other agencies of the executive branch will greatly assist IBRA. In addition, cooperation with all involved parties including debtors, company owners, banks and prospective investors will help accelerate the restructuring and economic recovery process in Indonesia.

Appendices

Table of Contents

I. Comparison of Crisis and Resolution

The following discussion is drawn from studies conducted by Standard & Poors and Bank of America which compare the crisis experienced by Indonesia with that experienced by other Asian countries. The studies presented indicate that Indonesia's crisis is much more serious as the underlying fundamentals were significantly worse when compared with the other Asian countries

1.1 Crisis Characteristics

The economic and financial crisis which unfolded in the Asean countries in mid-1997 was unexpected. The impact of exchange rate pressure on Asean currencies against foreign currencies, particularly the USD, had varied impacts on the economies of each country. This was a function of the size of the banking sector's role in the economy and the level of short-term external debt.

Nonetheless, a number of factors may be identified as causing the crisis. These factors are as follows:

a. Significant growth in private short-term capital inflows
b. Increasing levels of unproductive investment, due to the ease of obtaining funds for, for example, real estate and property projects.
c. Increasing non-performing loans in the banking sector that were not disclosed to the public.
d. Speculative currency attacks which damaged confidence and caused large-scale capital outflows, resulting in a decline in foreign exchange reserves.
e. Credit rating downgrades resulting in a liquidity crisis in the banking system.
f. The susceptibility of the banking system to banking practices which failed to adhere to international standards.

Outlined below are the major factors and lessons that must be followed in maintaining an open economic system.

a. Globalization. Given the current trend of globalization and the highly developed state of information technology and computers, funds may be rapidly channeled in and out of any country. Such a situation makes it difficult to monitor the flow of funds, particularly where they are of a short-term nature.

Institutional investors with access to the latest and most rapid information sources are able to profit by exploiting information without regard to the impact of their activities on a particular economy.

In order to counteract such a situation a banking system requires a highly developed information system to minimize market inefficiencies.

b. **Interrelated Crises.** The increasingly strong links between countries meant that the crisis was not confined to individual countries, but rather expanded so as to become a regional crisis. For example, almost half of Indonesia's, Malaysia's, South Korea's and Thailand's exports are to Japan, while at the same time these countries compete with Japan in exports to the United States. This demonstrates the tight links and mutual dependency that exists between countries which are simultaneously competing against each other.

Investors will exploit any changes in related countries so that a change in one country will result in changes in their investment portfolios. For example, if Indonesia were to raise interest rates investors, would immediately shift their funds from other countries to Indonesia in the anticipation of realizing greater profits.

c. **Risk models are not always successful.** While it is undoubtedly correct to say that portfolio risk models can provide good information in formulating risk management strategies, decision makers should be aware that no model can guarantee correct forecasts. The more uncertainty in an economy, the greater the difficulty in predicting market performance. Thus government policy decisions must be based upon various other factors besides prediction models.

d. **Leverage Problem.** Corporate expansion financed with debt which is not balanced with an appropriate amount of new equity has resulted in the problem of over-leverage and decreased corporate solvency and profitability. Such a situation is exacerbated by the fact that many corporate debts are denominated in foreign currencies.

Worsening economic conditions signaled by rising interest rates and a falling rupiah has led to a situation where companies are unable to meet their liabilities.

e. **Credit Analysis Problems.** One of the risks faced by commercial banks is the level of credit extended. With the liberalization of the banking sector and consequent rapid growth, funds were flowing in rapidly. The banks responded by extending loans while neglecting corporate and industry credit analysis, resulting in difficulties for the banks in recovering their outstanding loans.

f. **Third party enforcement is essential.** Two types of debtors emerge in times of crisis, namely those who are unable to pay and those who are unwilling to pay. Given the limitations of the legal framework, banks are faced with significant difficulties in dealing with uncooperative debtors unwilling to repay their liabilities. With such an unhealthy creditor-debtor culture, a legal framework for recovering debts is essential to encourage banks to continue their lending activities.

Accordingly, a system with a strong legal basis and infrastructure must be established to create a healthy creditor-debtor culture whereby debtors must settle their obligations and creditors' have a solid foundation for their claims.

g. **Importance of adequate laws and regulations.** Enforcement of existing regulations is an essential prerequisite for economic recovery. Although the Asian countries are quite developed in issuing regulations, it is clear that the supervisory and monitoring agencies are not yet sufficiently independent.

1.2 Crisis Control

Comparison of A Number of Banking Sector Restructuring Agencies					
Country	**Date of Establishment**	**Organization**	**Function**	**Source of Funding**	**Remarks**
South Korea	Sep. '97	KAMCO (Korea Asset Management Corporation)	Buy and sell NPLs from Korean financial institutions	Bond issuances, guaranteed by the Government	At the end of Mar '99, KAMCO took over US$36.7 billion worth of NPL from banks and investment trust companies. In the first semester '99, KAMCO sold US$4.2 billion worth of NPL is going to sell another US$55.8 billions worth of NPL over the period of 1999-2003 with estimated 91% recovery rate.
Thailand	Oct. '97	FRA (Financial Sector Restructuring Authority)	Responsible to manage and sell loans originating from 56 financial institutions which have been closed to protect the depositors' and investors' interest	NA	FRA has obtained US$4.0 billion worth of core *and non-core assets through auctions held* between 1998 and May 99. FRA had sold 60% of its assets.
	Oct. '97	AMC (Asset Management Company)	Has a position as bidder of the last resort	The government injected US$ 24.4 worth of capital	So far, AMC had paid US$ 837 millions for assets worth of US$ 5.0 billions. These assets are yet to be sold.
	Jul. '98	CDRAC (Corporate Debt Restr. Advisory Committee)	Facilitates debt restructuring for corporates	NA	Up to June 99, total debt restructured was US$ 5.3 billions of which US$ 3.0 billions were by CDRAC.

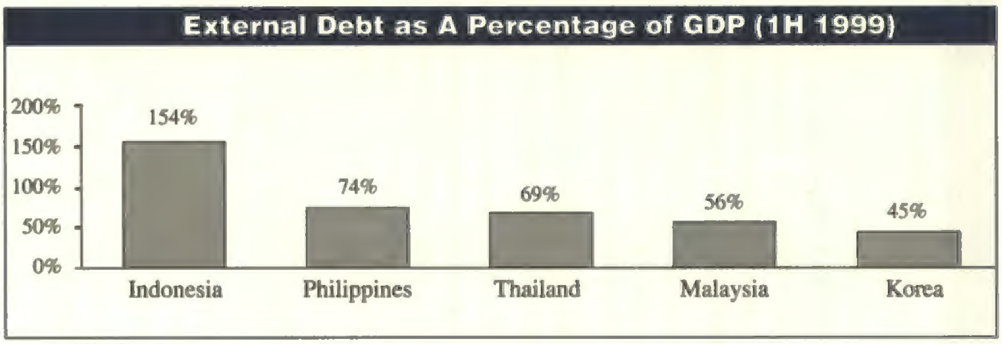
Comparison of A Number of Banking Sector Restructuring Agencies					
Country	**Date of Establishment**	**Organization**	**Function**	**Source of Funding**	**Remarks**
	Dec. '95	FIDF (Financial Institutions Development Fund)	Provide liquidity support for domestic banks and non bank financila instutions.	Borrowings from money market, inter-bank through repurchase and bond issuance by the Ministry of Finance	FIDF had injected US$ 32.6 billion to financial institutions and bank. It is estimated that FDIF will inject another US$ 13.5 billions through bond issuance.
Indonesia	Jan. '98	BPPN (Badan Penyehatan Perbankan Nasional) /IBRA, including the Asset Management Unit	Oversees non-viable banks and took over and manage problem assets. Collection and restructuring of NPL from problem banks.	Government issued US$ 8 billion bond to Bank Indonesia and US$ 7 billion to national banks.	Total aset managed by BPPN is estimated to reach US$ 85,7 billion. BPPN is targeted to contribute Rp 17 trillion to the government budget in 1999/2000.
	Aug. '98	INDRA (Indonesian Debt Restructuring Agency)	Facilitates off-shore creditors, ndomestic banks and corporations in debt restructuring. Guarantees the availability of foreign currency to debtors to replay their foreign currency obligations	Initialy sponsored by Bank Indonesia and in stages self-financed.	Up to March 99, off-shore bank had agreed to restructure US$ 7 billion domestic banks' borrowings through Exchange Offer Program. Up to May 99, Jakarta Initiative helped 170 corporations in restructuring US$ 21 billions off-shore loans.

Comparison of A Number of Banking Sector Restructuring Agencies					
Country	Date of Establishment	Oraganization	Function	Source of Funding	Remarks
Malaysia	Jun. '98	Danamodal Nasional Bhd	Recapitalize banking sector	Government provided US$789 millions, and another US$3.4 billions were equity and bonds issuance.	Around US$1.6 billion had been injected to 10 financial institutions in the form of exchangeable subordinated capital loans (ESCLs). Nine banks participated in the program and had converted ESCLs to Tier 1 Capital and Tier 2 Capital.
	Apr. '99	Danaharta Nasional Bhd	Buys NPLs from banking sector	Government provide US$394.7 millions to buy US$3.95 billions worth of NPLs. Around US$921 millions were obtained from bond issuance to Employees Provindent Fund (EPF) and government investment institutions. Another US$2.63 billions were funded by the Government bond issuance.	Up to June '99 bought and managed US$10.5 billions worth of NPLs, representing 36% of total NPLs in the financial sector. Around US$7.9 billions or 34% of total NPLs in the system was from the banking sector.
	Aug. '98	CDRC (Corporate Debt Restructuring Committee)	Restructure corporate loans, but is yet to be supported by strong legal basis.	NA	

Source: Bank of America

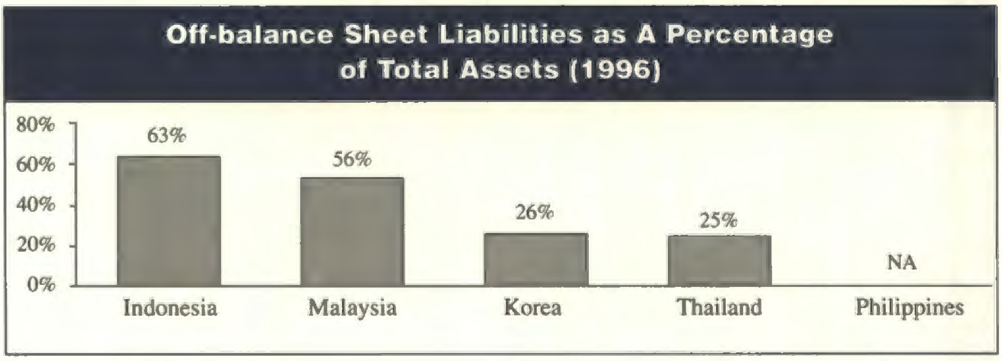
1.3 Comparison of Fundamental Factors

Outset of the Crisis



Source: CEIC Data Ltd..

Indonesia had the highest percentage of debt to GDP among the Asian crisis countries. The size of the debt burden will be difficult to sustain given the current level of economic activity. Thus bank recapitalization and a corporate debt restructuring program is required.



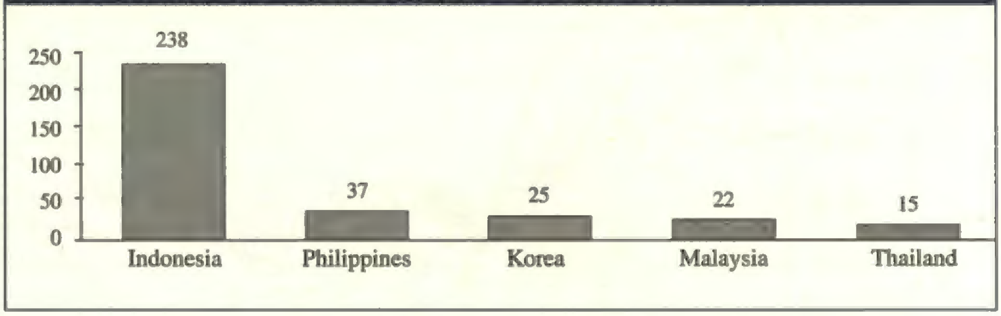
Source: Asia in Crisis.

The level of off-balance sheet liabilities is much higher in Indonesia when compared with banks in the other Asian crisis countries. These liabilities are frequently connected with derivative transactions. Indonesian banks have the highest incidence of such transactions and this has an impact on capital adequacy and liquidity. The high level of these liabilities is a function of weak bank management practices and limited regulatory supervision.

Government Guarantee Program

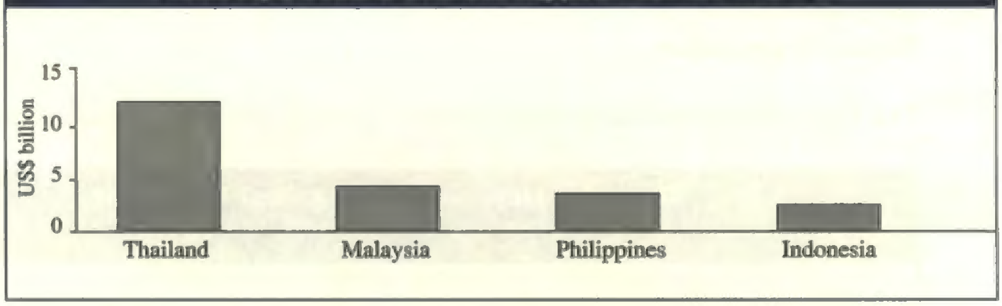
	Indonesia	Malaysia	Korea	Thailand	Philippines
Program in Place	✓	No	No	No	No

Number of Banks (1996)



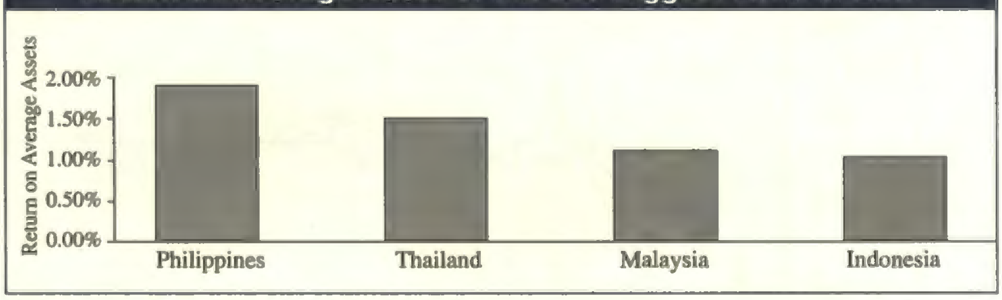
Indonesia has the greatest number of banks. With the lowest level of total assets in Southeast Asia, Indonesian banks lack sufficient economies of scale.

Average Assets of 500 Biggest Banks in Asia



Indonesian banks are among the least efficient banks in Southeast Asia.

Return on Average Asset of the 500 Biggest Bank in Asia



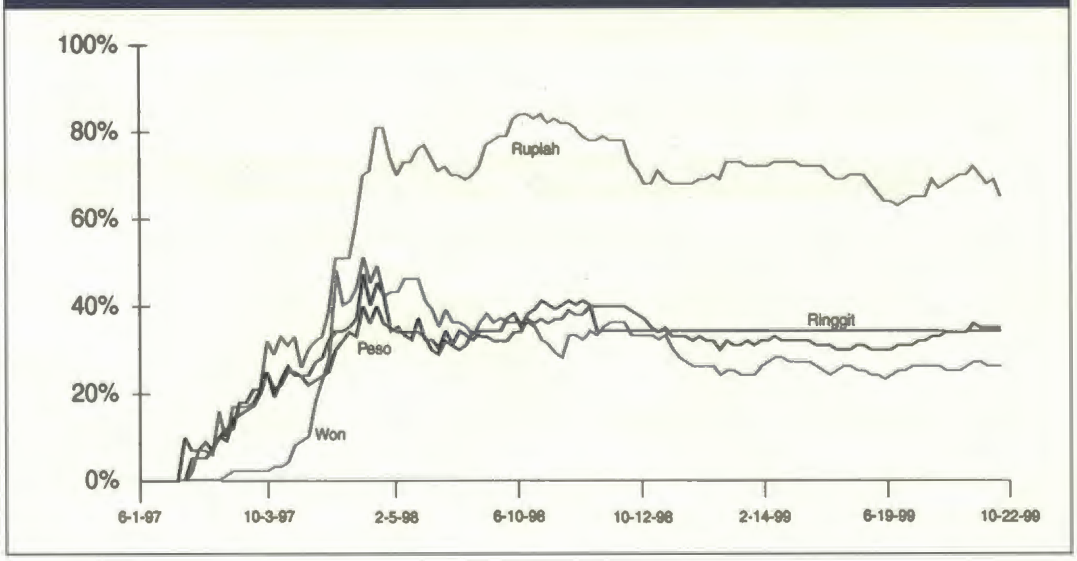
Stock Market Movement

Stock Market Performance - January 1997 to date
(In US Dollar Terms)

Rupiah Depreciation

The Rupiah depreciation was the sharpest compared to other regional currencies.

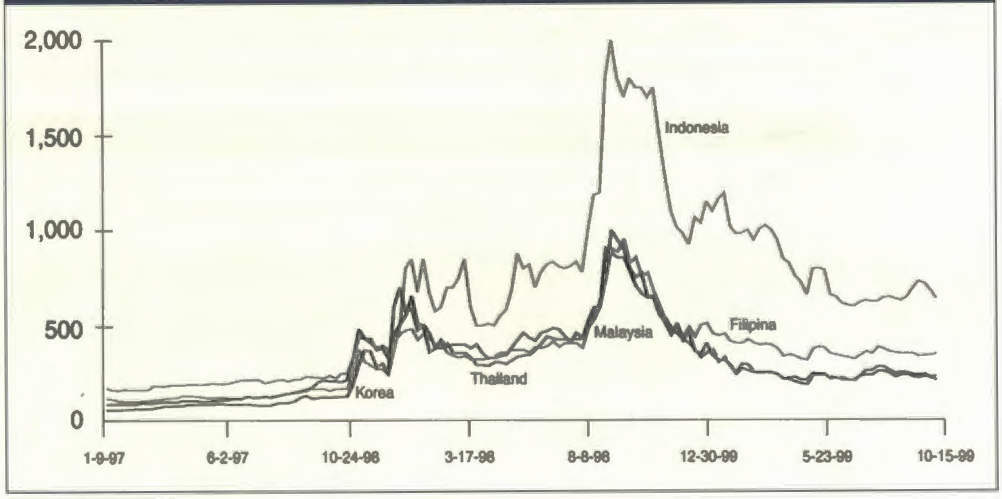
Rupiah's Depreciation against US Dollar
(Strarting Date – June 1, 1997)



Interest Rates on External Borrowings and Credit Ratings

As a consequence of the aforesaid factors, Indonesia's sovereign spread became the highest among the Asian crisis countries. This impacts the cost and availability of funds for both the private and public sectors.

Sovereign Spread



Indonesia's sovereign rating is currently the lowest among the Asian crisis countries and has experienced the largest downgrade when compared with the pre-crisis period.

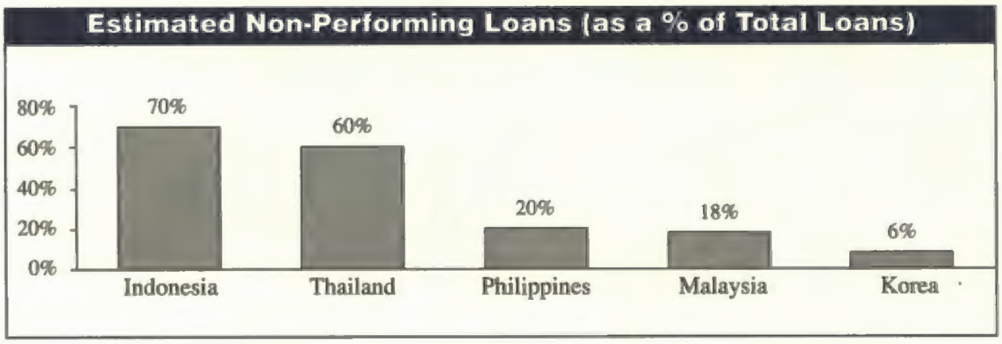
S&P Ratings

	January 1997	January 1998	January 1999	Current
Korea	**AA-**	**B+**	**BBB-**	**BBB-**
Malaysia	**A+**	**A**	**BBB-**	**BBB**
Thailand	**A**	**BBB**	**BBB-**	**BBB-**
Philippines	**BB**	**BB+**	**BB+**	**BB+**
Indonesia	**BBB**	**BB**	**CCC+**	**CCC+**

1.4 Impact of the Crisis on the Banking Sector and the Fiscal Situation

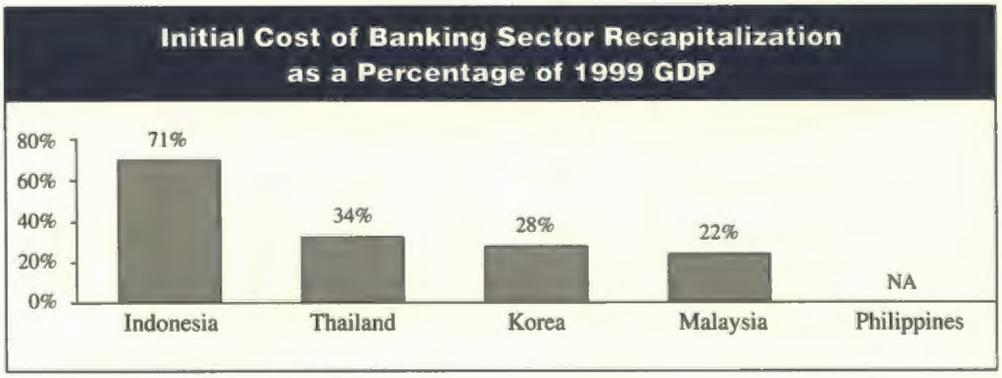
Non-performing Loans

The level of non-performing loans is a strong indication of the severity of the crisis in the banking sector and of the level of corporate debt. Indonesia has the highest level of non-performing loans when compared with the other Asian crisis countries. This is due to the drastic drop in economic activities, dependency on short-term foreign borrowing and, generally speaking, the weakness of lending practices.



Initial Cost of Bank Restructuring

As a consequence of the high level of non-performing loans, off-balance sheet liabilities and the high level of borrowing, a massive recapitalization program was required. Relative to GDP, the total initial cost of the recapitalization of the Indonesian banking sector is more than twice the cost of recapitalization programs in Thailand, Korea and Malaysia.



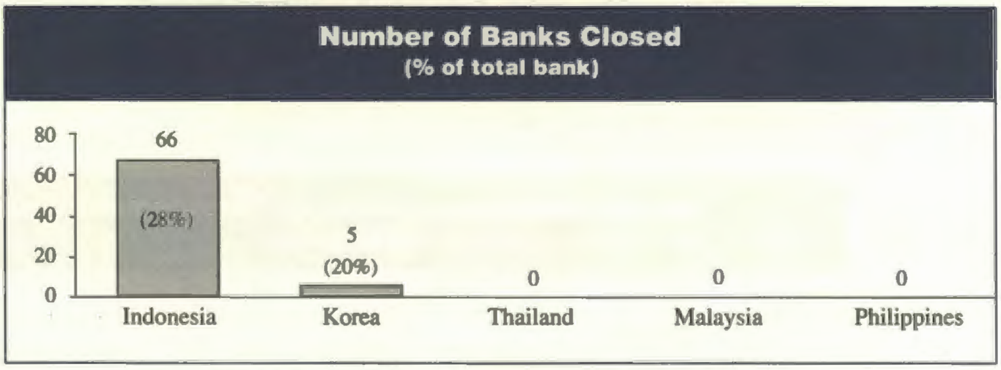
Source: S&P

1.5 Indonesia's Strategy

Number of Banks merged, acquired or taken over

The Indonesian banking system has the greatest number of banks when compared with the other Asian crisis countries. The presence of an excessively large number of banks resulted in weak bank management, low capitalization and weak supervision. IBRA's task of bank restructuring is complicated by the number of banks and unstructured banking system.

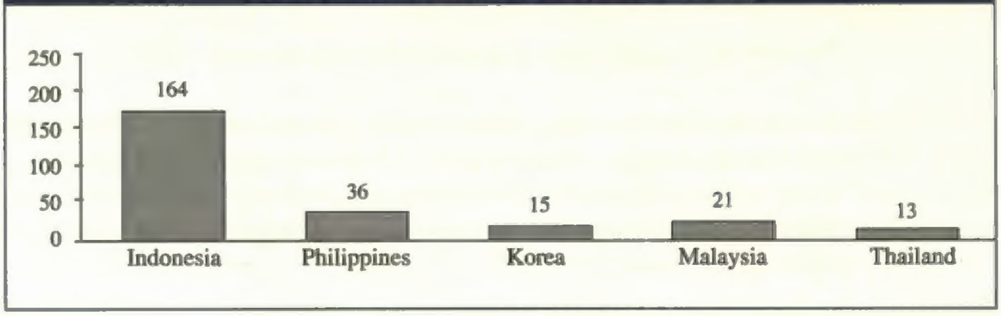
IBRA has taken a number of significant steps in reshaping the banking system, including the closure of 66 banks. This figure is the highest both in absolute and relative terms among all of the Asian crisis countries



IBRA is the most active bank restructuring agency in the region. The banks which have been taken over will either be rehabilitated, restructured, merged or privatized so that they may once again play a productive role in the banking system.

Source: S&P

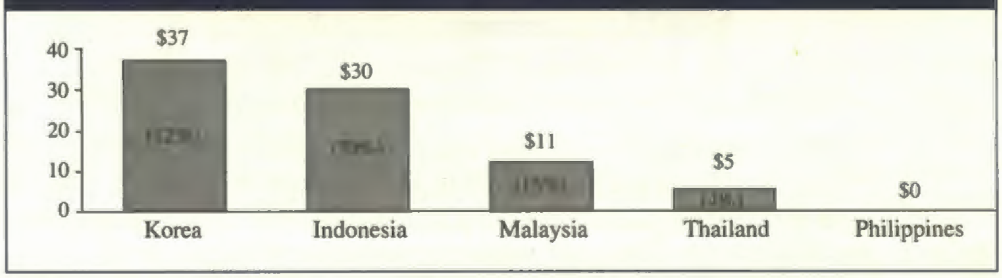
Total Number of Banks (June 1996)



Assets Transferred to Asset Management Credit Unit (AMC)

As part of the bank restructuring program, IBRA's Asset Management Credit Unit (AMC) has taken over assets worth approximately US$30 billion. This figure represents 30% of the banking sector's assets and makes the AMC one of the largest asset management unit among the Asian crisis countries.

Assets Transferred to Assets Management Units
(US$ Billions)



II. Implementation of the Government Guarantee Program

As a follow up to the guarantee policy stipulated in Presidential Decree No. 26 of 1998, the government issued RI Minister of Finance Decree No. 26/KMK.017/1998, dated January 26th, 1998, which regulates the government guarantee program for commercial bank liabilities.

All commercial bank liabilities are guaranteed under this program, except the following:

- Equity loan and subordinated loans
- Liabilities which cannot be verivied
- Liabilities to the board of directors/board of commissioners and related parties
- Liabilities arising from irregular banking practices
- Liabilities in respect of checking accounts, savings accounts, term deposits, on call deposits, and other securities which carry above market interest rates
- Claims which are not accompanied by valid documents within 60 days of the maturity date.

The government charges a premium to program participants to offset the impact of the program's cost on the government budget.

To implement the Minister of Finance Decree No. 26, Bank Indonesia and IBRA issued Joint Decree No. 30 of 1998 ("JD No. 30"). However, there were inconsistencies between the Joint Decree and Minister of Finance Decree No. 26 concerning the party required to register the claim to be guaranteed. Minister of Finance Decree No. 26 stipulates that registration must be effected by the creditor, while the Joint Decree requires that registration be carried out by the debtor (bank).

This inconsistency has created many obstacles to the implementation of the government guarantee program. As would be expected, debtors lack motivation to register their liabilities, resulting in many eligible liabilities being excluded from the program as they are not registered at all, or registered late.

Amendment of Guarantee Program Terms

In order to facilitate and clarify claim processing and payment under the guarantee program, the government, in cooperation with Bank Indonesia, prudently rectified the deficiencies contained in the Joint Decision, through the issuance of new regulations as reflected in Joint Decree No. 32/46/KEP/DIR and 181/BPPN/0599 ("JD No. 32").

The revision of JD No. 30 to J.D. No. 32 was also related to the proposed structural changes in Bank Indonesia which were outlined in the Central Bank Law No. 23 of 1999, dated May 17th, 1999 ("Law No. 23"). Under this law, Bank Indonesia, as the central bank, is prohibited from extending loans to any party, including the government, excluding for bank restructuring purposes.

In line with the above, and in accordance with the Letter of Intent for the settlement of interbank claims by no later than May 28th, 1999, the government issued Rp 53 trillion in bonds to Bank Indonesia. These funds will be used for, among other purposes, the payment of interbank claims under the government guarantee program.

JD No. 30 and, as revised, JD No. 32, are briefly described below:

- **Types of liabilities guaranteed.** The revised rules contained in JD No. 32 provide as follows:
  1. Eligible derivative transactions limited to currency swaps, whereas previously all swap transactions were covered by the guarantee program.
  2. Documented letters of domestic loans are explicitly deemed eligible for the guarantee program in JD No. 32.

- **Liabilities not guaranteed under the program.** JD No. 32 elaborates the JD No. 30 in respect of the liabilities to related parties, that they include liabilities to or originating form related parties.

- **Guaranteed Parties.** The guaranteed parties are also defined specifically, namely creditor customers whether individuals or institutions, including insurance companies and pension funds affiliated with the bank concerned. Foreign banks and financial institutions may elect not to participate in the program, provided that their controlling shareholder is able to provide an equivalent program.

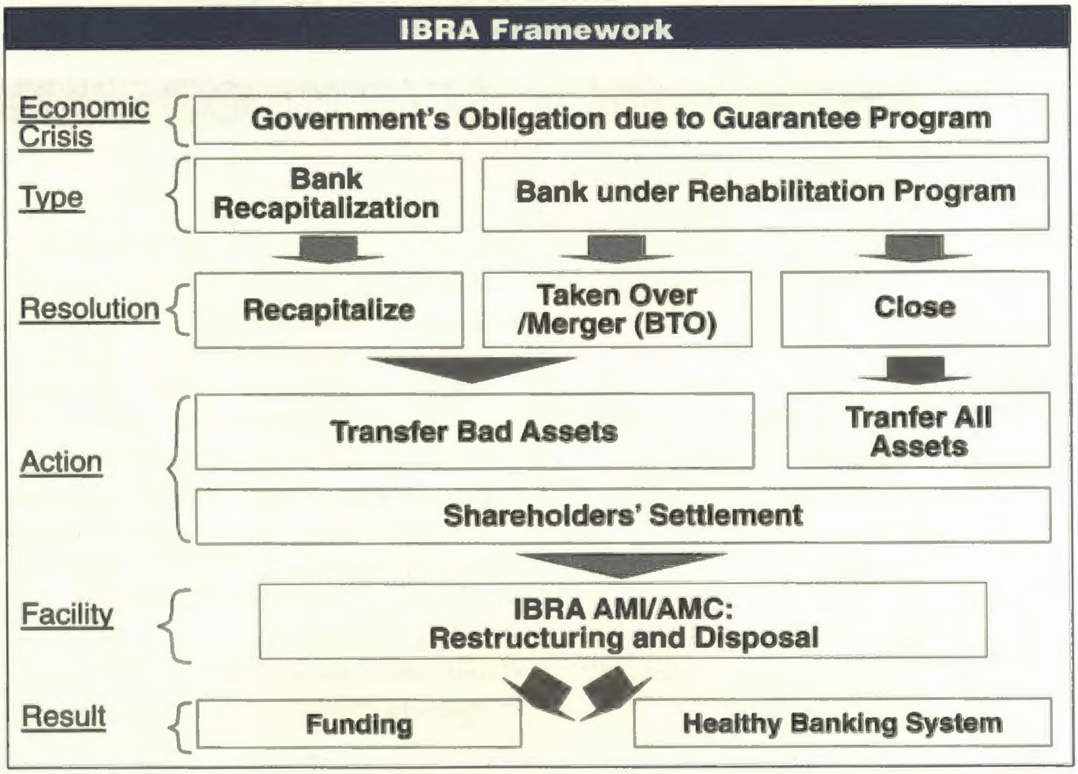
- **Claim Procedures and Payment under the Program**. JD No. 32 sets out the registration procedures in greater detail. Contrary to JD No. 30, under JD No. 32 guaranteed bank liabilities may be registered by either the debtor or the creditor. Claim processing and payment is carried out jointly by Bank Indonesia and IBRA with a very stringent verification process that is conducted in respect to both the debtor and the creditor. Payment will only be made if the results of the verification process show that the liability concerned is valid.

- **Sanctions.** JD No. 32 also provides for more explicit and specific sanctions should irregularities occur in the implementation of the guarantee program.

III. Bank Restructuring Program

3.1 Framework

The stages of IBRA's bank restructuring program are encompassed in a resolution framework developed by IBRA in cooperation with related agencies. The framework is outlined below:



3.2 Summary of Banking Sector Resolution

To date 61 banks have been part of IBRA's restructuring initiatives, including 48 banks which have been closed (BBO & BBKU). In addition, IBRA has also taken control of 13 banks (BTO) of which four have already been recapitalized. Of the nine new BTOs, seven will be merged with the former BTOs and two will be recapitalized and prepared for resale. In connection with the recapitalization program, IBRA has also recapitalized seven banks, three of which are public banks.

Summary of Resolution

Bank		IBRA Restructuring/Notes	Status
Sound Banks	74 Category A banks	• No Restructuring	-
	7 recapitalized banks	• Recapitalization • Category 5 loans transferred • Settlement of shareholder liabilities within 2 years	• Completed • Completed • In process
Bank Operations Transfer (BTO)	Category I, 4 banks	• Recapitalization • Category 5 loan transfer • Shareholder Settlement • Further restructuring	• Completed • Completed • Completed • In process
	Category II, 7 banks	• Category 5 loan transfer • Restructuring/merger • Shareholder Settlement	• In process • In process • In process
	Category III, Bank Bali and Bank Niaga	• Recapitalization	• Signing of Investment Agreement with investor (B. Bali)
Non-viable Banks	16 banks from category I	• Liquidation by Bank Indonesia • Shareholder Settlement	• Started
	10 banks from Category II	• Transfer of all assets • Shareholder Settlement	• Completed • Completed
	38 banks from Category III	• Transfer of all assets • Shareholder Settlement	• In process • In process
State-owned Banks	7 banks	• Merger carried out by State Minister for State-owned Enterprises' Development (BUMN)	• Merger process of 4 banks to become Bank Mandiri • 3 others will be recapitalized

3.3 Bank Recapitalization

The implementation of the bank recapitalization program began with an appraisal of the financial position of each bank in accordance with very stringent international standards, in order to ascertain the suitability of that bank to participate in the recapitalization program. The appraisal was conducted by independent accountants of international standing.

- Banks with Capital Adequacy Ratio (CAR) of above 4% are classified as Category A banks and are permitted to continue operating without government interference.
- Banks with CAR of between 4% and negative 25% are classified as Category B Banks, and subsequently either taken over or placed in the bank recapitalization program.
- Banks with CAR of under negative 25% are classified as Category C Banks and are frozen, except if their owners fund a recapitalization to a minimum of a 4% CAR.

After the financial audit, the selection process continues with an appraisal of commercial prospects, paying special attention to franchise value. In addition to commercial prospects, evaluation is also conducted on the competence and integrity of management and controlling shareholders, the "fit and proper test".

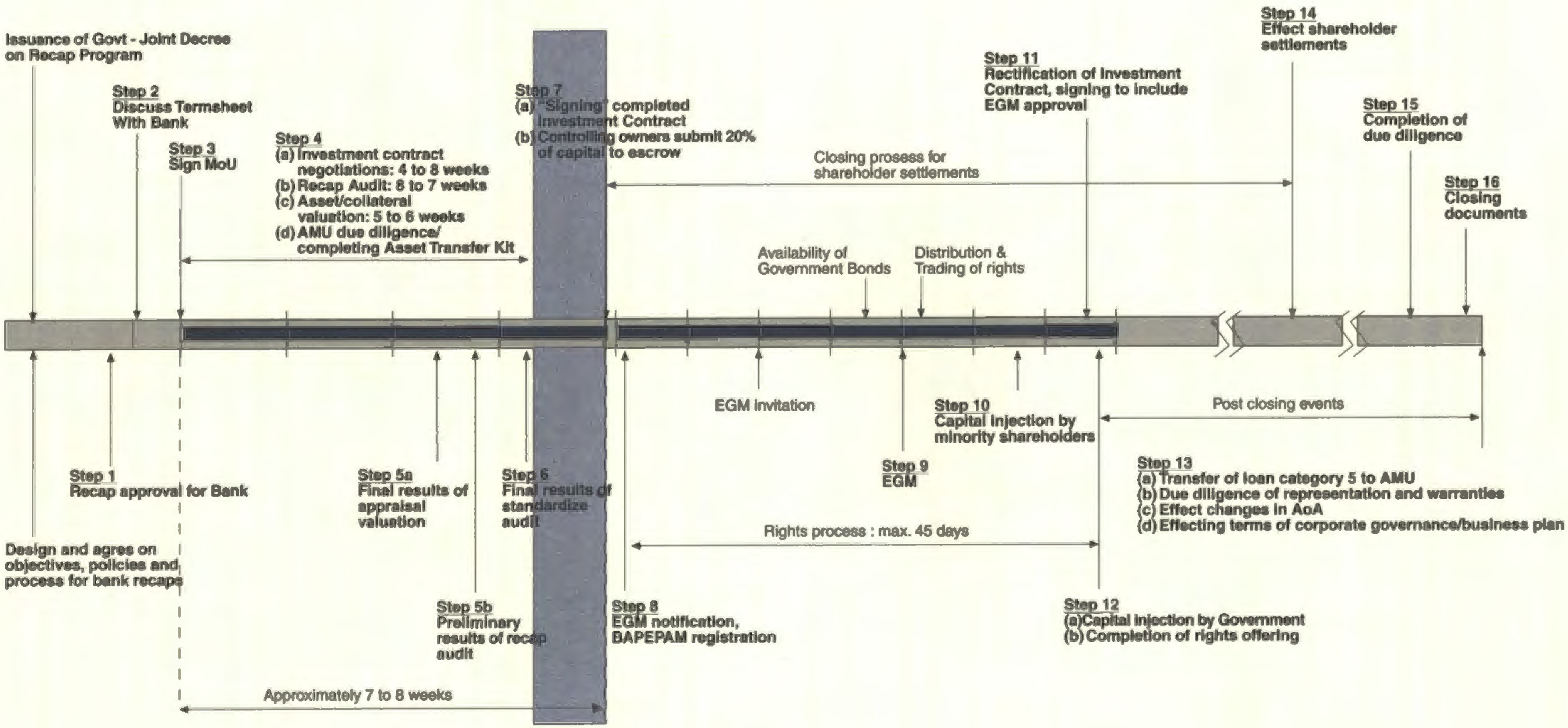
All of the above appraisals are conducted jointly by Bank Indonesia, IBRA and the Department of Finance.

Under the supervision of the IMF, World Bank and Asian Development Bank, the results these evaluations were announced on March 13th, 1999. It was determined that nine banks were eligible for the bank recapitalization program. These were Bank International Indonesia, Bank Lippo, Bank Bali, Bank Niaga, Bank Universal, Bank Bukopin, Bank Patriot, Bank Artha Media, and Bank Prima Express.

On April 15th, 1999, recapitalization agreements were signed between the recapitalization participant banks and the government represented by IBRA. The controlling shareholders of the nine recapitalization participant banks agreed to fund their 20% of the recapitalization requirements by placing cash into escrow accounts not later than by April 22nd, 1999.

On that date, the controlling shareholders of Bank Niaga and Bank Bali were unable to pay the required cash funds into the escrow accounts. As a result, the government took over the operations of Bank Niaga. Bank Bali continued be classified as a recapitalization participant bank due to the willingness of Standard Chartered Bank (SCB) to participate in the recapitalization of Bank Bali, and SCB subsequently paid the funds required for Bank Bali's recapitalization.

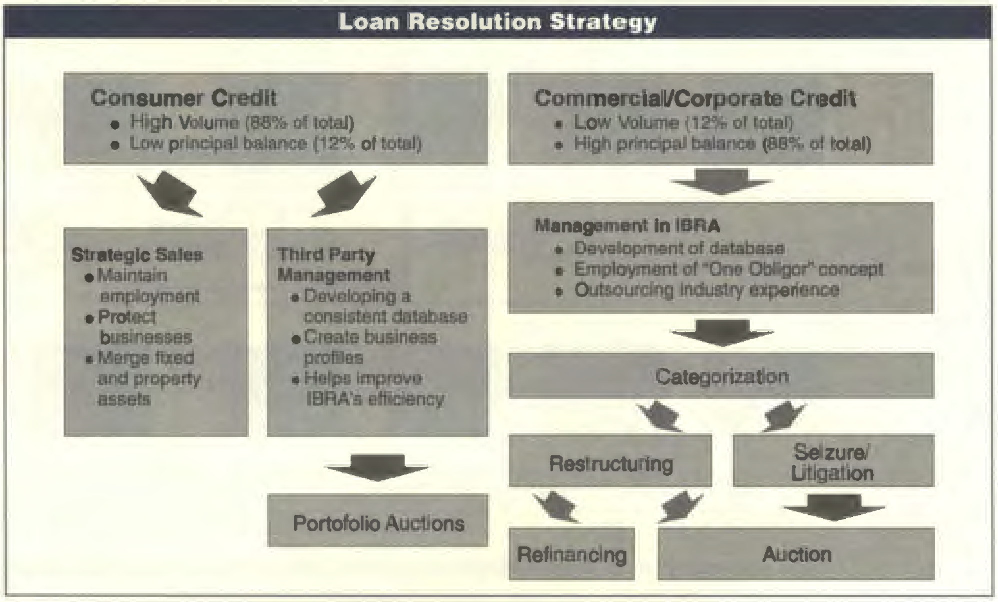
All assets of banks whose operations have been frozen, and the category 5 non-performing loans from BTO's and banks which are participating in the recapitalization program will be transferred to IBRA. The banks' shareholders must reach a settlement in respect of every loan that violates related party lending rules, whether such loans were in cash or asset form. The loans and assets transferred to IBRA will be restructured in stages and sold to reduce the government burden from bank recapitalization.


Issuance of Govt - Joint Decree on Recap Program
Step 2 Discuss Termsheet With Bank
Step 3 Sign MoU
Step 4 (a) Investment contract negotiations: 4 to 8 weeks (b) Recap Audit: 8 to 7 weeks (c) Asset/collateral valuation: 5 to 6 weeks (d) AMU due diligence/ completing Asset Transfer Kit
Step 7 (a) "Signing" completed Investment Contract (b) Controlling owners submit 20% of capital to escrow
Closing prosess for shareholder settlements
Availability of Government Bonds
Distribution & Trading of rights
Step 11 Rectification of Investment Contract, signing to include EGM approval
Step 14 Effect shareholder settlements
Step 15 Completion of due diligence
Step 16 Closing documents
Step 1 Recap approval for Bank
Design and agree on objectives, policies and process for bank recaps
Step 5a Final results of appraisal valuation
Step 5b Preliminary results of recap audit
Step 6 Final results of standardize audit
Approximately 7 to 8 weeks
Step 8 EGM notification, BAPEPAM registration
EGM invitation
Rights process : max. 45 days
Step 9 EGM
Step 10 Capital injection by minority shareholders
Step 12 (a) Capital injection by Government (b) Completion of rights offering
Post closing events
Step 13 (a) Transfer of loan category 5 to AMU (b) Due diligence of representation and warranties (c) Effect changes in AoA (d) Effecting terms of corporate governance/business plan

IV. Private Sector Debt Restructuring

4.1 The *One Obligor* Concept

Asset Management Credit (AMC) employs the one obligor concept in gathering data on debtors who are under the auspices of the same owner or the same business group, treating such debtors as one combined obligor. This helps AMC calculate the liabilities owed by a particular group to IBRA. Although the settlement of a debtor's obligations continues to be handled on a case by case basis, the application of the one obligor concept allows losses carried by IBRA to be dealt with by the obligor rather than by a specific company.



4.2 Selection Process for Loan Restructuring

The loan restructuring process starts with initial loan selection for all portfolios, bearing in mind that different strategies will be applied to different industries.

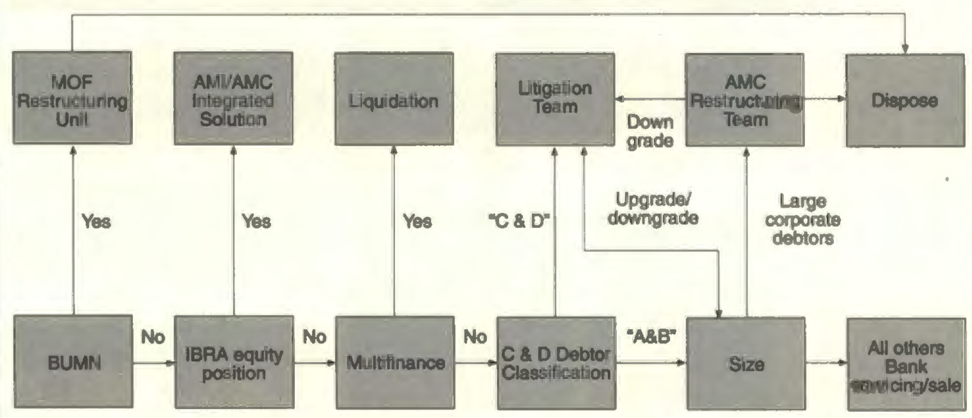
The loan selection strategy employed by IBRA is as follows:

1) If a loan belongs to a State-Owned Enterprise (BUMN), loan restructuring is coordinated with a restructuring team from the Ministry of Finance.
2) If the loan belongs to a company in which IBRA is a shareholder, loan restructuring is coordinated between the Asset Management Investment Unit (AMI) and Asset Management Credit Unit (AMC), working together to seek the most beneficial solution for all involved parties.
3) If the loan belongs to a multifinance company, IBRA will undertake a further appraisal in order to look at alternatives to settlement, including liquidation of the company. This is dependent on the willingness of the company's shareholders.

4) Loans which do not fall within the above categories are segmented according to the debtor classifications which have been established by IBRA, with Category C and D debts being resolved through litigation;
5) Category A and B debts are divided according to obligor and the size of the debts concerned. IBRA will first focus on restructuring the largest debts in cooperation with the debtors.
6) The remaining loans in IBRA's portfolio will be managed by banks or sold to other investors and banks.

The processes applied by IBRA may be illustrated as follows:

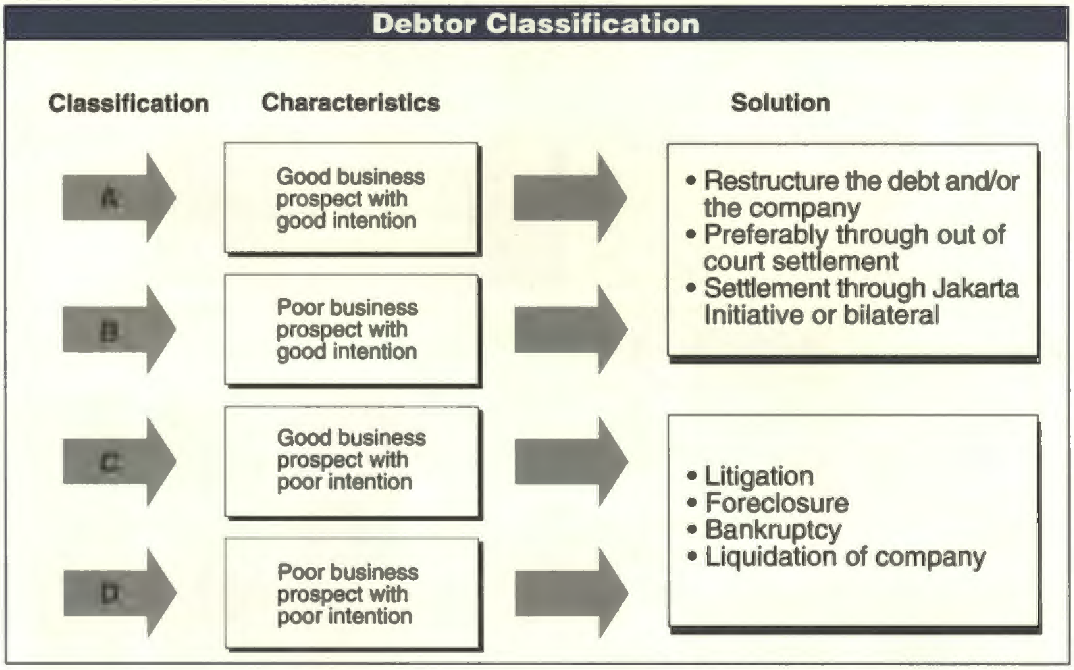
Loan Selection Process



Note: Loans and core assets larger than specified amount will undergo this process. Smaller loans will be outsourced.

Upon completing the loan selection process, debtors are classified as either Category A, B, C or D. This classification is carried out based upon two factors, namely, commercial prospects and the cooperation of the debtor in negotiating. Good business prospects include, among others, the potential to realize a positive cash flow, having a multiplier effect on other industries, efficiently utilizing human resources, offering products and services with good prospects, and having the potential to improve efficiency and competitiveness. Cooperative debtors have initiative and actively negotiate with creditors, adhere to the principles of transparency, and have a willingness to repay their debts and to complete the restructuring process.

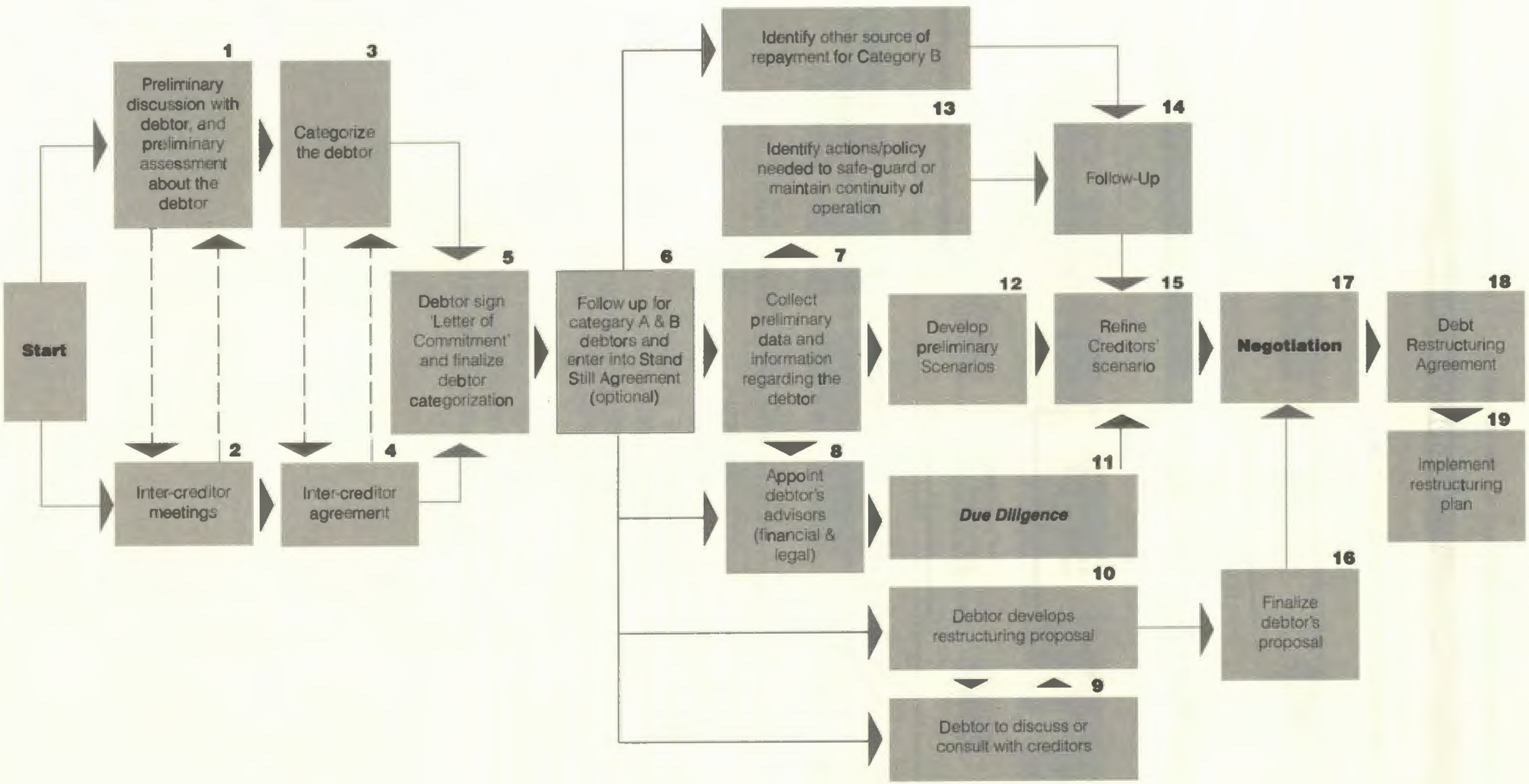
The debtor classifications are shown below:



The loan restructuring process then continues through 19 steps with guidance from the Minister of Finance. The seven principal steps that must be taken by debtors are outlined below:

1) Agreement to negotiations (signing of a Letter of Commitment)
2) Execution of a standstill agreement
3) Appointment of consultants/independent advisors
4) Start of the due diligence process
5) Start of restructuring negotiations
6) Finalizing restructuring agreement
7) Implementing the restructuring plan

19 Loan Restructuring Steps



4.3 Outsourcing

The background to outsourcing of debt management is as follows:

1) IBRA needs to concentrate on the corporate loans which represent the largest value of its loan portfolio, in order to best control overall loan recovery
2) Excessive investment in human resources and support facilities such as offices, branch offices and training is avoided so that IBRA may operate efficiently and achieve optimal results.
3) Major costs are avoided which would otherwise arise from lay-offs and the disposal of support infrastructure after the completion of loan restructuring.
4) Through consistent and focussed management, loan quality may be maintained or improved and leading to an increase in the resale value of the loans and assets concerned.
5) A management agent may also become a potential buyer.

The stages involved in outsourcing may be described as follows:

- The debts transferred from the various banks are selected and arranged by debtor, product and location
- Large corporate loans are merged based upon the business group managing the said loans
- Other loans are arranged and selected based upon the management agent and according to product type and location
- Subsequent to the formation of loan portfolios, electronic data will be provided to each management agent
- The management agent removes all loan documents from the original bank and adds any information required.
- The management agent will immediately take over management of the loans after all of the information and supporting documents become available. It is estimated that this will require a period of approximately two months.

V. Shareholder Settlement

5.1 Legal Basis

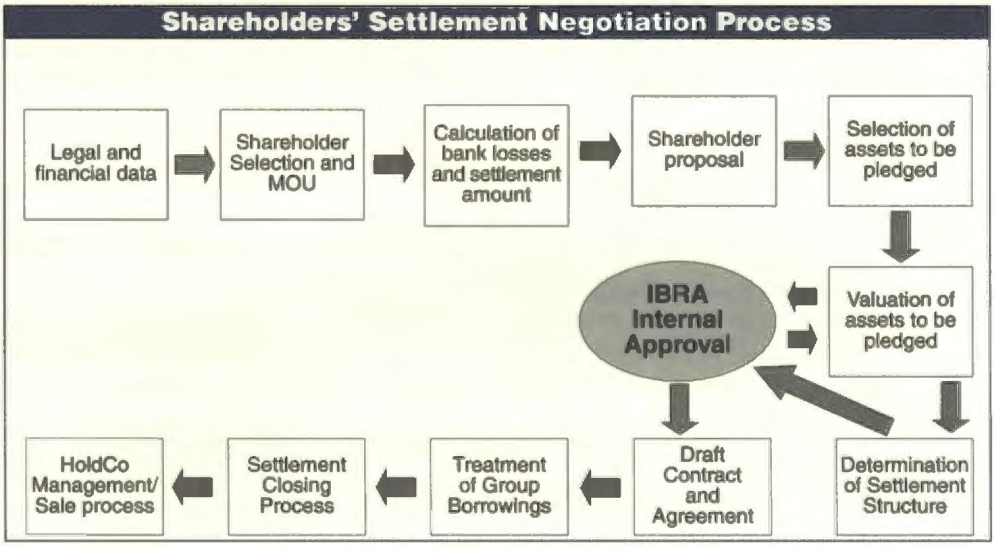
The legal basis for the implementation of the Shareholder Settlement program is as follows:

a. Based upon the Banking Law No. 10/1998 on Amendment of Law No. 7/1992 on Banking, Article 37A, IBRA is vested with the authority, *inter alia*, to:
   - To control, manage and take ownership in respect of the assets or rights of banks, including bank assets vested in any party, whether domestic or international.
   - To sell or transfer assets vested in the directors, commissioners and shareholders of banks, whether domestic or international, either directly or through a public offer.
   - To conduct investigations and examinations so as to obtain all information required from and concerning banks undergoing restructuring, or any party involved or reasonably thought to be involved in, or to be aware of, activities detrimental to banks undergoing restructuring.
   - To determine the losses suffered by a bank undergoing restructuring and to assign the loss to the board of directors, board of commissioners and/or a shareholder, making such persons personally liable, if such losses were due to the fault or negligence of the individuals concerned.

b. Under Republic of Indonesia Government Regulation No. 17/1999 on the Indonesian Bank Restructuring Agency, Article 44, IBRA is vested with the following authority:
   - IBRA shall be entitled to hold members of a board of directors, board of commissioners or shareholder personally liable for all losses, should a loss have been suffered by a bank undergoing restructuring as a consequence of the fault, negligence, or improper transaction of such persons.
   - Losses as referred to above includes:
   - The profits/benefits received by the individual concerned as a result of the transaction; and/or
   - The losses suffered by a bank undergoing restructuring arising out of the said improper transaction.
   - To control and/or sell the goods or assets which have been transferred to obtain compensation in respect of the said fault, negligence and/or improper transaction.
   - Such persons as are referred to above may be subject to criminal sanctions as stipulated in Article 50 (2) of the Banking Law, and the laws and regulations in effect.

5.2 Shareholder Settlement Process

The Shareholder Settlement process is a negotiation between IBRA and former controlling shareholders in order to settle the liabilities that are the responsibility of the shareholder. A summary of IBRA's Shareholder Settlement negotiation process is set out in the diagram below:



As the settlement process is based on negotiation, the cooperation of the shareholder is a key factor.

Below is a discussion of a number of important factors involved in the Shareholder Settlement process.

5.3 Settlement Amount Determination

The settlement of the liabilities of the former majority shareholders in BBO, BBKU and BTO banks is divided into two groups, namely:

a. Banks whose operations have been frozen (BBO/BBKU).

The calculation for determining the liability of the BBO and BBKU shareholders is as follows:

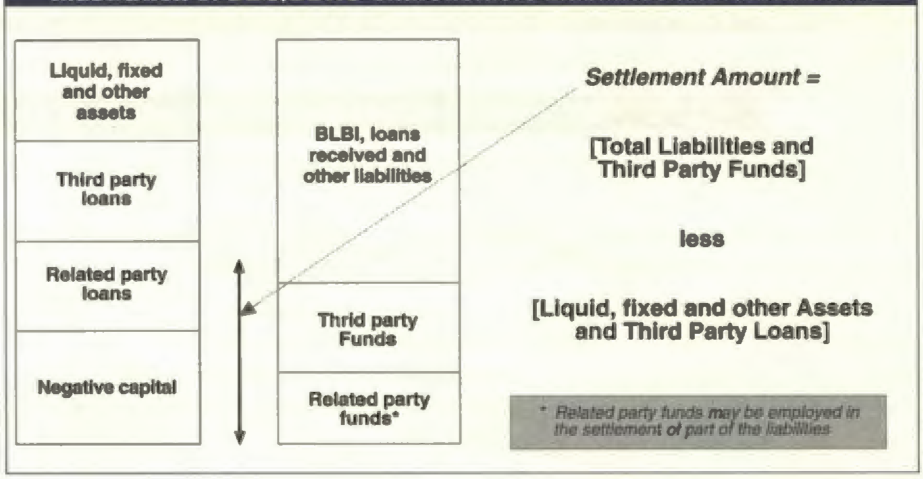
- Total Shareholder Liabilities = Gross Book Value of Bank Liabilities – Reasonable /Market Value or Net Book Value of Bank Assets and Third Party Assets.

Or

- Total Shareholder Liabilities = Net Book Value of Shareholder Assets + Negative Book Equity

In the context of a bank's balance sheet, the calculation of a BBO/BBKU shareholder's liabilities may be illustrated as follows:

Illustration of BBO/BBKU Shareholders Liabilities and Calculation



b. Banks Whose Operations Have Been Transferred (BTO)

The calculation of liabilities which must be settled by the former shareholders of BTO banks is as follows:

- <u>Total Shareholder Liabilities</u> = Gross Book Value of the Shareholder's Assets in the Bank.

c. Allocation of BBO/BBKU and BTO Shareholder Liabilities

In cases where there is more than one shareholder of a BBO/BBKU or BTO, the total liabilities of each shareholder is as follows:

- In BTO the allocation of total liabilities is in accordance with the value of the loans or other facilities extended to each shareholder of the bank;

- In BBO/BBKU, the allocation of total liabilities is based on the value of the assets of each bank shareholder, plus the amount of the loss divided proportionately in accordance with the percentage borrowings and ownership of each of the shareholders.

The allocation methods for total shareholder liabilities described above are applied stricly to BBO/BBKU and BTO banks, except where the shareholders agree to have their respective total liabilities determined by another method.

Shareholder Assets in a Bank can be in the form of any of the following:

- Loans to shareholders and/or related parties from BBO/BBKU and BTO;
- Securities issued by a shareholder and/or related party which have been purchased and/or endorsed by a BBO/BBKU or BTO;
- Reciprocal funding transactions carried out by a BBO/BBKU or BTO in the interests of a shareholder and/or related party;
- Other transactions carried out by BBO/BBKU or BTO in the interests of a shareholder or related party, whether on-balance sheet or off-balance sheet. Included in this category are all interest charges and penalties related to these transactions.

5.4 Shareholder Proposal

As a process based upon shareholder cooperation, Shareholder Settlement negotiations begin with a proposal from the shareholder. The proposal outlines the means by which the shareholder intends to settle his liabilities, and must, at a minimum, contain the following:

- A summary proposal concerning the method of settling the shareholder's liabilities, including the payment schedule relating to the planned sale of shareholder assets and/or the cash flow capacity of the shareholder's business;
- The amount of cash which will be handed over as part of the assets to be surrendered;
- A list of all of the companies and/or other assets owned in whole or in part by the shareholder concerned:
  - The commercial background of each company and/or other assets;
  - The ownership of each company and/or other assets;
  - In the particular case of assets in the form of land, full data is required on the location of the land and its ownership status.

5.5 Selection and Valuation of Shareholder's Assets

Based upon the shareholder's proposal, IBRA will undertake a selection of non-cash assets, including companies and other assets, particularly property assets. Selection is determined by a valuation on the cash realization from the asset concerned.

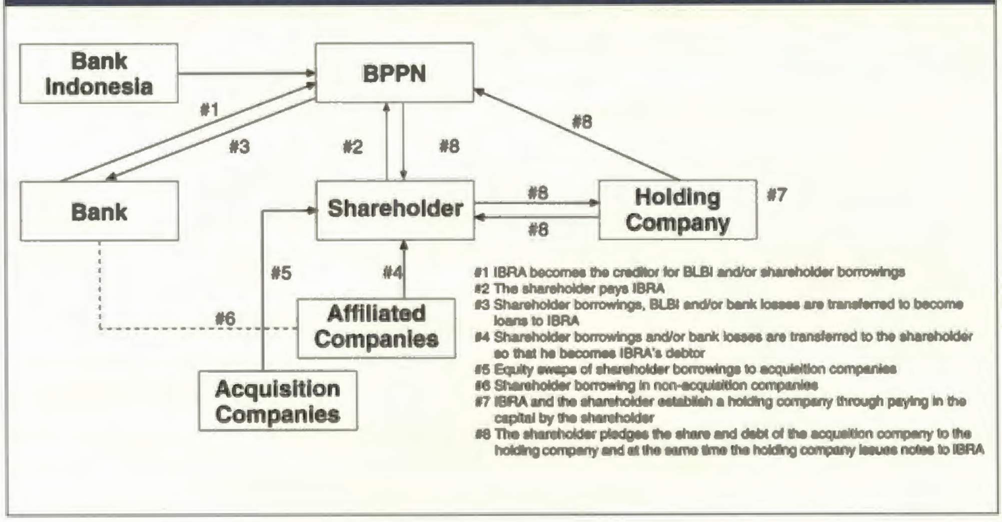
- Appraisal of the cash value (selling price) of assets is based upon fair market value;
- The evaluation method generally employs the discounted cash flow (DCF) method based upon reasonable assumptions using a going concern basis;
- In the case of the appraisal of assets in the form of land, fair market value means the probable selling price at any time over the next four years, the maximum permissible period for the recovery of liabilities.

Priority is given to companies and other assets which have strong prospects for realizing a high cash value (good prospects for the industry, good cash flow prospects, relatively little debt, and relatively few legal problems).

5.6 Structure of Shareholder Settlement Agreements

Shareholder Settlement Agreements are commercial agreements and involve the parties concerned with the settlement of shareholder liabilities. The parties include IBRA (AMI and AMC), shareholders, banks, holding companies and companies which are pledged as security.

Basic Structural Framework of Shareholder Settlement Agreements



Based upon the value of assets involved in the settlement, the structure of shareholder settlement agreements may be differentiated into two types, namely the refinancing structure and the settlement structure. The refinancing structure is employed where the value of the assets pledged by the shareholder are insufficient to settle his liabilities while the settlement structure comes into play where the value of the assets pledged is sufficient.

Comparison of the Refinancing and Settement Agreement Structures

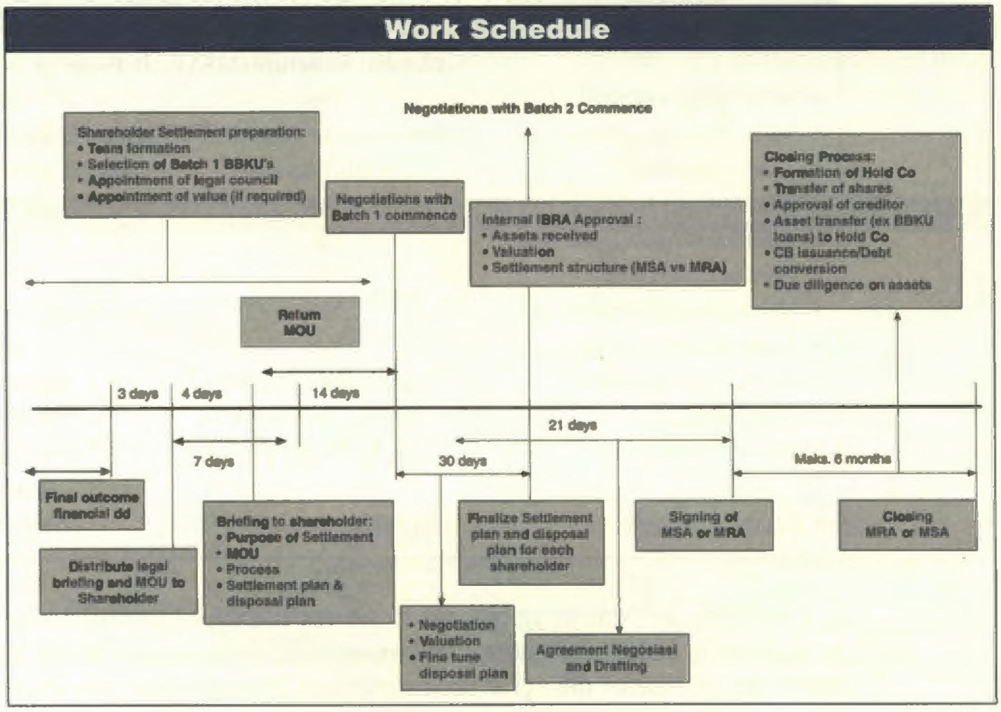
	Settlement Structure (MSA)	Refinancing Structure (MRA)
• Shareholder proposal	Yes	Yes
• Value of assets pledged	Sufficient (to liabilities)	Insufficient (to liabilities)
• Asset evaluation	Yes (IBRA value)	Yes (Shareholder's value)
• Formation of HoldCo	Yes	Yes
• Additional Asset (hold back)	Yes	No
• Personal guarantee	No	Yes
• Management company	Yes	No
• Management Contract	Yes	No
• HoldCo management	Appointted by IBRA	Shareholder
• Asset sale	HoldCo and IBRA	Shareholder
• Risk of losses	Borne by HoldCo/IBRA	Covered by personal guarantee
• Excess from asset sale	HoldCo/shareholder	Shareholder

In both of the settlement agreement structures employed by IBRA, the provision of protection for IBRA and control and monitoring mechanisms for the assets pledged are of the essence of the agreement structures. Nevertheless, this does not preclude the possibility of shareholders participating in efforts to protect and improve the value of the assets pledged.

Important Aspects of the HoldCo Structure

HoldCo Structure	• The shareholder continues to own and control the company's operations and the other assets pledged through the HoldCo. • IBRA also participates in the control of the company and its assets so as to protect and maximize the realization value of the campany and assets concerned. • The shareholder and IBRA work together to seek an investor for the co,pany and assets concerned. • After all of the liabilities have been settled in full, the company and remaining assets become the property of the shareholder.
"Reps and Warranties"	• The shareholder represents that all the information provided in connection with the Shareholder Settlement are correct
"Holdback Assets"	• Additional assets (hodback assets) are required to guard against the possibility of losses on the IBRA side if negative information subequent emerges.

5.7 Work Schedule



VI. Asset Divestment Program

Overall Macro-Program

Public Offering

Pros

- Enables control to stay with the management or government
- Facilitates equity participation with diverse ownership
- Facilitates ownership by employees domestic investors

Cons

- Lack of commitment from management or lack of technical expert input from international corporations
- Possiblity of unfavorable capital market conditions at the time of offering

Strategic/Financial Advisor

Pros

- Facilitates the entry of strategic investors possesing technical expertise and synergies
- Facilitates ownership by employees or domestic investors

Cons

- Possibility of loss of control of the company to a strategic investors

Company Analysis

Corporte Background

- Is the company's background better than other companies in the same industry
- Is the company ready for a public offering

Financial & Operational Perfromance

- Will sales continue to grow and net profit continue to increase
- Is profitability stable

Management and Technology

- Are the capabilities of management and technology internationally competitive

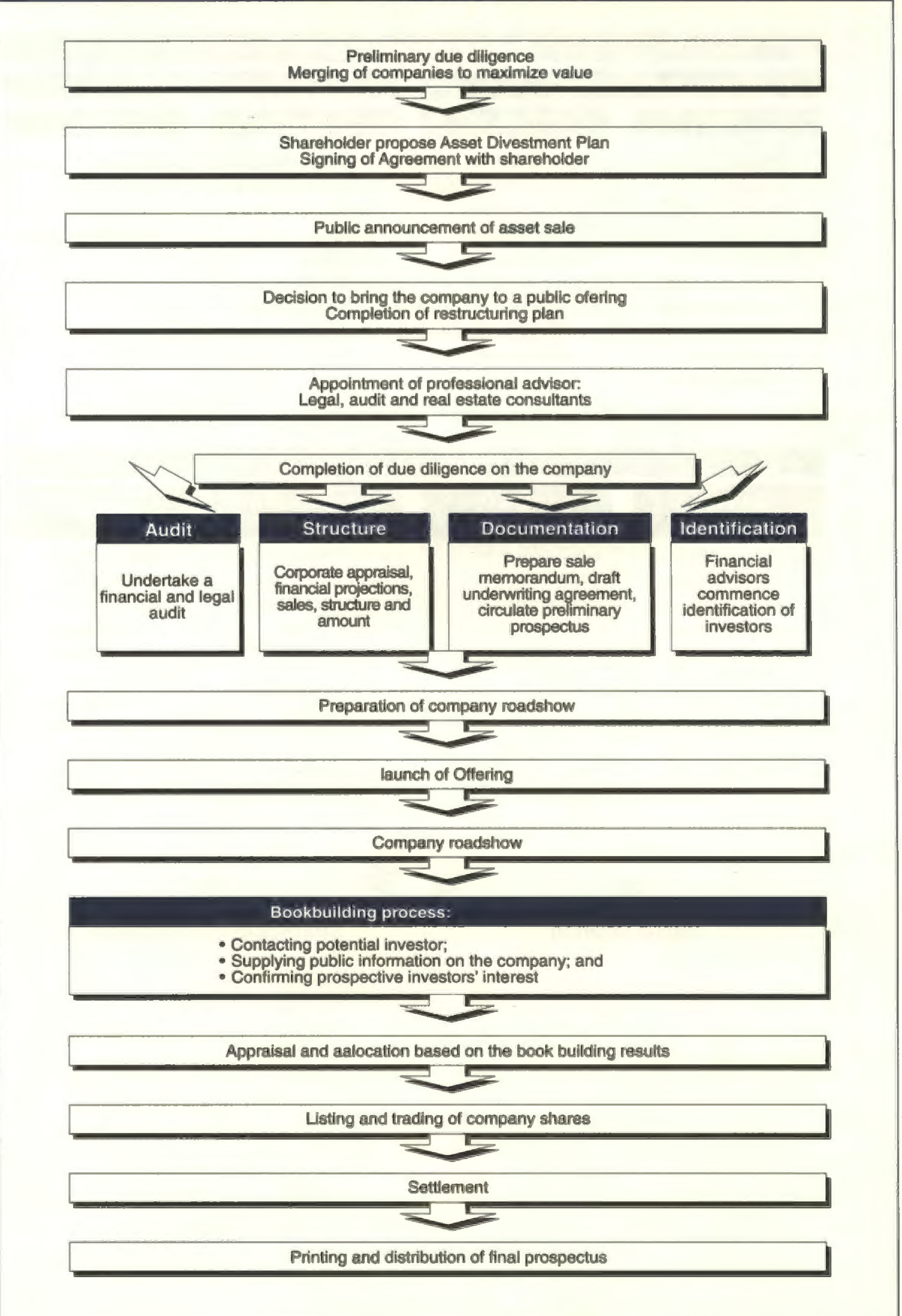
Evaluation

- Will a portfolio investor pay a significant premium over a strategic investor
- Structure and potential of capital market demand

YES — Public Offering

NO — Strategic/Financial Investor

Public Offering Process



VII. List of Assets Owned by IBRA

7.1 List of Core Assets

Core assets are the primary assets owned by IBRA and represent the loan portfolio transferred by banks to IBRA.

List of Loan Portfolios According to Bank of Origin

NO.	BANK	# ACCOUNTS	# DEBTORS	O/S BALANCE	ORIGIN
1	AKEN *)	25,963	25,036	340,715,542,117	BBKU
2	ALFA *)	2,761	1,196	575,233,153,213	BBKU
3	ARYA *)	1,516	1,009	473,674,942,899	BBKU
4	ASPAC *)	2,953	2,271	758,979,786,758	BBKU
5	BAHARI *)	1,025	704	433,428,560,554	BBKU
6	BAJA *)	563	268	295,579,224,646	BBKU
7	BCD *)	1,283	850	1,150,473,321,346	BBKU
8	BDI *)	1,351	1,059	420,813,662,289	BBKU
9	BEPEDE *)	23	23	51,342,752,074	BBKU
10	BIRA *)	2,919	2,119	4,728,162,937,424	BBKU
11	BUDI *)	112	69	30,585,953,586	BBKU
12	BUMI RAYA *)	327	187	132,798,300,639	BBKU
13	BUS *)	3,098	2,174	2,086,319,246,069	BBKU
14	CIPUTRA *)	2,502	2,359	172,991,678,422	BBKU
15	DANA ASIA *)	217	154	539,391,221,834	BBKU
16	DANAHUTAMA *)	1,069	356	117,842,546,065	BBKU
17	DEWA RUTJI *)	148	102	1,463,377,285,805	BBKU
18	DHARMALA *)	2,565	1,693	1,839,629,900,039	BBKU
19	FICORIINVEST *)	1,148	565	1,512,307,989,762	BBKU
20	HASTIN *)	1,438	828	913,624,926,147	BBKU
21	INDOTRADE *)	131	45	77,995,825,030	BBKU
22	INTAN *)	656	436	395,706,856,637	BBKU
23	KHARISMA *)	1,084	444	171,530,858,347	BBKU
24	L.BERLIAN *)	302	219	263,915,564,894	BBKU
25	METROPOLITAN *)	2,724	2,560	151,688,609,945	BBKU
26	NAMURA *)	375	224	298,569,701,842	BBKU
27	ORIENT *)	130	86	76,041,916,712	BBKU
28	PAPAN *)	39,746	38,564	1,318,073,750,781	BBKU
29	PESONA *)	10,760	7,475	1,778,557,021,693	BBKU
30	PSP *)	4,577	4,343	1,774,250,506,127	BBKU
31	SANHO *)	437	218	83,872,336,505	BBKU
32	SEWU *)	498	268	208,860,349,068	BBKU
33	SGP *)	1,361	650	521,012,691,776	BBKU
34	SINO *)	96	42	34,733,610,795	BBKU
35	TATA *)	1,767	1,334	418,264,854,637	BBKU
36	UPPINDO *)	1,800	180	1,650,692,785,277	BBKU
37	YAMA *)	1,724	1,000	1,205,108,022,512	BBKU
38	BDNI	51,810	22,118	20,931,845,751,849	BBO
39	BUN	2,610	2,116	3,619,439,668,569	BBO
40	CENTRIS	256	135	611,658,492,270	BBO
41	DEKA	214	114	237,372,700,279	BBO
42	HOKINDO	339	167	309,892,645,885	BBO

List of Loan Portfolios According to Bank of Origin

NO.	BANK	# ACCOUNTS	# DEBTORS	O/S BALANCE	ORIGIN
43	ISTIMARAT	280	132	492,813,742,109	BBO
44	MODERN	4,904	3,581	2,767,876,551,712	BBO
45	PELITA	561	202	2,476,152,027,243	BBO
46	SUBENTRA	1,110	510	493,047,556,446	BBO
47	SURYA	1,534	888	1,579,320,015,406	BBO
48	BCA	2,322	351	11,477,072,186,743	BTO_1
49	DANAMON	25,156	15,871	20,606,187,349,030	BTO_1
50	PDFCI	160	104	2,397,868,755,022	BTO_1
51	TIARA	1,003	237	2,120,833,688,674	BTO_1
52	DUTA	2,019	1,106	538,361,283,882	BTO_2
53	JAYA	4,925	4,214	2,464,679,469,464	BTO_2
54	NIAGA	628	451	2,504,119,270,936	BTO_2
55	POS	59	20	17,559,926,889	BTO_2
56	RAMA	391	318	598,286,042,013	BTO_2
57	RSI	90	58	305,335,680,558	BTO_2
58	TAMARA	754	412	1,843,229,814,941	BTO_2
59	ARTHAMEDIA	8	7	27,651,064,102	RECAP
60	BALI	856	548	1,928,407,501,565	RECAP
61	BII	867	662	7,044,734,855,916	RECAP
62	BUKOPIN	3,698	2,805	930,884,453,731	RECAP
63	LIPPO	1,741	1,262	3,923,165,197,847	RECAP
64	PATRIOT	124	87	18,122,427,931	RECAP
65	PRIMEX	48	30	441,061,226,942	RECAP
66	UNIVERSAL	461	328	1,901,370,382,845	RECAP
67	BAPINDO	822	303	12,252,154,658,933	STATE
68	BBD	18,211	11,105	20,385,705,670,394	STATE
69	BDN	5,360	2,412	19,095,536,486,279	STATE
70	BNI	3,474	243	20,865,357,847,978	STATE
71	BRI	2,003	164	8,648,967,895,047	STATE
72	BTN	3,090	282	4,766,300,557,682	STATE
73	EXIM	537	236	24,986,623,233,757	STATE
	TOTAL	**263,574**	**174,689**	**234,075,144,275,132**	

**) Not legally transferred yet*
**) Data from Bank Mashill (BBKU), BNN(BTO-2), are not received yet*

List of Loan Assets by Category

CATEGORY	# ACCOUNTS	# DEBTORS	O/S BALANCE
1	46,840	42,824	8,439,857,479,714
2	21,097	16,519	2,803,585,919,402
3	47,294	25,560	18,557,928,859,676
4	11,711	10,046	11,731,668,523,708
5	59,894	48,106	135,888,086,485,853
(Unknown)	76,738	31,634	56,654,017,006,778
TOTAL	**263,574**	**174,689**	**234,075,144,275,132**

7.2 List of Asset Controlled by Assets Management Investment (AMI)

The assets controlled by AMI primarily represent the assets of holding companies in the form of equity/ownership in the companies surrendered by former bank shareholders in the Shareholder Settlement.

List of Assets controlled by AMI

% Owned	Company	Description	Public/ Private	Industry
100%	Dipasena Citra Darmaja	Shrimp Farm Operations consisting of 6 companies in Indonesia	Private	Agribusiness
78%	Gajah Tunggal	Tire Manufacturer near Jakarta	Public	Auto
72.6%	Indomobil Sukses International	Automobile Assembler in Jakarta, assembles motorcycles (Suzuki) and autos (Suzuki, Audi, Volvo, Nissan, Mazda)	Public	Auto
33%	Astra International	Automobile Manufacturer in Jakarta	Public	Auto
55%	Filamendo Sakti	Nylon Filament Manufacturer for Tire Production, located in Tangerang	Private	Auto
57%	Sentra Sintetikjaya	Synthetic Rubber Manufacturer in Merak	Private	Auto
40%	Meshindo Alloy Wheel	Wheel Manufacturer in Surabaya	Private	Auto
40%	Langgeng Bajapratama	Bead Wire Manufacturer for Tire Production in Bekasi (West Java)	Private	Auto
20%	Indocement	Cement Manufacturer in Citeureup	Public	Cement
59%	GT Petrochem Industries	Tire Cord Manufacturer and Ethylene Glycol Producer in Merak	Public	Chemical
46-100%	Salim Oleochemical	4 Chemical Plants; located in Medan and Batam, and produce fatty alcohol, the third is in Singapore and uses this product as its raw material	Private	Chemicals
83.9%	DHW	Specialty Chemical Company, located in Germany, produces sorbitol and fatty alcohol	Private	Chemicals
43%	Gumindo Perkasa Ind.	Food Additive Maunufacturer in Serang, produces Carrageenan which is used in various products (beer, milk, toothpaste, paper and shampoo)	Private	Chemicals
88%	Poli Contindo Nusa	Steel Drum Manufacturer in Jakarta, drums used for chemical and oil storage	Private	Chemicals
49-97%	Salim Chemicals	4 vertically integrated Chlor Alkaly Plants in West Java, produce chlorine, EDC and VCM, PVC and caustic soda	Private	Chlor Alkaly
65-93%	Salim Coal	4 Coal Mining Companies under the same management, different locations in Kalimantan and Sumatra proven reserves	Private	Coal

List of Assets controlled by AMI				
% Owned	**Company**	**Description**	**Public/ Private**	**Industry**
65%	Barasentosa Lestari	Coal Mining Company in South Sumatera	Private	Coal
25%	Karimun Granite	Granite Mining Company on Karimun Island	Private	Coal
95%	Indosiar Visual Mandiri	Television Station/Producer in Jakarta	Private	Computer & Communi-cations
51%	Kabelindo Murni [1)]	Power and Telecommunication Cable Producer	Private	Computer & Communi-cations
9%	First Pacific	Management Company in Hong Kong, subsidiary activities include marketing, distribution, telcom, real estate and banking	Public	Holding Company
4-35%	Hasan Insurance[1)]	5 Insurance Companies	Private	Finance
	Danamon Non-Property	Various financial companies including finance companies and insurance companies	Private	Finance
30-100%	Salim Mosquito Group	2 Mosquito Coil Companies in Damak and a distributor in Jakarta	Private	Food & Consumer
20%	QAF	Property Development Company in Singapore, operates supermarkets and warehouses, manufactures bread	Public	Food & Consumer
100%	Pangansari Utama	Provides catering services to rigs, mines and companies operating manufacturing plants in remote locations	Private	Food & Consumer
57%	Guangdong Jiangmen FG	Glass Manufacturer in China, produce float glass for building construction	Private	Food & Consumer
50%	Indomiwon Citra Inti	Food Manufacturer in Lampung, produce MSG (mono-sodium glutamate)	Private	Food & Consumer
100%	Salim Yarn	2 Yarn Manufacturers in Bandung, yarn used for flour bags	Private	Food & Consumer
60%	Salim Rengo Containers	Container Manufacturer in 3 locations, joint venture with Japanese, produce paper based packaging (sells approx. 36% to Indofood)	Private	Food & Consumer
25-35%	Salim Flour	2 Flour Manufacturers in Ujung Pandang and Semerang	Private	Food & Consumer
35-70%	Salim Milk	2 Milk Producers with the same management, in Sukabumi and Jakarta	Private	Food & Consumer
51%	Yakult Indonesia Persada	Drink Producer in Sukabumi, produce health drink (fermented milk)	Private	Food & Consumer
10%	Tuntex Garment Indonesia	Clothing Manufacturer in Jakarta and Tangerang, produce sportswear, pants, jackets, shirts, shorts	Private	Food & Consumer
51%	KCI Glass[1)]	Glass Bottle Producer Located in Jakarta	Private	Food & Consumer

List of Assets controlled by AMI				
% Owned	Company	Description	Public/ Private	Industry
65-77%	Salim Plastic	2 Plastic Manufacturers, one in Purwakarta and one in China, with the same top management, produce plastic packages (Indopoly sells approx. 60% to Indofood)	Private	Multi Industry
41-100%	Salim Building Material	2 Roofing Material Manufacturers in Jakarta and Semarang with the same management, produce galvanized iron sheets for roofing	Private	Multi Industry
51%	Indomarco Pristmatama	Mini-Mart Chain across Indonesia	Private	Multi Industry
20%	Indomarco Adi Prima	Distribution Company in Jakarta, trucking and storage capabilities	Private	Multi Industry
33%	Indogift Chuenher Indah	Specialty Gift Manufacturer in Citeureup	Private	Multi Industry
50%	Babcock & Wilcox Indonesia[1)]	Manufactures industrial boilers and fittings at its plant in Batam	Private	Multi Industry
99%	Karana Lines	Shipping company that owns and operates two ships	Private	Multi Industry
99%	Wasesa Lines	Division of Karans, provides freight shipping services	Private	Multi Industry
20%	Bimoli	Coconut Oil Producer in Sulawesi, exports 90%, produces both CNO and its end products (Copra)	Private	Oil & Fats
20-100%	Salim Palm Plantation & Oil	24 Palm Plantation Companies, 1 Cooking Oil Producer (which uses palm as raw material) and 1 Oil Trading Company, all located in Indonesia; palm has separate management from oil	Private	Palm Plantation
3.70%	Kertas Kraft Aceh	Cement Bag Producer Located in Lhoksemawe, North Aceh	Private	Paper
60-100%	Hasan Pulp	1 Pulp Producer and 3 Plantations	Private	Pulp & Paper
27-100%	Hasan Plywood	4 Plywood Producers and 9 Logging Operations	Private	Plywood
9-100%	Salim Timber	3 Timber/ Logging Companies and 1 Shipping Company, in Kalimantan	Private	Plywood
100%	Lakosta Indah	Wood Resin (Glue) and Wood Putty Producer, Located in Samarinda and East Kalimantan	Private	Plywood
60%	Batu Penggal Chemicals	Wood Resin (Glue) Producer, Located in Samarinda, East Kalimantan	Private	Plywood
100%	Buana Megawisatama	Beach front land on Bintan, land settlement and developer, sells to other resort developers	Private	Property
100%	Citra Karimun Perkasa	Industrial work park/ property development company on Karimun Island, builds infrastructure and buildings and sells/leases for industry use	Private	Property

List of Assets controlled by AMI

% Owned	Company	Description	Public/ Private	Industry
100%	Surya Bangun Pertiwi	Industrial work park/ property development company on Bintan, build infrastructure and buildings and sell/lease to industries	Private	Property
68%	Alam Indah Bintan	Nirwana Garden Resort located on Bintan	Private	Property
39%	Club Med (Ria Bintan)	Resort located on Bintan	Private	Property
32%	Karimun Sembawang Shipyard	Shipyard Company in Karimun Island, repairs and offers services for ship maintenance	Private	Property
60%	Karimun Indojaya Corp.	Industrial Land Developer in Karimun Island, builds infrastructure and sells/leases	Private	Property
100%	Salim Kota Bukit	Industrial work park in West Java composed of 2 development companies (one pre-operating) and 1 power plant, build infrastructure and buildings and sells/leases for industrial, commercial and residential purposes	Private	Property
94%	Mandara Permai	Jakarta residential land developer, over 2,000 homes and a golf course built	Private	Property
100%	Kota Anggana	Mixed use property development in parcels of land totalling approx. 100,000 sqm at Jl. Jend. Sudirman	Private	Property
100%	Kota Bentala	Mixed use property development located on Jl. Rasuna Said, covering a total vacant land area of 14.5 ha, 364 apts, 20,164 sqm office space	Private	Property
100%	Kota Kasablanka	Mixed use property developent located on Jl. Casblanca covering a total land area of 9.5 ha	Private	Property
100%	Bumi Gunung Salak Permai	Landed residential and resort development located in Gunung Salak Bogor Regency and covering a total land area of 688 ha	Private	Property
48%	Bumi Serpong Damai	Real Estate Complex in Tangerang, develops/sells land and builds houses	Private	Property
42%	Batamindo Invest. Corp.	Property development company in Batam, joint venture with Singapore, builds infrastructure and sells/leases land, already well-developed	Private	Property
100%	Wisma BCA (BDU & BSP)	Golden Triangle raw land, 2 office buildings	Private	Property
75%	Hotel Nikko Bali	5-star resort hotel in Bali	Private	Property
98%	Dwimitra Nusantara	Property development company	Private	Property

List of Assets controlled by AMI

% Owned	Company	Description	Public/ Private	Industry
51%	Indotaisei Indah Dev.	Kota Bukit property development company, joint venture with Taisei Corp. of Japan, prepares land and sells/leases for industry use	Private	Property
100%	Kabale Asia Nusantara	Golden Triangle property, undeveloped, currently parking area	Private	Property
100%	Balibuana Perkasa	12.7 ha vacant land next to Hotel Nikko Bali	Private	Property
48%	Metropolitan Kencana	Property Development and Management Company in Jakarta, holding company of Pondok Indah, 3 lines-real estate, mall, apartments	Private	Property
78%	Ariobimo Est. Perkasa	Property Development Company in Jakarta, manages an office building	Private	Property
100%	Hotel Istana Bukit Indah	Hotel in Purwakarta, 4-star Radisson management, adjacent to industrial area	Private	Property
78%	Istana Gemilang	Undeveloped Bali Property	Private	Property
50%	Cibinong Center Ind. Estate	Industrial Property Company in Cibinong to develop Cibinong Industrial Estate	Private	Property
100%	Prapat Agung Permai	Undeveloped Bali Property	Private	Property
75%	Bali Antaboga Canning	Undeveloped Bali Property	Private	Property
31%	Central Parkshopindo	Undeveloped Bali Property	Private	Property
100%	Modern Jakarta, Cakung	Vacant land, proposed landed residential	Private	Property
100%	Pantai Modern, Marunda	Vacant land, proposed landed residential	Private	Property
100%	Benowo	Vacant Land, proposed landed residential	Private	Property
100%	Modern Cikande Industrial Estate, Serang	Vacant land, proposed industrial estate	Private	Property
100%	Slipi	Vacant Land, next to Taman Anggrek	Private	Property
100%	Benowo [2)]	Vacant Land, proposed landed residential	Private	Property
100%	Bukit Mas [2)]	Vacant Land, proposed landed residential housing	Private	Property
100%	Rungkut [2)]	Vacant Land, proposed landed residential (Puri Mas)	Private	Property
100%	Jimbaran [2)]	Vacant Land, proposed shophouse complex	Private	Property
100%	Pecenongan [2)]	Vacant Land, proposed Condominium	Private	Property
100%	Cariu	Vacant land, proposed landed residential	Private	Property
100%	Bogor	Vacant land, proposed landed residential	Private	Property
100%	Tanjung Duren Timur	Vacant Land, next to Taman Anggrek	Private	Property
100%	Purimas - Rungkut	Vacant Land, proposed landed residential	Private	Property

List of Assets controlled by AMI				
% Owned	Company	Description	Public/ Private	Industry
100%	Billabong Park View [2)]	Vacant Land, proposed landed residential housing	Private	Property
100%	Sudirman Agung [2)]	Vacant Land, proposed Shopping Mall	Private	Property
100%	Jl. Taman Patra Kuningan	Vacant Land	Private	Property
100%	Villa Kapuk Mas [2)]	Vacant Land, proposed landed residential housing	Private	Property
100%	Bali Desa Apartment	Apartment	Private	Property
100%	Tanjung Benoa	Vacant Land	Private	Property
100%	Jl. Kayu Putih Raya 45-52 [2)]	Landed Residential Houses	Private	Property
100%	Pluit	Vacant land, proposed low cost condo	Private	Property
100%	Pecenongan [2)]	22 units Condominium	Private	Property
100%	Tiwoho	Vacant land, proposed landed residential	Private	Property
100%	Blok B [2)]	Vacant Land, proposed landed residential (Billabong Park View)	Private	Property
100%	Jelupang – Serpong [2)]	Vacant Land, proposed landed residential (Villa Melati Mas)	Private	Property
100%	Bitung	Vacant land, proposed landed residential	Private	Property
100%	Lombok	Vacant land, proposed resort	Private	Property
100%	Cipeucang [2)]	Vacant Land, proposed landed residential (Billabong Park View)	Private	Property
100%	Melati Sport Club [2)]	Vacant Land plus BUN branch office	Private	Property
100%	Puri Mas Klub [2)]	Vacant Land plus club house	Private	Property
100%	Belitung	Vacant land, proposed landed residential	Private	Property
100%	Jl. Brawijaya [2)]	Vacant Land plus 500sm building	Private	Property
100%	Jl. Balik Papan [2)]	Vacant Land plus 777sm building	Private	Property
100%	Pecenongan [2)]	Shophouses	Private	Property
100%	Jelupang – Serpong [2)]	Vacant Land, proposed landed residential (Villa Melati Mas)	Private	Property
100%	Desa Medang	Vacant Land	Private	Property
100%	Sudirman Agung [2)]	Vacant Land, proposed shophouse complex	Private	Property
100%	Hos Cokroaminoto [2)]	Vacant Land plus BUN branch office	Private	Property
100%	Perum Pesanggrahan Permai	Vacant Land	Private	Property
100%	Sudirman Agung [2)]	Shophouses	Private	Property
100%	Desa Pasir Jaya	Vacant Land	Private	Property
100%	Jl. Pinangsia	Office	Private	Property
100%	Medan [2)]	Office	Private	Property
100%	Jl. Pekan Baru [2)]	Vacant Land	Private	Property
100%	Jl. Lodan no. 2 [2)]	Vacant Land	Private	Property
100%	Jl. P. Jayakarta	Shophouses	Private	Property
100%	Jl. Karang Anyar A VII	Vacant Land	Private	Property
100%	Kapuk Muara	Vacant Land	Private	Property
100%	Ahmad Yani	Vacant Land plus BUN branch office	Private	Property

List of Assets controlled by AMI

% Owned	Company	Description	Public/ Private	Industry
100%	Jl. Balai Pustaka	Office	Private	Property
100%	Pecenongan [2)]	Apartment Atap Merah	Private	Property
100%	Pluit Mas [2)]	Vacant Land	Private	Property
100%	Jl. Krekot Jaya	Vacant Land	Private	Property
100%	Desa Jatimekar	Vacant Land	Private	Property
100%	Petukangan Selatan	Vacant Land	Private	Property
100%	Medan Country Club [2)]	Vacant Land plus BUN branch office	Private	Property
100%	Jl. Raya PS 183 [2)]	Vacant Land plus BUN branch office	Private	Property
100%	Semarang	Office	Private	Property
100%	Jl. Sultan Agung 102 [2)]	Vacant Land plus BUN branch office	Private	Property
62-100%	Salim Sugar	4 Sugar Plantations/ Producers in Lampung operating under the same management	Private	Sugar

Notes:
1) Not transferred to Holdco, will be sold directly
2) Not yet transferred to Holdco

7.3 List of the 200 Largest Debtors in Asset Management Credit (AMC)

List of the 200 Largest Debtor in AMC
(in alphabetical order)

No.	DEBTOR	INDUSTRY
1	ABS INDUSTRY INDONESIA PT	Service Industry
2	ADIKARA NIRMALA PT.	Manufacturing
3	ALFA GOLDLAND REALTY PT	Service Industry
4	ANDATU LESTARI PLYWOOD PT	Manufacturing
5	ANEKA AGROPRASIDHA PT	Trade/Hotel/Restaurant
6	ANEKA BUMI PRASIDHA, PT	Trade/Hotel/Restaurant
7	APAC INTI CORPORA PT	Manufacturing
8	ARINDO TRI SEJAHTERA	Agribusiness
9	ARTIKA OPTIMA INTI PT	Manufacturing
10	ASIA CELLULAR SATELLITE PT	Transportation/Warehouse /Telecommunication
11	ASRILAND PT.	Manufacturing
12	AUTHOTRANS PERKASA INDONESIA PT	Service Industry
13	BADJRADAYA SENTRANUSA PT	Transportation/Warehouse /Telecommunication
14	BAHANA BINA VENTURA PT	Service Industry
15	BAHANA INVESTA ARGHA PT	Service Industry
16	BAHANA PEMBINAAN USAHA INA.	Service Industry
17	BAKRIE & BROTHERS PT	Manufacturing
18	BAKRIE INTERNATIONAL FINANCE	Service Industry
19	BAKRIE INVESTINDO PT	Service Industry
20	BAKRIE NIRWANA RESORT PT	Trade/Hotel/Restaurant
21	BALI RAYA PT	Agribusiness
22	BANIGATI BETEGAK, PT	Trade/Hotel/Restaurant
23	BANTEN JAVA PERSADA PT	Manufacturing
24	BATANGHARI PERDANA PT	Construction
25	BATASAN PT	Manufacturing
26	BEKASI FAJAR INDUSTRIAL ESTATE PT	Service Industry
27	BENTALA LESTARI PT	Service Industry
28	BENTALA MAHAYA, PT	Service Industry
29	BENTOEL PRIMA PT	Manufacturing
30	BHIRAWA STEEL PT	Manufacturing
31	BIMANTARA CITRA PT	Manufacturing
32	BINA PERKASA INDOGRAHA PT	Trade/Hotel/Restaurant
33	BNI SECURITIES PT	Service Industry
34	BOGA NANDINI ANDRAWINA PT	Social / Public Services
35	BONAULI REALESTATE PT	Service Industry
36	BUANAGRAHA ARTHA PRIMA PT	Manufacturing
37	BUDIONO WIDODO	Manufacturing
38	BUKIT JONGGOL ASRI PT	Manufacturing
39	BUKIT SENTUL TBK, PT	Construction
40	BUKIT WELIRANG INDAH PT	Manufacturing
41	BUMI ANGKASA TEXTILE INDONESIA PT	Manufacturing
42	BUNAS FINANCE INDOINESIA TBK PT	Service Industry
43	CATERISON SUKSES PT.	Trade/Hotel/Restaurant
44	CEKA JAWA INDUSTRI PT	
45	CENTRAL PERTIWI BAHARI PT	Agribusiness
46	CHANDRA ASRI, PT	Manufacturing
47	CISADANE RAYA CHEMICALS PT	Manufacturing
48	CITRA MARGA FINANCE BV.	Service Industry
49	CITRA RAPI HOTEL, PT	Trade/Hotel/Restaurant

List of the 200 Largest Debtor in AMC
(in alphabetical order)

No.	DEBTOR	INDUSTRY
50	CITRASARANA GRAHAREALTY CORP.	Trade/Hotel/Restaurant
51	CONTINENTAL SINAR STEEL PT	Manufacturing
52	DANAMON FINANCE, PT	Service Industry
53	DANAREKSA PT	Service Industry
54	DATAKOM ASIA PT	Service Industry
55	DAYA BESAR AGUNG PT	Manufacturing
56	DEEMTE SAKTI INTERNATIONAL	Service Industry
57	DETTA MARINA, PT	Manufacturing
58	DEWATA AGUNG WIBAWA	Trade/Hotel/Restaurant
59	DHARMA NIAGA (PERSERO), PT	Trade/Hotel/Restaurant
60	DHARMALA INTIUTAMA INT'L BV PT	Social / Public Services
61	DHARMALA SAKTI SEJAHTERA, PT	Service Industry
62	DHARMASAKTI PANCAGRAHA	Trade/Hotel/Restaurant
63	DOK & PERKAPALAN KODJA BAHARI PT	Manufacturing
64	DUTA ANGGADA REALTY, PT	Service Industry
65	EASTGLOBE LTD.	Service Industry
66	EKADHARMA GARMENTAMA,PT	Manufacturing
67	ESTIKA YASAKELOLA, PT	Social / Public Services
68	FAJAR SURYA PERKASA PT	Manufacturing
69	FRANS PUTRATEX PT	Manufacturing
70	GEMA LAPIK PT	Manufacturing
71	GEMALA INDUSTRIES, LTD	Manufacturing
72	GERAK MAJU PT	Agribusiness
73	GIRI ASIH INDAH PT	Manufacturing
74	GIRI ASIH JAYA PT	Manufacturing
75	GLOBAL TOSERCO LTD.	Service Industry
76	GRAHA SARANA PRATAMA, PT (SURYAPALOH)	Service Industry
77	GRIYA PERMATA LESTARI	Trade/Hotel/Restaurant
78	GUNAWAN TEXTINDO PT	Manufacturing
79	HARGAS INDUSTRIES IND PT	Manufacturing
80	HARTONO ISTANA ELECTRONICS, PT	Manufacturing
81	HASIL CITRA LAUT PT	Agribusiness
82	HUMPUSS PT	Trade/Hotel/Restaurant
83	HUMPUSS TERMINAL P, PT	Trade/Hotel/Restaurant
84	HUMPUSS, INC	Mining
85	HUTAMA KARYA PT	Construction
86	IKA MUDA SEAFOOD INTERNASIONAL, PT	Agribusiness
87	INDOBUILDCO, PT	
88	INDOMAS PACIFIC PERMAI, PT	Service Industry
89	INDOPAC FINANCE	Service Industry
90	INDUSTRI GALVANEALMAS, PT	Manufacturing
91	INTER PRETINDO INTI CITRA PT	Manufacturing
92	INTERNUSA KERAMIK, PT	
93	INTERWORLD STEEL MILLS INDONESIA, PT	Manufacturing
94	INTI KARSA DAKSA, PT	Social / Public Services
95	INTI KERAMIK ALAMASRI, PT	
96	INTI TEXTURINDO RAYA, PT	Manufacturing
97	IPTN	Manufacturing
98	ISTAKA KARYA PT	Construction
99	JABABEKA INTERNATIONAL BV	Service Industry
100	JAKARTA CAKRA TUNGGAL STEEL MILLS PT	Manufacturing
101	JAKARTA KYOEI STEEL	Manufacturing

List of the 200 Largest Debtor in AMC
(in alphabetical order)

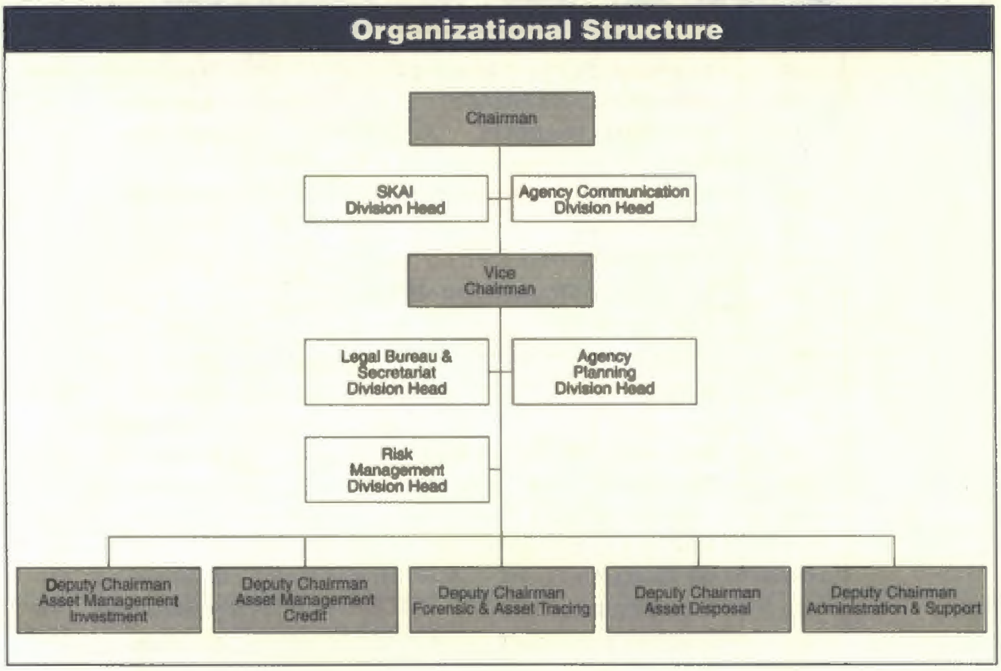
No.	DEBTOR	INDUSTRY
102	JINDO KORDECO HEAVY IND. PT	Manufacturing
103	KALHOLD UTAMA PT	Manufacturing
104	KALIMANIS PLYWOOD IND., PT	Manufacturing
105	KARAWANG UTAMA PT	Manufacturing
106	KARYAGRAHA ELEKTRINDO PT	Construction
107	KERTAS BASUKI RACHMAT PT	Manufacturing
108	KERTAS LECES PT	Manufacturing
109	KIANI KERTAS PT	Manufacturing
110	KIANI LESTARI PT	Agribusiness
111	KOMUNIKASI SELULAR INDONESIA PT	Manufacturing
112	KONDOWANA SAFARI PT	Service Industry
113	LANGGENG MAKMUR I. TBK, PT	Manufacturing
114	LIPPO KARAWACI TBK, PT	Construction
115	LUCKY STAR NAVIGATION CORP.	Manufacturing
116	MAHLIAGAI SENANTIASA MAKMUR	Manufacturing
117	MALIGI SPINNING MILLS	Manufacturing
118	MANDARA PERMAI PT	Service Industry
119	MANDIRI CITRASEJATI HOTEL PT	Trade/Hotel/Restaurant
120	MARGA NURINDO BHAKTI PT	Construction
121	MARGABUMI MATRARAYA PT	Construction
122	MAS MURNI IND, PT	Trade/Hotel/Restaurant
123	MERPATI NUSANTARA PT	Transportation/Warehouse/ Telecommunication
124	METROPOLITANT LAND PT	Service Industry
125	MITRA LARAS SERASI PT	Manufacturing
126	MODERNLAND REALTY TBK PT	Service Industry
127	MOELADI PT	Trade/Hotel/Restaurant
128	MULIA INTAN LESTARI, PT	Trade/Hotel/Restaurant
129	MULTI ANGSANA GANDA PT	Service Industry
130	MULTI STRADA ARAH SARANA, PT	Manufacturing
131	MULTIKARSA INVESTAMA PT	Manufacturing
132	NASIO DUTAMITRA ELECTRIC PT	Manufacturing
133	NELSON INVESTMENT INT, LTD.	Service Industry
134	NUSANTARA AMPERA BAKTI PT	Agribusiness
135	NUSANTARA PLYWOOD PT	Manufacturing
136	OMEDATA ELECTRONICS, PT	Manufacturing
137	OMETRACO MULTI ARTHA PT	Service Industry
138	PALWA MINATAMA JALADRI, PT	Manufacturing
139	PANCASINDHU ABADI PT	Manufacturing
140	PANGAJI MARIO REFCONINDO PT	Manufacturing
141	PANGGUNG ELECTRIC CORP PT	Manufacturing
142	PAPYRUS SAKTI PT	Manufacturing
143	PASIFIC INTERNATIONAL FINANCE PT	Service Industry
144	PASIFIK SATELIT NUSANTARA, PT	Transportation/Warehouse/ Telecommunication
145	PENGEMBANGAN PARIWISATA LOMBOK PT	Trade/Hotel/Restaurant
146	PERMADANI KHATULISTIWA NUSANTARA PT	Trade/Hotel/Restaurant
147	POLYFIN CANGGIH PT	Manufacturing
148	POLYPRIMA KARYAREKSA PT	Manufacturing
149	PRABU BUDI MULIA PT	Trade/Hotel/Restaurant
150	PRAJOGO PANGESTU	Manufacturing
151	PRIMASWADANA PERKASA FINANCE PT	Service Industry
152	PUTRA SURYA MULTIDANA TBK, PT	Service Industry
153	PUTRA SURYA PERKASA TBK, PT	Service Industry

List of the 200 Largest Debtor in AMC
(in alphabetical order)

No.	DEBTOR	INDUSTRY
154	RAMASARI SURYA PERSADA PT	Trade/Hotel/Restaurant
155	RIAU ANDALAN KERTAS PT	Agribusiness
156	RIAU PRIMA ENERGI PT	Agribusiness
157	RISJAD BRASALI PEROXID	
158	RISJAD BRASALI STYRINDO PT	Service Industry
159	RISJADSON PT	Service Industry
160	SALINDO PERDANA F, PT	Service Industry
161	SAMURINDO SWADAYA SEJAHTERA PT	Construction
162	SANDRATEX PT	Manufacturing
163	SANGGRAHA DHIKA PT	Service Industry
164	SATELINDO PT	Transportation/Warehouse/ Telecommunication
165	SEAMLESS PIPE INDONESIA JAYA PT	Manufacturing
166	SEBASLI PRATAMA	Manufacturing
167	SEGITIGA ATRIUM, PT	
168	SEGITIGA PLAZA HOTEL, PT	
169	SEMEN BATURAJA PT	Manufacturing
170	SEMEN CIBINONG, PT	Manufacturing
171	SEMEN GOMBONG PT	Manufacturing
172	SEMPATI AIR PT	Transportation/Warehouse/ Telecommunication
173	SENTRA SINTETIKA JAYA	Trade/Hotel/Restaurant
174	SERINCO DJAJA MARMER INDUSTRIES, PT	Manufacturing
175	SEWU AGRO INVESTAMA PT	Service Industry
176	SINAR SLIPI SEJAHTERA PT	Service Industry
177	SINN BUALUANG PUBLIC COMPANY LTD	Trade/Hotel/Restaurant
178	SIPATEX PUTRI LESTARI PT	Manufacturing
179	SRAGEN ABADI TEKSTIL PT	Manufacturing
180	STACO ARTA KARYA PT	Manufacturing
181	STACO GRAHA PT	Trade/Hotel/Restaurant
182	SUMBERMITRA SARANA REALTINDO PT	Social / Public Services
183	SURYA CITRA TELEVISI INDONESIA PT	Social / Public Services
184	SWADHARMA PRIMAUTAMA PT	Construction
185	SWARAEKA PRASETIA PT	Construction
186	SWASTIKA HIJAU MAKMUR	Trade/Hotel/Restaurant
187	TAHTA MEDAN PT	Trade/Hotel/Restaurant
188	TELEKOMINDO PRIMABHAKTI PT	Manufacturing
189	TENSINDO SEJATI PT	Manufacturing
190	TERANG KITA PT	Utilities
191	THE FIRST NATIONAL GLASSWARE PT	Manufacturing
192	TIMOR PUTRA NASIONAL PT	Manufacturing
193	TIRTAMAS COMEXINDO PT	Trade/Hotel/Restaurant
194	TIRTAMAS MAJUTAMA, PT	Service Industry
195	TUWUH AGUNG PT	Agribusiness
196	USAHA GEDUNG BIMANTARA PT	Manufacturing
197	WAHANA PERKASA AUTO JAYA PT	Manufacturing
198	WELWIN FINANCE, HONGKONG	Service Industry
199	WIDYA DUTA INFORMINDO,PT	Transportation/Warehouse/ Telecommunication
200	YASON PERDANA PT	Manufacturing

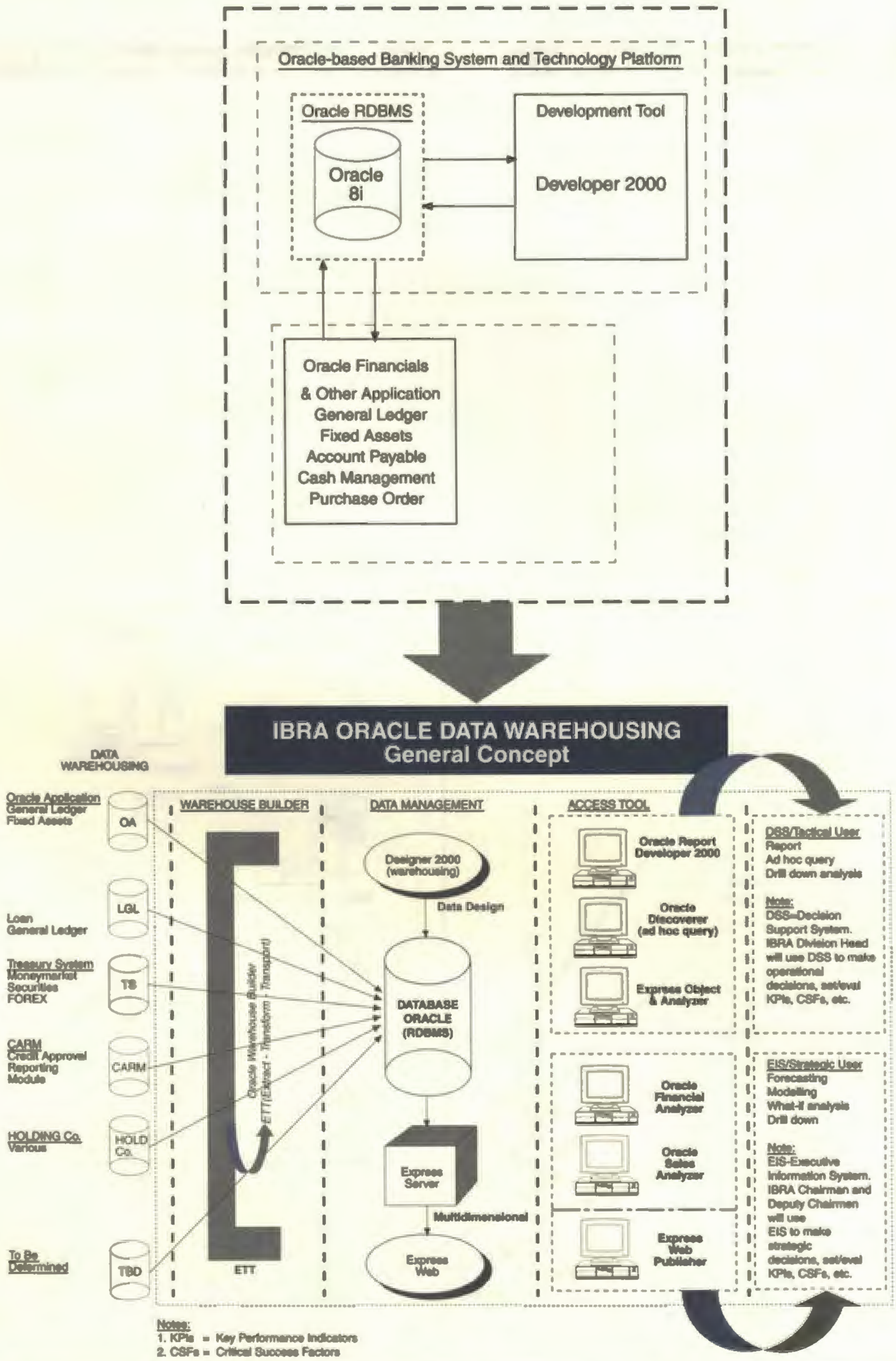
VIII. Organizational Structure And List of IBRA Procedures & Systems

8.1 Organizational Structure



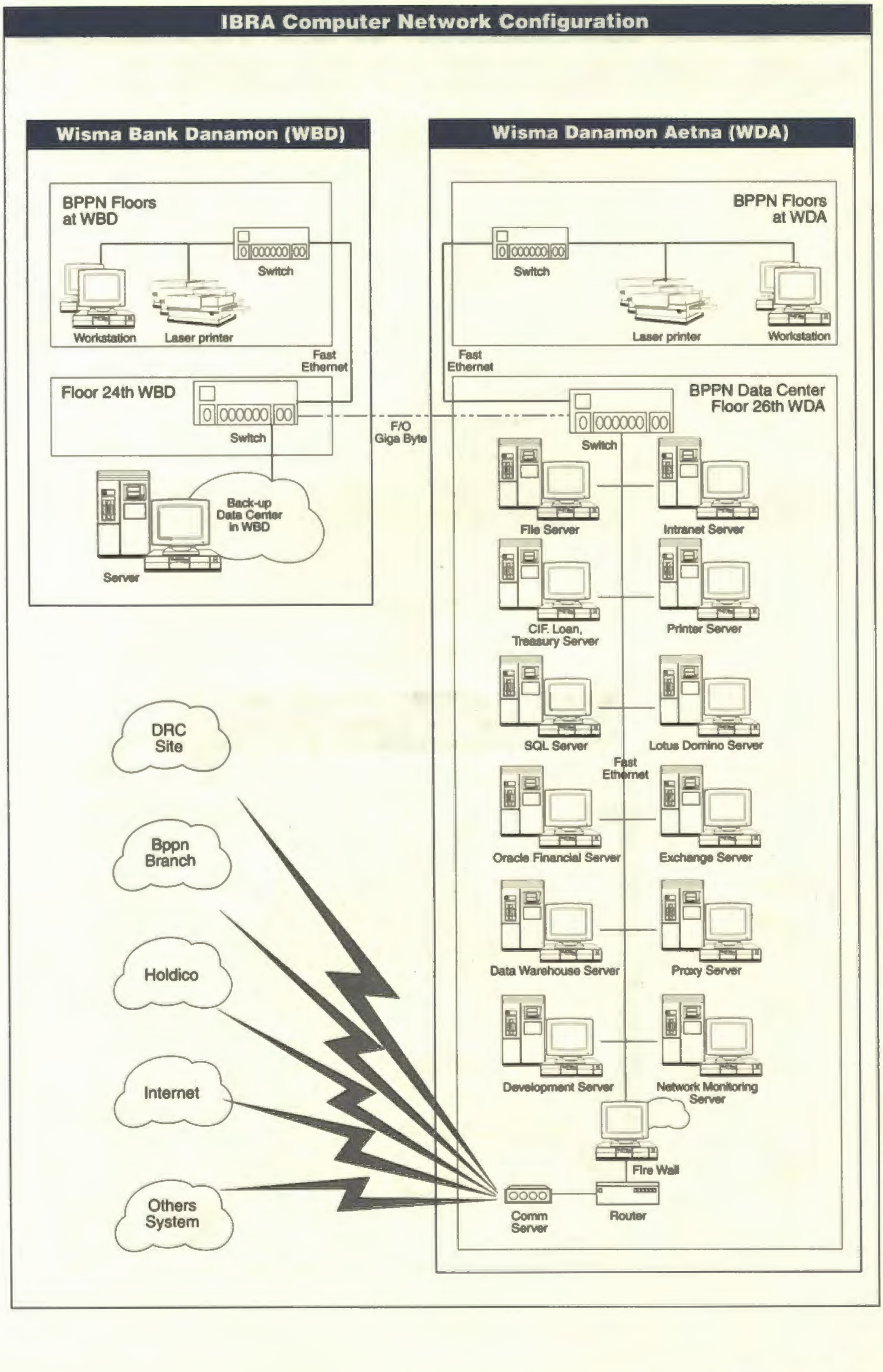
8.2 Database Management

Database Management

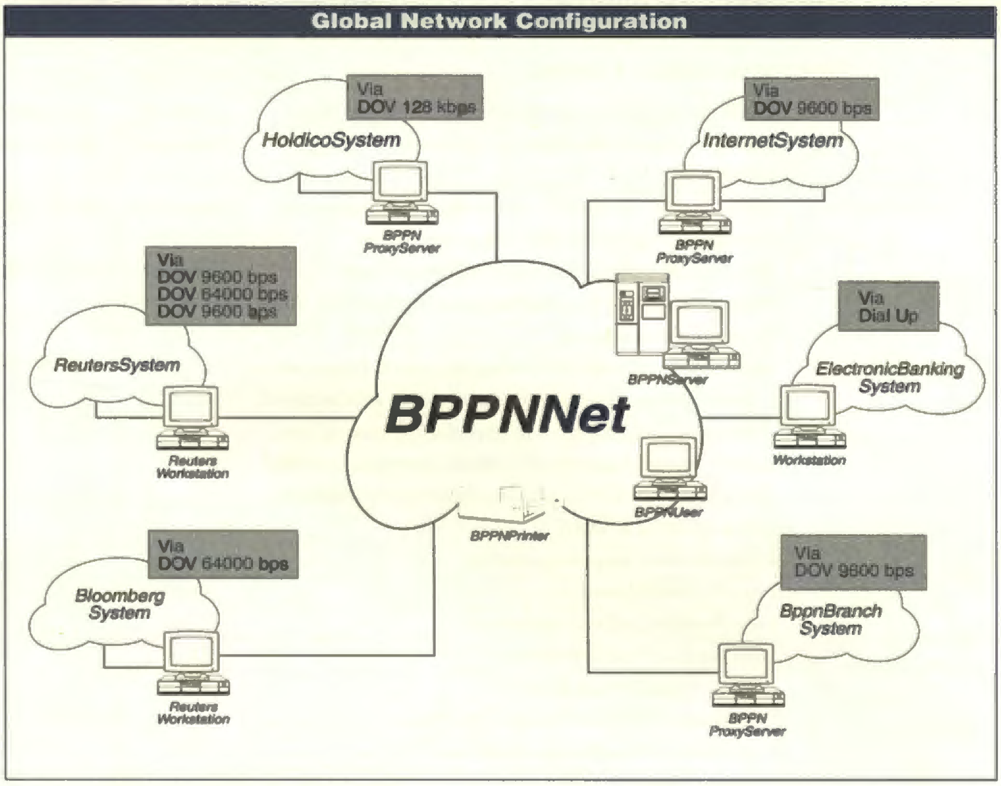


Notes:
1. KPIs = Key Performance Indicators
2. CSFs = Critical Success Factors

8.3 Internal Network Configuration



8.4 Global Network Configuration



8.5 List of System & Procedures

No.	Policy & Procedure	Status	Notes
ASSET MANAGEMENT CREDIT			
1.	Guidelines for permanent release of collateral documents	Completed	Approved ExCom
2.	Sale of motor vehicles belonging to banks undergoing restructuring	Completed	SK No. 156/BPPN/1998
3.	Procedures for the sale of fixed assets belonging to banks undergoing restructuring through public auction	Completed	SK No. 58A/BPPN/1999
4.	Sale of goods belonging to banks which have been transferred to IBRA by Bank Indonesia in connection with the restructuring program	Completed	SK No. 58/BPPN/1999
5.	Authority to sell deeds and restructure loans in frozen banks	Completed	SK No. 59/BPPN/1998
6.	Autority to approve loan restructuring and/or debt write-offs and/or additional new loans in respect to the existing loan facilities of customers of banks whose operations have been frozen or the loans of customers of other banks which have been transferred to IBRA	Completed	SK No. 170/BPPN/1998
7.	Debtor discount program procedures	Completed	
8.	Loan Workout Manual	Draft	
9.	Loan Transfer and Documentation	Draft	
10.	Loan Workout Plan Development	Draft	
11.	Loan Workout Division Structure	Draft	
12.	Flowcharts of the Loan Management Process	Draft	
13.	Loan Workout Plan Strategy Guidelines	Draft	
14.	Authority Levels	Draft	
ASSET MANAGEMENT INVESTMENT			
1.	Storage of securities documents	Completed	Approved ExCom
2.	Procedures for storing AMI documents	Completed	
3.	Procedures of Confidential Documents	Completed	
4.	AMI Policy Guidelines	Completed	Approved ExCom
5.	AMI Transaction Supporting Documents	Completed	
6.	Procedures for the making and signing of IBRA letters and documents	Completed	
7.	Procedures for distribution countersigned checks and BG's issued by BTO's	Completed	
8.	Application procedures for opening IBRA current account c/o BTO's	Finalized	
9.	Asset Disposal Policy & Procedure and Approval Guideline	Completed	Approved ExCom
10.	Procedures for the payment/redemption of promissory notes by the HoldCo.	Finalized	

No.	Policy & Procedure	Status	Notes

FINANCE & ACCOUNTING

No.	Policy & Procedure	Status	Notes
1.	Bookeeping and records procedures for each BBO/BBKU transaction	Completed	SK No.293/BPPN/1999, 12 July 1999
2.	Procedures for bank payments, bank receipts, petty cash, deposits and payment of wages and salaries	Completed	Technical guidelines SK No.276/BPPN/1999 and 225/BPPN/1999
3.	Bank reconciliation	Draft	
4.	Transfer of fixed assets	Draft	
5.	Placing and redeeming of investment	Draft	
6.	Payment of tax	Draft	
7.	IBRA Accounting Policy	Draft	
8.	Recording procedures in IBRA accounting	Draft	

HUMAN RESOURCES

No.	Policy & Procedure	Status	Notes
1.	Payroll	Draft	
2.	Applications for leave	Completed	Technical guidelines SK No.140a/BPPN/1999
3.	Applications for official travel	Completed	Technical guidelines SK No. 163/BPPN/1999 dan 164/BPPN/1999
4.	Reimbursement of entertainment expenses	Completed	Technical guidelines SK No. 153/BPPN/1999
5.	Reimbursement of medical expenses	Completed	Technical guidelines SK No. 153/BPPN/1999
6.	Recruitment	Completed	Technical guidelines SK No.234/BPPN/0699 and SK No. 375/BPPN/0899
7.	IBRA goods and services procurement procedures	Completed	SK No. 184/BPPN/1999
8.	Request of use of general services vehicles (operational)	Completed	Technical guidelines
9.	Parking and toll expenses	Completed	Technical guidelines SK No. 153/BPPN/1999

BANK LIABILITIES

No.	Policy & Procedure	Status	Notes
1.	Bank Liabilities Perpetual Issues	Draft	
2.	Bank Liabilities filing system and claim procedures	Draft	
3.	Processing steps for the government guarantee program for domestic interbank payments in the case of active and frozen banks	Draft	

TREASURY

No.	Policy & Procedure	Status	Notes
1.	Treasury Policy Manual	Draft	
2.	Treasury Dealer's Procedure Manual - Money Market - Foreign Exchange - Capital Market	Completed	Process Approved ExCom
3.	Instructions for the bookeeping of shareholder settlement, recapitalization, and transfer of assets and liabilities of BTO/BBO/BBKU by AMI/AMC/RM	Draft	Review by Related Divisions
4.	Treasury Accounting Procedure Manual	Draft	Review oleh Related Divisions

No.	Policy & Procedure	Status	Notes

Ops BBO-BBKU

1	Bookeeping and recording procedures for each BBO and BBKU transaction	Completed	SK No. 293/BPPN/1999

AGENCY SECRETARY

1	Procedures for making documents & letters	Completed	SK No. 98/BPPN/1999

RISK MANAGEMENT

	Risk Management Credit		
1.	Credit Restructuring Approval Authority	Completed	
2.	Permanent Release of Collateral Documents	Completed	
3.	Delegated Authority of Permanent Release of Collateral Documents	Completed	
4.	Filling Approved Loan Work Out Plans and Collateral Release	Completed	
5.	Administrative Traffic Assistant	Completed	
6.	Procurement of an Appraisal Company	Don	
7.	Approval of the Appointment of Loan Restructuring Advisors	Completed	
8.	Insurance Company Selection and (Re)Insurance of Collateral and Non-Core Assets	Completed	Approved by ExCom
9.	Restructuring Loans of Rp 1 Billion or Below for Settlement Teams	Completed	
10.	Restructuring Loans of Rp 1 Billion or Below	Completed	
11.	Increasing/reducing the adequacy value and renewal period of the collateral insurance policy currently before the legal transfer of loans (in BBOs)	Completed	
12.	Methodology for Risk Rating Loans	Draft	
13.	IBRA Asset Product Classification	Draft	
14.	Restructuring loans greater than Rp 1 Billion (Credit Policy)	Draft	
15.	Collateral Document Release for Borrowing Purposes	Draft	
16.	Partial Release of Collateral Documents	Draft	
17.	Physical File Transfer Policy	Draft	
18.	CFR maintenance and Update procedures	Draft	
19.	Role and responsibilities of Central Liabilities	Draft	
20.	Appointment of Lawyers and Notaries	Draft	
21.	Post Fact Reporting	Draft	
22.	Timing for Loan Workout Plan Development, Approval and Processing for loans up to Rp 5 Billion	Draft	
23.	Approval process tracking system	In Progress	
24.	Review of loan restructuring plans	In Progress	
25.	Collateral Inspection	In Progress	
26.	Loan Filing System (CIM)	In Progress	
27.	Loan Scrubbing and Reorganization	In Progress	

No.	Policy & Procedure	Status	Notes

RISK MANAGEMENT

	Risk Management Liabilities & Treasury :		
1.	Review Treasury Risk Management Procedure Manual (established by advisor —> 1st Edition)	Completed	
2.	Treasury Division proposal/transaction review	Completed	
3.	Bank Liabilities Division proposal/transaction review	Completed	
4.	Treasury Risk Management Policy/Manual	Draft	
5.	Bank Liabilities Risk Management Policy/Manual	Draft	
	Risk Management Investment :		
1.	Approvals Authority (INCOMM and EXCOMM)	Completed	
2.	Appointment of Advisors	Completed	
3.	Review Asset Management Investment Proposal	Completed	
4.	Asset disposal / tender and bidding process	Completed	
5.	Compliance and Exception Reporting	In Progress	
6.	Guidelines Valuation of Asset hold by AMI	In Progress	
7.	Risk Management Investment Review Process	In Progress	

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