BANK
MANDIRI

Concise
Annual Report
2002

This is your bank...

We're here to serve you.

This is how we serve you better...

We established a call center in October 2002 as one of many new consumer banking initiatives to attract and retain individual depositors by broadening the scope and availability of our products and services.

Aries Priarso, Customer Service Agent, Call Mandiri

This is what we can do for you...

We introduced Bank Mandiri Visa cards in November 2000 and, after nearly doubling our cardholder base to roughly 240,000 in 2002, we are now the third largest Visa card issuer in the country.

Handayani, Department Head, Card Business Development


eMAS

This is where we deliver value...

We are currently implementing new information systems which, by separating our delivery channels from our core system, will enable us to better integrate the information flow between our product delivery and back office operations.

Joga Andharta, eMas Officer

This is why we understand your needs...

Our 54 hub branches provide centralized administrative services for themselves and their related spoke branches, letting us focus on increasing our overall market coverage and developing deeper customer relationships within each region.

Rachmat R. Somadinata, Hub Manager

This is who we are. . .

Our Vision
The Trusted & Preferred Bank

Our Mission
- To be market oriented
- To enhance our professionalism
- To maximize returns to our stakeholders
- To practice open management
- To demonstrate concern for the community and the environment

Our Shared Values
- Customer Oriented
- Integrity
- Discipline
- Teamwork
- Mutual Trust and Respect
- Human Resources Empowerment
- Balance
- Leadership
- Environmental Concern

Financial Highlights

	1999 Rp billions Audited	2000 Rp billions Audited	2001 Rp billions Audited	2002 Rp billions Audited	2002 US$ millions
BALANCE SHEET					
Total Assets	248,358	253,355	262,291	**250,395**	**27,977**
Earning Assets (Gross)	239,860	238,589	246,550	**237,668**	**26,553**
Earning Assets (Net)	215,988	222,852	236,408	**226,433**	**25,300**
Loans	44,013	43,023	48,339	**65,417**	**7,309**
Allowance for Possible Loan Losses (1)	(22,132)	(12,500)	(6,100)	**(9,071)**	**(1,014)**
Total Deposits	146,411	163,375	190,446	**184,114**	**20,571**
Total Liabilities	232,710	239,089	251,511	**235,957**	**26,364**
Total Shareholder Equity	15,638	14,262	10,777	**14,435**	**1,613**
INCOME STATEMENT					
Net Interest Income	(21,598)	6,404	7,109	**6,862**	**767**
Non Interest Income (2)	3,455	3,942	1,456	**3,633**	**406**
Operating Income (3)	(18,143)	10,346	8,565	**10,495**	**1,173**
Overhead Expenses (4)	7,056	3,213	3,417	**3,626**	**405**
Provision / (reversal) for possible losses on earning assets	31,999	(4,815)	4,791	**1,226**	**137**
Provision / (reversal) for possible losses on other assets	4,748	5,274	(2,343)	**(289)**	**(32)**
Profit (loss) Before Provision for Income Tax and Minority Interests	(67,781)	2,023	3,850	**5,810**	**649**
Net Profit (loss)	(61,033)	1,181	2,746	**3,586**	**401**
FINANCIAL RATIOS					
Return on Assets (ROA) – before tax (5)	N/A	0.8%	1.5%	**2.3%**	
Return on Equity (ROE) – after tax (6)	N/A	8.1%	21.5%	**26.2%**	
Net Interest Margin	N/A	2.7%	3.0%	**2.9%**	
Non Interest Income to Operating Income	N/A	38.1%	17.0%	**34.6%**	
Overhead Expenses to Operating Income (7)	N/A	31.1%	39.9%	**42.8%**	
Overhead Expenses to Total Assets	2.8%	1.3%	1.3%	**1.4%**	
Non Performing Loan (NPL)	70.9%	19.8%	9.7%	**7.3%**	
Capital Adequacy Ratio (CAR) (8)	15.9%	31.3%	26.4%	**23.4%**	

Notes:
(1) Including deferred income arising from loan purchase from IBRA.
(2) Including gain from increase in value and sale of securities and government bonds of Rp2021 billion in 2002.
(3) Net Interest Income + Non Interest Income.
(4) General and Administrative Expenses + Salaries & Employee Benefit Expenses.
(5) Profit before provision for income tax and minority interest divided by the average of the quarterly balances of total assets of the year.
(6) Net profit divided by the average of the quarterly balances of shareholder's equity for the year.
(7) Capital Adequacy Ratio is calculated on a non-consolidated basis.
(8) Overhead Expenses/Operating Income excludes gain from increase in value and sale of securities and government bonds.
(9) The 2002, 2001 and 2000 financial highlights shown herein are calculated/derived from the consolidated financial statements of PT. Bank Mandiri (Persero) and Subsidiaries for the years ended December 31, 2002, 2001 and 2000 that have been audited by Ernst & Young Prasetio, Sarwoko & Sandjaja, independent auditors, therefore are not a complete presentation. The 1999 financial highlights shown herein are calculated/derived from the consolidated financial statements of PT. Bank Mandiri (Persero) and Subsidiaries for the period from August 1, 1999 to December 31, 1999 that have been audited by Prasetio, Utomo & Co. independent auditors, and for the period from January 1, 1999 to July 31, 1999 that have been audited by the State Financial and Development Supervisory Board (BPKP), (including restatements that for Indonesian statutory reporting purposes have been audited by Ernst & Young Prasetio, Sarwoko & Sandjaja), therefore are not a complete presentation.

Additional Information

	1999	2000	2001	2002
Number of Employees	19,606	18,016	17,204	17,735
Number of Branch Offices	658	546	635	687
Number of ATMs	513	533	1,184	1,559
Number of ATMs-LINK	N/A	N/A	3,160	4,000
Exchange Rate Rp/USD				
(as of December 31)	7,100	9,595	10,400	8,950

Performance Highlights

Increasing Profit and Profitability

- Consolidated profit after tax increased from Rp2.75 trillion in 2001 to Rp3.59 trillion in 2002
- Return on Equity (after tax) increased from 21.5% in 2001 to 26.2% in 2002

Improving Asset Mix

- Loan portfolio grew by 35.3 percent from Rp48.34 trillion in 2001 to Rp65.42 trillion in 2002
- Rp5.0 trillion in loans acquired from the Indonesian Bank Restructuring Agency
- Loan to deposit ratio (LDR) improved from 25.3% in 2001 to 35.4% in 2002
- Loan to Government bonds ratio improved from 31.4% in 2001 to 43.9% in 2002

Declining NPL

- Gross non-performing loans declined from 9.7% in 2001 to 7.3% in 2002
- Net of provisions, non-performing loans declined from 3.1% in 2001 to 1.9% in 2002
- Provisions to NPL ratio rose from 129.5% in 2001 to 190.4% in 2002

Expanded Network and Services

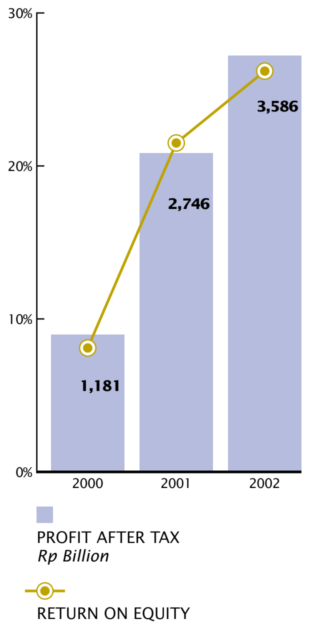
- 375 new ATMs added in 2002, bringing our proprietary network to 1,559
- 687 domestic branches with 52 added in 2002
- 3 branches and 1 subsidiary offshore
- 6.9 million active accounts
- Debit cards, SMS Mobile Banking, and Call Mandirii phone banking were introduced in 2002

Enhanced IT Platform

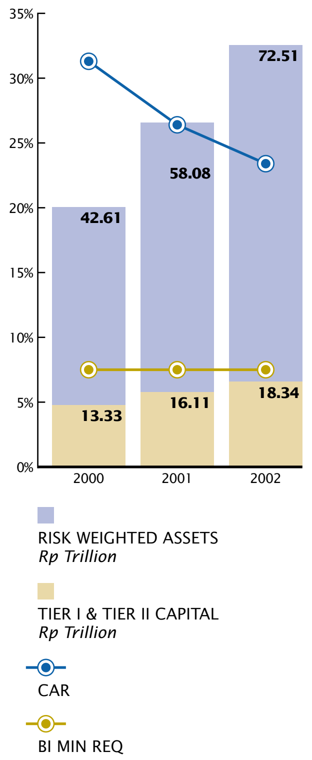
- Piloted the Enterprise Mandiri Automated System (eMAS), our new integrated core banking and customer information system
- Introduced an Internet-based corporate desktop banking system which provides access our cash management, trade finance and investment services
- Added bill payment, open transfers and SMS banking registration to ATM functionality

Performance Highlights

IMPROVING PROFITABILITY & ROE



STRONG CAPITAL BASE



Successful Bond Issue

- US$125 million subordinated bond issue was the first such issue from Indonesia since 1997
- The first 10-year final maturity bond issued from Indonesia since 1997
- 69% of the bonds were allocated to overseas investors

International Recognition in 2002

- *Global Finance*
  - Best Indonesian Bank
  - Best Trade Finance
- *The Banker*
  - Indonesian Bank of the Year
- *FinanceAsia*
  - Best Local Bank
  - Indonesia's Top Ten Best Managed Companies
- *The Asset*
  - Best High Yield Bank Bond Deal
  - Best Commercial Bank
- *IFR Asia*
  - Best Indonesia Capital Market Deal

Your Bank's Rich Heritage

Bank Mandiri was formed in October 1998 as part of the Government of Indonesia's bank restructuring program. In July 1999, four state-owned banks – Bank Bumi Daya, Bank Dagang Negara, Bank Exim and Bapindo – were merged to create Bank Mandiri. The history of these four banks can be traced back over 140 years. Together they encapsulate the development of the Indonesian banking sector.

Bank Dagang Negara was one of the oldest banks in Indonesia. It was formerly known as Nederlandsch Indische Escompto Maatschappij, and was established in Batavia (Jakarta) in 1857. In 1949 the name was changed to Escomptobank NV. In 1960 Escomptobank was nationalized and had its name changed to Bank Dagang Negara, a state-owned bank with strong links to the mining industry.

Bank Bumi Daya was established as a result of a series of events starting in 1959 with the nationalization of a Dutch company, De Nationale Handelsbank NV, which operated under the name of Bank Umum Negara. In 1964, Chartered Bank (formerly a British Bank) was also nationalized, and Bank Umum Negara was given the right to continue its banking business. In 1965, Bank Umum Negara was brought under the umbrella of Bank Negara Indonesia and became known as Bank Negara Indonesia Unit IV. In 1968, BNI Unit IV was established as Bank Bumi Daya, an independent state-owned bank.

Bank Ekspor Impor Indonesia (BankExim) evolved from Dutch trading company N.V. Nederlansche Handels Maatschappij, which was established in 1824, and expanded its business into the banking sector in 1870. The Government of Indonesia nationalized this company in 1960, and in 1965 it was merged into Bank Negara Indonesia under the name Bank Negara Indonesia Unit II. In 1968, BNI Unit II was divided into two units, one of which, then known as BNI Unit II Export-Import Division, ultimately became BankExim. The special business line of BankExim was to finance exports and imports.

Bank Pembangunan Indonesia (Bapindo) originated from Bank Industri Negara (BIN), an industrial bank established in 1951. Bank Industri Negara's mission was to support the development of specific economic sectors, particularly plantations, industry and mining. Bapindo was established as a state-owned bank in 1960 and BIN was then merged into it. In 1970 Bapindo was assigned to assist in national development through offering medium and long-term financing to the manufacturing, transportation and tourism sectors. The bank was also appointed to promote investment from abroad. In order to offer integrated services, Bapindo started to provide general banking services in 1986.

Today, Bank Mandiri is the custodian of more than 140 years of banking and financial services experience in Indonesia. Each of our four legacy banks has played an integral role in the development of the Indonesian economy as well as many of the country's most important corporations.

This is when we move ahead...

A Message from Our Chairman

"The domestic banking sector showed signs of beginning a new phase of development, with the Government divesting its ownership interest in two large banks in 2002. With plans to continue with the divestment of a number of other local banks in 2003, this will inevitably pave the way for a greater foreign banking presence in our market."

BOARD OF COMMISSIONERS
(from left to right): **SABANA KARTASASMITA,** Commissioner, **SOEDARJONO,** Commissioner,
BINHADI, President Commissioner, **MARKUS PARMADI,** Commissioner

This has been a year of change and achievement.

Change and economic threats were relentless in 2002, and were often driven by forces originating far from home. The continuing deflation of the global equity bubble, now in its third year, the global war on terrorism, which was brought frighteningly close to home in the tragic Bali bombings, and the rapid rise of China as a magnet for low cost manufacturing have created particular challenges for Indonesia and for Bank Mandiri. Yet despite declining levels of world trade and foreign investment, our country and our bank have continued to progress.

The development of Bank Mandiri and the banking sector generally is invariably linked to the growth of the Indonesian economy. On the macro-economic front, 2002 showed many positive signs. Although growth of 3.3 percent was marginally below the Government's target of 3.5-4 percent, we consider the results encouraging when you consider that worldwide economic growth in 2002 was very sluggish. It is also important to consider the negative impact that the Bali tragedy in October 2002 may have had on that rate of growth. Nevertheless, the ratio of debt to GDP continues to decline and the Government continues to control the budget deficit and run a prudent fiscal policy.

Other key economic indicators are also showing positive trends. Inflation remains under control and is declining. While interest rates are still quite high by international standards, the trend has been downward. Although equity markets globally had a disappointing year in 2002, the Jakarta Stock Exchange Composite Index outpaced many national indices, ending up 8.5 percent compared to 2001. The Indonesian Rupiah appreciated by 16.3 percent against the US dollar, to an average of Rp8,900 in 2002, making the Rupiah the best performing currency in Asia in 2002.

The domestic banking sector showed signs of beginning a new phase of development, with the Government divesting its ownership interest in two large banks in 2002. With plans to continue with the divestment of a number of other local banks in 2003, this will inevitably pave the way for a greater foreign banking presence in our market. We welcome the increased competition that such divestments will inevitably create, as these will challenge us to perform to our fullest potential throughout every facet of our business. We intend to compete across the board and maintain or increase our share of what is sure to be a growing market.

With many economic experts predicting an economic upturn sometime in 2003, we can expect further improvements to the Indonesian economy in the coming year. The twin challenges facing the management and staff of Bank Mandiri are to ensure that we are well positioned to take advantage of any economic upswing, and to run a sufficiently tight ship to cushion us from any shocks that might come our way. In this way, we can ensure that we deliver on our promise of being the trusted and preferred bank in Indonesia.

The Board of Commissioners would like to thank Mr Agus Martowardojo who resigned from the Bank in October. Mr. Martowardojo has been one of the bank's managing directors since our formation. The Board of Commissioners wishes him well in his future endeavors. We would also like to welcome Mr Wayan Agus Mertayasa to the Board of Directors and look forward to working with him on the challenges ahead.

On behalf of the Board of Commissioners I would like to thank E.C.W. Neloe, President and CEO of Bank Mandiri and the members of the Board of Directors. The professionalism and commitment of Mr. Neloe and his management team have laid the foundation for our success in 2002 and in the years to come. I would also like to thank the staff of Bank Mandiri for their tireless efforts and support throughout the year.

We would also like to extend our gratitude to all of our stakeholders whose collective contributions and encouragement have paved the way for our continuing sound growth and have enabled us to consistently improve the quality of the services we are able to provide. We rely on your continued support. With all that we have accomplished thus far, our challenges have only just begun.

Jakarta, May 2003

BINHADI
Chairman

A Message from Our President & CEO

"I believe that the transformation that has taken place and is continuing in Bank Mandiri today is a reflection of the positive developments underway in Indonesia. We have become more transparent. We are more accountable. We value people not only for their performance but also for their honesty and integrity."

The theme for this year's annual report is "This is your Bank". I hope that the report gives you a better understanding and appreciation of ongoing developments at Bank Mandiri, whether you are a customer, employee, shareholder, investor, business partner or a member of our community with a general interest in the bank.

Even though Bank Mandiri as a merged entity is merely 4 years old, it has a rich heritage of over 140 years of banking in Indonesia. Each of our four legacy banks has endowed Bank Mandiri with good assets, good people and, most importantly, excellent customers, some of whom have been with the bank for generations.

We are very fortunate that out of the depths of the crisis, we were able to salvage what is good and, with your support, harness the energies and commitment of our people for creating not just Indonesia's largest bank, but more importantly, building your trusted and preferred bank.

I believe that the transformation that has taken place and is continuing in Bank Mandiri today is a reflection of the positive developments underway in Indonesia. We have become more transparent. We are more accountable. We value people not only for their performance but also for their honesty and integrity. That is why the bank has taken the initiative of improving our policies, processes, systems and organization not only to lift our performance, but as importantly, to reflect our commitment to good corporate governance.

One of the key initiatives we introduced in 2001 was our "3 No's Policy", meaning "No Delays, No Errors, No Special Payments". We have continued to emphasize these during 2002. It is my great hope that going forward these three critical behaviors will be embedded permanently in the culture of Bank Mandiri.

Allow me now to report to you the performance of your bank during 2002.

FINANCIAL PERFORMANCE FOR 2002

During 2002, Bank Mandiri achieved an audited consolidated profit after tax of Rp3.59 trillion (US$400.7 million), 30.6% higher than the previous year. Return on assets (before tax) was 2.3%, while our return on equity (after tax) was 26.2%. At the end of 2002, our total assets were Rp250.4 trillion (US$27.9 billion) and our capital adequacy ratio (bank only) was 23.4%.

"In line with our strategy of improving our funding mix, savings deposits grew by Rp7.6 trillion or 34.2% to reach Rp29.9 trillion by 31 December 2002. This improvement underscores our commitment to growing the retail franchise which is underpinned by 6.8 million active deposit accounts, one of the largest in Indonesia."

Loans grew by Rp17.1 trillion, or 35.3%, to Rp65.4 trillion as of December 31, 2002. This growth was assisted by the addition of Rp4.9 trillion in loans from the Indonesian Bank Restructuring Agency. This growth has lifted our loans to deposits ratio from 25.3% to 35.4%.

Government bonds still constitute a large proportion (59.4% as of December 31, 2002) of our assets base. During 2002, we sold only Rp1.1 trillion in Government bonds compared to Rp15.8 trillion in 2001. With improving bond prices we were able to record Rp149 billion realized gains on sales and Rp1.5 trillion in unrealized gains.

In December 2002, we entered into an agreement with the Government whereby Rp103.8 trillion in bonds were reprofiled as longer dated bonds in exchange for a slighter higher yield on the fixed rate bonds being reprofiled. Our loans to Government bonds ratio has also improved from 31.5% to 43.9%, reflecting a better asset mix.

The level of non-performing loans (NPL) has continued to decline. The NPL ratio on a gross basis declined from 9.7% to 7.3%, whilst on a net basis (i.e., net of related provisions) it declined from 3.1% to 1.9%. In terms of provisioning cover, the bank's provision to NPL ratio was 190.4%. At the end of 2002, the bank's provision for losses on all earning assets was Rp12.4 trillion, Rp5.5 trillion higher than the minimum provision required under Bank Indonesia guidelines. During the year, the bank recovered a total of Rp1.1 trillion of previously written off debts.

In line with our strategy of improving our funding mix, savings deposits grew by Rp7.6 trillion or 34.2% to reach Rp29.9 trillion in December 2002. This improvement underscores our commitment to growing the retail franchise, which is underpinned by 6.8 million active deposit accounts, one of the largest retail deposit bases in Indonesia.

In July 2002 we raised US$125 million through an international subordinated bond offering. The issue was the first subordinated debt issue by an Indonesian bank since 1997. Demand was widely spread among a broad range of investors. Significantly, approximately two-thirds of the bonds were placed offshore with the remaining third going to local investors. The issue was cited as the Indonesian capital market deal of the year by International Finance Review.

In 2002, Bank Mandiri also contributed a total of Rp5.5 trillion to the Government budget in the form of Rp4.1 trillion in tax payment and proposed dividends of Rp1.4 trillion.

SERVING OUR CUSTOMERS BETTER

To realize our vision, we must always find new ways to serve our customers more effectively and efficiently.

We believe that having a strong, secure, and yet agile technology platform is critical to ensuring our competitiveness and improve the value of our franchise. That is why in 2001, we initiated a three year US$200 million information technology investment program to achieve a quantum leap in our products and services delivery capabilities.

One of the main components of the IT investment is our new core banking system which we call eMAS (Enterprise Mandiri Advanced System). We successfully piloted the system in 2002 and expect to complete the roll out to all our branches and newly established centralized operations centers in Jakarta and other major cities by September 2003.

Another key component of the IT investment is the upgrading and expansion of our ATM network. Since 2001, we have more than tripled the size of our ATM network, bringing the total number of proprietary Bank Mandiri ATMs to 1,559. We plan to add an additional 500 by the end of 2003. At the same time we joined with other state banks to establish the “LINK” network, giving our customers access to over 4,000 ATMs. This expansion in our ATM network has been accompanied by a nearly five-fold increase in the number of ATM cards issued, to 2.35 million at the end of 2002. In conjunction with improvements in ATM up-time to 97.5% by year end, ATM transactions have grown more than 10-fold over the past three years to a daily average of 176,232 transactions for the whole of 2002.

We have also invested in developing new e-Banking services for our customers. SMS Mobile Banking was launched during 2002, and has already proved popular, with more than 17,272 registered users and 44,000 messages transmitted monthly. We have commenced trials of our new Internet Banking service and hope to complete a full commercial rollout of this product in 2003. We also launched a debit card in March 2002 in cooperation with MasterCard. With the debit card, our customers can make purchases at over 25,000 merchants throughout Indonesia and at over 5 million merchants around the world through the Maestro network, and access the Cirrus ATM network globally.

We have also strengthened our IT infrastructure to provide greater reliability of service and better disaster recovery capability. Importantly, in designing and implementing new services, we have been careful to ensure that all channels operate in an integrated manner with a seamless interface with the core system. As eMAS is rolled out, we will also have a more customer centric view of our customers’ behavior and preferences and be better able to tailor products and services to suit their needs.

BOARD OF MANAGEMENT

(from left to right): **K. KEAT LEE,** CFO, EVP COORDINATOR – Financial and Information, **M. SHOLEH TASRIPAN,** EVP COORDINATOR – Corporate and Government, **I WAYAN AGUS MERTAYASA,** Managing Director, **E.C.W. NELOE** President Director, **I WAYAN PUGEG,** Managing Director, **OMAR S. ANWAR,** EVP COORDINATOR – Retail Banking, **I. SUPOMO,** EVP COORDINATOR – Distribution Network

MANAGING RISK BETTER

We have a comprehensive risk management framework covering credit risks, market risks and operational risks, under the responsibility and management of an independent Risk Management Directorate.

In terms of credit risk, we have a three pronged strategy to ensure a sound balance sheet and high asset quality:

- Firstly, we have a conservative accounting policy, which is reflected in our high provisioning coverage,
- Secondly, we have a rigorous and accountable approach to the recovery of previously written off debts, and
- Thirdly, we apply sound risk management principles to all new credits, including loans accquired from the Indonesian Bank Restructuring Agency.

We are very committed to sound risk management as one of the key pillars of our strategy and our vision. We have solicited input from numerous international experts in this field and will continuously seek to improve our competencies in this critical area.

During 2002, we engaged the Boston Consulting Group (BCG) to help us establish a customer and facility ratings system for corporate banking, and a credit scoring system for consumer banking. We also engaged ABN AMRO to help us improve our operational risk management. Finally, we have internally developed the necessary expertise to calculate capital requirements under the Basel II capital adequacy requirements.

ORGANIZING AND MOTIVATING OUR PEOPLE TO PERFORM BETTER

We recognize that Bank Mandiri cannot reach its true potential unless all our employees are appropriately skilled and highly motivated. That is why we are committed to a policy and system of job grading, recruitment, promotion, development, and remuneration that is market based and designed to motivate people to perform at their best. We have come a long way since the merger towards creating a pro-active performance-based culture, and we will continue to build on this foundation. In line with our mission, we will also emphasize a culture that is market and results focused, whilst maintaining high standards of professionalism.

During 2002, we implemented a new job grading system which was designed with the assistance of Watson Wyatt. Along with the new grading system, the board also approved a salary realignment which is more reflective of market benchmarks in Indonesia.

During the year, we recruited 120 new officers who, like their predecessors, were placed in an officer development program designed and implemented with the assistance of Citibank. We also implemented a performance management system (PMS) which we hope can be refined over time and be used for employee performance evaluation for remuneration and promotions purposes.

LOOKING FORWARD

Despite ongoing challenges domestically and globally, the Indonesian economy has grown steadily at around 3 to 4 % in recent years. Inflation is under control, interest rates have declined to reasonable levels, and the Rupiah has experienced a period of relative stability. The external debt and public debt burden, when measured against GDP, has also declined and become more manageable. The banking system overall is in much better shape and continues to improve everyday. All these factors give us cause to be cautiously optimistic about the future.

In 2001, Bank Mandiri formulated a comprehensive corporate strategy with the assistance of BCG. The main thrust of that strategy is still valid. In essence, our strategy is based on leveraging our significant market position (around 23% share of Indonesian banking assets) and significant customer base to become Indonesia's universal bank, with the No.1 position in corporate banking, commercial banking as well as consumer banking. We plan to provide investment banking services to our corporate banking relationships through Mandiri Securitas. Through Bank Syariah Mandiri we plan to capture the vast potential demand for Islamic banking products and services.

ACKNOWLEDGEMENTS

Personally, I am greatly honored to lead a management team that is committed to change and to making Bank Mandiri an institution that we can be proud of. I believe that our positive and consistently improving performance is the result of the dedicated effort by all our employees in enhancing our operating platform and executing our business strategy.

On behalf of the Board of Directors I would like to thank all the employees of Bank Mandiri for their efforts in bringing the bank to where it is today. I would also like to thank the Board of Commissioners and the Audit Committee for their invaluable contributions in supervising the bank to ensure good stewardship and accountability in the management of the resources of the bank.

Last but not least, I would like to thank all our customers and other stakeholders. This is your bank, and we greatly appreciate your support.

Jakarta, May 2003

E.C.W. NELOE
President and Chief Executive Officer

Our 70 relationship managers work with our specialists for cash management, foreign exchange and other fee-based services to expand our relationships with existing customers, while actively pursuing loan growth opportunities in selected sectors.

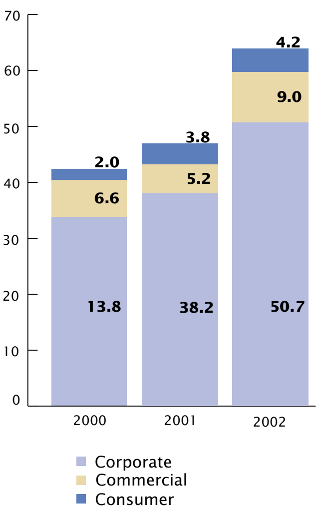
Alexandra Wiyoso, Assistant Vice President, Corporate Relationship Management

Our Core Businesses

Bank Mandiri made several significant steps towards meeting our goal of becoming a truly universal bank in 2002. In addition to building on our traditional strength in corporate banking, we now have a strong market position in commercial and consumer banking as well.

From 2000 through the end of 2002, we have categorized our corporate, commercial and consumer clients based upon the size of their loans and deposits. As our systems and organization enable a transition toward a more customer-centric focus, we have re-classified our customers based upon the revenues of each customer's business. Our strategies, products and services are being developed with the specific requirements of these new segments in mind. The financial information provided in the following discussions, however, refers to the earlier categories, in order to provide a basis for comparison.

LOANS BY CUSTOMER TYPE – BANK ONLY (Rp Trillions)



CORPORATE BANKING

Our Corporate Banking Directorate provides our corporate and Government-related customers with a range of loan and deposit products as well as a variety of value-added services, such as trade finance services, cash management services and treasury services. Our lending products include loan facilities such as working capital and term loans and syndicated loans and non-funded loan facilities such as bank guarantees and letters of credit. Our deposit products include demand deposits, time deposits and certificates of deposit.

As of December 31, 2002, by value, on a consolidated basis, corporate customers represented 77.5% of our total loan portfolio, of which Government-related entities accounted for 11.0%. In 2002, we extended Rp12.5 trillion in new loans to corporate customers, bringing the total corporate loan portfolio to Rp50.7 trillion.

Also as of December 31, 2002, we held total deposits of Rp12,832 billion (US$1,434 million) from 477 corporate customers and Rp65,392 billion (US$7,306 million) from 691 Government-related customers. Deposits from corporate and Government-related customers represented, in aggregate, 42.5% of our total deposits at the end of 2002.

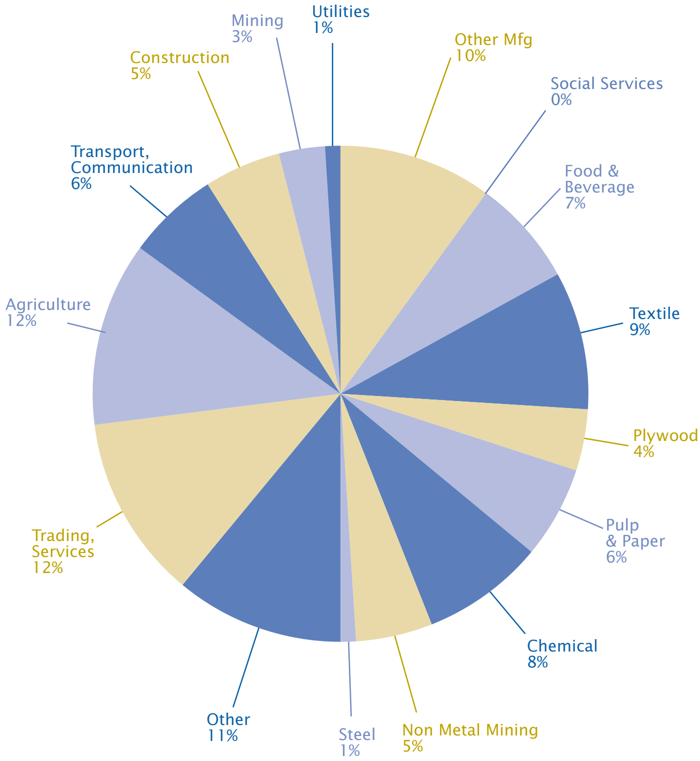
Our corporate credit approval process relies upon a credit rating system that evaluates each applicant's assets, liabilities, cash flow and liquidity, and then requires approvals from both Risk Management and the business unit proposing the loan.

Edi Pujiyanto, Vice President, Corporate Banking

At the end of year, we were preparing to restructure our Corporate Banking Directorate organization, shifting our focus away from the bifurcation between corporate and Government-related customers, and toward developing sales teams and relationship managers with specific industry sector responsibilities and a designated set of accounts. Our aim is to provide customized services to our clients through a dedicated team of approximately 70 relationship managers, each working with our specialists for cash management services, foreign exchange services and other fee-based services in order to cross-sell products and expand our relationships with existing customers.

We intend to focus on developing customers in such industries as mining, export-oriented industries, food and beverage, the wholesale and retail trade and telecommunications sectors. As of December 31, 2002, we already had significant relationships with more than 20 Government-related entities and more than 50 corporate customers, including telecommunication companies such as PT Telekomunikasi Indonesia Tbk and PT Indonesian Satellite Corporation Tbk, the national airline PT Garuda Indonesia, cement manufacturers PT Semen Gresik Tbk and PT Semen Padang, natural resource companies Pertamina, PT Aneka Tambang Tbk and PT Tambang Timah Tbk and the state-owned power utility PT Perusahaan Listrik Negara. In addition, we have relationships with some of Indonesia's largest corporate groups including Djarum, Astra and Maspion.

Loan Portfolio, Dec 31 2002



Our credit approval process involves evaluation of an applicant's assets, liabilities, cash flow and liquidity. In analyzing corporate and large commercial customers, we have implemented a customer rating system which utilizes 11 risk classifications. We are developing a credit scoring system for small and medium-sized enterprises as well, with the assistance of a credit scoring consultant, and expect to roll-out this system in the second half of 2003.

Bank Mandiri administers channelling loans in Rupiah and various foreign currencies on behalf of the Indonesian Government. Channelling loans are extended to eligible Government-related entities for the purpose of financing Government-selected development projects throughout Indonesia. These loans are made available by various bilateral, multilateral and international financing institutions.

We collect payments of principal, interest and other charges on behalf of the Government and maintain relevant documentation, for which we earn annual administration fees. As of December 31, 2002, we were the administrator for approximately Rp19,115 billion (US$2,136 million) of channeling loans and generated fee revenue of approximately Rp46 billion (US$5 million) for 2002. We also administered a balance of approximately Rp1,302 billion (US$145 million) of loans from the Ministry of Forestry.

We have dedicated teams of relationship managers and officers offering one-stop access to our comprehensive portfolio of products and services through an expanding network of Commercial Business Centers.

Ginanjar Gantina, Credit Analyst, Commercial Business Center

COMMERCIAL BANKING

One of our strategic priorities in 2002 and beyond is to increase our client base among the small- and medium-sized enterprises in Indonesia. To that end, we established the Commercial Directorate to develop and deliver a range of tailored lending and deposit products as well as a variety of value-added services.

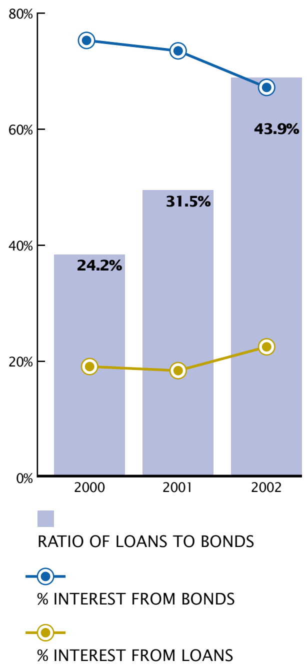
In 2002, we extended Rp3.8 trillion in new credit to middle commercial and small business customers. As of December 31, 2002, we had approximately 20,625 accounts with commercial customers for our loan products (including non-performing loans), representing 13.7% of our total loan portfolio by value. We also maintained approximately 49,100 accounts from our commercial customers for our funding products, representing 6.2% of our total deposit base by value.

We have established three Commercial Business Centers in order to provide focused customer support to our commercial customers, and we plan to establish nine further Commercial Business Centers in 2003, including several outside Jakarta. As with corporate banking, we have a dedicated team of relationship managers and officers

Our six regional commercial banking centers provide focused customer support to our commercial clients, and bolster our efforts to better serve export-oriented industries and the suppliers and sub-contractors to our large corporate customers.

R. Rudy Wibisono, General Manager, Commercial Banking Centre

GROWING CONTRIBUTION FROM LOANS

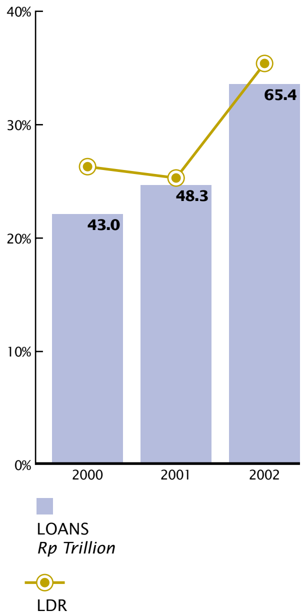


responsible for a specific set of accounts and working with other specialists in the Bank to offer our full range of products and services.

Our primary target for our commercial banking products are customers in export-oriented or related industries, and suppliers, contractors and sub-contractors that support our large corporate customers. Several of our corporate clients have agreed to support our efforts to market our lending products to their various suppliers.

We currently offer our commercial customers demand deposit, time deposit and certificates of deposit products, as well as lending products similar to those offered to our corporate and Government-related customers. We also offer a direct deposit service which allows employee payroll checks of commercial customers to be deposited into savings accounts at the Bank. As of December 31, 2002, over 750 of our commercial customers were using this service.

IMPROVING LOAN
TO DEPOSIT RATIO



Additionally, through Government-subsidized loans extended to us by Permodalan Nasional Madani, a company wholly-owned by the Government, we provide credit facilities for plantation operations and to small-scale farmers at subsidized rates. Loans made under these programs amounted to Rp1,689 billion (US$189 million) as of December 31, 2002, representing 2.6% of the Bank's total loan portfolio.

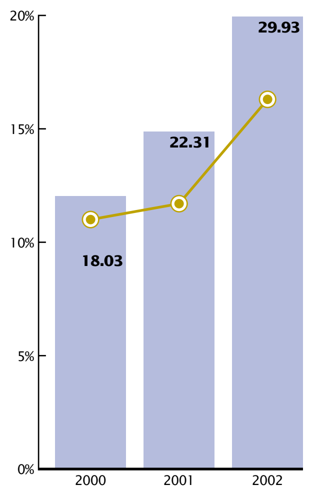
In conjunction with Yayasan Dharma Bhakti Astra, an organization related to the Astra Group, we also participate in a Community Development Program for small businesses in Yogyakarta. This program provides basic business skills for no charge to small business operators in order to help develop their businesses and improve their financial skills.


BANK
MANDIRI

Our 687 branches are supplemented by 11 priority banking centers providing exclusive facilities and dedicated personal bankers to advise clients on basic savings and credit products, financial planning, estate management and investment products.

Maria Meiske Ganda, Customer Service Representative

STRONG GROWTH IN SAVINGS DEPOSITS



SAVINGS DEPOSIT
Rp Trillion

% TOTAL DEPOSITS

CONSUMER BANKING

Through our Consumer Directorate, we offer a full range of financial products to individual consumers including lending and deposit products and credit and debit cards. Our consumer loan products include loans for the acquisition of homes, multipurpose loans based on the equity value of a home, and personal loans to employees of our corporate and Government-related customers.

As of December 31, 2002, we had approximately 75,500 accounts for our consumer loan products, with our total consumer loans amounting to Rp4,238 billion (US$474 million) and representing 6.5% of our total loan portfolio. We are in the process of expanding our offering of consumer lending products into approximately 50 branches in Jakarta and roughly 30 branches outside Jakarta in the cities of Surabaya, Semarang, Bandung and Medan.

For our consumer loan products, our credit approval process evaluates of an applicant's income, assets and liabilities and employment history. We rate applicants in various categories and are in the process of implementing a new on-line credit approval system in the first half of 2003. The rigor of our current process resulted in the rejection of nearly 40.0% of all loan applicants in 2002. For successful applicants, our loans may be originated in as little as nine days after an application has been submitted.

Our primary deposit products are time, savings and demand deposits, as well as certificates of deposit. Consumer deposits provide us with a low cost, stable funding base and represent a key area of potential growth which can also improve the Bank's overall funding mix. Our deposit products are targeted at middle- and upper-income and high net-worth individuals. As of December 31, 2002, we had approximately five million accounts for our consumer funding products, representing 50.8% of our total deposit base by value. In terms of savings deposits, we are now the second largest bank in Indonesia.

We issued more than 1 million new ATM cards in 2002 and launched our debit card services in March, leading to a rapid expansion of our electronic transactions and supporting the growth in our consumer deposits.

Kemal Imam Santoso, Vice President, Consumer Cards

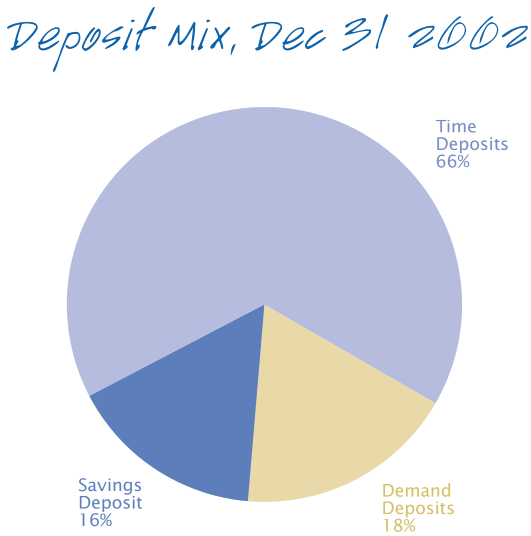
One key factor in the recent growth of our consumer banking franchise has been the progressive extension of our distribution networks. Our approach has been to increase the number and reach of the electronic banking channels we offer while at the same time expanding our conventional outlets.

Our network of 687 branches provides the backbone for our distribution system. We are continuing to restructure this branch network to bring it into closer proximity to our current and prospective customer base. In the course of the year, Bank Mandiri opened 52 new offices, relocated 10 offices, and downgraded the status of 74. More than half of our current branch network is located in Indonesia's four largest metropolitan areas – Jakarta, Bandung, Surabaya and Medan.

Mandiri Prioritas focuses on attracting high net worth individuals (those with deposits of Rp500 million or more) through exclusive products and services. Through the end of 2002, we had opened eight priority banking centers in several cities in Indonesia, with plans to open seven additional centers in 2003. These priority banking centers provide exclusive premises, sit-down teller facilities and dedicated personal bankers who can advise their clients on a comprehensive range of products, from basic savings and credit products to financial planning, estate management and investments in mutual fund, pension and insurance products.

Bank Mandiri's ATM rollout continued in 2002, with over 375 new ATMs added to our proprietary network, bringing the total to 1,559. Our customers can also access any of the 4,000 ATMs that are part of the "LINK" network of state-owned banks. As of December 31, 2002, we had more than 2.3 million ATM cards in circulation and the up-time performance for our ATM network had improved to 97.5% in December from 94.3% in the previous year. As a result, our ATM transaction volume reached a daily average of 176,232 in 2002, a more than 10-fold increase over the past three years.

We can now provide our customers with an automated telephone banking service, *Call Mandiri*, which allows them to transfer funds, order check books and obtain information on account balances, foreign exchange rates, recent transactions and other products and services. In October 2002, we established a call center with approximately 30 personnel to handle customer enquiries and complaints.



We have been aggressively developing and promoting new e-Banking services for our customers as well. Our SMS Mobile Banking product launched in August, already has 17,272 registered users and transmitted more than 44,000 messages in the month of December. Internal trials of our new Internet Banking service were also begun in 2002, with a commercial launch scheduled for the middle of 2003. Other delivery channels such as banking kiosks are being rolled out following the deployment of the necessary technology infrastructure.

We have launched a comprehensive brand-building campaign for all of our consumer products under the Mandiri brand name, and have enjoyed significant growth as a result. By the end of 2002, we had over 240,000 Bank Mandiri Visa cards in circulation. This 92% increase over 2001 ranked Bank Mandiri as the third largest Visa card issuer in the country. In terms of the volume of card purchases, we ranked fifth. The total receivables from our credit card business increased to Rp567 billion (US$63 million) as of December 31, 2002.

We launched our debit card services in March 2002 in cooperation with MasterCard International and incorporated under the Maestro brand. Our debit card allows our savings account customers to purchase goods from 25,000 merchants in Indonesia and five million merchants globally through the Maestro network, and to make ATM cash withdrawals at ATMs which have the Cirrus or Link logos. As of December 31, 2002, we had issued approximately 216,400 debit cards.

We offer other consumer products including Rupiah-denominated travelers' cheques, safe deposit boxes and the payment of utilities bills. Through a variety of distribution arrangements with strategic partners, we also distribute mutual fund, pension and insurance products to our customers. Through an agreement signed in December 2002, we have also agreed to jointly develop and market bancassurance products and services in Indonesia through a joint venture with an AXA subsidiary.

We have achieved strong recognition of the "Bank Mandiri" brand name in Indonesia as a result of these collective efforts. A 2002 survey of the banking industry, conducted by A.C. Nielsen, ranked Bank Mandiri third in brand awareness, up from seventh in 1999.

We can provide money market and foreign exchange services to our many corporate, Government-related and commercial customers and act as an intermediary for hedging products such as currency swaps, interest rate swaps and forward contracts.

Noor Arovah, Officer, Treasury Management

TREASURY AND INTERNATIONAL

The Treasury and International Directorate provides money market and foreign exchange services and acts as an intermediary for hedging products (such as currency swaps, interest rate swaps and forward contracts) primarily to our corporate, Government-related and commercial customers.

Bank Mandiri currently maintains correspondent relationships with more than 1,000 foreign banks worldwide to service the needs of our customers for international trade transactions and to support our business units in generating fee-based income.

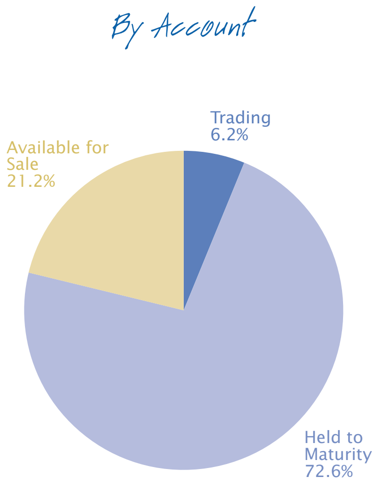
Since 2000, we have been building our reputation in the international financial community through establishing credit lines and cooperating in trade finance with world class banks in most OECD member countries. We also maintain a presence in selected international finance centers through overseas branch offices in Singapore, Hong Kong, and Cayman Islands, as well as a subsidiary in London.

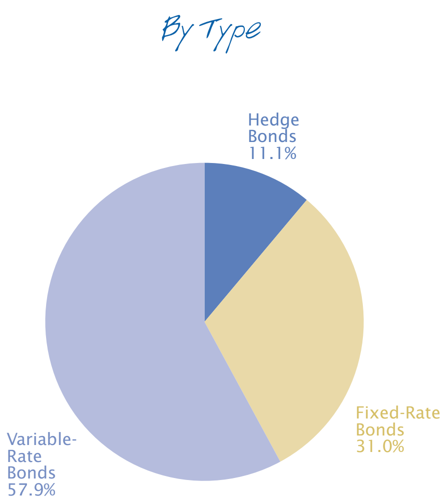
We are in the process of establishing a representative office in Shanghai, Peoples Republic of China as well as a branch in Dili, East Timor. All of our overseas offices offer a range of products and services catering to our customers' international business requirements.

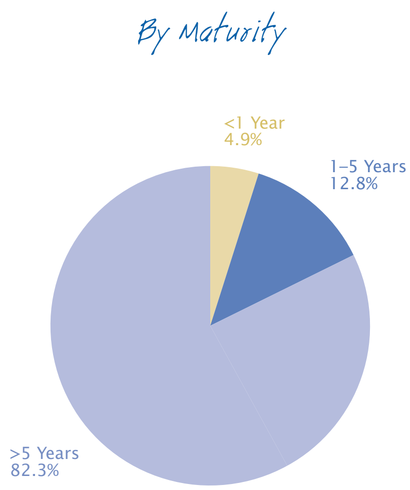
Our Treasury Group is divided into three departments which focus on the following areas of activity:

Treasury products/sales management develops and markets new products, including certificates of deposit and medium-term notes, provides foreign exchange and hedging services and foreign exchange training and information sessions for customers, and manages our portfolio of securities.

Bond Portfolio, Dec 31 2002







Treasury liquidity monitors the Bank's interest rate and foreign exchange positions, manages the Bank's net open position, supports domestic branches with daily liquidity management and manages the Bank's short-term funding requirements and placements in the money market.

Treasury trading executes transactions in respect of foreign exchange, money market and marketable securities trading.

The directorate employs 40 dealers, and as of December 31, 2002, our money market and foreign exchange services had 378 corporate and Government-related customers, 168 commercial customers and 1,008 individual and retail customers.

For 2002, excluding transactions between the head office and branches and among branches, we had an average daily turnover of foreign exchange transactions of approximately Rp561 billion (US$63 million) and money market transactions of approximately Rp946 billion (US$106 million). Revenue generated from these services amounted to Rp102 billion (US$11 million) in 2002.

The Financial Institutions and Overseas Network Management Group provides custodian and other capital markets services and supervises our international banking network.

Custodian Services: At year end, the Bank was custodian with respect to a portfolio of Rp16,239 billion (US$1,814 million) of equity and debt issuances. The revenues generated from our services amounted to Rp6.4 billion (US$0.7 million) for 2002. We had approximately 240 custodial customers, including pension funds, insurance companies, banks, securities companies and others.

Trustee Services: We acted as trustee for a portfolio of Rp5,116 billion (US$572 million) of debt issuances as of December 31, 2002. This included 28 bond issues for 24 customers. Revenues generated from our trustee services amounted to approximately

We have given top priority to the establishment of sound corporate governance principles and benchmark our practices against those of other Indonesian corporations, Indonesian legal requirements, JSX requirements, and international best practice.

Paul Tehusijarana, Group Head, Compliance

Rp3.4 billion (US$0.4 million) for 2002. We also provide the related services of escrow agent, paying agent and receiving bank in relation to the issuance of bonds.

Trade Finance Services: We provide our customers with a variety of cross-border financing services, including buyer's credit, credit re-financing, two-step loans from onshore and offshore sources and Islamic trade financing. We also provide letter of credit financing, bank guarantee and export bill facilities for our customers, mostly corporations. Revenue generated from our trade finance services amounted to Rp213 billion (US$24 million) for 2002.

The activities of the Treasury and International Directorate are monitored by our Market Risk Group, which is part of the Risk Management Directorate. The bank's traders are required to comply with trading limits as well as the guidelines and procedures set by the Market Risk Group. Our internal policy limits open positions to 20.0% of the total capital of the Bank for the Bank as a whole, in order to protect against excessive trading risks.

We offer Islamic banking services through our wholly-owned subsidiary, PT Bank Syariah Mandiri, which commenced operations as an Islamic bank on November 1, 1999.

BANK SYARIAH MANDIRI

PT Bank Syariah Mandiri is one of only two domestic full service banks in Indonesia currently offering deposit and loan products and services that comply with Islamic law principles.

Our lending activities focus on several key sectors including wholesale, agriculture, industry, retail and housing. Our deposit products include tailored deposit, savings and current accounts such as our Mandiri Pilgrimage Savings Account, which enables Muslim customers to save for their hajj to Mecca.

Mandiri Sekuritas offers a full range of services to complement our corporate banking activities by assisting domestic corporations in raising funds in the capital markets through both primary market activities and private placements.

Demsy Rastulangi, Head, Corporate Marketing, Mandiri Sekuritas

By the end of 2002, approximately 17,750 individual and corporate customers were accessing Bank Syariah Mandiri's lending products, while approximately 115,600 individual and corporate customers maintained deposit accounts. Most of these customers are individuals.

Our services are delivered through 34 Bank Syariah Mandiri branches and an additional 13 cash outlets in 17 provinces throughout Indonesia. Our customers may use PT Bank Syariah Mandiri's own network of 19 ATMs, and also have access to the 1,559 ATMs comprising the Bank Mandiri network. In addition, PT Bank Syariah Mandiri's customers have access to the Himbara Link system, which provides access to the ATMs of other state-owned banks.

As of December 31, 2002, Bank Syariah Mandiri's loans outstanding were Rp1.15 trillion (US$128 million), representing 1.8% of the bank's total consolidated loan portfolio. Deposits totaled Rp1.12 trillion (US$125 million), or 0.6% of the bank's total deposit base. Our Islamic banking activities generated Rp182 billion (US$20 million) in revenues for 2002.

We estimate that at the end of 2002 Bank Syariah Mandiri held an approximately 40.0% share of the existing market for Islamic banking services in Indonesia. We fully expect this market to increase substantially in coming years.

MANDIRI SEKURITAS

PT Mandiri Sekuritas is a full service investment bank offering a wide range of capital markets financing, financial advisory, securities brokerage trading, and investment management services. It was established in July, 2000 through the merger of PT Exim Securities and PT Bumi Daya Sekuritas, two of our subsidiary operations, along with an

We can provide brokerage and trading services for equity securities well as investment advisory and management services to institutional, corporate and individual clients, leveraging our infrastructure for the distribution of investment products and wealth management services.

Meika Indriasari, Equity Trading Division, Mandiri Sekuritas

affiliate, PT Merincorp Securities. Our strategy is to leverage our strong corporate client relationships and extensive domestic distribution networks in order to expand this business in the years to come.

The investment banking division of PT Mandiri Sekuritas primarily assists domestic corporations, both private and state-owned, in raising funds in the capital markets through primary market activities and private placements, as well as providing financial advisory services. Our brokerage division provides brokerage and trading services to corporate and individual investors in equity securities.

PT Mandiri Sekuritas also provides investment advisory and management services to institutional, corporate and individual clients, including pension funds, insurance companies and other financial institutions. As of December 31, 2002, our fixed income mutual fund product, Mandiri Dana Pendapatan Tetap, which was launched in 2001, was offered through 40 designated branches and had approximately Rp41 billion (US$4.6 million) under management.

Our investment banking, brokerage and fund management services together generated approximately Rp17.6 billion (US$2 million) in revenues in 2002. In keeping with our objective to become Indonesia's universal bank, we have injected Rp300 billion into Mandiri Sekuritas in the past year to strengthen its capital structure, and expect to inject additional capital in 2003 in line with the growth of our investment banking business.

We implemented new risk management procedures in early 2002, including the adoption of a risk management manual, and we continue to review and improve our policies and procedures in view of international best practices.

R. Ari Satiadi, Professional Staff, Risk Management

Strong Foundations

To achieve our goal of becoming Indonesia's universal bank, we have introduced new procedures and initiatives to strengthen all of our businesses units. These initiatives are laying a strong foundation for our future growth.

MANAGING NON-PERFORMING LOANS

Our Credit Recovery Group actively manages our portfolio of non-performing loans through comprehensive restructuring and collection efforts. As a result, non-performing loans represented 7.3% of our total loan portfolio as of December 31, 2002, a reduction from 9.7% in the previous year. Net of provisions, our NPL ratio was 1.9% at the end of 2002.

We place a significant emphasize on our efforts to recover and settle our non-performing loans, and have attempted to institutionalize this focus across our organization. We restructure loans on a case-by-case basis, generally when we believe that debtors have good operating prospects and are cooperative, but have experienced temporary liquidity difficulties. We classify our loan restructurings as “simple restructurings”, involving the rescheduling of repayments or a reduction of interest rates, and “complex restructurings”, which could also involve steps such as debt for equity swaps.

All of our loan restructuring is performed in accordance with the written procedures of our Credit Recovery Group, which include specific loan restructuring strategies and the circumstances under which they may be applied. Our credit restructuring involves a 19-step process in which borrowers are engaged through a series of negotiations to the execution of a debt restructuring agreement and its implementation.

Our loan restructuring process is highly regimented, emphasizing recovery and settlement of non-performing loans. We currently employ more than 200 credit recovery officers who undertake restructuring and collection work.

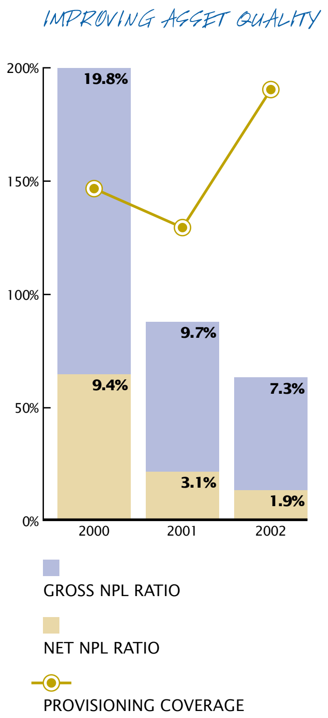
Alexander Roemokoy, Group Head, Credit Recovery

Loan Restructurings: The bank continued to work intensively with debtors throughout 2002, and successfully restructured Rp3,064 billion (US$342 million) in non-performing loans through the course of the year. As of December 31, 2002, we were in the process of restructuring an additional Rp683 billion (US$76 million) of non-performing loans. In aggregate, we have loans totaling Rp29,542 billion (US$3,301) on our books which have undergone the restructuring process, of which Rp26,212 billion (US$2,929 million) were booked as performing loans at year-end.

Approximately 77.2%, or Rp12,515 billion (US$1,398 million), of our "special mention" loans were former non-performing loans that had been restructured. Our policy is to upgrade a restructured loan from "non-performing" to "special mention" only after at least three consecutive payments have been made or until six months after the restructuring, whichever is longer. We then usually wait an additional three months before reclassifying the loan as "current".

Loan Collections: Where the loan restructuring process has been unsuccessful, the Credit Recovery Group will instead pursue collection efforts. We recovered Rp1.13 trillion from our non-performing loans in 2002. These efforts also address extra-komtabel loans, which have been fully provisioned and written-off by the Bank. In 2002, we collected Rp1,124 billion (US$126 million) from these extra-komtabel assets.

Non-Performing Loans: As of December 31, 2002, we had Rp3,737 billion (US$418 million) of non-performing corporate loans, Rp653 billion (US$73 million) of non-performing commercial loans and Rp374 billion (US$42 million) of non-performing consumer loans, representing 78.4%, 13.7% and 7.9%, respectively, of our total non-performing loans. Our 10 largest non-performing loans amounted to Rp1,833 billion (US$205 million), and accounted for 38.5% of our non-performing loan portfolio.



Written-off loans: In 2002, we wrote off Rp6,481 billion (US$724 million) of loans and also wrote back Rp4,171 billion (US$466 million) of loans previously written off in 2001. As of December 31, 2002, our portfolio of loans, other earnings and assets written-off totaled Rp20,588 billion (US$2,300 million). We will write off a loan against provisions only after we determine that the loan cannot be restructured into a performing loan.

We currently employ more than 200 credit recovery officers who undertake restructuring and collection work. In addition, we have appointed external consultants to assist in the restructuring of non-performing loans which have a value in excess of Rp100 billion.

EMBRACING TECHNOLOGY

2002 marked the second year of our three-year Information Technology Strategic Plan (ISP). Our ISP addresses the limitations and constraints of our inherited information technology infrastructure and plans for systems development to support our expected business growth, accelerate our product development and time-to-market cycle, integrate new delivery channels, and provide for a centralized repository of customer relationship data across multiple information products.

A total of US$200 million has been allocated for the ISP and by the end of 2002 we had committed or spent US$137.5 million. We are in the process of implementing new application and technology architectures which, by providing delivery channels independent of the core banking systems, will enable us to better integrate the information flow between our product delivery and back office operations.

Our objectives include building a more cost-efficient and effective distribution network and supporting the development and/or expansion of electronic payment

As we deploy our technology infrastructure, we have been able to provide our customers with a wider range of service options, including automated telephone banking, SMS banking, and a call center to handle enquiries and complaints.

Hendro Prasetyo, Outbound Manager, Call Mandiri

settlement services, call centers, priority banking centers, mobile phone and Internet banking, and other services. We also expect to improve the quality and reliability of our liquidity, credit and market risk management procedures and systems, and enhance our capital allocation and strategic decision-making through profit allocation across products, clients and business units. To date, we have made significant progress against these objectives.

Infrastructure: In the first half of 2002, we had completed enhancements to our data center operations and consolidated our server population. Beginning in the fourth quarter of 2002, we have embarked on a program to redesign our communication network architecture in order to support the implementation of our new core banking system. We have also developed a disaster recovery center and streamlined the organization of our information technology department.

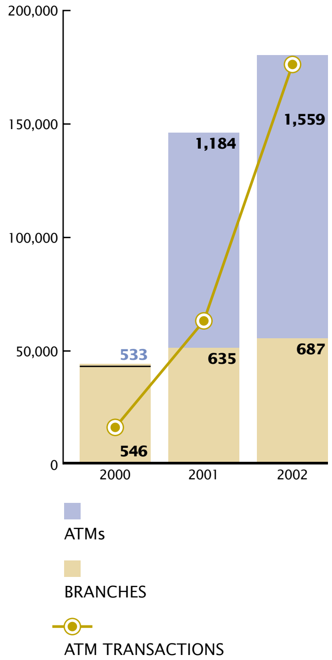
Core banking systems: Our integrated core banking and customer information system, eMAS, which supports all of the computer-related transactions by our branches and our head office accounting systems, has been rolled-out on a pilot basis in 22 branches in Jakarta during the fourth quarter of 2002, with a bank-wide roll-out slated by the end of 2003. We also introduced consumer loan collection systems in the first half of 2002.

Delivery systems: We continue to add new ATMs to our network at a pace of roughly 500 per year. At the same time, we are enhancing our ATM functionality to include services such as bill payment, open transfers and mobile (SMS) banking registration. We launched mobile banking services in August 2002 and established a call center in October 2002. In November 2002, we introduced an Internet-based corporate desktop banking system which allows our customers to access our cash management, trade finance and investment services.

Our domestic distribution channels currently include 475 full-service branches and 212 cash outlets providing access to more limited deposit, withdrawal and foreign currency exchange services, and we are steadily growing into new strategic geographic locations.

Kuncoro Kusumasadi, Hub Outlet Manager

EXPANDING DISTRIBUTION NETWORK



Management information systems: We completed a bank-wide system for internal and external reporting in the first half of 2002. Starting from the third quarter of 2002, we have been implementing customer, product and unit performance analysis systems. New credit risk management and sales and financial analysis systems were initiated in the fourth quarter of 2002.

An independent IT Steering Committee oversees the implementation of new technology and ensures that our IT initiatives are consistent with the overall needs of the bank and our customers. We believe that conservative risk management policies, procedures and controls are critical for the long-term sustainable development of our business. Although we currently meet the standards prescribed by Bank Indonesia, we recently have taken steps to further strengthen our internal controls as part of our ongoing aim to meet international best practice standards. These steps include the establishment of our Risk and Capital Committee, centralization of dedicated risk management and compliance groups, restructuring of our internal audit function and, in early 2002, the adoption of a new risk management manual.

RISK MANAGEMENT

As with any financial institution, our deposit-taking and lending businesses, the management of our securities portfolio and the environment within which we operate expose us to several categories of risk, namely credit risk, market risk, portfolio risk and operational risk. Our Risk and Capital Committee, together with the Risk Management Directorate, is responsible for establishing bank-wide risk management policies, reviewing internal limits, establishing our credit policies and interest rates and establishing the criteria for risk identification, measurement and mitigation.

Credit Risk

We measure, monitor and manage credit risk for each individual borrower and also at the portfolio level. We have a structured and standardized credit approval process which includes a comprehensive credit appraisal procedure maintained by our Corporate Risk Management and Retail Risk Management Groups.

Credit Policies

We have developed written credit policies and guidelines which specify the procedures for credit analysis, credit approval, supervision, and credit restructuring. These policies incorporate periodic reviews of credit status and mandate portfolio diversification, sufficient collateral and internal controls.

Credit Approval

Our management of credit risk begins with the initial assessment of the loan application by an authorized officer of the relevant business unit. In addition, all loans and other financial products, including bank guarantees and letters of credit, must be approved by an authorized officer of our Risk Management Directorate. Accordingly, no credit decision can be made unless it is approved by at least two people whose seniority is dependent on the size and type of the proposed credit product.

Our criteria for extending credit are contained in a credit policy manual. In order to assess the credit risk associated with any borrower's financing proposal, we assess a variety of risks relating to the borrower, to the project, if appropriate, and to the relevant industry. Our rating methodology evaluates a borrower's risk by considering, among other things, their financial condition, competitive position, payment history and management quality. We also take into account the level of collateral being offered as an additional input into our credit risk-based pricing models. An analogous set of criteria are applied within our consumer lending operations.

Credit Monitoring

All loans are monitored on a regular basis by the responsible business unit. We review customer account activities to monitor the interest payment and/or principal installment status. We also aim to review all credit facilities semi-annually. We hope to minimize the risk of loans becoming non-performing by addressing potential loan problems quickly.

Market Risk

The objective of our market risk management is to avoid excessive exposure from our open positions which could potentially impact earnings and equity, and to manage the volatility inherent in financial instruments. Our asset and liability management process begins with an assessment of current macro-economic parameters affecting our Bank. Liquidity, foreign currency and interest rate risk are then reviewed by the Market Risk Group and reported on a monthly basis to our Risk and Capital Committee as inputsinto our pricing strategy for deposits and loans.

Liquidity Risk

The goal of liquidity management is for us to be able, even under adverse conditions, to meet all our contractual and regulatory financial obligations. The function of managing these liquidity requirements is carried out by our Treasury Group. We have an internal policy that we maintain liquid assets equal to at least 10.0% of our deposits. We also maintain our statutory reserve in our current account at Bank Indonesia. As of December 31, 2002, we maintained statutory reserves of 5.2% of Rupiah-denominated non-bank deposits and 3.0% of foreign currency denominated non-bank deposits.

Interest Rate Risk

The deposit rates we offer generally vary according to market and competitive conditions, the maturity, size and currency of the deposit. We determine the interest rates for our lending products using a base lending rate plus a risk premium. Our base lending rate, consisting of cost of funds, overhead costs and a profit margin, is reviewed at least once every month by our Risk and Capital Committee.

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

Trading Risk

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

Foreign Exchange Risk

We have centralized the operational management of our foreign exchange position within our Treasury Group, following the policies and procedures set by our Market Risk Group, including limitations on the Bank 's dealers as to the size of foreign exchange transactions they may undertake. In addition, we comply with the Bank Indonesia requirement that our consolidated (domestic and overseas) net open position in all foreign currencies be no more than 20.0% of our Tier I and Tier II capital. As of December 31, 2002 our foreign currency net open position was 5.6% of our total capital.

Derivative Instruments Risk

We provide limited derivative services – foreign currency forward transactions and foreign currency and interest rate swaps – to selected major corporate customers and other financial institutions. In addition, we enter into derivative instruments for our own account in order to hedge the Bank's positions. We manage our derivative instruments risk through reports, analysis and policies, including the establishment of limits on such derivative instruments which we monitor periodically.

Portfolio Risk

Our Portfolio and Operational Risk Management Group reviews our loan portfolio concentration across a variety of categories to identify potential risks or weaknesses. The Group's analyses include the identification of profitable segments and capital allocation into various businesses so as to optimize the risk and return within segments, economic/industry sectors or regions through the calculation of risk-adjusted return on capital, risk-based pricing and the share value added concept. Our portfolio risk management takes a bank-wide view of institutional risk, profits and opportunities with the objective of optimizing the operation of all business units.

Operational Risk

As with other financial institutions, we are exposed to many types of operational risks. To mitigate these risks that could potentially lead to fraud, human error, control breakdowns and processing errors, we have implemented a variety of new control mechanisms at our head office and at the branch operational level, in addition to developing our Corporate Operational Risk Management Policy. With the assistance of a leading international bank, we are currently developing a framework for implementing operational risk management (ORM) at all levels of the Bank that will meet the ORM standards established by the Basel II accords when fully implemented.

In 2002, Bank Mandiri was instrumental in the establishment of the Indonesian Risk Professionals Association (IRPA). This initiative is part of the bank's drive to encourage discussion of risk management issues at a national level and thereby to enhance the standard and practice of risk management in Indonesia.


BANK
MANDIRI

We continually recruit new front-line employees as our branch network expands, and provide training to all of our branch staff to ensure that we deliver a consistently high level of service to our customers.

Ariesta Ike P., Teller

Our People

At the end of 2002, Bank Mandiri had 17,735 employees. This represents a 16.5% reduction from the 21,246 employees on our books at the time of our merger, but a 3.1% increase on our employment levels at the end of 2001. Our ongoing business development and expansion has necessitated that we continue to recruit new talent, even as we nurture the talent currently within our organization.

Our senior management team is comprised of three Directors, four Executive Vice President Coordinators and 30 Group Heads, and six Assistants to the President and Advisors. More than 76% of our people are assigned to our branch offices, with the remainder working in our head office. The table below presents an overview of our organization over the past three years.

	YEAR							
	2000		2001		2002			
ORGANIZATION LEVEL					HEAD OFFICE	BRANCH	TOTAL	
Directors	3	0.0%	3	0.0%	**3**	**–**	**3**	**0.0%**
EVP Coordinators	17	0.1%	5	0.0%	**4**	**–**	**4**	**0.0%**
Group Heads*	85	0.5%	29	0.2%	**30**	**–**	**30**	**0.2%**
Department Heads*	437	2.4%	168	1.0%	**124**	**10**	**134**	**0.8%**
Senior Officers	1,693	9.4%	2,033	11.8%	**976**	**1,087**	**2,063**	**11.6%**
Officers	2,771	15.4%	2,794	16.2%	**1,138**	**1,798**	**2,936**	**16.6%**
Clerks	9,972	55.4%	10,112	58.8%	**1,522**	**7,127**	**8,649**	**48.8%**
Non-Clerks	2,604	14.5%	2,057	12.0%	**401**	**3,509**	**3,910**	**22.0%**
Advisors/Assistants to President	1	0.0%	3	0.0%	**6**	**–**	**6**	**0.0%**
Others	433	2.4%	–	–	**–**	**–**	**–**	**–**
Total	18,016	100%	17,204	100%	**4,204**	**13,531**	**17,735**	**100%**

* In August 2001, we reorganized our employee structure, changing several of the employee titles that we utilize, including renaming our "Division Heads" as "Group Heads" and our "Group Heads" as "Department Heads".

Our Officer Development Program provides a selected group of promising young graduates with a variety of formal classroom and on-the-job training sessions in order to begin to foster the Bank's future leaders.

Kemal Aditya, ODP

TRAINING AND OFFICER DEVELOPMENT PROGRAM

The Bank has a training group that offers a variety of programs as part of our continuous efforts to enhance the skills and knowledge of both our new and existing employees. Employees are given competency training relating to basic job skills, as well as management training relating to advanced and more general subjects. We have also launched a new training program in collaboration with Citibank to enhance the selling and service capabilities of our front-line employees.

In 2002, more than 18,300 participants attended Bank Mandiri's training programs. These programs can be broadly divided into five categories:

- Developmental skills
- Technical skills
- Managerial skills
- Specialized skills
- Language skills

Bank Mandiri also invests in our future leaders under the auspices of our Officer Development Program (ODP). In 2002, Bank Mandiri recruited 120 new officers and coordinated three groups of management trainees who went through both formal management trainee programs, with the assistance of Citibank, and on-the-job training sessions in the areas of corporate and commercial banking and branch operations. Within the corporate banking component for example, management trainees were introduced to the activities of Corporate Relationship Management, Government Relationship Management, Corporate Credit Risk Management, Treasury Management, Financial Institutions and Overseas Network Management, Credit Recovery and Central Operations.

In addition to our ODP program, we also send some of our most promising employees to study for advanced degrees, both within Indonesia and abroad. Four of our young officers are currently pursuing degrees in Securities Analysis from the State Administration Institute, while five others have enrolled in the Masters program in Management at Gajah Mada University, commencing in January 2003. The table below presents the educational achievements of our employees over the past three years. More than three quarters of our senior management team (Group Heads and above) have received Masters Degrees or higher, with nearly 95% of these awarded by overseas universities.

EDUCATIONAL LEVEL	YEAR					
	2000		2001		2002	
University/Advanced Degree (S1, S2, S3)	6,586	36.6%	7,312	42.5%	8,437	47.6%
Academy Diploma (Sarjana Muda)	3,245	18.0%	2,665	15.5%	2,606	14.7%
Upper Secondary	7,715	42.8%	6,773	39.4%	6,293	35.5%
Elementary/Lower Secondary	470	2.6%	454	2.6%	399	2.2%
Total	18,016	100%	17,204	100%	17,735	100%

As we continue to grow, we select highly qualified personnel from across the nation in order to maintain our high service standards and to provide employment opportunities to the many distinct communities in which we operate.

Rosita Korina Margareta Rumbewa, Trainee

Our Social Responsibility

As one of the leading corporations in Indonesia, we feel that we have a responsibility to become an integral part of the many communities in which we operate. The activities that we sponsor, through funding or infrastructural support, span a wide range interests and geographies, and include both on-going programs as well as ad hoc events. In 2002, Bank Mandiri's community involvements included several broad categories - education, sports, civic activities, disaster relief, art and the fostering of small-scale enterprise.

Our educational activities during the year included a televised charity telethon for Children's Day as well as a Song Auction for education, and we continued to fund our scholarship program for the higher education of the children of our employees. We promoted events including exhibitions on photography and architecture, a science seminar, and a talk show on financial management. We provided a grant to the University of Indonesia to conduct research on savings habits, and supported a book encouraging the implementation of Good Corporate Governance Principles. We also donated funds to support building renovations at Gajah Mada University in Jogjakarta, Central Java, at the University of Indonesia, and at an elementary school in Purwakarta, West Java.

In sports, Bank Mandiri continued to provide the main sponsorship of Liga Bank Mandiri, Indonesia's national football league. We also supported women's basketball teams in the Basket Merah Putih league, and a local Olympic Games for deaf competitors. Individual Bank Mandiri events during the year included the Kupang 10-K Run in East Nusa Tenggara, the Indonesian Open Karate Championship, the Tour d'ISSI XIII bicycle race, and an Athletics Championship for clubs in Jakarta and the surrounding cities.

We provided financial assistance for refugees at Nunukan in Kalimantan, and contributed to programs supporting the Indonesian economy after the tragic bombing in Bali. In 2002, we also contributed to disaster relief efforts arising from flooding in Jakarta and landslides in Kabumen, Central Java and Padang, West Sumatra. We also regularly sponsor activities commemorating Indonesia's Independence Day as well as Jakarta's Anniversary.

In a series of efforts to foster a greater appreciation of the arts in Indonesia, we sponsored performances of the Twilight Orchestra, the Cysya Orchestra, and a percussion music ensemble. We also funded the Indonesian Children's Choir traveling to Korea to participate in the "Children of the World" event. To help foster the visual arts as well, we also helped fund painting exhibitions staged y the Asian Watercolor Confederation. For the full year, our expenditures in support of these many valued programs, excluding our sponsorship of Liga Bank Mandiri, exceeded Rp. 8.7 billion.

Bank Mandiri also increased the support we provide through the Promotion of Small Scale Enterprise and Cooperatives (PUKK) program. In 2002, we allocated Rp. 38.5 billion from our Net Income to the PUKK, from which we funded loans totaling Rp. 33.3 billion, grants of Rp. 2.3 billion, and Environmental Improvement funds of Rp. 2.0 billion. In all, more than 1,100 individuals and small business ventures received assistance from Bank Mandiri through the PUKK throughout the year. We hope through these many activities, both large and small, that Bank Mandiri can have a direct and positive impact on the communities in which we also live and work.

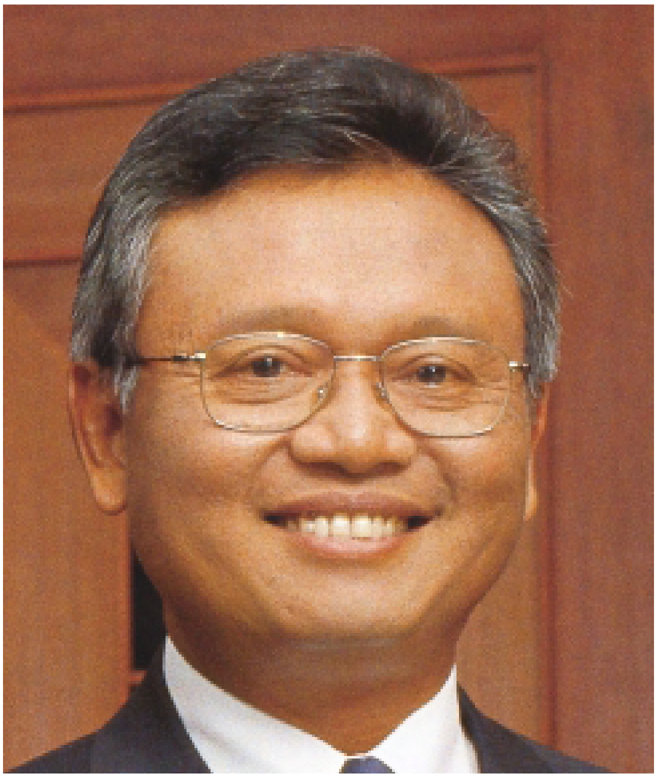
Board of Commissioners

BINHADI
President Commissioner

Binhadi was appointed a Commissioner and subsequently President Commissioner of the Bank in February 1999 and June 1999, respectively. He was also appointed President Commissioner of PT Bank Syariah Mandiri in September 1999. He was previously the Managing Director of Bank Indonesia (1983–1993), having been a banker with Bank Indonesia since 1957. He was previously the President Director of PT Niaga Management Company (1994–1999), Non-Executive Director of Niaga Finance Company in Hong Kong (1996–1999) and Chairman of Ficorinvest Bank (1983–1994).

SOEDARJONO
Commissioner

Soedarjono was appointed a Commissioner of the Bank in December 1998 and is currently Chairman of the Audit Committee. He previously had a career with the civil service at the Ministry of Finance in Indonesia (1969–1999). He has held various professional appointments including Chairman of the Indonesian Institute of Accountants (1994–1998), Chairman of the State Financial and Development Supervisory Board (BPKP) (1993–1999), Chairman of the State Board for Export Facility Services and Financial Data Processing (1991–1993) and Deputy Chairman of BPKP (1990–1991). He is also currently a Commissioner of PT Bank International Indonesia Tbk.



MARKUS PARMADI
Commissioner

Markus Parmadi was appointed a Commissioner of the Bank in December 1998. He was previously the Managing Director of the Lippo Group in Indonesia, Executive Chairman of Lippo Securities and President Director of Lippo Bank (1990–1998). He has also held the positions of Director of Bank Central Asia (1983–1990) and Vice President of Citibank N.A., Jakarta (1971–1983). He is also currently a Commissioner of PT Citra Marga Nusapala Tbk.

SABANA KARTASASMITA
Commissioner

Sabana Kartasasmita was appointed a Commissioner of the Bank in February 1999. He was previously an Advisor to the Minister of Research and Technology (1997–1998), the Indonesian Ambassador to Belgium and Luxembourg (1994–1997), Secretary-General of the Indonesian Academy of Sciences (1988–1994) and Assistant to the State Minister for Research and Technology (1973–1983). He was a member of the State Supreme Advisory Council of Indonesia (1983–1988). He began his career with the Indonesian state-owned tin mining company, PT (Persero) Tambang Timah, in 1961, and served as its Director of Finance between 1968 and 1973.

Board of Directors

E.C.W. NELOE
President Director

E.C.W. Neloe was appointed President and Chief Executive Officer of the Bank in May 2000. He previously held the positions of Managing Director of Bank Dagang Negara (1991–1998) and Chairman of BDN Bank AG in Dusseldorf (1994–1999). He was also previously Managing Director of Bank Duta (1990), Chief Representative of Bank Dagang Negara Representative Office, Hong Kong and Managing Director of Staco International Finance Limited, Hong Kong (1987–1990). He is a career banker who rose through the ranks of Bank Dagang Negara (1966 – 1998).

I WAYAN PUGEG
Managing Director

I. Wayan Pugeg was appointed Managing Director of the Bank in October 1998 and is also Executive Vice President Coordinator, Risk Management. He was previously the Managing Director of Bank Dagang Negara (1992–1997) and the Acting General Manager of Bank Dagang Negara, New York (1988), having joined Bank Dagang Negara from Citibank N.A., Jakarta, in 1973. He was also previously a Commissioner of Indovest Bank, Salindo Perdana Finance and Bina Usaha Indonesia.

I WAYAN AGUS MERTAYASA
Managing Director

Wayan Agus Mertayasa was appointed Managing Director of the Bank in August 2002 and has been the Executive Vice President Coordinator, Corporate Secretary and Compliance since August 2001. He previously held the positions of Executive Vice President Risk Management at the Bank (July 1999–July 2001), Managing Director of Bank Pembangunan Indonesia (1994–1999), General Manager of Bank Bumi Daya, New York (1993–1994), Chief Representative of Bank Bumi Daya Representative Office, Hong Kong and Chief Executive of Bumi Daya International Finance, Hong Kong (1992–1993) and General Manager of Bank Bumi Daya, Los Angeles (1991–1992). He started his career as a Credit Analyst at Bank Bumi Daya and later served as Deputy and Branch Manager in various domestic branches (1973–1992). He is also a Member of the Board of Commissioners of several Indonesian companies affiliated with the Bank.

Executive Vice President Coordinators

K. KEAT LEE

CFO, EVP COORDINATOR – Financial and Information

K. Keat Lee was appointed Executive Vice President Coordinator, Financial and Information in August 2001. He is also Chief Financial Officer, Chairman of the IT Committee and Secretary of the IPO Steering Committee. He previously held the position of Executive Vice President of the Bank (September 1999–July 2001), having been Project Advisor to Andersen Consulting, Jakarta (1999), Group Senior Manager, ANZ Banking Group/Chief Financial Officer Esanda Group, Australia (1988–1998) and Director/Manager Victoria Auditor General, Australia (1984–1988). He started his career as a Consultant with Arthur Andersen, Australia (1979–1984).

I. SUPOMO

EVP COORDINATOR – Distribution Network

I. Supomo was appointed Executive Vice President Coordinator, Distribution Network in August 2001. He previously held the position of Executive Vice President Branch Coordinator (July 1999–July 2001), having been Managing Director of Bank Dagang Negara (1998–1999) and Chairman of BDN Bank AG Dusseldorf, Germany (1999). He started his banking career with Bank Dagang Negara in 1974.

M. SHOLEH TASRIPAN

EVP COORDINATOR – Corporate and Government

M. Sholeh Tasripan was appointed Executive Vice President Coordinator, Corporate and Government in August 2001. He previously held the position of Senior Vice President Corporate Banking (July 2000–July 2001), having been Managing Director of Bank Ekspor Impor Indonesia (August 1997–December 1998). He started his banking career at Bank Ekspor Impor Indonesian in 1978.

OMAR S. ANWAR

EVP COORDINATOR – Retail Banking

Omar S. Anwar was appointed Executive Vice President Coordinator, Retail Banking in August 2001. He previously held the position of Senior Vice President Products and Business Development (July 1999–July 2001), having been Vice President of ABN AMRO Bank, Jakarta (1998–1999), Deputy Director of Bimantara Citra, Tbk, Jakarta (1997–1998), Vice President of Citibank N.A., Jakarta (1989–1997) and Accounting Coordinator, Huffco Indonesia (1983–1989).

Senior Management

ASSISTANTS TO THE PRESIDENT & CEO

Nopirin	Macroeconomics
Ventje Rahardjo	Small and Medium Enterprises
Jonathan Zax	Investor Relations

GROUP HEADS

Hadi R. Pane	Group Head Internal Audit
J.B. Kendarto	Group Head Financial Institution & Overseas Network
Jonker Sihombing	Group Head Treasury Management
Fachruddin Yasin	Group Head Corporate Relationship Management
Abdul Rachman	Group Head Government Relationship Management
Herry D. Pohan	Group Head Corporate Product Management
Tofani Kadir	Group Head Commercial Banking
Kemal Imam Santoso	Group Head Consumer Card Product Management & Sales
Kostaman Thayib	Group Head Consumer Banking
Sarastri Baskoro	Group Head Consumer Loans
Pardi Sudradjat	Group Head Market Risk
Arry Basuseno	Group Head Portfolio & Operational Risk Management
Roy A. Ilham	Group Head Corporate Credit Risk Management
Riyani T. Bondan	Group Head Retail Credit Risk Management
Alexander F.H. Roemokoy	Group Head Credit Recovery
Honggo Widjojo	Group Head Jakarta Network Management
Kustiawan	Group Head Regional Network Management
Bien Subiantoro	Group Head Electronic Banking Channels
Sasmita	Group Head Central Operations
Andreas E. Susetyo	Group Head Information & Technology
Nimrod Sitorus	Group Head Strategy & Performance Management
Martin Panggabean	Group Head Economic & Financial Research
Hartati	Group Head Accounting
Agam P. Napitupulu	Group Head Human Resources
Heru R. Azimada	Group Head Training
A. Noor Ilham	Group Head Procurement & Fixed Asset Services
Bambang Sabariman	Group Head Asset Management
C. Paul Tehusijarana	Group Head Compliance
Koen Sardjono Sadrie	Group Head Office of Corporate Secretary
Muhammad Isa	Group Head Legal

Audit Committee

from left to right

SOEJATNA SOENOESOEBRATA
Audit Committee

Soejatna Soenoesoebrata was appointed to the Audit Committee in August 1999. He had worked in the private sector since 1991, and served as the Senior Partner at the public accounting firm of Soejatna, Mulyana & Rekan (1998–1999). He concluded his public sector career as the Deputy Head of State Finance Supervisory Agency, Special Surveillance (1983–1989), having also had a mandate to conduct tax audit on behalf of the Directorate General for Taxation (1989–1991). He served as Chairman of the Board of Commissioners for PT Aneka Gas Industri (Persero) (1982–1983). He was Head of the Regional Office of the Directorate General of the State Finance Supervisory Agency for Greater Jakarta (1978–1983) and for Central Java (1978), having previously been the Regional Inspector/Head of the Representative Office for West Java (1972–1979). He was also Chairman of the Board of Commissioners at PT Barata Indonesia (Persero) (1971–1982).

SOEDARJONO
Chairman of the Audit Committee.

Please refer to page 56 for curriculum vitae.

ZULKIFLI DJAELANI
Audit Committee

Zulkifli Djaelani was appointed to the Bank's Audit Committee in August 1999. His 22-year career with Bank Niaga culminated in the position of Director of Operations and Human Resources (1994–1999). He had previously completed postings as the Regional Head for Jakarta (1991–1994) and for Central Java (1988–1991), and Branch Head for Jakarta (1986–1987) and Solo (1984–1986). Before moving into branch operations, he was the Head of the Credit and Marketing Division in the Jakarta head office (1981–1984) subsequent to staff roles in the same Division from 1980–1981 and heading the Credit and Marketing Division in Semarang (1979–1980).

- **BOARD OF COMMISSIONERS**
  - **Audit Committee**
  - **President & CEO**
    - **Assistant to the President & CEO**
    - **Internal Audit** (Audit Committee)
    - **Treasury & Capital Markets**
      - Financial Institution & Overseas Network Management
      - Treasury Management
    - **Corporate & Government**
      - Corporate Relationship Management
      - Government Relationship Management
      - Corporate Product Management
    - **Retail Banking**
      - Commercial Banking
      - Consumer Card Product Management & Sales
      - Consumer Banking
      - Consumer Loans

Note:

On January 11, 2003, this organization was substantially revised:

With respect to the Directorates:

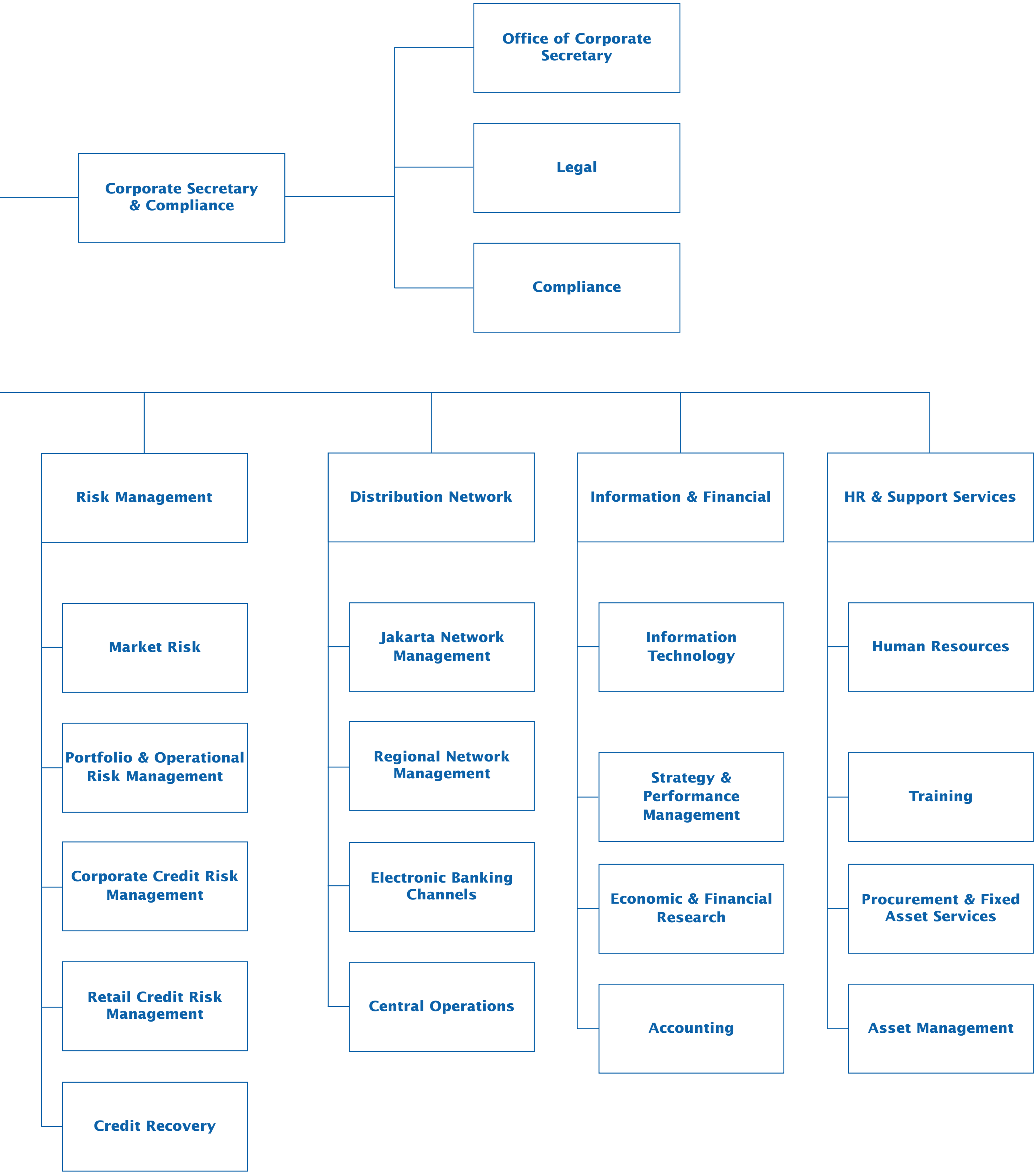
- Commercial Banking was established as in independent Directorate
- Retail Banking was renamed Consumer Banking
- Corporate and Government was renamed Corporate Banking
- Treasury and Capital Markets was renamed Treasury and International
- HR & Support Services was renamed HR & Compliance, with new responsibility for the Compliance, Legal and Office of the Board groups
- Responsibility for the Asset Management Group and Procurement & Fixed Asset Services Group was shifted to the Distribution Network Directorate

With respect to title conventions:

- The title of Executive Vice President Coordinator was changed to Senior Executive Vice President

- In general, the naming conventions throughout this Annual Financial Report refer to the organization structure in place subsequent to January 11, 2003.

Organization Structure



Corporate Governance

Good corporate governance is an integral part of our daily operations at Bank Mandiri. Management believes that the bank must follow sound commercial principles, supported by strong corporate governance practices, in each of the activities of the bank and its subsidiaries. We are fostering a culture that instills these values and internalizes the goals of improved transparency, disclosure, independence and accountability through a variety of formalized and widely disseminated communications and programs. These include our Vision and Mission Statements, Code of Conduct and Annual Disclosure requirements, our long-running "3 No's Policy", and an active Board Committee system.

Our aspiration is to become recognized for adhering to international best practices for Corporate Governance. Although not yet a listed company, we are a founding member of the Indonesian Institute of Corporate Governance, through which we expect to take a leading role in this rapidly developing area. This is not a recent conversion on the part of the bank. The Commissioners and Directors endorsed a formal statement of Corporate Governance Principles and a Code of Conduct for all employees in April 2000. In late 2000, Bank Mandiri was one of ten state-owned firms to undertake an independent diagnostic review of our corporate governance practices, conducted by PriceWaterhouseCoopers under the auspices of the Asian Development Bank.

This initial review allowed us to benchmark our corporate governance practices against those of other Indonesian corporations, Indonesian legal requirements, JSX requirements, and international best practice. In order to track our progress to date, the Board of Directors in 2002 commissioned the international rating agency, Standard & Poor's, to conduct a thorough audit of the bank's corporate governance standards and procedures. This audit will be completed in 2003, at which time management has committed to publicizing the findings.

BOARD STRUCTURE

Bank Mandiri has a two-tiered board structure consisting of a Board of Directors and a Board of Commissioners. The two boards are separate and no individual member may sit on both. The four members of the Board of Commissioners are all non-executive and are independent of the bank and its management. The three members of the Board of Directors are all bank executives. To keep the functions of Chairman and CEO separate, the role of Chairman is filled by President Commissioner Binhadi and the role of CEO is filled by President Neloe.

Board of Commissioners

The principal functions of the Board of Commissioners are to make policy recommendations to the Board of Directors and to supervise their implementation. In carrying out it supervisory activities, the Board of Commissioners represents the interests of the shareholders and is accountable to the shareholders. The shareholders have the power to nominate, elect and remove members of the Board of Commissioners. Each Commissioner is elected to serve for a period of five years.

The current members of the Board of Commissioners are:

NAME	AGE	POSITION	YEAR APPOINTED	TERM EXPIRATION
Binhadi	67	President Commissioner	June 1999	October 2003
Soedarjono	64	Commissioner	December 1998	October 2003
Markus Parmadi	57	Commissioner	December 1998	October 2003
Sabana Kartasmita	70	Commissioner	February 1999	October 2003

All members of the Board of Commissioners have strong, relevant professional credentials and have demonstrated their integrity and commercial ability during their careers.

Meetings of the Board of Commissioners may be held at any time deemed necessary by one or more members of the Board of Commisioners, or when a written request is made by either the Board of Directors or one or more of the shareholders jointly representing at least one-tenth of the voting shares issued by the company. Our Board of Commissioners meets regularly to discuss a range of strategic issues affecting the bank such as risk management, information technology and audit procedures. In 2002, the Board of Commissioners convened on 54 occasions. These regular meetings ensure that members of the Board of Commissioners have an in-depth and up-to-date knowledge of the bank's business.

2002 BOC MEETING SCHEDULE

NAME	MEETINGS DURING TENURE	MEETINGS ATTENDED	% ATTENDANCE
Binhadi	54	52	96.3%
Soedarjono	54	53	98.1%
Markus Parmadi	54	53	98.1%
Sabana Kartasmita	54	54	100.0%

Board of Directors

The Board of Directors is responsible for the day-to-day management of the bank. Indonesian law requires that the Board of Directors have at least three members. Directors are nominated, elected and removed by shareholder's resolutions in a general meeting of shareholders. Each Director serves a term of five years. A general meeting of shareholders may appoint a new member to fill any vacancy, with such appointment to last for the remaining period of the term of such Director. The President, together with one Director, has the right to act for and on behalf of the entire Board of Directors.

In 2002, the members of the Board of Directors were:

NAME	AGE	POSITION	YEAR APPOINTED	TERM EXPIRATION
E.C.W. Neloe	58	President & CEO	May 2000	October 2003
I Wayan Pugeg	56	Managing Director & EVP Coordinator	October 1998	October 2003
I Wayan Agus Mertayasa	55	Managing Director & EVP Coordinator	August 2002	October 2003
Agus Martowardojo	46	Managing Director & EVP Coordinator	July 1999	Resigned August 2002

The Board of Directors has the power to perform all transactions concerning the management and administration of the bank. However, certain actions require written approval from the Board of Commissioners and Shareholders, including:

- Releasing or selling movable assets of a certain age and immovable assets of a certain amount, as determined by a general meeting of shareholders;
- Entering into co-operation or management contracts for a term exceeding a specified period; and
- Changing the organizational structure of the bank.

Meetings of the Board of Directors are convened at any time deemed necessary by one or more members of the Board of Directors, or when requested in writing by either one or more members of the Board of Commissioners or one or more of the shareholders jointly representing at least one-tenth of the voting shares issued by the company. A meeting of the Board of Directors may only adopt lawful and binding resolutions if at least half of the Directors holding office are present or represented.

Executive Vice President Coordinators

Our executive management group is completed by our Executive Vice President Coordinators – each with specific operational responsibilities. The Executive Vice President Coordinators provide critical support to the Board in carrying out its responsibilities for the day-to-day management of the bank, and are typically included in all Board level discussions.

In 2002, our Executive Vice President Coordinators included:

NAME	AGE	POSITION	YEAR APPOINTED
K. Keat Lee	46	CFO, EVP Coordinator – Financial and Information	August 2001
I. Supomo	54	EVP Coordinator– Distribution Network	August 2001
M. Sholeh Tasripan	48	EVP Coordinator – Corporate and Governement	August 2001
Omar S. Anwar	42	EVP Coordinator – Retail Banking	August 2001

In 2002, formal meetings of our Board of Directors and Executive Vice President Coordinators were convened on 55 occasions.

2002 BOD/EVP COORDINATORS MEETING SCHEDULE

NAME	MEETINGS DURING TENURE	MEETINGS ATTENDED	% ATTENDANCE
E.C.W. Neloe	55	54	98.2%
I Wayan Pugeg	55	51	92.7%
I Wayan Agus Mertayasa	55	48	87.3%
Agus Martowardojo	28	19	67.9%
K. Keat Lee	55	46	83.6%
I Supomo	55	52	94.5%
M. Sholeh Tasripan	55	50	90.9%
Omar S. Anwar	55	48	87.3%

Committee Membership

We have established three Board-level committees, consisting of the Information Technology Committee, the Risk and Capital Committee and the Personnel Policy Committee. Our Chairman and President may be invited to attend the meetings of any of these committees on an ad hoc basis. In 2002, our executive management's membership on each committee is indicated in the table below. In addition to our executive management, each committee draws upon the skills and resources of numerous Group Heads and others with relevant responsibilities, experience and a stake in the issues to be discussed.

2002 COMMITTEE MEMBERSHIP

DIRECTOR/ EVP COORDINATORS	POSITION	RISK & CAPITAL COMMITTEE	IT COMMITTEE	PERSONNEL POLICY COMMITTEE
E.C.W. Neloe	President & CEO			
I. Wayan Pugeg	Managing Director, EVP Coordinator	*		
I. Wayan Agus Mertayasa	Managing Director, EVP Coordinator	*	*	*
Agus Martowardojo	Managing Director	*	*	*
K. Keat Lee	CFO, EVP Coordinator – Finance & Information	*	*	
I. Supomo	EVP Coordinator – Distribution Network		*	*
M. Sholeh Tasripan	EVP Coordinator – Corporate & Government	*		*
Omar S. Anwar	EVP Coordinator – Retail Banking	*	*	

Risk & Capital Committee (RCC)

Established in August 2001, the Risk & Capital Committee establishes policies for the management of the Bank's market, credit, portfolio and operational risks, with the goal of achieving maximum returns in accordance with the Bank's overall strategy, prudent practices as stipulated in our Risk Manual, and our risk appetite.

The RCC determines limitations to and provides guidance on the strategic management of our assets and liabilities. This includes the management of our foreign exchange exposure and liquidity policies, monitoring our assets and liabilities for significant mismatches, and determining our asset and liability pricing policies. The Committee also establishes fund transfer pricing (FTP) to enable our assessment of business unit performance.

The Committee institutes policies and procedures regarding credit risk and portfolio risk, including any determination of credit risk based pricing and specific portfolio targets and sector-based credit limits. The RCC regularly evaluates the growth and quality of our credit portfolio, as well as the implementation of our loan approval and credit restructuring processes. The RCC also monitors our adherence to both internal and BI regulations.

Information Technology Committee (ITC)

The Committee's primary mandate is to ensure that our Information Technology Strategic Plan (ISP) is consistent with the overall strategic direction of the bank, and that individual IT projects are prioritized and commissioned in a systematic manner consistent with goals of the ISP. The ITC is asked to monitor on-going IT projects to ensure their implementation according to the approved project charters and to promptly resolve problems arising between business units that relate to IT issues.

The Committee is expected to provide strategic guidance relating to improvements to and maintenance of the Bank's IT resources, and to plan and budget for requisite projects to ensure the uninterrupted delivery of IT services and the maintenance of the Bank's IT assets.

Personnel Policy Committee (PPC)

The Personnel Policy Committee has the responsibility for establishing, evaluating and revising our critical human resource plans, policies and systems. At the broadest level, the PPC establishes Bank Mandiri's Human Resource and Manpower plans, and has the authority to review and revise the Bank's organization structure, in order to ensure its consistency with the Bank's business strategy.

The Committee is also responsible for the Bank's Training Master Plan, as well as our longer-term career and succession planning mechanisms. The PCC establishes guidelines and authority limits for the implementation of bank-wide policies for recruitment, performance appraisal, compensation and benefits, job grading, job rotation, promotions and pensions. The PCC also maintains oversight of our internal disciplinary system, as well as our termination policy.

2002 BOARD COMMITTEE MEETING SCHEDULE

NAME	RCC MEETINGS			ITC MEETINGS			PPC MEETINGS		
	Held	Attended	%	Held	Attended	%	Held	Attended	%
Binhadi	7	1							
E.C.W. Neloe	1								
I Wayan Pugeg	18	18	100.0						
I Wayan Agus Mertayasa	6	1	16.7	4	2	50.0	7	5	71.4
Agus Martowardojo	12	8	66.7	5	2	40.0	7	5	71.4
K. Keat Lee	18	11	61.1	9	9	100.0			
I Supomo				9	8	88.9	7	7	100.0
M. Sholeh Tasripan	18	18	100.0				7	3	42.9
Omar S. Anwar	18	15	83.3	9	7	77.8			

Audit Committee

Audit Committee Charter

Our Audit Committee (AC) was established by Charter in August 1999 in order to facilitate the audit responsibilities assigned to the Board of Commissioners. As such, the Audit Committee reports directly to the BOC. The Committee consists of three members appointed by the BOC, one of whom must also serve as a Commissioner. The Committee is currently chaired by Commissioner Soedarjono – a former Chairman of the Indonesian Institute of Accountants – and consists of two other independent audit professionals; Soejatna Soenoesoebrata and Zulkifli Djaelani.

We place great emphasis on the integrity and independence of the bank's audit processes. The Audit Committee is responsible for nominating the Independent Audit firm, and actively manages the relationship with our current external auditors, Ernst & Young Prasetio, Sarwoko & Sandjaja. Our Audit Committee also oversees a thorough internal audit process and evaluates the effectiveness of our Internal Audit function to ensure both independence and the maintenance of high standards.

Other responsibilities of the Audit Committee include reviewing the audit plan and any activities related to the internal or external audit processes, reviewing the audited financial statements, and monitoring our internal controls. If the audit process reveals any indications of fraud, irregularities or illegal transactions, the Audit Committee is empowered to commission a Special Audit.

In 2002, our Audit Committee was included in all of the meetings of the Board of Commissioners, and met independently on 5 additional occasions, for a total of 59 scheduled meetings.

2002 AUDIT COMMITTEE MEETING SCHEDULE

NAME	MEETINGS DURING TENURE	MEETINGS ATTENDED	% ATTENDANCE
Soedarjono	59	58	98.3%
Soejatna Soenoesoebrata	59	54	91.5%
Zulkifli Djaelani	59	57	96.6%

Auditor Independence

The public accounting firm of Ernst and Young Prasetio, Sarwoko & Sandjaja has been auditing our accounts since 2000, and does not currently undertake any non-audit work for the bank, further strengthening the independence of our audit process. Bank Indonesia requires that we rotate our auditors at least every five years. Ernst & Young received payment of Rp10.93 billion (US$1.22 million) for their regular audit services as well as those provided in support of our IPO preparations in 2002.

Internal Audit

The Internal Audit Group, which is located at our head office, reports to the President and consists of one inspectorate and several departments, each with responsibility for monitoring a specific operating unit within the bank. We have received ISO 9002 certification in respect of our internal audit manuals.

Inspectorate:

The inspectorate ensures that all incidents of suspected fraud and any improprieties are investigated and resolved and that appropriate action is taken to our internal review system or to the courts.

Audit Departments for operating units:

These departments ensure that the Bank's operational risk exposure is accurately recorded and reported to the Bank's management by providing an independent review of the operating controls within the Distribution Group, Commercial Banking, Consumer Banking, Risk Management, Finance and Support Services, and the Financial Institution, Treasury and Capital Market Departments.

They identify and report operating risk issues, non-compliance with internal policies and procedures and corrective actions to the Bank's management. They perform an independent review of the risk management processes in place to ensure that the interest-bearing asset risk exposure is accurately recorded.

Information Technology Audit Department:
This department ensures that the Bank's information technology risk exposure is accurately recorded by providing an independent review of the information technology activities throughout the Bank, and that any failures to implement corrective actions to information technology audit expectations are identified and reported to the Bank's management.

In addition to our rigorous internal audits and those conducted by the public accounting firm of Ernst & Young Prasetio, Sarwoko & Sandjaja, the bank is also regularly audited by the State Auditor (*Badan Pemeriksa Keuangan* or BPK) and Bank Indonesia.

Executive Compensation

The Commissioners and Directors receive compensation determined at the annual general meeting of shareholders and are paid monthly each year. No fees are paid to the Commissioners or Directors for their attendance at their respective board meetings. For 2002, the aggregate compensation including bonuses paid by the Bank to all Commissioners, Managing Directors, Executive Vice President Coordinators and Group Heads as a group was Rp57.4 billion. The Commissioners and Directors are also entitled to be reimbursed for income tax on compensation received.We do not disclose or otherwise make available to the public information regarding the compensation of our individual Commissioners or Directors.

Payment of bonuses to the Commissioners and the Directors is determined at the annual general meeting of shareholders, based on the recommendation of the Board of Directors. Bonuses are paid annually and are based on achievement of performance targets of the Bank set by the Directors and approved by shareholders at the annual general meeting.

Conflicts of Interest

The Articles of Association of the Bank provide that if there is a conflict between the Bank's interests and the interests of a Commissioner or Director with respect to any proposal, arrangement or contract, the conflicted Commissioner or Director may not cast a vote with respect to the matter in any meeting of the Board of Commissioners or Board of Directors. As a general rule, the President Commissioner chairs any general meeting of shareholders. Where a conflict of interest exists between the interests of the Bank and the interests of the President Commissioner, any member of the Board of Commissioners not subject to such a conflict may chair such a meeting. Where a conflict exists between the interests of the Bank and the interests of all members of the Board of Commissioners, the President Director will chair such a meeting.

None of our Directors or Commissioners has any substantial interest, direct or indirect, in any company carrying on a similar trade as us or our subsidiaries.

Compliance and Our Code of Conduct

The bank's compliance department reviews and makes recommendations with respect to our corporate governance practices and ensures internal and external controls, policies and procedures are implemented by all units of the bank. A code of conduct was issued as a guide for all employees at all levels governing relationships with customers, business partners and vendors. The code of conduct makes it clear that our employees are not permitted to receive gifts from clients or other sources that may influence their independence and prohibits special payments. The code of conduct also addresses other issues such as abuse of authority and inside information. Adherence to the principles established in the Code of Conduct is monitored through an Annual Disclosure process completed by each of our employees.

A special unit within our Compliance Group also implements, coordinates and monitors our compliance with Indonesian anti-money laundering legislation and "Know Your Customer" principles that are required under Bank Indonesia regulations, conducts regular training sessions for employees, and prepares required reports for the Indonesian authorities.

In addition to promulgating the Code of Conduct, the bank has continued to promote our "3 No's Policy", meaning "No Errors, No Delays and No Special Payments". This policy is widely advertised to our customers as well as to our staff.

Public Disclosure

Bank Mandiri aims to set a high standard of public disclosure in all its dealings. In our annual reports and recent bond offering circulars, we have provided an extensive discussion on both the financial and non-financial aspects of the bank. We openly addressed issues such as the accounting treatment of our loan portfolio, management of our recapitalization bonds, related party transactions and accounting for non-performing loans. In addition we have been frank and open in discussing risk factors affecting the bank.

We provide information on our activities in a timely manner through our annual report, financial results releases, monthly financial reports posted on Bank Indonesia's website (www.bi.go.id), quarterly reports published in domestic newspapers, and quarterly press briefings. BUMN Online (www.bumn-ri.com), the website of the Ministry for State Owned Enterprises is another valuable resource for information regarding Bank Mandiri. Our website, www.bankmandiri.co.id, also provides access to a wide range of current information on our activities and financial performance, as well as to selected banking services. To request additional information, please direct any enquiries to ir@bankmandiri.co.id.

Corporate Information

COMPANY CREDIT RATINGS

RATING AGENCY	FOREIGN CURRENCY			LOCAL CURRENCY	OUTLOOK	FIN.STG.
	LT Debt	LT Deposits	ST Debt	LT Debt		
Moody's	B3	Caa1	NP	–	+ve	E
Standard & Poor's	B–	–	C	B–	Stable	–

DEBT RATINGS

RATING AGENCY	FRN 13 DEC 2001 / 2006	SOL 2 AUG 2002 / 2012	MTN 22 APR 2003 / 2005
Moody's	B3	B3	B3
Standard & Poor's	B–	CCC	B–
Fitch	B–	B–	B

2002 Awards

Best Emerging Market Bank, Best Trade Finance Bank – Global Finance Magazine

Best Local Bank, Best Bank Capital Deal – FinanceAsia Magazine

Bank of the Year, Top 200 Asian Banks – The Banker Magazine

Best High–Yield Bond Deal, Best Domestic Commercial Bank – The Asset Magazine

Indonesia Capital Markets Deal of the Year – IFR Asia Magazine

Indonesian Customer Satisfaction Award 2002

Certifications

ISO 9001 Version 2000 for Internal Audit

ISO 9001 Version 2000 for Custodial Services, Trustee Services and Depository Banks

Products & Services

CORPORATE & COMMERCIAL

Asset Products
Cash Collateral Loan
Channeling Loan
Investment Loan
Structured Finance
Syndicated Loan
Two-Step Loan
Programming Loan (KKPA, KKP, PUKK)
Small Business Loan (KUK)
Micro-Finance
Working Capital Loan

Liabilities Products
Demand Deposits (IDR & USD)
Deposit on Call (IDR & USD)
Negotiable Certificate of Deposit
Time Deposits (IDR & USD)

Cash Management
Cash Management Bank Services
Cash Management Customized
* Cash Disbursement
* Pooling Account/Cash Collection
* Mass Transaction
* Immediate Cash
Cash Management Service Standard
* Electronic Fund Transfer
* Electronic Payment Order
* Inquiry Cash Management

Agency Services
Arranger (Syndication)
Escrow Account
Facility Agent
Security Agent

Trade Finance/Trade Services
Bank Guarantee
Confirming & Refinancing L/C
IDB – Export Financing Scheme
IDB – Import Financing Scheme
IDB – Import Trade Financing Operations
Issuance L/C & Amendment
Rediscounted Export Bill
Rediscounted Working Capital
Refinancing Working Capital
Trade Financing
* Forfaiting
* Buyer's Credit
* Nippon Export & Investment Insurance
* UPAS
* USDA Collateral
Pre-Export Financing

TREASURY & INTERNATIONAL

Foreign Exchange
Banknotes Sale/Purchase
Currency Forward
Currency Options
Currency Swaps
Spot, Today, Tomorrow for IDR/USD and major currencies
Dual Currency Deposits
Deposito Swap

Fixed Income Securities
Asset Swaps
Bonds Outright Sale/Purchase
Collateralized Fund Facility
Repo & Reverse Repo

Financial Institutions
Bank Guarantee under Counter Guarantee
International Remittance
International Collection
Vostro, Nostro
L/C Confirmation
Interbank Risk Participation

Depository
Client Relationship
Competitive Interest Rate
On Line Access
Settlement Bank for Jakarta Stock Exchange

Custodial Services
Securities Safekeeping & Administration
Transaction Handling
Corporate Action
Proxy
Information & Reporting

Trust Services
Trustee Services
Paying Agent
Facility/Collateral Agent
Escrow Agent

Other Service
Financial Advisory
Bank Reference

Money Market
Interest Rate Swaps
SBI Auctions & Repo

CONSUMER

Asset Products
Home Loan
Corporate Employees Loan
Cash Collateral Loan
Multipurpose Loan

Liability Products
Demand Deposit (IDR & USD)
Deposit on Call (IDR & USD)
Haj Saving Account
Negotiable Certificate of Deposit
Saving Account
Time Deposit (IDR & USD)

Foreign Exchange
Banknotes Sale/Purchase
Currency Options
Spot, Today, Tomorrow for IDR/USD and major currencies
Dual Currency Deposits
Deposito Swap

Card Products
Credit Card – Visa

Priority Banking
Dedicated Personal Bankers
Upscale Premises
Airport Executive Lounge
Exclusive Loyalty Programs
Airport Handling Services
Flexible ATM Limit
Safe Deposit Box Facility
Travel Related Services

Electronic Banking
Call Centre
ATMs
SMS Banking

Other Services
Bank Reference
Bill Payment
Clearing
Collection
Mandiri Travellers Cheque
Money Changer
Payroll Package
Remittance
Safe Deposit Box

Money Market
SBI Repo & Trading
Bonds Trading & Auction

Bank Mandiri Branch Network

DOMESTIC

Head Office
Plaza Mandiri
Jl. Jend. Gatot Subroto Kav. 36-38
Jakarta 12190
Tel.: (021) 526 5045, 526 5095 (Hunting)
Fax: (021) 526 5008, 526 5017
http://www.bankmandiri.co.id

Regional Office I (Medan)
Jl. Imam Bonjol No. 7
Medan 20112
Tel.: (061) 415 3396, 567 985
Fax.: (061) 415 3273
Number of Branches and Cash Outlets: 71

Regional Office II (Palembang)
Jl. Kapten A. Rivai No. 1008
Palembang 30135
Tel.: (0711) 367 781, 372 814
Fax.: (0711) 310 992, 364 008-9
Number of Branches and Cash Outlets: 57

Regional Office III (Jakarta-Kota)
Jl. Lapangan Stasiun No. 2
Jakarta 11110
Tel.: (021) 692 2004, 260 0500
Fax.: (021) 692 2006
Number of Branches and Cash Outlets: 95

Regional Office IV (Jakarta-Thamrin)
Jl. M.H. Thamrin No. 5
Jakarta 10340
Tel.: (021) 230 0412, 390 7789
Fax.: (021) 230 1088
Number of Branches and Cash Outlets: 96

DOMESTIC

Regional Office V (Jakarta-Sudirman)
Jl. Jend. Sudirman Kav. 54-55
Jakarta 12190
Tel.: (021) 526 6566 ext. 8710-15
Fax.: (021) 526 7371
Number of Branches and Cash Outlets: 86

Regional Office VI (Bandung)
Jl. Soekarno Hatta No. 486
Bandung 40266
Tel.: (022) 420 9330, 420 9331
Fax.: (022) 424 0658
Number of Branches and Cash Outlets: 51

Regional Office VII (Semarang)
Jl. Pemuda No. 73
Semarang 50139
Tel.: (024) 352 0487, 351 7349
Fax.: (024) 352 0485
Number of Branches and Cash Outlets: 55

Regional Office VIII (Surabaya)
Jl. Basuki Rahmat No. 129-137
Surabaya 60271
Tel.: (031) 531 6760 - 66
Fax.: (031) 531 6776
Number of Branches and Cash Outlets: 87

Regional Office IX (Banjarmasin)
Jl. Lambung Mangkurat No. 3
Banjarmasin 70111
Tel.: (0511) 514 03, 514 05
Fax.: (0511) 667 19, 522 49
Number of Branches and Cash Outlets: 37

Regional Office X (Makassar)
Jl. R.A. Kartini No. 12-14
Makassar 90111
Tel.: (0411) 323 547, 329 097
Fax.: (0411) 329 095
Number of Branches and Cash Outlets: 52

OVERSEAS OFFICES / BRANCHES

Hong Kong Branch
PT Bank Mandiri (Persero) Hong Kong Branch
Far East Finance Center, 7th Floor
16 Harcourt Road, Hong Kong
Tel.: 852-2527 6611, 2877 3632
Fax.: 852-2529 8131, 2877 0735
Telex: 70663 & 71360 answer back MDRI HX
SWIFT CODE: BBUDHKHH

Singapore Branch
PT Bank Mandiri (Persero) Singapore Branch
Hitachi Tower, 16 Collyer Quay #28-00
Singapore 049318
Tel.: 65-6532 0200
Fax.: 65-6532 0206
Telex: RS23697 MDRSQ
SWIFT CODE: BEIISGSG

Cayman Islands Branch
PT Bank Mandiri (Persero) Cayman Islands Branch
One Cayman House, 215 North Church Street, 2nd Floor
PO.BOX 10198 APO, George Town, Grand Cayman,
Cayman Island
Tel.: 1-345-945 8891
Fax.: 1-345-945 8892
Telex: 4206 answer back MDRCAY CP
SWIFT CODE: BEIIKYKY

Bank Mandiri (Europe) Limited London
Bank Mandiri (Europe) Limited
Senator House, 85 Queen Victoria Street
London EC4V 4JN
Tel.: 44-207-332 9810
Fax.: 44-207-329 4345
SWIFT CODE: BEEIIGB2L

Bank Mandiri Subsidiaries

COMPANY	LINE OF BUSINESS	EFFECTIVE OWNERSHIP
PT Pengelola Investama Mandiri*	General Investment	
▪ PT Bumi Daya Plaza		75.00%
▪ PT Usaha Gedung BDN		25.00%
PT Asuransi Jiwa Mandiri	Insurance	
▪ Bank Mandiri		100.00%
PT Bank Syariah Mandiri	Banking	
▪ Bank Mandiri		99.99%
▪ Yayasan Kesejahteraan Pegawai		0.01%
PT Sarana Bersama Pembiayaan Indonesia	Finance	
▪ Bank Mandiri		34.00%
▪ Other commercial banks		66.00%
PT Mandiri Securitas	Securities	
▪ Bank Mandiri		91.87%
▪ PT Pengelola Investama Mandiri		8.13%
PT Bapindo Bumi Sekuritas	Securities	
▪ Bank Mandiri		19.00%
▪ Yayasan Kesejahteraan Pegawai Bapindo		50.24%
▪ ALB Bumiputera 1912		30.76%
PT Kustodian Sentral Efek Indonesia	Depository	
▪ Bank Mandiri		16.00%
▪ Other banks & securities companies		84.00%
Bank Mandiri (Europe), Ltd., London	Banking	
▪ Bank Mandiri		100.00%

Note:

(*) Ownership of PT Pengelola Investama Mandiri.

COMPANY	LINE OF BUSINESS	EFFECTIVE OWNERSHIP
PT Bumi Daya Plaza	Property	
▪ Bank Mandiri		93.33%
▪ Dana Pensiun – Bank Mandiri 1		6.67%
PT Usaha Gedung BDN	Property	
▪ Bank Mandiri		99.00%
▪ Dana Pensiun – Bank Mandiri 2		1.00%

Management's Discussion And Analysis Of Financial Condition And Results Of Operation

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our full financial statements, including the notes thereto. We have prepared this discussion using the consolidated financial statements of the Bank which have been prepared in accordance with Indonesian GAAP for the two years ended December 31, 2002. The financial statements of the Bank for the two years ended December 31, 2002 have been audited by Ernst & Young Prasetio, Sarwoko & Sandjaja, independent auditors. The financial data for 2002 are presented in U.S. Dollars based on the prevailing exchange rate on December 31, 2002 of Rp8,950 = US$1.00

Unless otherwise stated, all financial information relating to the Bank is stated on a consolidated basis in accordance with Indonesian GAAP. Indonesian GAAP differs in certain significant respects from U.S. GAAP. We have not quantified or identified the impact of the differences between Indonesian GAAP and U.S. GAAP. For 2001 and 2002, unaudited average balance sheet data are based on averages of the opening balances as of January 1, March 31, June 30, September 30 and December 31.

KEY PERFORMANCE MEASURES

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

	Year ended December 31		
	2001	**2002**	**2002**
Net profit	Rp2,746 billion	Rp3,586 billion	US$401 million
Return on average assets(1)	1.1%	1.4%	
Return on average equity(2)	21.5%	26.2%	
Net interest margin	3.0%	2.9%	
Cost to income ratio(3)	39.9%	42.8%	
Capital adequacy ratio(4)	26.4%	23.4%	
Gross non-performing loans to gross loans	9.7%	7.3%	

Notes:

(1) Net profit divided by average total assets for the period indicated.

(2) Net profit divided by average total shareholder's equity for the period indicated.

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

(4) Our capital adequacy ratio is calculated on a non-consolidated basis. The capital adequacy ratio is calculated by dividing the Bank's regulatory capital by risk weighted assets (excluding deferred tax assets). In the calculation of our capital adequacy ratio, our Government recapitalization bonds are treated as a zero-risk weighted asset. The capital adequacy ratios are based on Bank Indonesia regulations and methods of calculations in force for each of the years indicated in the table.

Net profit

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

Return on average assets

This is net profit/(loss) divided by average total assets for the year or the period indicated. The improvement of this ratio in 2001 was due to the percentage increase in net profit being higher than the percentage increase in total assets. The further improvement of this ratio in 2002 was due to the increase in net profit and the decrease in total assets.

Return on average equity

This is net profit/(loss) divided by average total shareholder's equity for the year or the period indicated. Shareholder's equity includes issued and fully paid share capital, additional paid-in capital, differences arising from translation of foreign currency financial statements of our offshore operations, unrealized losses on securities (principally Government recapitalization bonds) available for sale and accumulated losses.

The improvement in this ratio in 2001 was due to an increase in net profit and a decrease in total shareholder's equity. The decrease in shareholder's equity mainly resulted from the re-designation of certain of our Government recapitalization bonds to our available for sale account and the marking to market of such bonds. In accordance with Indonesian GAAP, we have reflected the resulting unrealized loss arising through marking such bonds to market in our shareholder's equity. Upon the sale of any Government recapitalization bonds held in our available for sale account, the impact of any loss or gain is included in our profit and loss account.

Our return on average equity continued to improve in 2002 due to the percentage increase in net profit being higher than the percentage increase in average total shareholder's equity.

Net interest margin

Net interest margin is net interest income divided by average interest-earning assets. Our net interest income is affected by changes in interest rates, volume and mix of interest-earning assets and interest-bearing liabilities. In addition, our net interest income is affected by our policy of ceasing to accrue interest on loans that are classified as "sub-standard", "doubtful" or "loss". Non-performing loans not only reduce net profit through the increase of provisions required for unpaid principal but also reduce the interest income we recognize from our loan portfolio. Accordingly, our net interest margin is impacted not only by the interest we are able to recognize on our various interest-earning assets but also by the mix and quality of such assets and conversely by the interest expense we incur on, and the mix of, our funding arrangements.

Our net interest margin improved during 2001 and slightly decreased in 2002. During each of 2001 and 2002, as we successfully restructured loans which were previously non-performing, grew our loan portfolio with new loans and exchanged certain of our Government recapitalization bonds for restructured loans from IBRA, the interest income from our loan portfolio continued to increase. There was a general trend upwards in interest rates during 2001 (with a monthly average of one-month SBI rate of 16.5%). That trend was reversed in 2002 as interest rates fell during most of the year (with a monthly average one-month SBI rate of 15.1%). The increase in interest rates in 2001 resulted in a significant increase in interest income from our Government recapitalization bond portfolio (excluding fixed rate Government recapitalization bonds) as well as a significant increase in our interest expense (particularly on variable rate deposits and floating rate notes) for that year. For 2002, our interest income from the Government recapitalization bonds fell mainly due to further disposals of Government recapitalization bonds in late 2001 and 2002 and a decrease in SBI rates during 2002. Accordingly, our interest income for 2002 experienced little growth, compared to 2001, while our interest expense increased to a greater extent, which contributed to the reduction in our net interest margin.

Cost to income ratio

Cost to income ratio is calculated as the sum of general and administrative expenses and employee salaries and benefits divided by the sum of net interest income/(expense) and other operating income (which includes foreign exchange gains or losses). In 2002, this ratio increased to 42.8% due to the decrease in interest income in 2002 as compared to 2001 and the increase in general and administrative expenses in 2002 as compared to 2001.

Capital adequacy ratio

The computation of this ratio is based on the capital adequacy requirements of Bank Indonesia. Such method of calculation is substantially based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements in 1988. A bank's capital adequacy ratio is calculated by dividing the sum of its Tier I and Tier II capital, as defined under Bank Indonesia regulations, by its risk-weighted assets. Risk-weighted assets, as defined by Bank Indonesia regulations, consist of all the assets on a bank's balance sheet at their respective book values, together with certain other off-balance sheet items, weighted by certain percentages depending on the risks associated with the type of asset. Our holding of Government recapitalization bonds, as a proportion of our overall asset base, has significant implications for our capital adequacy ratio because the risk-weighting of the Government recapitalization bonds is zero. As we reduce our holdings of Government recapitalization bonds and increase other types of assets, such as loans, which carry higher risk-weightings, our capital adequacy ratio has fallen and is likely to continue to do so in the near future.

Gross non-performing loans to gross loans

This ratio is determined by dividing our gross non-performing loans by our gross loans. During

1999, we had a high proportion of non-performing loans as a result of the Indonesian economic crisis. The subsequent improvement in our asset quality by the end of 2000 was primarily due to the transfer of substantially all of our "loss" loans to IBRA. However, even after these transfers, we still retained significant levels of non-performing loans categorized as "sub-standard" or "doubtful". During each of 2001 and 2002, the quality of our loan portfolio improved as we restructured a significant portion of our remaining non-performing loans and grew our loan portfolio by making new loans. However, a significant proportion of loans which we have restructured have become non-performing again. As of December 31, 2002, 69.9% of our non-performing loans, by value, had been restructured previously, and become non-performing again.

We cease to accrue interest on loans that are classified as "sub-standard", "doubtful" or "loss", which includes any loans with a payment (principal and/or interest) of at least 90 days overdue. Any interest accrued and not received on non-performing loans is reversed and charged against current earnings. Any payments received on non-performing loans (as opposed to loans which have been written-off) are applied against the principal of the loan for "doubtful" and "loss" loans and any excess amount is recognized as interest income. For "sub-standard" loans, payments are applied in accordance with the applicable loan agreement. After restructuring a non-performing loan, in accordance with Bank Indonesia regulations, we may only return such non-performing loan to "current" or "special mention" status and accrue interest in accordance with its new terms after there has been a sustained period of repayment performance in accordance with the restructured contractual terms for at least three months or three consecutive payments, whichever is the longer. However, even where a restructured loan has satisfied this requirement, the Bank may not reclassify the loan as "current" or "special mention" if there remain concerns about the ability of the borrower to meet its payment obligations. Currently, the Bank's policy is not to upgrade a restructured loan from "non-performing loan" to "current" or "special mention" until at least three consecutive payments have been made or until six months after the restructuring, whichever is longer.

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

PROFIT AND LOSS

Our profit from operations increased by 177.9% to Rp4,572 billion (US$511 million) in 2002 from Rp1,645 billion in 2001. Our net profit rose to Rp3,586 billion (US$401 million) from Rp2,746 billion in 2001, or an increase of 30.6%. The following table sets out the components of net profits:

	Year ended December 31			
	2001 (Rp billion)	2002 (Rp billion)	2002 (US$ million)	% CHANGE
Net interest income	7,109	6,862	767	(3.5)
Other operating income	1,456	1,612	180	10.7
Net provisions	(2,448)	(937)	(105)	(61.7)
Unrealized gain or (loss) from changes in value of securities and Government recapitalization bonds	(1,023)	1,530	171	(249.6)
Gain or (loss) from sale of securities and Government recapitalization bonds	711	490	55	(31.1)
Other operating expenses	(4,160)	(4,985)	(557)	19.8
Profit from operations	1,645	4,572	511	177.9
Net Non-operating Income/(Expense)	2,205	1,238	138	(43.9)
Profit before provision for income tax and minority interest	3,850	5,810	649	50.9
Provision for Income Tax	(1,104)	(2,224)	(248)	101.4
Profit before provision for minority interest	2,746	3,586	401	30.6
Minority interest in net profit of consolidated subsidiaries	–	1	–	–
Net Profit	2,746	3,586	401	30.6

Net Interest Income/ (Expense)

Our net interest income decreased by 3.5% to Rp6,862 billion (US$767 million) in 2002 from Rp7,109 billion in 2001. The decrease in net interest income was principally a result of an increase of 2.6% in total interest expense to Rp25,017 billion (US$2,795 million) in 2002 from Rp24,387 billion in 2001, while total interest income increased by 1.2% to Rp31,879 billion (US$3,562 million) from Rp31,496 billion in 2001.

	Year ended December 31		
	2001 (Rp billion)	2002 (Rp billion)	2002 (US$ million)
Interest income	31,199	31,475	3,517
Fees and commissions on loan facilities	297	404	45
Total interest income	31,496	31,879	3,562
Total interest expense	(24,387)	(25,017)	(2,795)
Net interest income	7,109	6,862	767

Interest Income

Our interest income increased by 0.9% to Rp31,475 billion (US$3,517 million) in 2002 from Rp31,199 billion in 2001 primarily due to increases in the interest income generated by our securities and the interest income generated by our loan portfolio. Interest income was derived from the following:

	Year ended December 31		
	2001 (Rp billion)	**2002** (Rp billion)	**2002** (US$ million)
Interest on Government recapitalization bonds	23,137	21,435	2,395
Interest on securities	866	1,840	206
Interest on securities and Government recapitalization bonds	24,003	23,275	2,601
Interest on loans	5,787	7,170	801
Interest on placements with other banks	1,208	879	98
Others(1)	201	151	17
Interest income	31,199	31,475	3,517

Note:

(1) Includes income from fees from trade documents and other facilities.

Our interest income generated from securities and Government recapitalization bonds decreased by 3.0% to Rp23,275 billion (US$2,601 million) in 2002 from Rp24,003 billion in 2001. This decrease was mainly due to a 7.4% decrease in interest income from Government recapitalization bonds. Interest income from Government recapitalization bonds decreased by 7.4% from 2001 to 2002 due to the lower average volume and a fall in interest rates on variable rate bonds.

The average volume of Government recapitalization bonds decreased from Rp165,614 billion in 2001 to Rp153,254 billion (US$17,123 million) in 2002. This decrease was due to our sale of Rp1,125 billion (US$126 million) of Government recapitalization bonds, the transfer of Rp2,902 billion (US$324 million) of Government recapitalization bonds to IBRA in exchange for loans, and our payment of Rp2,520 billion (US$282 million) of Government recapitalization bonds to the Government in connection with a settlement of our dispute with the Government over ownership of certain written-off loans in 2002 and the sale of Rp5,215 billion of Government recapitalization bonds in the second half of 2001, all of which resulted in a higher average volume of Government recapitalization bonds in 2001. The average yield on all Government recapitalization bonds (fixed rate, variable rate and hedge) remained unchanged in 2002 at 14.0% as compared to in 2001.

The increase in interest on securities of 112.5% to Rp1,840 billion (US$206 million) in 2002 from Rp866 billion in 2001 was primarily due to the increase in the average volume of SBIs held by the Bank offset in part by the decrease in interest rates applying to such SBIs. The average yield on placements with Bank Indonesia (including SBIs held by the Bank) increased to 14.8% in 2002 from 11.7% in 2001, the average volume of placements with Bank Indonesia held by us increased from Rp13,003 billion in 2001 to Rp15,724 billion (US$1,757 million) in 2002 as we placed our excess liquidity into placements with Bank Indonesia (including SBIs).

Interest income from loans increased by 23.9% to Rp7,170 billion (US$801 million) in 2002 from Rp5,787 billion in 2001 principally due to an increase in the average volume of loans and improved yields arising primarily from an increase in the proportion of performing loans. Our average volume of loans increased by 19.0% to Rp54,100 billion (US$6,045 million) in 2002 from Rp45,449 billion in 2001. Our average volume of Rupiah-denominated loans increased by 35.1% to Rp32,556 billion (US$3,638 million) in 2002 from Rp24,089 billion in 2001. This was largely due to the growth in investment and working capital loans to manufacturing companies (particularly in the food and beverage, chemical and mining equipment sectors). Our average volume of loans denominated in foreign currencies (primarily in U.S. dollars) slightly increased in Rupiah terms by 0.9% to Rp21,544 billion (US$2,407 million) in 2002 from Rp21,360 billion in 2001.

Yields on our loans increased to an average of 13.3% in 2002 from an average of 12.7% in 2001 primarily due to an increase in the proportion of performing loans. Our average volume of performing loans increased from Rp38,777 billion in 2001 to Rp49,040 billion (US$5,479 million) in 2002 due to Rp3,064 billion (US$342 million) in restructuring of non-performing loans and Rp21,787 billion (US$2,434 million) (Bank only) in the issue of new loans. Our ratio of gross non-performing loans to gross loans decreased from 19.8% as of December 31, 2000 and 9.7% as of December 31, 2001 to 7.3% as of December 31, 2002. Yields on our loans denominated in Rupiah increased to an average of 16.6% in 2002 from an average of 16.3% in 2001 reflecting an increase in the proportion of performing loans in our loan portfolio offset by a decrease in interest rates on such loans. Yields on our loans denominated in foreign currencies decreased to an average of 8.2% in 2002 from an average of 8.7% in 2001, due to a fall in interest rates.

Fees and Commissions on Loan Facilities

Our fees and commissions increased by 36.0% to Rp404 billion (US$45 million) in 2002 from Rp297 billion in 2001. This increase was primarily due to an increase in new loans in 2002 to Rp21,787 billion (US$2,434 million) as compared to Rp15,789 billion of new loans in 2001 and the receipt of Rp39 billion (US$4 million) in fees on loans purchased from IBRA in 2002.

Interest Expense

Our interest expenses and other financing expenses increased by 2.6% to Rp25,017 billion (US$2,795 million) in 2002 from Rp24,387 billion in 2001. This increase resulted primarily from the increase in volume of deposits, especially time deposits and saving deposits in part offset by decreasing interest expense on fund borrowings, securities issued and loan capital. Our average cost of funds remained unchanged at 11.1% in 2002 as compared to 2001. The following table sets out the components of interest and other financing expenses:

	Year ended December 31		
	2001	**2002**	**2002**
	(Rp billion)	(Rp billion)	(US$ million)
Interest expense on:			
Demand deposits	2,143	1,880	210
Saving deposits	2,158	2,585	289
Time deposits(1)	17,607	19,041	2,127
Total interest expense on deposits	21,908	23,506	2,626
Fund borrowings(2)	1,508	802	90
Securities issued	315	117	13
Subordinated loans	444	458	51
Loan capital(3)	95	41	5
Others	34	28	3
Interest expenses	24,304	24,952	2,788
Other financing expenses(4)	83	65	7
Total interest and other financing expenses	24,387	25,017	2,795

Notes:

(1) Includes certificates of deposit.

(2) Includes borrowings from the Government and from the private sector.

(3) Represents interest expense from subordinated undated floating rate notes of Bank Dagang Negara.

(4) Substantially comprises promotional expenses for consumer customers.

Our interest expense on deposits increased by 7.3% to Rp23,506 billion (US$2,626 million) in 2002 from Rp21,908 billion in 2001 principally as a result of the increase in volume of deposits, notwithstanding an decrease in the interest rate paid on deposits.

Our average total deposits increased by 9.5% to Rp197,498 billion (US$22,067 million) in 2002 from Rp180,374 billion in 2001 partially due to our marketing campaign to attract deposits and also due to our offer of more competitive interest rates in the first half of 2002 paid on our deposit products. Our average volume of Rupiah-denominated deposits increased to Rp169,073 billion (US$18,891 million) in 2002 from Rp151,016 billion in 2001. We experienced a decrease in our Rupiah-denominated demand deposits, particularly from our corporate customers, and significant growth in Rupiah-denominated time deposits from our commercial and consumer customers. Our average volume of deposits denominated in foreign currencies decreased to Rp28,425 billion (US$3,176 million) in 2002 from Rp29,358 billion in 2001 in part due to the appreciation of the Rupiah against the U.S. dollar. We experienced growth in our foreign currency demand deposits and a slight decrease in foreign currency time deposits, particularly those maintained by our corporate customers. Our average total demand deposits decreased by 2.7% to Rp35,305 billion (US$3,945 million) in 2002 from Rp36,268 billion in 2001. Our average total savings deposits increased by 27.5% to Rp24,959 billion (US$2,789 million) in 2002 from Rp19,570 billion in 2001. Our average total time deposits increased by 10.2% to Rp137,234 billion (US$15,333 million) in 2002 from Rp124,536 billion in 2001.

Our average cost of deposits decreased to 11.9% in 2002 from 12.2% in 2001 primarily as a result of a decrease in the monthly average of one-month SBI interest rate to 15.1% in 2002 from 16.5% in 2001 and the relative decrease of Rupiah-denominated time deposits. Our average cost of deposits denominated in Rupiah remained stable at 13.4% in 2002 and 2001. Our average cost of deposits denominated in foreign currencies decreased to 3.1% in 2002 from 5.5% in 2001. Our average cost of demand deposits decreased to 5.5% in 2002 from 5.9% in 2001. Our average cost of saving deposits decreased to 10.1% in 2002 from 11.0% in 2001. Our average cost of time deposits decreased to 13.9% in 2002 from 14.1% in 2001.

Our interest paid on fund borrowings decreased by 46.8% to Rp802 billion (US$90 million) in 2002 from Rp1,508 billion in 2001 primarily as a result of the decrease in the volume of fund borrowings. We decreased the average volume of our fund borrowings from Rp23,836 billion in 2001 to Rp15,633 billion (US$1,747 billion) in 2002 through repayment of fund borrowings as our deposits increased and we utilized our excess liquidity from placements with other banks. Our average cost of funds for such borrowings decreased to 5.1% in 2002 as compared to 6.3% in 2001 due principally to the decrease in volume of higher cost Rupiah-denominated borrowings and the decrease in the interest rate paid on U.S. dollar-denominated borrowings. Our average fund borrowings denominated in Rupiah decreased to Rp4,058 billion (US$453 million) in 2002 from Rp9,245 billion in 2001, while our average cost of fund borrowings denominated in Rupiah increased to 7.3% from 6.0% in the same periods. The increase was mainly due to the fact that we were required to repay certain low cost fund borrowings in 2002. Our average fund borrowings denominated in foreign currencies decreased to Rp11,575 billion (US$1,293 million) in 2002 from Rp14,591 billion in 2001 due in part to the maturity of certain of our debt, while our average cost of fund borrowings denominated in foreign currencies decreased to 4.4% from 6.5% in the same periods.

Our interest paid on debt securities issued by the Bank decreased by 62.9% to Rp117 billion (US$13 million) in 2002 from Rp315 billion in 2001 as a result of the decrease in the volume of, and the interest rates paid on, our outstanding securities. The average volume of securities outstanding decreased to Rp2,268 billion (US$253 million) for 2002 from Rp5,205 billion for 2001. The decrease was mainly due to redemptions and the maturity of certain securities. For 2002, the interest rate of our foreign currency floating rate notes and floating rate certificates of deposit ranged from 2.2% to 7.3% as compared to interest rates ranging from 2.8% to 7.8% in 2001 principally due to the decline in interest rates in the United States. The average cost of funds of debt securities we issued decreased to 5.2% in 2002 from 6.1% in 2001.

Our interest paid on subordinated loans increased by 3.2% to Rp458 billion (US$51 million) in 2002 from Rp444 billion in 2001. The increase in interest paid was primarily as a result of the increase in the average cost of funds and the average volume of our subordinated loans. The average cost of funds on subordinated loans for 2002 increased to 7.2% from 7.0% for 2001, in particular impacted by our issuance of subordinated debt in July 2002 with an interest rate of 10.6% (which we subsequently swapped to a floating rate of 6-month Libor plus 6.19% for interest rate management purposes) and the maturity of certain debt with relatively lower interest rates. The average volume of subordinated loans increased to Rp6,337 billion (US$708 million) from Rp6,302 billion for the same periods.

Our interest paid on loan capital decreased by 56.8% to Rp41 billion (US$5 million) in 2002 from Rp95 billion in 2001 primarily as a result of the decrease in interest rates paid on our loan capital denominated in foreign currencies. The average cost of funds on loan capital denominated in foreign currencies decreased to 3.2% in 2002 from 6.8% in 2001. The average volume of loan capital denominated in foreign currencies decreased to Rp1,267 billion (US$142 million) for 2002 from Rp1,391 billion for 2001.

Other Operating Income

Our other operating income increased by 10.7% to Rp1,612 billion (US$180 million) in 2002 from Rp1,456 billion in 2001 primarily as a result of an increase in fees and commissions. The following table sets out the components of our other operating income:

	Year ended December 31		
	2001 (Rp billion)	**2002** (Rp billion)	**2002** (US$ million)
Net gain on foreign exchange	260	–	–
Other fees and commissions(1)	475	804	90
Other(2)	721	808	90
Other operating income	1,456	1,612	180

Notes:

(1) Other fees and commissions income is derived from trade finance services, consumer banking services (such as credit cards), cash management services and treasury and capital market services and up-front fees from securities companies which joined our consortium to bid for loans from IBRA in 2002.

(2) Includes administration fee charges to customers.

Net gain on foreign exchange decreased from a net gain of Rp260 billion in 2001 to a net loss of Rp25 billion (US$3 million) in 2002. In 2001, the net gain arose principally due to foreign exchange trading transactions and revaluation of foreign exchange positions.

Our other fees and commissions increased by 69.3% to Rp804 billion (US$90 million) in 2002 from Rp475 billion in 2001 principally due to an increase in arrangement fees and an up-front fee from securities companies which joined our consortium to bid for loans from IBRA in 2002 of Rp144 billion.

The items we categorize as “other” increased by 12.1% to Rp808 billion (US$90 million) in 2002 from Rp721 billion in 2001. The primary component of “other” operating income was administration fee charges to customers.

(Provisions)/Reversal of Provision

Our net provisions decreased from Rp2,448 billion in 2001 to Rp937 billion (US$105 million) in 2002. The following table sets out the components of our provisions:

	Year ended December 31		
	2001	**2002**	**2002**
	(Rp billion)	(Rp billion)	(US$ million)
Provision for possible losses on earning assets	(6,704)	(4,590)	(513)
Reversal of allowance for possible losses on commitments and contingencies	1,913	3,364	376
Net provision for possible losses on earning assets and commitments and contingencies	(4,791)	(1,226)	(137)
Reversal of allowance for possible losses on other assets	2,343	289	32
Net provisions	(2,448)	(937)	(105)

In 2002, our net provision for possible losses on earning assets and commitments and contingencies of Rp1,226 billion (US$137 million) was principally due to the making of further provisions for losses on loans of Rp4,674 billion (US$522 million), offset by a reversal of provisions on commitments and contingencies of Rp3,364 billion (US$376 million) as certain commitments and contingencies expired. The additional provisions for losses on loans of Rp4,674 billion (US$522 million) were required mainly to cover the writing off of loans totaling Rp6,481 billion (US$724 million) in 2002, offset in part by loan recoveries on written-off loans of Rp1,124 billion (US$126 million) and the write back of loans to the RGM Group of Rp4,171 billion (US$466 million) in July 2002 which had been previously written off in 2001. Of the Rp6,481 billion (US$724 million) of loans written-off, Rp2,691 billion (US$301 million) related to a partial write-off of the unsustainable portion of loans to the RGM Group when such loans were restructured in September 2002 and Rp2,520 billion (US$282 million) of Government recapitalization bonds to the Government in connection with a settlement of our dispute with the Government over ownership of certain written-off loans.

In contrast, in 2001, we made a net provision for possible losses on earning assets and commitments and contingencies of Rp4,791 billion principally due to the making of further provisions for losses on loans of Rp6,042 billion, offset in part by a reversal of provisions for possible losses on commitments and contingencies of Rp1,913 billion. The additional provisions for possible losses on earning assets were required in 2001 to cover the writing off of loans totaling Rp12,733 billion in 2001, offset in part by Rp1,960 billion from loan recoveries on written-off loans. Of the Rp12,733 billion of loans written-off, Rp6,934 billion related to loans which had previously been restructured but had subsequently become non-performing and Rp3,738 billion related to loans which had been transferred to IBRA and subsequently repurchased by the Bank through a swap agreement in exchange for Government recapitalization bonds. In 2001, we made reversals of provisions for possible losses on commitments and contingencies of Rp1,913 billion, as a number of our letters of credit and guarantee obligations matured.

In 2002 and 2001, we made a reversal of allowance for possible losses on other assets of Rp289 billion (US$32 million) and Rp2,343 billion, respectively, mainly due to the resolution of inter-branch open items in 2002 and 2001.

Unrealized Gain or (Loss) From Changes in Value of Securities and Government Bonds

In 2002 we made a gain from the increase in value of securities and Government recapitalization bonds of Rp1,530 billion (US$171 million). This compares to a loss of Rp1,023 billion in 2001. The loss of Rp1,023 billion in 2001 reflected the requirement to mark to market the Government recapitalization bonds transferred from our held to maturity account to our trading account. We transferred Rp3,521 billion of Government recapitalization bonds to our trading account in 2001 as part of our strategy to improve our mix of interest earning assets by selling some Government recapitalization bonds and in order to help provide needed liquidity. The majority of the Government recapitalization bonds we have transferred to our trading account are fixed rate bonds which are usually subject to a higher discount when marked to market as typically their returns are below those offered by variable rate bonds or SBIs. In 2002, we had a gain of Rp1,513 billion (US$169 million) from marking to market our Government recapitalization bonds in our trading account, which occurred since the price of fixed rate Government recapitalization bonds increased due to the decrease in the SBI interest rate.

Gain or (Loss) From Sale of Securities and Government Bonds

We had a gain from the sale of securities and Government bonds of Rp490 billion (US$55 million) in 2002, and of Rp711 billion in 2001. In 2002, the gain of Rp490 billion (US$55 million) was largely due to gains from trading SBIs and the sales price of the securities and Government bonds we sold during 2002 being higher than the marked to market value of these securities and Covernment bonds as of December 31, 2001. In 2001, the gain of Rp711 billion was largely due to the sales price of the securities and Government bonds we sold during 2001 being higher than the marked to market rate of these securities and Government bonds as of December 31, 2000.

Other Operating Expenses

Our other operating expenses increased by 19.8% to Rp4,985 billion (US$557 million) in 2002 from Rp4,160 billion in 2001. The increase in operating expenses was due primarily to an increase in general and administrative expenses and other expenses. The following table sets out the components of other operating expenses:

	Year ended December 31		
	2001	**2002**	**2002**
	(Rp billion)	(Rp billion)	(US$ million)
General and administrative expenses	(1,747)	(2,060)	(230)
Salaries and employee benefits	(1,670)	(1,566)	(175)
Foreign exchange loss – net	–	(25)	(3)
Other – net(1)	(743)	(1,334)	(149)
Other operating expenses	(4,160)	(4,985)	(557)

Notes:

(1) Includes expenses relating to guarantees for customer deposits under the Government Guarantee Program and litigation related provisions.

General and administrative expenses increased by 17.9% to Rp2,060 billion (US$230 million) in 2002 from Rp1,747 billion in 2001 principally due to increases in depreciation and amortization of properties and equipment, communication, promotion, maintenance expenses and professional fees.

Salaries and employee benefits decreased by 6.2% to Rp1,566 billion (US$175 million) in 2002 from Rp1,670 billion in 2001 largely due to a provision of Rp240 billion for service entitlements in 2001 required under a decree issued by the Ministry of Manpower in June 2000 which was partially reversed (as to Rp120 billion (US$13 million)) in 2002. The decree, which applies to all companies in Indonesia, sets out certain payments which an employee is entitled to receive on termination of employment. Without this provision in 2001 and the partial reversal in 2002, salaries and employee benefits increased by 17.9% to Rp1,686 billion (US$188 million) in 2002 from Rp1,430 billion in 2001 due to an increase in headcount and inflation.

Other – net expenses increased by 79.5% to Rp1,334 billion (US$149 million) in 2002 from Rp743 billion in 2001 primarily due to increased expenses related to guarantees for customer deposits under the Government Guarantee Program and the provision for litigation related expenses.

Net Non-operating Income/(Expense)

Our net non-operating income/(expense) decreased by 43.9% to net non-operating expense of Rp1,238 billion (US$138 million) in 2002 from net non-operating income of Rp2,205 billion in 2001.

Provision for Income Tax

Our provision for deferred income tax increased by 101.4% to Rp2,224 billion (US$248 million) in 2002 from Rp1,104 billion in 2001. This reflected a higher taxable income generated by the Bank.

Net Profit

As a result of the foregoing, our net profit increased by 30.6% to Rp3,586 billion (US$401 million) in 2002 from Rp2,746 billion in 2001.

LIQUIDITY AND CAPITAL RESOURCES

Our business in 2001 and 2002 was financed principally by a combination of receipts from interest income on the Government recapitalization bonds, the sale of Government recapitalization bonds and increases in deposits. In addition, we have made use of the inter-bank money market and borrowings from third parties and raised finance through the issuance of debt securities. We also maintain liquid reserves, which generally exceed the minimum requirements of Bank Indonesia, in order to manage significant withdrawals of deposits by our customers.

We have principally used our funds for the payment of interest expense on deposits and fund borrowings, the extension of loans and the repayment of fund borrowings, placing funds into the inter-bank money market and the payment of operational expenses (including salaries and employee benefits and general and administrative expenses).

We also use our Government recapitalization bond portfolio to generate liquidity and improve the balance of our interest-earning assets through collateral fund borrowing, sale and repurchase transactions and outright sales. We sold a significant number of Government recapitalization bonds in 2001, principally to other banks. In 2002, we sold outright Rp1,125 billion (US$126 million) of Government recapitalization bonds, sold Rp980 billion (US$109 million) of Government recapitalization bonds with an agreement to repurchase such bonds on January 31, 2004 and exchanged Rp2,902 billion (US$324 million) of Government recapitalization bonds for loans, from IBRA and transferred Rp2,520 billion (US$282 million) of Government recapitalization bonds to the Government in connection with our settlement of the Government's claims that certain non-performing loans and loans written off before our merger with the four predecessor banks should have been transferred to IBRA.

Cash flows from deposits also significantly impact our liquidity position. In 2002, we had cash inflow from an increase in average saving and time deposits although we experienced an outflow of funds from average demand deposits. As we had experienced relatively high average levels of time deposits during 2002, in line with our strategy to decrease excess liquidity and improve our overall funding mix, in the second half of 2002, we reduced the interest rates we offered for time deposits to our customers relative to our competitors. This resulted in a decrease in time deposits by the end of 2002. In 2001, particularly in the last quarter of that year (in which quarter we had cash inflows into our time deposit accounts of Rp18,961 billion including deposits from other banks), we received significant cash inflows into our deposit accounts, principally in time deposits. Accordingly, as of December 31, 2001, we had a significant excess liquidity which we placed into the inter-bank money market and with Bank Indonesia. We believe the significant cash-flows in and out of deposit accounts which contributed to the volatility of our cash-flows are due primarily to the market sensitivity to interest rates in Indonesia, particularly among our corporate and Government-related customers. These customers represented 42.5% of our deposits (excluding deposits from other banks) as of December 31, 2002 and 46.2% as of December 31, 2001.

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

	Year ended December 31		
	2001	**2002**	**2002**
	(Rp billion, except percentage)		(US$ million)
Liquid assets(1)	48,395	28,350	3,198
Government recapitalization bonds held for trading or available for sale	39,185	40,875	4,567
Loan to deposit ratio(2)	25.4%	35.5%	
Liquid assets as a percentage of total assets	18.5%	11.4%	
Liquid assets as a percentage of deposits(2)	25.4%	15.5%	

Notes:

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

(2) Deposits exclude deposits from other banks.

Cash Flows From Operating Activities

Our net cash inflow from operating activities in 2002 of Rp7,699 billion (US$860 million) resulted primarily from cash inflows arising from interest income of Rp32,496 billion (US$3,631 million), of which Government recapitalization bonds represented Rp22,268 billion (US$2,488 million). The net cash inflow also was due to a decrease in placements with other banks of Rp20,706 billion (US$2,314 million) and an increase in savings deposits of Rp7,621 billion (US$852 million), partly offset by cash outflows from interest expenses of Rp25,337 billion (US$2,831 million), the increase of loans of Rp16,938 billion (US$1,893 million) and a decrease in demand deposits and time deposits of Rp4,971 billion (US$555 million) and Rp5,816 billion (US$650 million), respectively.

Our net cash inflow from operating activities in 2001 of Rp14,042 billion resulted primarily from cash inflows arising from interest income of Rp31,377 billion, of which Government recapitalization bonds represented Rp23,027 billion, and increases in deposits of Rp32,881 billion, of which time deposits represented Rp23,809 billion. The increase in deposits was largely due to inflows in the last quarter of 2001, during which time the Bank received Rp18,961 billion in deposits (including deposits from other banks) comprising 79.8% of the increase for the year). This large increase in deposits resulted primarily from our marketing campaign to attract deposits and the offering of highly competitive interest rates on our deposit products. This increase was partly offset by cash outflows from interest expense of Rp24,633 billion and the increase of loans and placements with other banks of Rp14,504 billion and of Rp24,382 billion.

Cash Flows From Investing Activities

Our net cash outflow from investing activities in 2002 of Rp738 billion (US$82 million) was primarily due to the increase of securities categorized as held to maturity (consisting of corporate securities) of Rp673 billion (US$75 million). In addition, net cash outflow was due to the acquisition of premises and equipment in the amount of Rp347 billion (US$39 million). In 2002, we sold Government recapitalization bonds which we purchased in 2001 in the amount of Rp305 billion (US$34 million).

Our net cash outflow from investing activities in 2001 of Rp1,349 billion was primarily due to the acquisition of premises and equipment of Rp755 billion, and the purchase of securities with agreement to resell of Rp305 billion and the increase of securities categorized as "held to maturity" of Rp269 billion, largely SBIs from Bank Indonesia.

As some of our hedge bonds matured in 2001 and 2002, our statements of cash-flows in those years reflected our receipt of cash from the Government upon the redemption of the hedge bonds and an immediate payment by us to the Government for replacement Government recapitalization bonds.

Cash Flows From Financing Activities

Net cash used in financing activities in 2002 of Rp6,773 billion (US$757 million) was in part used to repay US$364 million of floating rate notes and floating rate certificates of deposit issued by the Bank, including the early redemption of US$293 million of floating rate notes, and to pay dividends of Rp1,373 billion (US$153 million).

Net cash used in financing activities in 2001 of Rp14,826 billion was in part used to repay borrowings from other local banks of Rp10,685 billion and to repay US$184.5 million of floating rate notes issued by the Bank, including the early redemption of US$158.5 million of floating rate notes, and to pay dividends of Rp1,011 billion.

Capital Expenditure

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

	Year ended December 31		
	2001	**2002**	**2002**
	(Rp billion)	(Rp billion)	(US$ million)
Land and buildings	2	13	1
Installation of new ATMs	115	77	9
Information technology	391	324	36
Office equipment and vehicles	38	99	11
Total	546	513	57

We have current plans for an aggregate capital expenditure of approximately Rp966.6 billion (US$108 million) in 2003. In 2003, we have budgeted approximately Rp101 billion (US$11 million) for branch network expansion and renovation, Rp722 billion for information technology (including ATMs) and Rp144 billion for other capital expenditures such as office equipment. As of December 31, 2002, we had entered into capital commitments of Rp568 billion (US$63 million), mainly for information technology.

FINANCIAL CONDITION

Assets

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

	Year ended December 31		
	2001	**2002**	**2002**
	(Rp billion)	(Rp billion)	(US$ million)
Cash	1,735	2,165	241
Current accounts with Bank Indonesia	9,895	9,607	1,073
Current accounts with other banks(1)	266	312	35
Placements with other banks(1)	35,488	14,847	1,659
Securities(2)	1,547	2,162	242
Government recapitalization bonds	153,493	148,846	16,631
Loans, net(3)	42,239	56,346	6,296
Trade documents and other facilities	1,414	1,448	162
Acceptances receivable	1,583	2,023	226
Premises and equipment	1,728	1,959	219
Deferred tax assets	4,818	2,595	290

Notes:

(1) Net of allowance for possible losses.

(2) Net of unamortized interest and allowance for possible losses and decline in value.

(3) Net of allowance for possible losses and deferred income.

Our total assets decreased by 4.5% to Rp250,395 billion (US$27,977 million) as of December 31, 2002, from Rp262,291 billion as of December 31, 2001, principally as a result of the appreciation in value of the Rupiah against foreign currencies.

Current accounts with Bank Indonesia decreased 2.9% to Rp9,607 billion (US$1,073 million) as of December 31, 2002 from Rp9,895 billion as of December 31, 2001, primarily due to our decrease in deposit liabilities which resulted in a lower reserve requirement. Placements with other banks – Net decreased by 58.2% to Rp14,847 billion (US$1,659 million) as of December 31, 2002 from Rp35,488 billion as of December 31, 2001, due to the maturity of placements with other banks and a decrease in placements with Bank Indonesia. Securities, which comprised SBIs and other corporate bonds, increased by 39.8% to Rp2,162 billion (US$242 million) as of December 31, 2002 from Rp1,547 billion as of December 31, 2001, primarily due to the increase of foreign currency securities.

Allowance for possible loan losses increased by 46% to Rp8,907 billion (US$995 million) as of December 31, 2002 from Rp6,100 billion as of December 31, 2001, primarily due to the increase in loan volume and the increase in loans categorized as loss. Net loans increased to Rp56,346 billion (US$6,296 million) as of December 31, 2002 from Rp42,239 billion as of December 31, 2001, primarily due to increased loan volume from loan expansion offset to some degree by the appreciation of Rupiah against U.S. dollars. Total other assets decreased by 0.9% to Rp7,637 billion (US$853 million) as of December 31, 2002 from Rp7,707 billion) as of December 31, 2001, primarily due to the decrease of accrued interest income.

Government recapitalization bonds

As of December 31, 2002, we had Rp148,846 billion (US$16,631 million) of Government recapitalization bonds, representing 59.4% of our total assets. The bonds consist of fixed rate, variable rate and hedge bonds. Since their original issuance, our fixed rate bonds have had interest rates ranging from 10.0% to 16.5% per annum. Our variable rate bonds pay interest at the three-month SBI interest rate. Hedge bonds pay a variable interest rate of three-month U.S. dollar Singapore Inter-bank Offering Rate ("SIBOR") +2.0% and the principal amounts are indexed to the exchange rate of the Rupiah to the U.S. dollar as published by Reuters. The original base rate of our hedge bonds at the time of initial issuance on December 28, 1999 was Rp7,200, which was later revised by Bank Indonesia to Rp7,008 on March 6, 2000. The indexed rate of the hedge bonds as of December 31, 2001 and 2002 was Rp10,400 and Rp8,950, respectively. At the end of each year, the value of our hedge bonds as stated in our balance sheet is based on the exchange rate of the Rupiah to the U.S. dollar as published by Reuters at year end, indexed against the original base rate. As of December 31, 2002, 57.9% of our Government recapitalization bonds were variable rate bonds, with hedge bonds and fixed rate bonds representing 11.3% and 30.8%, respectively.

We classify our Government recapitalization bonds into three categories for accounting purposes: trading, available for sale and held to maturity. Historically, we held all of our Government recapitalization bonds either in the held to maturity account or in the trading account. As of September 30, 2001, we reviewed our expected liquidity requirements and re-designated Rp37,686 billion of our portfolio of Government recapitalization bonds from the held to maturity account to the available for sale account. The unsold portion of the Government recapitalization bonds authorized to be traded or available for sale is marked to market monthly while bonds held to maturity are carried at historical cost.

The following table sets forth the book values of our Government recapitalization bonds as of the dates indicated in more detail categorized by type of account:

	Year ended December 31				
	2001(1)		**2002 (2)**		
	Amount	Percentage	Amount		Percentage
	(Rp billion)	of total	(Rp million)	(US$ million)	of total
Trading					
Fixed rate bonds	6,185	4.0%	5,076	567	3.4%
Variable rate bonds	1,830	1.2%	4,218	471	2.8%
Available for sale					
Fixed rate bonds	15,907	10.4%	16,820	1,879	11.3%
Variable rate bonds	15,264	9.9%	14,761	1,649	9.9%
Held to maturity					
Fixed rate bonds	20,245	13.2%	23,901	2,671	16.1%
Variable rate bonds	71,067	46.3%	67,230	7,512	45.2%
Hedge bonds(3)	22,995	15.0%	16,840	1,882	11.3%
Total book value(4)	153,493	100.0%	148,846	16,631	100.0%

Notes:

(1) In 2001, our holding of Government recapitalization bonds was reduced by (i) transferring to IBRA fixed rate bonds with the nominal value of Rp5,215 billion in exchange for loans and (ii) the sale of Rp12,136 billion of variable rate bonds and Rp3,651 billion of fixed rate bonds. During this period, Rp8,880 billion of hedge bonds matured and were replaced with Rp3,270 billion of fixed rate bonds and Rp9,900 billion of hedge bonds. The difference of Rp4,221 billion is due to the repricing of the hedge bonds immediately before such bonds were replaced by fixed rate bonds and new hedge bonds.

(2) In 2002, our holding of Government recapitalization bonds was reduced by our transferring to IBRA fixed rate and variable rate Government recapitalization bonds with a nominal value of Rp5,422 billion (US$606 million) in exchange for certain loans and the sale of Rp1,125 billion (US$126 million) of fixed rate bonds by the Bank. We also returned Rp130 billion of fixed rate bonds to the Government.

(3) As of December 31, 2001, our hedge bonds had an indexed value of Rp22,995 billion, of which Rp4,285 billion represented the effect of indexing (Rp24,519 billion and Rp6,759 billion as of December 31, 2000). As of December 31, 2002, our hedge bonds had an indexed value of Rp16,840 billion (US$1,882 million), of which Rp132 billion (US$15 million) represented the effect of indexing.

(4) The book value is the aggregate of (i) the historical cost of fixed rate and variable rate Government recapitalization bonds which are classified as held to maturity, (ii) the indexed value in relation to hedge bonds and (iii) the marked to market value of securities held in the trading and available for sale accounts.

Reprofiling of Government recapitalization bonds

On November 20, 2002, the Government completed a reprofiling of certain Government recapitalization bonds which became necessary due to continuing Government budgetary constraints. The scheme allows the Government to replace a portion of the outstanding recapitalization bonds which were due to mature between 2004 and 2009 with Government recapitalization bonds that have longer maturity periods.

Under the reprofiling scheme, the Government reprofiled approximately Rp171.8 trillion (US$19,196 million) of its recapitalization bonds by shifting the maturity profile of such bonds to between 2010 and 2020. The reprofiling affected Rp103,849 billion (US$11,603 million) of our Government recapitalization bonds, representing approximately 69.8% of the Bank's recapitalization bonds as of December 31, 2002. The reprofiling did not apply to any hedge bonds. The reprofiling provided the Bank with a yield increase of approximately 1.0% on the reprofiled fixed rate Government recapitalization bonds, as the range of yields on these bonds went from 10.0% to 16.5% to 13.2% to 15.6% following the completion of the reprofiling. This amounts to an annual increase of Rp317 billion (US$35 million) in interest payments based on our holding of Government recapitalization bonds as of December 31, 2002. The yield curve utilized by the Government to establish the revised interest rate for the reprofiled Government recapitalization bonds was established through negotiation between the Government and the banks affected. The same yield curve was utilized by the Government to reprofile the Government recapitalization bonds held by each of the banks affected.

All Government recapitalization bonds which were reprofiled were put into the held to maturity portfolio. This meant that immediately following the reprofiling we held Rp138,569 billion (US$15,483 million) of our Government recapitalization bonds in our held to maturity portfolio and only Rp16,247 billion (US$1,815 million) of our Government recapitalization bonds in our trading and available for sale portfolios. Given the exceptional circumstances of the reprofiling, post the reprofiling, the Bank was permitted to re-categorize some Government recapitalization bonds as trading or available for sale without being required to mark to market the entire portfolio, which may have resulted in the Bank recording a loss.

The following table sets forth a breakdown of our Government recapitalization bonds in relation to the reprofiling in 2002:

	Prior to Reprofiling as of November 20, 2002			**After Reprofiling as of November 20, 2002**			**After Re-categorization as of November 30, 2002**		
	Amount		Percentage	Amount		Percentage	Amount		Percentage
	(Rp billion)	(US$ million)	of total	(Rp billion)	(US$ million)	of total	(Rp billion)	(US$ million)	of total
Trading	9,275	1,036	6.0%	8,043	897	5.0%	12,668	1,415	8.0%
Available for Sale	34,129	3,813	22.0%	8,204	917	5.0%	33,921	3,790	22.0%
Held to Maturity	111,412	12,448	72.0%	138,569	15,483	90.0%	108,227	12,092	70.0%
Total book value	154,816	17,298	100.0%	154,816	17,298	100.0%	154,816	17,298	100.0%

Loans

As of December 31, 2002, our gross consolidated loan portfolio amounted to Rp65,417 billion (US$7,309 million), or 26.1% of our total assets.

On a non-consolidated (Bank only) basis, total loans outstanding were Rp63,941 billion (US$7,144 million) as of December 31, 2002, a 35.0% increase from Rp47,353 billion at the end of 2001. In 2002, the Bank extended Rp15,277 billion (US$1,707million) in new loans and recorded a foreign currency translation adjustment of Rp2,829 billion (US$316 million). We acquired loans from IBRA of Rp4,974 billion (US$556 million). During the same period, the

Bank received loan repayments of Rp1,100 billion (US$123 million), wrote off net loans of Rp1,270 billion (US$142 million) and wrote back sustainable loans of Rp1,536 billion(US$172million).

The following table sets forth, on a non-consolidated basis, the composition of our loan accounts as of December 31, 2002:

Size Of Loan (Rp billion)	Number of Accounts as of Dec 31, 2002 (thousands)	Percentage of Accounts as of Dec 31 2002	Aggregate Outstanding Balance of Loans as of Dec 31, 2002 (Rp billion)	(US$ million)	Loans as a Percentage of Total Loans as of Dec 31, 2002
Less than 35	99,371	99.7%	22,973	2,567	35.9%
35 to 75	184	0.2%	9,469	1,058	14.8%
75 to 200	112	0.1%	13,176	1,472	20.6%
200 to 700	39	–	12,178	1,361	19.1%
700 or greater	6	–	6,145	687	9.6%
Total	99,712	100.0%	63,941	7,144	100.0%

Written-off loans

In 2002, we wrote off Rp6,481 billion (US$724 million) of loans and also recovered Rp5,295 billion (US$592 million) of our loans previously written-off prior to and during 2002. However, of this amount of Rp5,295 billion (US$592 million), only Rp1,124 billion (US$126 million) represented cash received by us and Rp4,171 billion (US$466 million) represented the write back of loans to the RGM Group previously written off in 2001.

As of December 31, 2002, our portfolio of loans, other earnings and assets written-off totaled Rp20,588 billion (US$2,300 million). These loans and other earning assets are not reflected in our financial statements once they are written-off.

Also in December 2002, we reached an agreement with the Government respecting its claims that Rp1,275 billion (US$142 million) of non-performing loans (being loans below Rp5.0 billion) and Rp11,326 billion (US$1,265 million) of loans written-off before our merger with the four predecessor banks also should have been transferred to IBRA. The Government asserted we or our predecessor banks had received additional recapitalization with respect to these loans, as the loans had been written-off, which increased the loss sustained and so the Government recapitalization bonds required to cover such loss. Pursuant to a settlement reached with the Government, we paid to the Government a total of Rp2,520 billion (US$282 million) to reacquire ownership of these loans, representing 20.0% of the disputed amount. We made this payment in three installments in December 2002. We paid Rp2,025 billion (US$226 million) to the Government on December 20, 2002 and Rp495 billion (US$55 million) on December 24, 2002 in each case using Government recapitalization bonds and Rp0.6 million (US$67) on December 27, 2002 using cash.

The table below sets out the impact on movements of our written-off earning assets (consisting of loans and other earning assets) during 2001 and 2002:

	Year ended December 31		
	2001	2002	2002
	(Rp billion)	(Rp billion)	(US$ million)
Balance at beginning of year	16,011	23,631	2,641
Write-offs	13,456	6,481	724
Recoveries	(1,960)	(1,124)	(126)
Written-back loans(1)	–	(4,171)	(466)
Transfer to IBRA	(4,030)	(12,601)	(1,408)
Excess of loans repurchased from IBRA over purchase price	–	10,081	1,126
Others(2)	154	(1,709)	(191)
Balance at end of year	23,631	20,588	2,300

Notes:

(1) Represents the write back of loans to the RGM Group in the year ended December 31, 2002 previously written off in the year ended December 31, 2001. Loan recoveries on written-off loans and written-back loans are added back to provisions in accordance with Indonesian GAAP.

(2) Includes reductions or "haircuts" and translation adjustments arising from different exchange rates.

Loans purchased from IBRA

In July 2002, we participated in an auction conducted by IBRA where IBRA offered loans with a face value of Rp135.4 trillion (US$15,128 million) from approximately 2,500 debtors. We formed consortia to bid for loans from the IBRA auction, accepting offers from 11 securities companies, including PT Mahanusa Securities, PT Anugra Cipta Investama and PT Batavia Prosperindo Sekuritas to join our consortium and participate in due diligence on the loans. We agreed with our consortium partners that any loans which were purchased would be divided into "sustainable debt" and "unsustainable debt", with the intention that sustainable debt be retained by the Bank and unsustainable debt be purchased by the consortium to be exchanged for mandatory convertible bonds issued by the relevant debtor. "Sustainable debt" refers to debt that the Bank believes can be fully repaid by the debtor from the debtor's internally generated cash flow within a reasonable time and "unsustainable debt" refers to the difference between the amount of the sustainable debt and the book value recognized for such debt by IBRA.

We established a team of 105 employees to work on our acquisition of the loans from IBRA consisting of personnel from our business units, risk management units, credit recovery unit and credit operations unit, and focused on loans from certain industries such as plantations, food, coal, mining, forestry, plywood, agriculture-based and telecommunications. We selected loans based on factors such as debtor's prospects, the type of business of the debtor (whether in the export or import substitution business), whether the debtor is a going concern, the completeness of credit and legal documents, the collateral value (whether it is higher than the sustainable debt), cash flow projections for the debtor, the debtor's payment record and the extent of loans provided to the debtor from other creditors. A majority of the loans we bid for were previously extended by our predecessor banks which we believe assisted us in our ability to make an assessment of the debtors. All of the loans we bought in the auction are non-performing and the debtors consist of private companies.

Ten of our consortia successfully bid for Rupiah and foreign currency denominated loans with a face value of Rp23,196 billion (US$2,592 million). We identified only Rp4,294 billion (US$480 million) of such loans which we determined to be sustainable debt. Our successful bids for these loans aggregated Rp4,473 billion (US$500 million), of which amount Rp3,841 billion (US$429 million) was contributed by the Bank and Rp632 billion (US$71 million) was contributed by our consortium partners. Our bid price represented 19.2% of the outstanding principal amount of the loans for which we bid. The balance of the face value of these loans was also determined to be unsustainable and was taken by our consortium partners.

In respect of the Rp4,473 billion (US$500 million) bid, we made the total payment for the loans purchased directly to IBRA. Of the total amount we paid for these loans, 20.0% of the payment was paid in cash in July and August 2002, 20.0% of the payment was paid in cash in September, October and November 2002 and the remaining 60.0% was paid in October and November 2002 using fixed rate Government recapitalization bonds maturing in 2005 or earlier, held in our trading or available for sale accounts. In calculating the amount of bonds we paid to IBRA, each Government recapitalization bond was valued at 100.0% of its face value.

On our balance sheet, we credited cash and Government recapitalization bonds for Rp3,841 billion (US$429 million) and debited loans and other assets for Rp4,024 billion (US$450 million) and Rp270 billion (US$30 million), respectively. The difference of Rp453 billion (US$51 million) was recorded as an allowance for possible losses (Rp289 billion (US$32 million) and deferred income (Rp164 billion (US$181 million). This allowance or deferred income may be recognized in profit and loss if the loans are repaid. The amount of Rp3,841 billion (US$429 million) consisted of Rp1,167 billion (US$130 million) in cash and Rp2,674 billion (US$299 million) in Government recapitalization bonds. We recorded Rp270 billion (US$30 million) as other assets, reflecting loans purchased from IBRA for which the documentation transferring the loans to the Bank had not yet been completed during 2002, whereas the amount of Rp4,024 billion (US$450 million) reflects loans purchased from IBRA for which the documentation transferring the loans to the Bank had been completed as of 2002. As the Government recapitalization bonds we used for payment for the loans had already been marked to market, we recognized realized profits of Rp83 billion (US$9.3 million) in the payment of the bonds to IBRA as the marked to market value of the Government recapitalization bonds was lower than their face value. Reflecting repayments we received during late 2002 and movements in the Rupiah and the U.S. dollar exchange rate, as of December 31, 2002, we recognized Rp3,990 billion (US$446 million) in our financial statements as loans.

Under a Bank Indonesia regulation, dated September 29, 2002, the loans purchased in the auction can be treated as current (and only 1.0% be provided for them) for 12 months after their initial purchase. After this period, these loans will be classified according to Bank Indonesia's standard requirements. For such loans which have not been restructured by the expiration of the 12-month period referred to above (and if such loans have not been fully repaid), a provision of up to 100.0% will be made on the balance of the sustainable debt portion of the loan purchased according to Bank Indonesia's standard requirements. In addition, Bank Indonesia requires banks to fully recover the purchase price of the loans within five years from the date of booking the loans. Any unpaid amount at the end of five years must be written off.

Of the loans purchased in the auction, only loans totaling Rp1,752 billion (US$196 million) and relating to 56 debtors had been successfully restructured as of December 31, 2002. As of December 31, 2002, the remaining loans not yet restructured totaled Rp2,238 billion (US$250 million). The Bank did not start restructuring negotiations until after all payments owing to IBRA were made (which effectively meant restructuring negotiations did not commence until November 2002). The remaining Rp1,800 billion (US$201 million) of loans comprises loans borrowed by one business group, the restructuring of which is likely to involve complex restructuring techniques which may require a longer time frame to complete.

In addition to the loans acquired under the above-mentioned IBRA auction, during 2002, the Bank directly and indirectly acquired loans from IBRA totaling Rp1,060 billion (US$118 million). In 2002, we made direct purchases from IBRA of loans of Rp539 billion (US$60 million) after one-on-one negotiations with IBRA. We also purchased IBRA loans from the following unrelated companies: PT Optix Limited, PT Danatama Makmur Securities, PT Woka International and PT Mandari Securities Indonesia. Such parties, before receipt of such funds, had purchased the loans from IBRA. Our accounting treatment for both direct and indirect purchases is the same as our accounting treatment for loans.

LIABILITIES AND SHAREHOLDER'S EQUITY

Liabilities

Total liabilities and shareholder's equity decreased by 4.5% to Rp250,395 billion (US$27,977 million) as of December 31, 2002 from Rp262,291 billion as of December 31, 2001 principally as a result of decreased liabilities. This decrease was partially offset by an increase in shareholder's equity.

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

	Year ended December 31		
	2001	**2002**	**2002**
	(Rp billion)	(Rp billion)	(US$ million)
Demand deposits	37,557	32,580	3,640
Savings deposits	22,305	29,926	3,344
Time deposits	129,783	121,529	13,578
Certificates of Deposits	801	79	9
Total deposits	190,446	184,114	20,571
Deposits from other banks	12,528	12,893	1,441
Securities issued	3,394	1,474	165
Fund borrowings	18,204	13,660	1,526
Estimated losses on commitments and contingencies	5,284	1,211	135
Other liabilities	8,593	9,120	1,019
Subordinated loans	6,390	6,359	711
Loan capital	3,159	2,963	331
Shareholder's equity	10,777	14,435	1,613

Deposits

Total deposits decreased by 3.3% to Rp184,114 billion (US$20,571 million) as of December 31, 2002 from Rp190,446 billion as of December 31, 2001 due to the decrease in deposits from corporate customers and appreciation in value of the Rupiah against the U.S. dollar. Although we experienced a decrease in demand and time deposits, our savings deposits increased to Rp29,926 billion in 2002, a gain of 34.2% as compared to 2001.

Fund Borrowings

Fund borrowings decreased by 25.0% to Rp13,660 billion (US$1,526 million) as of December 31, 2002 from Rp18,204 billion as of December 31, 2001 due to repayment of some fund borrowings and appreciation in value of the Rupiah against the U.S. dollar. Securities issued decreased by 56.7% to Rp1,474 billion (US$165 million) as of December 31, 2002 from Rp3,394 billion as of December 31, 2001. Other liabilities increased by 6.1% to Rp9,120 billion (US$1,019 million) as of December 31, 2002 from Rp8,593 billion as of December 31, 2001. This increase was due to the recording of a return to the Government of additional paid-in capital of Rp1,412 billion offset partially by settlement of sundry creditors.

Shareholder's Equity

Total shareholder's equity increased by 33.9% to Rp14,435 billion (US$1,613 million) as of December 31, 2002 from Rp10,777 billion as of December 31, 2001. This increase included the reduction in unrealized losses on Government recapitalization bonds available for sale from Rp5,047 billion as of December 31, 2001 to Rp2,138 billion (US$239 million) as of December 31, 2002. This reduction in unrealized losses was due to the increase in value of the fixed rate Government recapitalization bonds as SBI rates fell.

COMMITMENT AND CONTINGENCIES

Foreign Exchange and Derivative Contracts

Our policy regarding foreign exchange risk is to comply with Bank Indonesia's regulatory limits with respect to our net open position. Bank Indonesia currently requires that our consolidated (domestic and overseas) net open position in all foreign currencies be no more than 20.0% of our Tier I and Tier II capital. Our policies include entering into transactions to transfer foreign exchange risk of derivative transactions with our customers to other parties, buying and selling foreign currencies as required to manage our net open position after taking into consideration the foreign exchange impact of our hedge bonds. Our hedging activities to manage our net open positions are made under the direction of our Risk and Capital Committee.

We enter into forward and cross-currency swap transactions with our customers. These forward and cross-currency swap transactions enable customers to transfer, modify or reduce their foreign exchange risks. As part of the Bank's risk management policy, the Bank covers these derivative contracts with customers, with opposite forward and cross-currency swap agreements with other financial institutions.

These opposite forward and cross-currency swap agreements are designed to have substantially similar notional amounts and maturities to the original derivative contracts. The following table sets forth on a non-consolidated basis the aggregate notional principal amounts of our outstanding derivative contracts as of the dates indicated, together with the related fair value:

	Year ended December 31			
	2001		2002	
	(Rp billion)			
	NOTIONAL	FAIR	NOTIONAL	FAIR
Forward – buy U.S. dollar	225	218	120	117
Other currencies	–	–	9	9
Forward – sell U.S. dollar	79	77	124	121
Other currencies	–	–	9	9
Swap – buy U.S. dollar	186	187	162	161
Other currencies	–	–	–	–
Swap – sell U.S. dollar	186	187	1,089	801
Other currencies	–	–	–	–
Interest rate swaps	–	–	1,119	70

Letters of Credit and Guarantees

As part of our ordinary banking activities, we issue financial and performance guarantees and letters of credit, for which we charge a fee based on the value of the letter of credit or guarantee, as applicable. The guarantees we provide for trade finance are generally for periods not exceeding 10 years and letters of credit are generally for periods not exceeding one year.

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

	Year ended December 31		
	2001	2002	2002
	(Rp billion)	(Rp billion)	(US$ million)
Irrevocable letters of credit	5,544	6,371	712
Guarantees			
Bank guarantees	4,596	4,886	546
Standby letters of credit	3,810	3,235	361
Total	13,950	14,492	1,619

Irrevocable letters of credit outstanding increased by 14.9% to Rp6,371 billion (US$712 million) as of December 31, 2002 compared to Rp5,544 billion as of December 31, 2001 due in part to our strategy of expanding our trade finance business.

Bank guarantees outstanding increased by 6.3% to Rp4,886 billion (US$546 million) as of December 31, 2002 compared to Rp4,596 billion as of December 31, 2001.

Standby letters of credit outstanding decreased by 15.1% to Rp3,235 billion (US$361 million) as of December 31, 2002 as compared to Rp3,810 billion as of December 31, 2001 reflecting the appreciation of the Rupiah against the U.S. dollar.

CAPITAL

We are subject to the capital adequacy requirements of Bank Indonesia which are primarily based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements in 1988, with some modifications. In February 1999, Bank Indonesia issued a regulation that required Indonesian banks to increase their minimum capital adequacy to 8.0% by the end of 2001. Bank Indonesia regulations require that the capital adequacy ratio be presented without calculation of deferred income tax.

As of December 31, 2002, the Bank's capital adequacy ratio (CAR) was 23.4% compared to 26.4% as of December 31, 2001. The decrease was primarily due to the increase of risk-weighted assets to Rp72,513 billion from Rp58,080 billion in the previous year.

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

	Year ended December 31		
	2001	**2002**	**2002**
	(Rp billion, except percentages)		(US$ million)
Tier I capital	8,850	11,016	1,231
Tier II capital	7,257	7,322	819
Investments in shares of stock(1)	(753)	(1,380)	(154)
Total capital	15,354	16,958	1,894
Total risk-weighted assets	58,080	72,513	8,102
Capital Adequacy Ratios:			
Tier I capital adequacy ratio(2)	15.2%	15.2%	–
Capital adequacy ratio(2)	26.4%	23.4%	–
Minimum capital adequacy ratios required by Bank Indonesia			
Total capital	8.0%	8.0%	–

Notes:

(1) For 2001 and 2002, Bank Indonesia regulations required investments in subsidiaries (excluding debt for equity swaps) to be deducted when determining our total capital.

(2) Ratios in the table are based on Bank Indonesia regulations and methods of calculations for each of the years indicated in the table.

As these regulatory ratios are computed in accordance with Bank Indonesia regulations, Tier II capital includes any general provisions made in our Indonesian GAAP financial statements for potential future loan losses.

OTHER FINANCIAL RATIOS (BANK ONLY)

The following table sets out selected additional financial ratios as measured in accordance with Bank Indonesia regulations:

	Year ended December 31	
RATIO	**2001**	**2002**
Premises and equipment to capital	10.54%	10.87%
Non-performing earning assets	4.71%	2.66%
Allowance for losses on earning assets to earning assets	5.82%	4.92%
Compliance for allowance for losses on earning assets	132.53%	178.94%
Operating expenses to operating income(1)	94.91%	87.15%
Percentage of lending in excess of legal lending limit:		
* Related party	0.00%	0.00%
* Third party	0.00%	0.00%
Percentage violation of legal lending limit:		
* Related party	0.00%	0.00%
* Third party	0.00%	0.00%
Reserve requirement (Rupiah)	5.26%	5.19%
Net open position	19.38%	5.64%
Percentage of small scale business credit to total loans	5.39%	4.51%
Percentage of small scale business credit debtors to total debtors	54.50%	33.19%

Notes:

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

RESPONSIBILITY FOR FINANCIAL REPORTING

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

BOARD OF COMMISSIONERS

BINHADI
Chairman

SOEDARJONO Commissioner	MARKUS PARMADI Commissioner	SABANA KARTASASMITA Commissioner

BOARD OF DIRECTORS

E.C.W. NELOE
President and CEO

I WAYAN PUGEG Managing Director and EVP Coordinator	I WAYAN AGUS MERTAYASA Managing Director and EVP Coordinator

EXECUTIVE VICE PRESIDENT COORDINATORS

K. KEAT LEE EVP Coordinator – Financial and Information	I. SUPOMO EVP Coordinator – Distribution Network
M. SHOLEH TASRIPAN EVP Coordinator – Corporate and Government	OMAR S. ANWAR EVP Coordinator – Retail Banking

CONDENSED CONSOLIDATED FINANCIALS STATEMENTS DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT DECEMBER 31, 2002 AND 2001

PT Bank Mandiri (Persero) and Subsidiaries

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS December 31, 2002 and 2001

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The condensed consolidated financial statements do not provide all of the information (in particular notes to the consolidated financial statements) presented in the complete consolidated financial statements. The complete consolidated financial statements dated March 31, 2003, including the independent auditors' report No. RPC-00297/01, can be requested from the Management of Bank Mandiri. Investment decisions should not be based on the condensed consolidated financial statements.

ERNST & YOUNG

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Tower 1, 13th Floor
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190
Indonesia

■ Phone: (62-21) 5289 5000
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INDEPENDENT AUDITORS' REPORT
REPORT NO. RPC-00371/01

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

We have audited, in accordance with auditing standards established by the Indonesian Institute of Accountants and Government Auditing Standards issued by the Financial Government Supervisory Board, the consolidated balance sheets of PT Bank Mandiri (Persero) (herein referred to as "Bank Mandiri") and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of profit and loss, changes in shareholder's equity and cash flows for the years then ended (not presented herein); and in our report No. RPC-00297/01 dated March 31, 2003, we expressed an unqualified opinion on those consolidated financial statements, which included explanatory paragraphs that described a reconciliation of shareholders' equity and net profit determined according to accounting principles generally accepted in Indonesia to the amounts determined under International Accounting Standards and additional information comprising of parent only financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements of Bank Mandiri and Subsidiaries is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived. The notes to the condensed consolidated financial statements are not complete and therefore do not contain all the required information necessary under Indonesian generally accepted accounting standards.

PRASETIO, SARWOKO AND SANDJAJA

Drs. Iman Sarwoko
Public Accountant License No. 98.1.0359

March 31, 2003

The accompanying condensed consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia, and are derived from the consolidated financial statements of PT Bank Mandiri (Persero) and Subsidiaries as of December 31, 2002 and 2001, and for the years then ended presented in accordance with accounting principles and practices generally accepted in Indonesia.

The condensed consolidated financial statements do not provide all of the information (in particular notes to the consolidated financial statements) presented in the complete consolidated financial statements. The complete consolidated financial statements dated March 31, 2003, including the independent auditors' report No. RPC-00297/01, can be requested from the Management of Bank Mandiri. Investment decisions should not be based on the condensed consolidated financial statements.

PT Bank Mandiri (Persero) and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2001

(Expressed in millions of Rupiah, unless otherwise stated)

	Notes	2002	2001
ASSETS			
Cash		**2,164,651**	1,735,258
Current Accounts with Bank Indonesia		**9,607,119**	9,895,331
Current Accounts and Placements with Other Banks – net		**15,158,585**	35,753,776
Securities – net	3	**2,162,409**	1,547,120
Government Bonds	4	**148,845,927**	153,493,218
Trade Documents and Other Facilities – net		**1,447,875**	1,413,995
Securities Purchased with Agreement to Resell – net		**–**	302,051
Derivative Receivables – net	5	**361,323**	6,534
Loans – net	6	**56,346,419**	42,239,050
Acceptances Receivable – net		**2,023,071**	1,582,979
Premises and Equipment – net		**1,958,782**	1,727,478
Deferred Tax Assets – net	12	**2,594,688**	4,817,617
Other Assets	7	**7,723,840**	7,776,588
TOTAL ASSETS		**250,394,689**	262,290,995
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Other Current Liabilities		**70,548**	62,065
Deposits from Customers and Other Banks	8	**197,006,780**	202,973,580
Securities Sold with Agreement to Repurchase		**735,000**	–
Derivative Payables	5	**7,434**	11,976
Acceptances Payable		**2,150,609**	1,804,708
Securities Issued – net	9	**1,474,241**	3,393,503
Fund Borrowings	10	**13,659,536**	18,204,233
Allowance for Possible Losses on Commitments and Contingencies		**1,211,211**	5,284,345
Taxes payable	12	**295,949**	346,209
Other Liabilities	11	**10,023,160**	9,881,522
Subordinated Loans	13	**6,358,965**	6,390,201
Loan Capital	14	**2,963,250**	3,159,000
Total Liabilities		**235,956,683**	251,511,342
Minority Interests in Net Assets of Consolidated Subsidiaries		**3,496**	2,868
Shareholder's Equity	15		
Share Capital		**4,251,000**	4,251,000
Additional Paid-in Capital		**173,550,319**	174,962,319
Differences Arising from Translation of Foreign Currency Financial Statements		**64,164**	83,745
Unrealized Losses on Securities and Government Bonds Available for Sale		**(2,138,186)**	(5,047,162)
Premises and Equipment Revaluation Increment		**9,788**	9,788
Accumulated Losses		**(161,302,575)**	(163,482,905)
Total Shareholder's Equity		**14,434,510**	10,776,785
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**250,394,689**	262,290,995

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

The condensed consolidated financial statements do not provide all of the information (in particular notes to the consolidated financial statements) presented in the complete consolidated financial statements. The complete consolidated financial statements dated March 31, 2003, including the independent auditors' report No. RPC-00297/01, can be requested from the Management of Bank Mandiri. Investment decisions should not be based on the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
Years Ended December 31, 2002 and 2001

(Expressed in millions of Rupiah, unless otherwise stated)

	Notes	2002	2001
INCOME AND EXPENSES FROM OPERATIONS			
Interest Income	16	**31,878,668**	31,496,230
Interest Expense	17	**(25,016,579)**	(24,387,008)
Net Interest Income		**6,862,089**	7,109,222
Other Operating Income	18	**1,611,875**	1,455,685
Provision of Allowance for Possible Losses on Earning Assets	21	**(4,590,643)**	(6,703,896)
Reversal of Allowance for Possible Losses on Commitments and Contingencies and Other Assets		**3,653,373**	4,256,133
Gain/(Loss) from Increase/(Decrease) in Value of Securities and Government Bonds – net		**1,530,413**	(1,022,862)
Gain from Sale of Securities and Government Bonds		**490,337**	710,724
Other Operating Expenses	19	**(4,985,023)**	(4,159,556)
PROFIT FROM OPERATIONS		**4,572,421**	1,645,450
NON-OPERATING INCOME – NET	20	**1,237,549**	2,204,988
PROFIT BEFORE CORPORATE INCOME TAX EXPENSE AND MINORITY INTERESTS		**5,809,970**	3,850,438
CORPORATE INCOME TAX EXPENSE		**(2,223,753)**	(1,104,475)
PROFIT BEFORE MINORITY INTERESTS		**3,586,217**	2,745,963
MINORITY INTERESTS IN NET PROFIT OF CONSOLIDATED SUBSIDIARIES		**(628)**	(206)
NET PROFIT		**3,585,589**	2,745,757
Earnings per share		**0.843**	0.646

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

The condensed consolidated financial statements do not provide all of the information (in particular notes to the consolidated financial statements) presented in the complete consolidated financial statements. The complete consolidated financial statements dated March 31, 2003, including the independent auditors' report No. RPC-00297/01, can be requested from the Management of Bank Mandiri. Investment decisions should not be based on the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
Years Ended December 31, 2002 and 2001

(Expressed in millions of Rupiah, unless otherwise stated)

	Notes	Issued and Fully Paid-Up Capital	Additional Paid-in-Capital	Differences Arising from Translation of Foreign Currency Financial Statements
Balance as of December 31, 2000		4,251,000	175,092,004	138,024
2001 Movements:				
Return of additional paid-in capital relating to assets transferred to PT Pengelola Harta Tetap Mandiri ("PHTM")			(129,685)	
Reduction in differences arising from the translation of foreign currency financial statements				(54,279)
Unrealized losses on securities and Government Bonds available for sale				
Dividends	15			
Allocation for small industry or cooperative development fund ("PUKK")	15			
Reserve allocated from 2000 net profit	15			
Net profit for 2001				
Balance as of December 31, 2001		4,251,000	174,962,319	83,745

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

The condensed consolidated financial statements do not provide all of the information (in particular notes to the consolidated financial statements) presented in the complete consolidated financial statements. The complete consolidated financial statements dated March 31, 2003, including the independent auditors' report No. RPC-00297/01, can be requested from the Management of Bank Mandiri. Investment decisions should not be based on the condensed consolidated financial statements.

Unrealized Losses on Securities and Government Bonds Available for Sale	Premises and Equipment Revaluation Increment	Accumulated Losses			Total Shareholder's Equity
		Unappropriated	Appropriated	Total	
(22,040)	9,788	(165,206,362)		(165,206,362)	14,262,414
					(129,685)
					(54,279)
(5,025,122)					(5,025,122)
		(1,011,219)		(1,011,219)	(1,011,219)
		(11,081)		(11,081)	(11,081)
		(159,140)	159,140		
		2,745,757		2,745,757	2,745,757
(5,047,162)	9,788	(163,642,045)	159,140	(163,482,905)	10,776,785

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (CONTINUED)

Years Ended December 31, 2002 and 2001

(Expressed in millions of Rupiah, unless otherwise stated)

	Notes	Issued and Fully Paid-Up Capital	Additional Paid-in-Capital	Differences Arising from Translation of Foreign Currency Financial Statements
Balance as of January 1, 2002		4,251,000	174,962,319	83,745
2002 Movements:				
Proposed return of additional paid-in capital to the Government			(1,412,000)	
Reduction in differences arising from the translation of foreign currency financial statements				(19,581)
Unrealized gain on securities and Government Bonds available for sale				
Dividends	15			
Allocation for small industry or cooperative development fund ("PUKK"), environmental development fund and directors' bonus (tantiem)				
Reserve allocated from 2001 net profit	15			
Net profit for 2002				
Reserve allocated from net profit for the six-month period ended June 30, 2002				
Balance as of December 31, 2002		**4,251,000**	**173,550,319**	**64,164**

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

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Unrealized Losses on Securities and Government Bonds Available for Sale	Premises and Equipment Revaluation Increment	Accumulated Losses			Total Shareholder's Equity
		Unappropriated	Appropriated	Total	
(5,047,162)	9,788	(163,642,045)	159,140	(163,482,905)	10,776,785
					(1,412,000)
					(19,581)
2,908,976					2,908,976
		(1,372,878)		(1,372,878)	(1,372,878)
		(32,381)		(32,381)	(32,381)
		(1,340,498)	1,340,498		
		3,585,589		3,585,589	3,585,589
		(600,000)	600,000		
(2,138,186)	**9,788**	**(163,402,213)**	**2,099,638**	**(161,302,575)**	**14,434,510**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2002 and 2001

(Expressed in millions of Rupiah, unless otherwise stated)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from interest income	**33,704,136**	32,149,652
Payment of interest expense	**(25,401,533)**	(24,715,692)
Foreign exchange losses – net	**4,335,401**	(652,516)
Operating income – others	**584,686**	720,409
Operating expenses – others	**2,354,266**	3,496,697
Salaries and employee benefits	**(1,565,951)**	(1,670,186)
General and administrative expenses	**(1,772,469)**	(1,737,752)
Non-operating income – others – net	**279,749**	2,100,389
Profit before changes in operating activities	**12,518,285**	9,691,001
(Increase)/decrease in operating assets:		
Placements with other banks	**20,705,663**	(24,381,959)
Securities – trading portfolio	**(453,537)**	(410,353)
Sale of Government Bonds – trading portfolio	**1,024,891**	14,200,453
Acceptances receivable	**–**	(14,698)
Trade documents and other facilities	**322,205**	(654,366)
Loans	**(16,937,933)**	(14,503,663)
Proceeds from collection of earning assets already written-off	**1,103,124**	2,279,047
Other assets	**(1,185,686)**	4,927,526
Increase/(decrease) in operating liabilities:		
Deposits from customers and other banks	**(6,428,354)**	32,880,712
Other current liabilities	**8,483**	(154,550)
Inter-bank call money	**461,554**	(388,045)
Taxes payable	**(51,084)**	10,068
Other liabilities	**(3,368,759)**	(9,385,372)
Differences arising from translation of foreign currency financial statements	**(19,581)**	(54,279)
Net cash provided by operating activities	**7,699,271**	14,041,522
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in securities – held to maturity portfolio	**(673,200)**	(269,246)
Redemption of matured Government hedge bonds	**11,552,679**	13,100,468
Replacement of matured Government hedge bonds	**(11,552,679)**	(13,100,468)
Increase in investments in shares of stock	**(23,818)**	(19,528)
Sale/(purchase) of securities purchased with agreement to resell	**305,102**	(305,102)
Acquisition of premises and equipment	**(347,354)**	(754,936)
Proceeds from sale of premises and equipment	**1,472**	–
Net cash used in investing activities	**(737,798)**	(1,348,812)

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

The condensed consolidated financial statements do not provide all of the information (in particular notes to the consolidated financial statements) presented in the complete consolidated financial statements. The complete consolidated financial statements dated March 31, 2003, including the independent auditors' report No. RPC-00297/01, can be requested from the Management of Bank Mandiri. Investment decisions should not be based on the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2002 and 2001

(Expressed in millions of Rupiah, unless otherwise stated)

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

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

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(Expressed in millions of Rupiah, unless otherwise stated)

1. GENERAL

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

Bank Mandiri's Articles of Association have been amended several times, most recently by notarial deed No. 48 of Sutjipto, S.H. dated July 10, 2001, concerning the distribution of net profit.

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

As of December 31, 2002 and 2001, Bank Mandiri has domestic and offshore branches of 687 and 3, and 635 and 4, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation of the Consolidated Financial Statements

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

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

b. Consolidation

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

Subsidiaries included in the consolidated financial statements are as follows:

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

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(Expressed in millions of Rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. *Consolidation (Continued)*

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

c. *Foreign Currency Transactions and Balances*

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

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

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

d. *Transactions with Related Parties*

Transactions between Bank Mandiri and its subsidiaries, with state- and region-owned/controlled entities including the Indonesian Bank Restructuring Agency ("IBRA") and entities related to and controlled by IBRA as a result of the "bank and corporate restructuring program", are not considered as transactions with related parties.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

The Bank maintained allowances that in most cases exceed Bank Indonesia's minimum allowance requirements.

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

f. Securities

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

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

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

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

g. Government Bonds

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Government Bonds (Continued)

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

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

h. Trade Documents and Other Facilities

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

i. Securities Purchased/Sold with Agreement to Resell/Repurchase

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

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

j. Derivative Receivables and Derivative Payables

The Bank enters into transactions involving derivative financial instruments such as foreign currency forward contracts, foreign currency swaps and interest rate swaps.

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

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

k. Loans

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

Loans purchased from IBRA

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Loans (Continued)

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

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

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

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

l. Loan Restructuring

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

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

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

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

m. Acceptances Receivable and Payable

Acceptances receivable and payable are stated at the value of the letters of credit or realizable value of the letters of credit accepted by the Bank.

n. Premises and Equipment

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Premises and Equipment (Continued)

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

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

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

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

o. Deposits from Customers and Other Banks

Deposits from customers consist of demand deposits, saving deposits and time deposits which are stated at nominal amount, and certificate of deposits which is stated at nominal value reduced by unamortized interest. The difference between the present value received and the nominal value (discount) is recognized as interest paid in advance and is amortized over the time periods of the certificates of deposit.

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

p. Securities Issued

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

q. Provision for Income Tax

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Provision for Income Tax (Continued)

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

r. Interest Income and Interest Expense

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

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

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

s. Fees and Commissions

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

t. Pension Plan

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

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

u. Earnings Per Share

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

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

(Expressed in millions of Rupiah, unless otherwise stated)

3. SECURITIES

a. By Purpose:

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

b. By Type of Issuer:

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

c. By Collectibility:

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

Annual average interest rates for securities in Rupiah and Foreign Currency are 14.98% and 5.76% during 2002 and 14.13% and 4.37% during 2001, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

4. GOVERNMENT BONDS

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

December 31, 2002

Purposes and Types	Amount	Interest Rate	Maturity Date
Held-to-Maturity (At Nominal Value)			
Fixed Rate Bonds	23,900,996	12.25% – 14.28%	7/15/2007 – 12/15/2013
Variable Rate Bonds	67,230,497	SBI 3 months	12/25/2014 – 7/25/2020
Hedge bonds at indexed value	16,839,823	SIBOR + 2%	3/25/2003 – 12/25/2004
	107,971,316		
Available-for-sale (At Fair Value)			
Fixed Rate Bonds	16,819,551	10.00% – 15.58%	9/15/2004 – 12/15/2013
Variable Rate Bonds	14,760,966	SBI 3 months	9/25/2007 – 12/25/2014
	31,580,517		
Trading (At Fair Value)			
Fixed Rate Bonds	5,076,587	12.13% – 14.00%	2/15/2006 – 6/15/2009
Variable Rate Bonds	4,217,507	SBI 3 months	5/25/2004 – 1/25/2008
	9,294,094		
Total	148,845,927		

December 31, 2001

Purposes and Types	Amount	Interest Rate	Maturity Date
Held-to-Maturity (At Nominal Value)			
Fixed Rate Bonds	20,244,925	12.25% – 14.00%	7/15/2007 – 6/15/2009
Variable Rate Bonds	71,067,123	SBI 3 months	12/25/2004 – 7/25/2009
Hedge bonds at indexed value	22,995,498	SIBOR + 2%	3/25/2002 – 3/25/2004
	114,307,546		
Available-for-sale (At Fair Value)			
Fixed Rate Bonds	15,906,642	10.00% – 16.50%	9/15/2004 – 2/15/2006
Variable Rate Bonds	15,263,730	SBI 3 months	12/25/2004 – 7/25/2009
	31,170,372		
Trading (At Fair Value)			
Fixed Rate Bonds	6,184,974	14.00% – 16.50%	9/15/2004 – 6/15/2009
Variable Rate Bonds	1,830,326	SBI 3 months	5/25/2004 – 4/25/2005
	8,015,300		
Total	153,493,218		

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

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(Expressed in millions of Rupiah, unless otherwise stated)

5. DERIVATIVE RECEIVABLES AND PAYABLES

As of December 31, 2002 and 2001, none of Bank Mandiri's derivative transactions were designated as hedging instruments for accounting purposes. Accordingly, all gains and losses resulting from these derivative transactions are recorded in the current year's profit and loss.

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

Transactions	Notional Amount (Contract)	Value at spot (Note 2l)	Derivative Receivables	Derivative Payables
Cross currency:				
Forward – buy	203,739	203,404	2,682	3,017
Forward – sell	133,214	130,417	3,007	210
Swap – buy	232,493	229,229	3	3,267
Swap – sell	1,089,051	801,024	288,967	940
Others				
Interest Rate Swap	1,118,750	70,289	70,289	–
Total			364,948	7,434
Less: Allowance for possible losses			(3,625)	–
			361,323	7,434

Interest Rate Swap

Bank Mandiri entered into an interest rate swap agreement with a notional amount of US$125 million with Standard Chartered Bank, Singapore in August 2002. The underlying transaction is the Bank's US$125 million fixed interest subordinated loan issued in 2002 (Note 13). Under the transaction, the Bank receives semi-annual fixed interest at the rate of 10.625% per annum and pays semi-annual floating interest at the rate of LIBOR 6 months + 6.19% per annum for a 5-year period. The LIBOR 6 months' interest is stated in arrears. While the transaction is for the purpose of hedging the fixed rate coupon payments of the subordinated loan with floating coupon payment, it does not qualify as a hedging transaction for accounting purposes.

Cross Currency Swap

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

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

Transactions	Notional Amount (Contract)	Value at spot (Note 2l)	Derivative Receivables	Derivative Payables
Cross currency:				
Forward – buy	372,393	366,119	2,361	8,635
Forward – sell	78,502	77,257	1,807	562
Swap – buy	279,475	279,841	1,580	1,214
Swap – sell	186,469	187,200	834	1,565
Total			6,582	11,976
Less: Allowance for possible losses			(48)	–
			6,534	11,976

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(Expressed in millions of Rupiah, unless otherwise stated)

6. LOANS

A. Details of loans:

a. By Type:

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

b. By Economic Sector:

	2002	2001
Rupiah:		
Manufacturing	**16,941,419**	12,153,818
Agriculture	**5,984,223**	4,504,498
Trading, restaurant and hotel	**5,914,127**	3,355,450
Transportation, warehousing and communications	**3,624,707**	1,487,152
Other services	**2,390,275**	1,622,120
Construction	**1,751,713**	1,604,290
Mining	**212,362**	95,176
Electricity, gas and water	**166,254**	135,720
Social services	**161,291**	188,137
Others	**2,364,373**	2,572,501
	39,510,744	27,718,862

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(Expressed in millions of Rupiah, unless otherwise stated)

6. LOANS (CONTINUED)

A. Details of loans (Continued):

b. By Economic Sector (Continued):

	2002	2001
Foreign currency:		
Manufacturing	**15,940,259**	11,118,555
Trading, restaurant and hotel	**2,112,997**	2,110,727
Mining	**1,722,031**	1,316,843
Agriculture	**1,588,469**	1,080,991
Other services	**1,583,105**	1,439,446
Construction	**1,423,625**	1,255,969
Transportation, warehousing and communications	**556,099**	679,822
Electricity, gas and water	**319,136**	363,576
Social services	**7,334**	15,881
Others	**653,449**	1,238,630
	25,906,504	20,620,440
Total	**65,417,248**	48,339,302
Less: Allowance for possible losses	**(8,906,545)**	(6,100,252)
Deferred income	**(164,284)**	–
	56,346,419	42,239,050

c. By Collectibility:

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

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

B. Significant information related to loans:

a. Annual average interest rates for loans in Rupiah and Foreign Currency are 17.92% and 9.87% during 2002 and 17.80% and 9.10% during 2001, respectively.

(Expressed in millions of Rupiah, unless otherwise stated)

6. LOANS (CONTINUED)

B. Significant information related to loans (Continued):

b. Restructured Loans

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

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

Others consist of other agreed restructuring schemes mostly comprised of reduction of interest rates, rescheduling of past due interest, extension of the maturity dates and extension of the periods of payment of past due interest.

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

c. Legal Lending Limit ("LLL")

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

d. Bank Mandiri has several loan-channeling agreements in place with several international financial institutions. Channeling loans are not recognized in the consolidated balance sheets as the credit risk is not borne by the Bank or its Subsidiaries.

e. Movements of Allowance for Possible Losses on Loans
The allowance for possible loan losses is comprised of:

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

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

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

(*) Include loan full write-back to on-balance sheet of Raja Garuda Mas Group ("RGM") exposures of Rp4,170,712 in 2002.

(**) Write-offs in 2002 include write-off of repurchase loans written-off below Rp5,000 and prior to legal merger at repurchase price of Rp2,520,119 (Notes 12.B.l and 58.e) and partial write-off of loans to RGM amounting to Rp2,691,355 in 2002

(***) Includes foreign currency translation.

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(Expressed in millions of Rupiah, unless otherwise stated)

6. LOANS (CONTINUED)

B. Significant information related to loans (Continued):

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

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

(*) Include partial write-off of loans to Raja Garuda Mas Group ("RGM") amounting to Rp2,691,355 in 2002.

(**) Include loan write-back to on-balance sheet of loans to RGM amounting to Rp4,170,712 in 2002

(***) Includes foreign currency translation.

g. Purchase of Loans from IBRA in 2002

In 2002, the Bank purchased sustainable loans from IBRA amounting to Rp5,354,577 at a purchase price of Rp4,900,818 (Rp1,998,428 of the purchase price was paid by cash and Rp2,902,390 was paid by Government Bonds). Of the total outstanding principal of loans purchased from IBRA, Rp4,294,091 were purchased through a Consortium under IBRA's PPAK (Note 28.f).

Total allowance for possible loan losses and deferred income in respect of these loans as of December 31, 2002 was Rp288,797 and Rp164,284, respectively. The additional allowance for loan losses, excluding the allowance for possible loan losses and deferred income resulting from the difference between the outstanding principal and purchase price, was Rp89,613 as of December 31, 2002.

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

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

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

(Expressed in millions of Rupiah, unless otherwise stated)

7. OTHER ASSETS

	2002	2001
Investments in shares of stock – net	**87,096**	69,276
Others:		
Accrued income	**2,102,204**	3,124,040
Receivables	**2,875,188**	3,010,086
Prepaid tax	**365,753**	366,614
Prepaid expenses	**150,330**	171,262
Others – net	**2,143,269**	1,035,310
	7,636,744	7,707,312
	7,723,840	7,776,588

Receivables arise from the recognition of the accretion in the realizable value of zero-coupon instruments and deposits placed with highly rated foreign institutions which are attached as security to the Subordinated Undated Floating Rate Notes ("SUFRNs") issued by certain legacy banks, and the effective reduction of the principal liability related to another legacy bank's SUFRN. Due to the contracts governing the SUFRNs, Bank Mandiri continues to recognize the original fair value of the SUFRNs as a liability of the Bank (Notes 13 and 14).

8. DEPOSITS FROM CUSTOMERS AND OTHER BANKS

	2002	2001
Deposits from customers		
Demand deposits	**32,579,923**	37,557,461
Savings deposits	**29,926,190**	22,304,803
Time deposits	**121,529,091**	129,782,634
Certificates of deposit – net	**78,883**	800,840
	184,114,087	190,445,738
Deposits from other banks		
Demand deposits	**593,431**	586,600
Inter-bank call money	**796,555**	335,001
Time deposits	**11,502,677**	9,065,198
Certificates of deposit – net	**30**	2,541,043
	12,892,693	12,527,842
	197,006,780	202,973,580

Annual Average Interest Rates of Deposits from Customers and from the Other Banks for the Year:

	Deposits from Customers		Deposits from Other Banks	
	2002	2001	2002	2001
Demand Deposits				
Rupiah	**4.93%**	6.69%	**4.93%**	6.69%
Foreign currency	**2.45%**	2.75%	**2.45%**	2.75%
Saving Deposits				
Rupiah	**10.60%**	11.00%	**–**	–
Time Deposits and Certificate deposits				
Rupiah	**14.64%**	15.62%	**14.64%**	15.62%
Foreign currency	**3.24%**	5.42%	**3.24%**	5.42%
Interbank Call Money				
Rupiah	**–**	–	**11.67%**	16.26%
Foreign currency	**–**	–	**1.21%**	5.72%

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(Expressed in millions of Rupiah, unless otherwise stated)

8. DEPOSITS FROM CUSTOMERS AND OTHER BANKS (CONTINUED)

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

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

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

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

9. SECURITIES ISSUED

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

Interest rates of Floating Rate Notes ("FRNs") as of December 31, 2002 was ranging from 2.2000% to 7.3300%. Interest rates of Floating Rate Notes ("FRNs") and Floating Certificates of Deposit ("FRCDs") as of December 31, 2001 is ranging from 2.7900% – 7.8300%.

10. FUND BORROWINGS

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

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(Expressed in millions of Rupiah, unless otherwise stated)

11. OTHER LIABILITIES

	2002	2001
Rupiah:		
Due to the Government arising from the required return of additional paid-in capital (Notes 15)	**1,412,000**	129,685
Provision for employee service entitlements	**674,062**	793,631
Provision for possible losses on legal cases (Note 28.k)	**147,062**	380,610
Provision arising from obligations from investment in stocks	**110,513**	368,111
Inter-branch accounts – net	**25,195**	–
Accrued merger and reorganization costs	**–**	314,064
Provision for employee medical benefits	**–**	229,752
Others	**4,022,067**	3,391,339
	6,390,899	5,607,192
Foreign currency:		
Provision for possible losses on legal cases (Note 28.k)	**1,444,455**	1,248,000
Others	**1,284,562**	1,738,132
	2,729,017	2,986,132
	9,119,916	8,593,324

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

12. TAXATION

a. Taxes payable

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

b. Corporate income tax expense

	2002	2001
Corporate income tax expense – current:		
Bank Mandiri only	**–**	–
Subsidiaries	**824**	–
	824	–

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(Expressed in millions of Rupiah, unless otherwise stated)

12. TAXATION (CONTINUED)

b. *Corporate income tax expense (Continued)*

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

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

c. *Corporate income tax expense – current*

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

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

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(Expressed in millions of Rupiah, unless otherwise stated)

12. TAXATION (CONTINUED)

c. Corporate income tax expense – current (Continued)

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

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

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

Tax Assesment

The Bank has received tax assessment letter for its 2000 corporate income tax stating that the Bank has an underpayment of corporate income tax including interest and penalties totaling Rp2,248,387 which was subsequently revised to Rp2,127,144 on March 14, 2003.

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

The Bank has paid the 50% of the tax assessment amounting to Rp1,124,194 as of December 31, 2002 and will appeal the assessment to the tax court.

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

Tax loss carry forwards

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

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

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

(Expressed in millions of Rupiah, unless otherwise stated)

12. TAXATION (CONTINUED)

d. Corporate income tax expense – deferred

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

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

e. Deferred tax assets

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

	2002	2001
Bank Mandiri		
Deferred tax assets:		
Allowance for estimated losses on commitments and contingencies	**363,326**	1,585,304
Allowance for possible loan losses	**1,254,966**	921,527
Allowance for possible losses on earning assets other than loans	**642,631**	1,187,432
Allowance for possible losses arising from legal cases	**477,455**	504,221
Provision for personnel expenses	**318,359**	320,632
	3,056,737	4,519,116
Tax losses carried forward	**3,339,207**	2,957,371
Correction on tax losses carried forward as a result of tax assessment related to 1999	**–**	(1,529,458)
Tax losses carried forward	**3,339,207**	1,427,913
Deferred tax assets	**6,395,944**	5,947,029
Valuation allowance	**(3,339,207)**	(1,070,935)
Net deferred tax assets	**3,056,737**	4,876,094

(Expressed in millions of Rupiah, unless otherwise stated)

12. TAXATION (CONTINUED)

e. Deferred tax assets (Continued)

	2002	2001
Deferred tax liability:		
Net book value of fixed assets	**(32,458)**	(94,230)
Mark to market of marketable securities	**(429,900)**	–
Net deferred tax assets – Bank Mandiri	**2,594,379**	4,781,864
Net deferred tax assets – Subsidiaries	**309**	35,753
Total net deferred tax assets	**2,594,688**	4,817,617

Management believes that the valuation allowances relating to deferred tax assets as of December 31, 2002 and 2001 are adequate.

13. SUBORDINATED LOANS

a. By Currency

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

Subordinated Loans – Others are comprised of:

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

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(Expressed in millions of Rupiah, unless otherwise stated)

13. SUBORDINATED LOANS (CONTINUED)

Details of SUFRNs are as follows:

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

Bank Exim SUFRNs

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

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

Bapindo SUFRNs

The Bapindo SUFRNs are perpetual as they have no stated maturity date. Interest on the Bapindo SUFRNs is calculated based on their aggregate nominal value at the following rates:

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

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

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

(Expressed in millions of Rupiah, unless otherwise stated)

13. SUBORDINATED LOANS (CONTINUED)

Subordinated Notes (SNs)

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

The Notes bear interest at the rate of 10.625% per annum from and including August 2, 2007 but excluding August 3, 2007 except that in 2007, interest will accrue from and including February 2, 2007 to but excluding August 3, 2007. Unless the Notes are previously redeemed, the interest rate from and including August 3, 2007 to but excluding August 2, 2012 will be reset at the U.S. Treasury Rate plus 11.20% per annum Interest will be payable semi-annually in arrears, commencing six months after the issue date.

14. LOAN CAPITAL

This account consists of the following:

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

The conversion of liquidity credit from Bank Indonesia represents the conversion of fund borrowings from Bank Indonesia to former Bapindo with 0% interest. Based on Legislation ("Undang-undang") No. 23/1999 dated May 17, 1999 regarding Bank Indonesia (BI), BI is not allowed to provide loans to the Government; thus, requiring Bank Mandiri to pay back this subordinated loan on demand. Negotiation is ongoing with Bank Indonesia on the terms of repayment.

BDN SUFRNs

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

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

(Expressed in millions of Rupiah, unless otherwise stated)

15. SHAREHOLDER'S EQUITY

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

Authorized and Share Capital

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

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

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

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

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(Expressed in millions of Rupiah, unless otherwise stated)

15. SHAREHOLDER'S EQUITY (CONTINUED)

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

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

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

Additional Paid-In Capital

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

Distribution of Net Profit

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

	2002	2001	Total
Dividends	**1,372,878**	1,011,219	2,384,097
Small industry and cooperative development fund ("PUKK")	**15,000**	11,081	26,081
Environmental development fund	**12,458**	–	12,458
Directors' bonus (tantiem)	**4,923**	–	4,923
Reserve: General reserve	**350,200**	500,000	850,200
Special reserve	**990,298**	500,137	1,490,435
Total reserve	**1,340,498**	1,000,137	2,340,635
	2,745,757	2,022,437	4,768,194

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

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

(Expressed in millions of Rupiah, unless otherwise stated)

16. INTEREST INCOME

Interest income was derived from the following:

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

17. INTEREST EXPENSE

This account represents interest costs incurred on the following:

	2002	2001
Time deposits	**19,040,803**	17,607,477
Savings deposits	**2,585,270**	2,158,280
Demand deposits	**1,880,216**	2,142,645
Fund borrowings	**801,776**	1,508,046
Subordinated loans	**458,394**	443,905
Securities issued	**116,615**	315,127
Loan capital	**40,650**	94,717
Others	**28,529**	34,035
	24,952,253	24,304,232
Other financing expenses	**64,326**	82,776
	25,016,579	24,387,008

18. OTHER OPERATING INCOME

	2002	2001
Foreign exchange gain – net	**–**	260,096
Other fees and commissions	**803,632**	475,180
Accretion in the realizable value of the security and effective reduction of principal related to SUFRNs	**281,691**	327,313
Administration fee	**45,075**	44,492
Others	**481,477**	348,604
	1,611,875	1,455,685

19. OTHER OPERATING EXPENSES

	2002	2001
General and administrative expenses	**2,060,142**	1,746,539
Salaries and employees benefits	**1,565,951**	1,670,186
Foreign exchange loss – net	**24,767**	–
Others	**1,334,163**	742,831
	4,985,023	4,159,556

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(Expressed in millions of Rupiah, unless otherwise stated)

19. OTHER OPERATING EXPENSES (CONTINUED)

General and administrative expenses, consist of:

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

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

Salaries and employee benefits, consist of:

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

Others, consists of:

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

20. NON-OPERATING INCOME/(EXPENSES) – NET

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

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(Expressed in millions of Rupiah, unless otherwise stated)

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

This account consists of the following:

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

22. COMMITMENTS AND CONTINGENCIES

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

(Expressed in millions of Rupiah, unless otherwise stated)

23. MATURITY PROFILE

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

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

December 31, 2002

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

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(Expressed in millions of Rupiah, unless otherwise stated)

23. MATURITY PROFILE (CONTINUED)

December 31, 2001

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

(Expressed in millions of Rupiah, unless otherwise stated)

24. NET OPEN POSITION

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

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

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

*) Including hedge bonds amounting to Rp16,839,823 (Note 4).

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

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

*) Including hedge bonds amounting to Rp22,995,498 (Note 4).

(Expressed in millions of Rupiah, unless otherwise stated)

25. CAPITAL ADEQUACY RATIO

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

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

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

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

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

26. SEGMENT INFORMATION

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

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

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(Expressed in millions of Rupiah, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

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

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

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

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

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(Expressed in millions of Rupiah, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

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

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

27. RELATED PARTY TRANSACTIONS

a. Banking Activities in the Ordinary Course of Business

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

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

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

(Expressed in millions of Rupiah, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

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

- The Committee on Financial Sector Policy (KKSK) and the Minister of Finance approved and guaranteed the issuance of standby letters of credit and conversion of loans of PT Garuda Indonesia to Mandatory Convertible Bonds.
- Government bonds held by the Bank amounting to Rp103,849,017 were reprofiled by the Government on November 20, 2002.
- The Bank paid Rp1,124,194 (Note 7 and 12.e) to the State Treasury representing 50% deposit in relation to an objection regarding the Bank's 2000 corporate income tax assessment.
- Return of additional paid-in capital of Rp129,685 and proposed return of Rp1,412,000 representing a portion of the excess of recapitalization (Note 15).

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

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

28. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

a. Management Contract

On April 8, 2000, a Management Contract was signed between the Government and Bank Mandiri in connection with the recapitalization of Bank Mandiri. The Management Contract provides for, among others, the requirements and milestones to be fulfilled by Bank Mandiri in accordance with its Business Plan for the period to end of 2001, which include obligations to be fulfilled by Bank Mandiri, management and performance and corporate governance for Bank Mandiri.

b. Earning Assets Transfer Agreement

In 1999 Bank Mandiri entered into an Earning Assets Transfer Agreement with IBRA based on the Decree of Ministry of Finance No. 53/ KMK.017/1999 and Governor of Bank Indonesia No. 31/12/KEP.GBI/1999 dated February 8, 1999. Under the agreement, Bank Mandiri agreed to transfer to IBRA its loss category earning assets for RpNil consideration.

Loss category earning assets (including interest and penalties) which was transferred by Bank Mandiri on September 4, 2001, are as follows:

Loans	3,737,546
Commercial papers	15,625
Off-balance sheet accounts	262,747
Participation	20,357
Interest and penalties	551,038
	4,587,313

c. Swap Agreement for Earning Assets Transferred on September 4, 2001 and Government Bonds with IBRA

On September 4, 2001, Bank Mandiri purchased (swapped) all the assets previously transferred (including the related penalties and interest) to IBRA for Government Bonds totaling Rp4,036,275 (Seri FR0007 of Rp2,458,417 and Seri FR0009 of Rp1,577,858).

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28. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (CONTINUED)

d. *Swap Agreement for Loan Purchase and Government Bonds with IBRA*

On September 6, 2001, Bank Mandiri has purchased (swapped) loans of Rp2,129,391 (including penalties and interest of Rp951,021) for Government Bonds totaling Rp1,178,370 (Government Bonds Seri FR0007).

e. *Transfer of Loans Below Rp5 billion and Loans Written-off Prior to Legal Merger and Related Recoveries to IBRA*

On December 18, 2002, based on that agreement, the Bank transferred written-off loans amounting to Rp12,600,598 and then repurchased (swapped) the loans with Government Bonds amounting to Rp2,520,119 (at nominal value) and cash payment of Rp615,091 (full amount).

f. *Consortium Agreements Related to the Purchase of Loans from IBRA in 2002*

In July 2002, the Bank participated in an auction during which IBRA offered loans with a nominal value of Rp135,400,000 due from some 2,500 debtors.

The Bank entered into 11 (eleven) consortium agreements with securities companies to participate in the auction.

The Bank and the consortium partners agreed that any loans purchased would be divided into “sustainable debt” (net present value of expected cash flows) and “unsustainable debt” (difference between outstanding principal and sustainable debt), whereby sustainable debt would be obtained by the Bank and the unsustainable debt would be obtained by the consortium partners which would subsequently be swapped into equity.

Ten out of eleven consortia won loans with outstanding principal of approximately Rp23,196,348, consisting of sustainable and unsustainable debt of Rp4,294,091 and Rp18,902,257, respectively, with purchase price of Rp4,472,576. The purchase price represents approximately 19.28% of the total outstanding principal. Rp3,840,697 of the purchase price was contributed by the Bank, and Rp631,879 was contributed by the consortium members (including top up of Rp604,731).

g. *Total Integrated Banking System Agreement with PT Silverlake Informatikama*

On July 20, 2001, Bank Mandiri entered into a Total Integrated Banking System Agreement with PT Silverlake Informatikama for procurement of software and installation services for a total integrated banking system, which is called e-MAS, for a total contract value of US$61,820,219 (full amount). The project is expected to be completed by the end of 2003. Prior to completion, the assets are recorded under Construction In Progress (“CIP”).

h. *Agreement on Procurement and Installation of Automatic Teller Machines (“ATMs”)*

On August 7, 2002, Bank Mandiri entered into an agreement with PT Multipolar Corporation for the procurement and installation of 357 units of the ATMs for a total contract value of US$6,987,977 (full amount) and Rp4,079.

On August 7, 2002, Bank Mandiri entered into an agreement with PT Mitra Integrasi Komputindo for the procurement and installation of 156 units of the ATMs for a total contract value of US$2,955,082 (full amount) and Rp1,802.

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28. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (CONTINUED)

i. *Share Sale and Purchase Agreement with National Mutual Fund International Pty Ltd., a member of AXA Group*

On December 2, 2002 Bank Mandiri entered into a Share Sale and Purchase Agreement with National Mutual Fund International Pty Ltd., a member of AXA Group, whereby the Bank agreed to jointly develop and market bancaassurance products and services in Indonesia. As part of the agreement, the Bank agreed to sell to National Mutual Fund International Pty Ltd, 51.00% of the issued shares in PT Mandiri Life. On the completion of the sale, PT Mandiri Life will then act as the joint venture vehicles for the development, marketing and sale of life, helath, accident insurance and pension products for groups and individuals through Bank Mandiri banking network.

j. *Agreement on Development and Operation for National Development of Information System ("SIPNAS")*

On December 24, 2002 Bank Mandiri entered into an agreement with Indonesian State of Secretary, Government Representative, to develop and operate a national development of information system ("SIPNAS").

Based on agreement, the State of Secretary will utilize the existing Bank's network communication to develop and operate a national development of information system (SIPNAS), while the Bank, subject to approval from the State of Secretary, will utilize the data and information of SIPNAS for commercial purposes.

k. *Contingent Liabilities*

In the ordinary course of business, the Bank is a defendant in various litigation actions and claims with respect to matters such as contractual compliance, government regulations and taxes. Although there can be no assurances, Bank Mandiri believes that based on information currently available, the ultimate resolution of these legal proceedings will not likely have a material adverse effect on the results of its operations, financial position or liquidity. As of December 31, 2002 and 2001, Bank Mandiri has provided a provision (included in "Other Liabilities") for several pending lawsuits filed against Bank Mandiri amounting to Rp1,591,517 and Rp1,628,610, respectively. The Bank's total potential exposure arising from outstanding lawsuits as of December 31, 2002 and 2001 amounted to Rp2,244,374 and Rp4,105,485, respectively. Management believes that the provision is adequate to cover possible losses arising from pending litigation, or litigation cases currently in progress.

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(Expressed in millions of Rupiah, unless otherwise stated)

29. RECONCILATION OF NET INCOME AND SHAREHOLDER'S EQUITY TO THE AMOUNTS DETERMINED UNDER IAS

The following is a summary of the adjustments to shareholder's equity as of December 31, 2002 and 2001 and net profit for the years then ended, which would be required if IAS had been applied by Bank Mandiri instead of Indonesian GAAP in the preparation of its consolidated financial statements.

	2002	2001
Net profit as reported in the consolidated financial statements prepared under Indonesian GAAP	**3,585,589**	2,745,757
IAS adjustments – increase (decrease) due to:		
Allowance for possible losses on earning assets	**215,445**	955,627
Allowance for possible losses on commitments and contingencies	**(77,277)**	351,232
Employee benefits	**(94,096)**	10,437
Change in fair value of derivatives	**(52,333)**	–
Securities and government bonds reclassified to trading	**–**	293,303
De-recognition of provisions	**–**	(995,393)
Deferred income taxes	**2,478**	(184,562)
Net (decrease) increase in reported net profit	**(5,783)**	430,644
Net profit in accordance with IAS	**3,579,806**	3,176,401
Net earnings per share	**0.842**	0.747

	2002	2001
Shareholder's equity as reported in the consolidated financial statements prepared under Indonesian GAAP	**14,434,510**	10,776,785
IAS adjustments – increase (decrease) due to:		
Allowance for possible losses on earning assets	**2,480,984**	2,265,539
Allowance for possible losses on commitments and contingencies	**387,174**	464,451
Employee benefits	**(3,955)**	90,141
Change in fair value of derivatives	**(52,333)**	–
Deferred income taxes	**(843,561)**	(846,039)
Net increase in reported shareholder's equity	**1,968,309**	1,974,092
Shareholder's equity in accordance with IAS	**16,402,819**	12,750,877

Notes

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