

1997 Annual Report

Bank Internasional Indonesia (BII) is one of Indonesia's largest private banks, ranking first in terms of profitability, second in total assets size and first in equity size among leading private Indonesian banks as at year-end 1997.

BII was founded in 1959 and in 1982 was taken over by the Sinar Mas Group, currently the second largest business group in Indonesia, under whose management the Bank has grown to become a key member of the Indonesian banking sector. BII received its foreign exchange licence in 1988 and listed its shares on the Jakarta Stock Exchange the following year.

With assets totalling over Rp 24.6 trillion in 1997, BII operates 248 domestic branch offices and five overseas offices, providing a comprehensive range of financial products and services to millions of consumers, from small- to large-scale businesses, as well as individuals.

BII's mission is to deliver superior services to its customers, achieve superior returns for its shareholders, and foster a work environment that motivates and rewards superior performance from its employees. In 1997, more than 7,800 BII employees strived for these goals, generating more than Rp 3.9 trillion in total revenue.

	1997	1996	Change (%)
<i>In millions of Rupiah (unless stated otherwise)</i>			
For the Period			
Interest Income	3,575,885	2,145,372	66.68
Net Interest Income	1,017,496	634,174	60.44
Net Income Before Taxes	358,586	368,824	(2.78)
Net Income	244,406	260,410	(6.15)
At End of Period			
Loans (gross)	16,698,895	11,738,953	42.25
Earning Assets	22,061,733	16,532,030	33.45
Total Deposits	14,223,269	13,035,555	9.11
Shareholders' Equity	2,555,726	1,252,876	103.99
Total Assets	24,697,680	17,707,033	39.48
Outstanding Shares (number of shares)	3,234,402,449	1,934,369,204	-
Average Balance			
Loans (gross)	14,218,924	10,047,881	41.51
Earning Assets	19,296,882	14,392,673	34.07
Total Deposits	13,629,412	10,660,089	27.85
Shareholders' Equity	1,904,301	1,130,215	68.49
Total Assets	21,202,357	15,303,057	38.55
Outstanding Shares (number of shares)	2,584,385,827	1,125,336,154	-
Financial Ratios			
Return on Average Assets	1.15%	1.70%	-
Return on Average Equity	12.83%	23.04%	-
Net Interest Margin	5.27%	4.41%	-
Per Share (Rp)			
Net Income	80	135	(40.74)
Shareholders' Equity	989	1,113	(11.14)

BII on the Jakarta Stock Exchange



Quarterly Share Price (in Rupiah)	1997		1996	
	Highest	Lowest	Highest	Lowest
First Period	2,350	1,625	10,150	7,750
Second Period	2,175	1,675	12,275	10,500
Third Period	2,125	800	11,950	3,325
Fourth Period	950	325	3,750	1,950

Share Performance (in Rupiah, unless stated otherwise)	1997	1996
Highest Price	2,350	12,275
Lowest Price	325	1,950
Year-end Price	325	2,175
Earnings Per Share	80*	135**
P/E Ratio	4.1x	16.1x
Dividend Payout Ratio	30.3%	7.3%

* Based on 3,019,940,300 shares outstanding, following a rights issue of 1,289,579,469 shares in February 1997.

** Based on 1,934,369,204 shares outstanding.

Cash Dividend Payment	1997	1996
Amount (Rp)	74,151 million	18,978 million
Commencement Date	August 19, 1997	June 17, 1996

Share Capital	1997	1996
Authorised Capital (Rp)	3,868,000,000,000	3,868,000,000,000
Number of Shares Issued and Fully Paid-up	3,234,402,449	1,934,369,204
Par Value	500	500
Shareholders :		
- PT Sinar Mas Multiartha Tbk	51.00%	51.00%
- Public	49.00%	49.00%



Eka Tjipta Widjaja

"The next few years will pose many challenges for corporations in Asia. Yet, as a publicly listed company we owe it to our stockholders to exert our greatest efforts to meet their expectations for a high rate of return on their investment."

Dear Stockholder,

1997 brought a startling new reality to many of us in Asia. Following decades of growth of almost miraculous proportions year after year, Southeast Asia must now awaken to the harsh reality of starting over again, of putting all the pieces back together again, and of being reminded that growth - as with all things in life - is but a never ending cycle.



Teguh Ganda Widjaja



Sukmawati Widjaja



Soengkowo Prijoredjo



Muktar Widjaja



Djafar Widjaja

Asia's economic crisis, despite its terrible havoc, is not without its blessings. For a start, it has changed our perception of many things; the way we see our business, the way we respond to opportunities and, more crucially, the way we perceive risks.

The next few years will pose many challenges for corporations in Asia - more so in banking - to manage with businesses that no longer have access to ready capital, and are faced with a highly unstable environment fraught with spiralling costs and collapsing markets. Yet, as a publicly listed company, our stockholders expect nothing less than a high rate of return on their investment. We must achieve this with every ounce of our endeavours, even in today's extremely challenging environment.

To meet these challenges, Bank Internasional Indonesia must be able to create new areas of growth. We must transcend conventional thought. Our challenging environment demands more than just an entrepreneurial spirit - which we have shown to possess in abundance in the past. It also requires something other than innovation, creativity and flexibility - qualities which have fuelled our exceptional growth over the past years.



Oesman Widjaja



Hendrik Tee

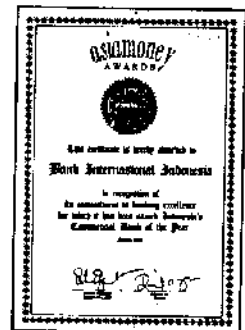


Suryadi Purnama



D.S. Surianingrat

As we progress into the next century, the need to be more transparent and more exacting in our business conduct and corporate governance will be much more pronounced. Accordingly, we will make these our first priorities. Our goal remains to maximise value to customers and shareowners alike by providing the most competitive banking products and services in the market, but we will do so with increased prudence, more rigorous controls and better allocation of our assets.




We will increase our capital base to meet the statutory requirement for a reformed banking sector in Indonesia, whilst also pursuing market opportunities abroad. I believe that our strategy of market expansion in the past several years - which has given us access to growing markets in China and India among other markets - will serve BII in good stead as Southeast Asian economies gradually recover.

As always, we owe our gratitude to our employees for yet another outstanding year. We appreciate their hard work and dedication which

will carry BII through these difficult times. And to our fellow shareholders, we thank you for your support that continues to inspire us. BII will continue to strive to increase shareholder value and to manage its business wisely and profitably.

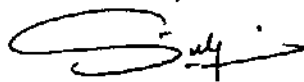
Board of Commissioners



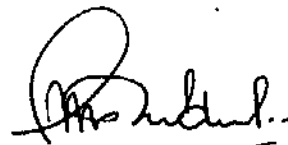
Eka Tjipta Widjaja
Chairman



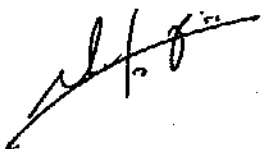
Teguh Ganda Widjaja
Deputy Chairman



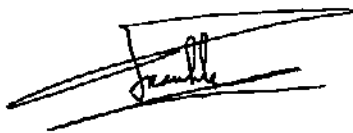
Sukmawati Widjaja
Deputy Chairperson



Soengkowo Prijoredjo
Deputy Chairman



Muktar Widjaja
Commissioner



Djafar Widjaja
Commissioner



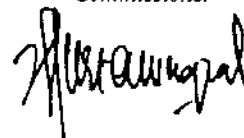
Oesman Widjaja
Commissioner



Hendrik Tee
Commissioner

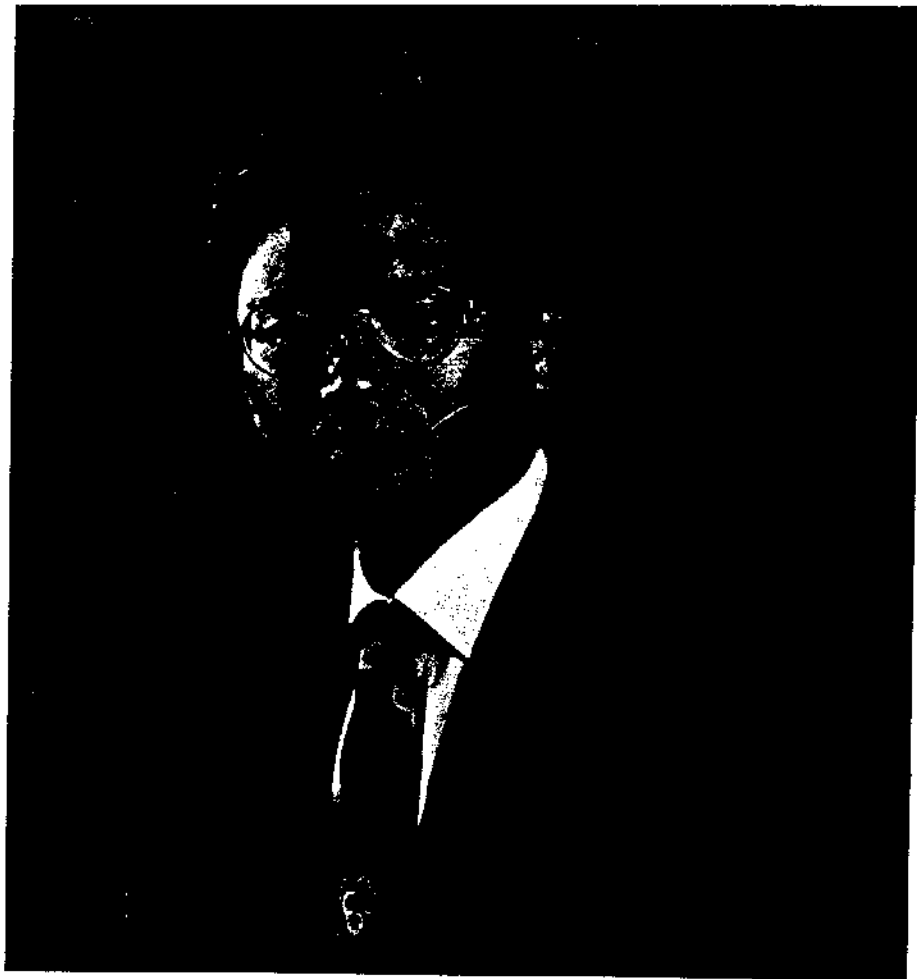


Suryadi Purnama
Commissioner



D.S. Surianingrat*
Commissioner

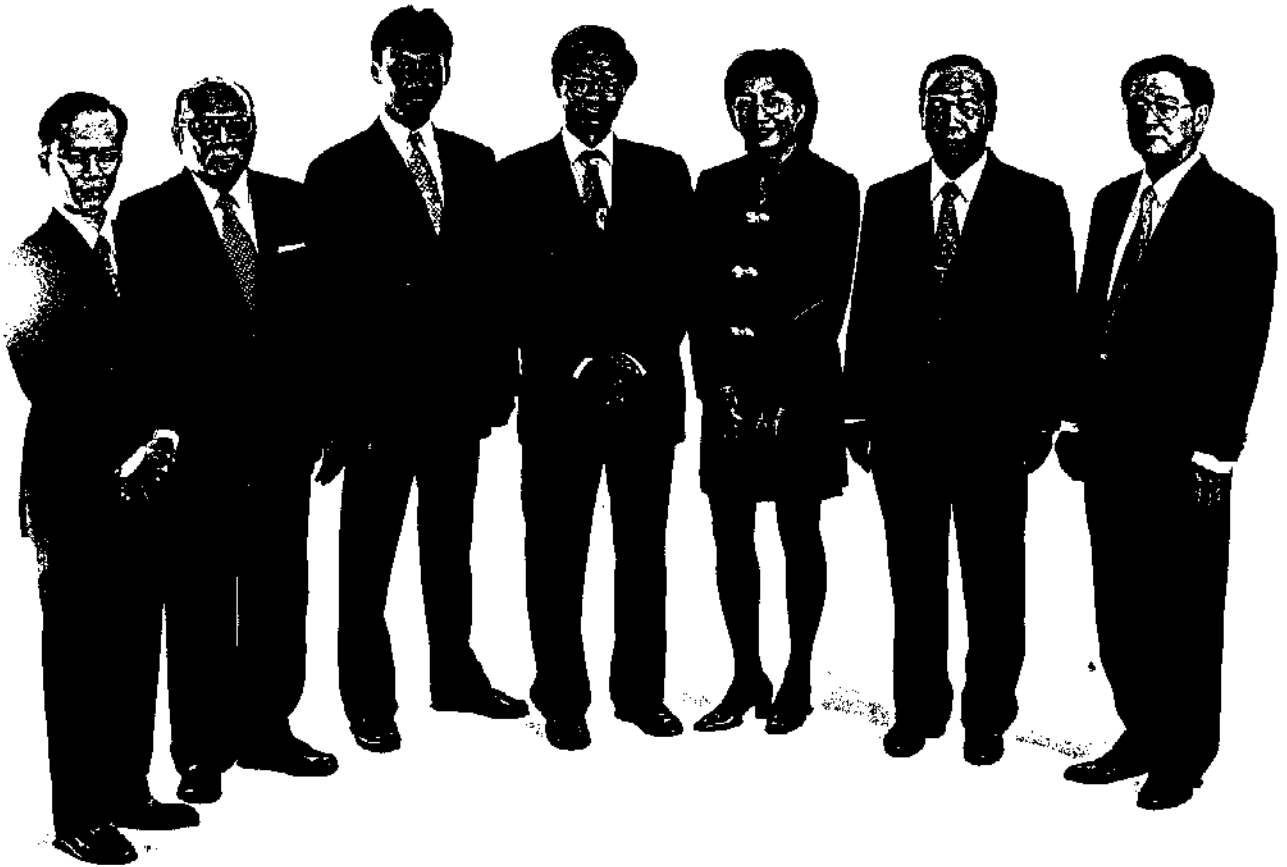
* As of December 31, 1997 has resigned from the Board, pending ratification in the General Shareholders' Meeting.



Indra Widjaja

"Despite the difficult conditions that lie ahead, we remain resolute in our commitment to creating value and growth over the long term in the interest of all of our stakeholders."

On behalf of the Board of Directors of Bank Internasional Indonesia, I am pleased to report another rewarding year for BII in 1997. Our Bank achieved impressive results, made significant progress towards becoming a truly international bank, and positioned itself strongly among the leading Indonesian banks able to survive the current economic crisis. Performance wise, BII's net revenue for the year grew 69% over 1996 to Rp 3,945 billion, although net income declined 6.15% to Rp 244 billion as a result of the significant increase in our reserves for possible loan losses. Earnings per share in 1997 were Rp 80 compared to Rp 135 in 1996. Return on equity was 12.8% versus 23.0%.



From left to right:
Leo F. Nagasaputra, H. Ronnie Sujanto, Doddy Susanto, Indra Widjaja,
Liesda D. Budiman, Herman Sugiarto, Yuli Soedargo.

Our 1997 results reflect a strong performance in all our business segments throughout most of the first half of the year before Asia's economic crisis began to unfold in Indonesia. However, as conditions took a turn for the worse from mid-year, BII took steps to curtail lending significantly while closely monitoring the quality of its earning assets.

Net income for the year was considerably reduced by the amount of our reserves for possible bad debts, reflecting our prudent risk assessment of an extremely difficult year that awaits the Indonesian banking sector in 1998.

Needless to say we are deeply concerned with current developments in the Indonesian banking sector, a far cry from the robust enthusiasm which many of us professed barely a year ago.

Nevertheless, we remain resolute in our commitment to creating value and growth over the long term in the interest of all our stakeholders. Among several noteworthy achievements during the year were BII's nomination as the Best Commercial Bank for the second year running by the *Asiamoney* magazine and Best Domestic Bank in Indonesia by *Global Finance* magazine. While our US\$ 140 million securitisation of future credit card receivables was cited by *Finance Asia* magazine as the Most Innovative Deal of 1997.

In technology application, 1997 was a pivotal year in which we successfully undertook a major systems upgrade which not only expanded the scope of our service but greatly enhanced its quality as well. We also took concrete steps in addressing and ensuring our compliance with the Year 2000 date change requirements.

The following report provides some detail on how our individual business segments performed in 1997 and continue to make BII one of the most profitable financial institutions in the region despite the current crisis.

The Management of BII wishes to thank the Bank's stakeholders for their continuing support and remains confident in our future prospects.

Board of Directors



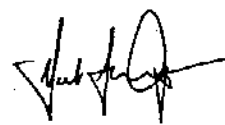
Indra Widjaja
President Director



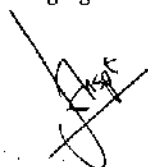
H. Ronnie Sujanto
Managing Director



Liesda D. Budiman
Managing Director



Yuli Soedargo
Managing Director



Leo F. Nagasaputra
Managing Director



Doddy Susanto
Managing Director



Herman Sugiarto
Managing Director

BII in 1997

Amidst the unrelenting economic crisis that continues to stretch the Indonesian banking sector to its limits, Bank Internasional Indonesia has taken every necessary step to ensure that all of its banking franchises rest on solid ground. In this annual report, we take a look at each one of these franchises - from corporate banking to consumer banking to on-line banking - highlighting their specific strengths and competitive features that continue to place BII in the top-tier banks in Indonesia today.



BII reviews market risk and credit risk exposures on a daily basis, using value-at-risk as well as other quantitative and qualitative methods.

Serving Major Corporations

The provision of crucial financing to major corporations in Indonesia continues to be a key business activity of BII. In that regard, the mission of Corporate Banking is to provide quality banking products and services to major corporations and state institutions in a profitable and cost-effective manner.

In 1997, as in previous years, a well diversified lending portfolio among the top performing industries and businesses in Indonesia contributed to a healthy increase in net interest income for the Bank. A significant amount of the Bank's income is derived from corporate banking activities, mainly through lending although BII continues to expand and enhance its non-credit product lines.

BII continues to enhance its corporate banking franchise from a position of strength as the leading bank that caters to the 100 largest business groups and institutions in the country. Despite the economic crisis, we were able to strengthen our corporate banking franchise further in 1997.

- Corporate lending remained healthy throughout the year, although we reduced the amount of loans and tightened our credit lines in the second half of the year.



Corporate loans accounted for approximately 68% of total outstanding loans as at year-end 1997, or equal to roughly Rp 11,349.0 billion.



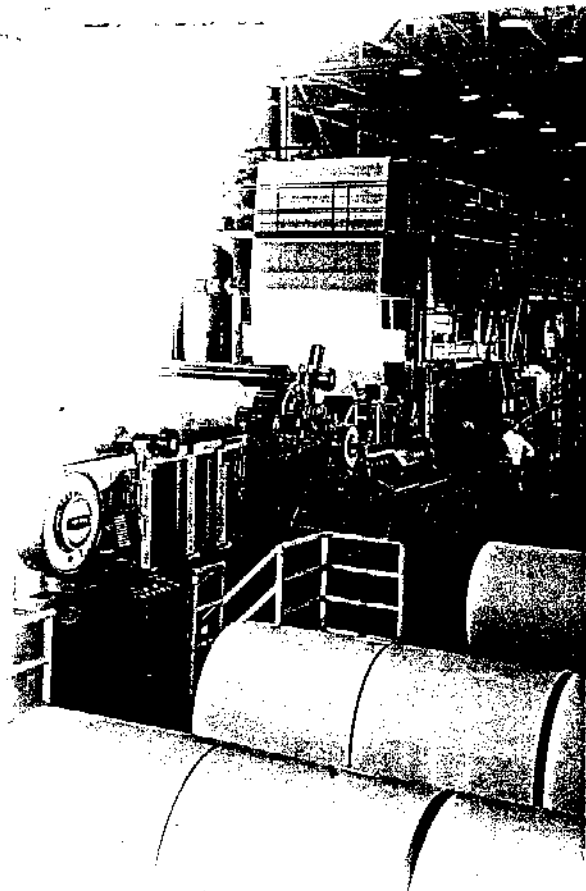
BII's participation in syndication loans in 1997 amounted to Rp 1,564.6 billion, a significant increase from Rp 554.3 billion in 1996.



Trade financing in 1997 amounted to Rp 1,649.9 billion consisting of export and import credits of Rp 1,453 billion and Rp 198.6 billion, respectively.



Bank advances and other credit lines provided in 1997 amounted to Rp 573.2 billion, consisting of over draft facilities, UC advances and other corporate loans.



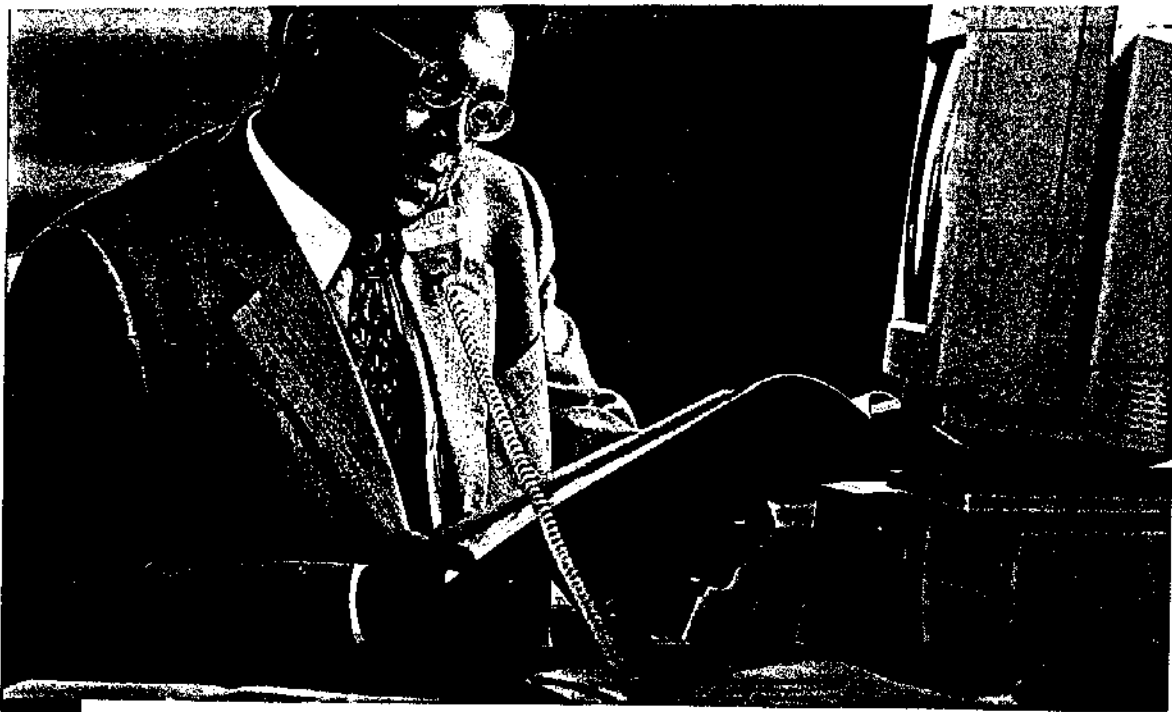
BII's corporate customers include the 100 largest corporations in Indonesia from mining to mills to manufacturers.

- We maintained a reasonably sound loan portfolio with diversified distribution among various industries in which our exposure does not exceed 30% in any one industry.
- We improved our treasury management operations that support Corporate Banking by increasing electronic banking applications and the speed of transactions and information reporting to the customer.
- We pursued new market opportunities by forming strategic alliances with leading international financial institutions that have similar goals to ours. In 1997, BII entered into an equal-share joint venture with the Commonwealth Bank, one of

Australia's largest banks. This latest joint-venture adds to BII's growing list of international alliances which already includes successful partnerships with Fuji Bank of Japan and Credit Lyonnais of France.

Through these international associations, and our own highly established corporate banking network in the domestic market, we will continue to forge long-term and mutually rewarding banking relationships with our customers that thrive on the comprehensive financial solutions that we can offer.

BII has always maintained a sound loan portfolio, diversified across many industries.



BII aims to increase its fee-based income, in recognition of the increasingly difficult condition to achieve a significant level of growth from net interest income in the years to come.

Expanding Fee-based Businesses

BII provides investment banking services primarily to companies seeking to raise capital through senior loan origination, syndication and a wide range of debt structuring. In the capital markets, it also engages in portfolio investment and custodial services.

In 1997, BII's Investment Banking achieved the distinction of being among the top four debt arrangers in Indonesia and the highest among Indonesian banks. This achievement is consistent with our goal of relying on a fast growing fee-based income to supplement the general industry trend in declining net interest margin.

A total of 17 major deals in senior bank loans, project finance, term loans, working capital and revolving underwriting facilities were undertaken by BII in 1997, raising over US\$ 690 million in total loans arranged by Investment Banking during the year.

These activities generated a total of Rp 44 billion in fees for the Bank in 1997, up by 450% from Rp 8 billion in 1996.

For years, we have built strong ties and forged relationships with both clients and the financial community. Today we are leveraging these ties to create one of the most profitable and fastest growing franchises in our banking operations. We expect to remain a leading player in the intermediacy of capital in Indonesia in the future, once the economy will have rebounded from the current slump.

Term Loan Facility

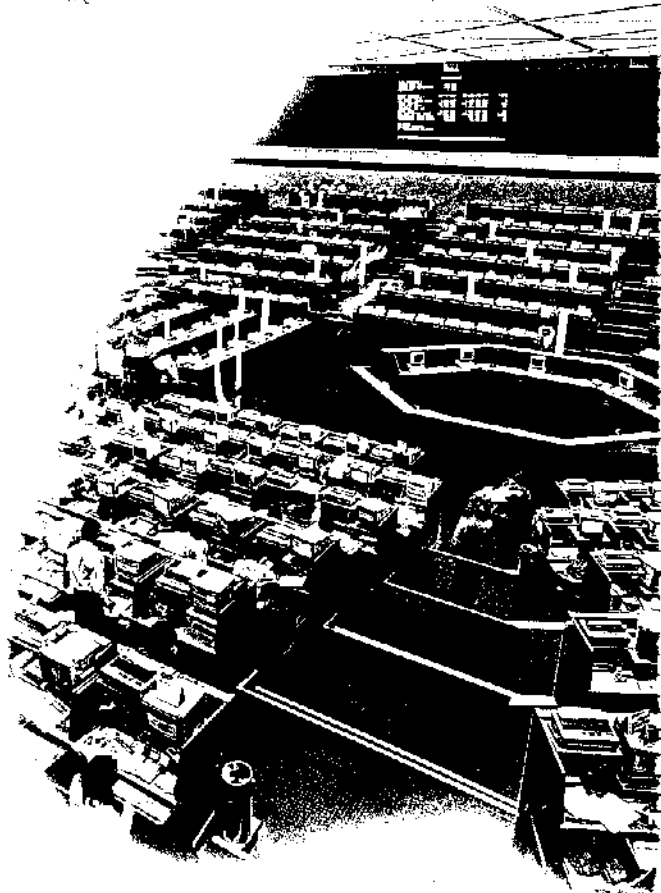
BII acted as arranger, bookrunner and agent for the placement of eight senior bank loan facilities, term loans and revolving underwriting facilities worth more than Rp 160 billion and US\$ 710 million in 1997.

Project Finance

In project finance, BII arranged over Rp 2.0 trillion and US\$ 750 million of financing in 1997 for a satellite development, toll road, hydro electric and pipeline construction among several other projects.

Portfolio

BII earned a total of Rp 572.7 billion in interest income and Rp 18.6 billion in capital gain on its portfolio investment of marketable securities during the year.



BII made significant strides in its capital markets franchise in 1997 by arranging more than 60 securities issues throughout the year.

In the capital markets, where Investment Banking has also prospered over the past several years, 1997 proved to be a record earning year for BII. Earnings from our capital market operations rose 90.4% from 1996 to Rp 35.6 billion. These earnings were primarily derived from fee-based income on custodial services, corporate trust management as well as income derived from securities trading and portfolio investment.

In 1997, the value of our portfolio investments rose 49% over 1996 to Rp 155 billion, reflecting a combination of in-depth market analyses, effective investment strategy and capital preservation even

in times of declining securities. These investments include corporate and government bonds, commercial papers, promissory notes, floating rate notes and other securities.

Capital Market also won mandates for arranging up to 60 securities issues in 1997; a marked improvement from 1996 when BII was involved in the issuance of these securities mainly in a broking capacity.

BII expects to play a leading role in the intermediacy of capital returning to Indonesia.



BII's dealing room operates round-the-clock, providing crucial foreign exchange intermediation for the Bank's treasury and on behalf of clients.

Growing International Network

Treasury and International Banking provides a broad range of financial products and services including letters of credit, foreign exchange and other export-import services. It is also responsible for the Bank's institutional funding.

In 1997, BII received a US\$ 140 million funding secured by the future earnings on its credit card receivables. The deal won mention as The Most Innovative Deal of 1997 by the *Finance Asia* magazine, underscoring several precedents for the Indonesian market. It was the first successful future flow securitisation to be completed in Indonesia, and had the longest tenor among similar deals in Asia. Its broad distribution among 11 global institutional investors, none of which represents a banking insti-

tution, also underscores our solid reputation among a widely diverse international investor base.

With a strong international network for both funding and financing, BII continues to provide crucial services to international trade and businesses. Our worldwide international correspondence network, for instance, expanded to 629 banks in 248 cities in 78 countries as of year-end 1997. This represented an increase of 75 banks in 1997 alone, testifying to

Correspondent Banks

As of 31 December 31, 1997, BII has an extensive international corresponding network of 629 banks in 248 cities in 78 countries throughout the world.

Vostro Accounts

BII had a total of 39 vostro accounts held by 15 overseas banks and 24 domestic banks.



Customers increasingly rely on BII to use financial markets not just to transact currencies but also to manage risk in relations to interest rates and currencies exchange volatility.

our growing international businesses. To support this growth further, BII opened a representative office in Manila, the Philippines, in November 1997, adding to our current list of international offices in the Cook Islands, the Cayman Islands, Singapore and Mumbai.

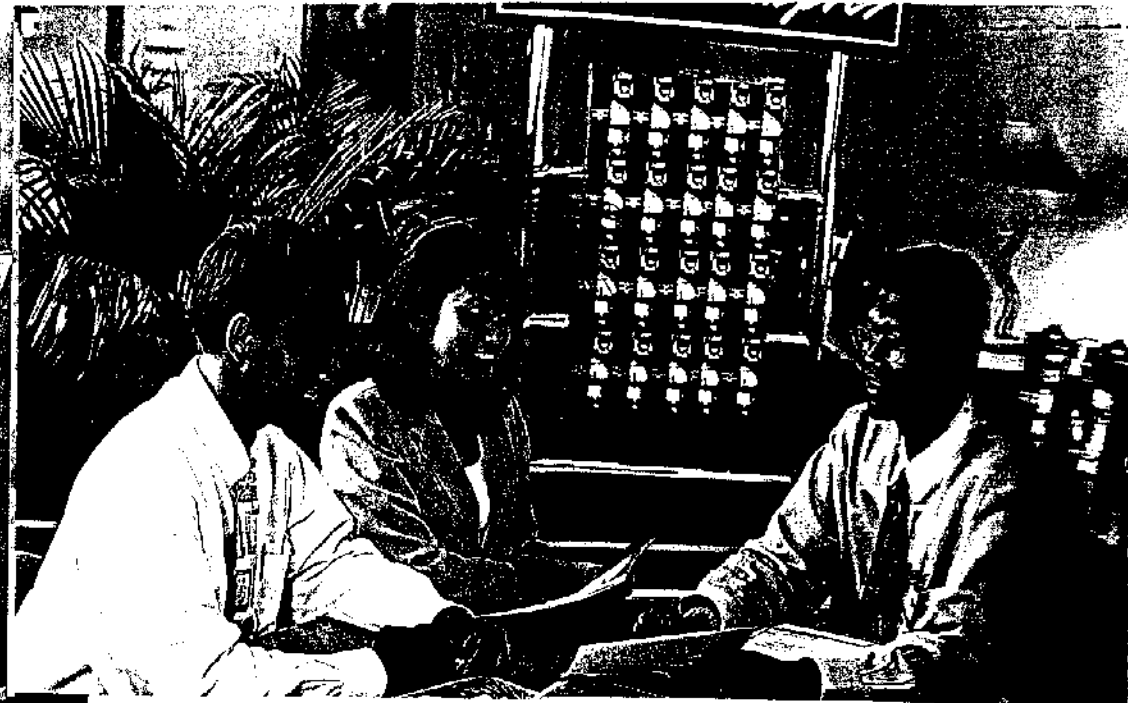
The volume of our export L/Cs reached US\$ 416 million in 1997, declining from US\$ 732 million in 1996, while import L/Cs rose slightly from US\$ 323 million in 1996 to US\$ 333 million in 1997. The main export transactions were to China and Hong Kong which accounted for 20% and 19% of our export financing, respectively, while main import transactions were from Singapore, Japan and Germany

with 21%, 12% and 14% of total import L/C volumes in 1997, respectively.

As of 31 December 1997, BII held letter of credits from 77 overseas correspondent banks amounting to US\$ 472 million, up from US\$ 448 million in 1996.

These and other trade finance transactions generated earnings of Rp 83 billion in 1997 compared to Rp 59 billion in 1996.

BII relies on a broad base of international investors to gain access to favourable funding.



BII serves a growing number of SME businesses and provides technology and knowledge transfer to SME owner offices.

Lifeline for Small Businesses

Commercial Banking's main mission is to distribute attractive financing to small and medium-sized businesses, often capitalising on special, low-cost funding from government or institutional development programmes.

BII derives its commercial banking strength from its nationwide branch network and a reputation for being a reliable facilitator of government-sponsored lending programmes. In the small business development (or KUK) loans, for instance, in addition to fulfilling a requirement of Bank Indonesia, BII continues to provide key financing to foster the growth of local enterprises and cooperatives. At year-end 1997, BII's outstanding KUK loans reached Rp 1.5 trillion compared to Rp 1.0 trillion in 1996.

During the year, Commercial Banking was active in two other government-sponsored programmes, namely the BII Pollution Abatement equipment credit and the AICDF/Asian Development Bank Development Finance Ltd. programme.

The former involved an international aid programme in support of environmental waste management, the disbursement of which has been entrusted to Bank Indonesia through its leading

Financial

OVERVIEW

PT Bank Internasional Indonesia Tbk and its subsidiaries ('the Bank') provide a broad range of banking products and services including deposit taking, lending, treasury and investment services. Its liabilities products consist primarily of demand, savings and time deposit accounts as well as certificates of deposit, all of which make up a substantial portion of the Bank's funding. Its earning assets mainly comprise wholesale lending, commercial lending and retail lending. The Bank has also recently been active in loan syndications, debt arrangement, trade finance, foreign exchange services and investment services as part of its growing private banking franchise.

The Bank generates revenue primarily from interest earned on its loan portfolio and, increasingly, from fees derived from the provision of loans, syndication arrangements, treasury, trade finance, foreign exchange and risk management products. It incurs expenses primarily from interest expense accruing on the Bank's third-party funding and borrowings, as well as from operating expenses which mainly comprise personnel expense and general and administrative expenses.

In 1997 the Bank's operations were significantly affected by the adverse economic conditions in Indonesia, particularly during the second half of that year. These economic conditions are reflected in the national liquidity crisis, high domestic interest rates, the depreciation of the Rupiah, tightening of credit, and a general lowering of spending levels.

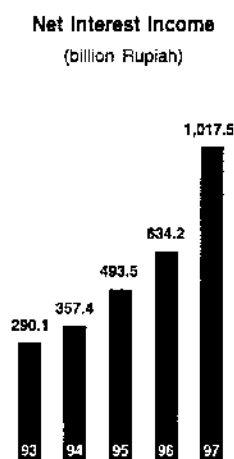
RESULTS OF OPERATIONS

An increase in net interest income, offset by a significant increase in other operational expenses, resulted in a slight decline in the Bank's net income for 1997 to Rp 244.4 billion, from Rp 260.4 billion the previous year.

Net Interest Income. Net interest income for 1997 was Rp 1,017.5 billion, an increase of 60.4% over 1996. This resulted from a 66.7% increase in interest income, and a 69.3% increase in interest expense during the year. Net interest margin in 1997 improved to 5.27%, compared to 4.41% the previous year, attributable mainly to more cost-effective funding during the year under review.

Aggregate interest income (including fees and commissions on loans) for 1997 amounted to Rp 3,575.9 billion, an increase of 66.7% from Rp 2,145.4 billion in 1996. This increase was mainly attributable to interest income from loans, which rose 63.8% to Rp 2,636.1 billion, in line with greater lending volumes as well as higher interest rates on loans in 1997.

Total interest expense (including fees and commissions paid on borrowings) increased by 69.3% from Rp 1,511.2 billion in 1996 to Rp 2,558.4 billion in 1997. This increase was attributable primarily to interest expense on time deposits, which



grew 61.1% to Rp 1,234.6 billion, due to the higher average interest rates on short tenure deposits applicable in 1997.

Non-Interest Income. Non-interest income is derived mainly from the Bank's activities in wholesale banking, trade finance and foreign exchange transactions, as well as administration fees and dividend income from long-term investments. In 1997, non-interest income was Rp 369.6 billion, 93.2% higher than Rp 191.4 billion in 1996. This was primarily due to a 163.8% increase in administration fees to Rp 102.1 billion which include credit card facilitation, loan syndication, retail and investment banking administration. Another major contributor to non-interest income in 1997 was dividend income which amounted to Rp 27.9 billion, compared to Rp 4.0 billion the previous year.

Operating Expenses. Operating expenses exclusive of interest expense, consist of personnel expenses and general and administrative expenses which rose 34.9% and 38.5% to Rp 176.9 billion and Rp 233.5 billion, respectively, during the year.

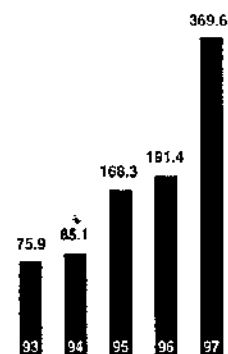
The rise in personnel expenses reflects the general policies of the Bank to maintain the best possible pool of talent through competitive remuneration as well as the recruitment of additional personnel in 1997 to support the Bank's continuing expansion. As of year-end 1997, the Bank employed a total of 7,865 personnel, 1,058 more than a year ago.

The increase in general and administrative expenses was mainly attributable to the introduction of additional advanced electronic banking technology in support of the Bank's consumer banking expansion, increased promotional activities including above-the-line brand and product advertising, and higher expenses attributable to additional branch operations as well as for training and human resources development programmes.

Provision for Possible Losses. Provisions for possible losses on loans and other earnings assets for the year amounted to Rp 518.4 billion, a hefty 461.0% increase from the previous year level of Rp 92.4 billion. Besides taking into account the growth of the Bank's earning assets size during the year, the amount expensed to provide for possible losses reflected management's policy to maintain the quality of the Bank's earning assets, in view of increased credit risks associated with worsening macro economic conditions expected in the near future.

Operating Profit. Operating profit declined slightly by 4.6% from Rp 376.1 billion in 1996 to Rp 358.9 billion in 1997. This resulted from the 128.8% increase in other operating expenses, which more than offset the 68.0% increase in total net interest and non-interest earnings in 1997.

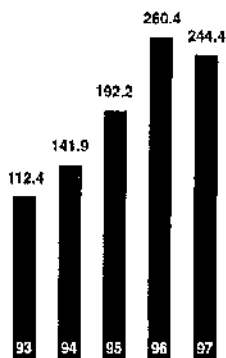
Non Interest Income
(billions Rupiah)



Non-Operating Income/Expenses. Net non-operating expense for the year was Rp 0.3 billion, compared to Rp 7.3 billion in 1996. This resulted mainly from an increase in non-operating income from Rp 7.6 billion in 1996 to Rp 18.4 billion in 1997.

Income Before Provision for Income Tax. Income before provision for income tax for 1997 was Rp 358.6 billion, decreasing 2.8% from Rp 368.8 billion in 1996.

Net Income
(billion Rupiah)



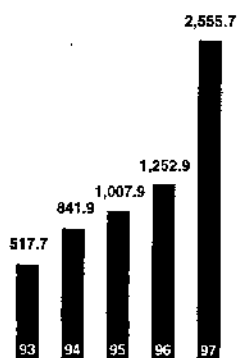
Provision for Income Tax. Despite the lower operating profit in 1997, provision for income tax for the year rose 5.3% to Rp 114.2 billion, as against Rp 108.4 billion in 1996. The Bank's effective tax rate was 31.8% in 1997 versus 29.4% in 1996. The increase was attributable to the higher tax correction in 1997 pertaining mainly to losses from investment in affiliated companies and in marketable securities portfolio.

Net Income. Net income for the year declined 6.1% to Rp 244.4 billion, from Rp 260.4 billion in 1996, for reasons discussed above. On a fully diluted basis, this translated into a net earnings per share of Rp 75 in 1997, compared to Rp 135 in 1996.

FINANCIAL POSITION

Shareholders' Equity. Total shareholders' equity amounted to Rp 2,555.7 billion as of December 31, 1997, representing an increase of 104.0% from Rp 1,252.9 billion a year before. Significant changes that effected shareholders' equity during 1997 include the Bank's second rights issue in February of that year, in which 1,289,579,469 ordinary shares and 286,573,215 convertible warrants were issued. The rights issue added Rp 650.0 billion to the Bank's paid-in capital account, which amounted to Rp 1,617.2 billion as of year-end 1997, as well as increasing the capital surplus account from Rp 7.3 billion to Rp 335.9 billion. Other major component changes were the consolidation translation adjustment of Rp 135.6 billion; as well as the increase in the retained earnings account from profitable operations in 1997 amounting to Rp 188.6 billion.

Shareholders' Equity
(billion Rupiah)



Assets and Liabilities. The Bank manages its balance sheet and risk limits associated with changes in the balance sheet according to market conditions and liquidity needs, and subject to profitability and risk controls. In managing its balance sheet, the Bank strives to match funds which constitute its interest-earning assets with those that constitute its interest-bearing liabilities. As such, the liquidity and maturity profiles of assets and liabilities are monitored daily. These profiles form the basis on which the Bank determines its earning assets mix on one hand, and the funding of these assets on the other. The Bank's assets are funded through various sources which comprise third-party deposits, securities sold under repurchase agreements, commercial paper and short-term notes, other short-term borrowings, long-term borrowings, retained earnings and equity financing.

Because of its growing business, the Bank has consistently experienced an increase in asset and liability levels year over year. As of year-end 1997, the Bank had total assets of Rp 24,697.7 billion, a 39.5% increase from Rp 17,707.0 billion in 1996; while its total liabilities were Rp 22,142.0 billion, a 34.6% increase from Rp 16,454.2 billion in 1996.

Earning Assets. The Bank's earning assets amounted to Rp 21,894.9 billion (net of provisions for possible losses) at year-end 1997, a 33.9% increase from Rp 16,349.1 billion a year ago. Total earning assets, comprising loans, placement with other banks, marketable securities and investments, accounted for 88.7% of total assets as of year-end 1997 compared to 91.8% a year previously.

The Bank's total loans accounted for approximately 75.3% of earning assets, amounting to Rp 16,478.7 billion at year-end 1997 compared to Rp 11,473.7 billion a year earlier. The increase reflects the continuing expansion of the Bank's lending activities, despite the monetary and economic crisis during the second half of 1997, which among others caused a constriction of credit.

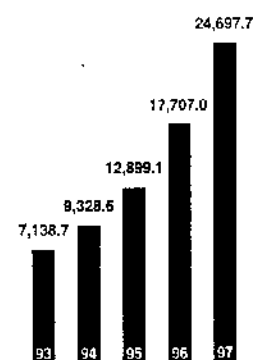
Placements with other banks increased 65.3% from Rp 716.3 billion as of year-end 1996 to Rp 1,184.0 billion on December 31, 1997. This was primarily due to the increase of the Bank's placements in the interbank market from Rp 129.2 billion to Rp 505.4 billion during the year.

Loan Portfolio. The Bank maintains a loan portfolio which is diversified in terms of exposure across different industry sectors and business groups. It has always been the policy of the Bank to maintain a well-diversified loan portfolio.

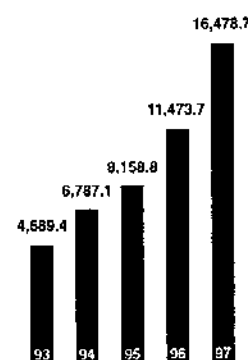
The following table shows the Bank's loans and advances (excluding loans made by subsidiaries), classified by industrial sectors as at December 31, 1996 and 1997:

Sector	At December 31,			
	1997		1996	
	Amount (in million IDR)	Percentage of Total	Amount (in million IDR)	Percentage of Total
Services	5,641,583	37.0%	3,963,064	36.0%
Manufacturing	3,533,689	23.0	2,752,129	25.0
Trade	2,091,676	14.0	1,651,277	15.0
Construction	918,334	6.0	770,596	7.0
Agriculture & Transportation	1,126,287	8.0	550,426	5.0
Others	1,761,449	12.0	1,321,022	12.0
Total	15,073,018	100.0%	11,008,514	100.0%

Total Assets
(billion Rupiah)



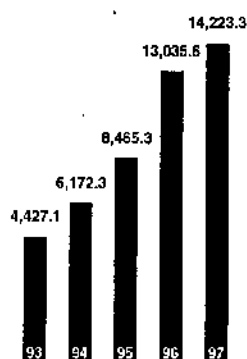
Loans
(billion Rupiah)



In addition to different industrial sectors, the Bank's loan portfolio can also be viewed in terms of different market segments comprising the wholesale market, middle market and retail market. Wholesale lending focuses on the largest companies with assets in excess of Rp 10 billion; middle market activities cater to mid-sized companies with assets between Rp 1 billion and Rp 10 billion; retail lending oversees the market for small companies with assets below Rp 1 billion and includes the Bank's KUK loan portfolio for cooperatives and home-scale industries. As of year-end 1997, KUK loans amounted to Rp 1,520.1 billion or 9.1% of total loans outstanding.

Funding. Short-term interbank deposits and long-term borrowings constitute the Bank's principal source of funding in 1997. Total borrowings grew a significant 110.7% to reach Rp 5,119.4 billion as of year-end 1997, compared to Rp 2,429.3 billion a year previously. Borrowings from other banks contributed the highest growth at 171.9%, from Rp 1,137.3 billion to Rp 3,092.8 billion in 1997, whereas borrowings from Bank Indonesia and placements by other banks increased 41.7% and 58.7%, respectively, from their previous levels a year earlier. Borrowings from Bank Indonesia represent liquidity credit disbursed through BII as small-scale business loans to members of primary cooperatives, and two-step loans for the development of export- and non-export oriented industries, amounting to Rp 61.6 billion and Rp 75 billion, respectively, as at year-end 1997.

Third-party Deposits
(billion Rupiah)



Third-party deposits, comprising of current accounts, savings accounts, time deposits and certificates of deposit, grew moderately at 9.1%, from Rp 13,035.6 billion in 1996 to Rp 14,223.3 billion as of year-end 1997. This was primarily attributable to the shift to other, more cost-effective, sources of funding during the year.

The following table shows the amount and percentage represented by each type of deposit with the Bank for the dates shown:

Deposit Type	At December 31,			
	1997		1996	
	Amount (in million IDR)	Percentage of Total	Amount (in million IDR)	Percentage of Total
Current account	2,811,379	19.8%	2,100,719	16.1%
Savings account	1,622,928	11.4	1,630,147	12.5
Time deposits	8,411,722	59.1	7,506,360	57.6
Certificates of deposit	1,377,240	9.7	1,798,329	13.8
Total	14,223,269	100.0%	13,035,555	100.0%

In addition, the Bank also relied on the proceeds from its second rights issue as part of its funding activities in 1997.

Liquidity. The Bank has always placed an emphasis on maintaining adequate liquidity to meet all of its maturing liabilities as well as commitments to customers and counter parties. It ensures liquidity at all times by seeing to it that any excess of maturing liabilities over maturing assets for a given period is fully covered by the amount of funds that the Bank is able to generate within such a period. As of year-end 1997, the Bank's liquid assets, comprised of cash, current accounts with Bank Indonesia and other banks as well as placements with other banks, amounted to Rp 2,377.4 billion, an increase of 62.2% compared to Rp 1,466.2 billion a year previously. In general, the increase reflected the Bank's concern to maintain sufficient liquid assets, particularly in view of the tight liquidity currently prevailing in the banking sector. Part of the growth was also in compliance of the 5% minimum reserve requirement as mandated by the central bank. The highest growth was in placements with other banks, which increased 66.1% over 1996 to reach Rp 1,195.5 billion at year-end 1997.

The Bank also maintains a secondary liquidity reserve in the form of trading account securities held amounting to Rp 4,167.3 billion at year-end 1997.

Capital Adequacy. The Bank has maintained a capital adequacy ratio which meets the prevailing standard required by the central bank. In 1995, Bank Indonesia increased the minimum acceptable capital adequacy ratios for foreign exchange banks in Indonesia, to 9% by 1997, 10% by 1999 and 12% by 2001. In recent years, the Bank has maintained a capital adequacy ratio in excess of 8%. As of year-end 1997, the Bank had a Tier-1 capital adequacy ratio of 10.04% and Tier-2 capital adequacy ratio of 1.62% for a total risk-adjusted capital adequacy ratio of 11.66%, improving from 8.72% in the previous year. The improvement was mainly the result of the growth of the Bank's Tier-1 capital following its second rights issue pertaining to 1,289,579,469 additional shares in the first quarter of 1997, which added Rp 650.0 billion to the Bank's paid-in capital account.

Risk Management. The Bank considers risk as an integral part of its business and therefore have implemented risk management procedures to monitor and control the various risks involved. Among the major risks are market risk, liquidity risk, credit risk and operating risk. Risk control is done at various levels of the Bank's management by the respective committees and related sections.

The consolidated financial statements and other financial information in this annual report were prepared by the Bank's Management, which is responsible for their contents. In doing so, Management complied with generally accepted accounting principles in Indonesia and, whenever required, made judgments and estimates which are reasonable and prudent.

The Bank maintains a system of internal controls and procedures designed to provide reasonable assurances that transactions are executed as authorised, that they are properly recorded and that, furthermore, all assets are fully accounted for. Management believes that these measures, which include careful selection and training of personnel and a thorough regimen of internal audits, adequately support the integrity and reliability of the financial statements.

A Board of Audit, appointed by the Management, is responsible for monitoring the accounting practices and internal controls of the Bank. The Board meets with members of the internal auditing staffs as well as with representatives of the independent accounting firm assigned to audit and express an opinion on the Bank's financial statements.

BII is also periodically examined by auditors from Bank Indonesia and those of other regulatory agencies. Any reports arising from such examinations are followed up and acted upon accordingly by the Management.



Indra Widjaja
President Director



Hanadi Sudjendro & Rekan

Registered Public Accountants

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Independent Auditors' Report

No. : R.455/98

The Shareholders, Commissioners and Directors
PT Bank Internasional Indonesia Tbk and Subsidiaries

We have audited the accompanying consolidated balance sheets and consolidated statements of commitments and contingencies of PT Bank Internasional Indonesia Tbk and Subsidiaries as of 31 December 1997 and 1996, and the related consolidated statements of profit and loss, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Bank Internasional Indonesia Tbk and Subsidiaries and their commitments and contingencies as of 31 December 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 37 to the consolidated financial statements, the economic downturn in Indonesia in 1997 which has been characterized by highly volatile foreign currency exchange rates against Rupiah, significant depreciation of Rupiah, high interest rates, illiquidity, declining stock prices and lack of confidence in the banking system has affected the Company's operation. This economic condition has resulted in uncertainty as to the ability of the Company's customers to fulfill their obligations when they mature, thereby significantly increasing credit risk inherent on the Company's earning assets portfolio. Furthermore, the economic condition has also affected the Company's cost of funds. Also, the very volatile exchange rates have increased the Company's exposure to foreign exchange risk. Management's plans in regard to these matters are described in Note 37 to the consolidated financial statements. The consolidated financial statements as of 31 December 1997 and for the year then ended include the effects of the economic downturn to the extent they can be determined and estimated. Resolution of the adverse economic condition is dependent on the monetary and fiscal measures that will be taken by the Government, actions which are beyond the Company's control, to achieve economic recovery. It is not possible to determine the future effect a continuation of the adverse economic condition may have on the Company's liquidity, earnings, and realization of its earning assets.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The financial statements of the Parent Company are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. The financial statements of the Parent Company have been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Drs. Kanaka Puradiredja
Registered Accountant No. D-587

15 March 1998

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Member Firm of
KPMG International

Consolidated Balance Sheets

As of 31 December 1997 and 1996

(Stated in million of Rupiah)

	Note	Consolidated		Parent Company	
		1997	1996	1997	1996
Assets					
Cash		239,205	98,083	238,330	97,766
Current accounts at Bank Indonesia	3	669,481	423,661	669,481	423,661
Current accounts at other banks		273,186	224,538	168,871	93,101
Placements at other banks					
Net of allowance for possible loss of earning assets	2c,4	1,184,043	716,257	974,980	688,399
Securities					
Net of allowance for possible loss of earning assets	2c,2d,5	4,077,522	4,055,217	3,891,238	3,798,564
Loans and advances					
Due from related parties	2q	154,064	671,703	128,927	661,702
Due from third parties		16,544,831	11,067,250	14,944,091	10,346,812
Less : Allowance for possible loss of earning assets	2c	(220,223)	(265,211)	(189,677)	(259,098)
Total loans and advances - net	6	16,478,672	11,473,742	14,883,341	10,749,416
Investments					
Net of allowance for possible loss of earning assets	2c,2e,7	154,628	103,905	331,206	268,589
Accrued income receivable	8	259,121	79,418	246,401	74,802
Prepayments	2g,9	75,485	41,864	70,292	39,642
Fixed assets					
Net of accumulated depreciation	2f,10	372,798	240,618	356,452	232,052
Other assets	2h,11	913,539	249,730	814,832	241,338
Total assets		24,697,680	17,707,033	22,645,424	16,707,330

See the accompanying notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

Consolidated Balance Sheets - Continued

As of 31 December 1997 and 1996

(Stated in million of Rupiah, except nominal value per share which is stated in Rupiah)

	Note	Consolidated		Parent Company	
		1997	1996	1997	1996
Liabilities and shareholders' equity					
Liabilities					
Current accounts	12	2,811,379	2,100,719	2,795,784	2,078,762
Savings accounts	13	1,622,928	1,630,147	1,622,329	1,629,627
Time deposits					
Due to related parties	2q	762,962	267,896	762,962	267,896
Due to third parties		7,648,760	7,238,464	7,457,370	7,111,493
Total time deposits	14	8,411,722	7,506,360	8,220,332	7,379,389
Certificates of deposit	15	1,377,240	1,798,329	1,377,198	1,798,329
Total deposits		14,223,269	13,035,555	14,015,643	12,886,107
Other current liabilities	16	130,033	46,027	96,994	41,763
Securities issued	17	194,700	194,700	194,700	194,700
Loans received	18	5,119,395	2,429,296	3,496,747	1,666,640
Accrued expenses	19	183,372	108,531	156,348	100,462
Taxes payable	20	8,549	14,912	2,816	11,378
Other liabilities	21	2,282,636	625,136	2,273,584	567,694
Total liabilities		22,141,954	16,454,157	20,236,832	15,468,744
Shareholders' equity					
Share capital					
Nominal value per share is Rp. 500.					
Authorized capital is comprised of					
7,736,000,000 shares (1997 and 1996),					
while issued and paid up capital are					
3,234,402,449 shares					
(1996 : 1,934,369,204 shares)	22	1,617,201	967,185	1,617,201	967,185
Capital surplus	23	335,943	7,290	335,545	6,892
Consolidation translation adjustments	2n	149,479	13,892	2,743	-
Retained earnings					
• General reserve		632	632	632	632
• Unappropriated retained earnings		452,471	263,877	452,471	263,877
Total shareholders' equity		2,555,726	1,252,876	2,408,952	1,238,586
Total liabilities and shareholders' equity		24,697,680	17,707,033	22,645,424	16,707,330

See the accompanying notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

Consolidated Statements of Commitments and Contingencies

As of 31 December 1997 and 1996

(Stated in million of Rupiah)

	Note	Consolidated		Parent Company	
		1997	1996	1997	1996
Commitments					
Commitments - assets:					
• Foreign currency spot purchases	26	190,888	14,394	190,888	14,394
• Foreign currency forward purchases	26	5,729,587	734,364	5,705,307	710,568
• Unused credit facilities - received		341,718	156,070	341,718	156,070
• Interest rate swap		120,900	22,639	120,900	22,639
• Foreign currency swap		98,750	-	98,750	-
Total commitments - assets		6,481,843	927,467	6,457,563	903,671
Commitments - liabilities:					
• Foreign currency spot sales	26	139,566	8,934	139,566	8,934
• Foreign currency forward sales	26	3,952,821	1,025,775	3,902,476	1,001,909
• Unused credit facilities - given		5,528,163	5,276,410	5,085,674	5,258,310
• Margin trading		232,500	-	232,500	-
• Liability on repurchasing bank assets which were previously sold on repossession terms	2j	963,882	-	938,374	-
• Irrevocable letters of credit		488,800	547,437	395,691	496,599
• Acceptance of import drafts based on usance letters of credit		917,720	333,823	868,585	316,536
Total commitments - liabilities		12,223,452	7,192,379	11,562,866	7,082,288
Commitments - net liabilities		5,741,609	6,264,912	5,105,303	6,178,617
Contingencies					
Contingent assets :					
• Past due interest revenue	2k	33,242	11,065	33,242	11,065
• Purchases of foreign currency options		4,450,050	367,213	4,450,050	367,213
Total contingent assets		4,483,292	378,278	4,483,292	378,278
Contingent liabilities :					
• Guarantees given :					
• Bank guarantees		371,220	685,222	336,045	672,592
• Shipping guarantees		23,068	33,775	22,416	10,641
• Stand-by letters of credit		449,909	92,401	449,909	92,401
• Sales of foreign currency options		4,450,050	367,396	4,450,050	367,396
• Others		195,300	-	195,300	-
Total contingent liabilities		5,489,547	1,178,794	5,453,720	1,143,030
Contingencies - net liabilities		1,006,255	800,516	970,428	764,752
Total commitments and contingencies - net		6,747,864	7,065,428	6,075,731	6,943,369

See the accompanying notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

Consolidated Statements of Profit and Loss

For the years ended 31 December 1997 and 1996

(Stated in million of Rupiah, except for earnings per share which are stated in Rupiah)

	Note	Consolidated		Parent Company	
		1997	1996	1997	1996
Operating income and expenses :					
Interest income					
Interest earned	2k,27	3,499,073	2,085,881	3,273,176	1,981,202
Commission earned from loans and advances	2l	76,812	59,491	74,166	56,730
Interest income		3,575,885	2,145,372	3,347,342	2,037,932
Interest expense					
Interest paid	2k,28	2,549,277	1,507,828	2,421,542	1,449,560
Commission paid on loans received	2l	9,112	3,370	8,009	2,742
Interest expense		2,558,389	1,511,198	2,429,551	1,452,302
Interest income - net		1,017,496	634,174	917,791	585,630
Other operating income and expenses :					
Provision and commission income other than from loans and advances		83,008	59,050	75,191	54,949
Foreign currency transaction income		91,254	62,466	132,051	64,613
Other income	29	195,385	69,847	194,269	69,090
Total other operating income		369,647	191,363	401,511	188,652
General and administrative	30	233,524	168,578	225,983	164,733
Provision for possible loss of earning assets		518,449	92,408	496,158	89,469
Salaries and employee benefits		176,906	131,152	166,218	126,932
Depreciation and amortization		58,553	42,560	53,389	39,864
Other expenses		40,854	14,720	40,302	14,519
Total other operating expenses		1,028,286	449,418	982,050	435,517
Total other operating expenses - net		658,639	258,055	580,539	246,865
Operating profit		358,857	376,119	337,252	338,765
Non-operating income	31	18,441	7,590	40,935	36,688
Non-operating expenses	32	18,712	14,885	28,984	14,596
Total non operating income/(expenses) - net		(271)	(7,295)	11,951	22,092
Profit before income tax		358,586	368,824	349,203	360,857
Estimated corporate income tax	2i,20	114,180	108,414	104,797	100,447
Net profit		244,406	260,410	244,406	260,410
Operating profit per share					
• Primary	2m	118	192	111	173
• Fully diluted - warrants	2m	110	192	103	173
Net profit per share					
• Primary	2m	80	135	80	135
• Fully diluted - warrants	2m	75	135	75	135

See the accompanying notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended 31 December 1997 and 1996

(Stated in million of Rupiah)

	Note	Consolidated		Parent Company	
		1997	1996	1997	1996
Retained earnings at the beginning of the year		263,877	416,699	263,877	416,699
Net profit		244,406	260,410	244,406	260,410
Prior year adjustment for :					
• Investment in shares at associated companies	7	18,339	-	18,339	-
Total available for distribution		526,622	677,109	526,622	677,109
Cash dividends	25	74,151	18,978	74,151	18,978
Share dividends	2r,25	-	393,622	-	393,622
General reserve		-	632	-	632
Retained earnings at the end of the year		452,471	263,877	452,471	263,877

See the accompanying notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended 31 December 1997 and 1996

(Stated in million of Rupiah)

	Consolidated		Parent Company	
	1997	1996	1997	1996
Cash flows from operating activities				
Profit before income tax	358,586	368,824	349,203	360,857
Adjustments for :				
• Depreciation and amortization	58,553	42,560	53,389	39,864
• Provision for possible loss of earning assets	518,449	92,408	496,158	89,469
• Gain on investments	(7,810)	(3,247)	(30,921)	(32,461)
• Loss on investments	3,719	854	15,509	854
• Gain on sales of fixed assets	(1,431)	(949)	(1,430)	(842)
Profit after adjustments	930,066	500,450	881,908	457,741
Cash dividend paid	(68,359)	(17,480)	(68,359)	(17,480)
Tax on cash dividend	(5,792)	(1,498)	(5,792)	(1,498)
Corporate income tax paid	(120,579)	(107,267)	(112,774)	(100,724)
Consolidation translation adjustments	128,937	3,688	2,743	-
Increase in securities	(248,448)	(1,662,507)	(317,161)	(1,410,476)
Increase in loans and advances	(5,280,836)	(3,402,606)	(4,391,596)	(3,162,638)
Increase in accrued income receivable	(179,703)	(17,201)	(171,599)	(13,947)
Decrease / (increase) in prepayments	(33,621)	17,989	(30,650)	19,232
Increase in other assets	(667,145)	(146,833)	(573,586)	(137,431)
Increase in current accounts	710,660	1,043,038	717,022	973,389
Increase / (decrease) in savings accounts	(7,219)	490,122	(7,298)	489,927
Increase in time deposits	905,362	1,993,830	840,943	1,970,330
Increase / (decrease) in certificates of deposit	(421,089)	1,043,281	(421,131)	1,043,281
Increase / (decrease) in other current liabilities	84,006	(2,748)	55,231	20,764
Decrease in securities issued	-	(50,420)	-	-
Increase in loans received	2,690,099	588,578	1,830,107	48,280
Increase in accrued expenses	74,841	47,529	55,886	43,923
Increase / (decrease) in taxes payable	36	1,119	(585)	1,119
Increase / (decrease) in other liabilities	1,657,500	(592,846)	1,705,890	(641,554)
Net cash received from / (used in) operating activities	148,716	(271,782)	(10,801)	(417,762)

See the accompanying notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows - Continued

For the years ended 31 December 1997 and 1996

(Stated in million of Rupiah)

	Consolidated		Parent Company	
	1997	1996	1997	1996
Cash flows from investing activities				
Investments	(36,868)	(54,001)	(35,041)	(52,342)
Proceeds from sales of fixed assets	36,699	3,728	36,593	3,681
Purchases of fixed assets	(216,015)	(81,487)	(212,860)	(79,093)
Net cash used in investing activities	(216,184)	(131,760)	(211,308)	(127,754)
Cash flow from financing activities				
Paid-up capital	650,016	-	650,016 ^a	-
Capital surplus	328,653	-	328,653	-
Net cash received from financing activities	978,669	-	978,669	-
Net increase / (decrease) in cash and cash equivalents	911,201	(403,542)	756,660	(545,516)
Cash and cash equivalents at the beginning of the year (see note 2s)	1,466,170	1,869,712	1,306,558	1,852,074
Cash and cash equivalents at the end of the year (see note 2s)	2,377,371	1,466,170	2,063,118	1,306,558
Supplemental disclosures of non-cash transactions :				
Increase in share capital	-	650,882	-	650,882
Decrease in capital surplus	-	(257,260)	-	(257,260)
Share dividends	-	(393,622)	-	(393,622)
Consolidation translation adjustments	128,937	3,688	2,743	-

See the accompanying notes to the consolidated financial statements, which form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General

PT Bank Internasional Indonesia ("the Company" or "the Parent Company") was established in 1959 by virtue of Notary Deed No. 53 dated 15 May 1959 of alternate Notary Soleman Ardjasmita SH. The Deed was subsequently amended by Notary Deeds No. 9 dated 4 August 1959 and No. 21 dated 6 October 1959 of Notary Eliza Pondaag SH in Jakarta. The Articles of Association of the Company were approved by the Minister of Justice of the Republic of Indonesia through his letter No. J.A.5/1/2/18, dated 2 November 1959, and were registered in the Jakarta Court of Justice under registration number 2116 dated 5 November 1959.

On 31 March 1980, the Company merged with PT Bank Tabungan Untuk Umum 1859, Surabaya by virtue of Notary Deed No. 17 dated 31 March 1980 of Notary Arianny Lamoin Redjo SH.

Pursuant to Bank Indonesia's Decree No. 22/1/Dir/Upps dated 9 November 1988, the Company obtained an approval to upgrade its status to a foreign exchange bank.

On 20 and 23 September 1989, by virtue of Notary Deeds No. 299 and 370 of Benny Kristianto SH, and approved by the Minister of Justice of the Republic of Indonesia through his letter No. C2-9050.H.T.01.04-TH.89, dated 25 September 1989, the Company offered / sold its shares amounting to 12,000,000 shares to the public through the capital market in Indonesia in accordance with the provisions of the law. This sales of shares to the public was effective according to the letter from the Capital Market Supervisory Agency ("BAPEPAM") No. SI-508/SHM/MK.10/189 dated 2 October 1989.

In February 1994, the Company offered / sold its shares amounting to 52,717,184 shares with nominal value of Rp. 1,000 per share through a limited public offering I ("right issue") in which the holder of every 5 shares have the right to purchase 1 share at Rp. 4,000 per share. This rights issue was approved by the shareholders in the Extra-ordinary Shareholders Meeting held on 25 January 1994 and was effective according to the letter from BAPEPAM No. S-130/PM/1994 dated 24 January 1994.

In the Annual and Extra-ordinary Shareholders Meeting held on 18 June 1996 which were documented in Notary Deed of Sutjipto SH No. 103 and 104 dated 18 June 1996, the Company distributed share dividends of 35,144,789 shares amounting Rp. 393,622 million, cash dividends of Rp. 60 per share amounting Rp. 18,978 million and converted capital surplus amounting Rp. 253,042 million into share capital of 253,042,483 shares. After the share dividend and capital surplus conversion, share capital of the Company has increased from Rp. 316,303 million into Rp. 604,490 million.

In the Extra-ordinary Shareholders Meeting held on 29 August 1996 which were documented in Notary Deed of Sutjipto SH No. 101 dated 29 August 1996, the Company converted paid-up capital amounting Rp. 362,694 million to 362,694,226 shares and changed the Board of Commissioners and Directors.

On 13 September 1996, by virtue of Notary Deed No. 130 of Sutjipto SH, and approved by Minister of Justice of the Republic of Indonesia through his letter No. C2-9626.HT.01.04.Th.96 dated 21 October 1996, the Company decided to:

- change the Company's Article of Association to comply with the new Company Law No. 1 year 1995 and Capital Market Law No. 8 year 1995;
- increase the authorized capital from Rp. 1,000,000 million to Rp. 3,868,000 million; and
- change the share nominal value from Rp. 1,000 to Rp. 500 per share.

In February 1997, the Company sold 1,289,579,469 shares through a limited public offering II. In this offering, holder of each 27 shares has subscription right for 18 new shares with offering price of Rp. 750 per share, and in every 18 newly issued shares are attached 4 warrants free of charge. The subscription right is exercised in 9 folds shares for Rp. 6,750. The total amount raised from this right issue is approximately Rp. 967,185 million. This right issue was approved by shareholders in the extra-ordinary shareholders meeting held on 27 December 1996 and was effective according to the letter from BAPEPAM No. S-2093/PM/1996 dated 28 December 1996.

Notes to the Consolidated Financial Statements - continued**1. General - continued**

According to the Articles of Association, the Company's objectives are:

1. To operate in banking, finance or capital markets activities which is either directly or indirectly related to trading, custodian and management of securities, or other services and other allowed activities from time to time, now and in the future, on business with other parties or companies.
2. To set-up, or jointly set-up or have shares in other companies who have similar or closely related objectives with the Company, either in the form of joint venture or contract basis.

2. Summary of Significant Accounting Policies

Set out below is a summary of the significant accounting policies adopted by the Company in the preparation of the consolidated financial statements.

a. Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Indonesia. Consolidated statements of cash flows are prepared based on cash and cash equivalents concept by using indirect method.

Unless otherwise stated, all figures presented in the notes to the consolidation financial statements are stated in million of Rupiah.

b. Principles of consolidation

The consolidated financial statements include all subsidiaries that are controlled by the Parent Company, other than those excluded because control is assumed to be temporary or due to long-term restrictions significantly impairing a subsidiary's ability to transfer funds to the Parent Company.

Where an entity either began or ceased to be controlled during the year, the results are included only from the date of control commenced or up to the date control ceased.

Control is presumed to exist where more than 50% of a subsidiary's voting power is controlled by the Parent Company; or the Parent Company is able to govern the financial and operating policies of a subsidiary; or control the removal or appointment of a majority of a subsidiary's board of directors.

All significant inter-company balances and transactions have been eliminated in consolidation.

Minority interests in the equity and results of the entities that are controlled by the Parent Company are shown as a separate item in the consolidated financial statements.

As of the balance sheet dates, the subsidiaries which were consolidated, including the percentage of ownership held by the Parent Company, are as follows:

	1997	1996
• PT BII Finance Center	99.99%	99.99%
• BII Finance Co. Limited, Hong Kong	100.00%	100.00%
• Bank International Ningbo, China	100.00%	100.00%

Notes to the Consolidated Financial Statements - continued**2. Summary of Significant Accounting Policies - continued****c. Allowance for possible loss of earning assets**

Allowance for possible loss of earning assets is determined based on evaluations by management of the possibility of earning assets (placements at other banks, securities, loans and advances, and investments) which may not be collected as of balance sheet dates in accordance with Decree of Bank Indonesia No. 26/22/KEP/DIR dated 29 May 1993 and No. 26/167/KEP/DIR dated 29 March 1994. According to the Decree, earning assets are classified into 4 (four) categories :

<u>Category of possible loss of earning assets</u>	<u>Percentage</u>
Solvent	0.50
Less solvent	10.00
Doubtful	50.00
Bad debts	100.00

The above percentages of possible loss of earning assets are applied to earning assets less collateral value, except for earning assets classified as solvent, which are applied directly to the earning assets balance.

The outstanding balance of earning assets is written-off against the respective allowance for possible loss when management believes that the assets are determined to be definitely uncollectible or unrealizable.

Recovery of earning assets previously written off is recorded as an addition to allowance for possible loss of earning assets during the period of recovery.

d. Securities

Securities comprised of Certificates of Bank Indonesia (SBI), money market securities (SBPU), notes receivable or commercial papers, export bills, drafts, travelers' cheques, mutual fund units, listed shares and bonds in Indonesian Stock Exchange.

Certificates of Bank Indonesia, money market securities, notes receivable or commercial papers, export bills and bonds are presented at their nominal value less or add with unamortized discount or premium. Shares and mutual fund units are stated at their lower of cost and market value (COMWIL).

Gain or loss incurred from sale of securities and diminishing value of market price of securities are recognized in the period in which they occur.

e. Investments

Investments in shares in which the Company's holding is greater than 50% is recorded based on the equity method in the Parent Company's financial statements.

Investments in associates are accounted for under the equity method of accounting. An associate enterprise is one in which the Company holds, directly or indirectly, 20% or more of the voting power of the enterprise, or where the Company exercises significant influence over the enterprise, but is not controlled by the Company.

Long-term investments in shares in which the Company holds less than 20% of the voting power of the enterprise are carried at cost less amounts written-off to recognize permanent declines, if any, in the value of the investment.

f. Fixed assets

Fixed assets are stated at cost less their accumulated depreciation, except those acquired before 12 September 1986 and which were owned by the Company as of 1 January 1987. These assets are stated at valuation in accordance with the Government Regulation No. 42/1986, less their accumulated depreciation. The results of the revaluation amounted to Rp. 617 million are capitalized as capital shares.

Notes to the Consolidated Financial Statements - continued**2. Summary of Significant Accounting Policies - continued****f. Fixed assets - continued**

All fixed assets, except for land and buildings, are depreciated over their estimated useful lives using the double declining balance method. Buildings are depreciated using the straight line method. Fixed assets are first depreciated in the period of acquisition. The depreciation rates are as follows :

• Buildings - permanent	5%
• Buildings - non permanent	10%
• Others :	
- Assets with useful lives less than 4 years	50%
- Assets with useful lives between 4 to 8 years	25%

The cost of repairs and maintenance is charged to income as incurred, significant renewals or betterments are capitalized. When assets are retired or otherwise disposed of, their carrying values and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of profit and loss for the year.

g. Prepayments

Prepaid expenses are amortized over the term of the agreement or the useful life, using straight-line method.

h. Assets seized on loans in default and fixed assets not in use

Assets seized on loans in default are assets seized by the Company and still in the process of changing the ownership. Meanwhile, fixed assets not in use are assets seized acquired by and under the ownership of the Company.

Assets seized on loans in default and fixed assets not in use obtained as loan settlements by the Company are recorded based on the lower of market value and mutually agreed value. They are presented in the balance sheets as "other assets". Differences between loan receivable and market value or mutually agreed value are charged to allowance for possible loan losses in the period in which they occur. Expenses incurred for maintaining "assets seized on loans in default" and "fixed assets not in use" are charged to profit and loss in the year incurred.

i. Corporate income tax expense

Estimated corporate income tax expense is calculated based on the Company's taxable income. The Company does not apply deferred tax method for timing differences in recognizing revenues and expenses between financial statements for commercial and fiscal purposes.

j. Assets sold under repurchase agreement

Assets (securities and loan given) which are sold under repurchase agreement are not presented on the balance sheet. These are presented as "liabilities on repurchasing bank assets which were previously sold on repossession terms" in the statement of commitments and contingencies.

k. Recognition of interest income and expense

Interest income or expense from interest earning assets and interest bearing liabilities is recognized on accrual basis. Discounts or premiums are amortized on a straight-line basis and reflected as an adjustment to interest. The Company does not recognize interest as income when the loans are considered non-performing generally when the interest or principal is overdue for more than 3 months. Such interest income is instead recorded as past due interest revenue in the statement of commitments and contingencies. Interest on such assets are recognized when actually received.

l. Recognition of provision or commission income and expense

Provision or commission income and expense directly related to loans given or received in excess of Rp. 100 million are recognized as deferred income or expense and are amortized on a proportional basis in accordance with the period in which the respective loans are given or received. Provision or commission less than or equal to Rp. 100 million are recognized as income or expense upon receipt or payment. The limit of Rp. 100 million is determined by considering materiality principle to the overall financial statements.

Notes to the Consolidated Financial Statements - continued

2. Summary of Significant Accounting Policies - continued

m. Operating profit and net profit per share

Operating profit and net profit per share are calculated based on the weighted average of shares issued in the respective period.

The weighted average number of shares issued and paid up for the year ended 31 December 1997 is 3,019,940,300 (1996 : 1,934,369,204 shares). The weighted average number of shares issued and paid up fully diluted - warrants for the year ended 31 December 1997 is 3,255,746,523 shares (1996 : 1,934,369,204 shares).

n. Translation of foreign currencies

Transactions

The Company maintains its accounting records in Rupiah. Transactions during the year in currencies other than Rupiah are recorded at the exchange rates ruling at the dates of the transactions.

Translation of assets and liabilities in foreign currencies

At year end, all foreign currency assets and liabilities are translated to Rupiah at the middle exchange rates stipulated by Bank Indonesia (Rp. 4,650/US\$ as of 31 December 1997 and Rp. 2,383/US\$ as of 31 December 1996). The net differences resulting from the translations have been recognized in the year in which they occur.

Translation on consolidation of subsidiaries and Parent Company's branches domiciled outside of Indonesia

The subsidiaries and Parent Company's branches domiciled outside of Indonesia maintains their accounting records in their respective domestic currency.

The financial statements of the foreign domiciled subsidiaries and Parent Company's branches are translated into Rupiah as follows:

- balance sheet items, except for share capital account, are translated at the middle exchange rates stipulated by Bank Indonesia as of the balance sheet date;
- profit and loss items are translated on a monthly basis at the month end middle exchange rates as stipulated by Bank Indonesia. Profit and loss items for the year are the sum of these monthly translations; and
- difference resulting from this translation is presented in the consolidated balance sheets as part of shareholders' equity and is called as "consolidation translation adjustments".

Translation of foreign currency forward contracts of a funding nature

For foreign currency forward contracts of a funding nature the difference between the contracted forward rate and the spot rate on the transactions date is recorded as a premium or discount and is amortized over the life of the contract. The amortization of the premium or discount is recorded in the profit and loss statement as a component of interest.

At balance date, the difference between the balance date spot rate and the spot rate at the transaction date is taken to the profit and loss accounts for the year.

Translation of foreign currency forward contracts of a trading nature

For foreign currency forward contracts of a trading nature the difference between the contracted forward rate and the spot rate on the maturity date is taken to the profit and loss account at the end of the contract period.

Notes to the Consolidated Financial Statements - continued

2. Summary of Significant Accounting Policies - continued

o. Interest rate swaps

Transactions of interest rate swaps for funding purposes

The difference between the original interest rate and the contracted interest rate is presented as an addition or deduction to the cost of funds, and is amortized on a pro-rata basis over the period of the contract.

Transactions of interest rate swaps for trading purposes

The difference between the original interest rate and the contracted interest rate is recognized as gain or loss at the end of the contract period.

p. Option

In the event that the Company acts as an issuer of options, losses arising from the difference between the contracted option rate and the spot rate at the reporting date must be recognized as expense for the current year. Meanwhile, gains arising from the difference between the contracted option rate and the spot rate at the reporting date is not recognized as revenue for the current year but will be recognized as revenue at the realization date.

q. Transactions with related parties

According to current financial accounting standards, related party is defined as :

1. company that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company. (This includes parent companies, subsidiaries, and fellow subsidiaries);
2. associated companies;
3. individuals owning, directly or indirectly, an interest in voting power of the reporting company that gives them significant influence over the Company, including directors and officers of companies and close members of the families of such individuals;
4. key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and officers of companies and close members of the families such individuals; and
5. companies in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in point 3 or 4 or over which such person is able to exercise significant influence, this includes companies owned by directors or major shareholders of the reporting Company and companies that have a member of key management in common with the Company.

r. Share dividend

The Company recorded and distributed share dividend based on the market value of the shares at 17 June 1996.

Notes to the Consolidated Financial Statements - continued**2. Summary of Significant Accounting Policies - continued****5. Cash flows**

The Company considers cash, current accounts at Bank Indonesia and at other banks, and placements at other banks which have tenure less than three months as "Cash and cash equivalents" in these consolidated financial statements.

The following is the detail of cash and cash equivalents :

	Consolidated		Parent Company	
	1997	1996	1997	1996
Cash	239,205	98,083	238,330	97,766
Current account at Bank Indonesia	669,481	423,661	669,481	423,661
Current account at other banks	273,186	224,538	168,871	93,101
Placements at other banks	1,195,499	719,888	986,436	692,030
Total cash and cash equivalents	2,377,371	1,466,170	2,063,118	1,306,558

3. Current accounts at Bank Indonesia

According to Bank Indonesia Decree, each bank domiciled at Indonesia is required to maintain a minimum balance of current accounts at Bank Indonesia as statutory liquidity reserve, amounting to 5% of liabilities in Rupiah currency and 3% of liabilities in foreign currency. The Parent Company statutory liquidity reserve at Bank Indonesia as of 31 December 1997 is Rp. 629,716 million.

4. Placements at other banks

Comprised of :

	Consolidated		Parent Company	
	1997	1996	1997	1996
Negotiable certificates of deposit	373,000	373,787	373,000	367,000
Less : Unamortized discount	(5,575)	(26,494)	(5,575)	(26,494)
Negotiable certificates of deposit - net	367,425	347,293	367,425	340,506
Call money	505,402	129,244	419,234	126,524
Time deposit	322,672	243,351	199,777	225,000
Total placements at other banks	1,195,499	719,888	986,436	692,030
Less : Allowance for possible loss of earning assets	(11,456)	(3,631)	(11,456)	(3,631)
Total placements at other banks - net	1,184,043	716,257	974,980	688,399

The Directors are of the opinion that the allowance for possible loss of earning assets (placements at other banks) at the respective balance sheet dates is sufficient.

Notes to the Consolidated Financial Statements - continued**4. Placements at other banks - continued**

The average interest rates per annum of placements at other banks of the Parent Company are as follows :

		1997	1996
Call money	: in Rupiah	39.91%	13.05%
	: in foreign currencies	15.56%	7.00%
Deposits	: in Rupiah	26.59%	17.99%
	: in foreign currencies	9.37%	5.85%
Negotiable certificates of deposit		28.17%	19.05%

The tenure of the call money is between 1 day and 90 days, while the tenure of the negotiable certificates of deposit is between 1 month and 3 months.

The consolidated placements at other banks which were related parties as of 31 December 1997 amounted to Rp. 387,938 million (1996 : Rp. 18,356 million).

5. Securities

	Consolidated		Parent Company	
	1997	1996	1997	1996
Certificates of Bank Indonesia (SBI)	31,625	795,050	31,625	795,050
Less : Unamortized discount	(3,413)	(14,847)	(3,413)	(14,847)
Certificates of Bank Indonesia (SBI) - net	28,212	780,203	28,212	780,203
Money market securities (SBPU) and notes receivable	1,675,529	986,026	1,669,526	973,757
Less : Unamortized discount	(29,829)	(57,763)	(29,829)	(57,763)
SBPU and notes receivable - net	1,645,700	928,263	1,639,697	915,994
Receivable on export bills	1,889,198	1,905,781	1,707,260	1,656,616
Less : Unamortized discount	(147,416)	(55,557)	(147,416)	(50,776)
Receivable on discounted export bills - net	1,741,782	1,850,224	1,559,844	1,605,840
Shares listed on the stock exchange - net	3,060	1,335	3,060	1,335
Mutual fund units - net	368,229	423,247	368,229	423,247
Bonds	361,732	73,495	361,732	73,495
Drafts	18,358	16,108	18,358	16,108
Traveler cheques	266	314	266	314
Total securities value	4,167,339	4,073,189	3,979,398	3,816,536
Less : Allowance for possible loss of earning assets	(89,817)	(17,972)	(88,160)	(17,972)
Total securities value - net	4,077,522	4,055,217	3,891,238	3,798,564

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996

5. **Securities - continued**

The Directors are of the opinion that the allowance for possible loss of earning assets (securities) at the respective balance sheet dates is sufficient.

The consolidated notes receivable as of 31 December 1997 included notes receivable issued by related parties amounted to Rp. 87,989 million (1996 : Rp. 113,300 million). Balance of notes receivable sold under repurchase agreement to third parties as of 31 December 1997 was Rp. 803,374 million. The respective notes receivable are recorded as "liabilities on repurchasing assets which were sold with repossession terms" in the statement of commitments and contingencies.

The consolidated outstanding export bills as of 31 December 1997 amounted to Rp. 1,052,237 million were purchased from related parties (1996 : Rp. 1,597,929 million). Export bills amounted to Rp. 1,523,407 million (1996 : Rp. 471,546 million) had been rediscounted to Bank Indonesia and other banks (see notes 21 - other liabilities).

Shares listed on the stock exchange (consolidated) as of 31 December 1997 included shares issued by related parties amounted to Rp. 276 million.

Mutual fund units as of 31 December 1997 included mutual fund units issued by related parties amounted to Rp. 169,009 million (1996 : Rp. 423,247 million).

Cost value of mutual fund units as of 31 December 1997 was Rp. 536,136 million (1996 : Rp. 420,000 million). Investment in mutual fund units as of 31 December 1997 in which the Parent Company acted as promoter was Rp. 456,968 million.

Bonds consist of securities denominated in Rupiah currency issued by companies in Indonesia. The market value of the bonds as of 31 December 1997 was Rp. 319,713 million (1996 : Rp. 72,435 million). The consolidated bonds as of 31 December 1997 included bonds issued by related parties amounted to Rp. 60,000 million, and bonds amounting Rp. 4,000 million which were pledged as "sinking fund" of bonds issued by the Parent Company.

The average interest rate on Certificates of Bank Indonesia, SBPU, notes receivable, commercial papers and bonds denominated in Rupiah currency is 20% per annum (1997), while the average interest rate on notes receivable, commercial papers and export bills denominated in foreign currency is 12% per annum (1997).

6. **Loans and advances**

a. Classified based on type of loans :

Promissory notes	11,349,015	8,095,895	10,153,607	7,667,352
Small business credits (KUK)	1,520,073	1,029,806	1,520,073	1,029,806
Housing loans (KPR)	999,579	663,386	999,579	663,386
Overdrafts	476,370	410,436	475,924	397,052
Export credits	1,451,317	830,440	1,445,681	828,331
Import credits	198,627	64,141	90,145	44,948
Advance under letters of credit	70,568	65,050	70,568	65,050
KIK, KMKP, KI, and KPG credits	35,088	57,431	35,088	57,431
KCMP credits	19,505	13,390	19,505	13,390
Credit card receivable	212,588	177,683	212,588	177,683
Factored receivable	155,776	164,236	-	-
Leased receivable	45,348	26,273	-	-
Consumer finance receivable	112,995	73,939	-	-
Staff loans	25,784	25,860	23,998	23,098
Others	26,262	40,987	26,262	40,987
Total loans and advances	16,698,895	11,738,953	15,073,018	11,008,514
Less : Allowance for possible loss of earning assets	(220,223)	(265,211)	(189,677)	(259,098)
Total loans and advances - net	16,478,672	11,473,742	14,883,341	10,749,416

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996

6. Loans and advances - continued

b. The balance of KUK Channeling outstanding as of 31 December 1997 amounted to Rp. 564,174 million (1996 : Rp. 561,126 million), which the amount of Rp. 183,790 million (1996 : Rp. 124,586 million) had been distributed by related parties.

c. The collateral of loans and advances given are usually in the form of tangible assets (land, buildings, machinery, inventories and time deposits).

d. Housing loans (KPR) amounting to Rp. 205 billion are pledged as security of bonds issue of the Parent Company (see note 17).

e. Movement in the allowance for possible loan losses :

Balance at the beginning of the year	265,211	197,992	259,098	193,118
Loan recovery	78,410	14,214	71,694	14,214
Amount of provision for the year	221,629	87,680	203,394	84,741
Less : Amount of loans written-off	(345,027)	(34,675)	(344,509)	(32,975)
Balance at the end of the year	220,223	265,211	189,677	259,098

The Directors are of the opinion that the loans and advances are adequately secured and that the allowance for possible loan losses at the respective balance sheet dates is sufficient.

f. The total consolidated loans and advances given to related parties as of 31 December 1997 was Rp. 154,064 million (1996 : Rp. 671,703 million). The balance comprised of loans to customers including listed and non-listed companies of Rp. 126,280 million (1996 : Rp. 645,843 million), and loans to employees of Rp. 25,784 million (1996 : Rp. 25,860 million).

g. Amount of loans which were in the process of rescue (classified as doubtful and bad debt) at 31 December 1997 amounted to Rp. 62,484 million (1996 : Rp. 88,487 million).

h. Amount of syndicated loans at 31 December 1997 amounted to Rp. 1,564,584 million (1996 : Rp. 554,283 million). The Parent Company participates as leader or member of the syndication with percentage ranging between 7% and 36% of the total syndication loans.

i. Amount of loans which were sold under repurchase agreement to Bank Indonesia as of 31 December 1997 was Rp. 87,000 million.

j. Classified based on tenure :

Short - term credits (<= 1 year)	8,502,158	8,122,808	7,539,958	7,400,134
Long - term credits (> 1 year)	8,196,737	3,616,145	7,533,060	3,608,380
Total	16,698,895	11,738,953	15,073,018	11,008,514

k. The average interest rates per annum of loans and advances of the Parent Company are as follows :

	1997	1996
In Rupiah	30.94%	20.56%
In foreign currencies	14.41%	11.37%

Notes to the Consolidated Financial Statements - continued**6. Loans and advances - continued**

1. The Parent Company's loans and advances classified based on the economic sector according to Bank Indonesia Decree :

	1997	1996
Services	5,641,583	3,963,064
Manufacturing	3,533,689	2,752,129
Trade	2,091,676	1,651,277
Construction	918,334	770,596
Agriculture and transportation	1,126,287	550,426
Others	1,761,449	1,321,022
Total	15,073,018	11,008,514

7. Investments

Represent investments in shares of the following companies :

	Consolidated		Parent Company	
	1997	1996	1997	1996
PT BII Finance Center				
• Investment carrying value	-	-	37,500	35,000
• Percentage of ownership - 99.99% (1997 and 1996)				
• Ownership on retained earnings at the beginning of the year	-	-	21,491	11,579
• Ownership of current year net profit/(loss)	-	-	(11,791)	12,412
BII Finance Co. Limited, Hong Kong				
• Investment carrying value	-	-	13,563	13,563
• Percentage of ownership - 100% (1997 and 1996)				
• Ownership on retained earnings at the beginning of the year	-	-	20,274	15,074
• Ownership of current year net profit	-	-	3,877	5,200
Bank International Ningbo				
• Investment carrying value	-	-	63,465	63,465
• Percentage of ownership - 100% (1997 and 1996)				
• Ownership on retained earnings at the beginning of the year	-	-	20,505	8,903
• Ownership of current year net profit	-	-	19,235	11,602
PT BII Lend Lease Investment Services (formerly PT BII Investment Management)				
• Investment carrying value	4,777	4,777	4,777	4,777
• Percentage of ownership - 50% (1997 and 1996)				
• Ownership on retained earnings	(1,554)	(2,748)	(1,554)	(2,748)

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996
7. Investments - continued				
PT Fuji Bank Internasional Indonesia				
• Investment carrying value	27,250	15,000	27,250	15,000
• Percentage of ownership - 20% (1997) and 15% (1996)				
• Ownership on retained earnings	9,949	-	9,949	-
PT Bank Credit Lyonnais Indonesia				
• Investment carrying value	10,000	7,500	10,000	7,500
• Percentage of ownership - 20% (1997) and 15% (1996)				
• Ownership on retained earnings	2,616	-	2,616	-
PT Bank Dagang dan Industri				
• Investment carrying value	16,754	14,102	16,754	14,102
• Ownership percentage - 24.55% (1997) and 15% (1996)				
• Ownership on retained earnings	1,002	-	1,002	-
PT Bank BII Commonwealth				
• Investment carrying value	75,000	52,500	75,000	52,500
• Ownership percentage - 50% (1997 and 1996)				
• Ownership on retained earnings	2,807	-	2,807	-
Investment in other companies by PT BII Finance Center	13,941	10,920	-	-
Other investments	3,587	4,780	3,587	3,586
Total carrying value	166,129	106,831	340,307	271,515
Less: Allowance for possible loss of earning assets	(11,501)	(2,926)	(9,101)	(2,926)
Total investments carrying value - net	154,628	103,905	331,206	268,589

In 1997, the Parent Company has acquired additional issued shares of PT Fuji Bank Internasional Indonesia and PT Bank Credit Lyonnais Indonesia. As a result, the interest of the Parent Company in these companies has increased to 20% (from 15% in 1996) and at PT Bank Dagang dan Industri has increased to 24.55% (from 15% in 1996). This acquisition has resulted the Parent Company to record its investments in shares of these companies using equity method. Interest of the Parent Company in those associated companies' retained earnings prior to 1997 amounting to Rp. 18,339 million is recorded as an adjustment to the beginning balance of retained earnings for 1997.

Other investments represent long-term investments in shares of various companies in which the ownership of the Company is less than 5%. Those companies are PT Aplikasi Lintas Arta, PT Sarana Bersama Pembiayaan Indonesia, PT Sarana Sulsel Ventura, PT Sarana Bali Ventura, PT Sarana Sumatera Barat Ventura, PT Sarana Lampung Ventura, PT Sarana Sumsel Ventura, PT Sarana Jambi Ventura, PT Sarana Kalbar Ventura, PT Asprina Prima Sentosa, PT Sarana Sulut Ventura, PT Bhakti Sarana Ventura, PT Penjamin Kredit Pengusaha Indonesia, PT Sarana Riau Ventura and PT Sarana Sumut Ventura.

The Directors are of the opinion that the allowance for possible loss of earning assets (investments) at the respective balance sheet dates is sufficient.

The summary of financial information of subsidiaries is presented in note 36 - Business activities information by segment.

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996
8. Accrued income receivable				
Consists of interest receivable of earning assets.				
9. Prepayments				
Rents	24,704	22,624	24,179	22,470
Others	50,781	19,240	46,113	17,172
Total prepayments	75,485	41,864	70,292	39,642
Other prepayments include insurance premiums, car licenses, advances for installing computers, purchasing uniforms, advertisements etc.				
10. Fixed assets				
a. Cost and revaluation				
Land	95,494	67,402	95,494	67,401
Buildings	212,500	136,761	200,020	130,367
Office furniture and fixtures	45,304	30,465	43,698	29,658
Office equipment	155,241	106,078	149,570	103,733
Motor vehicles	52,535	42,330	49,654	40,342
Generators and air conditioners	12,216	7,202	11,494	6,832
Total cost and revaluation	573,290	390,238	549,930	378,333
b. Accumulated depreciation				
Buildings	34,089	25,850	30,968	25,000
Office furniture and fixtures	29,368	19,791	28,529	19,268
Office equipment	95,924	68,986	94,377	67,975
Motor vehicles	35,546	29,485	34,210	28,701
Generators and air conditioners	5,565	5,508	5,394	5,337
Total accumulated depreciation	200,492	149,620	193,478	146,281
Book value	372,798	240,618	356,452	232,052

Notes to the Consolidated Financial Statements - continued**10. Fixed assets - continued**

c. The following is the balance and movement of fixed assets for the year ended 31 December 1997 :

Acquisition and revaluation cost - consolidated :

	Balance 1 Jan. 1997	Addition	Disposal	Translation adjustment	Balance 31 Dec. 1997
Land	67,402	32,221	4,129	-	95,494
Buildings	136,761	98,695	29,039	6,083	212,500
Office furniture and fixtures	30,465	18,830	4,467	476	45,304
Office equipment	106,078	50,510	2,057	710	155,241
Motor vehicles	42,330	10,985	1,589	809	52,535
Generators and air conditioners	7,202	4,774	112	352	12,216
Total	390,238	216,015	41,393	8,430	573,290

Accumulated depreciation - consolidated :

	Balance 1 Jan. 1997	Addition	Disposal	Translation adjustment	Balance 31 Dec. 1997
Buildings	25,850	10,338	2,907	808	34,089
Office furniture and fixtures	19,791	11,029	1,599	147	29,368
Office equipment	68,986	27,175	902	665	95,924
Motor vehicles	29,485	6,618	717	160	35,546
Generators and air conditioners	5,508	57	-	-	5,565
Total	149,620	55,217	6,125	1,780	200,492

Net book value	240,618	372,798
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d. The following is the balance and movement of fixed assets for the year ended 31 December 1996 :

Acquisition and revaluation cost - consolidated :

	Balance 1 Jan. 1996	Addition	Disposal	Translation adjustment	Balance 31 Dec. 1996
Land	59,556	8,572	726	-	67,402
Buildings	115,535	22,137	1,112	201	136,761
Office furniture and fixtures	22,307	8,491	349	16	30,465
Office equipment	77,854	30,159	1,950	15	106,078
Motor vehicles	31,713	11,953	1,350	14	42,330
Generators and air conditioners	7,107	175	92	12	7,202
Total	314,072	81,487	5,579	258	390,238

Notes to the Consolidated Financial Statements - continued**10. Fixed assets - continued**

d. The following is the balance and movement of fixed assets for the year ended 31 December 1996 : - continued .

Accumulated depreciation - consolidated :

	Balance 1 Jan. 1996	Addition	Disposal	Translation adjustment	Balance 31 Dec. 1996
Buildings	18,839	7,487	494	18	25,850
Office furniture and fixtures	16,091	3,965	272	7	19,791
Office equipment	48,206	21,570	798	8	68,986
Motor vehicles	24,891	5,767	1,180	7	29,485
Generators and air conditioners	4,138	1,410	56	16	5,508
Total	112,165	40,199	2,800	56	149,620
Net book value	201,907				240,618

11. Other assets

	Consolidated		Parent Company	
	1997	1996	1997	1996
Assets seized on loans in default	147,865	70,164	147,865	70,164
Fixed assets not in use	41,022	29,175	41,022	29,175
New branch opening costs	30,362	63,535	30,362	63,535
Interbranch	14,242	-	14,242	-
Building renovation and repairs	3,088	3,281	3,088	3,281
Sundry receivables	617,741	53,792	526,914	53,470
Others	59,219	29,783	51,339	21,713
Total other assets	913,539	249,730	814,832	241,338

Sundry receivables include receivable from life insurance company, receivable from other parties and receivable on forward foreign exchange contracts for funding purposes.

Other assets include guarantee deposits for margin trading, office rent, telephone and golf membership, etc.

12. Current accounts

Comprised of :

	Consolidated		Parent Company	
	1997	1996	1997	1996
Interest bearing	2,444,124	1,850,441	2,428,529	1,828,484
Non-interest bearing	367,255	250,278	367,255	250,278
Total current accounts	2,811,379	2,100,719	2,795,784	2,078,762

The average interest rate of interest bearing current accounts in 1997 was 9.17% per annum (1996 : 10.26%) and 7.08% per annum for foreign currencies (1996 : 5.81%).

The consolidated balance of current accounts from related parties as of 31 December 1997 amounted to Rp. 167,150 million (1996 : Rp. 159,543 million).

The balance of current accounts which were blocked as of 31 December 1997 and 1996 was nil.

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996
13. Savings accounts				
Comprised of :				
BII savings accounts	1,527,107	1,482,430	1,527,107	1,482,430
Kesra savings accounts	94,424	147,060	94,424	147,060
Others saving accounts	1,397	657	798	137
Total savings accounts	1,622,928	1,630,147	1,622,329	1,629,627

The average interest rate offered in 1997 was 19.41% per annum (1996 : 15.46%).

14. Time deposits

a. Classified based on tenure :

• 1 month	5,968,894	3,119,503	5,877,193	3,119,503
• 3 months	1,538,703	1,857,570	1,481,588	1,730,599
• 6 months	670,642	1,908,466	670,642	1,908,466
• 12 months	233,483	620,821	190,909	620,821
Total time deposits	8,411,722	7,506,360	8,220,332	7,379,389

b. The average interest rates per annum of time deposits in Rupiah of the Parent Company are as follows :

	1997	1996
• 1 month	26.07%	16.59%
• 3 months	26.84%	17.20%
• 6 months	20.14%	17.10%
• 12 months	20.40%	17.34%

c. The average interest rates per annum of time deposits in foreign currencies of the Parent Company are as follows :

	1997	1996
• 1 month	8.86%	8.18%
• 3 months	9.09%	8.72%
• 6 months	8.25%	8.90%
• 12 months	7.19%	9.13%

d. Total time deposits which were blocked or under-lien as of balance sheet date was Rp. 938,048 million (1996 : Rp. 1,710,215 million).

e. The consolidated balance of time deposits from related parties as of 31 December 1997 amounted to Rp. 762,962 million (1996 : Rp. 267,896 million).

Notes to the Consolidated Financial Statements - continued

15. Certificates of deposit

a. Comprised of:

	Consolidated		Parent Company	
	1997	1996	1997	1996
Certificates of deposit at face value	1,388,900	1,876,585	1,388,858	1,876,585
Less:				
Unamortized interest paid in advance	(11,660)	(78,256)	(11,660)	(78,256)
Total certificates of deposit - net	1,377,240	1,798,329	1,377,198	1,798,329

b. Parent Company's certificates of deposit classified based on tenure:

	1997	1996
• 1 month	310,121	223,169
• 3 months	14,952	145,178
• 6 months	312,395	1,061,627
• 12 months	751,390	446,611
Total	1,388,858	1,876,585

c. The average interest rates per annum on certificates of deposit in Rupiah of the Parent Company are as follows:

	1997	1996
• 1 month	23.85%	16.68%
• 3 months	24.87%	16.71%
• 6 months	15.58%	16.40%
• 12 months	14.34%	16.16%

d. The average interest rate on certificates of deposits denominated in foreign currency of the Parent Company ranges between 6.49% to 6.74% per annum.

16. Other current liabilities

	Consolidated		Parent Company	
	1997	1996	1997	1996
Unclaimed matured deposits	27,518	15,490	27,518	15,490
Transfer, cheques for collection and clearing	6,210	12,589	6,210	12,589
Other bank liabilities	96,305	17,948	63,266	13,684
Total other current liabilities	130,033	46,027	96,994	41,763

Other bank liabilities include payments for electricity, telephone, tax, and transfer which are still in the clearing process.

Notes to the Consolidated Financial Statements - continued**17. Securities issued**

	Consolidated		Parent Company	
	1997	1996	1997	1996
Bonds	194,700	194,700	194,700	194,700
Total securities issued	194,700	194,700	194,700	194,700

In July 1995, the Company issued bonds amounting to Rp. 194,700 million which consist of :

Type	Certificate	Nominal Value	Amounts
Type A	600	1 million	600 million
Type B	450	10 million	4,500 million
Type C	296	100 million	29,600 million
Type D	120	500 million	60,000 million
Type E	100	1,000 million	100,000 million
Total	1,566		194,700 million

"Wali Amanat" for the issuance of these bonds is PT Bank Niaga. At the initial public offering, the bonds were issued at 100% of nominal value. These bonds will mature on 24 July 2000, and are subject to interest of 18.5% per annum for the first year and floating rate for the year II, III, IV and V which is calculated based on the average interest rates of time deposits for 6 (six) months of PT Bank Negara Indonesia, PT Bank Ekspor Impor Indonesia, PT Bank Tabungan Negara, PT Bank Dagang Nasional Indonesia, PT Bank Bali and PT Bank Lippo plus premium of 2%.

The Parent Company will pay interest every 3 months in accordance with the payment date stated in each coupon. First interest coupon was paid on 1 October 1995. Meanwhile, the final interest coupon will be paid on 24 July 2000 at the maturity date of the bonds.

The bonds are secured by the Company's housing loans (KPR) amounting to Rp. 205 billion (i.e. 105% of the value of bonds issued), the Company's claim to insurance company on the recovery of life insurance of the borrower and the recovery of fire insurance of the security pledge for the housing loans. This collateral agreement is documented by Notary Adam Kasdarmadji SH, in his Notary Deed No. 289 dated 23 June 1995.

In accordance with the agreement with "Wali Amanat", No. 287 dated 23 June 1995, the Company is required to make a reserve for the "sinking funds of bonds". The following are the schedule for setting-up of the reserve for the sinking funds.

On 31 Dec. 1995	Minimum 1% of the total nominal value of bonds	Rp.	1,947 million
On 24 July 1996	Minimum 1% of the total nominal value of bonds	Rp.	1,947 million
On 24 July 1997	Minimum 2% of the total nominal value of bonds	Rp.	3,894 million
On 24 July 1998	Minimum 3% of the total nominal value of bonds	Rp.	5,841 million
On 24 July 1999	Minimum 4% of the total nominal value of bonds	Rp.	7,788 million
On 22 July 2000	100% of the total nominal value of bonds	Rp.	194,700 million

In the respective agreement, the Company is required to place the sinking funds of the bonds in time deposits and / or bonds issued or guaranteed by the State owned banks and / or Certificate of Bank Indonesia or other kind of deposits which are agreed by the Company and "Wali Amanat".

As of 31 December 1996, the sinking funds of bonds were placed on bonds which were secured by the State-owned banks (see note 5).

Notes to the Consolidated Financial Statements - continued**18. Loans received**

	Consolidated		Parent Company	
	1997	1996	1997	1996
• Two step loan (ADB, BOE Japan, OECF and AJDF)	139,625	103,873	139,625	103,873
• Small investment loans (KIK)	58,960	36,071	58,960	36,071
• KPRS and KPG	805	816	805	816
Total loans received from Bank Indonesia	199,390	140,760	199,390	140,760
Placements from other banks	1,827,188	1,151,215	759,550	599,240
Loans from other banks	3,092,817	1,137,321	2,537,807	926,640
Total loans received	5,119,395	2,429,296	3,496,747	1,666,640

The "Two step loan" is a loan received through Bank Indonesia from Asian Development Bank, Bank Export Import Japan, AJDF and OECF to be distributed to the Company's customers. The outstanding balance received from Asian Development Bank was Rp. 65,232 million (1996 : Rp. 35,503 million), Bank Export Import Japan was Rp. 29,064 million (1996 : Rp. 34,349 million), AJDF was Rp. 23,460 million (1996 : Rp. 24,446 million) and OECF was Rp. 21,869 million (1996 : Rp. 9,575 million). The maximum facility of the loan from the Asian Development Bank is the Rupiah equivalent of US\$ 25 million (1997 and 1996), Bank Export Import of Japan is the Rupiah equivalent of JPY 2,140 million (1996 : JPY 2,400 million), AJDF is the Rupiah equivalent of JPY 995 million (1997 and 1996) and OECF is the Rupiah equivalent of JPY 991 million (1996 : JPY 177 million). Loans received from ADB will mature in 2008, Bank Exim of Japan will mature in 2003, AJDF will mature in 2009 and OECF will mature in 2013.

The loans received from Bank Indonesia, including two step loans, are unsecured and bear interest rate between 4% - 14% (1997 and 1996) per annum. The loans (KIK, KPRS and KPG) will mature in 2007.

Placements from other banks represent the balance of placements from other banks (interbank taking) which are obtained from money markets with interest rates ranging between 15% and 33% (1996 : 12% and 15%) per annum for Rupiah and 8% and 11% (1996 : 6% and 8%) per annum for foreign currencies.

The consolidated balance of placements from other banks from related parties as of 31 December 1997 amounted to Rp. 771,455 million (1996 : Rp. 143,595 million).

The consolidated balance of loans received from related parties as of 31 December 1997 amounted to Rp. 64,969 million (1996 : Rp. 67,358 million).

Loans from other banks represent the balance of loans received from local banks and overseas banks, unsecured with average interest rate of 17.25% per annum for Rupiah (1997 and 1996) and 7% - 8% per annum for foreign currencies (1997 and 1996). The loans have tenure between one to two years and act as loan with "roll over" facility.

19. Accrued expenses

	Consolidated		Parent Company	
	1997	1996	1997	1996
Accrued interest expenses	175,744	82,208	149,774	75,149
Other accrued expenses	7,628	26,323	6,574	25,313
Total accrued expenses	183,372	108,531	156,348	100,462

Notes to the Consolidated Financial Statements - continued**20. Taxes payable****a. Comprised of :**

	Consolidated		Parent Company	
	1997	1996	1997	1996
Corporate income tax - PPh art 25 and 29	5,214	11,613	102	8,079
Employee and withholding tax - PPh art. 21 and 23	3,335	3,299	2,714	3,299
Total taxes payable	8,549	14,912	2,816	11,378

Lodgment of tax returns is based on taxpayers' own calculation of tax liabilities. The tax authorities may conduct a tax audit on the Company for up to ten years thereafter.

b. Corporate income tax reconciliation of the Parent Company is as follows :

	1997	1996
Profit before income tax	349,203	360,857
Less : Investment income resulting from the presentation of investment using equity method	30,921	29,214
Parent Company's profit before income tax	318,282	331,643
Positive corrections :		
• Loss on investment (equity method)	15,509	854
• Donations	286	8,607
• Employee benefits	254	479
• Representation	1,716	-
• Loss on investment in mutual fund units	37,355	-
• BII's portion of profit BII Finance Hong Kong	3,877	-
• Difference between operating and capital lease	-	500
Negative corrections :		
• Dividend income (including dividend of mutual fund)	(27,928)	(7,232)
Net positive corrections	31,069	3,208
Taxable income	349,351	334,851

Notes to the Consolidated Financial Statements - continued**20. Taxes payable - continued**

	1997	1996
Calculation of corporate income tax :		
Corporate income tax for 1997 :		
10% X Rp	25 million = Rp	3 million
15% X Rp	25 million = Rp	4 million
30% X Rp	349,301 million = Rp	104,790 million
		104,797
Corporate income tax for 1996 :		
10% X Rp	25 million = Rp	3 million
15% X Rp	25 million = Rp	4 million
30% X Rp	334,801 million = Rp	100,440 million
		100,447
Estimated corporate income tax	104,797	100,447
Less : Prepaid income tax	(104,695)	(92,368)
Corporate income tax payable - PPh art. 25 and 29	102	8,079

Estimated corporate income tax for 1997 and 1996 were agreed to the annual corporate income tax returns.

21. Other liabilities

	Consolidated		Parent Company	
	1997	1996	1997	1996
Liabilities on export bills which are discounted to other banks	1,523,407	471,546	1,523,407	471,546
Margin deposits	25,027	28,099	24,196	13,798
Deferred income	39,605	39,928	36,863	37,379
Interbranch	-	18,427	-	18,427
Liability on securitization of future credit card receivable	651,000	-	651,000	-
Others	43,597	67,136	38,118	26,544
Total other liabilities	2,282,636	625,136	2,273,584	567,694

On 14 July 1997, the Parent Company entered into an agreement with Acme Securitisation for the securitization of future credit card receivable amounted to US\$ 140 million. The contract will be due in the year 2007.

Other liabilities include accrued general and administration expenses, lease transactions and payroll services.

22. Share capital

In the Annual Shareholders Meeting and Extra-ordinary Shareholders Meeting held on 18 June 1996 documented in Notary Deeds of Notary Sutjipto SH No. 103 and 104 dated 18 June 1996, the Company distributed 35,144,789 share dividends amounting Rp. 393,622 million, distributed cash dividends Rp. 60 per share, and converted capital surplus amounting Rp. 253,042 million into 253,042,483 shares. After the share dividend and capital surplus conversion, the share capital of the Company has increased from Rp. 316,303 million to Rp. 604,490 million.

In the Extra-ordinary Shareholders Meeting held on 29 August 1996 documented in Notary Deeds of Notary Sutjipto SH No. 101 dated 29 August 1996, the Company converted capital surplus amounting Rp. 362,694 million into 362,694,226 shares. After the capital surplus conversion, the share capital of the Company has increased from Rp. 604,490 million to Rp. 967,185 million.

Notes to the Consolidated Financial Statements - continued**22. Share capital - continued**

In the Extra-ordinary Shareholders Meeting held on 13 September 1996 documented in Notary Deed of Notary Sutjipto SH No. 130 dated 13 September 1996, the Company decided to split its shares' nominal and increased the Company's authorized capital into 7,736,000,000 shares amounting to Rp. 3,868,000 million. After this change of the shares' nominal value became Rp. 500 per share, the number of shares is 1,934,369,204 shares. The decision of this Extra-ordinary Shareholders Meeting was approved by the Minister of Justice of the Republic of Indonesia through his Letter No. C2-9626.HT.01.04.Th.96 dated 21 October 1996.

In February 1997, the Parent Company received the proceeds from selling its shares through a limited public offering II for issuing 1,289,579,469 new shares with par value of Rp 500. In this offering, the Parent Company issued 286,573,215 Series I warrant free of charge. Holder of each 27 shares has subscription right for 18 new shares with offering price of Rp 750 per share, and in every 18 newly issued shares are attached 4 warrants. Each Series I warrants can be exercised for purchasing one new share of the Parent Company with the price of Rp 1,000 per share, starting from 16 July 1997 to 17 January 2000.

The Parent Company's shareholders as of balance dates are as follows :

	31 December 1997			31 December 1996		
	%	Shares (thousand)	Rp. (million)	%	Shares (thousand)	Rp. (million)
PT Sinar Mas Multiartha Tbk	51	1,651,542	825,771	51	986,598	493,299
Public (less than 5%)	49	1,582,860	791,430	49	947,771	473,886
Total	100	3,234,402	1,617,201	100	1,934,369	967,185

The following are summary of changes in the share capital during 1996 and 1997 :

	Shares	Paid up capital (Rp. million)
Beginning balance as of 1 January 1996	316,303,104	316,303
Share dividends in 1996 Every shareholder received 1 share for each 9 shares owned	35,144,789	35,145
Bonus share in 18 June 1996 Derived from capital surplus, every shareholders received 80 shares for each 100 shares owned	253,042,483	253,043
Bonus share in 29 August 1996 Derived from capital surplus, every shareholders received 60 shares for each 100 shares owned	362,694,226	362,694
Change of nominal value in 13 September 1996 Changes in nominal value from Rp. 1,000 per share to Rp. 500 per share	(967,184,602)	(967,185)
	1,934,369,204	967,185
Limited share offering II in February 1997 1,289,579,469 shares have been issued with par value of Rp. 500 per share	1,289,579,469	644,789
Warrants converted to shares as of 31 December 1997	10,453,776	5,227
Ending balance as of 31 December 1997	3,234,402,449	1,617,201

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996
23. Capital surplus				
This amount represents the difference between the par value of the shares and the sales price of the shares sold to public or other parties.				
Capital surplus - Parent Company	330,318	6,892	330,318	6,892
Capital surplus - warrant (Parent Company)	5,227	-	5,227	-
Capital surplus - subsidiaries	398	398	-	-
Total capital surplus	335,943	7,290	335,545	6,892

The following is the movement of capital surplus during the period from 1 January 1996 to 31 December 1997 :

Beginning balance as of 1 January 1996	7,290	264,550	6,892	264,152
• increase of capital surplus due to share dividends in 1996	-	358,477	-	358,477
• increase in capital surplus due to the Limited Public Offering II in February 1997	323,426	-	323,426	-
• Increase in capital surplus due to the conversion of warrant to shares	5,227	-	5,227	-
Deduction :				
• decrease of capital surplus due to share bonus on 18 June 1996 (see note 22)	-	(253,043)	-	(253,043)
• decrease of capital surplus due to share bonus on 29 August 1996 (see note 22)	-	(362,694)	-	(362,694)
Ending balance as of 31 December 1997	335,943	7,290	335,545	6,892

24. Warrants

The Parent Company issued 286,573,215 warrants convertible serie I to shares in February 1997. The respective warrants serie I can be exercised starting 16 July 1997 to 17 January 2000. Each warrant is convertible to 1 (one) new share at its conversion price. Conversion price per warrant is Rp. 1,000 per share. As of 31 December 1997, there were 276,119,439 warrants serie I which have not been converted to shares or exercised.

Notes to the Consolidated Financial Statements - continued**25. Dividends****a. Year 1996**

In the Annual Shareholders Meeting held on 18 June 1996 documented by Notary Sutjipto SH in his Notary Deeds No. 103 and 104 dated 18 June 1996, the Company distributed cash dividends of Rp. 60 per share with a total value of Rp. 18,978 million and share dividends 1 (one) new share for 9 (nine) existing shares. Number of the shares dividends is 35,144,789 shares and amounting to Rp. 393,622 million which are based on the Parent Company's share price at fair value as of 17 June 1996. This is the final dividend for 1995.

b. Year 1997

In the Annual Shareholders Meeting held on 19 June 1997 documented by Notary Sutjipto SH in his Notary Deeds No. 135 dated 19 June 1997, the Company declared cash dividends of Rp. 23 per share with total value of Rp. 74,151 million.

26. Derivative financial instruments

- a. The Company deals in a variety of derivative financial instruments - principally, forward contracts, options and swaps - which enable the Company and its customers to modify their interest rate and foreign exchange exposures.

Forward foreign exchange contracts are commitments to deliver financial instruments to the seller or buyer for sell or buy several certain currencies on a future date at a specified price.

Option contracts give the acquirer the right to buy or sell a financial instrument at a specified price within a specified period.

Swap contracts comprised of currency swap and interest swap. Swap contracts are commitments to settle in cash on a future date or dates with interest rate commitments or currency amounts based upon a notional principal amount.

Derivative financial instrument trading gives rise to market and credit risks.

The market risk of derivative financial instruments arises from the potential for changes in value due to fluctuations in interest and foreign exchange rates. Credit risk is the possibility that a loss may occur due to the failure of a counter party to perform according to the terms of the contract.

The notional or contract amount of derivative financial instruments stated on the statement of commitments and contingencies represent the volume of outstanding transactions but do not represent the potential for gain or loss associated with the market risk or credit risk of such instruments.

b. Commitments on purchases and sales of foreign currencies

Outstanding foreign currencies purchases as at the balance sheet dates are as follows :

	Consolidated		Parent Company	
	1997	1996	1997	1996
Foreign currencies spot purchases :				
United States Dollar (USD)	190,888	14,394	190,888	14,394
Total foreign currencies spot purchases	190,888	14,394	190,888	14,394

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996
26. Derivative financial instruments - continued				
b. Commitments on purchases and sales of foreign currencies - continued				
Foreign currencies forward purchases :				
Australian Dollar (AUD)	33,439	18,934	33,439	18,934
Canadian Dollar (CAD)	1,623	2,705	1,623	2,705
Deutsche Mark (DEM)	109,400	23,339	109,400	22,202
Great British Poundsterling (GBP)	21,970	19,680	21,970	19,680
Hong Kong Dollar (HKD)	6,336	9,544	6,336	-
Italian Lira (ITL)	4,547	12,013	4,547	12,013
Japanese Yen (JPY)	214,579	63,563	210,658	61,308
New Zealand Dollar (NZD)	9,878	5,916	9,878	5,916
Singapore Dollar (SGD)	68,734	106,200	66,548	104,856
United States Dollar (USD)	5,259,081	472,470	5,240,908	462,954
Total foreign currencies forward purchases	5,729,587	734,364	5,705,307	710,568

Meanwhile, outstanding foreign currencies sales at balance sheet dates are as follows :

Foreign currencies spot sales :				
United States Dollar (USD)	139,566	8,934	139,566	8,934
Total foreign currencies spot sales :	139,566	8,934	139,566	8,934
Foreign currencies forward sales :				
Australian Dollar (AUD)	4,560	-	4,560	-
Deutsche Mark (DEM)	103,251	1,393	101,380	256
Great British Poundsterling (GBP)	1,927	-	1,927	-
Hong Kong Dollar (HKD)	28,953	8,355	6,336	-
Italian Lira (ITL)	4,555	11,988	4,555	11,988
Japanese Yen (JPY)	203,664	57,841	203,664	57,841
United States Dollar (USD)	3,605,911	946,198	3,580,054	931,824
Total forward currencies forward sales	3,952,821	1,025,775	3,902,476	1,001,909

Unrealized loss on forward foreign currencies contract transactions for "trading" purposes of the Company as of 31 December 1997 amounted to Rp. 60,160 million (1996: unrealized loss Rp. 2,822 million). According to Indonesian Accounting Standards, the unrealized gain or loss arising from forward foreign currencies transactions for "trading" purposes are not recorded in the statements of profit and loss of the current year. They will be recognized as gain or loss at the maturity date of the contract. The average tenure of forward purchases and sales is 3 months.

27. Interest earned

Loan given	2,636,054	1,608,903	2,459,409	1,529,354
Securities	572,712	347,538	531,254	347,538
Placement at other banks	290,307	129,440	282,513	104,310
Total interest earned	3,499,073	2,085,881	3,273,176	1,981,202

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996
28. Interest paid				
Current accounts	274,167	117,659	269,502	119,909
Savings	268,957	211,276	268,957	211,270
Time deposits	1,234,604	766,490	1,177,764	733,856
Certificates of deposits	217,182	223,330	217,182	223,330
Loans received and securities issued	554,367	189,073	488,137	161,195
Total interest paid	2,549,277	1,507,828	2,421,542	1,449,560
29. Other income				
Investment banking administration	44,744	8,275	44,744	8,275
Credit card administration	28,109	11,950	28,109	11,950
Retail administration	18,397	8,591	18,397	8,591
Loan given administration	7,963	7,991	7,963	7,991
Export and import administration	1,915	1,379	1,915	1,379
Derivative transaction administration	937	501	937	501
Capital gain - capital market	18,649	9,338	17,801	9,338
Dividend received	27,929	3,985	27,929	3,985
Banking services	4,322	3,715	4,322	3,215
Others	42,420	14,122	42,152	13,865
Total other income	195,385	69,847	194,269	69,090
30. General and administrative expenses				
General	74,016	43,319	68,424	40,724
Rents	49,352	26,155	49,352	25,855
Administration	20,688	15,013	20,688	15,013
Promotion	20,849	17,212	20,646	16,918
Printing and stationaries	13,564	12,931	13,234	12,793
Telephone, telex and wires	18,401	12,139	17,634	11,907
Research and development	12,408	6,604	12,330	6,561
Professional and advisory	4,739	21,429	4,632	21,363
Water and electricity	8,947	6,380	8,726	6,320
Stamps and stamps duty	6,618	4,549	6,602	4,483
Supplies	3,942	2,847	3,715	2,796
Total general and administrative expenses	233,524	168,578	225,983	164,733
31. Non-operating income				
Investment income	7,810	3,247	30,921	32,461
Gain on sales of fixed assets	1,431	949	1,430	842
Rent	3,185	717	3,185	717
Others	6,015	2,677	5,399	2,668
Total non-operating income	18,441	7,590	40,935	36,688

Other non-operating income includes consulting fees and interbranch revenues.

Notes to the Consolidated Financial Statements - Continued

	Consolidated		Parent Company	
	1997	1996	1997	1996
32. Non-operating expenses				
Investment loss	3,719	854	15,509	854
Legal, court and mortgage	1,877	2,955	1,877	2,955
Donations and penalties	5,189	8,682	5,189	8,682
Others	7,927	2,394	6,409	2,105
Total non-operating expenses	18,712	14,885	28,984	14,596

Donation for the year ended 31 December 1997 and 1996 included donation for Pembinaan Keluarga Prasejahtera dan Keluarga Sejahtera I and donation for the establishment of Yayasan Dana Sejahtera Mandiri.

Other non-operating expenses include meeting, sport and recreation, and other general needs.

33. Transactions with related parties

In its normal course of business, the Company carries out transactions with related parties (see note 2q) using the conditions applicable to other third parties, except loans given to employees. Balances with related parties as of balance date are disclosed in the following accounts: placements at other banks (note 4), securities (note 5), loans and advances (note 6), current accounts (note 12), time deposits (note 14) and loans received (note 18).

34. Assets and liabilities in foreign currencies

- a. Balance of assets and liabilities which are in the foreign currencies as of balance sheet dates are as follows:

Assets:				
Cash	31,359	12,305	30,703	11,996
Current accounts at Bank Indonesia	232,500	95,320	232,500	95,320
Current accounts at other banks	268,390	220,421	164,096	88,998
Placements at other banks	358,963	67,892	149,900	40,035
Securities	2,731,295	2,704,060	2,545,011	2,447,407
Loans and advances	8,105,411	3,966,846	6,736,590	3,455,630
Investments	8,345	1,194	102,674	117,807
Accrued income receivable	123,478	27,109	110,757	23,276
Prepayments	30,535	9,807	28,281	8,529
Fixed assets	12,468	7,038	-	-
Other assets	19,704	3,111	14,690	1,815
Total assets	11,922,448	7,115,103	10,115,202	6,290,813
Liabilities:				
Current accounts	1,563,694	891,272	1,547,648	869,315
Savings accounts	1,395	624	796	104
Time deposits	4,459,314	2,983,920	4,257,924	2,856,949
Certificates of deposit	606,869	180,662	606,827	180,662
Other current liabilities	22,353	34,869	98	34,682
Loans received	4,266,470	1,936,109	2,731,573	1,250,880
Accrued expenses	114,959	16,543	89,689	16,359
Taxes payable	4,766	1,137	-	-
Other liabilities	2,368,994	486,030	2,362,405	469,175
Total liabilities	13,408,814	6,531,166	11,596,960	5,678,126

Notes to the Consolidated Financial Statements - continued**34. Assets and liabilities in foreign currencies - continued**

- b. The following is the Company's foreign currency Net Open Position ("Posisi Devisa Neto") in the balance sheets and administrative accounts as of balance sheet dates :

As of 31 December 1997 :

Currency	Assets	Liabilities	Net Open Position
Balance Sheet:			
United States Dollar	8,041,391	8,106,887	(65,496)
Great British Poundsterling	1,258	20,202	(18,944)
Japanese Yen	11,018	43,456	(32,438)
Deutsche Mark	10,618	22,781	(12,163)
Netherlands Guilder	723	6	717
Others	129,805	181,459	(51,654)
Total balance sheets	8,194,813	8,374,791	(179,978)
Administrative Account :			
United States Dollar	2,420,348	2,473,228	(52,880)
Great British Poundsterling	21,970	1,927	20,043
Japanese Yen	210,850	203,656	7,194
Deutsche Mark	109,400	101,380	8,020
Others	122,376	15,454	106,922
Total administrative accounts	2,884,944	2,795,645	89,299
Total balance sheets and administrative accounts	11,079,757	11,170,436	(90,679)

As of 31 December 1996

Currency	Assets	Liabilities	Net Open Position
Balance sheets :			
United States Dollar	6,770,556	6,123,038	647,518
Great British Poundsterling	21,919	42,329	(20,410)
Japanese Yen	10,474	12,422	(1,948)
Deutsche Mark	29,916	52,188	(22,272)
Netherlands Guilder	833	194	639
Others	199,106	293,749	(94,643)
Total balance sheets	7,032,804	6,523,920	508,884
Administrative accounts :			
United States Dollar	316,769	797,531	(480,762)
Great British Poundsterling	19,680	-	19,680
Japanese Yen	61,309	57,842	3,467
Deutsche Mark	22,202	256	21,946
Others	144,419	11,983	132,436
Total administrative accounts	564,379	867,612	(303,233)
Total balance sheets and administrative accounts	7,597,183	7,391,532	205,651

Notes to the Consolidated Financial Statements - continued**35. Pension fund**

The Company has a defined benefit pension plan for all of its permanent employees until the period ended 30 April 1996. The criteria to join the pension benefits is permanent employee above 18 years old or has married. The pension fund is managed by Dana Pensiun Bank Internasional Indonesia and is invested in the short-term time deposits and shares. The latest report of the actuary was made by PT Jasa Aktuarial Praptasentosa Gunajasa on 25 August 1995. The available balance for pension fund as of 30 June 1996 was Rp. 9,447 million, while the total premium reserved was Rp. 8,540 million.

In April 1996, the pension fund scheme of the Company has changed from defined benefit pension plan into defined contribution pension plan. The net assets available for benefit as of the changes of the pension program was Rp. 12,480 million. The change of the pension fund scheme was approved by Finance Department of the Republic of Indonesia through its Letter No. Kep-147/KM.17/1996 dated 16 April 1996.

Pension expense for the period ended 31 December 1997 and 1996 were Rp. 1,559 million and Rp. 1,300 million, respectively. Since the set up of the scheme (year 1990), the total pension fund made by the Company and received by Dana Pensiun BII until 31 December 1997 is as much as the total pension fund realized as expense up to the respective date, which amounted to Rp. 11,221 million.

36. Business activities information by segment

The following are financial information of the Parent Company and subsidiaries :

a. Business activities

Company	Business activities
Parent Company	Banking
BII Finance Co. Limited, Hong Kong	Banking
Bank International Ningbo, China	Banking
PT BII Finance Center	Multifinance

b. Total assets

The following is total assets of the Parent Company and subsidiaries:

	1997	1996
Parent Company	22,645,424	16,707,330
BII Finance Co. Limited	395,431	332,614
Bank International Ningbo	1,484,627	681,791
PT BII Finance Center	446,751	289,643
Total assets before consolidation elimination	24,972,233	18,011,378
Less : Consolidation elimination	(274,553)	(304,345)
Total assets after elimination	24,697,680	17,707,033

Notes to the Consolidated Financial Statements - continued**36. Business activities information by segment - continued****c. Interest earned**

The following is interest earned of the Parent Company and subsidiaries :

	1997	1996
Parent Company	3,273,176	1,981,202
BII Finance Co. Limited	41,333	18,593
Bank International Ningbo	91,464	46,226
PT BII Finance Center	93,100	47,140
Total interest earned before consolidation elimination	3,499,073	2,093,161
Less : Consolidation elimination	-	(7,280)
Total interest earned after consolidation elimination	3,499,073	2,085,881

d. Operating profit

The following is operating profit of the Parent Company and subsidiaries :

	1997	1996
Parent Company	337,252	338,765
BII Finance Co. Limited	4,964	6,206
Bank International Ningbo	24,068	13,150
PT BII Finance Center	(7,427)	17,998
Total operating profit before consolidation elimination	358,857	376,119
Less : Consolidation elimination	-	-
Total operating profit after consolidation elimination	358,857	376,119

e. Net profit

The following is net profit of Parent Company and subsidiaries :

	1997	1996
Parent Company	244,406	260,410
BII Finance Co. Limited	3,877	5,200
Bank International Ningbo	19,235	11,602
PT BII Finance Center	(11,791)	12,412
Net profit before consolidation elimination	255,727	289,624
Less : Consolidation elimination	(11,321)	(29,214)
Net profit after consolidation elimination	244,406	260,410

Notes to the Consolidated Financial Statements - continued

37. The effects of the adverse economic condition in Indonesia on the Company

Many Asia Pacific countries, including Indonesia, are experiencing adverse economic condition mainly resulting from currency devaluation in the region. Liquidation of 16 banks in Indonesia in November 1997 has generated negative effects of public trust in the Indonesian banking system. The principle consequences are a decrease of public trust in the national banking system, an extreme lack of liquidity, and high foreign exchange rates and interest rates. The crisis has also resulted in a tightening of credit availability, declining values of securities, stopping or postponing projects execution, excessing supply of property, decreasing of consumer purchasing powers, and decreasing economic activities throughout the region.

The adverse economic condition has caused to uncertainty as to debtors' ability to fulfill their liabilities on due dates, and as a result has increased the credit risk inherent in the Company's earning assets portfolio. This adverse economic condition has also affected the Company's cost of funds. Volatility of exchange rates has increased the Company's risk in its foreign currency transactions.

In response to this adverse economic event, the Company's management monitors more closely the performance of the debtors and has requested them to repay the principle instalments and interest in line with the specified schedule. Besides, the Company has been more selective in granting facilities to debtors and has limited their foreign currency transactions.

Resolution of the adverse economic condition is dependent on monetary and fiscal measures that will be taken by the Government, actions which are beyond the Company's control, to achieve economic recovery. It is not possible to determine the future effect a continuation of the adverse economic condition may have on the Company's liquidity, earnings, and realization of its earning assets.

38. Events subsequent to balance sheet date

The following are significant events subsequent to 31 December 1997 :

- a. Rupiah value has been significantly depreciated against other currencies and highly volatile during 1998. As a comparison, the exchange rate for US \$ 1 was Rp. 4,650 as of 31 December 1997, while at 31 January 1998 the exchange rate for US \$ 1 was Rp. 10,375.

Depreciation of the Rupiah against other currencies in January 1998 has affected the Company's operations significantly.

- b. On 26 January 1998, the Government guaranteed certain liabilities of local banks according to the agreement between Bank Indonesia and the Indonesia Bank Restructuring Agency ("Badan Penyehatan Perbankan Nasional").
- c. As a part of banking reform, the Government has increased the minimum paid-up capital required for private and joint venture banks to Rp. 1 trillion at 31 December 1998, Rp. 2 trillion at 31 December 2000, and Rp. 3 trillion at 31 December 2001. Failure to comply with this regulation within a certain period of time will result in the Bank being controlled by a Supervisory Agency until final disposition of the Bank's business. This Government Decree has affected the capital structure of three associated companies, PT Bank Dagang dan Industri, PT Fuji Bank Internasional Indonesia and PT Bank Credit Lyonnais Indonesia.

Notes to the Consolidated Financial Statements - continued

38. Events subsequent to balance sheet date - continued

- d. On 27 February 1998, Bank Indonesia has issued a new regulation through its letter No. 30/267/KEP/DIR regarding Quality of Earning Assets and No. 30/268/KEP/DIR regarding Allowance for Earning Assets. This regulation will be effective on 31 March 1998. In this letter, Bank Indonesia has revised the classification of earning assets and the calculation of allowance for possible loss of earning assets. The main changes are as follows: any collateral except in the form of cash is not deductible against earning assets in calculating the allowance for possible loss of earning assets; the percentage of allowance for possible loss of earning assets classified as solvent is raised from 0.5% to 1%, and a new classification namely "special mention" is applied with an allowance percentage of 5%. Provision expense for possible loss of earning assets can be amortized over 4 years up to the year 2001 with a minimum charge of 25% per annum. These consolidated financial statements have not been prepared on the basis of the above mentioned regulation.

39. Reclassification of accounts

Certain figures in the consolidated financial statements for the year ended 31 December 1996 have been reclassified to correspond with presentation of the consolidated financial statements for the year ended 31 December 1997.