LEHMAN BROTHERS

February 24, 2000

Asian Banks
Indonesia

Robert Zielinski
Tokyo
813 5571 7463
rzielins@lehman.com

Paul Sheehan
Hong Kong
852 2869 3001
psheehan@lehman.com

Graham Parry
Tokyo—Economics
813 5571 7481
gparry@lehman.com

Priscilla Yow
Hong Kong
852 2869 3138
pyow@lehman.com

INDONESIA

INDONESIAN BANKS REVIVED

IBRA REBOOTS THE SYSTEM

- **System Crash:** Indonesia's financial system crashed during Asia's financial crisis. The banking system was practically wiped out as non-performing loans (NPLs) for the industry soared above 75% of total loans and the credit extension process ground to a halt. This was not an isolated event, but rather the result of years of excessive and haphazard borrowing.

- **System Reboot:** Under the direction of the Indonesian Bank Restructuring Agency (IBRA), the Indonesian banking system is being given a fresh start. IBRA has closed, taken over or recapitalized most of the major banks, resulting in the number of banks falling from 239 prior to the crisis to 164 at present.

- **Banks Recapitalized:** IBRA has assumed Rp234 trillion of mainly impaired loans formerly on the books of the recapitalized banks, injecting government bonds in exchange. This transfer has given the banks assets that generate interest income and reduced problem loans to around 50% of their remaining credits. IBRA is now in the process of restructuring these loans and selling them off to help defray the recapitalization costs.

- **The Worst is Over:** As a result of this credible effort, we believe that Indonesia is now through the worst of its crisis. A new democratic government is in power, interest rates have come down sharply and the exchange rate has stabilized. GDP growth has resumed and our economists forecast that the economy will grow by 4.5% in 2000 and 6% in 2001.

- **Emerging Growth:** Banks have started to emerge from the restructuring process. They are cautiously resuming their operations in a new, more transparent regulatory environment. Growth will come from lending to consumers, small businesses, and restructured companies. With bank credit outstanding now equal to a mere 25% of GDP versus the more typical range of 75%-100%, there is substantial long-term potential for the surviving banks.

- **Winners Take Most:** We expect that returns will flow disproportionately to the few remaining large, regionally competitive and well-capitalized national players, as well as to a handful of nimble and focused niche banks. This should spur rapid consolidation among second-tier institutions, increasing efficiency and providing asset growth for Indonesia's lead banks.

INDONESIAN BANKS:
Rebooting The System

February 24, 2000

INTRODUCTION

More than two years have passed since the onset of Asia's financial crisis in mid-1997. Although all countries and banking systems were affected, the extent of the damage varied considerably as follows:

- **Minimal Impact (Hong Kong, Singapore, the Philippines):** Banks in these countries engaged in excessive property-based lending and saw a sharp increase in NPLs. However, the overall impact of the crisis was manageable because NPLs peaked in the 10%-15% range. The banks had high capital adequacy ratios of around 20% prior to the crisis and their economies bounced back in 1999.
- **Medium Impact (Thailand, Korea, Malaysia):** Banks in these countries saw NPLs reach the 30%-50% range. While many banks had to be nationalized or closed, government actions to restructure the industry have allowed a number of banks to raise new capital and resume functioning. A rebound in economic growth in 1999 provided a major boost to the industry.
- **Maximum Impact (Indonesia):** The financial crisis was particularly severe in Indonesia, as it was accompanied by massive currency devaluation and political turmoil. NPLs soared above 75% and all of the major banks have come under government control. Only now, a year later than in other Asian countries, are a few banks starting to emerge from the restructuring process.

Indonesia's Special Situation

Indonesia suffered more than the other countries of Asia because of a number of unique factors:

- Indonesia had the most unwieldy banking system, with 239 banks in operation prior to the crisis.
- Regulatory supervision was extremely lax and corruption rampant, even by comparison to other Asian countries.
- Corporations relied heavily on U.S. dollar-denominated debt, borrowed both from domestic and foreign banks, to make rupiah-denominated investments. The devaluation of the rupiah, that fell in value more than 85% at its worst, made these loans balloon in principal amount and interest payments, making them harder to service.
- Interest rates on loans soared above 70%, compounding the difficulty experienced by borrowers in meeting loan payments.
- Indonesia suffered the most social and political unrest, eventually resulting in a change of government.
- Indonesia's economy had the lowest level of economic development and, therefore, was least resilient to the crisis.

Drastic Measures Required

Given the extreme problems faced by the banking industry and the economy, Indonesia had to take the most drastic measures of any Asian country to deal with its banking crisis. The government, through IBRA, had to close or effectively nationalize most of the major banks and then assume their non-performing loans to restore solvency and earnings stability. It has also had to attempt to restructure the debts of Indonesian corporations, which first required the introduction of improved bankruptcy laws and mechanisms.

As a result of these steps, we believe Indonesia is now through the worst of its crisis. A new democratic government is in power, interest rates have come down sharply, the exchange rate has stabilized and the banking industry is being restructured and recapitalized. GDP growth has resumed and our economists forecast that the economy will grow by 4.5% in 2000 and 6% in 2001.

In its January 2000 letter of intent to the IMF, the Indonesian government pledged to make continued progress in its reform program. The main planks are to maintain a supportive macroeconomic policy mix, to carry through the program of bank and corporate restructuring, to rebuild key public institutions and to improve natural resource management.

With the restoration of stability, Indonesia’s banking industry is expected to see a recovery just as with the other troubled banking industries in the region. However, given the depth of Indonesia's crisis, the pace of the pickup is likely to be slower. Nonetheless, Indonesia remains a high growth emerging market and we believe the combination of reasonable GDP growth and an acceptable rate of inflation (in the 5%-7% range) will allow the banks to grow out of their problems as nominal GDP expands.

INDONESIAN DEBT LEVELS

The starting point of our analysis is to examine the nature and amount of credit outstanding in Indonesia. Owing to the undeveloped state of the capital market, debt in Indonesia takes on three basic forms: government borrowing (foreign and SBIs), bank borrowing and private sector foreign borrowing. Indonesia experienced a rapid buildup of domestic credit in the 1990s as the economy began the shift from an agricultural base to a manufacturing base. The accumulation of domestic credit was similar to that seen in the other countries of Asia during the disastrous “boom” years.

Figure 1: Indonesian Banks
Aggregate Debt of Indonesia

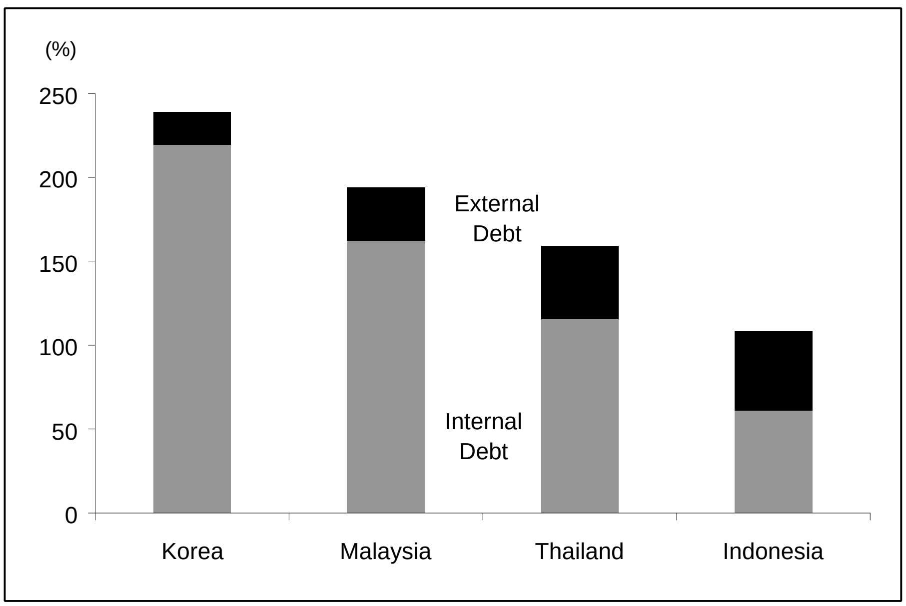
US$ Billions	3/97	3/98	3/99
Rupiah/US$1 Exchange Rate	2,419	8,325	8,685
Total External Debt	113.1	138.0	149.9
Public	56.3	59.9	68.4
Private Sector	56.9	78.1	81.5
Banks	9.6	12.8	11.7
Non-Banks	47.2	60.8	69.8
Commercial Bank Credit	126.5	57.3	38.4
Commercial Bank Credit (Rp Bil.)	*306,125*	*476,841*	*366,543*
Rupiah Denominated	101.3	34.5	26.6
Rupiah Denominated (Rp Bil.)	*244,960*	*287,075*	*231,423*
Foreign Currency	25.3	22.8	15.5
Foreign Currency (Rp Bil.)	*61,165*	*189,766*	*135,120*
SBI	8.8	2.9	7.1
SBI (Rp Bil.)	*21,411*	*24,049*	*61,296*
Total Debt	238.8	185.4	183.7
Total Debt (Rp Bil.)	*577,657*	*1,543,455*	*1,595,434*
GDP	229.8	82.8	116.7
GDP (Rp Bil.)	*555,838*	*689,092*	*1,013,552*
Debt/GDP (%)	**104**	**224**	**157**

Source: Bank Indonesia and CEIC.

As of March 1997, Indonesia had US$113 billion in external debt, equally split between public and private, as well as US$135 billion of internal debt, primarily in the form of bank loans. With US$230 billion of GDP, the amount of aggregate debt outstanding to GDP was only 104%. This is much lower than the 160% of Thailand and 190% of Malaysia at the same date.

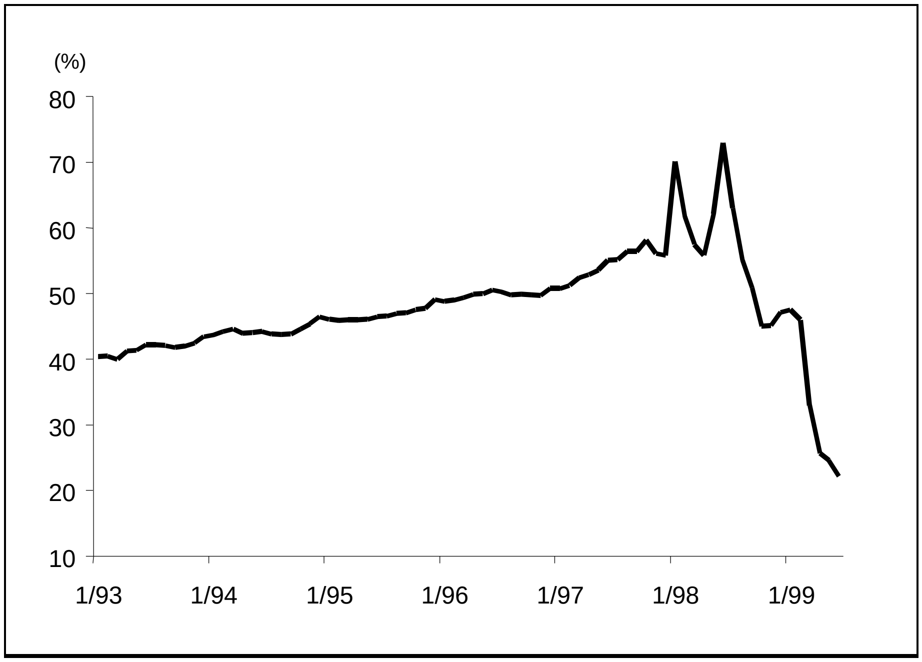
However, two aspects set Indonesia apart from the rest of Southeast Asia. First, the Indonesian government has a substantial foreign debt burden. Second, around 20% of domestic bank borrowing was denominated in U.S. dollars and corporations also borrowed directly overseas, again in U.S. dollars. Indonesia thus had a much higher proportional exposure to foreign exchange risk than other countries in the region. This is the main reason that the sharp devaluation of the rupiah had such a profound effect on the economy. If Indonesia had merely had domestic rupiah debt, devaluation would only have made Indonesian exports more competitive and much of the debt could have been inflated away.

Figure 2: Indonesian Banks
Total Aggregate Debt to GDP Across Asia (end-1996)



Source: CEIC.

Figure 3: Indonesian Banks
Buildup of Commercial Bank Credit to GDP (%)



Source: CEIC.

Within the banking industry, the national private banks were the main source of growth in credit outstanding during the five years through 1996 and claimed a 51% market share of credit in 1996 versus only 37% in 1991. However, owing to the nationalization and closure of a number of these banks as well as the transfer of NPLs to IBRA, their market share as of November 1999 had fallen to just 23% of credit outstanding. Foreign and joint venture banks have gained significant market share both because they have continued to lend while the local banks have remained under government conservatorship and because their credits are 80% denominated in foreign currency and so increased in nominal rupiah value after the devaluation.

Figure 4: Indonesian Banks
Commercial Bank Credits by Type of Bank

(Rp Trillion)	12/91	12/96	CGR %	12/97	12/98	11/99
Commercial Bank Credits	113	293		378	487	247
State Banks	60	109	8.8	153	221	132
Regional Gov. Banks	3	6	12.7	8	7	7
National Private Banks	42	150	19.9	169	193	56
Foreign and JV Banks	9	28	13.4	49	67	52
(% Total)						
State Banks	53.1	37.2		40.5	45.4	53.4
Regional Gov. Banks	2.7	2.0		2.1	1.4	2.8
National Private Banks	37.2	51.2		44.7	39.6	22.7
Foreign and JV Banks	8.0	9.6		13.0	13.8	21.0

Source: Bank Indonesia and Lehman Brothers estimates.

A Brief History of Indonesian Banking

Historically, Indonesia has had a troubled banking industry. Part of the problem was that during its colonial period, growth of an indigenous banking industry was suppressed. This was a situation common to many other former colonies, such as Pakistan, Korea, Sri Lanka, and India. As was the case elsewhere, upon achieving independence, the Indonesian government nationalized the colonial banks to create a state-owned banking industry.

The primary function of the state banks was to lend to priority sectors of the economy under the central bank's credit ceiling. Each of Indonesia's state banks was designated to finance specific economic sectors: Bank Negara Indonesia (BNI) and Bank Dagang Negara (BDN) for industry; Bank Bumi Daya for forestry, mining, and plantations; Bank Rakyat Indonesia (BRI) for agriculture; Bank Exim Indonesia (BEII) for trade finance; Bapindo for long-term development projects; and Bank Tabungan Negara (BTN) for housing sector loans.

They achieved the goal of credit creation, but at costs typical of state-owned banks: misallocation of capital, inefficiency, and problem loans. Political objectives intruded into all aspect of the banks' operations, and loans were merely vehicles for extending government assistance to favored industries and business groups. The creditworthiness of the borrower was not a major consideration. In 1988, the state banks accounted for 60% of outstanding credit in the country.

Deregulation Ushers in Growth and Instability

Following an economic recession in the early 1980s, the Indonesian government set upon the task of reforming the financial system beginning with interest rate deregulation in 1983. This was followed by the lifting of credit ceilings in 1984 and then the removal of restrictions on the entry and expansion of branch networks by private banks in 1988. Foreign banks were also allowed to enter the market through joint ventures. The government's intention was to have private banks help the system to bypass the troubled state banks and encourage free-market competition.

Figure 5: Indonesian Banks
Indonesia's Many Banks

	1996	1997	1998	1999
State Banks	7	7	7	4
Regional Gov't Banks	27	27	27	27
Private National Banks	164	144	130	92
Foreign & JV Banks	41	44	44	41
Total	**239**	**222**	**208**	**164**

Source: Bank Indonesia

During the next two years, the number of domestic banks rose from 64 to 119 and foreign banks increased from 11 to 29. Thereafter, the number of banks continued to grow as each Indonesian business group established its own bank. This made Indonesia truly unique in Asia, because most other countries in Asia tended to severely restrict banking licenses. Thailand had just 15 banks, Malaysia had 22 and Korea had 24.

The subsequent expansion by many small private banks caused loan growth to surge above 60% in 1990 and the rate of inflation increased to 12% from 6%. Soaring domestic demand and increasing foreign investment led to a surge in imports, a drop in the trade surplus and a high current-account deficit.

To address these problems, Finance Minister Sumarlin slammed the brakes on the banks in February 1991 by withdrawing 9.5% of the money supply from the system in one night. He also tightened up the requirements for bank licenses, for NPL provisioning and for capital adequacy (an 8% CAR was introduced). As a result, loan growth fell to below 10% in December 1992, inflation stabilized, NPLs rose and the current-account deficit was brought under control.

In 1993, the government eased up on the banking industry by reducing domestic interest rates, relaxing the CAR calculation, lowering mandatory reserves for NPLs and easing restrictions on loans to affiliated companies. This ushered in a new period of expansion by the banking industry. Bank credit for the industry grew 22% in 1993 after recording only 9% growth in 1992. It then grew 25% per year for the next three years, with private national banks showing growth of 30%-40% per year.

Pre-Crisis Conditions

Indonesia’s economy was already showing signs of strain by the end of 1996. First, Indonesia had been experiencing massive short-term capital inflows that had caused the economy to overheat, but these began to abate as foreign investors became wary of emerging markets following Mexico’s banking crisis. Second, domestic interest rates and inflation were increasing. Third, the current-account deficit was widening, reaching 4% of GDP in 1996.

Contributing to the problem was the Indonesian government’s managed float system for the rupiah. Under this system, the authorities targeted an annual depreciation of 3% to 5% in the value of the rupiah against the U.S. dollar. This managed float led to real appreciation of the currency as well as substantial speculation. Private sector corporations found it attractive to borrow in U.S. dollars even after the costs of depreciation were factored in.

As elsewhere in the region, the banking system converted the increased domestic liquidity into loans to finance investment in real estate projects (i.e., hotels, commercial real estate and shopping malls), excessive infrastructure and national development projects.

BANKS' STRUCTURAL PROBLEMS

Before turning our attention to Indonesia's recent financial crisis, it is worthwhile to examine the structural weaknesses of the Indonesian banking sector. The most important of these was that the banks did not operate as real banks; rather, they functioned as deposit gathering institutions to finance the projects of their owners, whether government or private. Indonesia had so many banks simply because each business group felt obliged to establish a bank in order to finance its operations. The banks, therefore, did not question loans to affiliated companies and many breached restrictions on lending to affiliates.

Figure 6: Indonesian Banks
Top 25 Conglomerates and their Bank Affiliates (Pre-Crisis)

Rank	Conglomerate	Owners	Main Businesses	Affiliated Banks
1	Salim Group	Liem Sioe Liong family	Cement, Finance, Automotive, Food	BCA, Bank Global International, Bank Risjad Salim Internasional, Bank Utama, Bank Dana Asia.
2	Astra International	PT Delta Mustika, Nusamba & Publik	Automotive, Agroindustry	Bank Universal.
3	Sinar Mas	Eka Tjipta Widjaja family	Agroindustry, Pulp & Paper, Finance	BII.
4	Lippo Group	Mochtar Riady family	Finance, Property	Lippo Bank.
5	Gudang Garam	Rachman Halim family	Clove Cigarettes	Bank Rama.
6	Bimantara	Bambang Trihatmodjo, Indra Rukmana	General Trade, Property, Chemicals	Andromeda Bank, Bank Alfa.
7	Bob Hasan	Bob Hasan, Sigit Harjojudanto	Wood, Agroindustry	Bank Umum Tugu, Bank Umum Nasional, Bank Duta.
8	Gadjah Tunggal	Sjamsul Nursalim family	Tire, Property, Finance	BDNI, Bank Ganesha.
9	Ongko	Kaharuddin Ongko	Finance, Property	Bank Umum Nasional, Bunas Finance.
10	Djarum	Robert Budi Hartono, Michel B Hartono	Clove Cigarettes	Modern Bank.
11	Rodamas	Tan Siong Kie family	Chemicals, Glass	Bank Buana.
12	Argo Manunggal	The Ning King	Textiles	Bank Bintang Manunggal, Bank Universal.
13	Dharmala	Soehargo Gondokusumo	Agroindustry, Property, Finance	Bank Dharmala, Bank Sewu, Bank Putra Surya Perkasa.
14	Kalbe Farma	Fransiscus Bing Aryanto, Benyamin Setiawan	Pharmacy, Property	None.
15	Barito Pacific	Prajogo Pangestu	Integrated Wood-Based Industry	Andromeda Bank.
16	Panin	Mu'min Ali Gunawan	Finance, Property	Panin Bank.
17	Humpuss	Hutomo Mandala Putra	Transportation, Oil, Chemicals	Bank Utama.
18	Jan Darmadi	Jan Darmadi	Property	None.
19	CCM/Berca	Murdaya Widyawimarta Poo	Property	None.
20	Bakrie	Bakrie family	Steel, Agrobusiness	Bank Angkasa, Bank Nasional Komersial, Bank Nusa Nasional, Bank Perniagaan, Bank Tabungan Pensiunan Nasional.
21	Maspion	Alim Husein	Appliances	Bank Maspion Indonesia.
22	Pembangunan Jaya	Pemda DKI Jakarta, Ciputra, Sukrisman, E. Samola	Property	Jaya Bank, Ciputra Bank.
23	Danamon	Usman Admadjaya	Property, Banking	Bank Danamon, Bank Dana Asia.
24	Raja Garuda Mas	Sukanto Tanoto	Pulp & Paper	None.
25	Sampoerna	Putera Sampoerna	Clove Cigarettes	Bank Universal.

Source: Lehman Brothers, Castle Group and Warta Ekonomi.

The banks also suffered from a host of other structural problems, as follows:

- **Excess Competition.** The large number of banks in Indonesia put competitive pressure on managers to make riskier loans. In a sense, the counterparts of banks in Indonesia were the finance companies in Thailand, most of which had to be closed by the Thai government in 1997.
- **Excessive Loan Growth.** Liberalization of the banking industry resulted in rapid credit expansion by banks during the 1990s. Bank credit increased by 24.3% per year between 1992 and 1996. At such levels of growth, it is difficult to maintain the quality of the loan book.
- **Excessive Leverage of Borrowers.** Indonesian companies relied almost exclusively on bank financing, rather than availing themselves of the equity market. This resulted in weak capital structures and less-than-resilient companies.
- **Inexperienced Credit Officers.** Bank credit officers lacked the expertise to evaluate the credit-worthiness of borrowers. Many were reared in the pre-reform environment, where credit analysis was a minor issue in extending a loan. As elsewhere in Asia, the main criteria for lending were the availability of collateral, primarily land, and the borrower's connection with bank ownership.
- **Misdirected Lending.** Banks directed much of their lending to speculative real estate projects and overly ambitious infrastructure projects. This engendered a structural gap between their short-term funding and the long-term nature of such projects.
- **Currency Mismatch.** Indonesian banks were exposed to exchange rate risk. Around 20% of Indonesian bank deposits were denominated in U.S. dollars and external borrowings of the financial sector stood at US$11 billion at the end of 1996. While 20% of the banks' credit was denominated in U.S. dollars, the banks' borrowers normally did not generate a foreign currency revenue stream.
- **Inappropriate Loan Structures.** Banks structured their lending in inappropriate ways, including making short-term loans to fund long-term projects and funding speculative projects with little, no, or negative equity.
- **Poor Supervision.** The rapid growth in the number and the size of the banks strained the resources of the central bank to supervise the banks. In addition, regulators often did not act in the public interest.
- **Poor Accounting and Disclosure.** Accounting standards for Indonesian banks were extremely poor, making it difficult to judge the true financial state of the banks. This allowed insolvent banks to continue operating. Both internal and external auditors generally bowed to the wishes of management, rather than force correction or restatement of financial statements.
- **Poor Provisioning Policies.** Indonesian banks were allowed to carry NPLs on their balance sheets. In 1996, 8.8% of total bank credit outstanding was classified as substandard, doubtful or loss. The ratio was 13.4% at the state banks and 4.3% at the private banks.

BANKING IN A CRISIS

With a currency crisis sweeping through Asia in the summer of 1997, Bank Indonesia was forced to abandon its exchange rate intervention policy and move to a floating rate system on August 14, 1997. The value of the rupiah depreciated from Rp2,599/US$1 in July 1997 to Rp4,650/US$1 by December 1997 and fell to Rp15,250/US$1 in June 1998.

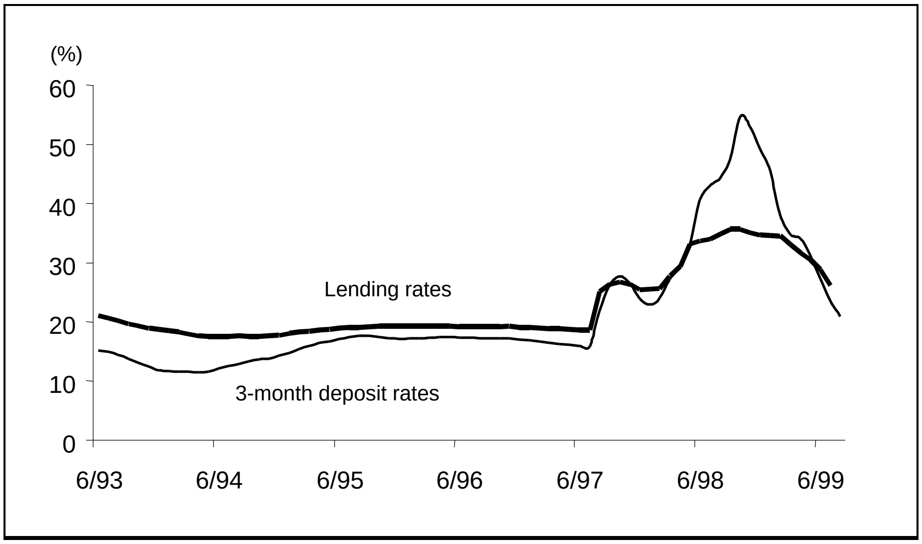
Liquidity was squeezed by the government's decision to limit access to foreign borrowings and to shift public sector deposits from commercial banks to the central bank. Capital outflows accelerated, as investors feared a default on short-term external debt, bankruptcies in the banking sector, and an explosion of inflation. This led to a surge in the SBI rate to 70% and a collapse in the value of the rupiah.

Figure 7: Indonesian Banks
Chronology of Events in Indonesia's Banking Crisis

1997	**July**	Devaluation of the Thai baht sets Asia's financial crisis in motion.
	August	Indonesia's government eliminates the trading bands on the rupiah.
	October	The IMF announces an aid package in return for economic reforms.
	November	The government closes 16 ailing banks.
1998	**January**	The government guarantees banks' deposits. IBRA is established to supervise and restructure the banking industry.
	February	Bank Indonesia places 54 banks under IBRA's supervision.
	April	IBRA announces it is freezing the operations of 7 banks and taking over operations of 6 banks under its control.
	May	President Suharto resigns.
	June	The rupiah hits a low of approximately 17,000/US$1.
	August	An amended bankruptcy law becomes effective.
	September	The government launches its bank recapitalization program.
	October	Four state banks are merged into Bank Mandiri.
	November	Political riots occur in connection with a proposed internal security law.
		The Ministry of Finance ratifies former bank controlling shareholder settlement agreements.
1999	**March**	The government closes 38 insolvent banks. 9 banks qualify for government recapitalization. IBRA takes over a further 7 banks.
	April	Standard Chartered Bank agrees to purchase a stake in Bank Bali.
	June	The ruling Golkar party loses its majority in parliamentary elections. PDI-P (Indonesian Democratic Party—Struggle) wins the most votes with over 34% of the total.
	July	Government takes control of Bank Bali following its failure to meet the terms of the recap program. Government audit also uncovers an unusual transfer of funds to an official of the Golkar party.
	August	East Timor votes for independence.
	October	Abdurrahman Wahid is elected President of Indonesia. "Compromise Cabinet" installed.
	November	PriceWaterhouseCoopers releases Bank Bali audit report. Workers of Bank Bali protest takeover by Standard Chartered Bank, which later withdraws offer.
2000	**January**	Cacuk Sudarijanto appointed as head of IBRA.
	February	IBRA sucessfully replaces Astra management, lays ground work for stake auction.
		Arwin Rasyid appointed as IBRA vice-chairman; Jerry Ng appointed as Deputy Chairman of Bank Restructuring Unit; Mahmuddin Yasin appointed as Deputy Chairman of the Asset Management Investment Division.
		IBRA announces loan servicing program for its banks.

Source: Lehman Brothers.

Figure 8: Indonesian Banks
Interest Rates in Indonesia



Source: CEIC.

Widespread social and political unrest further undermined confidence. A multitude of suppressed political pressures were triggered by the government's inadequate political response to the crisis, which erupted into political violence and the eventual fall of the Suharto government.

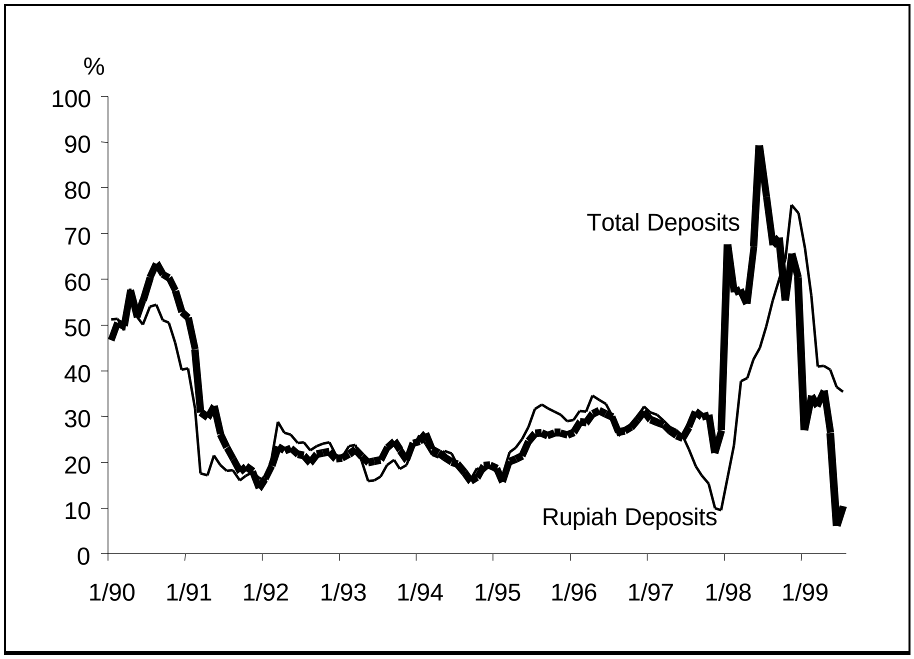
The banking sector was left virtually insolvent. NPLs soared above 75% of total loans as corporate default became endemic and real GDP contracted by 13.2% in 1998 as all components of demand collapsed. Investment, in particular, plunged to around half its previous value.

Deposits Stay in Place

Despite the financial and political turmoil, the deposit base of the Indonesian banking industry largely remained intact, although sporadic runs on specific institutions continued into early 1999. This is in part due to the government's announcement in January 1998 of a full guarantee for all deposits of banks operating in Indonesia.

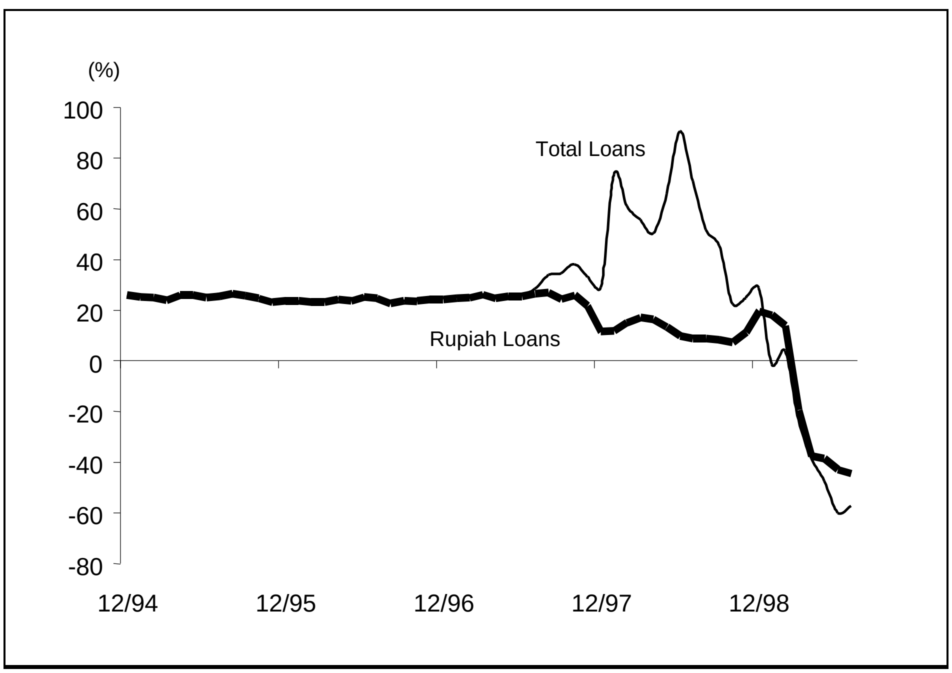
Deposits in the Indonesian banking industry have grown at a compounded annual rate of above 20% per year in the past decade. In part, this reflects the economics of banking in a high interest rate environment, where the mere compounding of interest accounts for a high proportion of growth. The sharp growth in 1998 reflects both the impact of the devaluation of the rupiah on U.S. denominated deposits and the surge in deposit interest rates. As of the end of November 1999, commercial banks had a total of Rp647 trillion in deposits outstanding, of which 76% were denominated in rupiah and the remainder in foreign currencies.

Figure 9: Indonesian Banks
Deposit Growth in Indonesia



Source: CEIC.

Figure 10: Indonesian Banks
Loan Growth in Indonesia (Year on Year %)



Source: CEIC.

Loans Outstanding Surge and Then Shrink

Loans outstanding had grown at an average of around 25% per year prior to the crisis. Thereafter, loans outstanding increased sharply due to revaluation in rupiah terms of foreign currency borrowing; rupiah-denominated loan growth actually decelerated significantly. Since the beginning of 1999, loans outstanding have fallen markedly as loans have been transferred to IBRA. Total commercial bank credit has fallen from Rp487 trillion at the end of 1998 to Rp247 trillion as of November 1999. As a percentage of GDP, commercial bank lending only amounts to 25% versus a normal range for an emerging market of 75% to 125%.

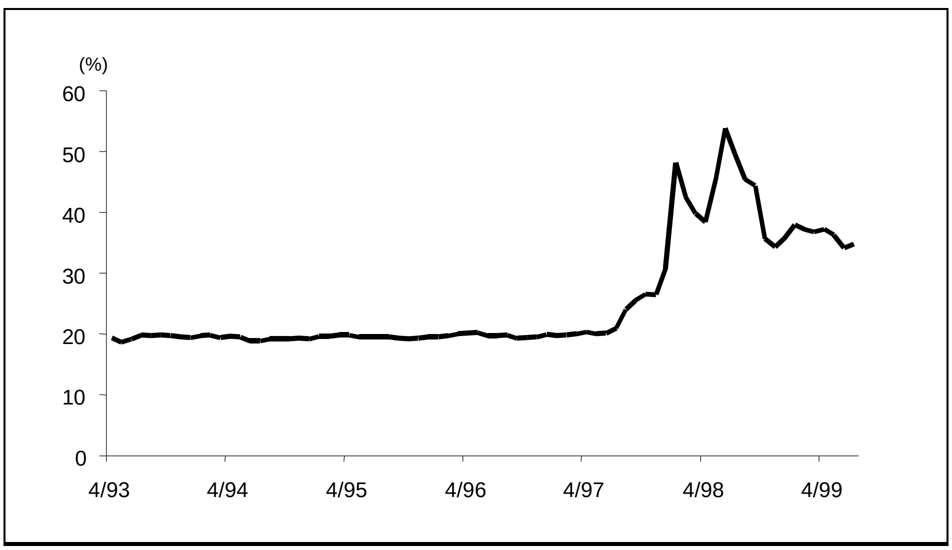
BORROWERS IN TROUBLE

During the five-year period to December 1996, credits in Indonesia grew at a 14% compound annual rate, with the highest growth in lending to the services industry. When the financial crisis struck, most of these loans became non-performing, with the level of NPLs rising from 10% at the end of 1996 to a peak of around 75%.

Corporate borrowers were hit hard in three ways. First, the plunge in the value of the rupiah caused a ballooning in the rupiah-value of foreign exchange debt. At the start of the crisis, Indonesian corporations had US$24 billion in foreign currency loans from the domestic banking industry and an additional US$47 billion of corporate debt borrowed directly overseas. Only a small portion of this was actually backed by foreign exchange earnings. Thus, as the value of the rupiah plunged, the ability of the borrowers to repay greatly diminished.

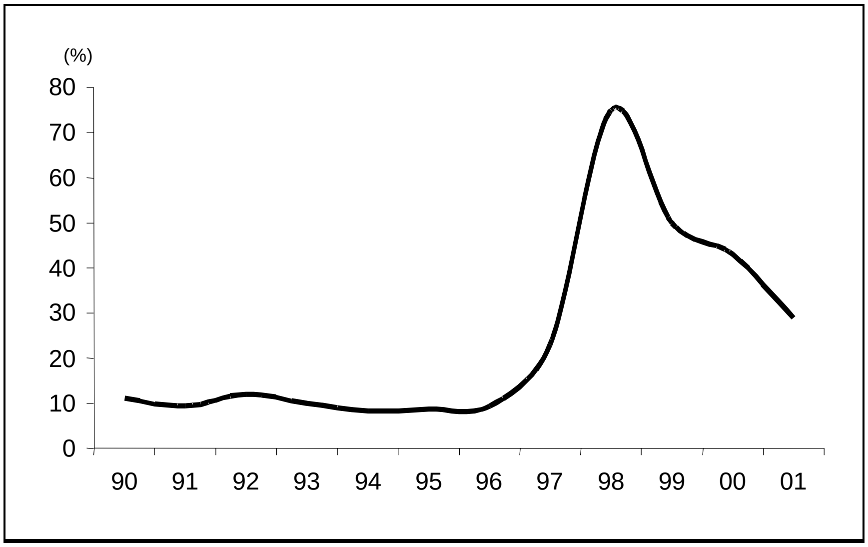
Second, the government's efforts to defend the rupiah and prevent capital flight resulted in a surge in domestic interest rates. Lending rates at private national banks rose from 19% in July 1997 to 40% a year later. This put further financial pressure on borrowers. Third, the economic crisis caused Indonesia's GDP to contract by 13.7% in 1998, with fixed capital investment falling by 40% year on year.

Figure 11: Indonesian Banks
Bank Loans in Foreign Currencies as a Percent of Total Loans



Source: CEIC.

Figure 12: Indonesian Banks
Commercial Banks' Problem Loans (% Loans)



Source: Lehman Brothers estimates.

Figure 13: Indonesian Banks
Breakdown of Commercial Bank Credits

(Rp Trillion)	12/91	12/96	CGR %	12/97	12/98	11/99
Total	113	293	14.3	378	487	247
Agriculture	8	18	7.9	26	39	25
Mining	1	2	16.9	5	6	4
Manufacturing	33	79	8.9	112	172	94
Trade	33	71	13.3	82	96	48
Services	20	92	20.7	114	139	48
Others	17	33	21.3	39	35	28

Source: Bank Indonesia.

IBRA STEPS IN

The daunting task of rebuilding the Indonesian banking system has been entrusted to the Indonesian Bank Restructuring Agency (IBRA), that was established in January 1998. IBRA is an autonomous body invested with extraordinary powers to oversee the rehabilitation of the financial sector, including the right to seize and operate poorly-run or insolvent banks, and to manage and dispose of assets and collateral. IBRA now controls assets with a market value in excess of Rp200 trillion.

IBRA's restructuring strategy consists of implementing the government's guarantee program; managing the audit, assessment and triage program to identify viable institutions; recapitalizing and consolidating viable or strategically-important banks; restructuring corporate debt and reviving the real economy; maximizing the recovery of government funds provided to banks by allocating losses to the banks' controlling shareholders, where possible; and recovering government funds through divestment and asset sales. This is clearly an ambitious, far-reaching, and politically-sensitive project which has put IBRA in control of resources approximating Indonesia's entire GDP.

Classifying the Banks by Capital

To begin the process of bank restructuring, the government decided in June 1998 to have international auditors determine the solvency of Indonesia's banks based on international banking standards. Upon completion of this solvency test, Indonesia's private banks were placed in three different categories based on their capital adequacy ratios, as detailed below:

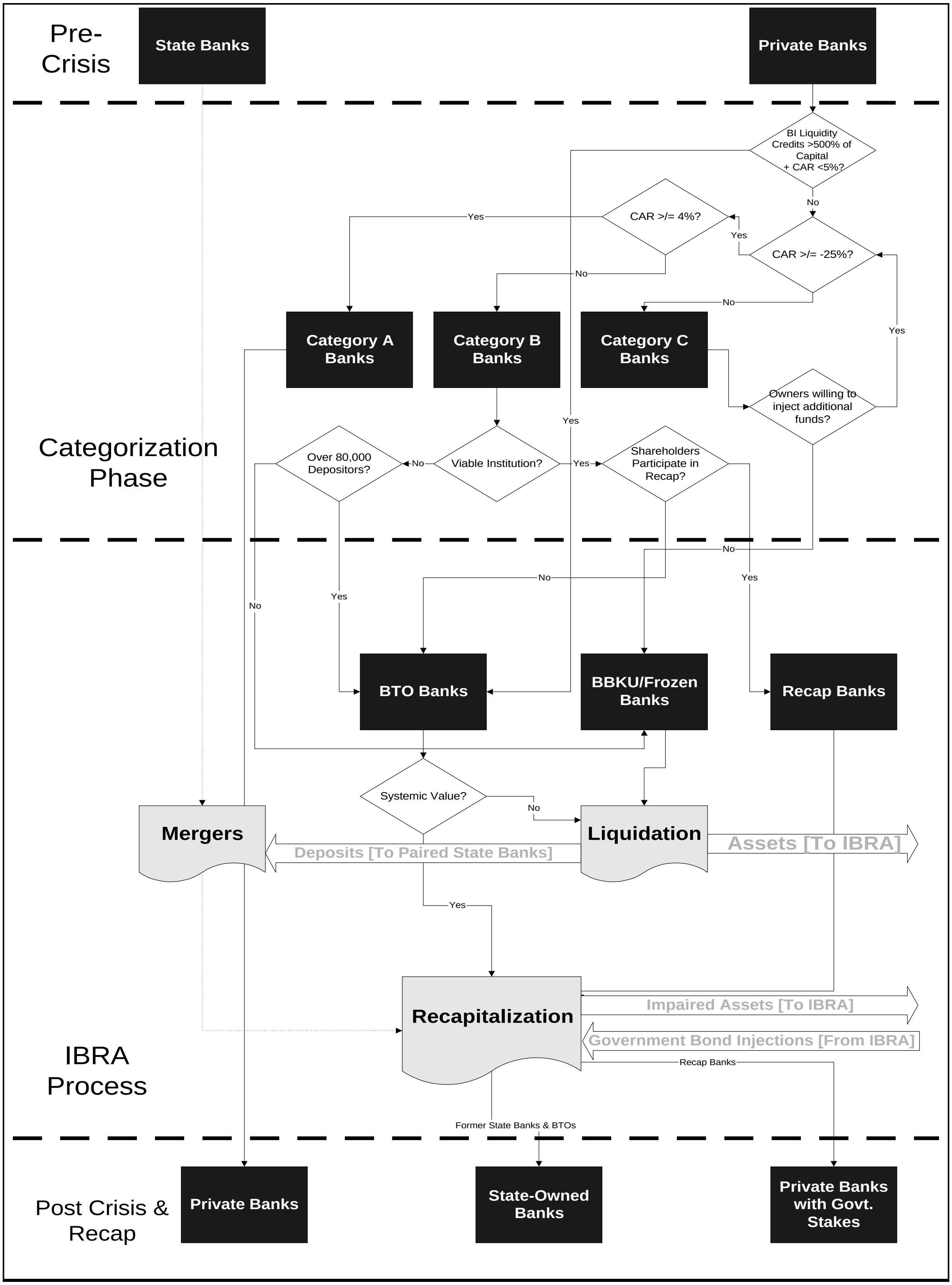
- **Category A Banks.** With CARs above 4%, these banks were considered sufficiently capitalized so as not to require additional funds from the government. They can continue operations without government interference. Into this category fell 73 banks.
- **Category B Banks**. These banks, with CARs between negative 25% and positive 4%, were eligible for recapitalization, provided that they met certain criteria.
- **Category C Banks.** Banks with CARs of less than negative 25% were given 30 days to meet the capital requirements to become Category B (subject to the same criteria for recapitalization) or face closure.

Recapitalization Eligibility

The recapitalization program for private sector banks is being carried out only on selected banks. This selection process consisted of first classifying the banks into A, B, and C categories and then conducting further appraisal on the Category B Banks. Eligible banks had to establish their viability by submitting a rehabilitation plan and subjecting management and owners to a "fit and proper test" by IBRA and BI and settling all intra-group loans exceeding the legal lending limit. Based on the results of this appraisal, bank selection was carried out as follows:

- Category B Banks that passed the further appraisals and whose controlling shareholders were willing to contribute a minimum of 20% of the total recapitalization cost as of December 31, 1998 were entered in the private sector bank restructuring and recapitalization program.
- Category B Banks that passed the further appraisal but whose shareholders were unwilling or unable to participate in the recapitalization were taken over by the government (banks taken over or BTO).
- Category B Banks that failed to pass the appraisal had their operations frozen (BBKU), except for banks with more than 80,000 depositors, which were taken over by the government to preserve the payment and deposit systems.

Figure 14: Indonesian Banks
Recapitalization Process



Source: IBRA and Lehman Brothers estimates.

RECAPITALIZING THE BANK SECTOR

Recap Banks

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

- The controlling shareholders pledged their willingness to participate in the recapitalization, with a minimum investment of 20% of the recapitalization needs as of December 31, 1998.
- The government agreed to fund the remaining recapitalization needs as calculated by an independent public accountant, in cooperation with the bank's shareholders. Recapitalization funds would be injected primarily in the form of government bonds (*see below*).
- The bank would transfer all Category 5 (Loss) loans to IBRA, with the exception of loans with principal balances of less than Rp5 billion.
- The bank would repay liquidity assistance and correct any legal lending limit violations within one year.
- The bank agreed to comply with financial and operational targets set out in the business plan, and to submit periodic progress reports.
- IBRA agreed not to participate in the day-to-day management of the bank.

To date IBRA has recapitalized seven private sector banks through the issuance of government bonds and become a shareholder in these banks. Public participation in the recapitalization of these banks has exceeded the minimum 20% requirement, reducing the government's ownership so that it has an average of 63% ownership, versus the 80% originally forecast.

All State Banks to be Recapitalized

The state-owned banks were deemed so important to national development that they were recapitalized regardless of their capital ratios. The government plans to recapitalize BNI, BRI, and BTN and allow them to continue operating as separate entities. The remaining four banks (Bank Bumi Daya, Bank Dagang Negara, Bank Exim and Bapindo) were merged into the newly established Bank Mandiri, that began operations in August 1999. No consolidations or closures of the 27 regional development banks have taken place as yet.

Figure 15: Indonesian Banks
Category B Banks Recapitalized

Bank	Recap Cost (Rp Bil.)	Gov't Injection (Rp Bil.)	Ownership
Bank Internasional Indonesia	11,114	6,628	60%
Lippo Bank	8,737	4,787	55%
Bank Universal	5,063	4,098	81%
Bank Prima Express	584	531	91%
Bank Bukopin	476	370	78%
Bank Arta Media	165	130	79%
Bank Patriot	62	51	83%
Total	**26,201**	**16,595**	**63%**

Source: IBRA.

BANKS TAKEN OVER (BTO)

The resolution and recapitalization of BTOs has involved IBRA: 1) taking over the management of the banks by placing IBRA-designated managers in each BTO; 2) coordinating shareholder settlements whereby former controlling shareholders are held responsible for settling all of their groups' liabilities; and 3) recapitalizing designated BTOs by means of government bond injections. All BTOs are required to transfer Category 5 Loans to IBRA and other impaired or unnecessary assets or personnel are transferred to IBRA on a case-by-case basis.

To date, 13 BTO banks have been taken over by IBRA and these are divided into three groups. IBRA teams have evaluated the strengths and weaknesses of each bank and have determined the appropriate restructuring processes and selling strategies. Only Bank Central Asia (BCA), Danamon, Niaga and Bali survive as viable institutions.

- **BTO 1:** The group consists of four banks whose operations were taken over by IBRA in 1998. These banks include BCA (taken over in May 1999), Bank Tiara Asia, Bank Danamon and Bank PDFCI (all three taken over on April 1998). BCA and Danamon have been designated as "Platform banks" due to their large branch networks and will continue in operation due to their strategic importance to the Indonesian banking and payments systems. PDFCI and Bank Tiara will be merged into Bank Danamon, as will all seven BTO2 banks described below.
- **BTO 2:** The second group consists of seven banks: Bank Duta, Bank Nusa Nasional, Bank Pos, Bank Jaya, Bank Tamara, Bank Rama and Bank Risjad Salim International, which were all taken over in May 1999. The banks in this group will not be recapitalized as autonomous banks, but will be merged with Bank Danamon.
- **BTO 3:** The third group consists of Bank Niaga and Bank Bali, which were taken over in July 1999. Both of these banks were previously included in the private sector bank recapitalization program but became BTO when their controlling shareholders did not participate in the recapitalization process.

Figure 16: Indonesian Banks
Banks Taken Over (BTO)

Bank	Assets (Rp Bil.)
Bank Central Asia	66,682
Bank Danamon	18,868
Bank Niaga	12,255
Bank Bali	10,016
Bank Nusa Nasional	6,033
Bank Duta	5.750
Bank Tamara	3,764
Bank Risjad Salim	2,716
Bank Tiara	2,287
Bank Rama	1,484
Bank Jaya International	1,133
Bank PDFCI	878
Bank Pos Nusantara	743
Total	**132,609**

Source: IBRA.

FROZEN BANKS (BBO/BBKU)

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

- **Payment of Bank Liabilities**. In accordance with the government's guarantee program, IBRA will pay all the eligible liabilities of the BBO and BBKU banks.
- **Transfer of Bank Assets**. All the assets of banks whose operations have been frozen are transferred to IBRA.
- **Management of Bank Assets**. IBRA will service performing loans and restructure NPLs.
- **Shareholder Settlements**. If there were any violations of banking regulations by a bank's controlling shareholders, IBRA will seek to recover the liabilities from the controlling shareholder.
- **Liquidation**. In the final stages, IBRA will assist Bank Indonesia in liquidating the BBO and BBKU banks to avoid any subsequent claims against IBRA.

To date, 48 banks have had their operations frozen. This group includes 10 BBOs whose operations were frozen in April 1998 and 38 BBKU banks whose commercial activities were frozen in March 1999.

COSTS OF RECAPITALIZATION

The government's total outlay for restructuring the banking industry will amount to Rp643 trillion, split between Rp414 trillion of government recapitalization injections and Rp228 trillion for deposit guarantees and shareholder settlements. These outlays are primarily funded by three types of bonds: index, floating rate and fixed rate.

Figure 17: Indonesian Banks
Government Liabilities under Bank Restructuring Program

Government Recapitalization Notes	Description	Rp Bil.
BTO 1 – Index	Index bonds injected into Bank Danamon, Bank PDFCI and Bank Tiara (BTO 1 banks).	50,564
BTO 1 and Private Sector Recapitalized Banks	Bonds injected into BTO 1 and Bank Lippo, Bank BII, Bank Artha Media, Bank Bukopin, Bank Universal, Bank Prima Express and Bank Patriot.	61,724
Regional Development Banks (BPD)	Bonds injected into two regional banks.	1,230
BTO 2 (7 Banks)	Bonds injected into Bank Duta, Bank Nusa Nasional, Bank Risjad Salim Internasional, Bank Tamara, Bank Pos Nusantara, Bank Jaya Internasional, and Bank Rama.	21,000
BTO 3 (2 Banks)	Bond injected into Bank Bali and Bank Niaga, which were taken over much later.	13,155
State-Owned Banks (BUMN)	Bonds to recapitalize state-owned banks.	267,000
Subtotal		***414,673***
Gov't Debt/Shareholder Settlement Guarantee		
Index – Ex BLBI	Index bonds injected into banks to replace loan assets that has been taken over (at face value). In this case BLBI funding is still outstanding in the banks' balance sheet, and thus the amount of outstanding BLBI is also taken over by IBRA.	113,972
Non-Index	Bonds issued to BCA for the Shareholder Settlement.	60,877
Index – New 28 May 99	Bonds issued to replace interbank borrowings by the 38 banks frozen on March 13, 1999, 10 banks frozen in April and August 1998.	53,779
Subtotal		***228,628***
Total Liabilities		**643,301**

Source: IBRA data and Lehman Brothers estimates.

The government debt/shareholder settlement guarantee bonds are bonds injected into banks due to the Government Guarantee Program or the Shareholders Settlement Program. The Government Guarantee Program provided guarantees to depositors on deposits they placed with the banks. In the event of a deposit run or liquidity crisis, the government (Bank Indonesia) would provide liquidity funding (BLBI) to the bank. This liquidity funding represents borrowing by the shareholders of the bank from BI, which is then resolved through the Shareholders Settlement Program.

Recapitalization Bonds

The recapitalization bonds are used to raise the CAR of recap and recap/BTO banks to the 4% minimum. These bonds are generally injected in exchange for non-performing loans, which are transferred to IBRA. In addition to removing NPLs from the books, the coupon payments from the bonds provide a steady income stream to the banks.

Recap bonds carry either a fixed coupon rate of 12% or 14%, paid semi-annually, or a variable rate. The variable rate bonds pay semi-annual interest equivalent to the average rate of three month Bank Indonesia Certificates (SBIs). The rate is reset every three months. These bonds have a maturity of between 3 to 10 years and are injected until the CAR of the bank reaches 0%. At this point, fixed-rate bonds are injected until the bank's CAR reaches the minimum 4%.

The cost of interest payments on the Government Bonds has been estimated at Rp34 trillion in the current fiscal year to March 2000. It is partially funded from budget allocations and partially from the planned sale of assets controlled by IBRA.

Although most of the bonds will not be tradable for at least six months, the government hopes that the eventual establishment of a secondary market will improve balance sheet liquidity and put banks in a better position to begin lending again. As an initial step, three series of bonds totaling Rp20 trillion have been listed on the Surabaya Stock Exchange. However, given that the low organic loan growth of the current operating environment will likely persist for some time, the bonds may be one of the few sources of reliable income for the banks and so they may be less than willing to sell material amounts.

Post-Recap Bank Share Classes

Bank shares in recap banks have now been issued in three classes, although there is no practical distinction in listing or trading and all shares have the same rights. 'A' shares are the original, pre-recap, shares owned by private investors and/or the government. 'B' shares are shares purchased through the recap rights offerings, where existing shareholders were given the opportunity to participate in the recapitalization (and were required in aggregate to purchase shares totaling at least 20% of the cost of recapitalization). These shares were issued with special warrants and certificates of entitlement (COEs), described below, as an inducement to subscribe. Finally, the remaining recapitalization shares that were purchased by the government are 'C' shares. When called away by exercise of the warrants or independently sold by the government, the C shares become normal B shares.

Recap Warrants

Shareholders who participated in bank recaps by purchasing B shares also received warrants. The warrants have a three-year term and are exercisable every six months. They permit shareholders to buy out the government's share of the bank at the original rights offering price, plus a cost of carry charge based on the SBI rate. Warrant holders received these rights in amounts proportional to the government's percentage of participation in the recapitalization rights offering — if the rate of C shares issued to B shares issued was 4:1, each buyer of a B share would receive warrants for 4 C shares. These warrants are strippable and tradable, and some have already been exchange-listed.

Note that if there are independent sales or offerings of C shares by the government during the term of the warrants, there may not be enough remaining shares to cover warrant exercises. In this case, remaining warrants will be valueless. However, warrant holders will have the right of first refusal on any share sales made during the life of their options.

Certificates of Entitlement (COEs)

In return for the Category 5 loans which were transferred to IBRA, shareholders in the recap banks received COEs which entitle them to the net recoveries on these assets through year-end 2002. Any recoveries will be paid in C shares if any are still held by the government; otherwise, settlement will be made in cash at the end of 2002. The COEs are tradable, but no organized market exists as yet.

BANKING REFORM

Indonesia has introduced a number of reforms to strengthen the banking system and prevent future problems. Bank Indonesia is now the primary government body overseeing the banking system. Prior to this, the banking system was also supervised by the Ministry of Finance. These reforms include the following:

- All directors and commissioners of a bank must pass a “fit and proper test” performed by Bank Indonesia prior to being appointed. Directors are not permitted to become directors of or hold executive positions in other companies or banks while they serve as directors of commercial banks.
- Banks are required to maintain a minimum capital adequacy ratio of 4% of risk weighted assets, to be increased to 8% by the end of 2001. Total capital includes both Tier 1 and Tier 2 capital. BI’s uses the BIS methodology to calculate risk-based capital ratios.
- Banks cannot extend credit of more than 30% of capital to non-affiliates, 10% to affiliates and 10% to state-owned enterprises. Affiliates are borrowers connected with the bank through share ownership or directors.
- A minimum of 80% of foreign exchange loans must be made to export-oriented companies.
- The maximum net open foreign exchange position allowed is 20% of capital.
- Banks are required to maintain a loan to deposit ratio of less than 110%.
- Foreign investors are now allowed to own up to 99% of the shares of an Indonesian bank.
- Banks are required to classify the assets in their portfolio in one of five categories and required to maintain minimum loan loss provisions.

Figure 18: Indonesian Banks
Loan Classification Criteria and Provisioning Requirements

	Current	Special Mention	Substandard	Doubtful	Loss
Business Prospects					
Growth Potential of Industry	Good	Limited	No growth	Decline	Discontinue
Sensitivity to Economy	Unaffected	Slightly	Affected	Affected	In decline
Competition	Limited	Some	Much	Intense	
Management	Very good	Good	Fair	Inexperienced	Very weak
Affiliated Companies	Supportive	Stable	Negative	Negative	Damaging
Employees	No strikes	No strikes	Unrest	Unrest	Strikes
Financial Conditions					
Earnings	High	Stable	Low	Negative	Big loss
Debt/Equity Ratio	Low	Good	Quite high	High	Very high
Liquidity	Strong	Good	Lacking	Low	None
Cash Flow Analysis	Can repay	Likely to repay	Pays interest	Unable	Operating loss
Forex/Interest Sensitivity	Low	Some	Affected	Greatly affected	Threatened
New Loans Used to			Offset problems	Pay principal	Cover losses
Repayment Ability					
Arrears	No arrears	Up to 90 days	90-180 days	181 to 270 days	Over 270 days
Relationship to Bank	Good	Good	Compromised	Weak	
Documentation/Collateral	Complete	Complete, breaches	Incomplete, breaches	Many breaches	None
Provisioning Requirements					
Up to May 2000	0.625%	2.5%	7.5%	50%	100%
From June 2001	1.000%	5.0%	15.0%	50%	100%

Source: Bank Indonesia.

IBRA HOLDS THE ASSETS

IBRA controls various types of assets which are classified into three categories based upon their acquisition sources. The first is Rp136 trillion in corporate assets of holding companies related to the shareholder settlements and corporate assets resulting from the conversion of corporate debt. The government extended Rp144 trillion in Bank Indonesia Liquidity Assistance ("BLBI") in 1998 to prevent a collapse of the banking system. Many of the banks owners who received BLBI significantly breached legal lending limits by channeling bank loans to their other businesses. The banks' owners were obliged to return the affiliated loans and some bank owners have surrendered a combination of cash and fixed assets to repay. IBRA has set up five holding companies to manage the assets of the shareholders of liquidated and taken over banks. Collectively, these assets are managed by the Asset Management Investment ("AMI") unit.

The second is Rp393 trillion in the shares of BTO and Recap banks, representing the book value amount of the investment that the government made to recapitalize the banks to a 4% CAR. Collectively, these banks fall under the Bank Restructuring Unit ("BRU").

The third asset class is composed of Rp238 trillion in loan portfolio assets, primarily non-performing loans, transferred from recapitalized, BTO and frozen banks to IBRA. In total, 47% of these NPLs came from state banks. Of this amount, Rp48 trillion came from the 10 largest debtors and Rp105 trillion from the 50 largest. IBRA's loan assets are housed in the Asset Management Credit ("AMC") unit.

IBRA's Budget

The Ministry of Finance's budget requirements from IBRA are primarily driven by the cost of government bonds issued to recapitalize the banks. For the current fiscal year to March 2000, the interest cost is anticipated to be Rp34 trillion. IBRA estimates that interest costs will be Rp50.8 trillion in 2000, Rp42.8 trillion in 2001, Rp42 trillion in 2002, and Rp42.5 trillion in 2003.

The corporate equity and the investment in recapitalized banks have total book value of Rp533 trillion. This represents the government's "investment" in the banking industry. To partially offset this cost, IBRA will dispose of the assets of the AMI, AMC, and AMU.

The size and composition of IBRA's asset disposal program (both loans and equity positions) is determined by three factors: 1) the contribution required by the Ministry of Finance for the national budget; 2) cash proceeds received by the AMC from ongoing servicing and workout of its loan portfolio; and 3) the timing prioritization of assets. The latter will be determined according to IBRA's objective of maximizing value of all of its assets, inclusive of carrying costs, over the next three years.

Figure 19: Indonesian Banks
Assets Controlled by the Government Under Bank Restructuring

Rp Billion	Transfer Value	Book Value of loans
Corporate Equity From Settlement of Shareholder Liabilities	136,645	
Banks With Frozen Operations/BTO-1	111,645	
BBKU	25,000	
Investment in Recapitalized Banks/BTO	393,442	
BTO-1	70,162	
BTO-2	21,000	
BTO-3	13,155	
Recapitalized Banks	22,125	
State Banks	267,000	
Other Bank Assets	3,175	
Total	533,263	
Loans Taken Over		238,580
Categories 1-4		40,087
Category 5		198,493
Certificate of Entitlement (Recapitalized Banks)		16,215
Non-COE (BTO-1)		36,704
Non-COE (BTO-2 & 3)		8,332
Non-COE (BBO/BBKU)		22,014
Non-COE (State Bank)		112,053
Total	**533,263**	**672,478**

Source: IBRA.

Estimated Value of Assets

The key question at this point: what will IBRA recover from the sale of its Rp 533 trillion (book value) of assets? The corporate equity is conservatively valued on the books at Rp 77 trillion; a continued economic recovery could well increase this value, leading to a recovery of above 100% on equity assets. Recapitalized banks are estimated to be worth Rp 52 trillion. Once again, a general economic recovery and managed disposal of these stakes over a period of time could push this value higher.

IBRA's loan assets are producing higher-than-expected recovery rates of 40-60% in restructurings, although the pace has lagged expectations. With IBRA's loan outsourcing scheme moving forward for the commercial, SME, and retail loan portfolio assets and corporate restructurings, we should soon see an increased pace of recovery.

IBRA's Extrajudicial Powers: PP17

To accelerate the corporate debt restructuring process, IBRA has been granted extra judicial powers, commonly referred to as PP17. The Agency can bypass the courts to seize assets of debtors, even if these have been pledged to other parties under other contracts. It can also review, change, terminate or cancel contracts between banks and third parties that are deemed to have inflicted losses on IBRA. As a result, IBRA's power is of concern to debtors as well as other creditors, and the government has been lobbied aggressively to annul IBRA's extra judicial powers.

There are signs that IBRA is getting tough on well-connected debtors. For example, IBRA recently seized land owned by PT Sinar Slipi Sejahtera, a real-estate developer controlled by Siti Hardijanti Rukmana, a daughter of former President Suharto and has also initiated legal action against the Tirtamas Group, owned by tycoon Hashim Djojohadikusumo.

AMC: MAXIMIZING LOAN RECOVERY

Role of IBRA's AMC

The objectives of the Asset Management Credit unit appear in Figure 20. The AMC is comprised of 334 full-time loan workout staff members. The division is supported by 221 professionals in the legal and operational departments. Additionally, more than 3,400 staff members have been temporarily employed by IBRA from the closed banks. Ninety-nine percent of the loan workout staff members have extensive banking experience and more than 50% are foreign-educated.

The AMC's Loan Portfolio

The AMC manages more than Rp207 trillion of assets representing approximately 170,000 debtor relationships. Most of the value is concentrated in the large corporate loans which consist of a relatively small number of borrowers. IBRA's top 20 debtors owe a collective Rp72.14 trillion (approximately US$10 billion) to IBRA. Figure 22 lists the 20 largest debtors.

Figure 20: Indonesian Banks
Asset Management Credit's Recovery Objectives and Methods

Objective	Method
Maximize Asset Recovery	Recover government money expended on bank guarantee program and recapitalization. Preserve and enhance value of the loan portfolio transferred to AMC by restructuring and repackaging loans and by developing comprehensive industry-specific disposal strategies.
Promote Indonesian Economic Revival	Inject restructured, performing loans into a revitalized and transparent banking sector.
Minimize Negative Social Impact	Preserve and promote employment and export revenue generation whenever possible in loan restructurings and asset sales.

Source: IBRA.

Figure 21: Indonesian Banks
AMC Milestones

August 1998	Establishment of IBRA's Asset Management Unit – Credit (AMC).
October 1998	Recruited 26 permanent staff members.
November 1998	Banking Law No. 10/1998 enacted
December 1998	Focused on management of frozen banks. Began rationalizing operation of frozen banks. Settled trade finance details pertaining to Government bank guarantee program.
February 1999	PP No. 17/1999 passed (regulation implementing extrajudicial powers for IBRA).
March 1999	Transferred loans from 10 frozen banks and 7 state banks Froze 38 more banks.
June 1999	Began receiving credit files from state banks. Began debtor classification and loan workout process.
July 1999	Completed classification for 200 largest debtors.
August 1999	Completed classification for the next 600 largest debtors.
October 1999	Received Ministry of Finance approval for Standard Operating Procedures outlining loan workout restructuring authorization and asset foreclosure processes.

Source: IBRA.

Figure 22: Indonesian Banks
IBRA's Top 20 Debtors - Largest Debtors by Total Outstanding Debt

	Debtor	Debt (Rp Trillion)
1.	Barito Group	9.419
2.	Humpuss Group	7.482
3.	Bob Hasan	5.442
4.	Bakrie Group	4.926
5.	PSP Group	4.692
6.	Tirtamas Group	3.601
7.	Napan Group	3.367
8.	Tirtobumi	2.983
9	Djajanti Group	2.893
10.	Bimantara Group	2.870
11.	Sekar Group	2.792
12.	Bahana Pembinaan Usaha Indonesia	2.728
13.	Dharmala Group	2.673
14.	Kalla Group	2.602
15.	Ongko Group	2.487
16.	Gunung Sewu Group	2.483
17.	Danamon Group	2.467
18.	Nugra Santana Group	2.316
19.	Kodel Group	2.014
20.	Argo Pantes	1.892
	TOTAL	**72.129**

Source: IBRA.

Figure 23: Indonesian Banks
Categorized as Retail, SME, Commercial and Corporate Loans

	Retail < Rp1 Bn	SME Rp1 Bn.-Rp5 Bn	Commercial Rp5 Bn-Rp50 Bn	Corporate > Rp50 Bn	Total
Debtor	167,763 (97.6%)	1,232 (0.7%)	1,572 (0.9%)	1,339 (0.8%)	171,906
Amount	9.9 (4.8%)	2.8 (1.3%)	23.1 (11.1%)	171.8 (82.8%)	207.6
Workout Strategy	Crash Program/ Outsource	Outsource	Outsource	Internal Restructure, then Sell	

Source: IBRA.

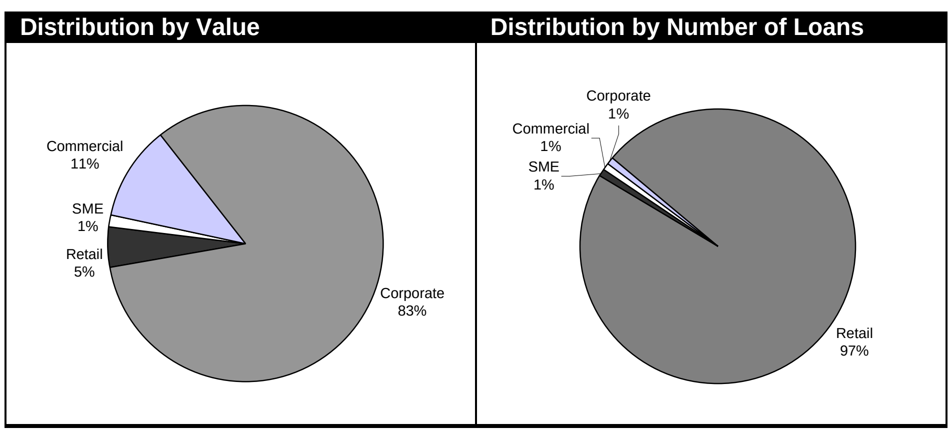
IBRA has classified its loan portfolio into four segments: retail, SME (small-and medium-sized enterprises), commercial and corporate loans. Nearly 98% of all loans currently under AMC control have a face value of less than Rp1 billion and were originated for retail purposes. However, approximately 83% of the overall portfolio value derives from less than 1,500 debtors with corporate loan obligations exceeding Rp50 billion each and collectively totaling approximately Rp171.8 trillion in outstanding face value.

AMC's Loan Resolution Strategy

IBRA's resolution strategy for its massive debt obligation portfolio depends upon the loan category. Following a crash program of collections targeting loans with balances of under Rp 5 billion, IBRA intends to outsource to BTOs and other institutions all remaining loans with balances of under Rp 50 billion. BTOs will set up servicing joint ventures with internationally-reputable financial institutions to service and manage these loans.

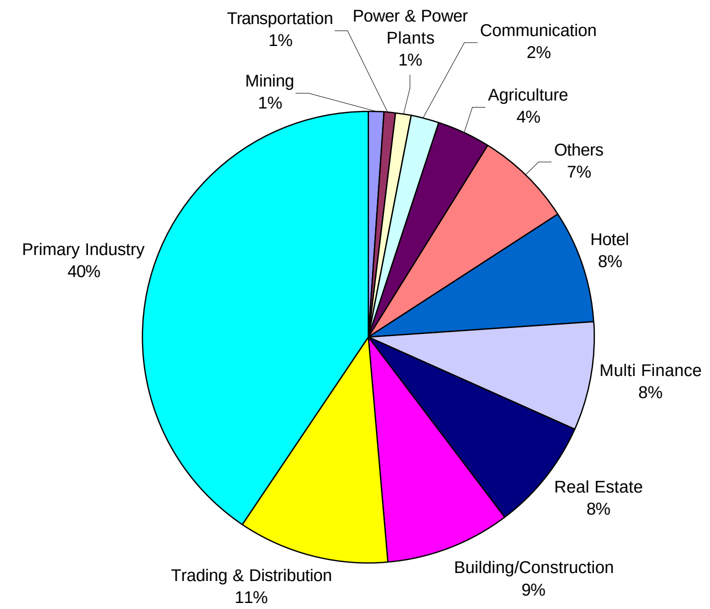
IBRA is also currently engaged in the process of restructuring corporate loans with individual outstanding face values above Rp50 billion.

Figure 24: Indonesian Banks
Distribution by Value and Number of Loans



Source: IBRA.

Figure 25: Indonesian Banks
Distribution by Industry



Source: IBRA.

FOCUS ON LARGE CORPORATE RESTRUCTURING

Following upon the inception of its banking sector recapitalization program, Indonesia has begun to actively address the problem of high levels of (often non-performing) corporate sector debt. This is crucial in order to promote economic recovery and is an essential counterpart to the overhaul of the banking system. Progress in the area of debt restructuring will likely act as incentive for banks to resume lending. In addition, it could enable IBRA to realize maximum value on its corporate debt and equity assets. The government's challenge will be to encourage and promote the process of consensual debt workouts between creditors and debtors by providing an adequate legal framework and more attractive restructuring terms.

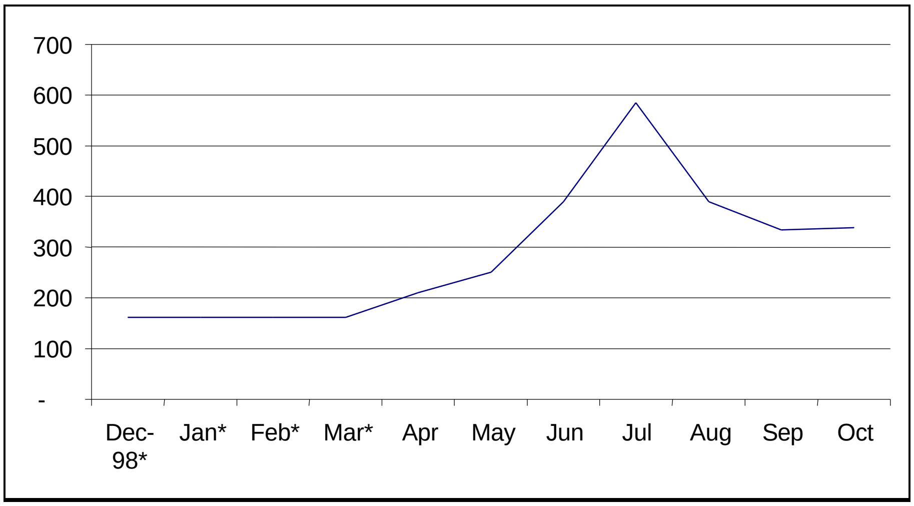
Indonesia faces substantial challenges in the restructuring of corporate sector indebtedness. First, bankruptcy and foreclosure proceedings remain ineffective, despite new laws and a streamlined court process. Second, there are a large number of creditors involved. Third, many major creditors (particularly Korean and Japanese banks) cannot afford to take loan write-offs. Fourth, borrowers are holding out for better foreign exchange rates and pursuing policy initiatives to stay the actions of creditors (particularly IBRA), or hope to repurchase their debts at a steep discount in the secondary market.

New Regulations Will Speed Up Corporate Debt Restructurings

On December 28, 1999, the government established the Financial Sector Policy Committee (FSPC) to oversee bank and corporate restructuring. The FSPC, which reports directly to the president, consists of key ministers and will be assisted by a permanent secretariat to be based at IBRA.

The FSPC has recently announced that “haircuts,” or loan write-offs, will now be available for cooperating debtors when such write-offs are in the best commercial interests of IBRA as a creditor and there is no evidence of criminal or fraudulent activity on the part of the debtor. IBRA has said that an independent consultant will determine which of IBRA’s more than 1,000 qualifying debtors are eligible for such haircuts. Full details of the policies and procedures are expected to be approved by the FSPC and published by the end of January. Although a general haircut policy will potentially create a moral hazard problem, this approach should ultimately accelerate Indonesia’s corporate debt restructuring efforts.

Figure 26: Indonesian Banks
Debt Collection in Billions of Rupiah From 1998 to October 1999



* Fiscal year 1998-1999 was steady with total collections of Rp648 billion.
For fiscal year 1999 to Oct. 29, 1999: collections amounted to Rp2,497 billion.
Source: IBRA.

Also, the government has announced that officers of IBRA and members of the FSPC will be provided with personal legal assistance in cases where decisions consistent with the approved policies and procedures are challenged.

Corporate Debtor Classification

In August 1999, IBRA completed its classification of debtors into four categories based on their willingness and ability to repay their loans. On this basis, IBRA will determine whether to enter into loan restructuring negotiations or commence foreclosure or bankruptcy proceedings.

Figure 27: Indonesian Banks
IBRA's Asset Management Credit Debtor Categories

Category	Definition	Action
A	• Good business prospects • Good integrity	• Debt restructuring • Asset sales by debtor • Debt to equity conversion
B	• Good integrity • Poor business prospects	• New capital injection • Asset swap • Debt to equity conversion
C	• Good business prospects • Poor integrity	• Litigation • Foreclosure
D	• Poor business prospects • Poor integrity	• Bankruptcy • Liquidation

Source: IBRA

For large corporate loans being resolved internally by IBRA, AMC restructuring techniques have included the following:

- Payment rescheduling.
- Extension of loan tenor.
- Waiver of penalty or past due. Interest, if applicable.
- New capital injection by shareholders or new investors.
- Full or partial repayment to reduce outstanding debt.
- Asset sales by debtor.
- Debt to equity swap.
- Convertible bond or subordinated loan debt-for-debt exchange.

After such loans have been restructured, the package of loans and securities created through the restructuring will be injected back into the banking system or sold to interested parties by IBRA.

Initial loan portfolio sales are slated to take place within the first half of this calendar year. IBRA will seek to maximize recovery through a market-driven structure and pricing process. Such portfolio sales will be characterized by their transparency. The AMC will seek to realize maximum value from its portfolio by exploring diverse structures and packaging options: direct sales, repackaging of existing portfolios, and asset securitization, while utilizing auction processes, targeted bidder approaches, and other sales methods.

Restructuring Successes to Date

Under the latest Letter of Intent with the IMF, IBRA has committed to reach restructuring agreements (in the form of term sheets) with debtors representing approximately 50% of the loan value of IBRA's cooperating borrowers by March 31, 2000. IBRA has also committed to take legal action against non-cooperating debtors (Categories C and D).

To date, debtors that have successfully implemented restructuring plans include:

- Asia Cellular Satellite
- Astra International
- Citra Marga Finance
- Danareksa
- Daya Manunggal
- Jakarta Setiabudi Properti
- Lawe
- Mega Rubber Factory

The following affiliate entities of the top 20 largest debtors have signed MOUs and completed term sheets formalizing their agreement to restructure:

- Seamless Pipe (Bakrie Group)
- Bakrie Nirwana Resorts (Bakrie Group)
- Pasific Satellite Nusantara
- Bimantara Citra

In addition, IBRA has announced that it is in final stage negotiations for restructuring of the following debtors:

Ayodia Bina Pangan	Barisan Tropical
Bunas Finance Indonesia	Batam Jaya Hotel
Capella Medan	Federal International Finance
Raja Besi Group	Riau Andalan Kertas
Satelindo	Riau Prima Energi
Risjad Brasali Chemical Group	Arindo Tri Sejahtera
Bakrie & Brothers	BDNI Finance
Duniatex	

AMC Debt Collection

IBRA's debt collection has increased steadily in 1999, although the Bank Bali crisis temporarily caused a loss of public confidence in the Agency that adversely affected payment collections following the peak of the crisis.

Other Debt Restructuring Players

Jakarta Initiative Task Force

The Jakarta Initiative Task Force (JITF) was established in March 1998 to bring creditors and debtors together and to assist with the restructuring of corporate debt through consensual out-of-court settlements. The JITF also plays an important role in removing regulatory obstacles to restructurings and provides a forum for "one-stop" approval of regulatory filings that are required in conjunction with corporate debt restructurings.

Under the JITF framework, exceptional guidelines have been developed to facilitate corporate debt restructurings. For example, in the case of mergers, the Jakarta Initiative allows fixed asset revaluations that can be converted into new paid-up capital. Mergers will also be allowed based on book value consolidation. With respect to tax relief, companies are now being offered relief from tax attributable to debt write-downs, to the extent operating losses exist. Finally, the rules for raising new equity have been amended to permit new share placements on a non-preemptive basis. We believe these guidelines will greatly facilitate mergers, consolidation and recapitalization across the corporate spectrum.

Under the most recent Letter of Intent with IMF, the government has committed to place significant emphasis on the role of the JITF in accelerating the pace of corporate restructuring. In particular, the FSPC will be able to direct cases that cannot be expeditiously led by IBRA (for example, if IBRA is a minority creditor) for restructuring under the JITF.

As of July 1999, 7,234 companies had applied to the JITF program with total foreign currency debt of US$24 billion and domestic debt of US$1.8 billion. To date, however, only 22 companies had reached agreement on debt restructurings amounting to US$2 billion and Rp2 trillion.

INDRA

The Indonesian Debt Restructuring Agency (INDRA) was established in July 1998 to complement the efforts of the JITF. INDRA provides forward foreign exchange cover based on a moving average exchange rate to companies undergoing a debt restructuring. To qualify under the program, the tenor of restructured debt must be not more than eight years with maximum grace period of 3 years. To date, only one company has participated in the INDRA program.

Key Impediments to Restructuring

There are a number of obstacles to a more efficient loan workout and corporate restructuring environment in Indonesia. Notable here is the following:

Bankruptcy Law

A serious impediment to the successful completion of consensual workouts is Indonesia's weak bankruptcy law system. To improve the bargaining power of creditors relative to debtors, new bankruptcy laws were put into force in June 1998 as part of the ongoing IMF program for Indonesia. These laws allow for bankruptcy proceedings and suspension of payments, and set a strict time limit of 30 days for commercial court decisions. However, recent rejections of high-profile bankruptcy suits by both the commercial and supreme courts have cast some doubt over the interpretation of the new laws.

Business and Corporate Culture

Business and corporate culture in Indonesia is also a hindrance to debt resolution – many companies are simply unwilling to deal with creditors in an open, transparent manner. There has been a reluctance to share information – to fully disclose the true state of a company's business or its assets. In addition, the accounting behind many balance sheets is opaque. These have required many creditors to demand special investigative audits to be conducted on the debtor companies.

Political and Social Environment

Indonesia's pre-crises economic structure was marked by the concentration of major industrial assets in the hands of well-connected, politically powerful individuals or groups. While there has been progress, this structure has yet to be dismantled. Non-transparent influence and power, which is waning but still considerable, is an obstacle to equitable restructuring. An unstable political and social environment also slows down the restructuring and recovery process.

IBRA OUTSOURCES LOAN RECOVERY

Leveraging Outside Restructuring Expertise

In order to realize maximum value from the AMC loan portfolio, IBRA has developed a program to partner with external parties who have expertise in loan restructuring and management. IBRA plans to turn over the majority of its SME and commercial loan portfolio to Servicing Joint Ventures (SJVs) at BTOs that will manage and restructure the individual loans.

These SJVs will be majority-owned by strategic foreign parties (potentially including major investment banks, international commercial banks and investor groups with distressed debt experience) with minority stakes held by Indonesian BTO banks. They will service and workout IBRA's portfolio in return for a flat percentage servicing fee on aggregate portfolio assets and an incentive fee based on a percentage of recoveries.

This innovative structure will permit IBRA to:

- Gain access to a large pool of experienced credit workout officers, with experience across the region in Thailand, Korea, etc. without building a large permanent infrastructure within IBRA.
- Tap the branch networks and personnel of the local commercial banks to perform servicing and maintenance duties — without encouraging moral hazard by permitting banks to control the restructuring of their own loans.
- Let domestic banks use the restructuring portfolios as a training ground for their own up-and-coming credit officers, without taking on balance-sheet risk.

SALE OF RESTRUCTURED LOANS

Putting Performing Assets Back in the System

IBRA plans to give the BTOs the opportunity to acquire the serviced loans, potentially in return for government bonds or as an injection in lieu of further capital funding. This will be a big step towards solving the loan growth problem for the BTOs in the short run. In addition, it will help IBRA focus all of its energies on the remaining problem assets in the system, rather than on administering performing credit relationships.

Assets not returned to performing status through the SJV process will most likely be sold at auction at the end of the servicing agreement term.

Banks should also benefit from IBRA's internal restructuring of the AMC's largest corporate loans, which will be the main focus of the workout credit officers. As these loans are restructured and perform normally they too will be sold, with the main bidders expected to be domestic commercial banks. We expect IBRA to promulgate a program whereby government recap bonds may be exchanged for performing loans, thereby completing the restructuring cycle.

IBRA'S EQUITY ASSETS

Role of the AMI

The Asset Management Investment unit is generally responsible for IBRA's equity positions. Most AMI senior executives have extensive private sector experience, international educational backgrounds and broad relationships in government and industry.

During the early stages of the banking crisis, Bank Indonesia, based on the Government Guarantee Scheme, provided emergency liquidity funding (BLBI) to many Indonesian banks as described above. In return for the liquidity support, bank shareholders signed personal guarantees. The government, through IBRA, subsequently embarked on a program to recover these funds. Due to the devaluation of the rupiah, the continued economic turmoil and the massive size of the obligations, bank shareholders were unable or unwilling to settle their obligations in cash. So IBRA sought repayment in the form of equity positions in companies owned by shareholders of banks taken over by IBRA.

IBRA Holding Companies

To ensure maximum recovery of such equity positions as well as protection against shareholder misrepresentations in the negotiation process, IBRA designed an innovative holding company structure to manage the assets. Specifically, IBRA employed two general structures for the shareholder agreements: refinancing or full settlement. Refinancing structures were utilized for those shareholders where the value of the assets pledged by the shareholder were clearly insufficient to settle their liabilities. Pledged assets were placed in an IBRA controlled holding company for safekeeping before sale. Should the ultimate cash recovery from the sale of such assets fall short of the shareholders' obligation, such shareholder would still be liable to the government. The full settlement structure was utilized for those shareholders where the value of assets pledged were deemed to be sufficient.

While each separate negotiation resulted in a customized agreement, IBRA endeavored to assure consistency with regard to several critical elements: 1) comprehensive protection of IBRA through extensive representations and warranties as well as control mechanisms; 2) provision of incentives for the shareholders' to maximize value in the operating companies and thus alignment of shareholder objectives with those of IBRA; 3) positive impact on the real economy and future growth; 4) minimal job losses; and 5) continuity of critical services to the Indonesian people and key elements of the Indonesian economy.

The holding company structure was widely endorsed by independent third parties, including the key multilaterals, because of structural elements that both protected the government's investment and maximized potential cash return.

IBRA's AMI Asset Inventory

The total value of the assets obtained from the controlling shareholders of the BTOs and BBOs through the shareholder agreements (the Holdco assets) totaled Rp112 trillion. It is expected that this will increase in line with the additional assets to be obtained from the shareholder settlement process being conducted by IBRA with 38 former owners of BBKUs. In addition, IBRA will likely significantly increase its equity positions in many of these companies through loan restucturings at the AMC.

IBRA's AMI Disposal Plan

In addition to loan restructuring and recovery, the sale of AMI assets is the other critical component in funding bank recapitalization. IBRA has already executed a number of equity sales this year, including Indofood, Statomer and Indo American Ceramics. Proceeds from last year's successful rights issues of BII and Lippo Bank have also contributed significantly to the budget. IBRA may also consider disposing of its stakes in First Pasific and QAF by the end of March if necessary to make up budetary shortfalls.

Two significant pending transactions will be the sale of IBRA's stake in Astra International (30% –40%)—already undergoing due diligence with three serious bidders—and the initial public offering of Bank Central Asia. For next year's budget (April to December 2000), the AMI also plans to focus on a wide variety of sales including tire assets, agribusiness and oleochemical concerns, consumer companies, commercial and residential property and, of course, its other banks (both BTOs and its equity positions in the Recap banks). Given the improving investment climate and wide range of attractive assets, we believe the AMI is well positioned to deliver its required budget contribution.

Figure 28: Indonesian Banks
Indonesian Financial Institutions: *End 1996 Versus Today*

End 1996	Actions Taken	Current Status
7 State Banks	Merger of 4 State Banks into Bank Mandiri	4 State Banks
164 Private Banks	72 banks closed 13 banks taken over (BTO) 9 banks recapitalized	72 "A" surviving banks 20* banks in the rehabilitation process
41 Joint Venture/Foreign Banks	3 banks closed, 3 banks opened as a result of Foreign investment	41 Joint Venture/Foreign Banks
27 Regional Gov't Banks	No action to date	27 Regional Gov't Banks
239 Total Banks		**164 Total Banks**

*Two banks have both BTO and Recapitalized Bank status.
Source: Lehman Brothers estimates.

CURRENT COMPETITIVE ENVIRONMENT

As the IBRA takeover turmoil subsides, Indonesia is left with five primary classes of banks, with the rural and regional government sectors becoming increasingly irrelevant. As the overwhelming majority of banks do not have the scale to survive for long under a new, strict regime, we expect to see major consolidation eliminating most if not all of the smaller institutions.

Flight to Quality Continues

We expect that the remaining large banks will continue to increase their collective share of market as consolidation further reduces the ranks of Indonesian banks. Any further volatility or uncertainty will benefit those institutions seen as dominant and stable. In addition, the ‘A’ banks, formerly the most prudent and safe organizations, are now significantly more distressed than are the huge banks that failed, as their balance sheets have not been swept clean by IBRA and they are capital constrained.

Anemic Margins

Indonesian banks suffered from negative interest spreads for most of 1998 and 1999, although recapitalized banks are now posting positive margins. The negative NIMs were due primarily to three factors:

- Foregone interest income on NPLs, as borrowers were unable to make interest payments on loans. Category 2 to 5 loans reached 75% of all loans in March 1999.
- Banks have been unable (for those under IBRA control) or reluctant to make new loans, and have therefore kept excess funds in Central Bank papers (SBI’s), whose yield has generally been lower than that of bank deposits.
- Banks have been forced to aggressively compete for deposits by offering high interest rates in order to maintain their deposit bases.

This situation is gradually improving as the banks swap Category 5 loans for government bonds, deposit rates decline to a manageable level, and lending interest income rises with a recovery of economic growth, falling borrowing rates and debt restructuring. However, while Category 5 loans have been transferred to IBRA, Category 2 to 4 loans (special mention, substandard, and doubtful) still account for 50% of the banks' remaining loans.

Figure 29: Indonesian Banks
Interest Spreads (Average Lending Rate Minus 3-Month Deposit Rate)

Source: CEIC and Lehman Brothers

Lack of Creditworthy Corporate Borrowers

The ability of the banks to improve their spreads depends on their ability to find creditworthy borrowers. This will take time, and largely depends on how quickly corporate debt restructuring takes place. The generic strategy of most banks is to focus on lending to small businesses and consumers, similar to what is now happening in Korea. This strategy would require that banks have a large number of branches to serve these smaller clients.

Less Competition

One of the positive aspects of the financial crisis has been consolidation of the banking industry. There has been a good deal of concentration of banking assets following the mergers of the major banks. The top five banks now command 56% of all deposits.

However, while the number of banks has fallen from 239 prior to the crisis to 164 at present, this is still an excessive number given the level of economic development in Indonesia as well as the amount of banking assets. Further consolidation of the industry is therefore necessary. Indonesia’s Central Bank is aiming to have 15 major banks. To achieve this, it is encouraging the merger of Group A banks, although this is being met with resistance on the part of the banks’ owners and reluctance on the part of the government to take aggressive action.

MAJOR ACTIVE BANKS

Category A Banks

With 74 original members (later reduced to 72), this is at once the largest bank grouping and the least important factor in the current competitive landscape. With average assets of under Rp800 billion (>US$100 million), the ‘A’ banks have scant resources for expansion.

Panin Bank

The only significant bank to be classified as A was Panin Bank, which escaped disaster not so much due to more stringent lending criteria as to a low loan-to-deposit ratio. Of the top 20 banks in pre-crisis Indonesia, Panin is the only one which has remained in continuous operation throughout the crisis without government assistance. In some ways this has hurt the bank, as its category 5 loans are still on the books and NPLs represent a much more significant impediment to operations than they do at such banks as BCA and BII.

Panin is now, with the help of strategic stake-holder and joint venture partner ANZ, attempting to recast the bank as a consumer-focused institution, but has a long way to go to build its small branch system and business-oriented product base to match BCA, Bali and Danamon.

Panin remains liquid and is aggressively bidding for assets to build its new consumer portfolio. In the first major IBRA sale of banking assets, PT ANZ Panin Bank (a joint venture between ANZ and Panin) in May 1998 purchased the credit card operations, including systems, receivables and 47,000 active accounts, formerly owned by Bank Papan Sejahtera for A$7 million (US$4.5 million).

Figure 30: Indonesian Banks
Competitive Position of Major Banks (September 1999, Rupiah Trillion)

Bank	Branches	ATMs	Employees	Total Assets	Total Credits	Total Deposits	Savings / Demand Deposits	Total Equity
Mandiri	740	N/A	N/A	204.7	64.4	176.4	37.5	N/A
BNI	573	739	14,030	107.5	43.0	74.3	28.9	3.3
BCA	776	1,770	21,864	91.2	3.8	83.6	43.7	2.4
BII	259	420	8,007	40.2	11.6	26.8	9.2	2.9
BRI	N/A	N/A	N/A	37.0	33.3	45.4	23.5	N/A
Danamon	701	790	12,763	19.9	1.7	17.8	6.1	3.3
Lippo	359	255	6,832	22.5	4.6	17.4	8.4	(7.5)
Bali	265	349	3,408	8.6	3.2	8.7	3.9	(3.4)

† Data as of December, 1998.
Source: IBRA, company reports and Lehman Brothers.

Former Private Recap Banks

BII

Bank Internasional Indonesia (BII) was the country's third-largest private bank prior to the crisis. Its largest private shareholders are the Widjaja family, who control the Sinar Mas group. This is one of the largest conglomerates in Indonesia, with core business activities in financial services, pulp and paper, food and agribusiness and property development. The Widjaja family was directly involved in management, but disagreements with IBRA led to the removal of family members Indra Widjaja and Eka Tjipta in September 1999.

BII's capital adequacy ratio equaled negative 21% of risk-weighted assets under BIS standards at year-end 1998 and had fallen to as low as negative 25% in March 1999. This level of capital barely enabled the bank to qualify as a Class B bank and be eligible for government recapitalization, rather than suffer an IBRA receivership.

The Widjaja family continues to subscribe for shares offered to them and this is reflected in the proportion of BII held by the government, which is lower than that of other recapitalized banks. After BII's latest rights issue, the government holds a 57.14 percent stake in the bank, while the Widjaja family owns 27.12 percent and the public 15.74 percent.

In a recent extraordinary meeting, shareholders approved a plan to sell up to 10 percent of the government's stake in the bank to foreign investors through a direct placement.

Lippo Bank

Lippo Bank was established in 1948 by the Riady family and is one of the largest private banks in Indonesia, ranking just below BII before the crisis. The bank is effectively controlled by Lippo Life, which is in turn controlled by Lippo Securities. Like most other private conglomerate banks, Lippo Bank formerly had an extensive lending relationship with its group affiliates, such as Lippo Land. However, the bulk of these loans were repaid as a condition of the approval of the bank's recapitalization plan by the government.

Lippo Bank was the first Indonesian bank to have its recapitalization plan approved by IBRA, even though it was not the only bank to submit a proposal at such an early date. This resulted in Lippo receiving Rp4.7 trillion of the first Rp5 trillion of government funds appropriated for restructuring, causing speculation about whether the political clout of the Riadys was being brought to bear on IBRA.

While still bedeviled by asset quality problems and occasionally tripped up by predicaments that befall the bank, its fellow group members and the Riady family, Lippo has one of the best retail franchises in Indonesia. The bank operates 359 branches across 110 cities and 19 provinces and has a network of 255 ATMs. It also has an aggressive and slick marketing strategy. Although Lippo is expected to face stiff competition from other banks in the consumer market, the bank has a head start on many of its rivals because it already has an established retail presence.

In July, a tie-up between Lippo and ING Bank was announced. ING is to provide management assistance to the bank during its modernization in the next three years, and has seconded a new president director and senior staff team to run the bank. ING management have stated that the firm is not planning to take a stake in Lippo but will be paid a fixed fee plus performance related incentives.

Bank Bali

Bank Bali was established in 1954 and was a strong retail bank ranking just below Lippo before the crisis. The bank was controlled and managed by the Ramli family. During the initial IBRA classification phase, Bali was categorized as a B bank and slated for recapitalization. However, when the Ramli family declined to participate in a rights offering, IBRA decided to sell a 20% stake to UK-based Standard Chartered PLC as part of the recapitalization proceedings.

The agreement would have given Standard Chartered management control and the option to purchase Bank Bali outright after three years. IBRA would also have had the option to sell its stake in the bank to Standard Chartered after five years, providing the government with valuable downside protection. The management of Bank Bali was taken over by IBRA in July 1998 and shortly thereafter ceded to Standard Chartered. Douglas Beckett, Standard Chartered’s Head of Corporate and Institutional Banking for South East Asia was appointed to run Bank Bali and he brought with him a team of several dozen experienced bankers.

However, ongoing audits of the bank revealed that: a) Bali’s capital was significantly more negative than originally thought; and b) certain irregular payments had been made to government officials — now termed the “Bank Bali Scandal.”

In summary, Bank Bali’s owners wanted to secure the release of US$120 million in interbank funds owed to Bank Bali by banks under IBRA’s control. Those deposits were temporarily frozen. Bali urgently needed to recover the deposits as the funds would have formed part of shareholders’ contribution towards Bank Bali’s recapitalization costs and so were necessary to avert an IBRA takeover. In order to expedite the release of these funds, which were theoretically already guaranteed in full by IBRA itself, the bank arranged to pay US$72.8 million to two Golkar-linked businessmen.

There have been allegations that part of this “commission” was to be used to bankroll Habibie’s presidential bid. Independent auditors PriceWaterhouseCoopers stated in their report that they discovered “*numerous indicators of fraud, noncompliance, irregularity, misappropriation, undue preferential treatment, concealment, bribery and corruption”* in the payments made by the bank and related transactions. While the offending transactions were ultimately reversed, both the bank and government were durably tainted by scandal.

Due to climbing recap costs, the lingering effects of the scandal and a revolt by local employees that resulted in the eviction of Beckett and his team from Bank Bali headquarters, Standard Chartered cancelled the agreement and returned management control to IBRA.

Bali will now be recapitalized solely by the government as a Special BTO.

Former State Banks

Bad debts have pushed the state banks into technical insolvency, but they remain in operation because of the government’s deposit guarantee and liquidity support from the central bank. IBRA is proceeding with financial restructuring and mergers of the state banks, removing bad assets from the banks’ loan portfolios, injecting sufficient new capital for operations and consolidating the sector around a few viable lead bank groups.

Although none of the state banks would have met the criteria for recapitalization promulgated for the private banks, they were deemed so important to national development that they will be recapitalized regardless of their CAR. A measure of this importance is that seven of the 10 largest banks pre-crisis belonged to the state sector.

Despite their former status as instruments of national economic policy, the former state banks will most likely all be privatized in the next few years, due to the huge costs of recapitalization.

Bank Mandiri

The newest of Indonesia's state banks, Bank Mandiri was formed in mid-1999 by the merger of BDN, Bank Exim, Bank Bumi Daya, and BAPINDO, all themselves state owned. Mandiri is by far the largest bank in Indonesia, almost twice the size of BNI, its closest competitor. The bank intends to compete aggressively in both consumer and corporate markets. With approximately 740 branches, massive scale, and state backing, Mandiri would seem to be ideally positioned to take lending share in all markets as credit restrictions are loosened, and management has stated that they intend to meet a goal of US$1.1 billion in loan origination in FY00.

However, although Mandiri has no history of its own, the bank is still saddled with the management and systems problems of a four-way merger. In addition, the institution must deal with the legacy of a state bank sector which has never properly allocated credit or other resources, instead resorting to policy lending, cronyism, inefficiency, and outright fraud. The transition to a fully private organization will be fraught with peril. To aid management in this transition, IBRA has sought assistance from Deutsche Bank, which is consulting with Mandiri over recapitalization and merger issues.

IBRA currently plans to make an initial public offering of shares in Bank Mandiri sometime after mid-2000.

BNI

Long the largest state bank, and second only to BCA pre-crisis, BNI has perennially been considered the "blue-chip" Indonesian bank. Established in 1946, BNI was originally intended to be the Indonesian central bank, but instead functioned as the government’s lead lender to the industrial and manufacturing sectors throughout Indonesia's rapid development during the 1970s and 1980s. The growth of the bank brought BNI to Rp54 trillion in assets by 1997, with a network of more than 490 branches and relationships with Indonesia's most prestigious corporate accounts. At its peak in November 1996, the government listed BNI through an IPO, while retaining a 75% stake.

Unfortunately, policy lending reached its full flower in the late years of the Suharto regime and BNI became a repository for projects which other banks would not fund. Due to its state bank status, BNI was admitted to the recapitalization plan even though its CAR had fallen to negative 78%. Recapitalization will cause the government's stake to rise back above 99%, although the remaining shares will remain listed.

Platform Banks (Special BTOs)

Bank Central Asia (BCA)

BCA was the largest private bank in Indonesia before the crisis. It has a national branch network of more than 750 branches, second only to Bank Danamon. The bank was formerly controlled by the family of Liem Sioe Liong and his Salim Group, with substantial minority ownership by the family of former Indonesian President Suharto. At the time of the crisis, the Salim interests owned substantially all of the bank, which was never publicly traded. In addition, the family played an active management role in BCA's operations and was the primary borrower of the bank's funds. In essence, BCA acted as the corporate treasury and funding source of the Salim Group.

During the crisis, BCA's NPLs rose sharply, peaking at over 92% and triggering a loss of public confidence in the bank and ensuing deposit runs. Unable to collect on its loans, the bank resorted to special liquidity support from BI of over Rp21 trillion. Management was not able to replace these funds with deposits, and consequently BCA was taken over by the government in May 1998.

Due to its large number of depositors and widespread branch network, BCA was designated as a "platform" bank and recapitalized by IBRA despite its failure to meet the typical criteria for recapitalization. Under the agreement originally signed by the Salims in order to gain access to liquidity support, IBRA assumed ownership of over 92% of BCA, and received large stakes in other Salim holdings.

BCA has now been stripped of its bad assets and recapitalized and IBRA intends to privatize the bank during the first half of 2000. The institution remains one of the largest banks in the country, second only to the merged Mandiri entity and BNI.

Bank Danamon

Bank Danamon was formerly controlled by Usman Admadjaja and his Danamon Group. It was the largest listed bank in Indonesia before the crisis. The bank expanded rapidly between 1995 and 1997, doubling its branch network to more than 700 with branches and ATMs in all 27 Indonesian provinces. After the onset of the Asian economic crisis, Danamon, weakened by bad lending, experienced a sustained liquidity crisis and came to rely increasingly on Bank Indonesia liquidity support.

Along with Bank PDFCI, BCA and Bank Tiara Asia, Danamon was taken over by the government in May 1998 due to its excessive use of and inability to repay BI's liquidity support. Due to the bank's size and large branch network, the government elected to fashion Danamon into a core "platform" bank by removing bad assets and recapitalizing the bank with government bonds. Danamon would then be used as a lead bank into which IBRA could merge smaller, non-viable institutions.

The recapitalization of Danamon has been completed, with IBRA injecting Rp29 trillion in government bonds. Impaired assets were taken from the bank and are now managed by PT Bentala Kartika Abadi, one of five holding companies set up by IBRA to hold and manage acquired assets. At the end of 1999, Bank Risjad Salim, formerly controlled by Salim Group head Liem Sioe Liong, was merged into the bank. IBRA expects to merge eight other institutions into the bank prior to listing the entity: Bank Duta; Bank Tiara Asia; Bank Nusa Nasional; Bank Tamara; Bank Rama; Bank Jaya International; Bank PDFCI; and Bank Pos Nusantara. The resulting institution will be the fourth-largest bank in Indonesia, with assets of more than Rp44 trillion.

PROSPECTS ARE FUNDAMENTALLY ATTRACTIVE

Indonesia faces years of struggle to completely rebuild its financial system and there still are a number of risks facing the system. However, Indonesia is still fundamentally a fast-growing emerging market. As the economy resumes its growth, the banking industry will likely be able to find credit-worthy borrowers and the magnitude of the problem could gradually diminish. Korea, Malaysia and Thailand all experienced severe banking crises during the 1990s and have managed to recover strongly.

Moreover, we believe that Indonesia's sweeping and credible reforms, both within the banking sector and in the economy and political structure as a whole, have positioned the country to recover lost ground more quickly than its peers. As a leveraged point of entry into the Indonesian economy, we expect that the banking sector will represent an attractive opportunity as growth accelerates.

Finally, Indonesia's demographics will probably give banks a powerful incentive to tap the retail market. The threshold where a mass population begins to become "bankable" is generally reached when GDP per capita equals US$1,000. Indonesia had just reached this level pre-crisis, before a combination of devaluation and a fall in nominal GDP pushed per capita GDP down to the US$680 level (as of year-end 1998). As both GDP and the rupiah recover, Indonesia is once again approaching this key point of inflection.

The Untapped Retail Sector

There are tremendous opportunities for banks to lend to the retail customer in Indonesia. Until now, the retail customer has been viewed merely as a source of deposits to fund the ambitions of the banks' owners. Now, however, the retail lending market appears quite attractive, as it should offer the banks loan diversification and relatively low risk. It is likely that most banks will focus on this market in order to rebuild their loan books.

With a population of more than 200 million, there should be excellent potential in the mortgage loan market. Even under conservative assumptions of just 1 million mortgages at Rp160 million (US$20,000) per mortgage, the mortgage loan market would be equivalent to Rp160 trillion, or 67% of the current loans outstanding.

Using Technology to Earn Fees

Based on our discussions with the management of various banks, it has become increasingly apparent that most back-office systems (MIS) are extremely antiquated, many of which rely on manual controls and are not online. The vast majority of Indonesian banks could benefit from improved IT. Indonesian banks. We believe that banks will increasingly derive more income from offering technological services such as electronic transfers, smart cards and online credit card transactions.

Survivors Take All

One of the positive aspects of the crisis for the surviving banks is that the level of competition has been greatly reduced. Bank Mandiri has a 26.7% share of deposits, Bank Central Asia has 12.6% and Bank Negara Indonesia has 10.1%. This level of concentration is similar to that in Thailand, Malaysia and Korea. We believe it implies that the major Indonesian banks should be able to generate comparable spreads and ROE.

Consolidation Raises the Bar

Even after the bank closures and rationalizations already orchestrated by IBRA, we believe that consolidation of the sector has barely begun. With government entities making no secret of their desire for fewer, larger banks, we expect to see minimum capital requirements rise sharply in the next few years, similar to the path taken by the Philippines. This, along with an initially low loan growth environment, will provoke more strategic mergers, with the market eventually making room for 10-15 large banks and a like number of niche players.

Foreign Competition

Foreign banks are in Indonesia to stay. While most banks were just gaining a foothold when the crisis hit, and many almost completely curtailed their lending activities, they have nevertheless gained substantial deposit market share even while paying sharply lower rates. As these banks have long serviced Indonesia's wealthy from offshore and have a substantial advantage in providing foreign currency loans to Indonesia's remaining prosperous corporations, foreign banks will soon be in a position to compete for most large corporate credit relationships. We expect that the next step for these banks will be to acquire domestic institutions in order to gain the required scale to tap the consumer market.

Commercial Bank Loans Outstanding Very Low

Owing to the purchase of bad debts by IBRA, the amount of loans left in the commercial banking industry is a very low 25% of GDP. This figure could easily double or quadruple without becoming excessive by world standards. Thus, the prospects for growth in the long-term are excellent for the surviving Indonesian banks.

Once the economy recovers and corporate debt is restructured, the banking industry is likely to source restructured corporate loans from IBRA. This would help the banks earn higher yields on their assets as they swap bonds for loans.

Organic Loan Growth Will be a Central Issue

For Indonesian banks to generate consistent profitability and growth in return on equity, they must generate sustained organic (that is to say, newly-originated) loan growth, rather than relying on acquisitions from the IBRA portfolio or other banks. Converting the headroom that we see in Indonesia's low loan/GDP level into profitable loan growth will be the single most significant challenge facing the Indonesian banking sector as a whole in the next three to five years.

ECONOMIC RECOVERY AHEAD

Supporting our presumed recovery of the banking industry is a likely improvement in the Indonesian economy. While the economy still has to come to terms with financial sector problems, corporate insolvency and political uncertainty, better prospects are nevertheless beginning to emerge. The turnaround reflects a combination of expansionary fiscal and monetary policy, which have helped stabilize domestic demand, and favorable external conditions that have allowed the economy to sustain sizeable current-account surpluses.

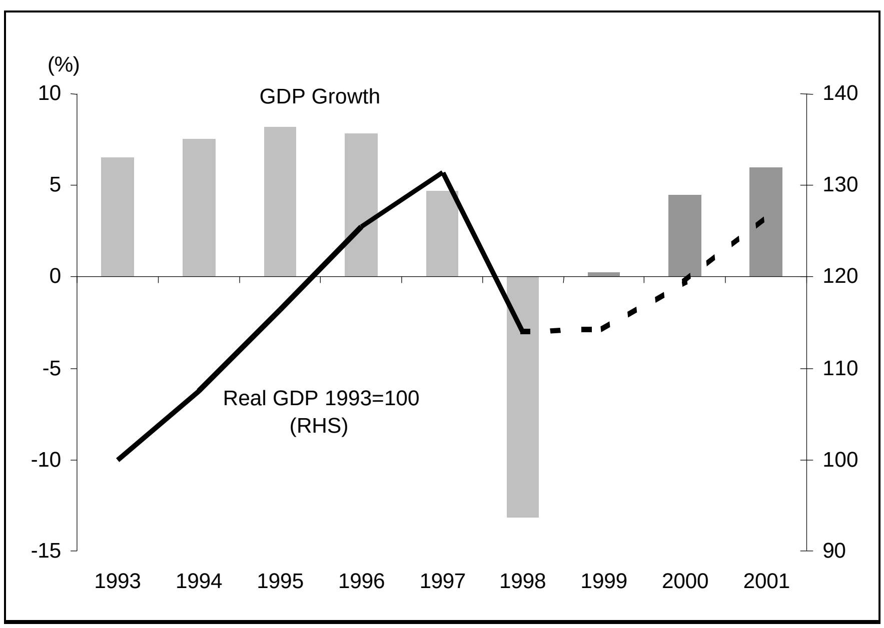
GDP Growth Expected to Accelerate

1999 was a year of stabilization for the Indonesian economy. GDP has now recorded three consecutive quarters of positive growth, at an average rate of 1.5% quarter on quarter. If Indonesia simply manages to continue to register export gains and domestic stabilization, the economy is likely to achieve growth of 4.5% in 2000 rising to 6.0% in 2001.

Fiscal Policy Supports Domestic Demand

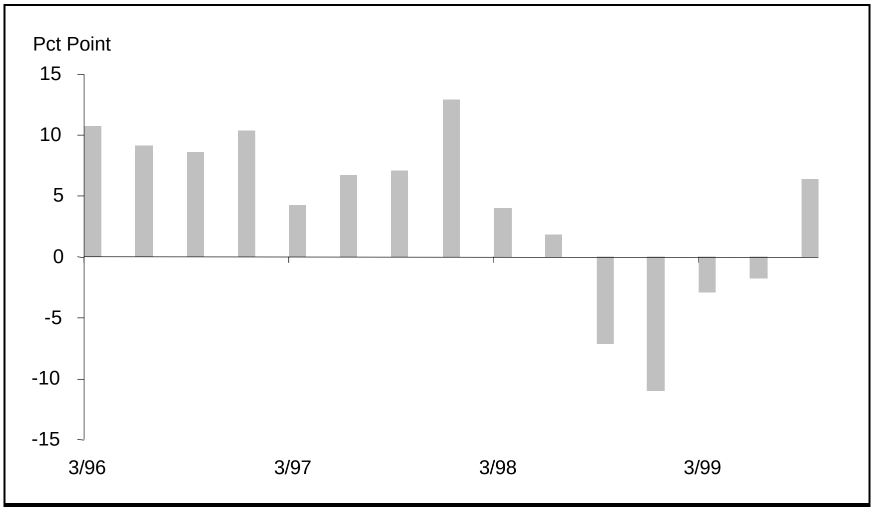
With the private sector largely paralyzed, government fiscal stimulus has been central in bringing about a recovery. Despite early fiscal errors, when fiscal policy was tightened in response to balance of payments concerns, fiscal policy has been progressively loosened in the past two years. The last IMF letter of intent envisaged a fiscal deficit of 5.8% of GDP for 1999, with much of this earmarked to implement a social safety net. Although fiscal stimulus has been slow to develop due to delays in finalizing spending programs, the effects are now becoming more pronounced, with public consumption rising by 16.0% year on year in 3Q99. This fiscal stimulus will be maintained this year.

Figure 31: Indonesian Banks
Actual and Projected Real GDP Growth in Indonesia



Source: Bank Indonesia and Lehman Brothers.

Figure 32: Indonesian Banks
Public Consumption: ***Percentage Point Contribution to Growth***

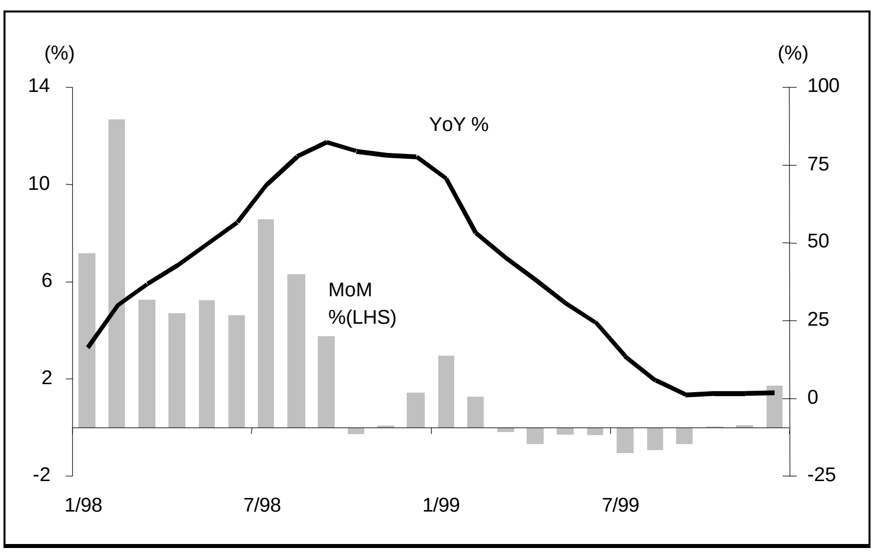


Source: Bank Indonesia.

Lower Inflation and Interest Rates

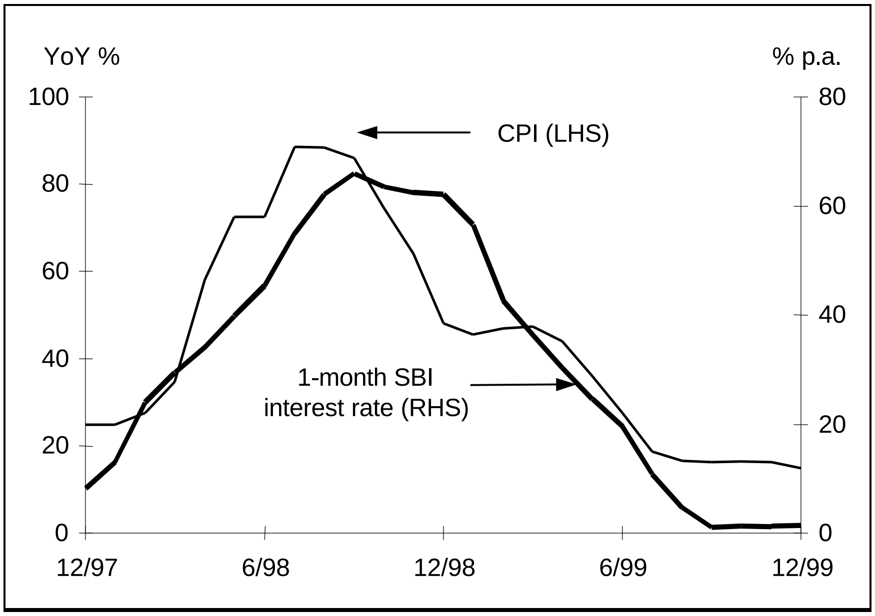
One of Indonesia's major achievements has been the successful stabilization of the inflation rate. Indonesia's rate of inflation was more than 80% at the peak of the crisis. However, the authorities managed to reign in money supply growth and the currency stabilized, resulting in a steady decline in the rate of inflation — from 70% year on year in January 1999 to 1.7% year on year by December 1999. Interest rates have generally followed suit, with the closely watched 1-month SBI auction rate declining from a high of 70.8% in July 1998, to 11.9% at the end of 1999. While rates must fall further to help sustain the recovery, the reduction in interest obligations has been a positive relief to the corporate sector.

Figure 33: Indonesian Banks
Consumer Prices



Source: Bank Indonesia.

Figure 34: Indonesian Banks
Inflation and Interest Rates



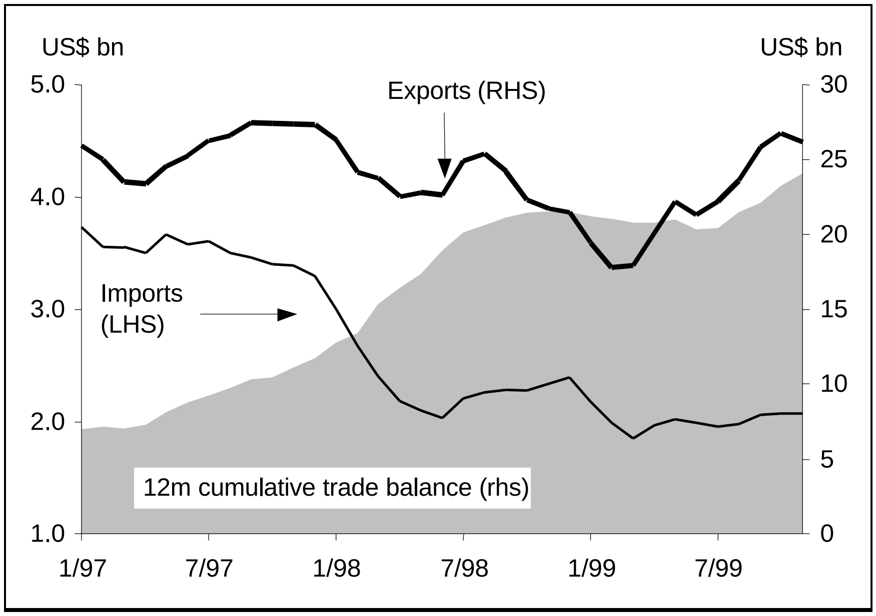
Source: CEIC.

Improving Trade Performance

Indonesia is also benefiting from a sharp turnaround in its external accounts. As with other countries in the region, the turnaround initially reflected a collapse in import demand, rather than a pickup in export growth, which suffered from the lack of trade finance. However, as financial constraints have eased, Indonesia's exporters have been increasingly able to take advantage of the significant boost to their competitive position from the large depreciation of the real exchange rate, which is still more than 30% below its pre-crisis level. Export revenue has picked up accordingly and is now around pre-crisis levels.

The increase also reflects the recovery of the region's economies, which account for around a third Indonesia's exports. Added to this, as a significant oil producer, Indonesia is also reaping the windfall gains associated with the global surge in oil prices. Oil and gas exports have risen by around 60% in the past year. The improvement in trade account has helped generally stabilize the current account, which has allowed the government to rebuild its holdings of foreign reserves.

Figure 35: Indonesian Banks
Trade Balance (US$ Billion)



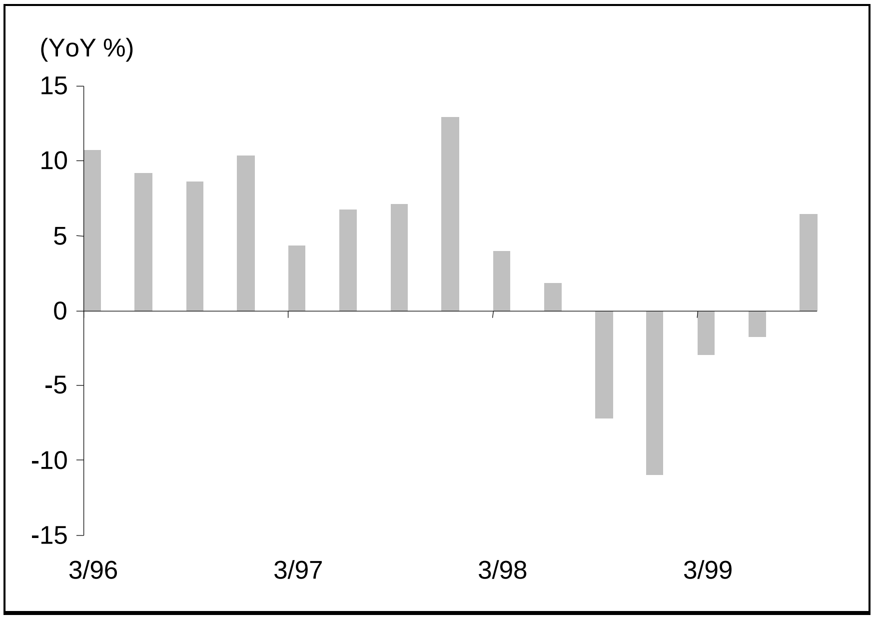
Source: Bank Indonesia.

Stronger Consumer Demand

Private spending is now slowly improving. Consumption has been the first autonomous element of demand to recover, with the consumer sector now showing clear signs of stabilizing. Private consumption rose by a solid 6.4% year on year in 3Q99, its strongest growth in almost two years and only 1.2% below its pre-crisis level. The recovery in domestic sales reflects the general improvement in household incomes, employment levels and confidence.

Consumption should continue its modest recovery in the year ahead. Indeed, partial indicators suggest this momentum has been sustained in 4Q99. Domestic sales of motor vehicles have continued to grow strongly in 4Q99, rising by 254% year on year in November. Higher tourist arrivals are also an important factor underpinning a stabilization in retail sales.

Figure 36: Indonesian Banks
Household Consumption (Year on Year %)



Source: Bank Indonesia.

Investment to Stop Detracting From Growth

Offsetting the modest recovery in consumption has been another lackluster year for investment. As the expenditure component most reliant on borrowed funds, investment was hardest hit by the collapse of the banking sector and the sharp rise in interest rates. Gross fixed capital formation declined by more than half of its pre-crisis level, as access to new funding ground to a halt.

Significant excess capacity has been left by the fall in growth below its potential, limiting the contribution to growth from investment. Investment has generally been the last element of demand to come on line in all the crisis-effected countries. Overall, while the outlook for new investment remains limited this year, the worst has now passed, with investment expected to at least stop detracting from growth in the coming year.

Political Stability is Crucial but Achievable

For the past two years Indonesia has been characterized by intense political unrest, including violent protest and the toppling of the Suharto regime. However, the worst is now over with the appointment of the country's first democratically elected president, Abdurrahman Wahid, in October 1999. Wahid is uniquely positioned as an acceptable compromise choice which offers the country its most realistic chance of cohesion and direction in the post-Suharto era. He is an avowed anti-corruption campaigner and a supporter of reformist economic policies. His greatest challenge is confronting the delicate issue of regional unrest.

Figure 37: Indonesian Banks
Classifying Banks by Capital

No.	(Rp Billion)	Category	CAR (%)	Resolution (12/98)	Total Assets (12/98)	Total Loans (12/98)	Total Deposits (12/98)	Branches (12/98)	Employees (12/98)
1	Bank Aken	C	-10180	Closed	327	197	221	53	1,270
2	Bank Sahid Gajah Perkasa	C	-95.0	Closed	558	460	217	10	352
3	Bank Putra Surya Perkasa	C	-92.5	Closed	2,017	1,423	891	40	304
4	Bank Namura Internusa	C	-77.8	Closed	356	294	213	6	128
5	Bank Dana Asia	C	-76.5	Closed	896	841	198	20	380
6	Bank Budi Internasional	C	-75.9	Closed	88	33	67	4	90
7	Bank Yakin Makmur	C	-69.0	Closed	7,412	6,711	588	9	261
8	Bank Lautan Berlian	C	-65.2	Closed	628	101	495	14	254
9	Bank Danahutama	C	-62.4	Closed	156	128	14	8	183
10	Bank Orient	C	-62.3	Closed	154	82	94	6	50
11	Bank Papan Sejahtera	C	-56.4	Closed	1,281	758	184	12	448
12	Bank Pesona Kridayana	C	-55.8	Closed	1,968	1,328	659	24	1,374
13	Bank Tata	C	-55.4	Closed	874	454	661	21	285
14	Bank Intan	C	-53.3	Closed	358	297	41	11	415
15	Bank Asia Pacific	C	-40.4	Closed	4,319	925	2,960	43	1,394
16	Sewu Internasional Bank	C	-34.1	Closed	381	194	95	14	171
17	Bank Hastin Internasional	C	-27.2	Closed	1,222	882	1,068	42	793
18	Bank Alfa	B	-23.1	Closed	870	574	677	14	139
19	Bank Metropolitan Raya	B	-10.9	Closed	322	243	304	12	304
20	Bank Ciputra	B	-22.1	Closed	285	179	259	15	170
21	Bank Central Dagang	B	-21.5	Closed	2,259	1,069	595	53	742
22	Bank Arta Panduarta	B	-21.7	Closed	1,008	535	655	22	795
23	Bank Kharisma	B	-23.4	Closed	376	192	346	14	360
24	Bank Bahari	B	-15.8	Closed	1,213	723	1,017	19	627
25	Bank Dewa Rutji	B	-25.0	Closed	1,138	979	51	5	340
26	Bank Dagang dan Industri	B	-11.3	Closed	413	203	37	7	214
27	Bank Dharmala	B	-24.9	Closed	2,117	1,768	1,826	35	820
28	Bank Indotrade	B	-24.6	Closed	165	74	151	2	52
29	Bank Ficorinvest	B	-24.0	Closed	1,648	1,405	213	5	142
30	Bank Uppindo	B	-24.6	Closed	1,566	1,580	26	3	221
31	Bank Bepede Indonesia	B	-16.2	Closed	73	41	10	1	30
32	Bank Indonesia Raya	B	-25.0	Closed	6,175	3,064	2,216	51	1,031
33	Bank Mashill Utama	B	-15.2	Closed	1,830	1,126	2,053	42	609
34	Bank Bumi Raya Utama	B	-16.1	Closed	192	138	144	5	115
35	Bank Umum Servitia	B	-21.6	Closed	4,131	2,533	2,830	47	1,035
36	Bank Baja Internasional	B	-25.0	Closed	336	254	261	10	291
37	Bank Sanho	B	-10.6	Closed	305	76	276	8	183
38	Bank Sinho	B	-23.9	Closed	58	31	56	6	91
					(Jun-99)	**(Jun-99)**	**(Jun-99)**		
39	Bank Duta	B	-15.6	Take Over	3,623	5,269	6,126	83	2,773
40	Bank Nusa Nasional	B	-24.6	Take Over	2,887	3,459	8,174	80	2,215
41	Bank Risjad Salim Internasional	B	-20.7	Take Over	2,958	1,374	3,308	74	182
42	Bank Tamara	B	-23.9	Take Over	1,586	1,057	4,915	80	2,379
43	Bank Pos Nusantara	B	-21.0	Take Over	287	604	663	51	865
44	Bank Jaya Internasional	B	-17.2	Take Over	935	942	1,594	40	938
45	Bank Rama	B	-24.6	Take Over	1,021	1,035	1,304	29	962
46	Bank Lippo	B	-16.1	Recap	19,233	15,820	18,067	355	6,729
47	Bank Internasional Indonesia	B	-15.9	Recap	42,338	35,351	33,036	222	6,133
48	Bank Arta Media	B	-9.3	Recap	660	478	597	19	349
49	Bank Bali	B	-8.2	Take Over	9,680	8,413	12,042	265	3,408
50	Bank Bukopin	B	-17.2	Recap	7,938	7,501	7,661	102	1,664
51	Bank Niaga	B	-17.4	Take Over	8,458	12,079	15,300	75	2,828
52	Bank Universal	B	-21.8	Recap	9,920	9,529	8,625	68	1,959
53	Bank Prima Express	B	-15.6	Recap	1,536	1,316	1,363	30	1,192
54	Bank Patriot	B	-23.1	Recap	190	90	168	10	226
55	Bank Royal Indonesia	A	147.6	Survives	44	40	31		
56	Bank Metro Express	A	80.9	Survives	291	268	197		
57	Bank Harfa	A	53.7	Survives	117	106	49		
58	Bank Purba Danarta	A	48.8	Survives	46	41	31		
59	Bank Index Selindo	A	45.3	Survives	299	274	270		
60	Bank Kesejahteraan Ekonomi	A	42.0	Survives	188	186	117		

Continued on Next Page

Figure 37: Indonesian Banks
Classifying Banks by Capital (Continued)

No.	(Rp Billion)	Category	CAR (%)	Resolution (12/98)	Total Assets (12/98)	Total Loans (12/98)	Total Deposits (12/98)	Branches (12/98)	Employees (12/98)
61	Bank Artos Indonesia	A	38.3	Survives	97	85	73		
62	Bank Danpac	A	34.5	Survives	232	208	167		
63	Bank Bumi Artha	A	27.7	Survives	538	426	435		
64	Bank Arta Pratama	A	27.4	Survives	n.a.	n.a.	n.a.		
65	Bank Halim Indonesia	A	24.7	Survives	200	176	133		
66	Bank Nusantara Parahyangan	A	21.8	Survives	568	447	503		
67	Bank Swadesi	A	21.6	Survives	n.a.	n.a.	n.a.		
68	Bank Mega	A	20.0	Survives	1,827	1,586	1,057		
69	Bank Pikko	A	19.1	Survives	835	684	668		
70	Bank Bintang Manunggal	A	17.7	Survives	95	92	53		
71	Bank Bumiputera	A	17.4	Survives	841	798	367		
72	Bank Jasa Jakarta	A	17.0	Survives	470	439	388		
73	Bank Liman Internasional	A	16.8	Survives	120	106	86		
74	Bank Yudha Bhakti	A	16.6	Survives	353	323	256		
75	Bank Anglomas Internasional	A	15.7	Survives	n.a.	n.a.	n.a.		
76	Bank Asiatic	A	15.6	Survives	75	63	54		
77	Bank Mestika Darma	A	15.1	Survives	847	803	688		
78	Bank Bisnis Internasional	A	14.5	Survives	82	60	56		
79	Bank Buana Indonesia	A	13.7	Survives	8,088	7,703	7,356		
80	Bank Alfindo Sejahtera	A	13.0	Survives	59	58	47		
81	Bank Shinta Indonesia	A	12.9	Survives	246	256	183		
82	Bank Muamalat	A	10.1	Survives	607	438	493		
83	Bank Prasidha Utama	A	10.1	Survives	566	386	482		
84	Utama International Bank	A	9.3	Survives	269	228	210		
85	Bank Jasa Artha	A	9.2	Survives	129	94	99		
86	Bank Victoria Internasional	A	9.1	Survives	347	333	174		
87	Bank Mitraniaga	A	8.9	Survives	68	59	46		
88	Bank Artha Niaga Kencana	A	8.9	Survives	372	311	296		
89	Bank Indo Monex	A	8.4	Survives	255	234	210		
90	Bank Prima Master	A	8.4	Survives	101	90	82		
91	Bank Tugu	A	8.1	Survives	128	129	121		
92	Bank Windu Kencana	A	7.9	Survives	365	284	301		
93	Bank Maspion Indonesia	A	7.8	Survives	563	489	463		
94	Bank Fama Internasional	A	7.6	Survives	117	99	98		
95	Bank Mayapada	A	7.2	Survives	872	438	710		
96	Bank Haga	A	7.0	Survives	1,135	971	1,044		
97	Bank Haga Kita	A	7.0	Survives	308	258	238		
98	Bank Himpunan Saudara 1906	A	6.9	Survives	277	228	238		
99	Bank Centratama Nasional	A	6.3	Survives	111	79	79		
100	Bank Ekonomi Raharja	A	5.8	Survives	1,473	1,291	1,283		
101	Bank CIC	A	5.6	Survives	2,133	1,467	1,952		
102	Bank Antar Daerah	A	5.6	Survives	479	392	430		
103	Bank Kesawan	A	5.5	Survives	352	314	299		
104	Bank Dipo Internasional	A	5.4	Survives	183	126	153		
105	Bank Ina Perdana	A	5.4	Survives	76	53	69		
106	Bank Mayora	A	5.4	Survives	120	129	98		
107	Bank Agroniaga	A	5.3	Survives	n.a.	n.a.	n.a.		
108	Bank Susila Bakti	A	5.3	Survives	269	285	241		
109	Bank Sinar Harapan Bali	A	5.2	Survives	53	34	37		
110	Bank Akita	A	5.2	Survives	184	122	169		
111	Bank Dagang Bali	A	5.0	Survives	777	670	708		
112	Bank Global Internasional	A	5.0	Survives	531	387	440		
113	Bank Tabungan Pensiunan Nas'l.	A	5.0	Survives	1,738	1,294	1,601		
114	Bank Swansarindo	A	4.9	Survives	43	20	37		
115	Bank Multiartha Sentosa	A	4.9	Survives	n.a.	n.a.	n.a.		
116	Bank Ratu	A	4.4	Survives	149	107	128		
117	Bank Swaguna	A	4.4	Survives	9	8	8		
118	Unibank	A	4.4	Survives	1,519	1,521	1,718		
119	Bank Panin	A	4.4	Survives	9,846	8,855	7,903		
120	Bank NISP	A	4.3	Survives	3,174	2,751	2,704		
121	Bank Harmoni Internasional	A	4.2	Survives	76	68	58		
122	Bank Eksekutif Internasional	A	4.1	Survives	849	718	779		
123	Bank Harda Internasional	A	4.0	Survives	96	87	72		
124	Bank Artha Graha	A	4.0	Survives	4,340	2,930	3,030		
125	Bank Putera Multikarsa	A	4.0	Taken Over	2,919	1,845	2,516		
126	Bank IFI	A	4.0	Survives	676	667	647		
127	Bank Seri Partha	A	4.0	Survives	309	196	262		

Source: Info Bank and Lehman Brothers.

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FINANCIAL SERVICES

Banks

U.S.

Diane Glossman, CFA	212 526-8893
Michael Plodwick	212 526-2611
Robert S. Patten	212 526-4008
Kenneth M. Usdin	212 526-2828
Inna Blyakher	212 526-1994
Andrew Marquardt	212 526-2539

Europe

Sheila Garrard	(44) 171 260-2785
Robert Law	(44) 171 260-2715
Ian McEwen	(44) 171 260-2961
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Barbara Pires	(44) 171 256-4681

Asia

Robert Zielinski	(81) 3 5571-7463
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Paul Sheehan	(852) 2869-3001
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