Assurance Services

Financial Reporting Landscape – What's on the Horizon

4 October 2007

PricewaterhouseCoopers

Outline of Presentation

- Newly issued accounting standards – Indonesian GAAP
- In the pipeline
- IFRS update
- Plan to fully adopt IAS/IFRS
- Revised Limited Liability Corporation Law (“UU Perseroan Terbatas”)

Accounting Standards effective in 2008 - 2009

Effective in 2008

- PSAK 13 (Revised 2007) – Investment Property
- PSAK 16 (Revised 2007) – Fixed Assets
- PSAK 30 (Revised 2007) – Leases
- PSAK Syari'ah 101 – 106

Effective in 2009

- PSAK 50 (Revised 2006) - Financial Instruments : Presentation and Disclosures
- PSAK 55 (Revised 2006) – Financial Instruments: Recognition and Measurement

PSAK 16 (revised 2007) – Fixed Assets

Components of cost

Includes:

- Purchase price
- Costs of dismantling where the entity has an obligation
- Directly attributable cost
  - Employee benefits arising from construction or acquisition
  - Cost of site preparation
  - Initial delivery and handling costs
  - Installation and assembly costs
  - Costs of testing the asset
  - Professional fees

Depreciation – general rules

- Component approach
- Depreciation charge is recognised in P&L
- Depreciation is allocated on systematic basis
- Residual value and useful life reviewed at least at each financial year-end
- Depreciation begins when asset is available for use
- Depreciation method reviewed at least at each financial year-end

Revaluation

- Alternative for measuring fixed assets
- Revalued amount represents fair value of the asset
- Revalued amount should be presented deducted from accumulated depreciation and accumulated impairment losses
- FV of land and buildings: usually by professional appraisal
- FV of plant and equipment: usually market value according to appraisal
- If no market value, income or depreciated replacement cost approach is to be used

Exchange Involving Non-monetary Assets

- Cost of asset acquired --> FV of asset received

  Exceptions:

  - Transaction has no commercial substance
  - FV of asset received and FV of asset given up not reliably measurable

- If asset acquired is not measured at FV --> cost is carrying amount of asset given up

Transitional Rules

- Initial measurement of fixed assets obtained in an exchange -> prospective
- Special rules on previously revalued asset:
  - Previously revalued, cost model -> deemed cost
  - Previously revalued, still has Revaluation Surplus -> reclassify the Surplus into Retained Earnings
- Change in accounting policies from cost model to fair value model: prospective (general rule, not only on transition)
- Effective date: 1 January 2008

PSAK 13 (revised 2007) – Investment Property

Definition

- Property (land or a building - or part of a building - or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both
  - May also include property interest held by a lessee under an operating lease if meeting certain criteria

Measurement and Disclosures

Initial measurement – at cost

Subsequent measurement

- Fair value
  - presumption that Fair Value can be determined
  - gains/losses to Income Statement **OR**
- Cost less depreciation (fair values disclosed)

Disclosures – significantly added

Transitional rules

Previous revaluations of investment property:

- Reclass revaluation surplus into retained earnings

Fair value model

- For assets or rights in an operating lease qualifying as an investment property -> adjust beginning retained earnings

Cost model

- PSAK 25 applies
- Initial measurement of property obtained in an exchange of assets -> prospective basis
- Previous revalued amount and cost model -> deemed cost

Effective date – 1 January 2008

PSAK 30 (revised 2007) - Leases

Definition

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period

Finance lease

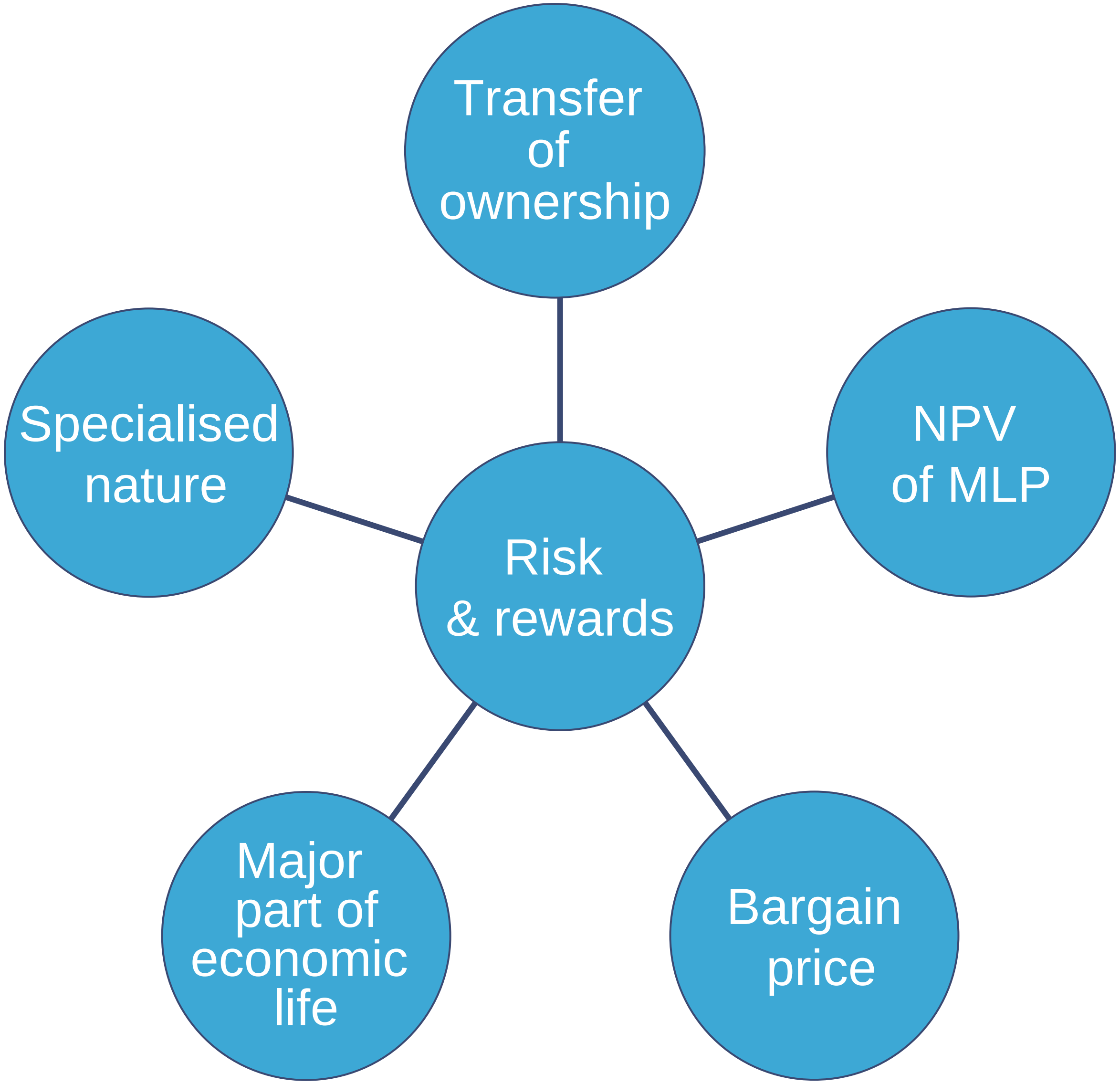
Operating lease

Finance vs. Operating lease

Finance Lease	Operating Lease
A lease is a finance lease if it **transfers** substantially all the risks and rewards incident to ownership	A lease is an operating lease if it **does not transfer** substantially all the risks and rewards incident to ownership

Substance over Form

Finance lease



Lease accounting summary

Lease type	Balance Sheet	Income Statement
Finance- Lessee	Asset Lease obligation Accumulated depreciation Reduction in lease obligation	Finance charge Depreciation expenses
Finance – Lessor	Receivable Reduction in receivable	Finance income
Operating – Lessee	Off balance sheet	Rental expense
Operating – Lessor	Asset Accumulated depreciation	Rental income Depreciation expense

Sale and leaseback

Sale of asset by the vendor followed by leasing of the same asset to the vendor

Finance Lease

Sales proceeds	100
Carrying amount	(80)
	20

Defer and amortise over lease term

Operating Lease

Sales price = FV

→ *Recognise any profit or loss immediately*

Sales price < FV

→ *Recognise profit or loss immediately*

→ *If loss compensated by lower future lease payments at below market price defer and amortise it in proportion to the lease payments*

Sales price > FV

→ *Defer and amortise excess over period of asset use*

Transitional provision

- Recommended: retrospectively
- If prospective
  - balance from existing lease transactions deemed correct
  - disclose impact on comparability of financial statements
- Effective date: 1 January 2008

PSAK 50 and 55 (revised 2006) on Financial Instruments

Definition

Financial instruments:

- Financial asset of one entity
- Financial liability or equity instrument of another entity

Initial recognition

- Party to contractual provisions
- All financial assets and liabilities at cost, i.e. fair value
- Include transaction costs

Overview – Rule based approach!

- **Financial assets**
  - FV thru PL
  - Loans & Recs.
  - HTM
  - AFS
- **Financial liabilities**
  - FV thru PL
  - Other FL
- **Derivatives**
  - Trading
  - Hedge
    - Fair Value
    - Cash flow
    - Net Investment

Held to maturity – tainting

- **HTM portfolio is tainted if** management sold or reclassified as AFS, before maturity, during the current or two preceding years more than an insignificant amount of HTM assets (Vs total HTM category)

There are three exceptions to the rule:

- The sale is close to maturity;
- Collected substantially all of original principal through schedule payments;
- Isolated event beyond entity’s control may not invoke tainting.

Financial assets – subsequent measurement

	Financial assets			
	Held to maturity	Loans & Receivables	Fair Value thru PL	Available for sale
Subsequent measurement	Amortised cost / cost		Fair value	
Changes in carrying amount	Income statement			Equity

Additional consideration for AFS financial assets

Impairment charge to Income Statement immediately

Amortised cost interest to Income Statement

Monetary AFS assets – FX differences to Income Statement

Deferred tax implication

Financial liabilities – subsequent measurement

	Financial liabilities	
	Other financial liabilities	Fair Value thru PL
Subsequent measurement	Amortised cost / cost	Fair value
Changes in carrying amount	Income statement	

Determining fair value

Active Market: Quoted Price

- Asset – bid price
- Liability – asked price
- Offsetting position – mid price
- Blockage factors should not be considered
- Value based on most advantageous market

No Active Market: Valuation Technique

- Recent arm's length transactions
- Current fair value of similar instrument
- Commonly used valuation technique

No Active Market: Equity Instruments

Under very rare circumstance

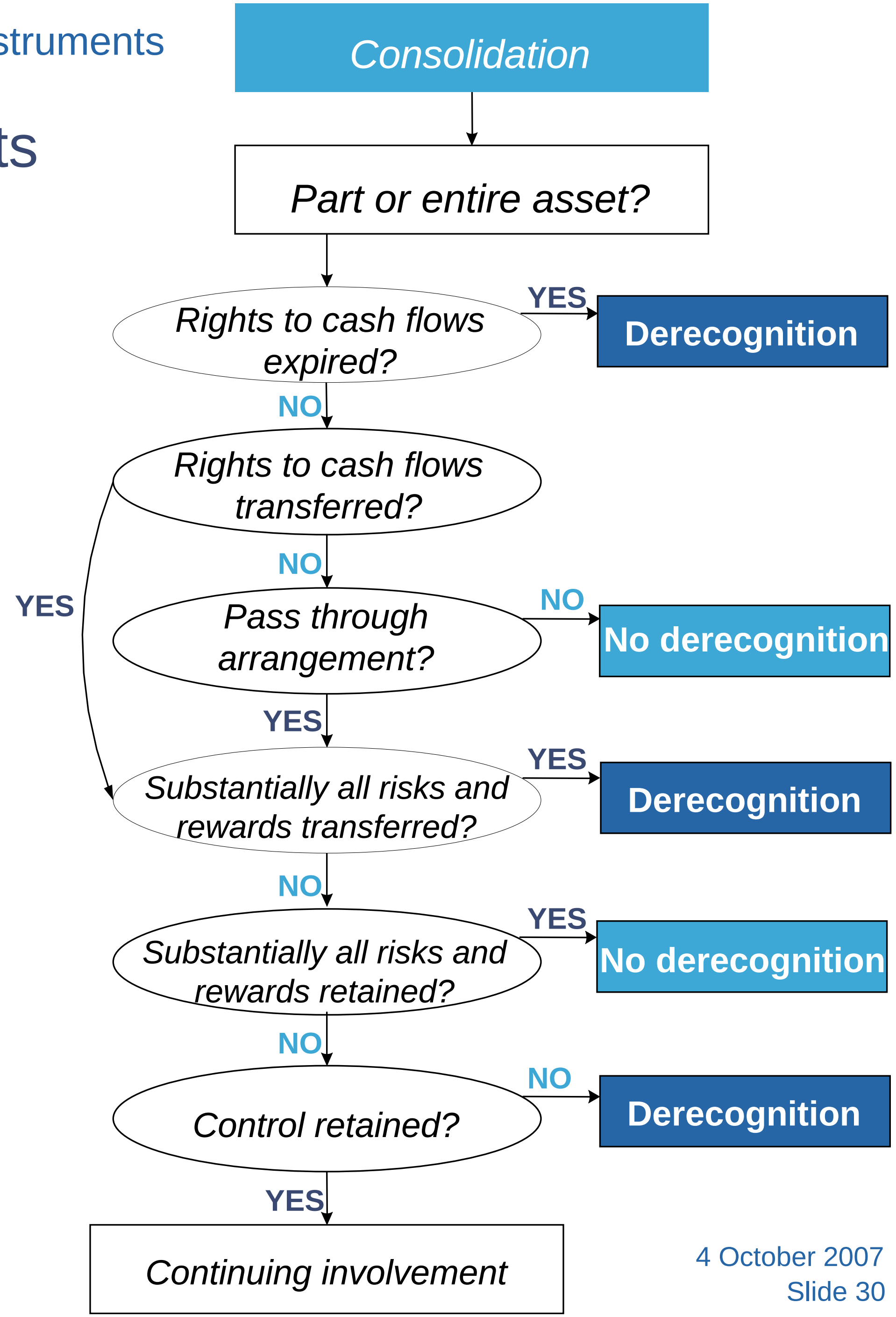
- Significant variability in range of reasonable fair value estimates
- Carry at cost

Impairment of financial assets

- Step 1 – Objective evidence of impairment
- Step 2 – Calculate recoverable amount/fair value
- Step 3 – Record impairment in profit & loss

De-recognition of financial assets

Strict rule for taking the financial assets off the balance sheet



De-recognition – financial liabilities

De-recognition when the liability is extinguished:

- Discharged e.g. repaid the liability
- Cancelled e.g. legally released
- Expired e.g. option passed its maturity date
- Restructured with substantially different terms

What is derivative?

Standalone or Embedded

- value changes in response to an underlying
- requires no or little initial net investment
- settled at a future date

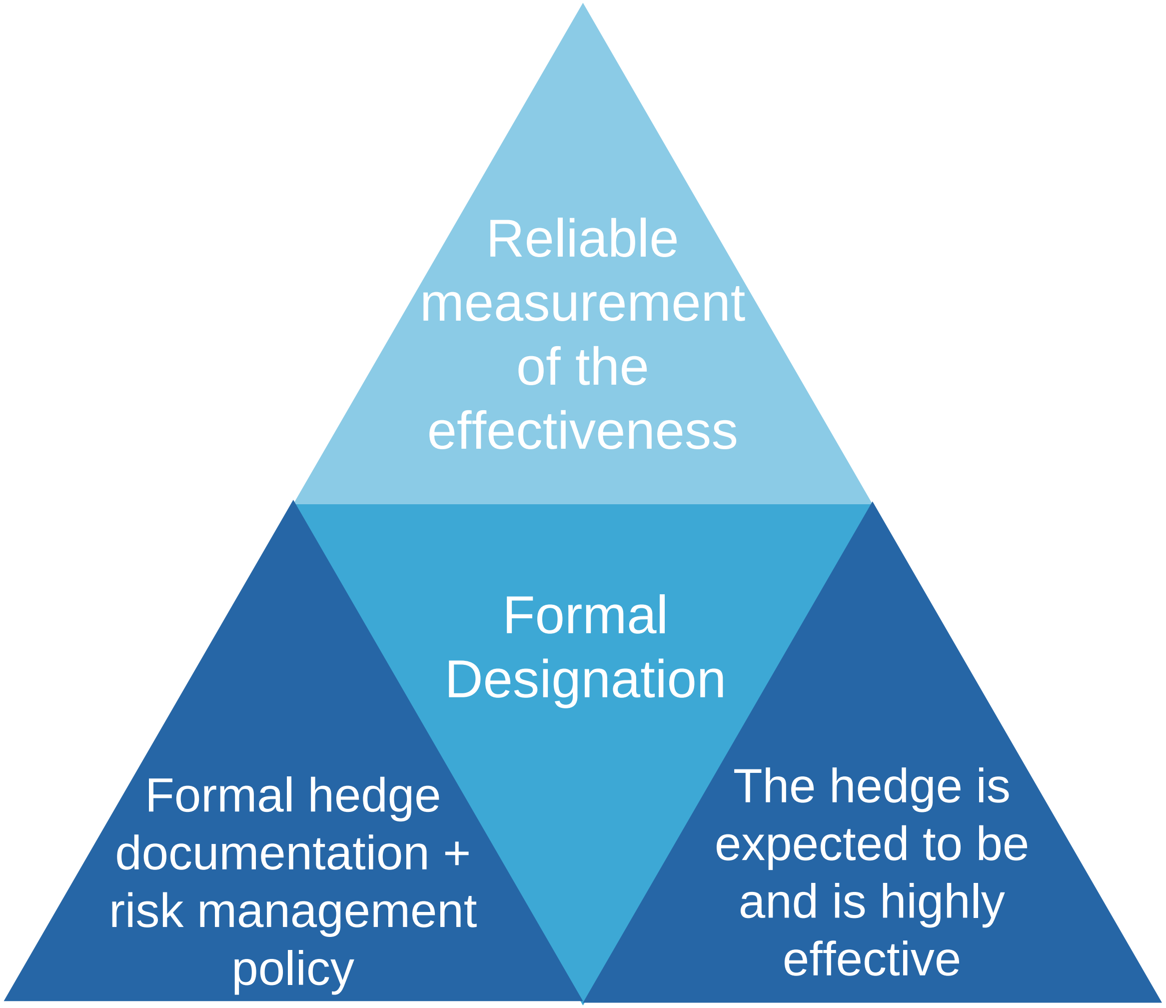
What are embedded derivatives?

Hybrid instrument =

The combination of a "Host contract" and an "Embedded derivative"

Entities should not be able to avoid recognition and measurement merely by embedding a derivative in a non-derivative financial instrument or other contract

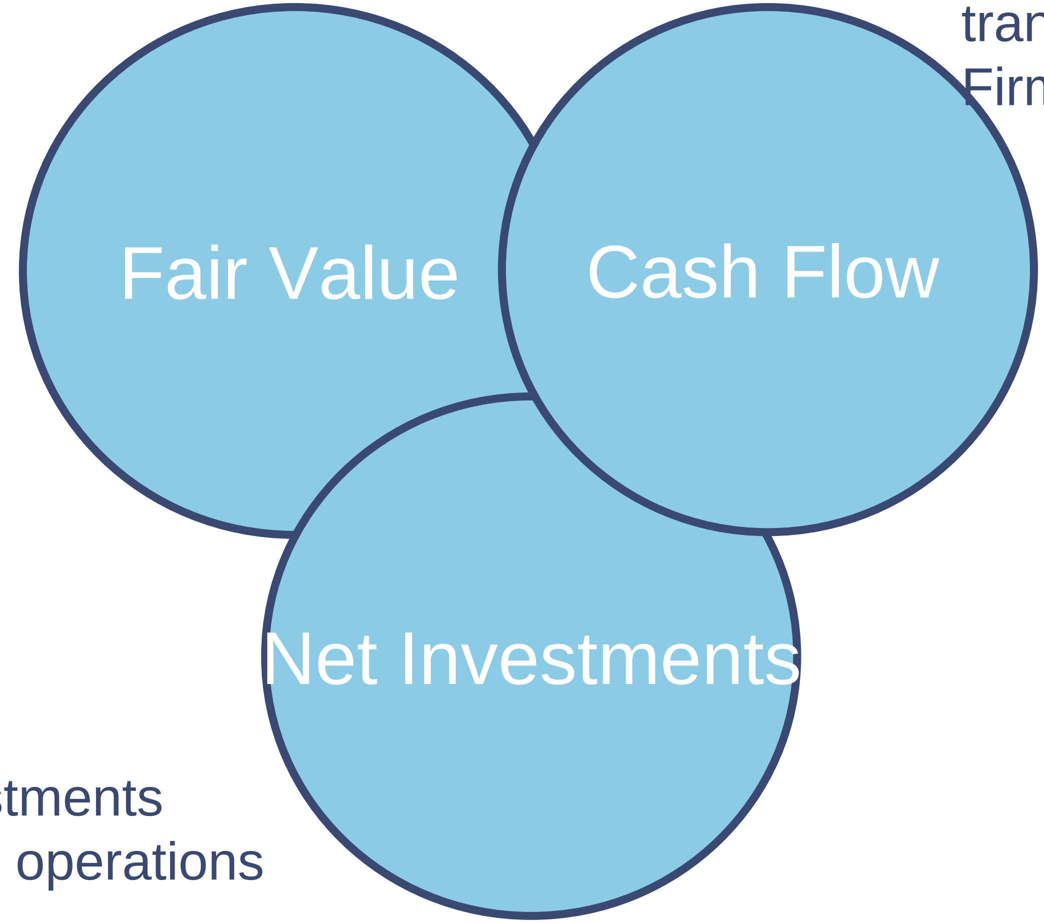
Hedge accounting → allows matching of income statement effect



Different types of hedges

Variable rate
assets/liabilities
Highly probable
forecasted
transactions
Firm commitments

Fixed rate
assets/liabilities
Assets/liabilities
in foreign
currencies
Firm
commitments



Net investments
in foreign operations

Disclosures

A lot to disclose!

Transitional rules – PSAK 50 (revised 2006)

- When PSAK 50 (Revised) is first applied, an entity
  - Should present the impact of adjusting the accounting treatment applied to financial instruments from prior period by using the requirements of PSAK 55 (Revised). The impact of the adjustment is recognised in profit and loss or equity of current period
- Standard applicable on a prospective basis for annual periods beginning on or after 1 January 2009.
- Earlier application is recommended (but should be together with PSAK 55 Revised).

Transitional rules – PSAK 55 (revised 2006)

- When PSAK 55 (Revised) is first applied, an entity
  - Can adjust previous accounting treatment applied to prior financial statements by using this new standard. The impact of the adjustment is recognised in profit and loss or equity of current period
  - Does not comply with par. 8 provision relating to the restriction of classifying financial asset as held-to-maturity investment if in current period or within the last 2 years, the entity has sold or reclassified the held-to-maturity investment in more than insignificant amount before maturity date and the tainting rule as stipulated in par. 53
- Standard applicable on a prospective basis for annual periods beginning on or after 1 January 2009.
- If an entity applies this Standard before 1 January 2009, it shall disclose that fact.

PSAK Syari'ah

- Conceptual Framework for the Preparation and Presentation of Syari'ah Financial Statements
- PSAK 101: Syari'ah Financial Statements Presentation
- PSAK 102: Murabahah Accounting
- PSAK 103: Salam Accounting
- PSAK 104: Istisna' Accounting
- PSAK 105: Mudharabah Accounting
- PSAK 106: Musyarakah Accounting

……………….applicable in 2008

Indonesian GAAP - in the pipeline

- Accounting standards for Small Medium Enterprises
- Adoption of IFRS 7 – Financial Instruments: Disclosures
- Revision of PSAK 1 - Presentation of Financial Statements
- Revision of PSAK 22 - Business Combinations
- Adoption of IFRS 5 - Non-current assets held for sale and discontinued operations
- Revision of PSAK 12 – Reporting on interests in jointly controlled operations and assets

IASB Work Plan (as at 30 September 2007)

Exposure Draft

4th quarter of 2007	1st quarter of 2008	2nd quarter of 2008	2nd semester of 2008
Conceptual Framework Phase A: Objectives and qualitative characteristics	Income tax		
Annual improvements			
Earnings per share: treasury stock method (IAS 33)			

IASB Work Plan (as at 30 September 2007)

IFRS

4th quarter of 2007	1st quarter of 2008	2nd quarter of 2008	2nd semester of 2008
Share-based payment: vesting conditions and cancellations (IFRS 2)	Financial instruments: puttable instruments (IAS 32)	Annual improvements	Joint ventures
First time adoption: cost of investment in subsidiary (IFRS 1)	Related party disclosures (IAS 24)		Small and medium-sized entities
			Earnings per share: treasury stock method (IAS 33)

IAS/IFRS

- IFRS 8 – Operating Segments (issued in November 2006)
- IAS 23 – Borrowing Cost (Revised March 2007)
- IAS 1 – Presentation of Financial Statements (Revised September 2007)
- IFRS 3 – Business Combinations (part II)

IFRIC

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions (issued in November 2006)
- IFRIC 12 – Service Concession Arrangements (issued in November 2006)
- IFRIC 13 – Customer Loyalty Programmes (issued in June 2007)
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (issued in July 2007)

Full adoption of IFRS in Indonesia

- Lately most PSAKs are already based on IFRS
- Plan to eliminate the difference by 2008 – achievable?
- New target: 2012
- Full IFRS for certain types of companies only?

New Company Law (no. 40/2007)

- Issued on 16 August 2007
- Significant changes:
  - E-registration is being formalized
  - Interim Dividend
  - Division * subject to further Government Regulation
  - CSR (Corporate Social Responsibility)

Other changes

- Mandatory audits for companies with assets and / or revenue of at least IDR 50 billion
- The BoD should prepare an annual workplan (including budgets)
- Deadline for preparing the annual report has been extended to 6 months
- Annual report includes report on the supervisory function of the BoC
- Shares bought back by the company -> max. 3 years
- Minimum amount of authorized capital increased to IDR 50 million
  - At least 25% of the authorized capital have been paid-in

Other changes – Cont’d

- Provide statutory reserve only when the company has a positive retained earnings
- Dividends:
  - Only distributed when the company has a positive retained earnings
  - If not collected by the shareholders within a certain period -> can be claimed by the company

Assurance Services

Regulatory Update

4 October 2007

PRICEWATERHOUSECOOPERS

Outline of Presentation

- Newly issued Bank Indonesia (BI) Regulations
- In the pipeline

Bank Indonesia Regulation No. 9/6/PBI/2007 – Second Amendment to Regulation of Bank Indonesia Regulation No. 7/2/PBI/2005 on Assessment of Qualities of Assets of Commercial Banks

- Uniformity classification of earning assets
  - facilities > Rp 10 billion
  - facilities Rp 500 million – Rp 10 billion (50 largest debtors)
  - financing by syndicated banks
- Different collectibility may be applied for debtors who have a different project and clear distinction of cashflow for each project
- Difference in assessing the quality of placement in commercial banks and rural banks (BPR)

Bank Indonesia Regulation No. 9/6/PBI/2007 – Second Amendment to Regulation of Bank Indonesia Regulation No. 7/2/PBI/2005 on Assessment of Qualities of Assets of Commercial Banks (continued)

- Assessment of qualities may only be based on punctuality of principal and interest payment on:
  - Loans < Rp 500 million
  - Loans to SME debtors for amounts
    - Rp 500 million - Rp 20 billion (i.e. “strong” predicate on risk control system)
    - Rp 500 million - Rp 10 billion (i.e. “acceptable” predicate on risk control system)
- Not applicable for loans and other fund exposures > Rp 500 million which represents restructured loans and fund exposures to bank’s 50 largest debtors

Bank Indonesia Regulation No. 9/6/PBI/2007 – Second Amendment to Regulation of Bank Indonesia Regulation No. 7/2/PBI/2005 on Assessment of Qualities of Assets of Commercial Banks (continued)

- Collateral that may be considered as a deduction of provision calculation, i.e. machinery which is an integral part of land and mortgaged
- Effective date 2 April 2007

Surat Edaran Bank Indonesia No. 9/12/DPbS – Pelaksanaan Good Corporate Governance bagi Bank Umum

- Definition of independent commissioner, independent party and president director
- Former member of directors or executive officer can not be an:
  - Independent commissioner if performed a supervision function < 1 year
  - Independent party if performed a supervision function < 6 months
- Changes in the status from Commissioner into Independent Commissioner must be approved by Bank Indonesia
- Self assessment on GCG implementation
- GCG implementation report
- Effective date 30 May 2007

Bank Indonesia Regulation No. 9/8/PBI/2007 – Recruitment of Expatriates and Transfer of Knowledge in the Banking Sector

- Banks controlled by foreigner for 25% or more can recruit expatriate commissioner, director, executive official and specialist or consultant
- Banks controlled by foreigner for less than 25% only can recruit expatriates specialist or consultant
- Foreign branch or representative office can only recruit expatriates head of branch or representative office, specialist or consultant
- Banks are not allowed to hire expatriates in compliance and human resources area

Bank Indonesia Regulation No. 9/8/PBI/2007 – Recruitment of Expatriates and Transfer of Knowledge in the Banking Sector (continued)

- Banks must make sure the transfer knowledge from expatriates happen
- Bank shall submit report on the plan and realisation of recruitment of expatriates to Bank Indonesia once a year
- Effective date 13 June 2007

Bank Indonesia Regulations - Sharia

- BI Regulation No. 9/9/PBI/2007 – The Amendment to Bank Indonesia Regulation No. 8/21/PBI/2006 on Evaluation of the Quality of Assets of Commercial Banks Undertaking Business Unit on the Basis of Sharia Principles
- SE BI No. 9/14/DPbS – CAR for Bank Perkreditan Rakyat (BPR) Working in Sharia Principle
- BI Regulation No. 9/1/PBI/2007 – Evaluation System of Solvency Rate of Sharia Based Commercial Banks

Bank Indonesia Regulation No. 8/6/PBI/2006 – Implementation of Consolidated Risk Management for Banks Performing Control on Subsidiary Companies

Issued on 30 January 2006

- Applies to banks which own or have control of subsidiaries, except for control arising due to temporary equity participation for loan restructuring purposes
- Bank should have systems to identify, measure and monitor business risk of the subsidiaries using accounting and risk management information system
- Each bank should assess consolidated CAR, risk weighted assets, LLL, provision for consolidated earning assets, except for the insurance business subsidiaries (done separately)
- For the purpose of consolidated financial reporting and CAR, banks must evaluate asset quality and loan loss provision for subsidiary's assets *at least* according to Bank Indonesia Regulation

Bank Indonesia Regulation No. 8/6/PBI/2006 – Implementation of Consolidated Risk Management for Banks Performing Control on Subsidiary Companies (continued)

- When banks implement consolidated risk management, its investment in subsidiary will not be calculated against LLL
- Effective date:
  - Management of subsidiaries companies: 31 December 2006
  - Submitting each subsidiaries' financial statements, consolidated financial statements, consolidated CAR and consolidated LLL : 31 December 2007 position report
  - Assess and reporting to Bank Indonesia re: soundness and risk profile of the Bank (individually and on a consolidated basis) : 31 December 2008 position report
- **Implication**: What if bank's subsidiaries' loan loss provisions are not calculated according to BI regulations??

PBI *Draft Concept* regarding the Risk Management Implementation in using Information Technology by Commercial Banks

- BI allows outsourcing transaction processing using IT service provider and outsourcing of Data Centre and Disaster Recovery Centre, either on-shore or off-shore, providing it meets certain requirements
- Transition period: 12 months after the issuance of this regulation

PBI *Draft Concept* regarding the Risk Management Implementation in using Information Technology by Commercial Banks (continued)

Things that needs to be done, inter alia:

- Set up the IT Steering Committee
- Establish IT policy and procedures and implement an effective IT risk management
- Internal audit shall audit the IT implementation regularly and if there is a restriction on capacity, this can be done by the external auditors
- Obtain prior approval from Bank Indonesia for outsourcing transactions processing, Data Center and Disaster Recovery Center
- Obtain prior approval from Bank Indonesia for transactional Electronic Banking prior to issuance of such products
- Reporting requirements to Bank Indonesia

Bank Indonesia Regulation No. 8/5/PBI/2006 – Banking Mediator

- The Banking Mediator function performed by Bank Indonesia will end by the end of December 2007
- There are two alternatives for Banking Mediator, which can be performed by:
    - Other party (a non profit oriented organisation)
    - Bank Indonesia
- What is the preferred alternative?

Tax Services

Taxation – keeping up with an ever changing tax environment

4 October 2007

PricewaterhouseCoopers

Outline of Presentation

- Potential tax implications of accounting changes
- Tax disputes – sharing of development
- Tax Law Amendments - General Provisions and Tax Procedures
- Draft Income Tax and VAT Law
- Mergers in banking sector

Potential tax implications of accounting changes

- Leasing
- Derivative

Tax dispute - Banking

- Derivative transactions

  Whether foreign exchange gain/loss related to derivative transactions is taxable/deductible for corporate tax purposes

- Trade bills provision

  Whether or not trade bills are considered as “credit” in tax provision calculations and therefore if the provision is deductible

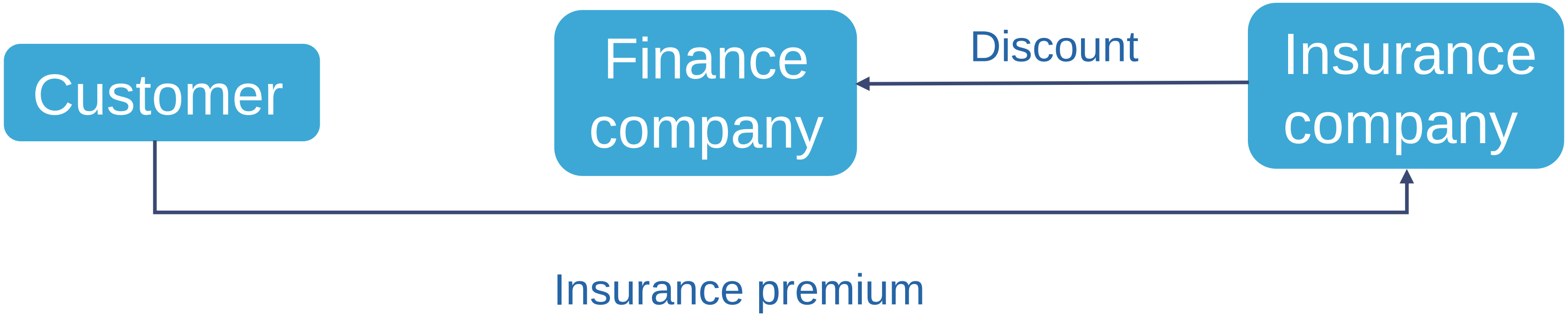
- “Benchmarking” on banking
- Purchase of loan – no VAT

Tax dispute - Insurance

- Expenses related to final-taxed income
  - Income tax law: expenses related to final-taxed income [delete] are non- deductible
  - Common practice: non-deductible interest expenses only if there are loan andtime deposits at the same time
  - Method used: percentage vs. actual allocation
- VAT on management fee on unit-linked products
  - Tax office view: The management fee on unit-linked products is of a similar nature to the investment management fee in asset management companies, i.e. VATable services

Tax dispute - Multifinance

- VAT on insurance discounts to finance companies
    - Nature: discount vs. commission

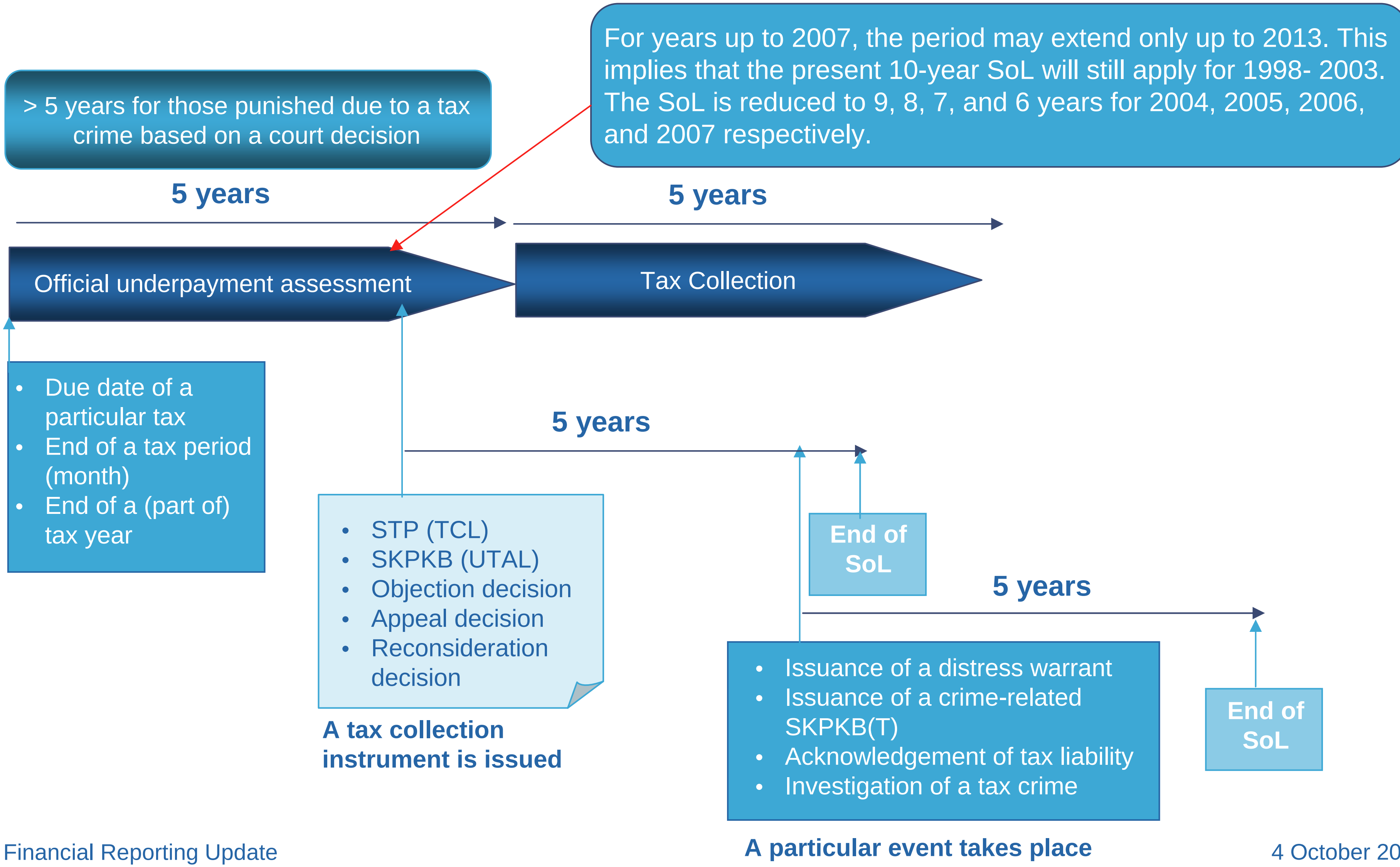


Statue of Limitation

For years up to 2007, the underpaid tax assessments can only be issued no later than 2013. The present 10-year SoL will still be applicable for 1998-2003. The next four years will have SoL ranging from 6 to 9 years.

Statute of limitation (SoL) - 13, 15, 22, II

SoL may stand like a piece of rubber. It may shrink or expand in response to the incurrence of certain events…..



Tax Audit

The two basic requirements are DGT's notice of tax audit findings and the closing conference. Ex-officio calculation of tax due may be applied if the taxpayer fails to provide the required documents within a month from the request date. The DGT may ask for the estimated costs of the living data.

Tax Audit 29, 30, 31, 36

MoF Regulations should cover:

- Re-audit
- Length of an audit
- Notice of tax audit findings
- Closing conference

Disclosure during a tax audit - 8(3-4)

- Voluntary disclosure of incorrect information implying a tax crime in a tax audit but before an investigation, calls for a settlement of underpaid tax plus an administrative penalty of 150% (reduced from 200% under the present legislation).

- During a tax audit, before issuance of tax assessments, taxpayers can voluntarily disclose in a separate report to the DGT incorrect data/info filled out into the tax returns (which may result in a favourable or unfavourable situation for either the state or the taxpayer).

- Validity of the disclosed data/info must be determined by way of a tax audit.

Tax audit 29A

“Facility” for public companies

An audit must be performed on any taxpayers claiming tax overpayments in their CITRs or who are selected based on a risk analysis.

With respect to public companies who attach audited F/S to their CITRs, the DGT may perform office audits instead of field audits and may ask for data from the public accountant.

Underpaid/overpaid tax assessments

New data as a basis to issue an additional underpaid tax assessment must be followed up with a tax audit. This process may not necessarily result in an additional underpaid tax assessment. It may also result in an additional overpaid tax assessment.

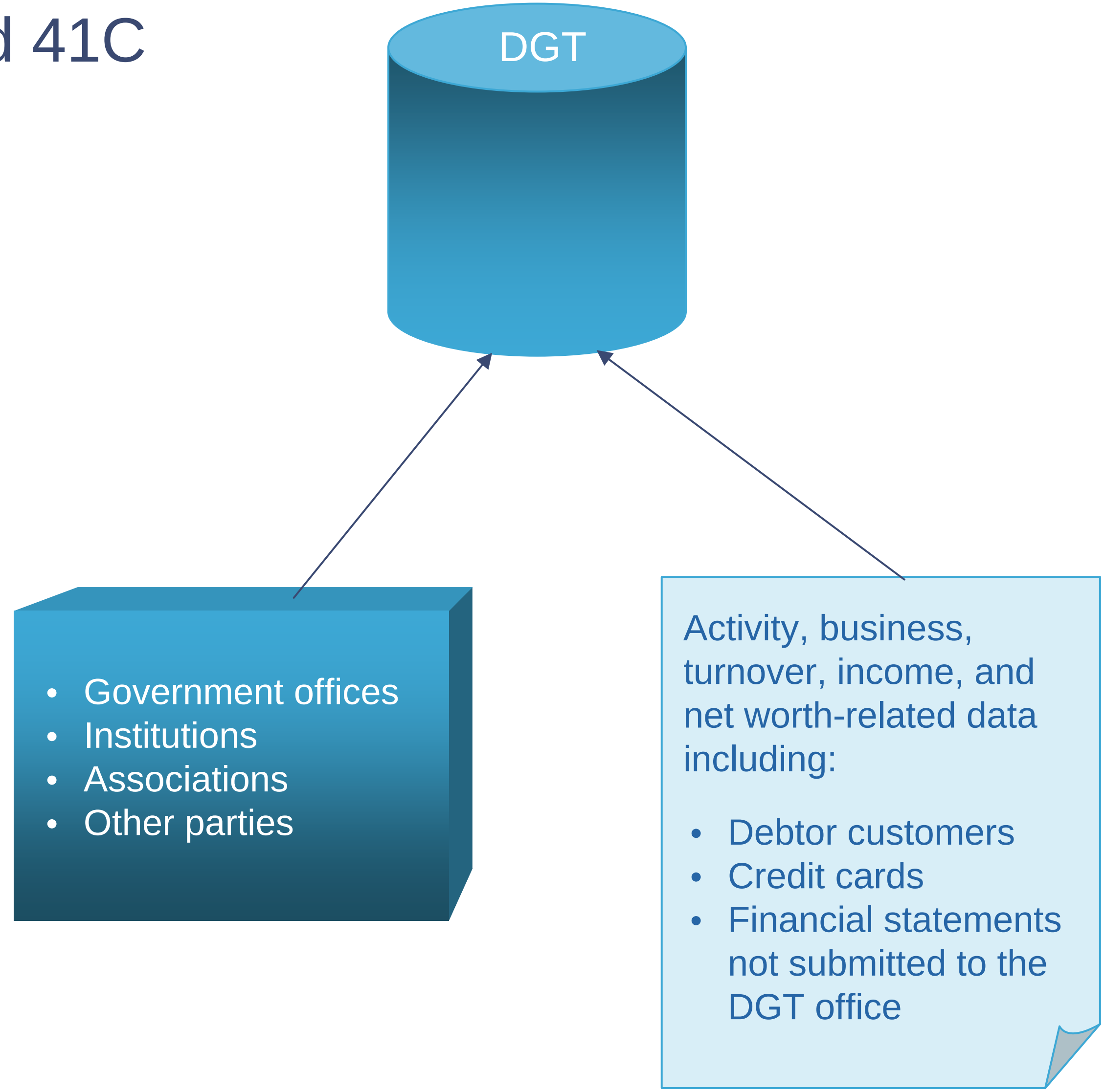
Dispute resolutions

Pay as much as you have agreed in the closing conference. An administrative penalty of 50% of the unpaid portion is due if the objection is rejected but this is not the case in the scenario where an appeal is being filed. However, if the appeal is rejected the penalty will jump to 100% of the underpaid portion. In these respects, the interest penalty (2%/month) will no longer be applicable.

Data bank - 35A, ~~35B~~, and 41C

~~National Data Bank~~

- Certain parties are required to provide the DGT with tax-related data.
- Failure to provide this information or causing others to fail to provide the required data could cause:
  - Monetary penalty of up to Rp 0.8 – 1 billion
  - Imprisonment of up to 10 months – 1 year
- Many issues to be elaborated in a GR



Draft Tax Law

- Income Tax Law
  - Corporate tax rate
  - Mutual funds
- VAT Law
  - Financial assets: VATable goods or not?
  - Export of services: No VAT
  - VAT on transfer of assets in mergers

Recent developments in approval for tax book value mergers

- The Director General of Taxes (DGT) has recently rejected a number of tax book value mergers for non-bank taxpayers.
- Reason for rejection: no liquidation process on the dissolving entities.
- Definition of a merger based on MoF Decree No. 422/KMK.04/1998:

"A business merger is a merger of two business bodies or more by way of maintaining the establishment of one of the business bodies and <u>liquidating</u> the other business body which has merged."

Tax implications if tax book value merger is not granted for bank mergers

- Transfer of assets in a merger must be done based on their market value.

- Potential issues: what market value will be used by the DGT?

- Market value on an asset by asset basis, or
- Market value of the bank (based on recent acquisition costs of a number of banks).

Assurance Services

is your bank ready?*

Outlook for the Indonesian Banking Sector

Jakarta, 4 October 2007

*connectedthinking

PRICEWATERHOUSECOOPERS

Outline Presentation

Introduction

- Recent M&A transactions in Indonesia
- Indonesian banking developments
- Key driver of industry growth

Bank Indonesia’s perspectives on M&A

Banking industry in 2050

Lessons learnt in M&A transactions

Questions and answer session

2006 – 2007 M&A transactions

Target	Acquirer	Stake Sold	Deal Value (USD mn)
Arta Niaga Kencana	Commonwealth Bank	83.0%	28.96
BTPN	TPG	71.6%	N/A
Haga and Hagakita	Rabobank	95.0%	88.0
Halim	ICBC	90.0%	N/A
Indomonex	State Bank of India	76.0%	N/A
Jasa Arta	BRI	100.0%	6.77
Nusantara Parahyangan	ACOM & BoTM – UFJ	75.4%	N/A
Shinta	Sinar Mas Multiartha	21.0%	1.9
Swadesi	Bank of India	76.0%	7.87

Source: Bloomberg, Factive, Mergermarket

Banking industry development

1988
Deregulation

Deregulation in banking sector increased the number of banks (200) and total assets

1997
Crisis

Economic crisis forced many imprudent banks into bankruptcy

1997-2004
Restructuring

Bank restructuring led to Government having a large portion of shares in banking sector

> 2004
Privatisation & Consolidation

Privatisation of nationalised banks led to foreign acquisitions. The sector remains overbanked and API was introduced

Some M&A transactions following the introduction of API: to date API has limited effect on industry consolidation

Year end	1997	2004	2005	2006	2007
No. of Banks	222	133	131	130	?

Some major outcomes include:

- 23 banks closed
- 7 banks nationalised
- 40 banks sent to IBRA supervision

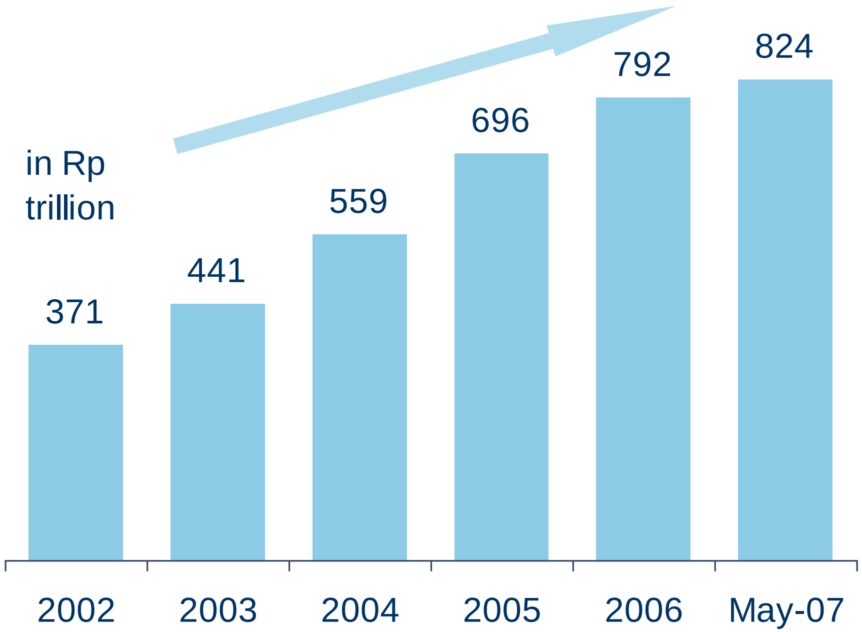
- Merger of Bank Artha Graha and Bank Interpacific to become "Bank Artha Graha International"
- BI liquidated Bank Global

Merger of Bank UFJ Indonesia and Bank of Tokyo Mitsubishi to become the Bank of Tokyo-Mitsubishi UFJ

Some M&A deals are underway

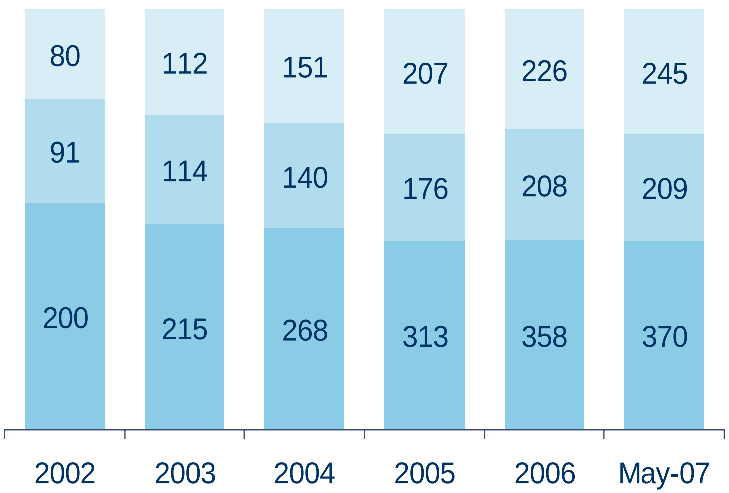
Key driver of industry growth: commercial bank loans have been growing at CAGR 17%, driven by growth in consumer lending at CAGR 25%

Commercial bank loans



Source: Bank Indonesia

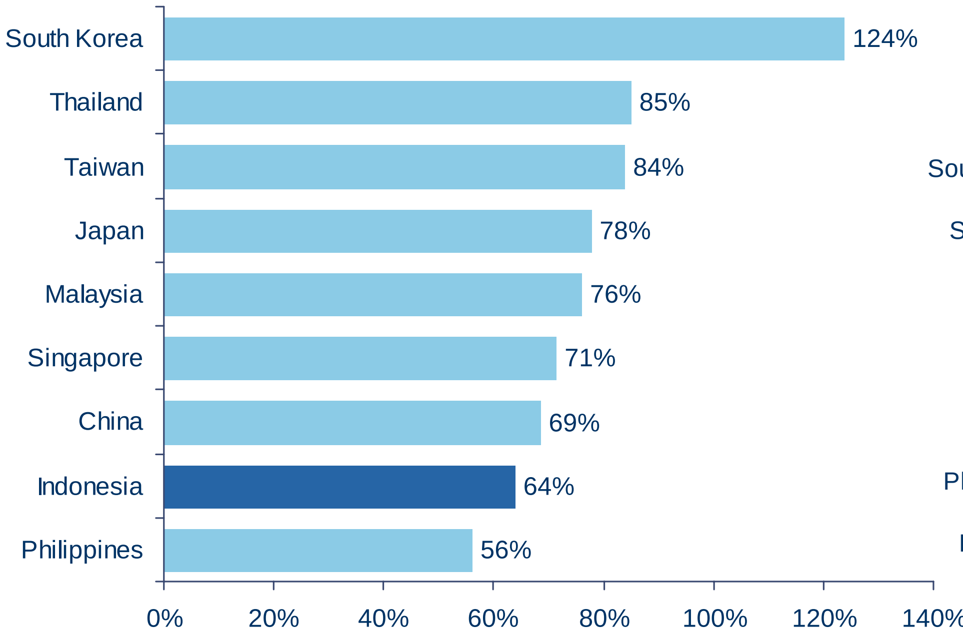
Loan distribution based on types



Note: *) SME definition: loans < Rp 5 billion, consisting of investment and working capital loans (excluding consumption loans)
Source: Bank Indonesia

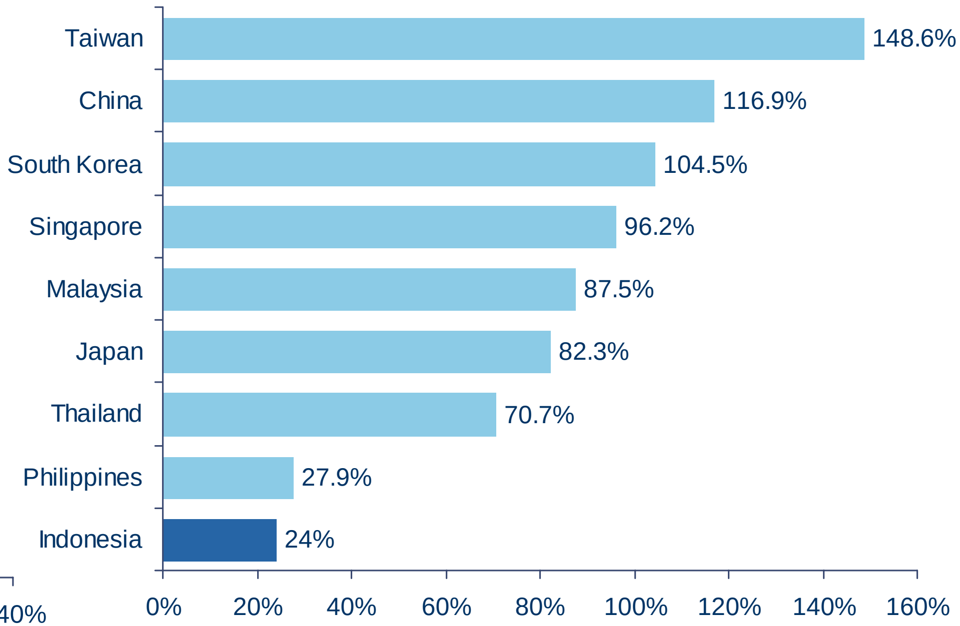
Indonesia's LDR and loan to GDP ratio are relatively low compared to its neighboring countries. The ratios suggest room for loan growth opportunity within the banking industry

Loan to deposit ratio (LDR)



Note: LDR in late 2006
Source: Indonesia Commercial Banking Report Q2 2007

Loan to GDP ratio



Note: Loan to GDP in late 2006
Source: Indonesia Commercial Banking Report Q2 2007

API is expected to put the banking structure in balance

- API, introduced in 2004, suggests significant M&A and capital reinforcement to achieve a more balanced structure.

Capital (Rp tn)	No. of banks	Type of banks
> 50	2 - 3	International bank
10 - 50	3 – 5	National bank
0.1 - 10	30 – 50	Specialised bank (regional, corporate, retail)
< 0.1		Rural bank and bank with limited scope of business activities

- Full implementation of API is expected by 2014.

Single Presence Policy and merger incentives

- Shareholders are prohibited from owning controlling stakes in more than one bank.
- Banks that undergo mergers and consolidations receive incentives.

The study: Banking in 2050: How big will the emerging markets get?*

The report observed the possible changes in the scale of the banking sectors between now and 2050, using the relative domestic credit markets as a proxy.


Financial Services

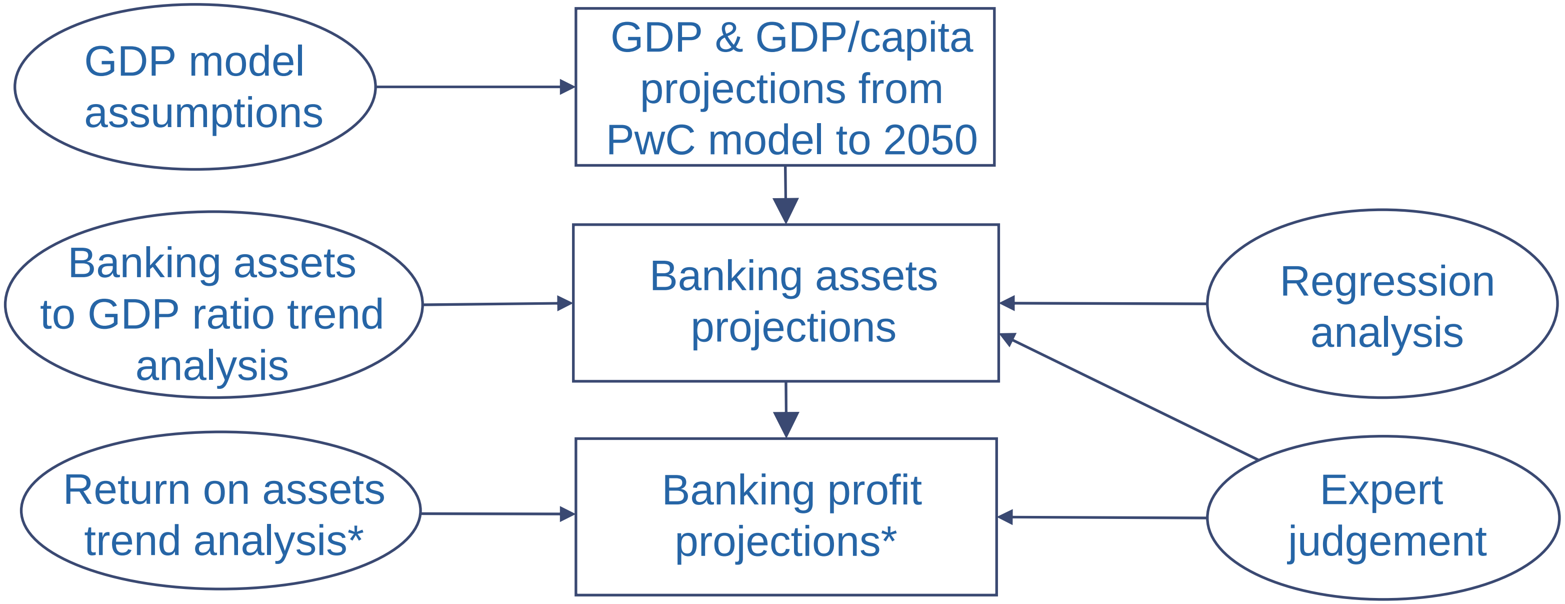
Banking in 2050:
How big will the
emerging markets get?*

*connectedthinking

PricewaterhouseCoopers

GDP growth projections

We extended a GDP growth model to encompass banking assets and profits to estimate the implications of E7 economies growth for banking.

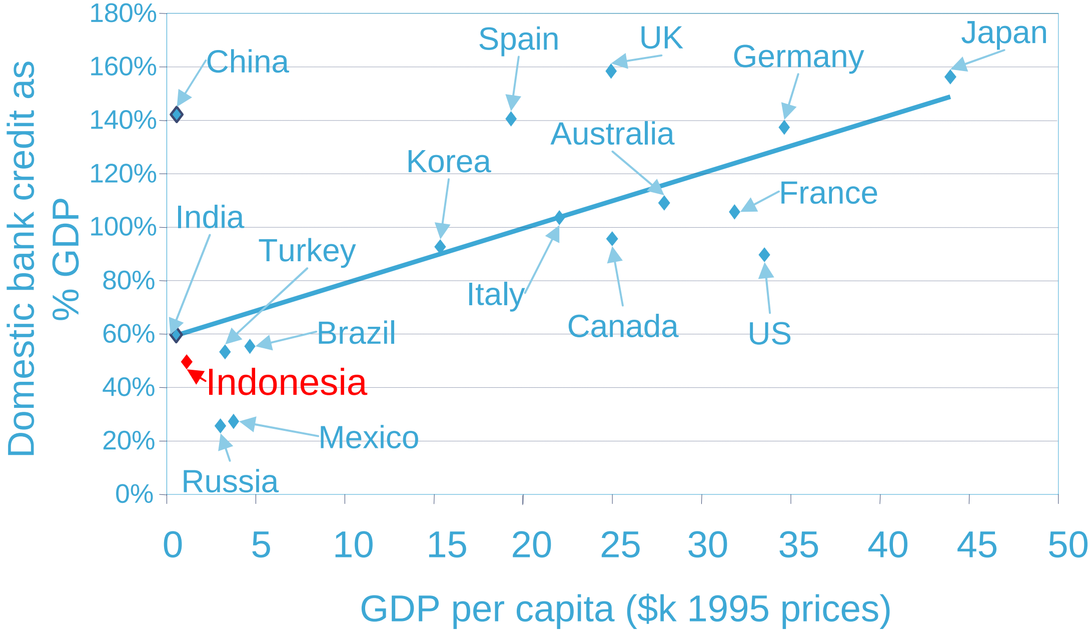


Note: all projections done by country then aggregated to global level
Source: PwC model using data from IMF on banking assets and Fitch on profits

Projecting forward

Indonesia case: relatively strong positive relationship between income and banking sector penetration

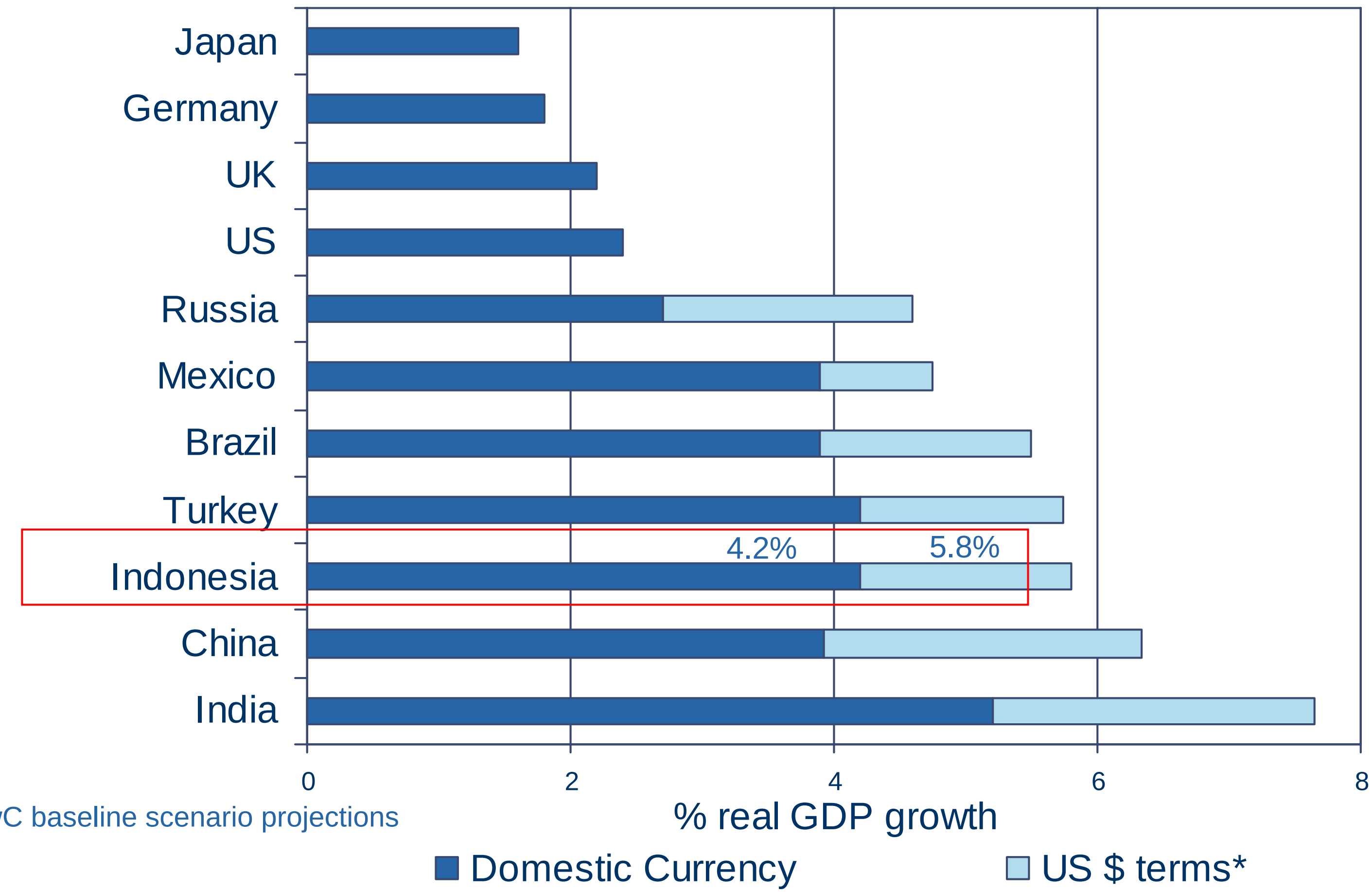
E7 banking services sectors is expected to grow proportionately with GDP ratio*



Note: *) refers to to GDP per capita level
Source: IMF

PwC study: the World in 2050

Indonesia case: 4-6% projected avg. real GDP growth 2005-50

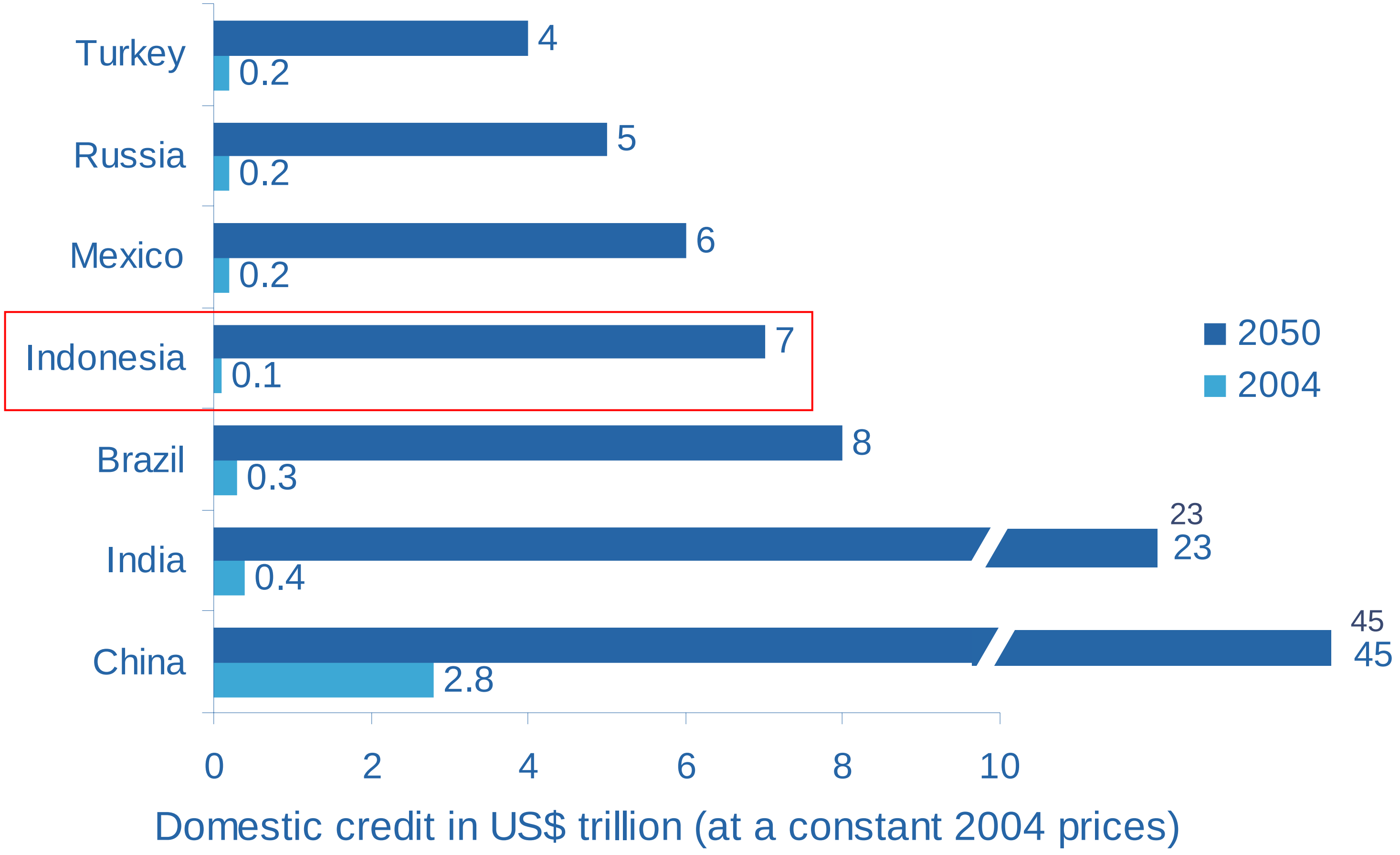


Source: PwC baseline scenario projections

Note: *) Includes projected real exchange rate appreciation (shown in light olive bars)

Size of banking assets

Indonesia case: c.$7,000 bn of projected domestic credit in the banking sector by 2050

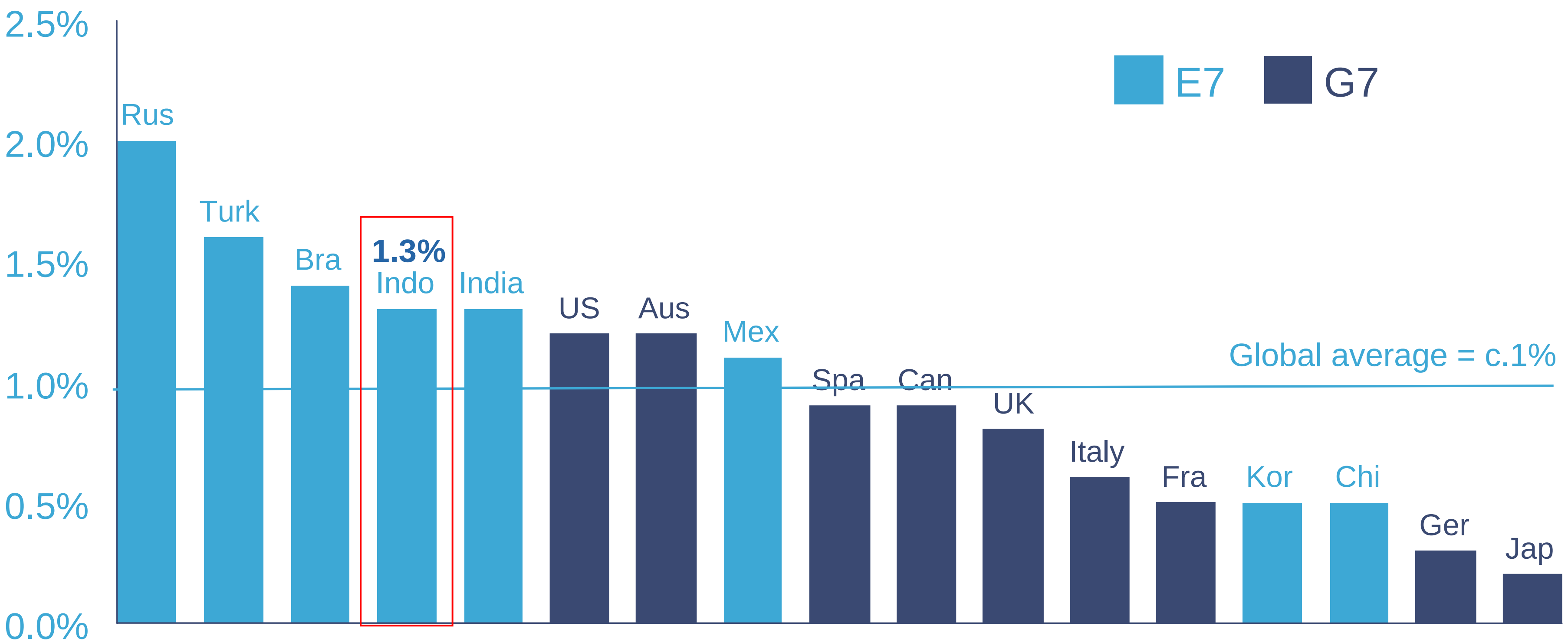


Source: PwC, IMF data on domestic credit in 2004

Effects on banking profits

Indonesia case: post-tax RoA of 1.3%

Post-tax return on assets (average for 2000-5*)



*Except for Russia, China, Germany and Japan where 2005 data used

Source: Fitch

Strategic implications

- High potential growth markets in E7 – particularly retail banking (mortgages, consumer credit etc)
- Rapid increases in M&A activity as E7 markets consolidate and attract inward investors
- Major opportunities for private equity firms
- Major E7 banks will expand outwards both organically and through M&A to access new markets, capital and skills
- Banking world will look very different in 2025, and even more so in 2050 in terms of global 'balance of power'

Phases of acquisition process

Determine M&A strategy → **Finding target** → **Sign MoU** → **Due diligence, valuation, structuring** → **Submit bid and SPA** → **Negotiate on bid and SPA** → **Deal closing**

Finding target
- Not many sizeable banks are up for sale

Due diligence, valuation, structuring
- Trading value high
- Limited structuring options due to BI regulations such as LLL and Single Presence Policy
- Client and due diligence team coordination

Submit bid and SPA
- For multi-national corporations, lengthy process to get board approval due to limited knowledge of banking industry in Indonesia

Deal closing
- Lengthy process of regulatory approval

Note: SPA refers to Sale and Purchase Agreement

Thank you.