

INDICATIONS & CAUSES OF NPLs

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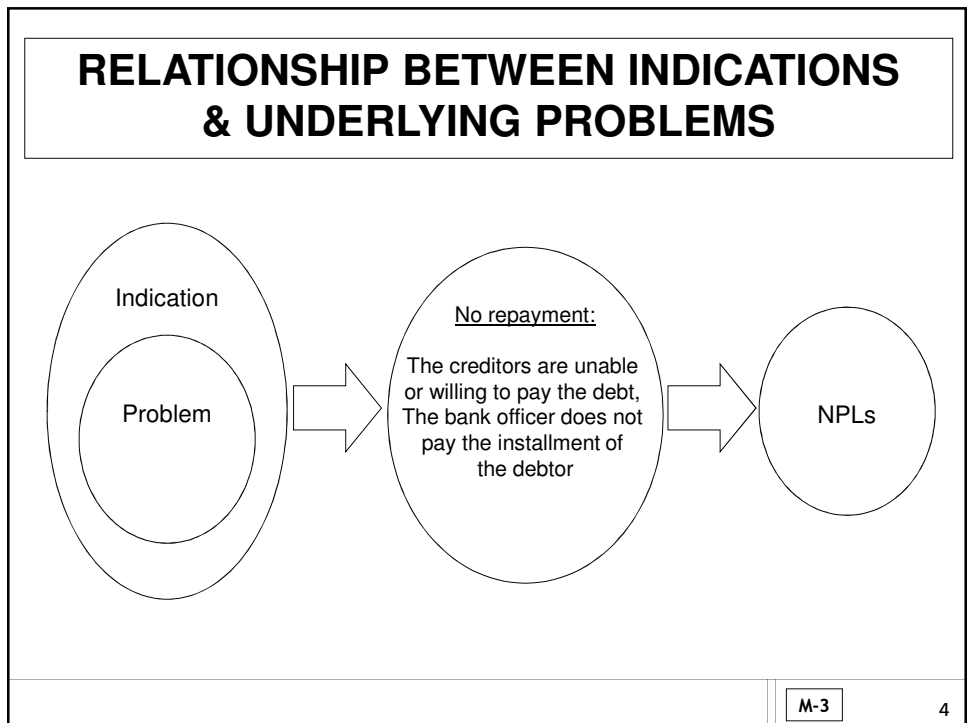
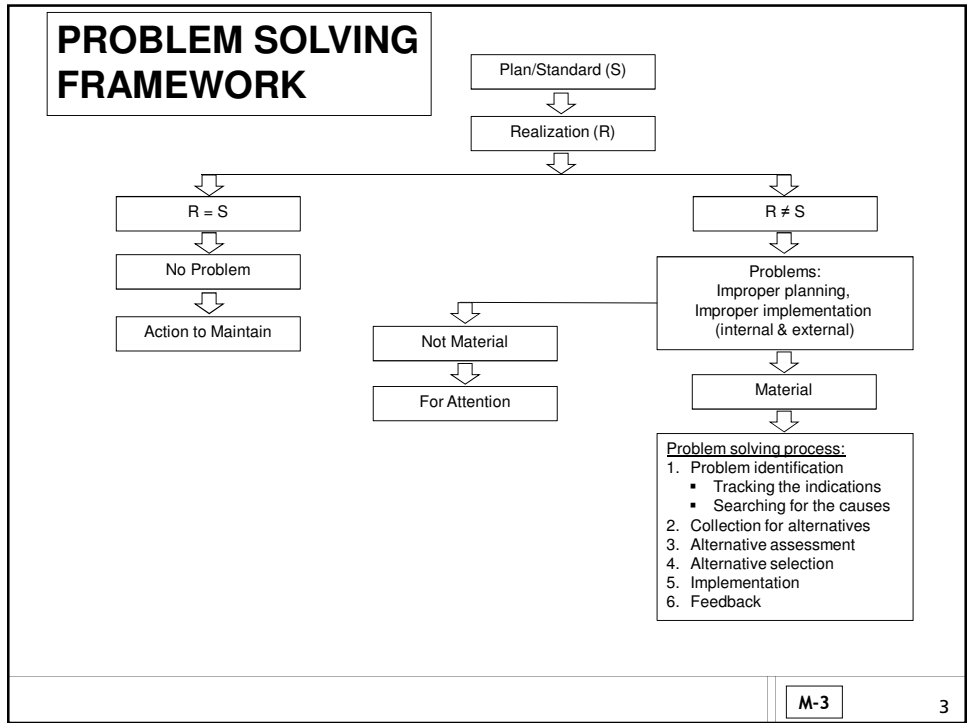
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THERE ARE MANY DEFINITIONS

- McLeod : A CONDITION THAT POTENTIALLY MAY INCUR LOSS OR GENERATE EXTRAORDINARY PROFIT
- TAKES PLACE WHEN THERE ARE DISCREPANCIES BETWEEN PLAN (STANDARD) AND REALIZATION
- MAY TAKE FORM IN THE DISCREPANCY BETWEEN PROFITABILITY OR LOSS

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OBSERVING THE INDICATIONS OF NPLs

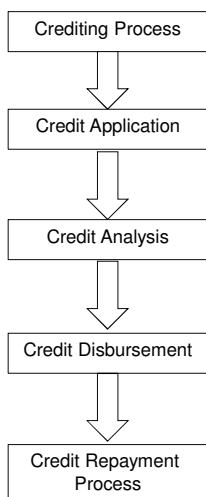
1. DETECTING THE SYMPTOMS
2. ASSESSMENT TECHNIQUES TO DETECT THE LEVEL OF SEVERITY
 - 1). VERIFY DEBTOR'S FINANCIAL REPORTING
 - 2). VERIFY NEGATIVE INFORMATION ON THE DEBTOR
 - 3). ACTIVE MONITORING

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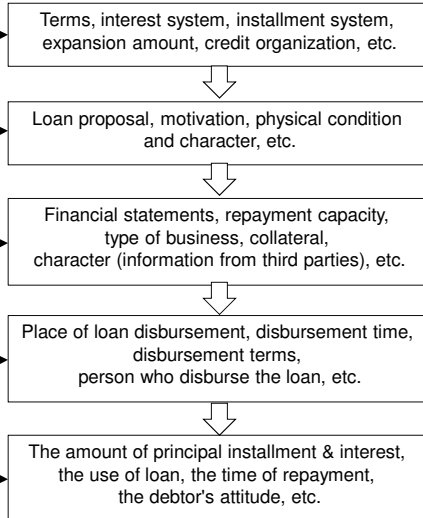
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MONITORING THE INDICATION OF NPLs

CREDITING PROCESS



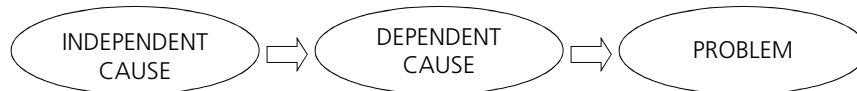
OBSERVATION



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CAUSES OF TROUBLED LOANS



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UNDERLYING CAUSES OF NPLs

Bank's Mistakes

- Lack of background check on prospective borrowers
- Lack of analysis on the purpose and use of credit and sources of repayment
- Lack of understanding on the actual financial needs of the prospective borrowers and the benefits from the acquired credit
- Lack of analysis on the financial condition of prospective borrowers
- Unclear terms including the credit terms
- Too aggressive
- Too much leniency
- Inexperienced credit officers
- Credit officers can easily be persuaded, intimidated or coerced by prospective borrowers
- Over confidence.

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Bank's Mistakes

- Lack of review, request information and analyze the financial condition as well as other information
- Lack of on the spot visits to the debtor's business location
- Lack of frequent contact with the debtor
- Excessive credit
- Excessive interference from bank owners
- Insufficient collateral binding
- Personal interests of bank officers
- Compromise on good credit management principles
- Do not have a sound credit policy
- Inappropriate attitude from the bank officers.

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The causes from the debtors

- Incompetent
- Lack of income security
- Insufficient time to run the business
- Dishonesty
- Greed

External factors

- Economic conditions
- Regulatory changes
- Natural disasters

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SOURCES OF INFORMATION AND HOW TO DETECT NPLs

Company Management

→ Detected from periodic meetings with debtors.

Finance

→ Detected from the financial analysis of the debtor, compared with previous analysis, cross checked with information from creditors and other sources.

Company operations

→ Detected from on-the spot visits by evaluating equipment and supplies, employees attitude / capacity, the state of facilities and ways of operating business.

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SEEING THE INDICATIONS & CAUSES OF NPLs

- **There are arrears**
- **Request for an extension**
- **Financial indicators are declining, among others** : Decrease in liquidity, the ratio of current assets to fixed assets, the percentage of earnings to assets. Increase in receivables, inventories, long-term debt, production costs, sales (but profits down), fixed assets due to revaluation. The financial statements are late, or no longer audited by an accountant. The average savings balance decreases
- **Tense relationships with banks increasingly, avoidant when contacted**
- **Decrease in value / loss of collateral**
- **The use of credit does not go according to plan.**

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SEE THE INDICATIONS & UNDERLYING CAUSES OF NPLs

1. ACCOUNT PATTERN

- a) VIOLATION TO CREDIT DECISIONS
- b) DISBURSEMENT SCHEDULE NOT ACCORDING TO CREDIT DECISIONS
- c) DECREASED AMOUNT OF TOTAL SAVINGS, DEPOSITS AND PROPERTY
- d) DEBTOR OFTEN ASK FOR DELAY
- e) VIOLATION TO THE USE OF CREDIT
- f) DEBTOR REQUESTS FOR EXTENSION
- g) DEBTOR REQUESTS FOR ADDITIONAL CREDIT
- h) DEBTOR REQUESTS FOR CREDIT RESCHEDULING.

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Continued

2. POOR FINANCIAL REPORTING

3. POOR MANAGEMENT OF BUSINESS

4. DEBTORS' BEHAVIOR

5. MACRO ECONOMIC SITUATION

- a) GOVERNMENT REGULATIONS
- b) RECESSION
- c) NATURAL DISASTERS

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UNDERLYING CAUSES OF NPLs

FROM THE BANK SIDE

- 1. SELF ORIENTED**
- 2. PROFIT ORIENTED**
- 3. COMPROMIZE WITH PRUDENCE**
- 4. POOR CREDIT POLICY**
- 5. INSUFFICIENT CREDIT INFORMATION**
- 6. INABILITY TO TAKE LIQUIDATION ACTION
ACCORDING TO THE AGREEMENT**

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Continued

- 7. UNDERESTIMATE THE RISK**
- 8. LOW SUPERVISION**
- 9. LACK OF TECHNICAL ABILITY**
- 10. POOR RISK SELECTION**
- 11. AMOUNT OF CREDIT EXCEEDING CAPACITY**
- 12. COMPETITION**
- 13. FEAR**

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ROOT CAUSES OF NPLs

SISWANTO SUTOJO :

1. INTERNAL FACTORS

a) BANK'S LACK OF ABILITY / KNOWLEDGE OF CREDIT ANALYSIS BECAUSE:

- MINIMUM KNOWLEDGE & EXPERIENCE OF THE CREDIT OFFICERS
- OUTSIDE PRESSURE TO THE MANAGEMENT
- AGGRESSIVE LENDING

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- b) LACK OF GOOD INFORMATION SYSTEM, SUPERVISION & CREDIT ADMINISTRATION**
- c) INTERFERENCE FROM THE SHAREHOLDERS**
- d) INSUFFICIENT COLLATERAL BINDING**

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2. THE UNFEASIBLE DEBTOR

- a) PROBLEM WITH REVENUE**
- b) PERSONAL PROBLEMS**
- c) LACK OF KNOWLEDGE & EXPERIENCE**
- d) POOR MANAGEMENT**
- e) FRAUD, ETC.**

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Continues

3. EXTERNAL FACTORS

- a) ECONOMIC SITUATION**
- b) NATURAL DISASTERS**
- c) GOVERNMENT REGULATIONS**

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