

BANK INDONESIA REGULATION
NUMBER 14/15/ PBI / 2012
CONCERNING
ASSESSMENT OF COMMERCIAL BANK ASSET QUALITY

WITH THE BLESSINGS OF GOD ALMIGHTY

THE GOVERNOR OF BANK INDONESIA,

Considering:

- a. whereas in line with the latest development of financial accounting standards, the banking sector is demanded to present financial reports that are accurate, comprehensive, and reflect bank whole performance as well as are in line with international accounting standards;
- b. Whereas in performing its business activities, bank needs to manage credit risk, by among others maintaining asset quality and yet performing calculation of provision for asset write-offs;
- c. Whereas there is a need to harmonize stipulations concerning assessment of asset quality due to changes in global financial condition and several related stipulations;
- d. whereas based on considerations as referred to in letter a, letter b, and letter c, it is deemed necessary to restate Bank Indonesia Regulation concerning Assessment of Commercial Bank Asset Quality;

In view of:

1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472) as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);
2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the

State Gazette of the Republic of Indonesia Number 3843) as have been amended a few times, the latest by Act Number 6 of 2009 concerning Stipulation of Government Regulation In Lieu of Law Number 2 of 2008 concerning Second Amendment of Act Number 23 of 1999 concerning Bank Indonesia to become Law (State Gazette of the Republic of Indonesia Number 7 of 2009, Supplement to the State Gazette of the Republic of Indonesia Number 4962);

HAS DECREED:

To enact: BANK INDONESIA REGULATION CONCERNING ASSESSMENT
OF COMMERCIAL BANK ASSET QUALITY

CHAPTER I
GENERAL PROVISIONS

Article 1

The terminologies used in this Bank Indonesia Regulation shall have the following meanings:

1. Bank is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, including a foreign bank branch office, which conducts business activities in conventional manner.
2. Assets comprise earning assets and non-earning assets.
3. Earning Assets constitute Bank fund provisions for gaining revenue, which are in the forms of credits, securities, interbank placements, acceptance claims, claims on securities purchased under resale agreements (reverse repurchase agreements), derivative claims, equity participations, off balance sheet items and any other equivalent forms of fund provisions.
4. Non-Earning Assets are Bank's assets other than Earning Assets that have loss potentials, which among others are in the forms of foreclosed collaterals, abandoned properties, interoffice accounts, and suspense accounts.
5. Credits are provisions of cash or cash-like claims, based on agreement or lending borrowing agreement between Bank and another party, which obliges the borrowing party to repay its debt after a certain period of time with interest payment, including:
 - a. overdraft facility, which is negative balance in customer current account that is not repaid at the end of the day;

- b. taken-over claims in the framework of factoring; and
 - c. takeover or purchase of credits from another party.
6. Securities include debt instruments, notes, bonds, credit securities, or each of its derivative, or another interest, or an obligation of an issuer, in the forms commonly traded in the capital market and money market.
 7. Placement is Bank fund placement in another bank in the forms of demand deposit, interbank call money, term deposit, certificate of deposit, credit, and other similar fund placements.
 8. Acceptance is a claim that arises from acceptance of a bill of exchange.
 9. Derivative Claim is a claim arises from potential profit coming from an agreement/contract of derivative transaction (positive difference between contract value and fair value of the derivative transaction on the reporting date), including potential profit due to mark-to-market of outstanding spot transaction.
 10. Equity Participation is Bank fund investment in the form of shares at bank and company in another financial field as stipulated in prevailing legislations such as leasing company, venture capital, securities company, insurance, as well as settlement clearing and deposit institution, including investment in the form of mandatory convertible bonds with equity options or a certain transaction type that causes Bank to own or planned to own shares at a bank and/or company doing business in another financial field.
 11. Temporary Equity Participation is equity participation by Bank at a debtor company in order to avoid credit default (debt to equity swap), including investment in the form of mandatory convertible bonds with equity options or a certain transaction type that causes Bank to own or planned to own shares at a debtor company.
 12. Off Balance Sheet Item is a commitment liabilities and contingent liabilities, which among others includes issuance of guarantees, letters of credit, standby letters of credit, undisbursed loan, and/or other commitment liabilities and contingent liabilities.
 13. Bank Indonesia Certificate, hereinafter shall be referred to as SBI (Sertifikat Bank Indonesia), is a Rupiah denominated security issued by Bank Indonesia as an acknowledgement of short-term debt.
 14. Government Securities, herein after shall be referred to as SUN (Surat Utang Negara), is a security in the form of debt instruments denominated in Rupiah as well as foreign currencies issued which payments of interests and principal are guaranteed by the State of the Republic of Indonesia State, in accordance with its maturity period.
 15. Foreclosed collateral, hereinafter shall be referred to AYDA, is an asset obtained by

Bank, both through an auction or outside an auction, based on delivery that is voluntary by the collateral owner or based on the authority to sell outside auction from the collateral owner, in the event the debtor cannot meet its obligation to Bank.

16. Abandoned Property is a fixed asset in the form of property owned by Bank but is not used for Bank's normal business activities.
17. Interoffice Account is a claim arising from interoffice transaction that is not settled within a certain period of time.
18. Suspense Account is an account which recording is not identified or is not supported with adequate recording documentation and as such it cannot be reclassified into the proper account.
19. Provision for Asset Losses, is a reserve that has to be calculated for a certain percentage based on asset quality.
20. Allowance for Impairment Losses, herein after shall be referred to as CKPN, is a reserve established in case the recorded value of financial assets shall be less than the originally recorded value after impairment.
21. Related Party is a related party as stipulated in Bank Indonesia regulation concerning Legal Lending Limit.
22. Debtor Group is a debtor group as stipulated in Bank Indonesia regulation concerning Legal Lending Limit.
23. Minimum Capital Adequacy Requirement , hereinafter shall be referred to as KPMM, is the minimum capital requirement as stipulated in Bank Indonesia regulation concerning Commercial Bank Minimum Capital Adequacy Requirement.
24. Board of Directors:
 - a. In the case of a Bank legally incorporated as a Limited Liability Company, it is the board of directors as referred to in the Act concerning Limited Liability Companies;
 - b. In the case of a Bank legally incorporated as a Regional Government Enterprise, it is the board of directors as referred to in the Act concerning Regional Government Enterprises;
 - c. In the case of a Bank legally incorporated as a Cooperative, it is the management as referred to in the Act concerning Cooperatives;
 - d. In the case of a foreign bank branch office, it is the head of the foreign bank branch office.
25. Board of Commissioners:
 - a. In the case of a Bank legally incorporated as a Limited Liability Company, it is the

- board of commissioners as referred to in the Act concerning Limited Liability Companies;
- b. in the case of a Bank legally incorporated as a Regional Government Enterprise, it is the supervisory board as referred to in the Act concerning Regional Government Enterprises;
 - c. in the case of a Bank legally incorporated as a Cooperative, it is the supervisory board as referred to in the Act concerning Cooperatives;
 - d. In the case of a foreign bank branch office, it is the officer appointed by the foreign bank head office to perform the supervision function.
26. Debt Restructuring is an remedial action taken by Bank in credit activities to a debtor that is experiencing difficulty in meeting its obligations, which is undertaken among others through:
- a. lowering of credit interest rate;
 - b. extension of term of Credit;
 - c. reduction in Credit interest arrears;
 - d. reduction in Credit principal arrears;
 - e. addition to Credit facility; and/or
 - f. debt-to-equity-swap.

CHAPTER II ASSET QUALITY

Article 2

- (1) Fund provision by Bank should be undertaken based on prudential principles.
- (2) In the framework of implementing prudential principles as referred to in paragraph (1), the Board of Directors should assess, monitor, and take steps necessary to ensure Asset quality remains good at all times.

Article 3

Quality assessment shall be undertaken on Earning Assets and Non-Earning Assets.

Article 4

- (1) Bank is obliged to undertake assessment and classification of Asset quality in accordance with this Bank Indonesia Regulation.
- (2) In the event of difference in assessment of Asset quality between Bank and Bank Indonesia, Asset quality that is valid is the quality determined by Bank Indonesia.

- (3) Bank is obliged to make adjustment to Asset quality based on quality assessment determined by Bank Indonesia as referred to in paragraph (2) in reports submitted to Bank Indonesia and/or publicized reports as stipulated in prevailing Bank Indonesia regulations, no later than in the next reporting period after the notification from Bank Indonesia.

CHAPTER III EARNING ASSETS

Section One

General Provisions

Article 5

- (1) Bank is obliged to apply uniform quality classification to multiple accounts of Earning Assets used to finance 1 (one) debtor.
- (2) Uniform quality classification as referred to in paragraph (1) shall also apply to Earning Assets used to finance the same project.
- (3) In the event of difference between quality classification on Earning Assets as referred to in paragraph (1) and/or paragraph (2), the quality of each Earning Asset follows the lowest quality of the Earning Asset.
- (4) An exception to the provision referred to in paragraph (3) can be made in the case the Earning Assets are determined based on different assessment factors.

Article 6

- (1) The same quality classification on Earning Assets as referred to in Article 5 paragraph (1) and paragraph (2) is also applicable on Earning Assets provided by more than 1(one) Bank for the financing of the same 1 (one) debtor or 1 (one) project.
- (2) The provision referred to in paragraph (1) shall be applicable for:
 - a. Earning Assets extended by each Bank in the amount of more than Rp10,000,000,000.00 (ten billion rupiah) to the same 1 (one) debtor or 1 (one) project;
 - b. Earning Assets extended by each Bank in the amount of more than Rp1,000,000,000.00 (one billion rupiah) upto Rp10,000,000,000.00 (ten billion

- rupiah) to the same 1 (one) debtor, which constitutes one of Bank's 50 (fifty) largest debtors; and/or
- c. Earning Assets extended based on joint financing to the same 1 (one) debtor or 1 (one) project.
- (3) In the event there of difference in quality classification on Earning Assets as referred to in paragraph (1) and paragraph (2), the quality determined by each Bank on the Earning Assets follows the lowest quality of the Earning Assets.
 - (4) Definition of the lowest quality of Earning Assets as referred to in paragraph (3) does not include quality assessment that is:
 - a. the quality of Earning Assets, the claim of which has been written-off; and/or
 - b. the quality of Earning Assets that is determined by using the additional assessment factor in the form of country risk of the Republic of Indonesia.
 - (5) An exception to the provision referred to in paragraph (3) can be made in the case where the Earning Assets are determined based on different assessment factors.

Article 7

- (1) Bank can determine different quality classification on Earning Assets extended to the same 1 (one) debtor as referred to in Article 5 paragraph (1), and Article 6 paragraph (1), paragraph (2), and paragraph (3) as long as the debtor meets the requirements of no less than the following:
 - a. the debtor owns a few different projects; and
 - b. there is a clear segregation between the cash flow of each project.
- (2) Bank that does not determine the same quality on Earning Assets extended to the 1 (one) debtor as referred to in paragraph (1) is obliged to:
 - a. inform Bank Indonesia of the list containing the names of the debtors together with the details of each debtor covering projects being financed, amounts of ceilings and outstanding balances of Earning Assets, qualities determined by Bank, qualities determined by other Banks, and reasons for determination of different qualities; and
 - b. document matters related to determination of qualities as referred to in paragraph (1).
- (3) When based on Bank Indonesia's supervision, it is known that assessment undertaken by Bank does not meet the requirements as referred to in paragraph (1), the assessment that is used shall be the assessment that is in line with prevailing regulation.

Article 8

- (1) Bank is obliged to make adjustment to quality assessment of Earning Assets as referred to in Article 6 at least every 3 (three) months, namely for the positions of end of March, June, September, and December.
- (2) Bank is obliged to submit written information and explanations to Bank Indonesia, in the event of difference in quality classification on Earning Assets caused by the factor referred to in Article 6 paragraph (4) letter b.
- (3) The written information and explanations referred to in Article 7 paragraph (2) shall be submitted no later than the 10th (tenth) after the position of obligation to make assessment adjustment referred to in paragraph (1).
- (4) The information and explanations as referred to in paragraph (3) shall be submitted to Bank Indonesia at the following address:
 - a. the relevant Department of Bank Supervision, Jl. MH. Thamrin No. 2, Jakarta 10350, for Banks which head offices are located within the work area of Bank Indonesia head office; or
 - b. local domestic Bank Indonesia Representative Offices, for Banks which head offices are located outside the work area of Bank Indonesia head office.

Article 9

- (1) Bank is obliged to have an internal regulation that stipulates the criteria and requirements of debtors that have the obligation to submit their financial reports that have been audited by Public Accountants to Bank, including the provision concerning the deadline for submission of those reports.
- (2) Debtors' obligation to submit their financial reports that have been audited by Public Accountants as referred to in paragraph (1) should be stated in the agreements between Bank and debtors.
- (3) The internal regulation as referred to in paragraph (1) should give attention to prevailing legislations.
- (4) The Earning Asset quality of any debtor that does not submit financial reports as referred to in paragraph (1) shall be lowered by one level and categorized at the highest as Sub Standard.

Section Two

Credits

Article 10

Credit quality is determined based on assessment factor as follows:

- a. business prospect;
- b. debtor performance; and
- c. repayment capability.

Article 11

- (1) Assessment of business prospect as referred to in Article 10 letter a covers assessment on the following components:
 - a. potential of business growth;
 - b. market condition and debtor's position in competition;
 - c. management quality and human resource problems;
 - d. support from group or affiliation; and
 - e. efforts undertaken by the debtor in the framework of environment conservation.
- (2) Assessment on debtor performance as referred to in Article 10 letter b covers assessment on the following components:
 - a. earnings;
 - b. capital structure;
 - c. cash flow; and
 - d. sensitivity to market risk.
- (3) Assessment on repayment capability as referred to in Article 10 letter c covers assessment on the following components:
 - a. timeliness of payments of principals and interests;
 - b. availability and accuracy of debtor's financial information;
 - c. completeness of Credit documentation;
 - d. compliance with the Credit agreement;
 - e. appropriateness of the use of funds; and
 - f. reasonableness of source of payment for obligation.

Article 12

- (1) Determination of Credit quality is undertaken by performing analysis on assessment factors as referred to in Article 10 by taking into consideration the components referred to in Article 11.

- (2) Determination of Credit quality as referred to in paragraph (1) shall be undertaken by taking into consideration:
 - a. the significance and materiality of each factor and component of assessment; as well as
 - b. the relevance of assessment factors and components to the relevant debtor.
- (3) Based on the assessment referred to in paragraph (1) and paragraph (2), Credit quality is determined to be:
 - a. Current;
 - b. Special Mention;
 - c. Sub Standard;
 - d. Doubtful; or
 - e. Loss.

Section Three

Securities

Article 13

- (1) Bank is obliged to have a written policy and procedure concerning Earning Assets in the form of Securities.
- (2) The policy as referred to in paragraph (1) should be approved by the Board of Commissioners.
- (3) The procedure as referred to in paragraph (1) should be approved at least by the Board of Directors.
- (4) The Board of Commissioners should undertake active supervision on the implementation of the policy as referred to in paragraph (1).
- (5) The policy and procedure as referred to in paragraph (1) constitute an inseparable part of Bank risk management policy as stipulated in prevailing Bank Indonesia regulation.

Article 14

- (1) Security quality that is recognized at market value shall be classified Current as long as the following requirements are met:
 - a. actively traded on stock exchange in Indonesia;
 - b. transparent market value information is available;
 - c. coupons or other similar obligations are paid in the correct amounts and time, in accordance with the agreement; and

- d. have not reached maturity.
- (2) Security quality that does not meet the requirements as referred to in paragraph (1) letter a and/or letter b or which is recognized at cost shall be determined as follows:
 - a. Current, when:
 - 1) having investment grade rating or higher;
 - 2) coupons or other similar obligations are paid in the correct amounts and time, in accordance with the agreement; and
 - 3) have not reached maturity.
 - b. Sub Standard, when:
 - 1) having investment grade rating or higher;
 - 2) there have been postponements in payments of coupons or other similar obligations; and
 - 3) have not reached maturity,or
 - 1) having a rating of one level below investment grade rating;
 - 2) there have been no postponements in payments of coupons or other similar obligations; and
 - 3) have not reached maturity.
 - c. Loss, if the Securities have not met the criteria as referred to in letters a and b.

Article 15

- (1) Security ratings as referred to in Article 14 paragraph (2) shall be based on the rating issued by a rating institution within the last one year, in accordance with prevailing Bank Indonesia regulation.
- (2) In the event the rating issued by the rating institution within one year as referred to in paragraph (1) is not available, the Security is considered to have no rating.

Article 16

Bank Indonesia Certificate (SBI), Government Securities (SUN), and/or other fund placements at Bank Indonesia and the Government shall be classified Current.

Article 17

Bank is prohibited from owning Earning Assets in the forms of shares and/or Securities that are connected to or guaranteed with the same underlying reference assets that are in the form of shares.

Article 18

Bank can own Securities that are connected to or guaranteed with certain underlying reference assets when:

- a. there is confidence that the underlying reference assets are in existence;
- b. Bank has the right over the underlying reference assets or the right over the value of the underlying reference assets;
- c. Bank has clear, correct, and accurate information concerning the details of the underlying reference assets, which cover the issuer and value of each underlying reference asset, including each change; and
- d. Bank shall administer details of composition and issuer of underlying reference asset as well as make adjustments to the records in the event of changes in asset composition.

Article 19

- (1) Security quality that is connected to or guaranteed with certain underlying reference assets as referred to in Article 18 shall be determined as follows:
 - a. for Securities which obligation payments are directly related to the underlying assets (pass through) and cannot be re-purchased (non redemption) by the issuers, determination of the quality shall be based on:
 - 1) Security quality as referred to in Article 14; or
 - 2) the quality of the underlying assets when the Securities do not have ratings.
 - b. for Securities that do not meet the criteria as referred to in letter a, quality determination shall be based on the Security quality as referred to in Article 14.
- (2) The quality of the underlying assets of the Securities as referred to in paragraph (1) letter a.2) shall be determined based on the quality of each type of the underlying asset as stipulated in this Bank Indonesia Regulation.
- (3) for Securities in the form of mutual fund certificates, quality determination shall be based on:
 - a. mutual fund certificate quality based on assessment of Security quality as referred to in Article 14; or

- b. quality of the underlying asset to the mutual fund certificate and quality of the issuer of the mutual fund certificate, when the mutual fund certificate does not any rating.

Article 20

- (1) Quality of Securities issued or endorsed by bank are stipulated as follows:
 - a. for Securities that have ratings and/or are actively traded on stock exchange in Indonesia, it shall be determined based on the lower quality between:
 - 1) result of assessment based on provision on Security quality as referred to in Article 14; or
 - 2) result of assessment based on the provisions concerning the quality of Placements at issuing bank or endorsing bank as referred to in Article 23 paragraph (1).
 - b. for Securities, which based on their characteristics cannot be traded on a stock exchange and/or do not have ratings, the quality shall be determined as follows:
 - 1) those issued or endorsed by any Bank in Indonesia, it shall be based on the provision concerning quality of Placements as referred to in Article 23 paragraph (1);
 - 2) those issued or endorsed by any bank outside Indonesia:
 - a) for maturity period of upto 1 (one) year, it shall be based on the provision concerning quality of Placements as referred to in Article 23 paragraph (1);
 - b) for maturity period of more than 1 (one) year, it shall be based on the provision concerning quality of Securities as referred to in Article 14 paragraph (2).
- (2) The quality of Securities issued by non-bank parties in Indonesia, which based their characteristics cannot be traded on a stock exchange and do not have any ratings, it shall be based on the provision concerning Credit quality as referred to in Article 10.
- (3) The quality of Securities issued by any non-bank party from outside Indonesia, which based on their characteristics are not traded on a stock exchange, it shall be determined based on the provision concerning the quality of Securities as referred to in Article 14 paragraph (2).

- (4) In the event Securities are issued by another bank in the form of Securities that are connected to or guaranteed with certain underlying reference assets, Bank shall still be obliged to meet the provision as referred to in Article 18.

Article 21

The quality of negotiation of bills of exchange that is not accepted by another bank shall be determined based on the provision concerning Credit quality as referred to in Article 10.

Section Four

Placements

Article 22

- (1) Bank is obliged to have a written policy and procedure concerning Earning Assets in the form of Placements.
- (2) The policy as referred to in paragraph (1) should be approved by the Board of Commissioners.
- (3) The procedure as referred to in paragraph (1) should be approved by no lower than the Board of Directors.
- (4) The Board of Commissioners should undertake active supervision on the implementation of the policy as referred to in paragraph (1).
- (5) The policy and procedure as referred to in paragraph (1) constitute an inseparable part of Bank risk management policy as stipulated in prevailing Bank Indonesia regulation concerning risk management.

Article 23

- (1) The quality of Placements is determined as follows:
 - a. Current, when:
 - 1) bank that receives Placements has KPMM ratio of at least the same as the KPMM that is in accordance with prevailing stipulation; and
 - 2) there is no arrears in payments of principal and/or interest.
 - b. Sub Standard, when:
 - 1) bank that receives Placements has KPMM ratio of at least the same as the KPMM that is in accordance with prevailing stipulation; and
 - 2) there are arrears in payments of principal and/or interest for upto 5 (five) working days.

- c. Loss, when:
 - 1) bank that receives Placements has KPMM ratio of less than the KPMM that is in accordance with prevailing stipulation;
 - 2) bank that receives Placements has been determined and announced as a bank under special surveillance status with the freezing of certain business activities;
 - 3) bank that receives Placements has been determined as a bank which business license has been revoked; and/or
 - 4) there are arrears in payments of principal and/or interest for more than 5 (five) working days.
- (2) The quality of Placements at Rural Banks (BPR) in the framework of Credit channeling through the Linkage Program with the executing pattern shall be determined as follows:
- a. Current, when:
 - 1) BPR that receives Placements has KPMM ratio of at least the same as the KPMM that is in accordance with prevailing stipulation; and
 - 2) there is no arrears in payments of principal and/or interest.
 - b. Sub Standard, when:
 - 1) BPR that receives Placements has KPMM ratio of at least the same as the KPMM that is in accordance with prevailing stipulation; and
 - 2) there are arrears in payments of principal and/or interest for upto 30 (thirty) days.
 - c. Loss, when:
 - 1) BPR that receives Placements has KPMM ratio of less than the KPMM that is in accordance with prevailing stipulation;
 - 2) BPR that receives Placements has been determined and announced as a bank under special surveillance status or BPR that has been imposed with the sanction of the freezing of all business activities;
 - 3) BPR that receives Placements has been determined as a bank which business license has been revoked; and/or
 - 4) there are arrears in payments of principal and/or interest for more than 30 (thirty) days.

Acceptance, Claims on Securities Under Reverse Repurchase Agreements and Derivative
Claims

Article 24

The quality of Acceptance is determined based on:

- a. determination of Placement quality as referred to in Article 23 paragraph (1) when the party that has the obligation to repay the claims is another bank; or
- b. determination of Credit quality as referred to in Article 10 when the party that has the obligation to repay the claims is a debtor.

Article 25

- (1) The quality of Claims on Securities purchased under reverse repurchase agreements is determined based on:
 - a. determination of Placement quality as referred to in Article 23 paragraph (1) when the party that sells the Securities is another bank; or
 - b. determination of Credit quality as referred to in Article 10 when the party that sells the Securities is non-bank.
- (2) Claims on Securities purchased under reverse repurchase agreements with underlying reference assets in the forms of SBI, SUN, and/or other Placements at Bank Indonesia and the Government shall be determined as having Current quality.

Article 26

The quality of Derivative Claims shall be determined based on:

- a. determination of Placement quality as referred to in Article 23 paragraph (1) when the transaction counterparty is another bank; or
- b. determination of Credit quality as referred to in Article 10 when the transaction counterparty is non-bank.

Section Six

Equity Participations

Article 27

- (1) The quality of Equity Participations shall be determined based on:
 - a. cost method;
 - b. equity method; or
 - c. fair value.

by referring to prevailing financial accounting standards.

- (2) The quality of Equity Participations that is based on the cost method shall be determined as follows:
 - a. Current, when the investee obtains profit and does not experience cumulative losses based on latest accounting year's financial reports that have been audited;
 - b. Sub Standard, when the investee has experienced cumulative losses upto 25% (twenty five percent) of the investee's capital based on the latest accounting year's audited financial reports;
 - c. Doubtful, when the investee has experienced cumulative losses of more than 25% (twenty five percent) upto 50% (fifty percent) of the investee's capital based on the latest accounting year's audited financial reports;
 - d. Loss, when the investee has experienced cumulative losses of more than 50% (fifty percent) of the investee's capital based on the latest accounting year's audited financial reports;
- (3) The quality of Equity Participations that are assessed based on the equity method or based on fair value shall be determined as being Current.

Section Seven

Temporary Equity Participation

Article 28

- (1) The quality of Temporary Equity Participations shall be determined as follows:
 - a. Current, when the time period of Temporary Equity Participations has not exceeded 1 (one) year;
 - b. Sub Standard, when the time period of Temporary Equity Participations has exceeded 1 (one) year but has not exceeded 4 (four) years;
 - c. Doubtful, when the time period of Temporary Equity Participations has exceeded 4 (four) years but has not exceeded 5 (five) years;
 - d. Loss, when:
 - 1) the time period of Temporary Equity Participations has exceeded 5 (five) years; or
 - 2) the investee has obtained cumulative profit, however the Temporary Equity Participations have not been withdrawn.
- (2) Bank Indonesia can lower the quality of Temporary Equity Participations as referred to in paragraph (1) when:

- a. the sale of Temporary Equity Participation is expected to be undertaken at a lower than book price; and/or
- b. the sale of Temporary Equity Participation within the period of 5 (five) years is expected to be difficult to be realized.

Section Eight

Off Balance Sheet Items

Article 29

- (1) The quality of Off Balance Sheet Items shall be determined based on:
 - a. determination of Placement quality as referred to in Article 23 paragraph (1) when the counterparty of the Off Balance Sheet Item is another bank; or
 - b. determination of Credit quality as referred to in Article 10 when the counterparty of the Off Balance Sheet Item is a debtor.
- (2) The assessment of Off Balance Sheet Items shall be undertaken on all facilities provided, those coming from the committed as well as uncommitted agreements.

Section Nine

Earning Assets Guaranteed By Cash Collaterals

Article 30

- (1) Parts of Earning Assets that are guaranteed with cash collaterals shall be determined to have Current quality.
- (2) Cash collaterals as referred to in paragraph (1) are collaterals in the forms of:
 - a. demand deposit, time deposit, savings accounts, guarantee deposits, and/or gold;
 - b. SBI, SUN, and/or other fund placements at Bank Indonesia and the Government;
 - c. Government of Indonesia's guarantees in accordance with prevailing legislations; and/or
 - d. standby letters of credit from prime banks, which are issued in accordance with prevailing Uniform Customs and Practice for Documentary Credits (UCP) or International Standby Practices (ISP).
- (3) Cash collaterals as referred to in paragraph (2) letter a and letter b should meet the following requirements:
 - a. collaterals shall be blocked and supplemented with authorization letter for disbursement from collateral owner for the benefit of the Bank that receives the

- collaterals, including partial disbursement for payment of arrears on principal or interest payments;
- b. the time period for blocking as referred to in letter a shall be at least the same as the time period of the Earning Assets;
 - c. has a strong legal binding as collateral, free from any kind of other strings, free from disputes, not being used as a guarantee to another party, including clear objective for guarantee; and
 - d. cash collateral as referred to in paragraph (2) letter a should be kept at the Bank that provides the funds.
- (4) Cash collaterals as referred to in paragraph (2) letter c and letter d should meet the following requirements:
- a. unconditional and irrevocable;
 - b. should be able to be cashed no later than 7 (seven) working days since submission of claim, including partial disbursement for payment of arrears in principal or interest payments;
 - c. has a time period of at least the same as the time period of the Earning Assets; and
 - d. cannot be counter guaranteed by the Bank that provides the fund or bank that is not prime bank.
- (5) Prime bank as referred to in paragraph (2) should meet the following requirements:
- a. has investment grade rating on assessment of bank's long term outlook given by a rating institution of no less than:
 - 1) AA- based on the assessment of Standard&Poors;
 - 2) Aa3 based on the assessment of Moody's;
 - 3) AA- based on the assessment of Fitch; or
 - 4) Rating equivalent to number 1), number 2), and/or number 3) based on the assessment of another leading rating institution determined by Bank Indonesia; and
 - b. has total asset that is included in the 200 world largest based on information stated in banker's almanac.

Article 31

- (1) Bank is obliged to undertake or submit claim for disbursement of the cash collaterals as referred to in Article 30 no later than 7 (seven) working days after event of default.
- (2) Debtor has defaulted when:

- a. there are arrears in principal and/or interest payments and/or other claims for 90 (ninety) days although the Earning Assets have not fallen due;
- b. payments on principal and/or interests and/or other claims have not been received at the time the Earning Assets fall due; or
- c. other requirements aside from payments of principal and/or interest have not been met, which can cause event of default.

Section Ten

Credits and Fund Provisions in Small Amounts and Credits and Fund Provisions In Specified Regions

Article 32

- (1) Determination of quality can be based only on timeliness of payments of principal and/or interest, for:
 - a. Credits and other fund provisions extended by each Bank to 1 (one) debtor or 1 (one) project in the amount of less than or the same as Rp1,000,000,000.00 (one billion rupiah);
 - b. Credits and other fund provisions extended by each Bank to Micro, Small, and Medium-Scale Business debtors in the amount of:
 - 1) More than Rp1,000,000,000.00 (one billion rupiah) uptoRpRp20,000,000,000.00 (twenty billion rupiah) for any Bank that meets the following criteria:
 - a) has the predicate on assessment of adequacy of the Quality of Risk Management Implementation for credit risk that is strong;
 - b) has KPMM ratio of at least the same as the KPMM that is according to prevailing regulation; and
 - c) has Bank soundness level composite rating of at least 3 (PK-3).
 - 2) More than Rp1,000,000,000.00 (one billion rupiah) uptoRpRp10,000,000,000.00 (ten billion rupiah) for any Bank that meets the following criteria:
 - a) has the predicate on assessment of adequacy of the Quality of Risk Management Implementation for credit risk that is (satisfactory);
 - b) has KPMM ratio of at least the same as the KPMM that is according to prevailing regulation; and
 - c) has Bank soundness level composite rating of at least 3 (PK-3).

- c. Credits and other fund provisions to debtors with business activities that are located within certain areas with the amount of less than or the same as Rp5,000,000,000.00 (five billion rupiah).
- (2) The predicates for assessments of adequacy of the Quality of Risk Management Implementation for credit risk, KPMM ratio, and Bank soundness level composite rating used in assessment of Credit quality and other fund provisions as referred to in paragraph (1) letter b shall be based on Bank Indonesia's assessment that the Bank can know during prudential meeting.
- (3) The uses of assessment predicates as referred to paragraph (2) are as follows:
 - a. Assessment predicate for the position of December of the previous year is used to assess the qualities of Credits and other fund provisions for the periods of February upto July; and
 - b. Assessment predicate for the position of June is used to assess the qualities of Credits and other fund provisions for the periods of August upto January.
- (4) The provisions as referred to in paragraph (1) letter b shall not be applied to Credits and other fund provisions extended to 1 (one) Micro, Small and Medium-Scale Business debtor with the amount of more than Rp1,000,000,000.00 (one billion rupiah) which constitute:
 - a. Restructured Debts; and/or
 - b. Fund provisions to 50 (fifty) largest debtors of the Bank.
- (5) Determination of the quality of restructured debts as referred to in paragraph (4) letter a shall yet be performed based on the provision in Article 58.
- (6) In the event a significant deviation from sound credit principles exists, Bank Indonesia shall determine the quality assessment of Earning Assets extended by Bank to Micro, Small and Medium-Scale Business debtor as referred to in paragraph (1) letter b based on assessment factors as referred to in Article 10.

CHAPTER IV
NON-EARNING ASSETS

Section One
General Provisions

Article 33

Non-Earning Assets which quality should be assessed include Foreclosed Collaterals, Abandoned Properties, Interoffice Accounts, and Suspense Accounts.

Section Two
Foreclosed Collaterals

Article 34

- (1) Bank is obliged to undertake settlement efforts for Foreclosed Collaterals (AYDA) it owned.
- (2) Bank is obliged to document settlement efforts for AYDA as referred to in paragraph (1).

Article 35

- (1) Bank is obliged to reassess AYDA for determining the net realizable value of the AYDA.
- (2) Maximum net realizable value as referred to in paragraph (1) is the amount of the value of Earning Assets settled with AYDA.
- (3) Reassessment of AYDA as referred to in paragraph (1) is performed at the time of foreclosure of the collateral.
- (4) Determination of the net realizable value as referred to in paragraph (1) should be performed by an independent appraiser for AYDA with a value of Rp5,000,000,000.00 (five billion rupiah) or more.
- (5) Determination of net realizable value as referred to in paragraph (1) can be performed by Bank's internal appraiser for AYDA value of less than Rp5,000,000,000.00 (five billion rupiah).
- (6) Bank is obliged to use the lowest value when there are several values from the independent appraiser as referred to in paragraph (4) or internal appraiser as referred to in paragraph (5).
- (7) The independent appraiser as referred to in paragraph (4) is a public appraisal company which:
 - a. is not Related Party of Bank;
 - b. is not Borrower Group with Bank's debtor;
 - c. conducts the assessment activity based on profession ethical code and stipulations set by authorized institutions;

- d. is using assessment methods based on assessment profession standards issued by an authorized institution;
 - e. has a business license from an authorized institution for operating as a public valuing service firm; and
 - f. is registered as a member of an association acknowledged by the authorized institution.
- (8) Arrears on interest payment on Credits that have been settled with AYDA cannot be acknowledged as revenue until there is realization.

Article 36

- (1) AYDA on which efforts for settlement have been made as referred to in Article 34 shall be determined to have the following qualities:
- a. Current, when AYDA are owned for upto 1 (one) year;
 - b. Sub Standard, when AYDA are owned for more than 1 (one) year upto 3 (three) years;
 - c. Doubtful, when AYDA are owned for more than 3 (three) years upto 5 (five) years;
 - d. Loss, when AYDA are owned for more than 5 (five) years.
- (2) AYDA on which settlement efforts have not been made as referred to in Article 34 shall be determined to have a quality of one level below the provision referred to in paragraph (1).

Section Three

Abandoned Properties

Article 37

- (1) Bank is obliged to perform identification and determination of Abandoned Properties owned.
- (2) Determination of Abandoned Properties as referred to in paragraph (2) should be approved by the Board of Directors and documented.
- (3) Unused part of Bank properties, majority of which properties are used in Bank business activities, shall not be categorized as Abandoned Properties.
- (4) In the event Bank does not use majority part of certain properties, the part of those properties that is not used in Bank business activities shall proportionally be categorized as Abandoned Properties.

Article 38

- (1) Bank is obliged to undertake settlement efforts on Abandoned Properties owned.
- (2) Bank is obliged to document settlement efforts on Abandoned Properties as referred to in paragraph (1).

Article 39

- (1) Abandoned Properties on which efforts for settlement have been made as referred to in Article 38 shall be determined to have the following qualities:
 - a. Current, when Abandoned Properties are owned for upto 1 (one) year;
 - b. Sub Standard, when Abandoned Properties are owned for more than 1 (one) year upto 3 (three) years;
 - c. Doubtful, when Abandoned Properties are owned for more than 3 (three) years upto 5 (five) years;
 - d. Loss, when Abandoned Properties are owned for more than 5 (five) years.
- (2) Abandoned Properties on which settlement efforts have not been made as referred to in Article 38 shall be determined to have a quality of one level below the provision as referred to in paragraph (1).

Section Four

Interoffice Accounts and Suspense Accounts

Article 40

- (1) Bank is obliged to undertake settlement efforts on Interoffice Accounts and Suspense Accounts.
- (2) The qualities of Interoffice Accounts and Suspense Accounts shall be determined as follows:
 - a. Current, when Interoffice Accounts and Suspense Accounts have been recorded in Bank's book for upto 180 (one hundred eighty) days;
 - b. Loss, when Interoffice Accounts and Suspense Accounts have been recorded in Bank's book for more than 180 (one hundred eighty) days.

CHAPTER V

PROVISION FOR ASSET Losses AND ALLOWANCE FOR IMPAIRMENT LOSSES

Section 1

Provision for Asset Losses

Sub Section 1

General Provisions

Article 41

- (1) Bank is obliged to calculate provision for asset losses on Earning Assets and Non-Earning Assets.
- (2) Provision for asset losses as referred in paragraph (1) shall constitute:
 - a. general reserve for Earning Assets; and
 - b. special reserve for Earning Assets and Non-Earning Assets.
- (3) Calculation of provision for asset losses as referred to in paragraph (2) shall be made at least in accordance with this Bank Indonesia Regulation.

Article 42

- (1) The general reserve as referred to in Article 41 paragraph (2) letter a shall be determined at no less than 1% (one percent) of Earning Assets that have Current quality.
- (2) The general reserve as referred in paragraph (1) shall be exempted on Earning Assets which are in the forms of;
 - a. undisbursed credit facilities that form part of Off Balance Sheet Items
 - b. SBIs, SUNs, and/or other fund placements at Bank Indonesia and the Government, and/or
 - c. part of Earning Assets that is guaranteed with cash collaterals as referred to in Article 30.
- (3) Special reserve as referred to in Article 41 paragraph (2) letter b shall be determined at no less than:
 - a. 5% (five percent) of Assets with Special Mention quality after being deducted with the value of the collaterals;
 - b. 15% (fifteen percent) of Assets with Sub Standard quality after being deducted with the value of the collaterals;
 - c. 50% (fifty percent) of Assets with Doubtful quality after being deducted with the value of the collaterals;
 - d. 100% (one hundred percent) of Assets with Loss quality after being deducted with the value of the collaterals;
- (4) The use of collateral value as a deduction in the calculation of provision for asset losses as referred to in paragraph (3) shall only be done for Earning Assets.

Sub Section 2

Collaterals as Deduction of provision for asset losses

Article 43

Collaterals that can be used as a deduction in the calculation of provision for asset losses are determined as follows:

- a. Securities and shares that are actively traded on a stock exchange in Indonesia or that have investment grade ratings and are bound as pledge.
- b. lands, buildings, and residential property that are bound as mortgage;
- c. machines that constitute unified units with the lands that are bound as mortgage;
- d. airplanes or ships with a measurement of above 20 (twenty) cubic meters that are bound as mortgage;
- e. motor vehicles and inventories that are bound in fiduciary agreement; and/or
- f. warehouse receipts that are bound with warranty right on warehouse receipts.

Article 44

- (1) Collaterals as referred to in Article 43 should be:
 - a. supplemented with valid legal documents;
 - b. bound in accordance with prevailing legislations so that they give preference right for the Bank; and
 - c. protected with insurance with banker's clause that has a validity period of at least the same as the validity period of the legal binding of the collaterals as referred to in Article 43.
- (2) Insurance company that provides the insurance protection on the collaterals as referred to in paragraph (1) letter c should meet the following requirements:
 - a. meet the provision on capital as determined by the authorized institution; and
 - b. not being Related Party of the Bank or Borrowing Group with Bank's debtor, unless it undertakes re-insurance at an insurance company that is not Related Party of the Bank or Borrowing Group with Bank's debtor.

Article 45

- (1) The collaterals that are going to be used as a deduction factor of provision for asset losses as referred to in Article 43 shall at least be assessed by:
 - a. an independent appraiser as referred to in Article 35 paragraph (7) for Earning Assets coming from a debtor or Borrowing Group with the amount of more than Rp5,000,000,000.00 (five billion rupiah); or
 - b. Bank internal appraiser for Earning Assets coming from a debtor or Borrowing Group with the amount of up to than Rp5,000,000,000.00 (five billion rupiah)
- (2) Assessment of the collaterals as referred to in paragraph (1) should be undertaken at the beginning of the extension of Earning Assets.

Article 46

- (1) The value of the collaterals that can be used as a deduction in provision for asset losses calculation shall be determined as follows:
 - a. Securities and shares that are actively traded on a stock exchange in Indonesia or that have investment grade ratings, no higher than 50% (fifty percent) of the value that is recorded at the stock exchange at the end of the month;
 - b. Lands and/or buildings that are used as residential property, no higher than:
 - 1) 70% (seventy percent) of the value when:
 - a) the assessment is performed by an independent appraiser within the last 18 (eighteen) months; or
 - b) the assessment is performed by an internal appraiser within the last 12 (twelve) months.
 - 2) 50% (fifty percent) of the value when:
 - a) the assessment is performed by an independent appraiser exceeding the last 18 (eighteen) months but not yet exceeding the last 24 (twenty four) months; or
 - b) the assessment is performed by an internal appraiser exceeding the last 12 (twelve) months but not yet exceeding the last 18 (eighteen) months.
 - 3) 30% (thirty percent) of the value when:
 - a) the assessment is performed by an independent appraiser exceeding the last 24 (twenty four) months but not yet exceeding the last 30 (thirty) months; or

- b) the assessment is performed by an internal appraiser exceeding the last 18 (eighteen) months but not yet exceeding the last 24 (twenty four) months.
 - 4) 0% (zero percent) of the value when:
 - a) the assessment is performed by an independent appraiser exceeding the last 30 (thirty) months; or
 - b) the assessment is performed by an internal appraiser exceeding the last 24 (twenty four) months.
 - c. Lands and/or buildings that are not residential property, machines that constitute unified units with the lands, airplanes, ships, warehouse receipts, and inventories, no higher than:
 - 1) 70% (seventy percent) from the value if the assessment is performed within the last 12 (twelve) months;
 - 2) 50% (fifty percent) of the value if the assessment is performed exceeding the last 12 (twelve) months but not yet exceeding the last 18 (eighteen) months;
 - 3) 30% (thirty percent) if the assessment is performed exceeding the last 18 (eighteen) months but not yet exceeding the last 24 (twenty four) months; or
 - 4) 0% (zero percent) if the assessment is performed exceeding the last 24 (twenty four) months.
- (2) Bank is obliged to use the lowest value in the event there are several values for one collateral for the same position, both undertaken by an independent appraiser as well as an internal appraiser.
- (3) Bank Indonesia can set a collateral value to be calculated as a deduction to provision for asset losses that is lower than the determination referred to in paragraph (1) above, based on supervision consideration.

Article 47

Collateral value that can be calculated as a deduction in provision for asset losses calculation as referred to in Article 46 is prohibited to exceed the value of the collateral that is bound.

Article 48

- (1) Bank Indonesia has the authority to undertake recalculation of collateral value that is used as a deduction in provision for asset losses when Bank does not meet the provisions as referred to in Articles 43, Article 44, Article 46 and/or Article 47.

- (2) Bank is obliged to make adjustment to provision for asset losses calculation in accordance with the calculation determined by Bank Indonesia as referred to in paragraph (1) in the report of calculation of KPMM ratio submitted to Bank Indonesia and/or the publicized report as provided in prevailing regulation no later than in the next reporting period after Bank Indonesia's notification.

Section Two

Allowance for Impairment Losses (CKPN)

Article 49

Bank is obliged to establish CKPN in accordance with prevailing financial accounting standards.

Section Three

Influence of Provision for Asset Losses Calculation on KPMM Ratio

Article 50

- (1) In the calculation of KPMM ratio, Bank is obliged to calculate provision for asset losses on Earning Assets as referred to in Article 41 paragraph (2) and CKPN established.
- (2) In the event result of provision for asset losses calculation on Earning Assets is larger than the CKPN established, Bank is obliged to calculate the difference between provision for asset losses calculation and CKPN as a reduction in capital in the calculation of KPMM ratio.
- (3) In the event result of provision for asset losses calculation on Earning Assets is the same or smaller than the CKPN established, Bank does not need to take provision for asset losses into consideration in the calculation of KPMM ratio.

Article 51

Bank is obliged to calculate all result of provision for asset losses calculations on Non-Earning Assets as referred to in Article 41 paragraph (2) letter b as a deduction in the calculation of KPMM ratio.

CHAPTER VI

DEBT RESTRUCTURING

Section One

General Provisions

Article 52

Bank can only undertake Debt Restructurings on debtors that meet the following criteria:

- a. debtors that are experiencing difficulties in paying Credit principals and/or interests; and
- b. debtors have good business prospects and are assessed to be able to meet the obligations after debt restructuring.

Article 53

Bank is prohibited from undertaking Debt Restructuring with the objective of only for:

- a. improving Credit quality; or
- b. avoiding an increase in the formation of provision for asset losses

without taking into consideration of debtor criteria as referred to in Article 52.

Section Two

Accounting Treatment for Debt Restructuring

Article 54

Bank is obliged to adopt the accounting treatment for Debt Restructuring in accordance with prevailing financial accounting standards.

Section Three

Policy and Procedure for Debt Restructuring

Article 55

- (1) Bank is obliged to have a written policy and procedure concerning Debt Restructuring.
- (2) The policy as referred to in paragraph (1) should be approved by the Board of Commissioners.
- (3) The procedure as referred to in paragraph (1) should be approved by no lower than the Board of Directors.
- (4) The Board of Commissioners should undertake active supervision on the implementation of the policy on Debt Restructuring as referred to in paragraph (1).
- (5) The policy and procedure as referred to in paragraph (1) constitute an inseparable part of Bank risk management policy as stipulated in prevailing Bank Indonesia regulation.

Article 56

- (1) Decision for Debt Restructuring must be made by a party that is higher than the party that decides Credit extension.

- (2) In the event decision on Credit extension is made by a party that has a higher authority in accordance with Bank's articles of association, decision on Debt Restructuring shall be made by a party that is of the same level as the party that makes the decision for Credit extension.
- (3) To maintain objectivity, Debt Restructuring should be undertaken by an officer or employee who is not involved in the extension of the restructured debt.
- (4) In undertaking Debt Restructuring, the establishment of a special task force shall be in accordance to the need of each Bank while yet following Bank Indonesia prevailing stipulations.

Article 57

- (1) Debt that is going to be restructured should be analyzed based on debtor's business prospect and ability to repay according to cash flow projection.
- (2) Debt to Related Party that is going to be restructured should be analyzed by an independent financial consultant that has a business license and good reputation.
- (3) Each stage in the undertaking of Debt Restructuring and result of analysis performed by Bank and the independent financial consultant on restructured debt should be completely and clearly documented
- (4) The provisions referred to in paragraph (1), paragraph (2), and paragraph (3) are also applicable for repeated Restructuring on Credits.

Section Four

Determination of Restructured Debt Quality

Article 58

- (1) The quality of Credit after restructuring shall be determined as follows:
 - a. at the highest the same as the quality of Credit before Debt Restructuring, as long as the debtor has not met the obligation to pay the principal and/or interests consecutively during 3 (three) periods in accordance with agreed times.
 - b. can be upgraded to the highest 1 (one) level from the quality of Credit before Debt Restructuring, as long as the debtor has met the obligation to pay the principal and/or interests consecutively during 3 (three) periods as referred to in letter a; and
 - c. based on assessment factors referred to in Article 10:
 - 1) after determination of Credit quality as referred to in letter b; or

- 2) in the event the debtor does not meet the requirements and/or obligation to make payment stated in the Debt Restructuring agreement, both during as well as after the 3 (three) periods of payment obligation in accordance to the agreed times.
- (2) Determination of the quality of restructured Debt upto the amount of Rp1,000,000,000.00 (one billion rupiah) shall be undertaken as follows:
 - a. at the highest Sub Standard for Credits, which prior to debt restructuring are classified as Doubtful and Loss, and the same for Credits that are previously classified as Sub Standard and Special Mention, for upto 3 (three) periods of payment obligation;
 - b. after that, it is determined based on assessment factor on timeliness of payments of principal and/or interests.
 - (3) The quality of restructured Debts can be determined based on assesment factors as referred to in Article 10, in the event the undertaking of Debt Restructuring is not supported by adequate analysis and documentation as referred to in Article 57.
 - (4) In the event the period of fulfillment of payment obligation on principal and/or interests is less than 1 (one) month, the upgrade in quality as referred to in paragraph (1) letter b can be undertaken at the earliest 3 (three) months after the undertaking of Debt Restructuring.
 - (5) The provisions referred to in paragraph (1), paragraph (3), and paragraph (4) shall also apply on repeated restructuring of Debts.
 - (6) The quality of additional Credit as part of the Debt Restructuring package shall be determined to be the same as the quality of restructured Debt.
 - (7) The quality of restructured Debt undertaken prior to the effectiveness of this regulation needs not to be adjusted to Article 58 paragraph (1) letters a and b.
 - (8) Further on, determination of Credit quality as referred to in paragraph (7) shall be undertaken based on assessment factors referred to in Article 10, no later than 3 (three) months after this Bank Indonesia Regulation becomes effective.

Article 59

Determination of the quality of restructured Debt that gives grace period for payment of principal and interests shall be as follows:

- a. during the grace period, the quality follows the quality of Credit prior to restructuring;
and

- b. after the grace period, the quality of Credit follows determination of quality as referred to in Article 58.

Article 60

- (1) Determination of the quality of Earning Assets as referred to in Article 5, Article 6, and Article 7 shall also apply to restructured debts.
- (2) In the case restructured Credit as referred to in paragraph (1) amounts to more than Rp10,000,000,000.00 (ten billion rupiah), determination of Credit quality shall not be influenced by the quality of Credit extended by another Bank to that same debtor or project in the amount of less than or the same as Rp10,000,000,000.00 (ten billion rupiah).

Section Five

Provision for Asset Losses and Recognition of Income from Restructured Debt

Article 61

Bank is obliged to calculate provision for asset losses on restructured Debt in accordance to the provision referred to in Article 42.

Section Six

Debt Restructuring through Temporary Equity Participation

Article 62

- (1) Bank can undertake Debt Restructuring in the form of Temporary Equity Participation.
- (2) The Temporary Equity Participation as referred to in paragraph (1) can only be undertaken for Credits that have the qualities of Sub Standard, Doubtful, or Loss.

Article 63

- (1) Temporary Equity Participation should be withdrawn when:
 - a. it has exceeded the time period of no longer than 5 (five) years; or
 - b. debtor's company in which participation is made has obtained cumulative profit.
- (2) Temporary Equity Participation should be written-off from Bank balance sheet if it exceeds the time period of 5 (five) years.

Section Seven

Debt Restructuring Report

Article 64

Bank is obliged to report to Bank Indonesia all Debt Restructurings that have been undertaken in accordance with Bank Indonesia regulation that provide stipulations concerning Commercial Bank Periodic Reports.

Section Eight

Corrections In The Framework of Debt Restructuring

Article 65

Bank Indonesia has the authority to make corrections to classification of Credit quality and provision for asset losses calculation, when:

- a. according to Bank Indonesia's assessment, the Debt Restructuring is undertaken for the objective referred to in Article 53;
- b. Debt Restructuring is not supported with complete documents and adequate analysis concerning debtor's capacity to make payments and business prospect.
- c. debtor does not fulfill the Debt Restructuring agreement;
- d. Debt restructuring is undertaken repeatedly with the objective only to improve Credit quality without taking into account debtor's business prospect; and/or
- e. Debt restructuring that is not undertaken in accordance with the provisions stipulated in this Bank Indonesia Regulation.

CHAPTER VII

WRITE-OFFS AND CLAIM WRITE-OFFS

Article 66

- (1) Bank is obliged to have a written policy and procedure concerning write-offs and claim write-offs.
- (2) The policy as referred to in paragraph (1) should be approved by the Board of Commissioners.
- (3) The procedure as referred to in paragraph (1) should be approved at least by than the Board of Directors.
- (4) The Board of Commissioners should undertake active supervision on the implementation of the policy as referred to in paragraph (1).
- (5) The policy and procedure as referred to in paragraph (1) constitute an inseparable part of Bank risk management policy as stipulated in prevailing Bank Indonesia regulation.

Article 67

- (1) write-offs and/or claim write-offs can only be undertaken on fund provisions that have been supported by calculation of CKPN of 100% and which quality has been determined as Loss.
- (2) write-offs cannot be undertaken on part of the fund provisions (partial write-offs).
- (3) Claim write-offs can be undertaken both for part of or all fund provisions.
- (4) Claim write-offs on part of fund provisions as referred to in paragraph (3) can only be undertaken in the framework of Debt Restructuring or in the framework of Credit settlement.

Article 68

- (1) write-offs and/or claim write-offs as referred to in Article 67 can only be undertaken after Bank has undertaken various efforts to obtain back the Earning Assets extended.
- (2) Bank is obliged to document efforts undertaken as referred to in paragraph (1) as well as the basis for consideration to undertake write-offs and/or claim write-offs.
- (3) Bank is obliged to administer data and information concerning Earning Assets that have been written off and/or which claims have been written-off.

CHAPTER VIII

ACTION PLAN

Article 69

- (1) Bank is obliged to prepare an action plan to overcome problems being faced, when it is expected to experience a decline in KPMM ratio:
 - a. significantly; or
 - b. approaching or less than the KPMM ratio that is in accordance with prevailing stipulation due to the enforcement of this Bank Indonesia Regulation.
- (2) In addition to the action plan as referred to in paragraph (1), Bank is obliged to prepare an action plan when there is an instruction from Bank Indonesia.
- (3) The action plan as referred to in paragraph (1) should be submitted no later than 6 (six) months after the enforcement of this Bank Indonesia Regulation to Bank Indonesia at the following addresses:
 - a. Relevant Department of Bank Supervision, Jl. M.H. Thamrin Number 2, Jakarta 10350, for Banks which head offices are located within the work area of Bank Indonesia head office; or

- b. local Bank Indonesia Representatives, for Banks which head offices are located outside the work area of Bank Indonesia head office.

CHAPTER IX

SANCTIONS

Article 70

1. Any Bank that commits violations against the provisions set forth in Article 2, Article 4, Article 5, Article 6, Article 7 paragraph (2), Article 8, Article 9, Article 13, Article 17, Article 18, Article 22, and Article 30 paragraph (3), Article 31, Article 34, Article 35, Article 37, Article 38, Article 40, Article 41, Article 44, Article 45, Article 47, Article 48 paragraph (2), Article 49, Article 50, Article 51, Article 52, Article 53, Article 54, Article 55, Article 56, Article 57, Article 58, Article 59, Article 60, Article 61, Article 62 paragraph (2), Article 63, Article 64, Article 66, Article 67, Article 68, and/or Article 69 can be imposed with administrative sanctions among others in the forms of:
 - a. written warning;
 - b. freezing of certain business activities; and/or
 - c. the stating of Bank management and/or shareholders in the list of parties that have received the predicate of having failed the fit and proper test.
2. In addition to sanctions referred to in paragraph (1), Bank, which has violated the provisions in Article 17 and Article 18, is obliged to calculate provision for asset losses in the amount of 100% (one hundred percent) for the said Asset.

CHAPTER X

TRANSITIONAL PROVISIONS

Article 71

Standby letters of credit that are issued by any prime bank and have met the requirements for cash collaterals prior to the effectiveness of this Bank Indonesia Regulation are declared to have met the requirements until due dates.

CHAPTER XI

CONCLUDING PROVISIONS

Article 72

Further provisions concerning assessment of Commercial Bank asset quality shall be stipulated in a Bank Indonesia Circular Letter.

Article 73

When this Bank Indonesia Regulation comes into effect, all implementing stipulations of Bank Indonesia Regulation Number 7/2/PBI/2005 concerning Assessment of Commercial Bank Asset Quality (State Gazette of the Republic of Indonesia Number 12 of 2005, Supplement to the State Gazette of the Republic of Indonesia Number 4471) as amended a few times, the latest by Bank Indonesia Regulation Number 11/2/PBI/2009 (State Gazette of the Republic of Indonesia Number 28 of 2009, Supplement to the State Gazette of the Republic of Indonesia Number 4977) shall still be valid as long as they are not in conflict with the provisions in this Bank Indonesia Regulation.

Article 74

With the enforcement of this Bank Indonesia Regulation:

- a. Bank Indonesia Regulation Number 7/2/PBI/2005 (State Gazette of the Republic of Indonesia Number 12 of 2005, Supplement to the State Gazette of the Republic of Indonesia Number 4471) concerning Assessment of Commercial Bank Asset Quality.
- b. Bank Indonesia Regulation Number 8/2/PBI/2006 (State Gazette of the Republic of Indonesia Number 4 of 2006, Supplement to the State Gazette of the Republic of Indonesia Number 4598) concerning Amendment to Bank Indonesia Regulation Number 7/2/PBI/2005 dated 20 January 2005 concerning Assessment of Commercial Bank Asset Quality.
- c. Bank Indonesia Regulation Number 9/6/PBI/2007 (State Gazette of the Republic of Indonesia Number 54 of 2007, Supplement to the State Gazette of the Republic of Indonesia Number 4716) concerning Second Amendment to Bank Indonesia Regulation Number 7/2/PBI/2005 dated 20 January 2005 concerning Assessment of Commercial Bank Asset Quality.
- d. Bank Indonesia Regulation Number 11/2/PBI/2009 (State Gazette of the Republic of Indonesia Number 28 of 2009, Supplement to the State Gazette of the Republic of Indonesia Number 4977) concerning Third Amendment to Bank Indonesia Regulation Number 7/2/PBI/2005 dated 20 January 2005 concerning Assessment of Commercial Bank Asset Quality.

are revoked and declared to be no longer valid

Article 75

This Bank Indonesia Regulation shall come into effect as of the date of enactment.

For public information, orders this Bank Indonesia Regulation be published in the State Gazette of the Republic of Indonesia.

Ratified in Jakarta

On 24 October 2012

Governor of Bank Indonesia

DARMIN NASUTION

Enacted in Jakarta

On 24 October 2012

MINISTER OF LAW AND HUMAN RIGHT
REPUBLIC OF INDONESIA

AMIR SYAMSUDIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 202 OF 2012
DPNP

ELUCIDATION
TO
BANKINDONESIAREGULATION
NUMBER14/15/ PBI / 2012
CONCERNING
ASSESSMENT OF COMMERCIAL BANK ASSET QUALITY

I. GENERAL REVIEW

As already commonly known, bank as a financial institution that undertakes the intermediation function is demanded to present financial reports that are accurate, comprehensive, and reflect Bank's whole performance. One of the requirements of presentation of financial reports that are accurate and comprehensive is that the said financial reports should be presented in accordance with prevailing financial accounting standards.

In the framework of maintaining the sustainability of its business, Bank needs to keep managing credit risk exposures at an adequate level by among others maintaining asset quality and undertaking calculation of provision for asset write-offs.

Further more, it cannot be denied that global economic condition can influence the condition and performance of national banking sector. In this regards, anticipative steps are necessary for maintaining and protecting banking sector's condition.

Aside from that, as the regulation that provides stipulations concerning asset quality has experienced adjustments a few times and in relation to Bank Indonesia's other stipulations, it is deemed necessary to undertake harmonization so that implementation of the said stipulations can be well executed.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

Self-explanatory.

Paragraph (2)

Steps that are necessary to ensure Asset quality stays good are among others the implementation of effective credit risk management, including through the

preparation of policy and guideline as provided in Bank Indonesia's prevailing stipulation.

Article 3

Self-explanatory.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The definition of notification includes notification made by Bank Indonesia to Bank during the exit meeting of Bank supervision.

Article 5

Paragraph (1)

In this paragraph, debtor can be an individual or a business entity that is a separate entity that produces cash flow as the source for repayment of Earning Assets.

Paragraph (2)

The definition of the same project applies when:

- a. there is a significant business chain interconnection in the production process undertaken by several debtors. The interconnection is considered significant when among others the production process at a certain entity depends on the production process at another entity. For example, there is a dependency on raw materials in the production process.
- b. the sustainability of cash flow in one entity shall be significantly disrupted that it will experience difficulty in fulfilling its obligation when the cash flow of the other entity is disrupted.

Paragraph (3)

Example 1:

Bank B gives investment Credit and working capital Credit facilities to debtor

A. Result of assessment undertaken by Bank B on each facility is as follows:

- a. Special Mention, for investment Credit; and
- b. Sub Standard, for working capital Credit.

Considering the Credits are used for financing 1 (one) debtor, the quality of Earning Assets determined by Bank B for Credits given to debtor A shall follow the lowest Earning Asset quality, which is Sub Standard.

Example 2:

Bank B gives Credit facilities to debtor A and debtor C, which are used to finance the same project, namely project D. The main source for repaying the Credits, both in the cases of debtor A as well as debtor C comes from the cash flow produced by project D. The result of assessment undertaken by Bank B on Credits given to debtor A and debtor C is as follows:

- a. Special Mention, for debtor A; and
- b. Sub Standard, for debtor C.

Considering the Credits are used for the financing of the same project, the Earning Asset qualities determined by Bank B on Credits given to debtor A and debtor C shall follow the lowest Earning Asset quality, which is Sub Standard.

Paragraph (4)

Example:

Credit quality is determined based on assessment factors such as business prospect, debtor performance, and capacity to pay.

Meanwhile, quality of Securities that are acknowledged based on acquisition price shall be determined based on assessment factor in the forms of rating, timeliness of payments of coupons or other similar obligations, and maturity dates.

Because there is a difference in the assessment factors for determination of Credit Assets and Securities, the qualities of Credits and Securities shall be determined differently although they are for the same debtor or project.

Article 6

Paragraph (1)

Example 1:

Bank B and Bank C give Credit facilities to debtor A. Because the facilities are given to the same debtor, the quality determined for those Credit facilities, both by Bank B as well as Bank C, should be the same.

Example 2:

Bank B and Bank C each gives Credit facility to debtor D and debtor E, which use them for financing the same project, namely project A.

Because the facilities are given to the same project, the qualities determined for those Credit facilities, the facility to debtor D by Bank B as well as the facility to debtor E by Bank C, should be the same.

Paragraph (2)

Letter a

The limit for the amount as referred to in this provision is calculated over the whole facilities given to each debtor or each project, both for individual debtor as well as Borrowing Group in the case where the Earning Assets are used for financing the same project.

Earning Assets given by each Bank in the amount of more than Rp10,000,000,000.00 (ten billion rupiah) to the same 1 (one) debtor or 1 (one) project are not influenced by the quality of Earning Assets given by another Bank to the same debtor or project in the amount of less than or the same as Rp10,000,000,000.00 (ten billion rupiah).

Letter b

50 (fifty) largest debtors mean Bank's 50 (fifty) largest debtors individually. The limit of the amount as referred to in this stipulation is calculated on all facilities given to each debtor.

Earning Assets given by Bank in the amount of more than Rp1,000,000,000.00 (one billion rupiah) upto Rp10,000,000,000.00 (ten billion rupiah) to 1 (one) debtor that is part of that Bank's 50 (fifty) largest debtors are not influenced by the quality of Earning Assets given by another Bank to the same debtor or project in the amount of less than or the same as Rp10,000,000,000.00 (ten billion rupiah).

Letter c

The definition of Earning Assets that are given based on a joint financing agreement includes financing structure such as syndication. Determination of the same quality on Earning Assets given based on a joint financing agreement has no limitation in minimum amount.

Therefore, Earning Assets given to the same 1 (one) debtor or 1 (one) project based on a joint financing agreement should have the same

quality eventhough the Earning Assets given by each Bank is less than Rp10,000,000,000.00 (ten billion rupiah).

Paragraph (3)

Example:

Bank B and Bank C give Credit facilities to debtor A, with assessment result at each Bank being as follows:

- a. Special Mention, at Bank B; and
- b. Sub Standard, at Bank C.

Considering Credits are used for financing 1 (one) debtor, the quality of Earning Assets determined for Credits to debtor A follows the lowest, namely Sub Standard.

Paragraph (4)

Letter a

Self-explanatory.

Letter b

Result of Earning Asset quality assessment that is lower is purely caused by the use of additional assessment factor, which is the country risk of the Republic of Indonesia state, does not influence the result of Earning Asset quality assessment given to the same debtor or project at another Bank, which is determined by the assessment factors as provided in the prevailing Bank Indonesia Regulation concerning Assessment of Commercial Bank Asset Quality. However, in the event Earning Asset quality determined with additional assessment factor of Republic of Indonesia country risk has given a better assessment result compared to Earning Asset quality that is assessed with assessment factors in prevailing Bank Indonesia Regulation concerning Assessment of Commercial Bank Asset Quality, Earning Asset quality still follows the lowest quality, namely the quality that is determined based on the assessment factors in that prevailing Bank Indonesia Regulation.

Paragraph (5)

Example:

Credit quality is determined based on assessment factors such as business prospect, debtor's performance and capacity to pay.

Meanwhile, the quality of Securities that are acknowledged based on acquisition price is determined based on assessment factors such as rating, timeliness of payments of coupons and other similar obligations, and maturity date.

Because there is a difference in assessment factors for the determination of Credit quality and Security quality, Credit quality and Security quality can be determined differently although they are for the same debtor or project.

Article 7

Paragraph (1)

Letter a

Self-explanatory.

Letter b

The definition of clear segregation between the cash flow of each project means there is no significant inter-connection in the cash flow between the projects. Inter-connection in the cash flow is considered significant when cash flow sustainability of one project will significantly be disrupted when the cash flow of the other project is disrupted.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Documentation among others covers supporting document that explain debtor's condition so that it will not be necessary for the same quality determination by another Bank. The supporting document can comprise data or information that supports assessment from the aspects of debtor's business prospect, performance, as well as capacity to pay as well as Bank's consideration in undertaking assessment, which can be in the form of, but not limited to, document concerning fund sources/cash flow.

Paragraph (3)

Self-explanatory.

Article 8

Paragraph (1)

Adjustment to the assessment of Earning Asset quality for the positions of the end of March, June, September, and December shall be undertaken by referring to the quality assessment of the previous month. In undertaking adjustments to Earning Asset quality assessment, Bank that follows the quality assessment that is lower at another bank (follower Bank) needs to specifically administer the changes in Earning Asset quality that are caused by the mechanism as referred to in Article 6. Further on, follower Bank shall actively undertake monitoring each month of the quality of Earning Assets that are specifically administered by reviewing development of the said debtor's or project's Earning Asset quality at the other Bank (initiator Bank).

Bank that is not required to make adjustments to debtor's quality (initiator Bank) with the quality of the same debtor at another Bank because the quality of that debtor is the same or worse than the quality at the other Bank and then the said debtor's condition becomes better in the next month, the said Bank must immediately revise that debtor's quality without having to wait for debtor quality assessment at the other Bank for the positions of end of March, June, September, and December.

For the positions of end of month other than end of March, June, September, and December, follower Bank can make a change to credit quality that has been adjusted due to the implementation of the Uniform Classification System (UCS) by following the revision to asset quality that has been adjusted by initiator Bank, as long as that quality is in line with the asset quality at the follower Bank.

Paragraph (2)

Self-explanatory

Paragraph (3)

In the event the 10th (tenth) falls on a holiday, the written information and explanations shall be submitted no later than in the previous working day.

Information and explanations as well as report should only be submitted when there is a difference in the assessment of Earning Asset quality with the assessment at the other Bank.

Paragraph (4)

Self-explanatory.

Article 9

Paragraph (1)

The said obligation for an audit on the financial reports is so that debtor's financial reports are accurate and reliable, considering debtor's financial condition constitutes one of the criteria in determining Earning Asset quality.

Paragraph (2)

Self-explanatory

Paragraph (3)

Prevailing legislations mean among others Government Regulation Number 24 of 1998 concerning Company Annual Financial Information as amended by Government Regulation Number 64 of 1999.

Paragraph (4)

Self-explanatory.

Article 10

Self-explanatory.

Article 11

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

In this letter, debtor means debtor that is obliged to make efforts to maintain living environment in accordance with prevailing legislations.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 12

Self-explanatory.

Article 13

Self-explanatory.

Article 14

Paragraph (1)

Securities in trading portfolio that are available for sale are recognized based on market prices in accordance with prevailing financial accounting standards.

Letter a

The criteria of being actively traded on a stock exchange means that there is a significant volumes of transactions and arms length transactions on the stock exchange in Indonesia within the last 10 (ten) working days.

Letter b

Transparent market value information should be available to be obtained from the normal publication media for stock exchange transactions.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Paragraph (2)

Securities that are recognized at cost are Securities in owned portfolio that are held to maturity.

The use of rating shall refer to the provisions of Bank Indonesia that stipulate concerning Rating Institutions and Ratings that Are Acknowledged by Bank Indonesia.

Article 15

Self-explanatory.

Article 16

Bank Indonesia Certificates and Government Securities include those issued based on sharia principles.

Article 17

Security ownership that is connected to or guaranteed by certain underlying reference assets that are in the form of shares can only be undertaken with the purpose of Equity

Participation or Temporary Equity Participation and can only be undertaken with Bank Indonesia's permission as referred to in prevailing stipulations of Bank Indonesia.

Article 18

Securities that are connected to or guaranteed with certain underlying reference assets are among others mutual fund certificates, credit linked notes, and securities with asset collaterals.

Letter a

There is confidence that the assets are in existence means among others that the assets are kept at a custodian bank, Indonesian Central Securities Depository, or Bank Indonesia.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Article 19

Paragraph (1)

Letter a

Payments of Security obligations are stated to be directly related to the underlying reference assets (pass through) when payments of principal and interests of Securities are solely from the source of payments of principal and interests from the underlying reference assets.

Letter b

Self-explanatory.

Paragraph (2)

The quality of underlying reference assets is determined based on the type of assets and quality of those assets. For example, asset in the form of Credit to debtor is assessed based on the provision concerning the quality of Credit to debtor, while assets in the form of Securities are assessed based on security quality and assets in the form of deposits at another bank are assessed based on Placement quality.

In the event, the underlying reference assets have different qualities, Security quality shall be determined based on the quality of each underlying reference asset and calculated proportionally.

Paragraph (3)

Letter a

Determination of mutual fund certificate quality is based on the provision concerning assessment of Security quality, which shall be performed on the mutual fund certificate as one product and not based on each type of underlying reference asset of the said mutual fund certificate.

Letter b

Mutual fund certificate quality is determined based on the quality of each type of underlying reference asset and the quality of the issuer of the mutual fund certificate based on the provision concerning Credit quality, with emphasis on:

- a. Issuer's performance, liquidity, and reputation; and
- b. Diversification of portfolios owned by the issuer.

Article 20

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Securities, which based on their characteristics cannot be traded on a stock exchange and do not have ratings, are among others export negotiation od bills of exchange.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 21

Negotiation of bills of exchange includes export bills of exchange and Domestic Letters of Credit (SKBDN).

Article 22

Self-explanatory.

Article 23

Paragraph (1)

KPMM ratio that is in accordance with prevailing stipulation is KPMM ratio that is determined by Bank Indonesia for domestic banks or by the authorized authorities for overseas banks.

The KPMM ratio shall be based on the latest publicized financial reports in accordance with the periods set by Bank Indonesia for domestic banks or by the authorized authorities for overseas banks. When the latest publicized financial reports or KPMM data in the latest publicized financial reports are not available, bank is deemed to have KPMM that is less than the prevailing stipulation.

Paragraph (2)

Linkage Program is cooperation between Commercial Banks and Rural Credit Banks in channeling credits to Micro and Small-Scale Businesses.

Article 24

Self-explanatory.

Article 25

Paragraph (1)

Securities that are purchased under reverse repurchase agreement means the purchase of Securities from another party that is supplemented with an agreement to resell to the other party at the end of the period with a price or yield that has been previously agreed.

Paragraph (2)

Self-explanatory.

Article 26

Self-explanatory.

Article 27

Paragraph (1)

Self-explanatory.

Paragraph (2)

Investee means the company where Bank puts Equity Participation.

Paragraph (3)

Self-explanatory.

Article 28

Paragraph (1)

The time period for Temporary Equity Participation is calculated as from when the Bank undertakes Temporary Equity Participation.

Paragraph (2)

Self-explanatory.

Article 29

Paragraph (1)

Self-explanatory.

Paragraph (2)

An uncommitted facility means an extension of facility which agreement contains a clause stating that the Bank can cancel or not fulfill the facility under certain conditions or reasons.

Article 30

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

In the case where the cash collateral is gold, the value of the collateral shall be determined based on market value.

Letter b

In the case where the cash collateral in SUN, the value of the collateral shall be determined based on the market price of SUN or in the event market price is not available, it is determined based on fair value.

Letter c

The Government of Indonesia in this letter means the Central Government.

Letter d

Self-explanatory.

Paragraph (3)

The blocking and binding of SBI and Sun as well as other fund placements at Bank Indonesia and the Government currently are administered by Bank Indonesia.

Paragraph (4)

Unconditional means when:

- a. the benefit obtained by the Bank that provides fund from the guarantee shall not decrease substantially although there is a loss caused by factors outside the Bank's control; and
- b. does not contain procedural requirements, such as:
 1. requirement of the timing of notification of default;
 2. requirement of obligation to prove good faith by the Bank that provides fund; and/or
 3. requirement of disbursement of guarantee first by way of the setting off of the obligation of the Bank that provides fund to the guaranteeing party.

Paragraph (5)

Self-explanatory.

Article 31

Self-explanatory.

Article 32

Paragraph (1)

The limit meant in this provision is calculated on all facilities given to each debtor or project, both individual debtor as well as Borrowing Group in the case of Credits and other fund provisions used for the financing of the same project.

Letter a

Other fund provisions are issuance of guarantees and/or opening of letters of credit.

Credits and other fund provisions include all types of Credits and other fund provisions that are provided to all categories of debtors.

Letter b

Definition of Micro, Small, and Medium-Scale Business refers to prevailing legislation, which currently is stipulated in the Republic of Indonesia's Act Number 20 of 2008 concerning Micro, Small, and Medium-Scale Businesses.

Number 1)

Letter a)

Adequacy of the Quality of Risk Management Implementation covers:

- a. active supervision by the Board of Commissioners and the Board of Directors;
- b. adequacy of policy, procedure, and determination of risk management limit;
- c. adequacy of risk identification, measurement, monitoring, and control processes, as well as risk management information system; and
- d. overall internal control system as referred to in Bank Indonesia prevailing stipulation concerning Implementation of Risk Management for Commercial Banks.

In general, predicate of strong for the Quality of Risk Management Implementation for credit risk is reflected through the effective implementation of all components of Risk Management Implementation Quality mentioned above on all credit risks to maintain Bank's sound internal condition. Although there are a few minor weaknesses, those weaknesses are not significant and therefore can be ignored.

Letter b)

Self-explanatory.

Letter c)

Composite rating is the composite rating as referred to in Bank Indonesia prevailing stipulation concerning Assessment of Commercial Bank Soundness Level.

Number 2)

Letter a)

Adequacy of the Quality of Risk Management Implementation covers:

- a. active supervision by the Board of Commissioners and the Board of Directors;

- b. adequacy of policy, procedure, and determination of risk management limit;
- c. adequacy of risk identification, measurement, monitoring, and control processes, as well as risk management information system; and
- d. overall internal control system as referred to in Bank Indonesia prevailing stipulation concerning Implementation of Risk Management for Commercial Banks.

In general, predicate of satisfactory for the Quality of Risk Management Implementation for credit risk is reflected through sufficiently effective implementation of all components of Risk Management Implementation Quality on all credit risks to maintain Bank's sound internal condition. Although there are a few minor weaknesses, these weaknesses can be settled in normal business activities.

Letter b)

Self-explanatory.

Letter c)

Composite rating is the composite rating as referred to in Bank Indonesia prevailing stipulation concerning Assessment of Commercial Bank Soundness Level.

Letter c

Certain areas are areas that according to Bank Indonesia's assessment need special handling to boost economic development in those areas set by Bank Indonesia. Other fund provisions mean issuance of guarantees or opening of letters of credit. Limits on extension of Credit facilities and other fund provisions are calculated against all facilities received by each debtor, both individual debtor as well as borrowing group that are received from one Bank.

Paragraph (2)

Self-explanatory.

Paragraph (3)

In the event there is an adjustment to the assessment for the position of December or June by Bank Indonesia, the assessment position used is the latest assessment position that has been adjusted.

Paragraph (4)

Letter a

Self-explanatory.

Letter b

50 (fifty) largest debtors are Bank's individual 50 (fifty) largest debtors.

Earning Assets extended by Bank in the amount of more than Rp1,000,000,000.00 (one billion rupiah) upto Rp10,000,000,000.00 (ten billion rupiah) to 1 (one) debtor that is one of Bank's 50 (fifty) largest debtors will not be influenced by the quality of Earning Assets extended by another bank to the same debtor or project in the amount of less than or the same as Rp10,000,000,000.00 (ten billion rupiah).

Paragraph (5)

Self-explanatory.

Paragraph (6)

Self-explanatory.

Article 33

Self-explanatory.

Article 34

Paragraph (1)

This provision is meant sothat Bank undertakes business activities that are in line with its function in public fund mobilization and channeling.

Settlement efforts among others can be undertaken by actively marketing and selling Foreclosed Collaterals.

Paragraph (2)

Documentation among others covers proofs of data and information concerning efforts in marketing and selling of Foreclosed Collaterals.

Article 35

Paragraph (1)

Net realizable value means the fair value of the collateral deducted by the estimated cost of disposal.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Paragraph (6)

Self-explanatory.

Paragraph (7)

Self-explanatory.

Paragraph (8)

Self-explanatory.

Article 36

Self-explanatory.

Article 37

Paragraph (1)

Abandoned properties include among others lands and/or buildings that are not used in Bank business activities such as buildings and/or lands that are leased.

Paragraph (2)

Self-explanatory.

Paragraph (3)& Paragraph (4)

“Majority of which are used in Bank business activities” means that Bank uses a major portion, namely more than 50% (fifty percent). Measurement of the part that is used for Bank business activities is undertaken separately for each property.

Example:

Property A is 65% used in Bank business activities.

Property B is 40% used in Bank business activities.

Property C is entirely not used in Bank business activities.

In this case, property A is entirely not classified as Abandoned Property, property B is 60% classified as Abandoned Property, and property C is entirely classified as Abandoned Property.

Article 38

Paragraph (1)

This provision is meant sothat Bank undertakes business activities that are in line with its function in public fund mobilization and channeling.

Settlement efforts among others can be undertaken by actively marketing and selling Abandoned Properties.

Paragraph (2)

Documentation among others covers proofs of data and information concerning efforts in marketing and selling of Abandoned Properties.

Article 39

Self-explanatory.

Article 40

Paragraph (1)

Settlement efforts are required sothat all Bank transactions are acknowledged and recorded based on characteristics of the transactions and to reduce the possibility for manipulation of transactions that can cause losses for the Bank.

Paragraph (2)

Interoffice Accounts that are assessed are Interoffice Accounts on the asset side without undertaking set off with Interoffice Account on the liability side, considering that transaction counterparties have not been able to be ascertained as being the same party or office.

Article 41

Paragraph (1)

Banks is obliged to calculate provision for asset losses both for Earning Assets as well as Non-Earning Assets in the framework of meeting prudential principles. In accordance with prevailing financial accounting standards, the result of provision for asset losses calculation is not recorded in Bank financial reports.

Calculation of provision for asset losses on Non-Earning Assets are meant to boost Bank to undertake settlement efforts and to anticipate potential losses.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 42

Self-explanatory.

Article 43

Letter a

The criteria of being actively traded on a stock exchange means that there is a significant volumes of transactions and arms length transactions on a stock exchange in Indonesia within the last 10 (ten) working days.

Investment grade ratings are based on the ratings issued by rating institutions in the last one year. When ratings issued by rating institutions in the last one year are not available, the Securities are deemed not to have ratings.

Letter b

The rating of collateral in mortgage must be in accordance the provisions and procedure stipulated in prevailing legislations, including but not limited to registration issues that Bank has a preference right on the said collateral.

Letter c

The binding of collateral in mortgage must be in accordance with the provisions and procedure stipulated in prevailing legislations, including but not limited to registration issue so that Bank has a preference right on the said collateral.

The attachment of mortgage right on lands and machineries on the lands must be clearly stated in the Deed of Mortgage Right.

Letter d

The binding of collateral in mortgage must be in accordance with the provisions and procedure stipulated in prevailing legislations, including but not limited to registration issue so that Bank has a preference right on the said collateral.

Letter e

The binding of collateral in fiduciary agreement must be in accordance with the provisions and procedure stipulated in prevailing legislations, including but not limited to registration issue so that Bank has a preference right on the said collateral.

Letter f

Warehouse receipts mean warehouse receipts as referred to in Act Number 9 of 2006 concerning Warehouse Receipt System as amended by Act Number 9 of 2011 concerning Amendment to Act Number 9 of 2006 concerning Warehouse Receipt System (Act on Warehouse Receipt System).

Guarantee right on warehouse receipts is the guarantee right that is charged on the warehouse receipts for repayment of debt, which gives foremost position to the party receiving the guarantee right against other creditors, as referred to in the Act on Warehouse Receipt System.

Article 44

Paragraph (1)

Letter a

Self-explanatory.

Letter b

The binding that is given preference right is the binding that is undertaken with pledge, mortgage, mortgage right, and fiduciary right.

Letter c

Banker's clause is a clause that gives the right to Bank to receive the sum insured in the event of claim payment.

Paragraph (2)

Self-explanatory.

Article 45

Paragraph (1)

The limit of Rp5,000,000,000.00 (five billion rupiah) is calculated on all facilities given to debtor or Borrowing Group.

Assessment of collaterals by Bank internal appraiser shall refer to assessment standards used by independent appraisers.

Paragraph (2)

Self-explanatory.

Article 46

Paragraph (1)

Letter a

Investment grade rating is investment grade rating as stipulated in Bank Indonesia prevailing stipulation concerning Rating Institutions and Ratings Acknowledged by Bank Indonesia.

Letter b

Assessment means written statement from independent appraiser or Bank internal appraiser concerning the estimate of and opinion on the economical value of the collateral based on analysis of objective and relevant facts in accordance with generally prevailing methods and principles set by associations and/or authorized institutions.

Letter c

Lands and/or buildings that are not for residential properties include among others shops cum houses, plantation lands, and mining lands.

Assessment means written statement from independent appraiser or Bank internal appraiser concerning the estimate of and opinion on the economical value of the collateral based on analysis of objective and relevant facts in accordance with generally prevailing methods and principles set by associations and/or authorized institutions.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Other matters that can be taken into consideration are among others by being based on historical data of the realization value of the collateral, which in general is far lower than the value of the collateral that is calculated as a deduction of provision for asset losses as referred to in paragraph (1), and/or there is a big gap between result of assessment and calculation of the collateral present value.

Article 47

Calculation of collateral as a deduction to provision for asset losses that should be calculated by Bank is related to the function of collateral as a tool for mitigation of credit risk. In this regard, collateral that can also be calculated as a provision for asset losses deduction is collateral that can be realized by Bank in the event of default on the fund provision given.

Example:

Collateral assessment is undertaken in the last 12 (twelve) months with the resulting collateral value of Rp100,000,000,000.00 (one hundred billion rupiah). Collateral that can be calculated as a deduction in provision for asset losses calculation: 70%

(seventy percent) x Rp100,000,000,000.00 (one hundred billion rupiah) = Rp70,000,000,000.00 (seventy billion rupiah).

When the boundamount to the said collateral is Rp60,000,000,000.00 (sixty billion rupiah), the collateral that can be calculated as a deduction in provision for asset losses calculation is Rp60,000,000,000.00 (sixty billion rupiah).

Article 48

Paragraph (1)

Self-explanatory.

Paragraph (2)

Notification includes notification given by Bank Indonesia to Bank in the exit meeting of Bank supervision.

Article 49

Self-explanatory.

Article 50

Paragraph (1)

Self-explanatory.

Paragraph (2)

Example:

Result of provision for asset losses calculation on Earning Assets is Rp100,000,000,000.00 (one hundred billion rupiah) and Bank has established CKPN amounting to Rp80,000,000,000.00 (eighty billion rupiah). Therefore, the difference between results of provision for asset losses calculation and CKPN amounting to Rp20,000,000,000.00 (twenty billion rupiah) shall be a reduction to capital in the calculation of KPMM ratio.

Paragraph (3)

Example:

1. Result of provision for asset losses calculation on Earning Assets amounts to Rp100,000,000,000.00 (one hundred billion rupiah) and Bank has established CKPN amounting to provision for asset losses calculation, namely Rp100,000,000,000.00 (one hundred billion rupiah). Therefore, result of provision for asset losses calculation does not influence calculation of KPMM ratio.
2. Result of provision for asset losses calculation on Earning Assets amounts to Rp100,000,000,000.00 (one hundred billion rupiah) and Bank has

established CKPN amounting to Rp150,000,000,000.00 (one hundred fifty billion rupiah). Therefore, the difference between the result of provision for asset losses calculation and CKPN established does not influence calculation of KPMM ratio.

Article 51

Example:

Result of provision for asset losses calculation on Non-Earning Assets amounts to Rp10,000,000,000.00 (ten billion rupiah). Therefore, Bank is obliged to calculate the overall result of provision for asset losses calculation on Non-Earning Assets. When there is loss from value impairment that has been established by bank in the balance sheet on Non-Earning Assets in accordance with prevailing Financial Accounting Standards, provision for asset losses calculation on Non-Earning Assets shall be undertaken on the value of Non-Earning Assets after being deducted with the loss from value impairment.

Article 52

Self-explanatory.

Article 53

Self-explanatory.

Article 54

Accounting treatment for Debt Restructuring is applied among others on:

- a. acknowledgement of loss that has arisen; and
- b. acknowledgement of interest income and other receipts.

Article 55

Self-explanatory.

Article 56

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Prevailing Bank Indonesia stipulations mean among others stipulation concerning Obligation to Prepare and Implement Bank Credit Policy for Commercial Banks.

Article 57

Self-explanatory.

Article 58

Paragraph (1)

Example:

Bank X has undertaken Debt restructuring on debtor A, which quality is Doubtful. After restructuring, determination of debtor A's Credit quality is as follows:

- a. Before the debtor can meet the obligation for payment of principal and/or interest during 3 (three) consecutive periods in accordance with agreed times, determination of credit quality is at the highest Doubtful.
- b. After the debtor can meet the obligation for payment of principal and/or interest during 3 (three) consecutive periods in accordance with agreed times, credit quality is determined at 1 (one) level higher to Sub Standard.
- c. Further on, determination of Credit quality shall be undertaken based on assessment factors referred to in Article 10.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Paragraph (6)

Self-explanatory.

Paragraph (7)

Self-explanatory.

Paragraph (8)

Self-explanatory.

Article 59

Self-explanatory.

Article 60

Self-explanatory.

Article 61

Self-explanatory.

Article 62

Self-explanatory.

Article 63

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Cummulative profit is company's profit after calculation of previous years' losses.

Paragraph (2)

Self-explanatory.

Article 64

Self-explanatory.

Article 65

Self-explanatory.

Article 66

Paragraph (1)

write-off is an administrative action by Bank, which among others is for writing off Loss Credit from the balance sheet in the amount of debtor's obligation without deleting Bank's claim right to the debtor.

Claim write-off is an action by Bank to write off all debtor's obligations that cannot be settled.

The policy and procedure for write-offs and claim write-offs shall contain among others the criteria, requirements, limits, authorities, and responsibilities as well as procedure for write-offs and claim write-offs.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 67

Paragraph (1)

Self-explanatory.

Paragraph (2)

write-off is undertaken on all fund provision given and bound in one agreement.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Claim write-off in the framework of Debt Restructuring and Credit settlement is meant for the purpose of transparency for the debtor.

Article 68

Paragraph (1)

Efforts that can be undertaken is among others in the form of claim to the debtor, Debt Restructuring, request for payment from party that gives guarantee on the said Earning Assets, and Credit settlement through the taking over of collaterals.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 69

Self-explanatory.

Article 70

Self-explanatory.

Article 71

Self-explanatory.

Article 72

Self-explanatory.

Article 73

Self-explanatory.

Article 74

Self-explanatory.

Article 75

Self-explanatory.

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