BANK INDONESIA REGULATION
NUMBER: 13/14/PBI/2011

CONCERNING

ASSET QUALITY RATING
FOR ISLAMIC RURAL BANKS

BY THE GRACE OF THE ALMIGHTY GOD

THE GOVERNOR OF BANK INDONESIA,

Considering:

a. whereas the sustainability of an Islamic Rural Bank depends on the ability of bank to make investment by taking into account the risk and the prudential principles which is reflected in the fulfillment of the quality of assets and sufficient allowance for asset losses both on earning assets and non-earning assets;

b. whereas with the enactment of Act Number 21 of 2008 concerning Islamic Banking, it is necessary to adjust the provisions related to asset quality;

c. whereas the provisions on asset quality are very influential to the development of Islamic banking industry;

d. whereas based on the considerations as referred to in letter a, b, and c, it is necessary to revise the provisions pertaining to asset quality for Islamic rural banks in a Bank Indonesia Regulation;

In view of:

1. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number

66 of 1999, Supplement to State Gazette of the Republic of Indonesia Number 3843) as last amended by Act Number 6 of 2009 concerning the Establishment of Government Regulation in Lieu of Act Number 2 of 2008 concerning the Second Amendment to Act Number 23 of 1999 concerning Bank Indonesia into Law (State Gazette of the Republic of Indonesia Number 7 of 2009, Supplement to State Gazette of the Republic of Indonesia Number 4962);

2. Act Number 21 of 2008 concerning Islamic Banking (State Gazette of the Republic of Indonesia Number 94 of 2008, Supplement to State Gazette of the Republic of Indonesia Number 4867);

HAS DECREED

To enact : BANK INDONESIA REGULATION CONCERNING ASSET QUALITY RATING FOR ISLAMIC RURAL BANKS.

CHAPTER I

GENERAL PROVISIONS

Article 1

The terminology used in this Bank Indonesia Regulation has the following meaning:

1. Islamic Rural Bank, hereinafter referred to as BPRS (*Bank Pembiayaan Rakyat Syariah*), is an Islamic Rural Bank as defined to in Act Number 21 of 2008 concerning Islamic Banking.

2. Earning Asset is any investment by a BPRS to gain income, among other things, in the form of Financing and Interbank Placement in accordance with the Sharia Principles.
3. Non-Earning Asset is an asset of BPRS other than the Earning Assets which has potential losses, in the form of Foreclosed Collateral.
4. Financing is the provision of funds and/or receivables which are considered equal with that in the form of:
   a. profit-sharing transactions in the form of *mudharabah* and *musyarakah*;
   b. leasing transactions in the form of *ijarah* or lease-purchase in the form of *ijarah muntahiyah bittamlik*;
   c. sale-purchase transactions in the form of *murabahah, salam* and *istishna'* receivables;
   d. lending–borrowing transaction in the form of *qardh* receivable; and
   e. service-lease transactions in the form of *ijarah* for multiservices transactions

   based on the agreement or arrangement between the BPRS and another party that requires the party that is funded and/or provided with facilities to repay the funds after a specified period of time along with *ujrah*, without any return, or profit-sharing.
5. Financing based on a *mudharabah* contract, hereinafter referred to as *Mudharabah* Financing, is Financing in the form of business cooperation between the BRPS which provides all the capital and the customer that manages the fund by sharing the profits in accordance with the agreement which is set forth in the contract, while the loss is entirely borne by the Bank unless the customer commits a willful mistake, failure or breach of the agreement.
6. Financing based on a *musyarakah* contract, hereinafter referred to as *Musyarakah* Financing, is Financing in the

form of cooperation between the Bank and the customer that has a certain business in which each party provides some portion of the funds provided that the profits will be shared according to the agreement, while the losses are borne in proportion to each contribution of fund.

7. Financing based on a *murabahah* contract, hereinafter called *Murabahah* Financing, is the Financing of an item by conformation of its purchase price to the buyer and the buyer pays the price with an extra amount as a profit which is agreed upon.
8. Financing based on a *salam* contract, hereinafter referred to as *Salam* Financing, is the Financing of an item by way of making order while the payment is made in advance under certain agreed conditions.
9. Financing based on a *istishna'* contract, hereinafter referred to as *Istishna'* Financing, is the Financing of an item in the form by way of order of production of a certain item under certain criteria and conditions which are agreed between the customer and the seller or the manufacturer of the item.
10. Financing based on a *ijarah* contract, hereinafter referred to in *Ijarah* Financing, is the Financing of the transfer of rights to use or benefits from goods or services based on lease, without the transfer of ownership of the goods.
11. Financing based on an *ijarah muntahiya bittamlik* contract, hereinafter referred to as *Ijarah Muntahiya Bittamlik* Financing, is the Financing of the transfer of rights to use or benefits of the goods or services based on a lease transaction with an option of the transfer of ownership of the goods.
12. Financing based on a *qardh* contract, hereinafter referred to as *Qardh* Financing, is Financing in the form of loan

granted to the customer provided that the customer shall repay the funds received at the agreed time.

13. Interbank Placement is an investment in Islamic Commercial Banks, Islamic Business Units and/or BPRS, in the form of, among other things, demand deposit (*giro*), savings, time deposit, Financing, and / or other forms of placement based on the Sharia Principles.
14. Projected Profit Sharing, hereinafter referred to as PBH, is an estimate of revenues which will be received by a BPRS from the customers of *Mudharabah* Financing and *Musyarakah* Financing after calculating the profit sharing ratio, with the amount and due date as agreed between the BPRS and the customer
15. Realization of Profit Sharing, hereinafter referred to as RBH, means the revenue received by the BPRS from the customer of the *Mudharabah* Financing and *Musyarakah* Financing after taking into account the profit sharing ratio.
16. Foreclosed Collateral hereinafter referred to as AYDA is part or whole of the collateral that the BPRS purchases, either through an auction or other non-auction events, based on voluntary delivery of the collateral by the owner or by authorization to sell obtained from the owner of the collateral, with the obligation to liquidate it.
17. Allowance for Asset Losses hereinafter referred to as PPA is a reserve which should be established by a certain percentage based on the quality of the assets.
18. Independent Appraiser is Public Appraisal Services hereinafter referred to as KJPP that:
    a. has no connection in terms of ownership, management and finance with the BPRS and the customer that receives the facility;

b. conducts an assessment based on professional code of ethics and other provisions as determined by the competent institution;
c. uses assessment methods based on professional assessment standards issued by the competent institution;
d. has a business license from the competent institution to operate as an appraisal company, and
e. is recorded as a member of an association recognized by the competent institution.

CHAPTER II
ASSET QUALITY
Article 2

(1) Investment and/or provision of funds by the BPRS shall be carried out pursuant to the prudential principles and the Sharia Principles.
(2) The BPRS shall assess, monitor and take some anticipatory measures in order to maintain the asset quality in the state of Current.

Article 3

The assessment of asset quality shall be conducted on Earning and Non-Earning Assets.

CHAPTER III
EARNING ASSETS
Article 4

(1) The BPRS shall classify into the same quality several accounts of Earning Assets used to fund one (1) customer in the same BPRS.

(2) In the event that there is a different quality of Earning Assets of 1 (one) customer in the same BPRS, the BPRS shall classify the same quality for each of the Earning Assets by adjusting it to the lowest quality of the Earning Assets.

Article 5

(1) The quality of Earning Assets in the form of Financing shall be classified into 4 (four), i.e., Current, Sub-standard, Doubtful, and Loss.
(2) The classification of quality of Earning Assets as referred to in paragraph (1) shall be based on the customer's timely payment and/or the ability to pay the obligations.

Article 6

(1) The assessment of the quality of Earning Assets in the form of *Mudharabah* Financing and *Musyarakah* Financing shall be conducted based on the ability to pay with reference to the ratio of RBH to PBH and/or the timely payment of principal.
(2) The calculation of the ratio of RBH to PBH as referred to in paragraph (1) shall be made based on the accumulation during the current period of *Mudharabah* Financing and *Musyarakah* Financing.
(3) PBH shall be calculated based on the business feasibility analysis and cash inflow of the customer during the period of *Mudharabah* Financing and *Musyarakah* Financing.
(4) The BPRS may change PBH upon agreement with the customer in the event that there are changes in the condition of the macroeconomy, markets, and politic which affect the customer's business.

(5) The BPRS shall include PBH and the changes in PBH in the *Mudharabah* Financing and *Musyarakah* Financing agreement between the BPRS and the customer.

Article 7

(1) In *Mudharabah* Financing, the Bank shall have the obligation to determine the scheduled payments of principal by the customer.
(2) The BPRS shall take some measures to reduce the risk of nonpayment of principal on its due date in the event that in *Mudharabah* Financing it has been agreed that there shall be no regular payments of installment of principal
(3) For *Musyarakah* Financing which is effective for more than 1 (one) year, the BPRS shall establish regular payments of installment of the principal in accordance with the projected cash inflow in the customer's business.
(4) The payment of installment or full payment of the principal of *Mudharabah* Financing and *Musyarakah* Financing shall be included in the Financing agreement between the BPRS and the customer.

Article 8

(1) The assessment of the quality of Earning Assets in the form of *Mudharabah* Financing, *Salam* Financing, *Istishna'* Financing, *Ijarah* Financing, *Ijarah Muntahiya Bittamlik* Financing, multiservice Financing and *Qardh* Financing shall be conducted based on the timely payment of installments, which are distinguished as follows:
   a. installments other than for Home Ownership Loan;
   b. installments for Home Ownership Loan.

(2) Payment of installment as referred to in paragraph (1) shall be included in the agreement between the BPRS and the customer of financing which is supported by full documents, which at least contain the portion of principal, interest/*ujrah*, and/or the payment schedule.

Article 9

The quality of Earning Assets in the form of Placement with Other Banks shall be classified as follows:

a. Current, if:
   1) there are no arrears in the payment of principal for a *qardh* contract, or
   2) ratio of PBH to RBH is greater than or equal to 80% (eighty percent) there are no arrears in payment of principal for *Mudharabah* Financing and *Musyarakah* Financing;
b. Sub-standard, if:
   1) there are arrears in the payment of principal for *qardh*; or
   2) the ratio of RBH to PBH is more than 30% (thirty percent) but less than 80% (eighty percent), or the ratio of RBH to PBH is equal or less than 30% (thirty percent) for up to 3 (three) payment periods and/or there are arrears in the payment of principal for up to 5 (five) business days and/or for *Mudharabah* Financing and *Musyarakah* Financing;
c. Loss, if:
   1) The BPRS or the Islamic Commercial Bank that receives placement has been placed under special supervision, suspension of all business activities has been imposed on it, or its license has been revoked;

2) there are arrears in the payment of principal for *qardh* Financing; and/or
3) the ratio of RBH to PBH is equal to or less than 30% (thirty percent) for more than 3 (three) payment periods and/or there are arrears in the payment of principal for more than 5 (five) business days for *Mudharabah* Financing and *Musyarakah* Financing.

Article 10

(1) Investment by the BPRS in the form of Earning Assets shall be supported with complete documents and sufficient information.
(2) Bank Indonesia shall have the authority to downgrade the quality of Earning Assets which are classified as Current into one of the qualities with Substandard as the highest quality possible, if the document for the provision of fund does not provide sufficient information.

CHAPTER IV
NON EARNING ASSETS

Article 11

(1) The BPRS may repossess collateral for the settlement of Financing.
(2) The repossession of collateral as referred to in paragraph (1) may only be executed against the customer of Financing which is classified as Loss.

Article 12

The Bank shall have written policies and procedures on the Foreclosed Collateral.

Article 13

(1) The BPRS shall assess the Foreclosed Collateral at the time of the repossession of the collateral at its net realizable value.
(2) The net realizable value as referred to in paragraph (1) shall be determined by an Independent Appraiser, for a Foreclosed Collateral which has the value of Rp500,000,000.00 (five hundred million rupiah) or more.
(3) The maximum net realizable value shall be the amount of Financing which is settled by the Foreclosed Collateral.

Article 14

(1) The BPRS that repossesses the collateral as referred to in Article 11 paragraph (1) shall realize the Foreclosed Collateral not later than 1 (one) year from the date of repossession.
(2) The BPRS shall document the realization of the Foreclosed Collateral as referred to in paragraph (1).

Article 15

The quality of Non-Earning Assets in the form of Foreclosed Collateral shall be classified as follows:

a. Current, in the event the Foreclosed Collateral is owned for up to 1 (one) year; or
b. Loss, in the event the Foreclosed Collateral is owned for more than 1 (one) year.

CHAPTER V

PLACEMENT IN CONVENTIONAL COMMERCIAL BANKS

Article 16

(1) The BPRS shall not make placement of funds in the form of time deposit in conventional (non-Islamic) commercial banks and/or in the form of savings and time deposits with rural banks.

(2) The BPRS may only make placement of funds in conventional commercial banks in the form demand deposit and/or savings for the transfer of funds for the BPRS and on behalf the customers of the BPRS.

(3) The placement of fund by the BPRS as referred to in paragraph (2) shall not be included in the category of Earning Assets.

Article 17

The quality of assets in the form of placement of funds in conventional commercial banks as referred to in Article 16 Paragraph (2) shall be classified as follows:

a. Current, if there are arrears in the payment of principal;
b. Sub-standard, if there are arrears in payment of principal for up to 5 (five) business days;
c. Loss, if:
   1) the conventional commercial bank which receives the placement of fund made by the BPRS has been placed under special supervision or its license has been revoked; and / or
   2) there are arrears in the payment of principal for more than 5 (five) business days.

CHAPTER VI

ALLOWANCE FOR ASSET LOSSES

Part One

Establishment of Allowance for Asset Losses

Article 18

(1) The BPRS shall establish the Allowance for Asset Losses on Earning Assets, Non-Earning Assets and placement of funds with the conventional commercial banks.

(2) The Allowance for Asset Losses as referred to in paragraph (1) shall be in the form of:

a. a general reserve and a special reserve for Earning Assets;

b. a special reserve for Non-Earning Assets; and

c. a general reserve and a special reserve for placement of funds with conventional commercial banks.

Part Two

Procedure for Establishment

Article 19

(1) The establishment of a general reserve for Allowance for Asset Losses as referred to in Article 18 paragraph (2) letter a and letter c shall be determined to be at least 0.5% (zero point five percent) of all of Earning Assets and placement of funds with the conventional commercial banks which are classified as Current.

(2) The establishment of a general reserve for Allowance for Asset Losses as referred to in paragraph (1) shall not apply to part of Earning Assets guaranteed by the guarantee of the Government of Indonesia or cash collateral as referred to in Article 22 paragraph (1) letter a and letter b.

(3) The establishment of a special reserve for Allowance for Asset Losses as referred to in Article 18 paragraph (2) shall be determined to be at least:

a. 10% (ten percent) of the Earning Assets and placement of funds with the conventional commercial banks which are be classified as Substandard after deducting by the value of the collateral;
b. 50% (fifty percent) of the Earning Assets which are classified as Doubtful after deducting by the value of the collateral, or
c. 100% (one hundred percent) of the Earning Assets, Non-Earning Assets and placement of funds with the conventional commercial banks which are classified as Loss after deducting by the value of the collateral

(4) The use of the value of collateral as deduction in the calculation of Allowance for Asset Losses as referred to in paragraph (2) shall only be applicable to Earning Assets and placement in the conventional commercial banks.

Article 20

(1) The obligation to establish Allowance for Asset Losses as referred to in Article 19 paragraph (1) and paragraph (3) shall not apply to Earning Assets in the form of *Ijarah* Financing or *Ijarah Muntahiya Bittamlik* Financing.
(2) The BPRS shall establish depreciation or amortization of Earning Assets in the form of:
a. *Ijarah* Financing in accordance with the policy of the BPRS on depreciation or amortization for similar assets; and/or
b. *Ijarah Muntahiya Bittamlik* Financing in accordance with the lease term.

Article 21

The establishment of Allowance for Asset Losses for Earning Assets in the form of Financing shall be as follows:

a. *Murabahah* Financing, *Istishna'* Financing, and multiservice Financing shall be calculated based on the basic cost;
b. *Salam* Financing shall be calculated based on the acquisition cost; and
c. *Mudharabah* Financing, *Musyarakah* Financing and *Qardh* Financing shall be calculated based on the outstanding balance.

Part Three

Collateral Valuation

Article 22

(1) The value of collateral which is calculated as reduction in the establishment of Allowance for Asset Losses and placement of funds in the conventional commercial banks shall be determined to be a maximum of:
   a. 100% (one hundred percent) of the secured value for facilities which are guaranteed by the Government of Indonesia;
   b. 100% (one hundred percent) for cash collateral in the form of foreign banknotes, gold, savings and / or time deposits are that blocked in the relevant BPRS along with the power of attorney for realization;
   c. 80% (eighty percent) of the secured value for the facilities which are guaranteed by the local government;
   d. 80% (eighty percent) of the value of deed of mortgage for a collateral in the form of land, buildings and houses with proof of Ownership Title (SHM) or Certificate for Right to Use (SHGB) pursuant to deed of mortgage;

e. 70% (seventy percent) of the value in the result of valuation of collateral in the form of warehouse receipts whose valuation shall be conducted in less than or up to 12 (twelve) months;

f. 60% (sixty percent) of the sale value of tax object for collateral in the form of land, buildings, and houses with SHM or SHGB, the rights to use without deed of mortgage;

g. 50% (fifty percent) of the value of the insured for a facility that is guaranteed by the State-Owned Enterprises (SOEs) or Regional Owned Enterprises (enterprises);

h. 50% (fifty percent) of the sale value of the tax object or the estimated value of the collateral in the form of land with proof of ownership in the form of *Girik* Letter (letter C) along with the most recent Notification of Tax Due (SPPT), place of business or kiosk managed by the managers, or warehouse receipts whose valuation is conducted in the past 12 (twelve) months to 18 (eighteen) months;

i. 50% (fifty percent) of the market value for the collateral in the form of motor vehicles and ships which are accompanied by proof of ownership and an agreement has been made in accordance with the applicable provisions; and

j. 30% (thirty percent) of the market value or estimated value for collateral in the form of motor vehicles with proof of ownership and a power of attorney to sell or warehouse receipts whose valuation shall be carried out between 18 (eighteen) months to 30 (thirty) months.

(2) The collateral other than those as referred to in paragraph (1) shall not be considered as deduction in the

establishment of Allowance for Asset Losses on Earning Assets and the placement of funds in conventional commercial banks.

Article 23

(1) The valuation of collateral as referred to in Article 22 shall be carried out by an Independent Appraiser or an internal appraiser from the BPRS based on the analysis of objective and relevant facts according to the generally accepted methods and principles.
(2) The obligation to conduct collateral valuation by engaging Independent Appraiser as referred to in paragraph (1) shall applicable for Financing with a value greater than or equal to Rp500.000.000,00 (five hundred million rupiah).
(3) In the event that the collateral valuation is not carried out as described in paragraph (1), the appraisal results shall not be treated as deduction in the calculation of Allowance for Asset Losses.

Article 24

Bank Indonesia have the authority to conduct revaluation of the value of collateral that has been deducted in the Allowance for Asset Losses if the BPRS does not comply with the provisions referred to in Article 22, Article 23 and Article 28.

CHAPTER VII

CONDITIONAL WRITE-OFF AND ABSOLUTE WRITE-OFF

Article 25

(1) The Bank shall have written policy and procedures for conditional write-off (*hapus buku*) and absolute write-off (*hapus tagih*).

(2) Conditional write-off and absolute write-off may only be performed on Earning Assets in the form of Financing which is classified as Loss.

(3) Conditional write-off shall not be performed partially on the part of Earning Assets in the form of Financing (partial write-off).

(4) Absolute write-off may be performed either on the part or the whole of all Earning Assets in the form of Financing.

Article 26

(1) Conditional write-off and absolute write-off as referred to in Article 25 may only be performed after the Bank makes its best efforts to acquire the Earning Assets in the form of Financing granted.

(2) The BPRS shall document efforts as described in paragraph (1) and the considerations for the implementation of conditional write-off and absolute write-off.

(3) The BPRS shall administer the data and information in the form of Funding Earning Assets against which the conditional write-off and/or the absolute write-off are imposed.

CHAPTER VIII

SANCTIONS

Article 27

The BPRS does not apply the provisions of Article 2, Article 3 paragraph (1), Article 4, Article 6 paragraph (5), Article 7 paragraph (2), Article 7 paragraph (3), Article 7 paragraph (4), Article 8 paragraph (2), Article 10 paragraph (1), Article 11 paragraph (2), Article 12, Article 13 paragraph (1), Article 13 paragraph (2), Article 14, Article 16 paragraph (1), Article 16 paragraph (2), Article 18 paragraph (1), Article 20 paragraph (2), Article 23 paragraph (1), Article 25 paragraph (1), Article 25 paragraph (2), Article 26, Article 28 paragraph (1) and Article 28 paragraph (3) could be imposed with administrative sanctions referred to in Article 58 paragraph (1) of Act Number 21 of 2008 concerning Islamic Banking.

CHAPTER IX

TRANSITIONAL PROVISIONS

Article 28

(1) The BPRS which has funds in the form of time deposit with the conventional commercial banks and in the form of time deposits and savings with the rural bank conducted prior to the enactment of this Bank Indonesia Regulation shall liquidate the placement of funds no later than 3 (three) months after the issuance of this Bank Indonesia Regulation.
(2) An assessment of the quality of the placement of funds as referred to in paragraph (1) shall be carried out with reference to Article 17 of this Bank Indonesia Regulation.
(3) The BPRS shall establish the Allowance for Asset Losses for placement of funds as referred to in paragraph (1) with reference to Article 19, Article 22, and Article 23 of this Bank Indonesia Regulation.

Article 29

The classification of quality and the establishment of Allowance for Asset Lossess on Non-Earning Assets in the form of Foreclosed Collateral held by the BPRS before the issuance of Bank Indonesia Regulation Number 8/24/PBI/2006 concerning Asset Quality Rating for Rural Banks Based on Sharia Principles.

CHAPTER X

CLOSING PROVISION

Article 30

Further provisions of Bank Indonesia Regulation shall be stipulated in the Circular Letter of Bank Indonesia

Article 31

Upon the operation of this Bank Indonesia Regulation:

a. Bank Indonesia Regulation Number 8/24/PBI/2006 concerning Asset Quality Rating for Commercial Rural Banks Based on the Sharia Principles shall be revoked and no longer valid;
b. The implementing provisions of Bank Indonesia Regulation Number 8/24/PBI/2006 on Asset Quality Rating for Commercial Rural Banks Based on the Sharia Principles shall remain valid provided that they do not contravene this Bank Indonesia Regulation.

Article 32

This Bank Indonesia Regulation shall come into force on the date of enactment.

For the public to be informed, it is hereby ordered that this Regulation be promulgated in the State Gazette of the Republic of Indonesia.

Enacted in Jakarta

Dated : March 24, 2011

GOVERNOR OF BANK INDONESIA,

DARMIN NASUTION

Promulgated in Jakarta

Dated March 24, 2011

THE MINISTER OF LAW AND HUMAN RIGHTS

REPUBLIC OF INDONESIA,

PATRIALIS AKBAR

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 41 OF 2011

DPbS

ELUCIDATION

TO

BANK INDONESIA REGULATION
NUMBER: 13/14/PBI/2011
CONCERNING
ASSET QUALITY RATING
FOR THE ISLAMIC RURAL BANKS

I. GENERAL REVIEW

The sustainability of a BPRS depends on the performance, one of the indicators of which is the quality of the investment made by the BPRS. In making investment, the BPRS must always improve its financing policies and procedures, including the establishment of quality, good management of assets portfolio and the ability to anticipate changes in external factors that can affect the quality of the financing.

One of the external factors that greatly affects the BPRS is the enactment of of Act Number 21 of 2008 concerning Islamic Banking.

To support investment in the development of Islamic banking industry, it is necessary to make adjustment to the provisions on asset quality assessment.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

The term "prudential principle in investment and/or provision of funds" is the investment and/or provision of funds made based on, among other things:

a. business feasibility analysis which takes into account at least 5Cs (Character, Capital, Capacity, Condition of economy, and Collateral); and/or
b. the assessment of the business prospects, performance, and the ability to pay.

Paragraph (2)

The term "rate" is to evaluate the condition of the customer and/or feasibility of the business to be financed.

The term "monitoring" is the act of overseeing the development of the customer's business performance over time.

The phrase "taking anticipatory measures" means the taking of measures and efforts to prevent possible losses in making the investment.

Article 3

Paragraph (1)

Self-explanatory.

Paragraph (2)

The phrase "monthly assessment" means the presentation of the monthly report in accordance with Bank Indonesia provisions on monthly statements of BPRS.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

Example:

BPRS A grants *Mudharabah* Financing and *Murabahah*

Financing to customer X. The results of the assessment conducted by BPRS A show that the Earning Assets in the form of Financing has the following quality:

a. Current, for *Mudharabah* Financing, and
b. Sub-standard, for *Murabahah* Financing.

Since the Financing is used to fund one (1) customer, the quality of the Earning Assets classified by BPRS A to customer X is the lower one, i.e. Sub-standard.

Article 5

Self-explanatory.

Article 6

Paragraph (1)

Self-explanatory.

Paragraph (2)

The phrase "accumulation during the current period of Financing" means the total sum of RBH or PBH since the beginning of Financing up to the position in the month in which the assessment is conducted.

For example:

Mudharabah Financing was granted in March 2011, for a term of 1 (one) year. The accumulated PBH in June 2011 was conducted by computing the total of PBH of March 2011, PBH of April 2011, PBH of May 2011 and PBH of June 2011.

Paragraph (3)

The determination of PBH is based on the agreement between the BPRS and the customer by considering, among other things, the business cycle and the cash inflows of the customer, so it does not have to be determined on a monthly basis.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 7

Paragraph (1)

Whether the payment of installment of principal is necessary to be decided regularly is determined depending on the characteristics of the customer's business which is financed.

Paragraph (2)

“Measures to reduce risks” include the evaluation of the customer’s business performance at least once in 1 (one) year.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 8

Paragraph (1)

The term "multiservice Financing" is the Financing of BPRS to customers to obtain the benefits of a service.

Paragraph (2)

Self-explanatory.

Article 9

Self-explanatory.

Article 10

Paragraph (1)

The term "complete documents" means documents of investment that at least includes the application, analysis, decisions, and monitoring of investment and the changes in them.

Paragraph (2)

Self-explanatory.

Article 11

Paragraph (1)

The term of "Repossession of Collateral" means the purchase of part or whole of the collateral either through or outside the auction, based on voluntary handover by the owner of the collateral or based on the granting of authority to sell from the owner of the collateral.

Paragraph (2)

Self-explanatory.

Article 12

The term "written policies and procedures" includes the mechanism of repossession of Foreclosed Collateral and the requirements of Foreclosed Collateral.

Article 13

Paragraph (1)

The term "net realizable value" means the market value of the collateral less estimated costs in the context of the repossession of the Foreclosed Collateral.

Paragraph (2)

Self-explanatory.

Paragraph (3)

At the time of the repossession of the Foreclosed Collateral, the Bank records as follows:

- if the net realizable value of the Foreclosed Collateral is greater than the value of Earning Asset (the customer's debt), the Bank records the value of the Foreclosed Collateral at the same value as the value of Earning Asset and the surplus is recorded off balance sheet by the Bank because it is the right of the customer, or
- If the net realizable value is lower than the Earning Asset (the customer's debt), the Bank records the value of the Foreclosed Collateral at the same value as the value of net realizable value of Foreclosed Collateral and the deficit is recorded as the customer's liability in the books of the Bank.

Article 14

Paragraph (1)

The arrangement means that the BPRS shall immediately sell the Foreclosed Collateral within a maximum period of 1 (one) year in accordance with Act Number 21 of 2008 concerning Islamic Banking and shall not keep the collateral for a longer period than that.

In the event of the proceeds from the selling of Foreclosed Collateral are larger than the customer's debt, the surplus becomes the customer's right. In the event that the proceeds from the selling of Foreclosed Collateral are smaller than the customer's debt the deficit remains the customer's liability. If the BPRS is unable to collect the customer's liability, the BPRS may record it as the BPRS's loss.

Paragraph (2)

Documentation includes evidence such as data and information about marketing and sales of the Foreclosed Collateral.

Article 15

Self-explanatory.

Article 16

Self-explanatory.

Article 17

Self-explanatory.

Article 18

Paragraph (1)

The establishment of Allowance for Asset Losses on Non-Earning Assets is intended to encourage the BPRS making efforts to sale them and to anticipate the potential losses.

Paragraph (2)

Self-explanatory.

Article 19

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Letter a

The establishment of a special reserve for Allowance for Asset Losses must be at least 10% (ten percent) does not include Non-Earning Assets because the quality of Non-Earning Assets is classified as Current and Loss.

Letter b

The establishment of a special reserve Allowance for Assets Losses which is at least 50% (fifty percent) of the Earning Assets does not include:

- Interbank Placement and placement of funds in conventional commercial banks because the quality of Earning Assets in the form of Interbank Placement and placement of funds with conventional commercial banks is only classified as Current, Sub-standard and Loss; and
- Non-Earning Assets because the quality of Non-Earning Assets is only classified as Substandard and Loss.

Letter c

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 20

Paragraph (1)

The depreciation or amortization policy for *Ijarah* Financing and/or *Ijarah Muntahiya Bittamlik* Financing shall refer to the applicable financial accounting standards for Islamic banks.

The depreciation or amortization policy chosen should reflect the expected pattern of consumption of future economic benefits of the object *Ijarah* Financing and *Ijarah Muntahiya Bittamlik* Financing.

Paragraph (2)

Self-explanatory.

Article 21

Self-explanatory.

Article 22

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Letter f

Self-explanatory.

Letter g

Self-explanatory.

Letter h

Self-explanatory.

Letter i

The term "applicable provisions" includes provisions on fiduciary and pledge.

Letter j

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 23

Paragraph (1)

The phrase "generally accepted methods and principles " are the methods and principles of assessment as set by the Indonesian Society of Appraisers (MAPPI).

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 24

Self-explanatory.

Article 25

Paragraph (1)

The term “conditional write-off" means the administrative action of the BPRS to remove the provision of funds or receivables that is classified as Loss from on balance sheet into off balance sheet at the amount of the customer’s liability without prejudice to the right of the BPRS to collect receivables from the customer.

The term "absolute write-off" means the act of the BPRS to delete from off balance sheet the customer’s liability that cannot be settled.

The policy and procedures for conditional write-off and absolute write-off include the requirements, limits, powers and responsibilities and procedures for conditional write-off and absolute write-off.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

The absolute write-off on part of the Earning Assets in the form of Financing may only be done in the context of restructuring of Financing or of the settlement of Financing.

Article 26

Paragraph (1)

Some efforts which may be made include collection from the customers, restructuring of financing, ask for payment from the party that provides guarantee for the relevant Earning Assets and the settlement of Financing through the repossession of collateral.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 27

Self-explanatory.

Article 28

Self-explanatory.

Article 29

Self-explanatory.

Article 30

Self-explanatory.

Article 31

Self-explanatory.

Article 32

Self-explanatory.

SUPPLEMENT TO STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 5206