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2014 INDONESIAN BANKING BOOKLET

OJK

INDONESIA FINANCIAL SERVICE AUTHORITY

INDONESIAN BANKING BOOKLET 2014

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Bank Licensing and Banking Information Departement

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FOREWORD

This Indonesian Banking Booklet (*BPI*) 2014 constitutes a publication media presenting brief information concerning Indonesian banking. From this booklet, it is expected that the readers obtain brief information on the direction of banking policies 2014 as well as banking regulations issued by Bank Indonesia (BI) during year 2013.

Information presented on this Booklet among others are concerning transfer of functions, duties and authorities of regulation and supervision of financial service activities in the banking sector from the previous banking authority namely BI to the Financial Service Authority (OJK) as of 31 December 2013, information on cooperation and coordination in the context of duties implementation of BI and OJK, as well as the direction of OJK policy and the new regulations, among others: (a) business activities and office networks of Sharia Bank (*BUS*) and Sharia Business Unit (UUS) based on core capital; (b) revision of regulations on Rural Banks (*BPR*) transparency and implementation guidelines on Sharia Supervisory Board-Sharia Rural Banks (*DPS-BPRS*); and (c) several amendments to other banking regulations.

Banking regulations issued by the previous banking authority (BI) are still applicable provided that they are not in conflict and have not been changed with new regulations issued by OJK. BPI can be downloaded through BI website (*www.bi.go.id*) and OJK website *(www.ojk.go.id)*.

Regardless of the limited information available in this Indonesian Banking Booklet, we still hope that the information presented can provide optimum benefits to the readers.

Jakarta, March 2014
Financial Service Authority
Bank Licensing and Banking Information Department

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FINANCIAL SERVICE AUTHORITY

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I. FINANCIAL SERVICE AUTHORITY

Financial Service Authority (OJK) is an independent institution and free from other parties' intervention, which has functions, duties and authority in management, supervision, inspection and investigation in financial service sector as stipulated in the Law of the Republic of Indonesia (RI) Number 21 Year 2011 concerning OJK.

A. Mission and Vision of OJK

Mission

1. To realize the implementation of the entire activities in financial service sector accordingly, equitably, transparently and accountably;
2. To realize the development of financial system that is sustainable and stable; and
3. To protect the interest of consumers and public.

Vision

To become the supervisory institution in financial service industry that is accountable, protective towards the interests of consumers and public, and capable to realize the financial service industry that becomes the pillar of national economy, which has global competitiveness and also is able to promote the public welfare.

B. OJK Strategic Values

1. Integrity means to act objectively, equitably and consistently in accordance with the code of ethics and organizational policies by upholding sincerity and commitment.
2. Professionalism means to work responsibly based on high competency to reach the best performance.
3. Synergy means to collaborate with the entire stakeholders, both internal and external, productively and with quality.
4. Inclusive means being open and acknowledge the diversity of stakeholders, also to expand public opportunity and access to financial industry.
5. Visionary means to have a broad insight, and is Forward Looking and Out of the Box Thinking.

C. OJK Goals

OJK was established with goals that the entire activities in financial service sector could be:

1. Implemented in an orderly manner, equitably and accountably.
2. Able to realize a financial system that grows sustainably and stable, and
3. Able to protect the interests of consumers and public.

D. OJK Functions and Duties

OJK function is to implement an integrated management and supervisory system towards the entire activities in financial service sector.

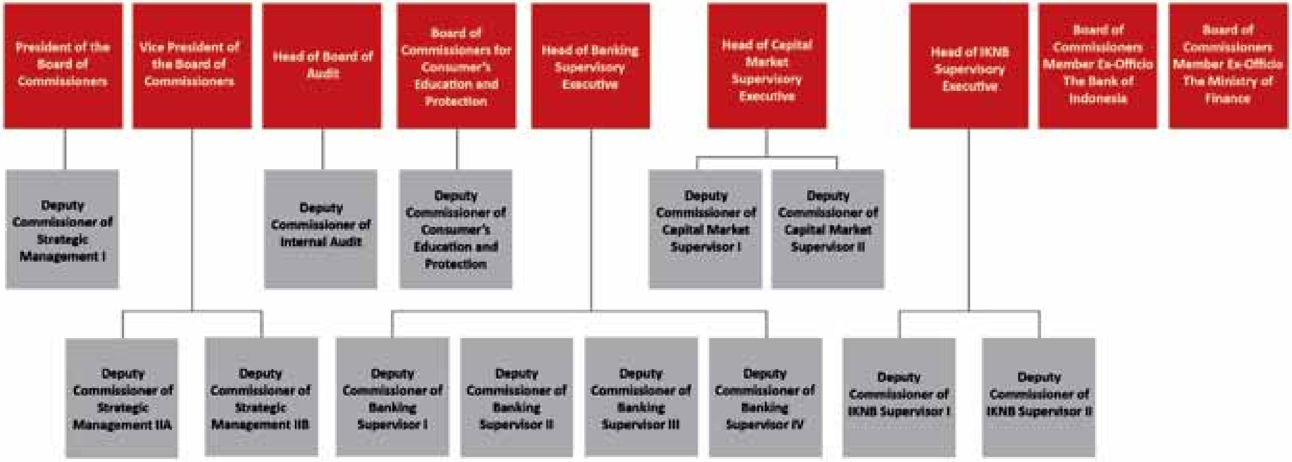
OJK carries out the management and supervisory task towards the financial activities in the Banking sector, Capital Market sector, and Insurance sector, Pension Funds, Financing Institution and other Financial Service Institutions.

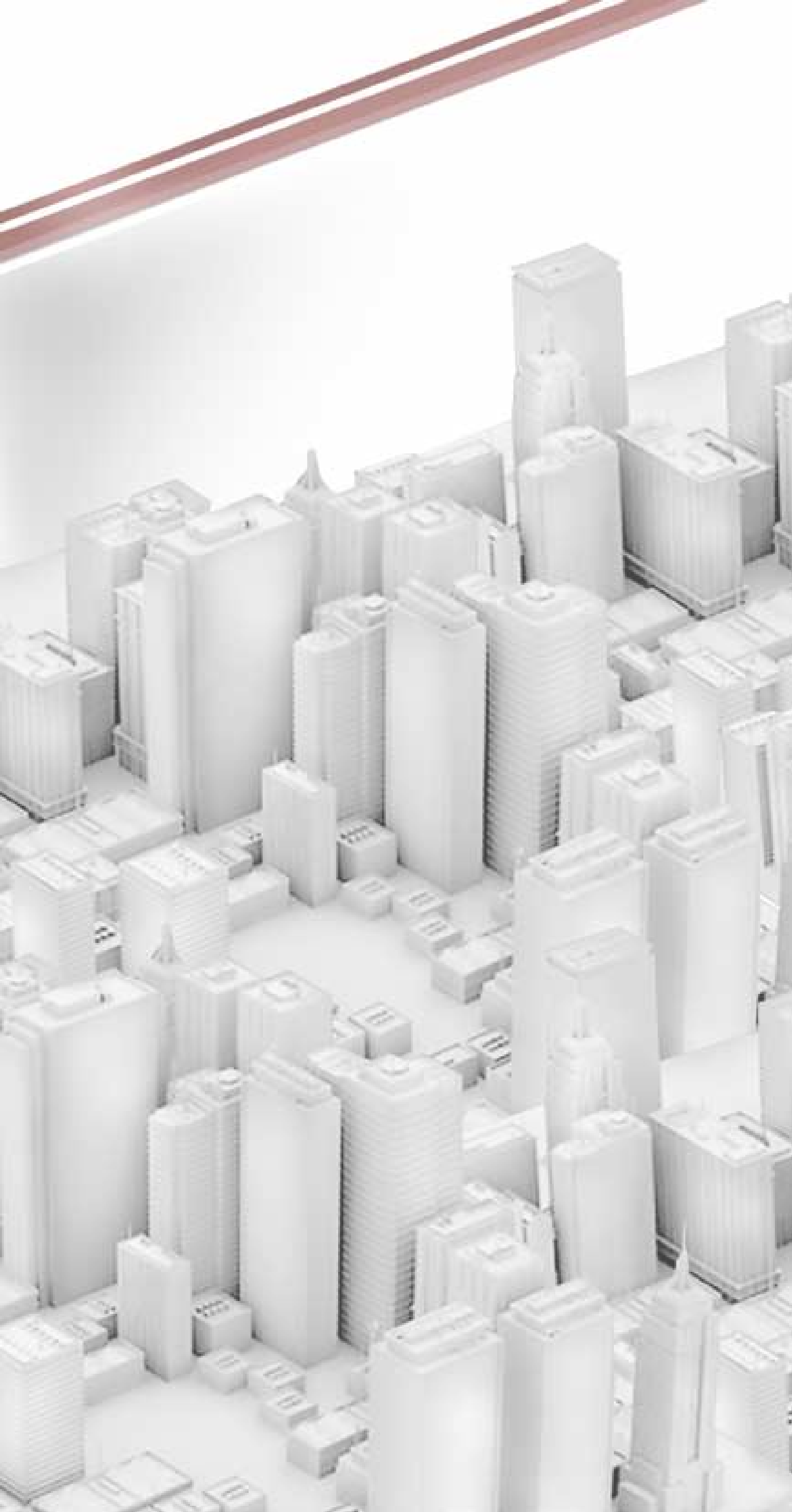
E. OJK Organization

OJK is headed by a Board of Commissioners that consists of 9 people, stipulated by a Presidential Decree and of a collective and collegial nature, with the following structure:

1. One President who is concurrently a member;
2. One Vice President as the Head of Ethical Committee who is concurrently a member;
3. One Head of Banking Supervisory Executive who is concurrently a member;
4. One Head of Capital Market Supervisory Executive who is concurrently a member;
5. One Head of Insurance, Pension Funds, Financing Institution and Other Financial Service Institution Supervisory Executive who is concurrently a member;
6. One Head of Board of Audits who is concurrently a member;
7. One member who is in charge of Consumer's Education and Protection;
8. One Ex-Officio member of Bank of Indonesia who is also a member of the Board of Governors of Bank of Indonesia;
9. One Ex-Officio member from the Ministry of Finance who is an echelon I level in the Ministry of Finance.

Figure 1
OJK Organizational Structure





CHAPTER II

BANKING

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II. BANKING

Banking is everything pertaining to banks, covering institution, business activities, and also the nature and process in conducting their business operations.

In carrying out its duties, Indonesian Banking is based on economic democracy and utilizes prudential principle. Primary function of Indonesian banking is as the collector and distributor of public funds, also aims to support the implementation of national building in order to enhance the equalization of development and its results, economic growth and national stability, toward the improvement of the quality of people's life.

The banking system has a strategic position, i.e. supporting the smooth operation of the payment system, implementing monetary policy and achieving financial system stability. Hence, it requires banks that are sound, transparent and can be accounted for.

A. Definition

1. Banks are business entities that collect funds from the society in the form of savings/deposits and distribute them to the society in the form of credits and or other form in order to improve the living standard of the people.
2. Conventional Banks are Banks that conduct their business operations conventionally and based on their type consist of Conventional Commercial Banks and Rural Banks.
3. Sharia Banks are Banks that conduct their business operations based on Sharia Principles and according to their type consist of Sharia Commercial Banks and Sharia People Financing Bank.
4. Sharia Principle is a principle in the Islamic Laws on banking activities based on fatwa (legal decision) issued by the institution that has the authority in giving fatwa in sharia field.

B. Operations of Banks

Operations of Conventional Commercial Banks

1. Collecting funds from the society in the form of demand deposits (giro), time deposists, certified deposits, savings, and/or other forms equivalent;

2. Extending credits;
3. Promissory notes;
4. Purchasing, selling or guaranteeing upon own risk or for the interest and the order of their customers:
    a. Drafts/Bills of exchange, including drafts accepted by bank which validity period should not be longer than the common practice in the trading of such drafts;
    b. Promissory notes and other commercial papers which validity period should not be longer than the common practice in the trading of such notes;
    c. State treasury bills and government securities;
    d. Certificates of BI (SBI);
    e. Bonds;
    f. Future trading securities with a validity period up to one (1) year; and
    g. Other securities with a validity period up to 1 (one) year;
5. Transferring money both for own interest and the interest of customers;
6. Placing funds in, borrowing funds from, or lending funds to other banks, whether by using letters, telecommunication facilities, or sight drafts, cheques or other means;
7. Receiving payment of bills on securities and settling accounts with or between third parties;
8. Providing safe deposit boxes for valuable things and securities;
9. Undertaking custodial activities for the interests of other parties based on contracts;
10. Undertaking placement of funds from customers to other customers in the form of commercial papers/securities not listed in the stock exchange/market;
11. Conducting factoring activities, credit card businesses and trustee services;
12. Providing financing and or conducting other activities based on Sharia Principle, in accordance with the applicable regulations;
13. Conducting other activities normally undertaken by banks provided that such activities shall not be in contraventions with the Act concerning Banking and

the applicable laws and regulations;

14. Conducting foreign exchange activities by complying with the applicable regulations;
15. Conducting equity/capital participation in other banks or companies operating in financial sector, such as leasing, venture capital, securities companies, insurance, and also clearing houses for settlements and custodians, in compliance with the applicable regulations;
16. Conducting activities of temporary capital investment based on Sharia Principles to overcome failures in credit and financing (bad debts/financing), on the condition that the temporary equity be withdrawn in due time, in compliance with the applicable regulations;
17. Acting as pension funds founders and managers in accordance with the provisions of the applicable laws and regulations of pension funds; and
18. Conducting bank business operations in the form of Custodial with Management/ Trust.

Operations of Sharia Commercial Banks

1. Collecting funds in the form of Demand Deposits, Savings, or other forms equivalent based on wadi'ah agreement or other agreements not in contravention with the Sharia Principle;
2. Collecting funds in the form of investment of Demand Deposits, Savings, or other forms equivalent based on mudharabah agreement or other agreements not in contravention with the Sharia Principle;
3. Distributing profit sharing financing based on mudharabah and musyarakah agreements, or other agreements not in contravention with the Sharia Principle;
4. Distributing financing based on murabahah, salam, and istishna' agreements, or other agreements not in contravention with the Sharia Principle;
5. Distributing financing based on qardh agreement or other agreements not in contravention with the Sharia Principle;
6. Distributing movable or immovable goods financing to customers based on ijarah agreement and/or lease purchase in the form of ijarah muntahiya bittamlik or

other agreements not in contravention with the Sharia Principle;

7. Conducting debts taking-over based on hawalah agreement or other agreements not in contravention with the Sharia Principle;
8. Conducting debit cards business and/or financing cards based on the Sharia Principle;
9. Purchasing, selling, or guaranteeing on own risk, any third party securities issued based on the real transactions in accordance with the Sharia Principle, among others ijarah, musyarakah, mudharabah, murabahah, kafalah, or hawalah agreements;
10. Purchasing securities/commercial papers based on the Sharia Principle issued by the government and/or BI;
11. Receiving payment of bills on securities and conducting settlement with or between third parties based on the Sharia Principle;
12. Undertaking custodial activities for the interest of other parties pertaining to an agreement based on the Sharia Principle;
13. Providing safe deposit box for valuable things and commercial papers based on Sharia Principle;
14. Transferring money, both for own interests and customers' interests based on the Sharia Principle;
15. Undertaking trusteeship functions based on wakalah agreement;
16. Providing letter of credit or bank guarantee based on the Sharia Principle;
17. Conducting other activities normally undertaken in the fields of banking and social provided that it is not in contravention with the Sharia Principle and pursuant to the provisions in the laws and regulations;
18. Conducting foreign exchange operations based on the Sharia Principle;
19. Conducting capital/equity participation activities in Sharia Commercial Banks or financial institutions that conducting business activities based on the Sharia Principle;
20. Conducting temporary capital participation activities based on the Sharia Principle to overcome financing failures, with the requirement to withdraw its

participation;

21. Acting as the founder and caretaker of pension funds based on the Sharia Principle;
22. Conducting activities in capital market as long as not in contravention with the Sharia Principle and the provisions of laws and regulations in capital market field;
23. Organizing activities or bank products based on the Sharia Principle using electronic facilities;
24. Issuing, offering, and trading short-term securities based on the Sharia Principle, both directly and indirectly through money market;
25. Issuing, offering, and trading long-term securities based on the Sharia Principle, both directly and indirectly through capital market; and
26. Providing products or conducting other sharia commercial banks activities based on the Sharia Principle.

Operations of Rural Banks

1. Collecting funds from the society in the form of deposits comprising of time deposits, savings, and/or other forms equivalent;
2. Extending credit; and
3. Placing its funds in BI Certificates (SBI), time deposits, certificates of deposit, and/or savings in other banks.

Operations of Sharia Rural Banks

1. Collecting funds from the public in the form of:
   a. Deposits in the form of savings or equivalent based on wadi'ah agreement or other agreements not in contravention with the Sharia Principle; and
   b. Investment in the form of deposits or savings or other forms equivalent based on mudharabah agreement or other agreements not in contravention with the Sharia Principle;
2. Distributing funds to the communities in the form of:
   a. Profit sharing financing based on mudharabah agreement or musyarakah;
   b. Financing for buy and sell transaction based on the agreements of murabahah, salam, or istishna;
   c. Financing based on qardh agreement;
   d. Financing of moveable or immovable goods

leasing operations to customers based on ijarah agreement or lease purchase in the form of ijarah muntahiya bittamlik; and

e. Debts takeover based on hawalah agreement;

3. Placing funds in other Sharia Banks in the form of deposits based on wadi'ah agreement or investment based on mudharabah agreement and/or other agreements not in contravention with the Sharia Principle;
4. Transferring money, both for own interest and for customers' interests through the account of BPRS in the BUS, BU and UUS; and
5. Providing products or conducting other Sharia Bank business activities in accordance with the Sharia Principle based on OJK approval.

Business Supporting Operations

Business Supporting Operations are other activities conducted by banks outside business operations of the Banks. The business supporting operations among others are related to human resources, risk management, compliance, internal audit, accounting and finance, information technology, logistic and security.

C. Prohibition of Bank Business Operations

Prohibition of Business Operations of Conventional Commercial Banks

1. Conducting capital investments, except for conducting operations as referred to in No. 15 and 16 of Conventional Commercial Bank business activities described;
2. Conducting insurance business;
3. Conducting other businesses apart from those referred to in letter B above.

Prohibition of Business Operations of Sharia Commercial Banks

1. Conducting business activities in contravention with the Sharia Principle;
2. Conducting trading activities of shares directly in the capital market;
3. Conducting equity participation, except for as referred to in number 19 and 20 of the BUS business operations;

4. Undertaking insurance business activities, with the exception as marketing agent of sharia insurance products.

Prohibition of Business Operations of Rural Banks

1. Accepting deposits in the form of demand deposits and participating in the payment traffic;
2. Conducting foreign exchange business operations other than as foreign exchange traders (PVA) based on OJK approval;
3. Conducting capital investments;
4. Conducting insurance business operations;
5. Undertaking business operations other than activities as referred to in letter B above.

Prohibition of Business Operations of Sharia Rural Banks

1. Conducting business operations in contravention with the Sharia Principle;
2. Accepting deposits in the form of demand deposits and participating in the payment traffic;
3. Conducting forex business operations except for money changer operations based on OJK approval;
4. Conducting insurance business activities except as marketing agents of sharia insurance products;
5. Conducting capital investments, except for institutions that are established to resolve BPR liquidity problems; and
6. Conducting other business aside from activities of Sharia Banks business as referred to in letter B above.


OTORITAS JASA KEUANGAN

CHAPTER III

TRANSFER OF BANKING FUNCTIONS FROM BI TO OJK

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III. TRANSFER OF BANKING FUNCTIONS FROM BI TO OJK

A. Background of the Transfer of Banking Regulatory and Supervisory Functions

To realize the national economy that capable to grow sustainably and steadily, it requires activities in the financial service sector which are organized in an orderly manner, equitable, transparent and accountable and capable to make the financial system to grow sustainably and steadily, and able to protect the interests of consumers and general public. Therefore, it requires a Financial Service Authority (OJK) that has functions, duties and authority of management and supervision toward activities in the financial service sector in an integrated, independent and accountable manner.

As of 31 December 2012, the functions, duties and authority in managing and supervising activities in financial service in the sectors of Capital Market, Insurance, Pension Funds, Financing Institution and Other Financial Service Institution has been transferred from The Capital Market and Financial Institution Supervisory Agency – Ministry of Finance to OJK.

As of 31 December 2013, the functions, duties and authority in managing and supervising the financial service activities in Banking sector had been transferred from BI to OJK.

Management and Supervision on institution, health, prudential principle, and banking inspection are within the scope of microprudential management and supervision that becomes the duties and authority of OJK. Meanwhile, the scope of macroprudential management and supervision becomes BI's duties and authority. In implementing macroprudential management and supervision, OJK shall coordinate with BI to make moral suasion to the Banking.

B. Cooperation and Coordination in the Implementation of BI and OJK Duties

Joint Agreement of BI and OJK

Cooperation and coordination in implementing duties of BI and OJK to realize a stable and sustainable financial system is stated in the Joint Agreement $\frac{\text{No.15/1/KEP.GBI/2013}}{\text{No.PRJ-11/D.01/2013}}$ dated October 18, 2013 with basic principles of collaborative nature, increasing efficiency and effectiveness, avoiding duplicity, completing financial sector's management, and ensuring the smoothness of BI and OJK's duties implementation.

The scope of cooperation and coordination form in order to support the implementation of BI and OJK's duties and authorities in line with the Laws on BI and OJK, consists of:

1. Cooperation and coordination in implementing duties in accordance with the respective authority;
2. Exchange of information on Financial Service Institutions and management of reporting system of banks and financing companies by BI and OJK;
3. Utilization of properties and documents by OJK which are owned and/or used by BI; and
4. Management of BI officials and employees who are transferred to or employed on OJK.

C. Forming the Transition Team

OJK Board of Commissioners shall form a Transition Team in coordination with the Minister of Finance and the Governor of BI. The above team shall assist in the smoothness of the implementation of The Board of Commissioners' duties, with an authority to identify and verify the assets, infrastructures, information, documents and other matters related to the management and supervision of Financial Service Institutions, and to prepare the transfer of their utilization to OJK.

D. Integrated Supervision

The development of an integrated financial sector demands OJK to carry out an integrated supervision in order to increase the effectiveness of supervision on financial service institutions in an integrated manner among the financial sub sectors. The implementation of an integrated supervision is expected to decrease systemic risk potency in financial service group, to reduce moral hazard potency, to optimize protection of financial service consumers and to realize financial system stability.

Road map of the integrated supervision system development consists of the followings:

1. To develop methodology for conglomeration supervision that includes supervision cycle, capital calculation methodology and conglomeration rating

method;

2. To draft OJK internal regulation to support the implementation of integrated supervision. The above regulation includes regulation on integrated supervision system, communication forum and integrated supervision coordination, and the mechanism of integrated supervision coordination;
3. To prepare organization and human resources;
4. To prepare information system and reporting.

OJK as the authority in managing and supervising financial service sector strives to implement its duties and functions to bring the financial service sector to a smooth path of orderliness, credibility and sustainable growth.

OJK launches 8 strategic programs: (1) integrated management and supervision of financial institutions, (2) enhancement of the capacity of management and supervision, (3) strengthening of financial system's resilience and performance, (4) enhancement of financial system's stability, (5) improvement of governance and risk management culture in financial institutions, (6) formation of an integrated financial consumers' protection and implementation of massive and comprehensive education and socialization, (7) enhancement of professionalism in human resources, and (8) improvement of internal governance and quality assurance. Other then the above eight strategic programs, there are 3 other strategic activities that becomes the project of OJK, namely, domestic and international cooperation, preparation of transfer of banking management and supervision function to OJK and activities carried out by the Ex-Officio Board of Commissioners.


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CHAPTER IV

REGULATION AND SUPERVISION OF BANKS

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IV. REGULATION AND SUPERVISION OF BANKS

OJK shall grant and revoke licenses of institutions and certain business activities of banks, set regulations, conduct supervision of banks and also impose sanctions on the banks.

A. Purpose of Bank Regulation and Supervision

Regulation and Supervision of banks is directed at the optimization of Indonesian banking function in order to create a sound banking system comprehensively or individually, and to be able to preserve public interests well, develop reasonably and beneficially for the national economy.

B. Authorities of Bank Regulation and Supervision

1. Right to license, i.e. the authority to set up licensing procedures and establishment of a bank, including granting and revoking license of bank businesses, granting the opening, closing and moving of bank offices, granting approvals on ownership and management of banks, granting permission to banks to run certain business activities.
2. Right to regulate, namely to set up regulations involving the aspects of business and activities of banks to create a sound banking in order to meet banking services desired by the society.
3. Right to control, namely:
    a. Direct supervision of banks (on-site supervision) consists of general audit and special audit with the objectives to obtain an overview of bank financial condition and to monitor compliance level of banks toward the prevailing regulations, and also to know the existence of unsound practices that might endanger the survival of banks.
    b. Indirect supervision (off-site supervision) namely supervision through monitoring tools such periodic reports submitted by banks, audit result reports and other information.
4. Right to impose sanctions, namely to impose sanctions in accordance with the provisions of the laws and regulations to banks in the event a bank is not fully or not in compliance with the regulations. This action contains elements of coaching in order that banks

operate in accordance with a sound banking principle.

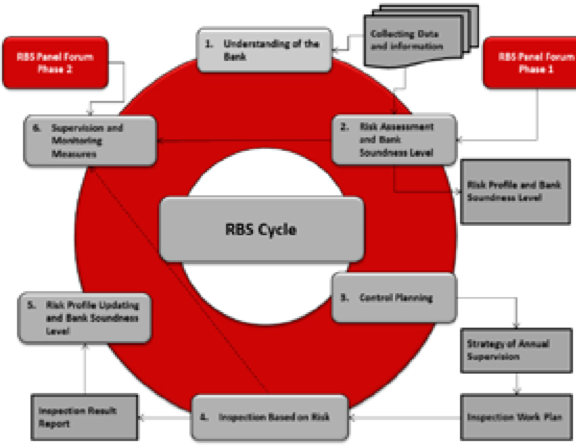
5. Right to Investigate
   Pursuant to the Law, OJK has the right to conduct investigation in financial services sector, including banking. Investigations shall be conducted by the State Police or RI investigators and officials of Civil Servant in the OJK. Investigation results shall be submitted to the Prosecutor for prosecution.

C. System of Bank Supervision

In carrying its duties on bank supervision, currently OJK performs its system on supervision using 2 approaches, i.e.:

1. Compliance Based Supervision, i.e. monitoring of bank compliance with the regulations related to the operations and management of banks in the past with the purpose to ascertain that the banks in question have operated and been managed well and properly in accordance with the prudential principle. Supervision to the fulfillment aspect of compliance is an integral part of Bank Supervision implementation based on Risk.
2. Risk Based Supervision, i.e. supervision of banks using strategy and methodology based on risk which allows Bank supervisors to detect any significant risk early and take supervisory measures appropriately and timely.

Figure 2
Risk Based Supervision Cycle



Supervision/Audit of Banks based on risk is conducted against following risk types:

Bank Risk Types	
Credit Risk	Risks arising due to counterparty failures in meeting its obligation
Market Risk	Risks arising due to market adverse movement of the portfolio owned by the Banks which can be detrimental to the banks. Market variables are among others interest rate and exchange rate.
Liquidity Risk	Risks that among others are due to the Banks failure to meet the obligations already due.
Operational Risk	Risks that among others are due to the inadequacy and or non-functioning of the internal process, human errors, system failures or external problems that affected bank operations.
Legal Risk	Risks due to legal aspect weaknesses. The juridical aspect weaknesses are among others due to lawsuits, inexistence of supporting laws and regulations or weaknesses in the agreement such as validity of contract terms are not met and imperfect binding of collateral agreement.

Bank Risk Types	
Reputation Risk	Risks that among others are due to negative publications related to bank business activities or negative perceptions against banks.
Strategic Risk	Risks that among others are due to the inappropriate determination and implementation of bank strategy, wrong business decisions or lack of bank responses to external changes
Compliance Risk	Risks due to non-compliance with or not implementing laws and regulations and other prevailing regulations.

D. Banking Information System in order to Support Bank Supervisory Duties

1. Banking Information System

Banking Information System (SIP) is an information system utilized by bank supervisors to conduct analysis activities on the condition of banks, to expedite obtaining information on bank financial condition (including Bank Soundness Rating), to improve security and integrity of data and banking information. SIP is developed in order to support commercial bank supervisory duties through quality information, based on the following principles:

a. SIP is directed as a business tool as well as a quick presentation media of information up to the strategic level.

b. SIP provides information in macro, individual bank, or other information related to business environment of banks.

c. SIP integrates data currently scattered in different systems.

The function of Supervision Management Information System (SIMWAS) that had been used so far to support supervisory duties is gradually replaced by SIP since the beginning of year 2012.

2. Rural Bank Supervision Management Information System

In order to implement duties in supervising Rural

Banks, OJK has developed and implemented an information system (SI) with reporting and data processing procedures as follows:

a. Online reporting system enables Rural Banks to submit online periodic reports to OJK through BI in order to enhance reporting effectiveness and efficiency. BPR is currently delivering four types of period reports submitted online are: Monthly Reports, Credit Provision Maximum Limit (BMPK), Debtors Reports (SID) and Rural Bank Publication Financial Reports;
b. Data processing system developed in order to eliminate repetition of data input, so as minimizing human errors and data inconsistencies. Data of Rural Banks periodic reports received by BI through the reporting system, then being processed for the purpose of monitoring or statistics as supporting documents for developing policy on BPR industry.

Furthermore, in order to improve supervisory quality of Rural Banks, the development of SI Rural Banks shall be directed into a more focused monitoring system, meaning offsite or onsite supervision against the condition faced by BPR

Development of Early Warning System (EWS) BPR shall be conducted to support offsite monitoring of BPR condition, to complement the assessment of soundness rating that is conducted periodically. Meanwhile, in order to support onsite monitoring, a tool has been developed to help supervisors in conducting inspections to BPR.

OJK always make improvements to the information system related to the supervision of BPR in accordance with the supervisory needs, and it is expected that the developed system becomes the information window that present the real condition of BPR, as material in determining any development to be done.

3. **Debtor Information System**
   Debtor Information System (SID) is a system that provides debtors information, both information on individuals and business entities, developed to support duties banking supervision, as well as to support operational activities of non-bank financial industry (IKNB) to risk management. Information compiled in SID covers basic data of debtors, management and owners of business entities, information on facilities of funds provision received by debtors (credits, credit management, securities, irrevocable L/C, bank guarantees, participation, and/or other claims), collateral, guarantor, and financial statements of debtors.

E. Banking Investigation

Banks have potentials to be used as a facility and/or target to enrich selves, families or certain groups by conducting banking criminal acts, which in the end may disturb the operations and cause reputation risk for banks.

The banking criminal acts can be conducted by the member of the Board of Commissioners, Board of Directors, Shareholders, bank officers, affiliated parties with banks, or other parties.

In line with the basic duties implemented by OJK, in order to regulate and supervise banks, OJK may find deviations of the baking regulations.

Findings on the deviation of banking regulation shall be followed-up by conducting investigation to determine whether there are indications of alleged banking criminal acts.

The Law of OJK gives a mandate of authority to OJK to conduct investigation in the sector of financial services. Hence, the results of inquiries of alleged banking criminal acts shall be forwarded investigations by OJK. Further legal process shall be conducted by the authorized institutions.

From the side of supervision and development, OJK shall impose administrative sanctions to the parties both individuals and financial service institutions conducted violations against the laws and regulations in financial service sector.

F. Education and Protection of Consumers

Pursuant to Article 4 of the Law Number 21 Year 2011 concerning OJK it is mentioned that one of OJK duties is to provide protection to Consumers and/or public. In order to provide protection to Consumers, OJK has issued OJK Regulation (*POJK*) dated 26 July 2013 concerning Protection of Consumers of Financial Service Sector. POJK referred to applies balanced principles, i.e. between to grow and develop financial service sector in continuous manner and simultaneously to provide protection to Consumers and/or public as the users of the financial service.

The POJK contains 3 main aspects, i.e.: (i) enhancement of transparency and disclosure of benefits, risk and cost of products and/or services of Financial Service Business Actors (*PUJK*); (ii) responsibilities of PUJK to conduct assessment of product and/or service suitability with the risk faced by financial consumers; (iii) simpler procedure and easiness of financial consumers to submit complaints and settlements on disputes of product and/or service of PUJK.

In settling disputes of product and/or service of PUJK outside the court, OJK has issued POJK No. 01/POJK.07/2014 dated 16 January 2014 concerning Alternative Institution of Dispute Settlements (*LAPS*) in Financial Service Sector. The POJK referred to among others governs the mechanism of complaints settlements in financial service sector taken through 2 stages, i.e. settlements of complaints conducted by Financial Service Institution (internal dispute resolution) and settlements of disputes through judiciary or institutions beyond the judiciary (external dispute resolution).

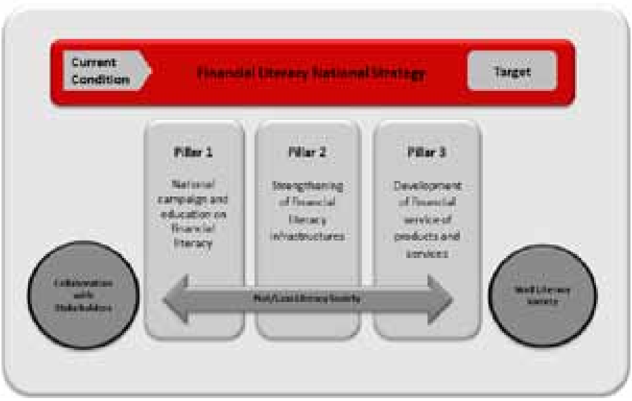
In line with the characteristics and developments in financial service sector that constantly fast, dynamics and full of innovations, LAPS outside the judiciary requires procedures that are fast, low cost, with objective, relevant, and fair results. Disputes

Settlements through LAPS are confidential so that each party in conflicts feels more comfortable in conducting process of Disputes settlements, and do not require a long time as the procedure is designed to prevent procedural and administrative delay. Besides, settlements of Disputes through LAPS shall be conducted by personnel who indeed have expertise in according with the type of dispute, so that it can generate decision that is objective and relevant. In the event LAPS has not established yet, OJK shall has roles in facilitating disputes between Consumers and PUJK.

In performing Consumers and/or public protection, OJK is authorized to conduct preventive actions of the loss of Consumers and/or public, namely by providing information and education to the society on the characteristics of products and/or services of the financial service sector, reflected in Article 28 of Law on OJK. In the context of implementing the mandate of the Law referred to, OJK is collaborated with stakeholders to launch Financial Literacy National Strategy (*SNLK*) that has 3 basic framework pillars, namely: (i) national campaign and education of literacy; (ii) strengthening of financial literacy infrastructures; (iii) development of financial products and services.

This SNLK shall become the guidance for authorities in financial sector, for financial service institutions and for the stakeholders. Therefore, it is expected that this will realize Indonesian society that has high level of financial literacy (well literacy) and to enhance the utilization of financial products and/or services, so as to be able to move the economy in order to improve public welfare.

Figure 3
Financial Literacy National Strategy



Paradigm shift is required for Supervision Sector which initially only focused on prudential supervision for the Financial Service Institution supervision is also added with market conduct supervision. With the availability of the comprehensive supervision short term objective of market confidence can be reached which further can realize a financial system of sustainably growth and stable, and able to protect the interests of consumers and public. Currently, OJK is still preparing study on the perfection of market conduct application for the financial service industry.


OTORITAS JASA KEUANGAN

CHAPTER V

THE DIRECTION OF BANKING POLICIES

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V. THE DIRECTION OF BANKING POLICIES

A. The Direction of Banking Policies in 2014

Since the end of year 2013, banking supervision has been transferred from BI to OJK. With the merger of banking supervision, which is the most important thing in the financial service industry in Indonesia, the integrated supervision towards the financial service industry has been started by OJK. This action other than mandated in the Law is also an answer to the increasingly tendency of integration and interconnection in the financial industry. OJK is determined and highly committed to continue and at the same time to enhance the function of management and supervision in financial industry, including by improving communication with industry players to gain feedback and input for financial industry development in the future.

In banking sector, the transformation that will occur in the development and growth of future banking industry will be more dynamic, and therefore it will influence the strategy and business model of banking industry. There are 4 main factors that will color the development and growth of future banking industry that respectively demand support of the right policies:

Firstly, along with the increase of the total productive age population and the enlargement of the middle class group, banking consumers will demand services that are faster, more flexible, and with more varieties of products, including interchangeability of credit instruments with financial and capital market instruments. OJK will see the possibilities of integrating banking products with financial and capital market products in the effort of deepening the financial instrument in the domestic financial market.

Secondly, banking sector is ready to increase investment credit channelling, especially in the sectors of manufacturing, energy and infrastructure, in order to renew and revitalize the industrial capacity to create products with high added value. OJK will evaluate the regulations in relation to the prudential principle in the process of granting credit, to be able to adapt with the increase of product and banking venture complexity, and to anticipate the structural changes in the economy.

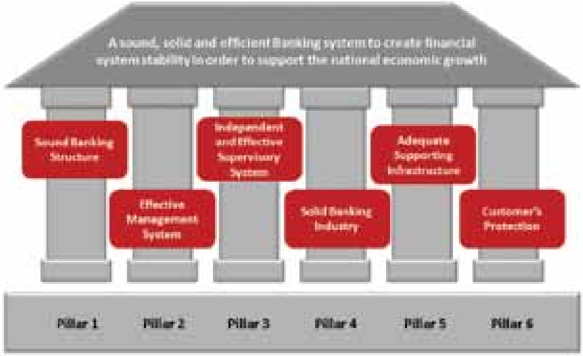
Thirdly, the change of landscape of banking industry regulation that demands a comprehensive reformation includes among others capital structure, liquidity, governance, and securitization, to reduce the probability of institutional failure. However, in the midst of domestic capital inadequacy and global tendency that restricts the involvement of foreign capital it is not easy to meet the need of capital increment. One of the alternatives in increasing banking capitalization is through organic composition of capital. It requires commitment from bank owner and management to balance the distribution of dividend and remuneration by striving to increase institutional capitalization. Other alternative in strengthening capital is by encouraging banking to utilize capital market instruments.

Fourthly, although integration in banking sector in the framework of ASEAN Economic Community (AEC) will only be implemented in 2020, the integration of capital market in 2015 can add pressure to banking funding and financing. In the funding side, it will have more alternative funds placements other thank banking. Meanwhile, in the financing side, it will be easier for the business sectors to enter overseas market, so that it will reduce domestic credit share. Furthermore, to anticipate the integration of ASEAN banking in 2020, OJK will clarify the direction of banking ventures and improve the competitiveness in order to utilize the ASEAN market. Banking sector should be ready to anticipate the above matter and OJK will facilitate by building communication with the authorities in other countries, especially to guarantee the level of playing field.

B. Indonesian Banking Architecture

In 2004, BI has launched The Indonesian Banking Architecture (API), which is a fundamental framework of Indonesian banking system that is comprehensive in nature and provides direction, form and order of banking industry for the period of 5 to 10 years in the future. During the 10-year period since 2004 up to 2013, more than 50 activities have been carried out to realize the API vision. The following picture shows API's overview:

Picture 4
Indonesian Banking Architecture



API program has a vision to achieve a sounrd, solid and efficient system to create financial system stability in order to encourage national economic growth. The implementation of the above vision is included in the 6 pillars as follows: (1) Banking Structure Strengthening, (2) Banking Management Quality Enhancement, (3) Supervisory Function Improvement, (4) Management Quality and Banking Operation Enhancement, (5) Banking Infrastructure Development, and (6) Customer's Protection Improvement.

Evaluation on API program up to November 2013 indicated a strengthening in the banking capitalization structure. The entire commercial banks owned capital above Rp100 billions with an average of Rp4.6 trillions, despite the number of banks operating was larger than the initial target. In terms of banking structure, in accordance with API 2004 vision, the existing banks did not match the expectation, where there were banks operating internationally, domestic banks and banks with business focus.

Further, the institutional enforcement and the competitiveness of BPR and BPRS were implemented by encouraging the formation of APEX Bank and linkage program. Meanwhile, the increase of credit access/financing for Micro, Small, and Medium Enterprises (MSME) was strengthened among others through the supports of Regional Credit Guarantee Agencies (LPKD) formation in regions and by encouraging the utilization of LPKD guarantees on credit/financing distributed to MSME. Quality improvement in banking management is implemented by involving external parties to obtain input in developing regulations, and research involvement supporting the regulations. In implementing banking research, several Research Institutes have been established in several universities. Development of regulations also received many insights from related parties such as academicians, market players, banking players, governmental agencies, whether domestic or international.

Improvement of supervisory function has been achieved through coordination with other supervisory authorities formalized in MoU Cross Border Banking Supervision with 5 Banking Supervisory Authorities. Supervisory function improvement have also been implemented by reorganizing banking sector in Indonesia, perfecting banking supervision infrastructure, perfecting risk-based supervision implementation, and improving enforcement through coordination with Police, Attorney, and PPATK.

Several policies have also been implemented to improve the quality of risk management and bank operations, among others by issuing regulations on Good Corporate Governance (GCG) and obligation for bankers to have risk management certification. Furthermore, several regulations have also been issued among others concerning bank soundness rating related to the quality of GCG implementation in banks, requiring special audit on IT of banks, arranging outsourcing in banking sector, making transfer of knowledge related to utilization of foreign workforce.

Banking infrastructure continued to be developed, among others by encouraging the development of sharia financial market, and the development of Fatwa (legal decision) institution and sharia arbitration institution.

Customer protection improvement program was realized by setting a standard customer's complaint mechanism, developing information transparency on products and consumer's data usage, and promoting education for customers.

Considering that API's duration has ended in 2013, OJK currently is setting a Master Plan for Indonesian Banking year 2014 – 2023. The development of the above Master Plan is considering the dynamics in national and global scope, and also the dynamics in the banking industry itself. Several global dynamics that become the basis of consideration are:

1. Uncertainties of global economic condition that affects the Indonesian banking system;
2. Development of international standard and commitment; and
3. Free trade and integrated of financial sector of countries regionally.

Domestically, the dynamics that are brought into consideration are related to the banking industry's role in sustainable growth, equitable development and financial stability. The dynamics in banking industry that should be considered among others are:

1. Non-optimum banking structure;
2. Imbalance competition of banks; and
3. Improvement of banking governance management.

C. Basel Framework

Implementation of Basel Financing Framework

Indonesia as one of G-20 forum members and other international forums such as Financial Stability Board (FSB), Basel Committee on Banking Supervision (BCBS) has given its commitment to adopt the recommendations by the forums. In line with that, and due to the transfer of supervisory function from BI to OJK, then ahead, OJK in implementing its duties shall not be separated from the efforts in adopting the various recommendations mentioned above. In carrying out the process of adopting the various recommendations, OJK will remain adjusting them with the condition and development of domestic banking industry. One of the recommendations that have been implemented by Indonesian banking is the capital framework issued by BCBS.

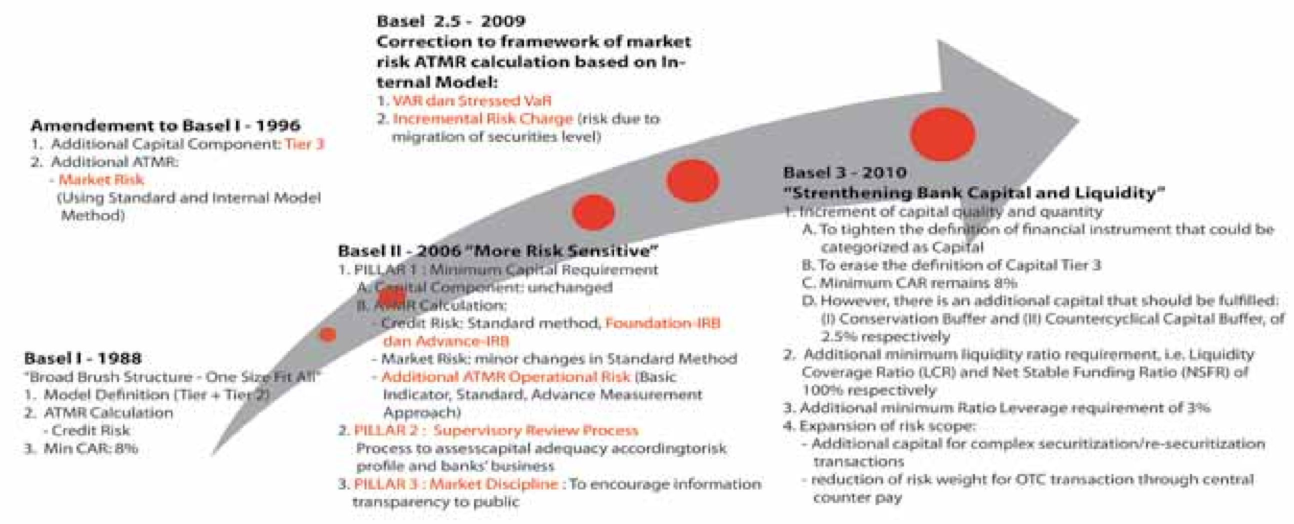
The Evolution of Basel Financing Framework

Capitalization is one of the main focuses in bank supervision authority in implementing prudential principles. BCBS has issued a financing framework concept that becomes international standard, as follows:

1. In 1988, issued a financing concept and ATMR calculation specifically for credit risk;
2. In 1996, perfecting capitalization component by adding Tier 3 and ATMR calculation for Market Risk;
3. In 2006, issued an international document Convergence on Capital Measurement and Capital Standard (A Revised Framework), or more recognized as Basel II. In general, Basel II framework consists of three pillars:
   a. *Pillar 1*: minimum capital requirements
      Associating minimum capital requirements with credit risk, market risk and operational risk; In this case, the bank is obligated to keep adequate capital to cover the risk. Bank capital ratio or the balance between regulatory capital and ATMR should not be less than 8%.
   b. *Pillar 2*: supervisory review process
      - Requires supervisory review process to guarantee adequacy of bank capital to cover bank risk entirely. There are 4 principles in Pillar 2, as follows:
      - *First*, Internal Capital Adequacy Assessment Process – ICAAP: bank is obligated to have a process to assess the overall adequacy of capital, which is related to the risk profile and strategy to maintain its capital level;
      - *Second*, Supervisory Review and Evaluation Process – SREP: supervisor assess banks' ICAAP rate;
      - *Third*, supervisor expects bank to operate above the minimum regulatory capital ratio; and
      - *Fourth,* supervisor may intervene to save the capital from declining to below the minimum level required and request the bank to take immediate action in case the capital cannot be maintained.
   c. *Pillar 3*: market discipline.
      To set requirements for the disclosure of risk exposure's main information, the process of risk measument and banks' capital adequacy that enable market players to assess the condition of a bank.

- In 2009, issued Basel 2.5 recommendations that covers framework of Market Risk ATMR calculation using internal model, imposition of capital expenditures for securitizarion of transactions, risk management aspect for compensation, concentration risk, reputation risk and stress testing, evaluation on the entire exposures recorded based on fair value, and securitization disclosure.
- In 2010, in response to global financial crisis, BCBS issued recommendation to improve banks' resilience, both at micro and macro level, or which known as Basel III framework. The improvement of resilience at micro level is implemented by improving banks' capital quality and quantity, banks' liquidity adequacy and development of risk scope that is calculated as capital expenditures. Meanwhile, the improvement at macro level is implemented by applying conservation buffer, ratio leverage, countercyclical capital buffer and capital surcharge for Domestic Systemically Important Banks (D-SIBs).

Figure 5
Evolution of Basel Framework



Implementation of Basel Framework in Indonesia
Basel Framework II

1. Basel Framework II (Pillar 1, Pillar 2 and Pillar 3) in Indonesia has been fully implemented since December 2012. Several regulations related to the implementation of Basel II among others are:
   a. *Pillar 1*
      - SE No. 13/6/DPNP about Guidelines on Calculation of Risk-Weighted Asset for Credit Risk using Standard Approach
      - SE No. 14/21/DPNP about Amendment to SE No. 9/33/DPNP dated 18 December 2007 about Guidelines on Standard Method Utilization in Calculation of Capital Adequacy (KPMM) for Commercial Banks by Determining Market Risk and SE No. 9/31/DPNP about Guidelines of Internal Model Utilization in Calculating Capital Adequacy for Commercial Banks by Inclusion of Market Risk.
      - SE No. 11/3 DPNP about Calculation of Risk-Weighted Asset (ATMR) for Operational Risk by using Basic Indicator Approach.

   b. *Pillar 2*

      PBI No. 15/12/PBI/2013 concerning Capital Adequacy (KPMM) for Commercial Banks and SE Ekstern No. 14/37/DPNP on KPMM in accordance with the Risk Profile and Capital Equivalency Maintained Assets (CEMA) requirements. In accordance with the above regulations, banks are required to have minimum capital according to the risk profile with the following average:
      - Bank with level 1 risk profile[1], minimum capital required 8%.
      - Bank with level 2 risk profile, minimum capital required 9% up to < 10%.
      - Bank with level 3 risk profile, minimum capital required 10% up to < 11%.
      - Bank with level 4 or 5 risk profiles, minimum capital required 11% up to 14%.

[1]What is meant by Banks' risk profile as stipulated in the regulations of Bank Indonesia concerning Commercia Bank Soundness Level Assessment

c. *Pillar 3*

PBI No. 14/14/PBI/2012 about Transparency and Publication of Bank Report and SE No. 14/35/DPNP concerning Commercial Bank Annual Report and Certain Annual Report Delivered to BI.

Basel 2.5 Framework

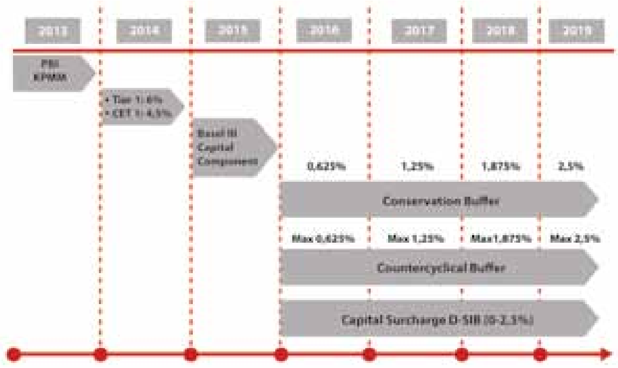
In implementing Basel 2.5 Framework in Indonesia and as a form of Indonesia's commitment in adopting international standard, a Basel 2.5 Consultative Paper (CP) has been issued, containing reviews of various regulations related to market risk and securitization, and the aspect of pillar 2 and pillar 3 for Basel 2.5. The substance on Basel 2.5 CP above will continue to be perfected along with various responses and inputs from stakeholders. In time, Basel 2.5 CP will be formulated to be Basel 2.5 regulations by including the roles of various parties, specifically of banking sector.

Basel III Framework

Intensive efforts have been implemented among others through the issuance of Basel III capital framework CP to obtain input from stakeholders, the implementation of Quantitative Impact Study (QIS) whether organized by BCBS or domestic QIS using BCBS template and also data usage from LBU.

On 12 December 2013 PBI No. 15/12/PBI/2013 was issued, concerning KPMM for Commercial Banks that regulates: (i) capital quality improvement through changes of capital instrument components and requirements in accordance with Basel III framework; (ii) capital adequacy ratio requirement that consists of minimum core capital ratio of 6% from ATMR and minimum main core capital ratio of 4.5% from ATMR, and (iii) additional capital requirement as buffer on top of KPMM according to risk profile.

Implementation of the above Basel III regulations will be done gradually starting 2014 until full implementation in 2019, in the following phases:



With the gradual implementation of Basel III in Indonesia, the Indonesian banking is expected to have enough time to prepare itself to fulfill all the capital requirements (in quality and quantity) according to Basel III Framework.

ASEAN Banking Integration Framework (ABIF)

In order to maintain political stability and security of ASEAN regions, to improve ASEAN competitiveness in global market, and encourage economic growth, alleviate poverty and improve life standard of the people in ASEAN countries, all ASEAN countries leaders have agreed to realize economic integration which is more real and beneficial by declaring the ASEAN Economic Community (AEC) in Bali Concord II in 2003. In relation to the banking integration in ASEAN, in 2011 ASEAN had formed a Task Force on ASEAN Banking Integration Framework (TF ABIF), consisting of 10 ASEAN countries: Indonesia, Malaysia, Singapore, Thailand, The Philippines, Brunei Darussalam, Cambodia, Myanmar, Laos and Vietnam. TF ABIF was formed in consideration to banking's big role in the ASEAN financial sector and as one of the efforts to encourage banking integration acceleration in ASEAN.

Considering the magnitude of the interests of Indonesia in safeguarding the banking integration process in order to accommodate national interests, BI has accepted the appointment of becoming the co-chair of TF ABIF along with Malaysian National Bank. The primary task of TF ABIF is to set the framework and implementation guidelines of banking integration within ABIF context, which goal is to increase the presence and roles of ASEAN1 indigenous best banks in ASEAN countries.

With the transfer of supervisory function from BI to OJK, at the moment ABIF would have been approved as the banking integration framework in ASEAN, OJK would bear the main responsibility in the ABIF negotiation process. However, considering that ABIF framework and guidelines are still in the finalization process, OJK with BI are both involved in the above process.

Implementation of ABIF will go through 2 phases, which are multilateral1 and bilateral1, and will refer to several principles: reciprocal, outcome driven, comprehensive, progresive and be based on the preparedness of the country, inclusive and transparent.

With the above phases and principles, banking integration within ABIF context is expected to remain within the boundaries according to national interests, among others:

1. *ABIF implementation is based on the preparedness of each country; therefore the banking integration in ABIF context would only be formed after there are 2 or more countries ready to do ABIF negotiation.*
2. *With the implementation of reciprocal principle in ABIF and adjustment of the needs or interests of each party and considering*

the ASEAN banks already present in Indonesia, an addition of a bank from ASEAN will only take place if Indonesia is convinced that the opening of one bank is worth the benefit received by Indonesian banking in terms of expansion to ASEAN countries.

3. *With the fact that Indonesian banking in general is still having obstacle in expanding to ASEAN countries, while on one hand Indonesian market is a very attractive market for foreign banking and the share of foreign banking already operating in Indonesia is quite large, this matter could be one source of bargaining power for Indonesia in making deals with other ASEAN countries in the effort to expand Indonesian banking to other ASEAN countries.*

Global Financial Sector Reform

Crisis has taught us valuable lesson in the aspect of global financial management and supervision sector. It was clearly defined that global financial sector is based on a management regime that is ineffective in responding to systemic risks. On the other hand, the ramification of the crisis was not easily detected due to asymmetrical information. Global institutions and financial markets rapidly transmitted the crisis from one economy to the other as the result of global financial integration. Meanwhile, big financial institutions operating globally and having potential systemic impact (globally systemic important financial institutions/G-SIFIs) did not have sufficient capital buffer to absorb the loss suffered. One of the reasons was the weak regime of capital management that tends to amplify procyclicality. In relation to the above matter, G-20 leaders have initiated global financial sector reform as one of the important responses towards global financial crisis. Since the Washington Action Plan (WAP) agenda referred to running ambitiously, reflected in the tight deadline of completion date. From the many initiatives, the most important reform agenda was the global reform of capital and liquidity management regime and procyclicality mitigation included in Basel III framework in accordance with the issuance from Basel Committee on Banking Supervisor (BCBS). Meanwhile, resolutions of crisis for financial institutions with systemic impact were also being strengthened. This reform also included strengthening of over-the-counter (OTC) derivative financial market, increment of supervision intensity, *and expansion of restrictions of financial sector management to erase fragmentations between the banking sector, capital market and IKNB.*

Further, the financial sector reform agenda was established, as a follow up of G-20 summits in Washington DC, London and Pittsburgh. Indonesia as a member of G-20, Financial Stability Board (FSB) and BCBS supported and took part in the global financial system reform that included but not limited to:

1. *Strengthening global capital regime and banking liquidity standard and also prociclycality mitigation in Basel III framework (Building High Quality Capital and Liquidity Standards – Basel III)*
2. *Financial institution management with systemic impact and related framework resolution (Addressing systemically important financial institutions and cross-border resolutions).*
3. *Compensation scheme reform for executives in financial institution (Reforming compensation practices)*
4. *Improving over-the-counter derivative markets*
5. *Strengthening adherence to international standards*
6. *Strengthening accounting standards*
7. *Development of macroprudential policy framework and tools*
8. *Harmonizing the market regulation and financial institutions (Differentiated nature and scope of regulation)*
9. *Management of credit rating agencies*
10. *Establishing Supervisory Colleges*
11. *Reactivation of market securitization with stronger prudential basis (Re-launching securitization on sound basis)*

D. Regional Development Bank as Regional Champion

The realization of API vision needs a bigger role from Regional Development Bank (BPD). This is considering that there are still rooms for BPD to develop more optimally. In terms of total assets, credits and fund raising, BPD's segments are relatively small. Based on the above parameter, it can be concluded at a glance that in terms of scale, BPD's role can be sharper if it focus on operating in their respective region as the agent of regional development.

BPD strengthening program is stated in BRC program, which is a program to encourage BPD to become more effective in implementing its function as the agent of regional development, including its implementation strategies. The development of BPD blueprint to become regional champion is based on several considerations, such as:

1. BPD capital condition that is still low in comparison with the average banking industry capital, which has a potential to weaken BPD resilience in facing competition with other bank groups in the regions;
2. BPD service that can still be improved to meet public expectation and BPD awareness brand that needs improvements to make the products and services offered by BPD attract customers' interest and trust;
3. Human resources quality and competency which have not met the expectation in anticipating market development, so that they are unable to optimize the regional economic potentials;
4. Credit distribution to productive sector remains relatively low and tends to channel consumption credit to Regional Government employees, which causes BPD role in regional real sector financing not optimum. The above matter causes financing for productive sector to be taken over by other banks, therefore it becomes more difficult for BPD to be the host in its own region;
5. The above BRC Blueprint could be described generally in the following pillars:

Figure 6
BPD Regional Champion

Several agenda for sharpening BRC Program among others:

1. **Agenda of Strengthening BPD Capital**
   Strengthening BPD Capital is one of the agenda in the pillar of institutional resilience that needs to be one of the major priorities, considering that most BPD have not reached the target of minimum core capital requirement of Rp.1 trillion. Core capital fulfillment can be achieved organically or non-organically. For BPD with core capital close to the range of threshold, it is possible to meet the requirement organically; however, for BPD with core capital far the range, it requires a fund raising in a non-organic manner derived from additional capital from the owner or strategic investor or by going public.
2. **Agenda to Expand Public Financial Access**
   Expansion of public financial access is one of the agenda to implement the pillar of public service ability. Many of BPD office networks at the moment have not been able to fully serve public needs in remote areas. Therefore, it will need an improvement in penetration of banks' office networks. In the case where banks' office networks are not possible, it needs a strategic alliance in banking service with other institutions that have wider networks. In this context, the concept of branchless banking can be taken into consideration as one of the alternative solutions.

3. **Agenda of BPD Funding Structure Strengthening**
   Agenda to strengthen BPD funding structure is the implementation of the pillar of ability to become the agent of regional development. As it is widely known, the majority of BPD funding structure is derived from the regional government (Pemda), which in this case, can give negative implications for at least 2 aspects. *First*, there is a strong dependency of BPD to the local Pemda that it may influence BPD's policy professionally. *Second*, funding that is less diversified tends to increase liquidity risk, because BPD will not have sufficient financing sources if the existing sources made a huge withdrawal of funds.
4. **Agenda of BPD Quality Improvement**
   Agenda to improve BPD quality is an implementation of the pillar to become the agent of regional development that strives to improve BPD contribution to regional economy through productive credit provision. In terms of constraint in the shortage of capable analysts in BPD to improve the productive credit portion as stated by several BPD in various forums, it requires a follow-up in human resources fulfillment process, whether internally or by external recruitment.
5. **Agenda to Improve BPD Governance Implementation**
   The implementation of GCG is the main key for BPD to become leading banks in the regions. Therefore, improvement in BPD governance implementation should be a priority, which implementation among others is executed comprehensively, especially in the proposal and appointment of BPD Board of Commissioners and Directors.
6. **Agenda to Improve BPD's Role in Creative Industry Development**
   As it is widely known, the creative industry as the new economic strength that can absorb large numbers of workers and give additional value to the national economic growth. Aside from the above, Indonesia as a nation with cultural diversity surely has the potential in developing creative industry. The creative industry potential in each region should be utilized more

optimally by BPD that in nature understands more about the characteristics of its region, including the cultural aspect and creative industry potential. The efforts to improve BPD's role has been initiated through the signing of Memorandum of Understanding between: (i) The Association of Regional Development Bank (Asbanda) and The Ministry of Tourism and Creative Economy; (ii) between Asbanda and the Association of Indonesian People's Credit Bank (Perbarindo), in the effort to expand BPD access to public. BRC as one of API vision realization programs is going under reviews to determine the development plans for the next 10 years.

E. Development of Sharia Banking

The national economic growth in 2013 was not as good as the previous years, in which the decrease was in line with the deceleration of global economy and fluctuation of global financial market, and the commodities' prices which still in the declining trend, aside from the domestic economic impacts such as the increases of oil fuel (*BBM*) price and interest rate as well as inflation rate. Correction to this growth was a part of rebalancing process that was in line with its fundamental. The growth of national banking credit was also decelerating as the result of rebalancing process in facing the economic condition in 2013. The same reasons also applied to Sharia banks which mostly were subsidiary companies of conventional banks, they have gone through consolidation process with various situations encountered by their conventional parent banks, or dealt with lower economic growth in comparison with the previous years. Aside from that, several supporting factors of Sharia banking growth that was expected to happen in 2013, would not take place until 2014, for example the inflow of Hajj funds in significant amount and the delay of the realization of Sharia BUMN (State's Owned Business Enterprises).

Sharia banking in general could maintain its positive performance, accompanied by good intermediation function. The development of Sharia banking was sufficiently good, reflected from the increase of assets, savings and funds distribution; also well-maintained was capitalization and profitability of sharia banking industry. Besides, product innovation activities and sharia banking services was ongoing, reflected from the proposals for new product to improve competitiveness, and the increasing acceleration and public acceptance towards sharia banks. Sharia banking is expected to continue developing, considering there are quite large unexplored market potentials, and promotion program and public education about sharia banking continued being implemented consistently and continuously.

In terms of market share of sharia banking, by the end of 2013 it has reached ± 4.9%, tightly related not only to the expansion of office network and sharia services, but also promotion strategies and public education in sharia banking sector. Meanwhile, in terms of industrial composition, around 98% of Sharia banking assets was still dominated by BUS and UUS. From the direction of the predetermined policies, they have been well implemented in 2013, such as the enforcement and perfection of LTV/FTV policy, so that the productive financing growth (working capital and investment) was higher in comparison with the consumption financing, and also promotion program and education were massively implemented by the launching of GRES (Sharia Economy Movement) by the President of the Republic of Indonesia.

Implementation of Sharia Banking Policies

In general, based on the assessment of supervision results, the risk profile of sharia banking is categorized as moderate. In this case, the banking authorities constantly ask the banks to improve the quality of risk management and internal control system, and to note the prudential principles as well as Sharia Principle in the bank operational and also to improve capital resilience. While the focus of audits includes the aspects of operational risk, credit risk, adherence to the application of Sharia Principle, and GCG implementation. In relation to Sharia banking supervisory system development, several supervisory systems have been developed, i.e. Banking Information System (SIP) of Sharia Module for BUS and UUS, BUS Monthly Report, BPRS Supervisory System, RBB for BPRS and socialization and training of Sharia banks supervisors. In the development of Sharia Module SIP, the supervisory application for Sharia banks will be integrated with supervisory application for conventional banks. Meanwhile, the development of BUS Monthly Report (LBUS) is implemented based on the needs of information in the context of risk- based supervision and implementation of Basel II regulation, change in the international accounting system reporting standard and monetary statistic requirement, in which in its development applies Extensible Business Reporting Language (XBRL) method that is based on data dictionary and is different from the previous LBUS that uses form-based approach. It is expected that with the enforcement of XBRL-based reporting, it will encourage the efficiency and flexibility of reporting, at the same time becomes the pioneer in national banking industry.

With regards to regulations, during the year 2013 there were various regulations issued in relation to perfecting of BUS and UUS institutions, office network expansion, sharia governance, accounting and Short Term Sharia Financing (FPJPS).

In order to support the formulation of Sharia banking development policies (research-based policy making), the banking authority has also conducted various studies, among others about BUS Efficiency Measurement in Indonesia using Data Envelopment Analysis (DEA) Method as an alternative method to assess operational model comprehensively conducted by Sharia banks, and Study on Sharia Bank Revenue Sharing Calculation from Revenue Sharing Principle to Profit and Loss Sharing Principle. Apart from that, Sharia Financial Research Forum (FREKS II) was held in order to support research activities and studies on Banking/Sharia Finance in academic environment and to become the media in exchanging ideas and at the same time as an appreciation forum for researchers and academicians.

In regards to the process of Sharia banking policies review, a blueprint of Sharia banking that had been issued in 2002 as the direction of Sharia banking development policies was finally completed. This perfection was expected to be the reference for the development of Sharia banking up to year 2023. Aside from the above, a review on the implementation of international standard IFSB (Islamic Financial Services Board) has been developed pertaining to capitalization, that was expected to be a reference in perfecting the KPMM regulations in the future.

In regards to the Sharia banking campaign activities (iB Campaign), there were various activities that has been executed, among others are: Marketing and Communication Working Group (Markom) for Sharia Banking and iB Vaganza Expo in various cities in Indonesia, as well as Training of Trainers (TOT) for Sharia Banking, and also socialization/public education/communication of sharia banking via printed and electronic media.

The Direction of Sharia Banking Development

Sharia banking growth that is relatively high in comparison with banking in general or global Sharia financial in the midst of still recovering economic condition, shows that national Sharia banking with its characteristics and related stakeholders' support has successfully maintained its existence and development in facing economic situations. Meanwhile, the transfer of management and supervision authority from BI to OJK s expected to maintain the sustainable development of sharia banking in the future. A close cooperation between OJK (microprudential authority) and BI (macroprudential authority) will be one of the important pillars of the direction of Sharia banking in the future. Cooperation and collaboration between the above authorities can be expanded further by connecting to various other authorities as the important stakeholders in Sharia financial and decision maker, so as to form synergy of policies and the implementations in encouraging the Sharia financial development to become more integrated and interconnected, also to enable Sharia banking to contribute more significantly to the economy.

Sharia Financial Service Development Committee

With the transfer of banking authority from BI to OJK, including that pertaining to Sharia banking caused the organs inside BI that used to help in managing and supervising Sharia banking to be transferred as well to OJK. The aforementioned organ was the Committee of Sharia Banking (KPS) that was established based on Law Number 21 Year 2008 about Sharia Banking. OJK, with its authority, not only manages and supervises Sharia banking, but also the Financial Industry of Non-Bank Sharia and Sharia Capital Market. Therefore, the Committee established in OJK should be expanded in order to reach the other financial service sector, by forming a Committee named Sharia Financial Service Development Committee (KPJKS).

The goal of KPJKS establishment is to help OJK in incorporating the fatwa of Indonesian Moslem Assembly (MUI) into OJK regulations and to develop sharia financial service. The result of KPJKS task implementation shall be delivered to OJK's Board of Commissioners in the form of KPJKS recommendations, and in implementing such tasks the KPJKS shall report to the OJK's Board of Commissioners.

KPJKS is headed by OJK's President of the Board of Commissioners with members from OJK internals and externals from the Ministry of Religion, MUI and other public elements.

In order to continuously encourage and maintain development continuity of sharia banking, it is necessary to implement plans for sharia banking development and policy that is focused on the following matters:

1. Strengthening of sharia banking structure and resilience to support the national economic development and transformation;
2. Microprudential and macroprudential coordination and collaboration for financial system stability;
3. More integrated and massive education and promotion on Sharia Banking and Finance.

F. Development of Rural Banks

The BPR development policy remains directed to the strengthening of BPR industrial capacity through the strengthening of capital in order to be able to compete with other business players in micro financial market, and to maintain continuity of BPR business activities. The enhancement of BPR's outreach and quality of service becomes one of the focuses in BPR development. In order to realize the above efforts, there are several policies that have been taken by the authority, including:

1. **BPR Business Model**

   Business model has been developed based on observation on BPR industry's performance and behavior for the last 5 years. The selected BPRs that have good performance were made into business models in BPR management. The aspects presented in the business model become the guidelines in establishing new BPR or managing existing BPRs to run healthy BPR businesses.

   BPR Business Model consists of 6 main aspects:

   a. Owner

      The BPR owner ideally comes from the region in which the bank will be established, has capability and commitment to provide capital and seriousness in encouraging bank governance in a healthy manner.

   b. Capital

      Availability of additional capital is needed to maintain sustainability of BPR operation.

   c. Operational Location and Region

      BPR establishment must consider location factor by taking into account economic potential and the number of banks in the location. Other than that, BPR is ideally established in a location with easy access to public especially in villages and for Micro and Small Enterprises (MSE).

   d. Business Strategy

      In order to guarantee the growth and development of BPR business, the BPR management should have the right business strategy, such as:

      - To focus on productive business financing of micro and small scales with familiar characteristics, and to determine competitive and affordable credit interest rate.
      - To serve MSE needs by determining a simple and fast banking requirement and procedure. To use the support of Information Technology (IT) in its

operations to improve the service quality to a faster and more efficient service.

- To add office networks according to the needs.

e. Human Resources Management and Policy
BPR should be managed by Human Resources with high integrity, professional, have an understanding of business potential and the characteristics of region and people (market) that is served by BPR. BPR employees ideally come from BPR location because they understand the habit, culture and characteristics of the people, including the regional potentials.
BPR Organizational Structure shall consist at minimum of 2 members of the Board of Commissioners, 2 members of the Board of Directors, 7 staffs in charge of accounting, customer service, marketing, administration and general affairs, cashier, credit analyst and security.

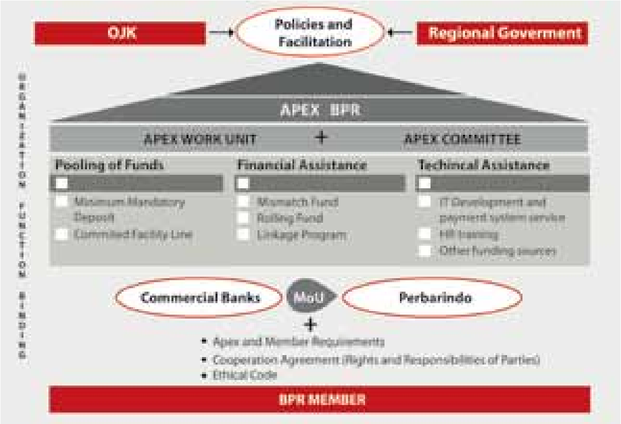
f. Relation with Community/Public
Although BPR is a business oriented company, it should blend in and be a part of the local communities. This is important in building relation and moral attachment through BPR's involvement in social activities of surrounding communities.

2. To Encourage Apex BPR Cooperation

a. Apex institution is a form of cooperation between Business Units (BU) that act as parent banks, with BPR as members. The presence of Apex institution is a form of ideal synergy to serve MSE together, so as minimizing unhealthy business competition between BU and BPR. The word Apex derives from a Greek word that means "protector/patron", which signifies that Apex BPR should be a protector to BPR member.

b. In general, Apex BPR has functions to: (i) manage pooling of funds and help BPR in dealing with liquidity problem due to a mismatch; (ii) cooperate in financing (like linkage program); (iii) provide technical assistance in the form of information technology development, product development, training, and payment system service; and (iv) facilitate BPR in finding other funding sources.

Figure 7
Apex BPR Cooperation Model




OTORITAS JASA KEUANGAN

CHAPTER VI

KEY BANKING REGULATIONS

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VI. KEY BANKING REGULATIONS

A. Regulations on Institution, Management, and Ownership of Bank

1. Bank Establishment

Banks can only be established and conduct business activities after be granted licenses from OJK.

Commercial Banks

Paid-up capital at no less than Rp3 trillion, and can only be established and/or owned by :

a. Indonesian citizens and/or legal entities of Indonesia; or
b. Indonesian citizens and/or legal entities of Indonesia in partnership with foreign citizens and/or foreign legal entities.

Sharia Commercial Banks

Paid-up capital at no less than Rp1 trillion, and can only be established and/or owned by :

a. Indonesian citizens and/or legal entities of Indonesia; or
b. Indonesian citizens and/or legal entities of Indonesia in partnership with foreign citizens and/or foreign legal entities.

Rural Banks

Paid-up capital at no less than :

a. Rp5 billion for a Rural Bank established in DKI Jakarta region;
b. Rp2 billion for a Rural Bank established in provincial capital regions of Java and Bali islands and in regency or municipal city regions of Bogor, Depok, Tangerang and Bekasi;
c. Rp1 billion for a Rural Bank established in provincial capital regions outside Java and Bali islands and inside the areas of Java and Bali islands, but outside the regions as referred to in letter a and b;
d. Rp500 million for a Rural Bank established in other regions ouside the areas as referred to in letter a, b, and c.

and can only be established and/or owned by :

a. Indonesian citizens;
b. Legal entities of Indonesia where all the owners are Indonesian citizens;

c. Regional Governments; or
d. Two parties or more as referred to in letter a, b, and c.

Sharia Rural Banks

Paid-up capital at no less than :

a. Rp2 billion for a Sharia Rural Bank established in the regions of DKI Jakarta Raya and Regency/Municipal City of Kota Tangerang, Bogor, Depok and Bekasi;
b. Rp1 billion for a Sharia Rural Bank established in provincial capital areas outside the regions as referred to in letter a;
c. Rp500 million for a Sharia Rural Bank established outside the regions as referred to in letter a, and b.

and can only be established and/or owned by :

- Indonesian citizens;
- Legal entities of Indonesia where all the owners are Indonesian citizens;
- Regional Governments; or
- Two parties or more as referred to in letter a, b, and c.

The Opening of a Foreign Bank Branch Office

A foreign Bank can open a Branch Office if the bank opening a Branch Office:

a. Has a good ranking and reputation;
b. Has a total assets included in the 200 world largest;
c. Is placing business funds in rupiah currency or foreign currency with a value at least equal to Rp3 trillion.

The Opening a Foreign Bank Representative Office

Opening a Foreign Bank Representative Office can be done if the bank that will open a Representative Office has a total assets included in the 300 world largest.

Representative Offices are only permitted to conduct activities among others:

a. Providing information to third parties regarding requirements and procedures in making contact to their Head Office/Branch Office abroad;
b. Assisting their Head Office or Branch Office abroad in the supervision of credit collateral existing in Indonesia;
c. Acting as the power holders in concating agencies/ institutions for the needs of their Head Office or

Branch Office abroad;

d. Acting as supervisors to projects which partly or entirely financed by their Head Office or Branch Office abroad;
e. Conducting promotion activities in order to introduce the banks;
f. Provide information to their foreign partie or vice versa concerning trade, Indonesian economy and finance;
g. Assist Indonesian exporters in order to get market access in foreign countries through international networks owned by the Representative Offices or vice versa.

2. Bank Ownership

Sources of funds used in the context of ownership of BUK/BUS, BPR/BPRS are prohibited if the funds come:

a. From loans or financing facilities in any forms, from banks and/or other parties in Indonesia; and/or
b. From and for the purpose of money laundering;

Particularly for BPR, source of funds might come from the Regional Budget .

Parties that may become bank owners must meet requirements of:

a. Having good characters and moral, among others indicated by the characteristic of compliance with the applicable regulations, including never been convicted of certain criminal offences in the last 20 years prior to being nominated.
b. Having commitments to comply with the applicable laws and regulations for BUK; and sharia banking regulations for BUS.
c. Having commitments to the development of a sound Bank operation (for BUK); and having high commitments to the development of a sound and strong sharia bank.
d. Not including in the Disqualified List of the fit and proper test (for BUK); and
e. For candidates for members of Board of Commissioners or Board of Directors which have ever gotten Disqualified grades in FPT and have

undergone sanctions imposed by OJK - having commitments for not conducting and/or repeating particular acts and/or conducts.

Changes of bank owners are subject to the procedures of changes in bank ownerships stipulated in the applicable laws and regulations.

3. Sole Proprietorship in Indonesian Banking

The basic policy on sole proprietorship is that each party may only be a Controlling Shareholder (PSP) in 1 Commercial Bank in Indonesia. In the event a party has already become the PSP in more than 1 bank or purchased other bank shares so that the person in question become the PSP in more than 1 bank, the said person must comply with the Sole Proprietorship regulation.

Meeting requirements for a Sole Proprietorship can be done through:

a. A merger or consolidation of the controlled banks;
b. Forming a Parent Company in Banking sector; or
c. Forming a Holding Function.

Policy on a sole proprietorship is exempted for:

a. PSP on 2 banks which respectively conducted business operations with different principles, i.e. conventionally and based on Sharia Principles, and
b. PSP on 2 banks whereas one of them is a Joint Venture Bank.

   For a Controlling Shareholder (*PSP-Pemegang Saham Prioritas*) that choose the option of merger/ consolidation to meet the ownership structure according to this regulation, will receive incentives in the forms of:

   - Temporary leniency in completing Statutory Reserves (*GWM-Giro Wajib Minimum*);
   - Extension of settlement time for exceeding Maximum Lending Limit (*BMPK-Batas Maksimum Pemberian Kredit*);
   - Facilitation in opening new branches; and/or
   - Temporary leniency in GCG application.

The form of legal entity of a parent company in banking sector is a Limited Liability (PT) established in Indonesia in accordance with the applicable laws and regulations in Indonesia.

Holding function can only be undertaken by a PSP in the form of an Indonesian legal entity bank or a Government Agency of the Republic of Indonesia.

A parent company in banking sector and a holding function is obligated to provide strategic directions and consolidate the financial statements of its subsidiary companies of banks.

In accordance with FPT, in the context of a legal entity PSP, the definition of PSP only includes up to the owner and the last controlling interests of the legal entity (ultimate shareholders). In line with the above matter, the definition on having implemented good control/supervision, directly or indirectly, refers to FPT regulations.

4. **Ownership of Commercial Bank Shares**

In order to administer the structure of ownership, OJK has set a maximum limit of shares ownership in any bank based on shareholding category and relationship among the shareholders as follows:

a. Legal entities of bank financial institutions and non-bank financial institutions at 40% from the bank capital;
b. Legal entities of non financial institutions at 30% from the bank capital; and
c. Individual shareholders at 20% from the bank capital. Maximum limit shares ownership by individual in BUS is at 25% from the bank capital.

The maximum limit of shares ownership is not applicable for the Central Government and institutions that have functions in handling and/or rescuing banks. The relationship inter-Bank shareholder is based on:

a. Ownership relationship;
b. Family relationship up to second degree; and/or
c. Cooperation or in line actions to achieve a common goal in controlling the Bank (acting in concert) with or without a written agreement so that collectively the said parties have the option right or other rights

to own the bank shares.

A Candidate for PSP who is a foreign citizen and/or a legal entity residing overseas must meet the following requirements:

a. Having commitments to support development of Indonesian economy through the bank owned;
b. For a financial institution legal entity - obtaining recommendations from the supervisory authority of the country of origin; and
c. Having a ranking of no less than the following:
    - 1 notch above the lowest investment ranking, for a bank financial institution legal entity,
    - 2 notch above the lowest investment ranking, for a non-bank financial institution legal entity, or
    - 3 notch above the lowest investment ranking, for a non financial institution legal entity.

A bank financial institution legal entity can have bank shares of more than 40% from the bank capital provided that it gets OJK approval and meets the set requirements. Individuals and/or Legal Entities can purchase shares of Commercial Banks directly or through stock exchange market. Total shareholding by foreign citizens/foreign legal entities at most is 99% from the total shares of the concerned bank.

For shareholders who hold bank shares more than the maximum limit of shares ownership, they must adjust the maximum limit of the shareholding based on the result of Bank Soundness Level (TKS) and/or assessment of GCG at the month-end of December 2013 position. For shareholders in banks with TKS and/or GCG assessment ranking of 3rd, 4th or 5th in Desember 2013 assessment position, must adjust with the maximum limit of shares ownership no longer than 5 years as of 1 January 2014.

Shareholders in banks that have TKS and GCG assessment of 1st or 2nd Ranking in December 2013 assessment position can still have shares as many as the percentage of shares they already have. The obligation to adjust with the maximum limit of shares ownership is when the banks have a decrease TKS and/or GCG ranking, i.e. to 3rd, 4th or 5th ranking within 3 consecutice assessment periods or the shareholders by their own initiatives sell the shares they owned.

Application of banks' maximum limit of shares ownership for Regional Government (*Pemda*) and parent companies is regulated as follows:

a. The maximum limit of shares ownership for Pemda which will establish or acquire a bank is 30% for each Pemda.
b. The maximum share ownership for a parent company in banking sector established to meet requirements concerning sole proprietorship is exempted from the limit of maximum shares ownership. However, if in the future the concerned parent company shall acquire other banks, the limit of maximum shares ownership will be the same as the highest limit of ownership in the category of shareholders of the concerned parent company in the banking sector.

Special Requirements for Commercial Bank Shares Ownership

a. Bank Shares Ownership of More Than 40%
    - The requirements to own bank shares of more than 40% are among others to obtain TKS with a composite level 1 or 2, or equivalent for bank financial institutions domiciled in a foreign country, meeting the Minimum Capital Requirement (KPMM) in accordance with the risk profile, and core capital (tier 1) of no less than 6%.
    - The rating position used in the above requirements is the position assessed at least in the last 1 year.
b. Investment Rate Requirement for the candidate of a PSP in the form of legal entity domiciled overseas is the investment rate position at least in the last 1 year before the concerned entity becomes a PSP bank.

5. Management of Banks

Management of Conventional Commercial Banks

Members of Board of Commissioners and Board of Directors must comply with the requirements of integrity, competency, and financial reputation. Requirements and procedures of assessment to meet the requirements are governed in the regulation of FPT and GCG.

a. Board of Commissioners

- Total members of Board of Commissioners of conventional Commercial Banks shall be at least 3 persons and at most the same as the members of Board of Directors. At least 1 member of the board of commissioners must reside in Indonesia.
- Board of Commissioners is headed by President or Chairman of the Board of Commissioners.
- Board of Commissioners consists of Commissioners and Independent Commissioners.
- At least 50% of the total number of Board of Commissioners' members is Independent Commissioners.
- Each proposal for replacing and/or appointing any member of Board of Commissioners to General Meeting of Shareholders must observe recommendations of the Remuneration and Nomination Committee.
- Members of Board of Commissioners must meet requirements of passing the FPT in accordance with the applicable regulation.
- Members of Board of Commissioners may only have a double function as: a member of Board of Commissioners, Board of Directors, or Executive Officers in 1 non-financial institution/company; or a member Board of Commissioners, Board of Directors, or Executive Officer that undertake supervisory function in 1 non-bank subsidiary controlled by a bank.
- Members of Board of Commissioners are not considered having a double function if the non-independent members of Board of Commissioners carry out functional duties of shareholders of a legal entity bank in its business groups; and/or members of Board of Commissioners have positions in a non-profit organization or institution, provided that the persons in question do not neglect the implementation of their duties and responsibilities as members of the Board of

Commissioners.

- The majority members of Board of Commissioners are prohibited to have family relationship up to the second degree with fellow members of Board of Commissioners and/or Board of Directors.
- Board of Commissioners must perform their duties and responsibilities independently and are prohibited to get involved in any decision making activities of bank operations.
- Board of Commissioners must establish at least: Audit Committee, Risk Monitoring Committee, Remuneration and Nomination Committee.
- Board of Commissioners meeting must be held periodically at least 4 times in a year, attended by the entire Board of Commissioners physically at least 2 times in a year. In the event members of Board of Commissioners cannot attend the said meeting physically, they may attend the meeting through a teleconference technology.
- Former Board of Directors or Executive Officers of Banks or other parties having connection with banks, that can influence their ability to act independently are not allowed to become Independent Commissioners in the relevant banks prior to going through a cooling off waiting period for 1 year. This regulation is not applicable for former members of Board of Directors or Executive Officers who performed supervisory function.

b. Board of Directors

- Board of Directors of a BUK at least consists of 3 persons. All members of the Board of Directors must reside in Indonesia.
- Board of Directors shall be chaired by a President Director or Managing Director.
- Each proposal for replacing and/or appointing any member of Board of Directors by the Board of Commissioners to General Meeting of Shareholders must take into account recommendations from the Remuneration and Nomination Committee.

- Majority members of the Board of Directors must have experiences in the bank operations at least 5 years in operational sector as bank executive officers, with the exception of commercial banks conducting business activities based on Sharia Principles.
- Managing Director of banks must come from the party which is independent to the controlling shareholders.
- Majority members of Board of Directors are prohibited to have a family relationship up to second degree with fellow members of Board of Directors and/or with members of Board of Commissioners.
- Members of Board of Directors are prohibited to have a double function as members of Board of Commissioners, Board of Directors or Executive Officers in banks, companies and/or other institutions.
- The members of Board of Directors shall not be considered as having a double function if the board of directors responsible for supervising the investment in the bank subsidiary perform functional duties as a member of board of commissioners in a non-bank subsidiary controlled by banks, provided that the double function referred to does not lead the person in question to neglect the implementation of duties and responsibilities as a member of the bank board of directors.
- Members of Board of Directors both individually or collectively are prohibited to have shares more than 25% from the paid-up capital in another company.
- Members of Board of Directors are prohibited to give general power to other parties which might lead to a transfer of duties and functions of Board of Directors.
- Board of Directors shall be fully responsible for the execution of its bank management.
- Board of Directors must manage the Bank

in accordance with their authorities and accountabilities as referred to in the Byelaw and the applicable laws and regulations.

- Board of Directors must be accountable for the execution of their duties to the shareholders through the General Meeting of Shareholders.
- Board of Directors must disclose to employees any Bank policy strategic on personnel.
- Every decision of the Board of Directors taken in accordance with the guidelines and code of conduct shall be binding and of the responsibility of the entire Board of Directors.
- Former Board of Directors or Executive Officers of the Bank or other parties having connection with banks, that can influence their ability to act independently are not allowed to become Independent Parties as the members of audit committee and risk monitoring committee in the relevant banks prior to going through cooling off waiting period for 6 months. This regulation is not applicable for former members of Board of Directors or Executive Officers who perform supervisory function.

Banks must apply risk management related to the Bank management, Executive Officers, as well as the opening, change of status, change of address and/or closing office of the Bank, at least covering:

- Active supervision of Board of Commissioners and Board of Directors;
- Adequate policy, procedure, and limit setting;
- Adequate identification, measurement, monitoring and risk control as well as risk management information system processes; and
- Comprehensive Internal control system.

One of the considerations in giving approvals for the next year plan on opening, change of status, change of address and/or closing of office based on study submitted by banks which at least contains:

- A suitability with business strategy and impact to financial projection;
- A mechanism of supervision and evaluation of

bank office performance;
- A comprehensive analysis (bank wide) covering among others economic condition, risk analysis, and financial analysis; and
- A plan on operational preparation among others human resources, information technology, and other support facilities;

Management of Sharia Commercial Bank

Members of Board of Commissioners and members of Board of Directors must meet requirements of integrity, competency, and financial reputation. Requirements and procedures for assessing the referred fulfillment are governed in the regulation concerning the FPT. The Board of Commissioners conducts supervision on the implementation of duties and responsibilities of the Board of Directors, and provides advices to Board of Directors executed by referring to among others regulation on GCG implementation applicable for Banks.

a. Board of Commissioners
- Total members of Board of Commissioners at a minimum shall be 3 persons and at a maximum are equal to the number of Board of Directors members;
- No less than 1 member of the Board of Commissioners must reside in Indonesia;
- Board of Commissioners shall be chaired by a President or Chairman of the Board of Commissioners;
- No less than 50% of total members of Board of Commissioners shall be Independent Commissioners;
- Proposal for appointing and/or replacing members of Board of Commisioners to General Meeting of Shareholders shall be conducted by taking into account recommendations of Remuneration and Nomination Committee;
- Members of Board of Commissioners can only have a double function as Board of Commissioners, Board of Directors, or Executive Officers in 1 institution/ company of non financial institution; members of Board of Commissioners

or Board of Directors who conduct supervisory function in 1 company subsidiary of non-bank financial institution owned by the bank; members of Board of Commissioners, Board of Directors, or Executive Officers in 1 company which is a shareholder of the bank; or Executive Officers in 3 non-profit organizations at the most;

- Majority members of Board of Commissioners are prohibited to have a family relationship up to second degree with fellow members of Board of Commissioners and/or Board of Directors;
- Board of Commissioners shall be obligated to monitor and evaluate the implementation of strategic policy of BUS; and
- In the context of executing their duties and responsibilities, the Board of Commissioners shall be obligated to establish at a minimum: (i) Risk Monitoring Committee; (ii) Renumeration and Nomination Committee; (iii) Audit Committee.

b. Board of Directors

- Total members of the Board of Directors must be no less than 3 persons;
- Each member of the Board of Directors must reside in Indonesia;
- Board of Directors shall be led by a President Director or Managing Director;
- Proposal for appointing and/or replacing members of the Board of Directors to General Meeting of Shareholders shall be conducted by taking into account recommendations from the Remuneration and Nomination Committee.
- Majority members of the Board of Directors must have experiences at no less than 4 years as Executive Officers in banking industry, where 1 year of the said services at least spent as Executive Officers in a BUS and/or UUS. Whereas for the BUS established through a business activities change process from BUK, initially this condition is required only for 1 candidate for Board of Directors' member and must be fulfilled by the majority of Board of Directors no later than 2 years

after permit for change of business activities has been granted;
- President Director or Managing Director must come from the party that is independent to PSP;
- Members of the Board of Directors are prohibited to have a double function as members of the Board of Commissioners, Board of Directors, or Executive Officers in banks, companies and/or other institutions, with the exception if: (i) the member of Board of Directors responsible for supervision upon the participation in the Bank subsidiary, undertakes functional duties as the member of Board of Commissioners in a non-bank subsidiary controlled by the Bank, and/or (ii) the member of Board of Director has positions in 2 non-profit organizations;
- Members of the Board of Direcrors individually or collectively are prohibited to have shares more than 25% of the paid-up capital in other companies;
- Board of Directors is fully responsible for the execution of BUS management based on prudential and Sharia Principles;
- Majority members of the Board of Directors are prohibited to have a mutual relationship up to second degree with fellow members of the Board of Directors and/or with the Board of Commissioners;
- Board of Directors is prohibited to give general power to other parties that might cause the shifting of Board of Directors duties and functions; and
- Board of Directors must be accountable for the implementation of its duties to the shareholders through RUPS.

Management of Rural Banks

Management of Rural Banks consists of Board of Directors and Commissioners. Members of Board of Directors and Board of Commissioners must meet requirements of: (i) competency; (ii) integrity, and (iii) financial reputation.

a. Board of Commissioners

- Total members of Board of Commissioners shall be no less than 2 persons;
- At least 50% of the Board of Commissioners members must have knowledge and or experiences in banking sector;
- Members of the Board of Commisioners may only have a double position as Board of Commissioners members at a maximum in 2 other BPR or BPRS;
- A member of the Board of Commissioners of BPR is prohibited to have a position as a member of Board of Directors in a BPR, BPRS and or Commercial Bank;
- Members of Board of Commissioners must attend board of commissioners meeting periodically no less than 4 times in a year; and
- If required by OJK, members of the Board of Commissioners must present the supervision result toward BPR.

b. Board of Directors

- Board of Directors shall be no less than 2 persons;
- Members of Board of Directors must attain formal education at least up to D-3 or has completed no less than 110 Credit Units in a S1 education;
- No less than 50% of the members of the Board of Directors must have experiences as executive officers in banking operational department for 2 years at the shortest, or attended apprentice / trainee program at least for 3 months in a BPR and must have certificates from the Certification Body at the time the persons in question are nominated as members of the Board of Directors.
- Members of the Board of Directors must have certificates from the Certification Body;
- Members of the Board of Directors are prohibited to have a family relationship with other fellow members of the Board of Directors and/or Board of Commissioners in a relation as parents, sons/ daughters, parents-in laws, son/ daughter in laws, husband, wife, siblings or brother/sister in laws;
- Members of the Board of Directors are prohibited to have a double position as members of board

of directors or executive officers in a banking institution, company or other institution; and
- Members of the Board of Directors are prohibited to give general power that may cause transfer of duties and unlimited authorities.

Management of Sharia Rural Banks

Management of BPRS consists of Board of Directors and Board of Commissioners. Members of the Board of Directors and Commissioners must meet requirements of: (i) competency; (ii) integrity; and (iii) financial reputation.

a. Board of Commissioners
- Board of Commissioners shall be headed by a President Commissioner or Chairman of the Board of Commissioners;
- Total members of the Board of Commissioners shall be no less than 2 persons and no more than 3 persons;
- At least 1 member of the Board of Commissioners must reside near the domicile of the BPRS; and
- Members of the Board of Commissioners may only have a double position as: (i) members of the board of commissioners in no more than 2 other BPRS or BPR, or (ii) members of board of commissioners, board of directors or executive officers in 2 other non-bank institutions/ companies.

b. Board of Directors
- Board of Directors shall be led by a President Director or Managing Director;
- Total members of Board of Directors shall be no less than 2 persons;
- At least 50% of the members of Board of Directors including the Managing Director should have operational experiences at least for: (i) 2 years as officers in funding and or financing departments in Sharia banking sector; (ii) 2 years as officers in funding and or credit departments in conventional banking and have knowledge in Sharia banking; or (iii) 3 years as board of directors members or equal to board of directors in sharia

micro financial institutions;

- Members of the Board of Directors must attain formal education at a minimum of Diploma III level;
- Members of the Board of Directors must have certificates from the Certification Body no later than 2 years after the effective date of appointment;
- Managing Director and other members of the Board of Directors must act independently in carrying out their duties;
- Board of Directors shall be responsible for implementing the management of BPRS as an intermediation institution by complying with the prudential and Sharia Principles;
- Managing Director must come from the party independent to PSP;
- All members of the board of directors must reside near the domicile of the BPRS head office;
- Members of the Board of Directors are prohibited to have a family relationship with: (i) other fellow members of the Board of Directors in a relation as parents, sons/daughters, parents-in laws, parents of son / daughter in laws, son / daughter in laws, husband, wife, siblings or brother/sister in laws, and/or (ii) Board of Commissioners' members in a relation as parents, sons/daughters, parents in-laws, parents of son/daughter in laws, son/daughter in laws, husband, wife or siblings;
- Members of Board of Directors are prohibited to have a double position as members of board of directors, members of board of commissioners, members of Sharia Supervisory Board (*DPS-Dewan Pengawasan Syariah*) or executive officers in a financial institution, business entity or other institutions; and
- Members of board of directors are prohibited to give general power that may cause the transferring of duties, authorities and responsibilities to other parties.

Sharia Supervisory Board

Aside from bank management that consists of the Board of Commissioners and Board of Directors, in the organization structure of BUS, UUS and BPRS, also includes DPS which duties and responsibilities are as follows:

a. To assess and ensure the compliance with Sharia Principle in the operational guidelines and products launched by banks;
b. To supervise the development process of bank new products;
c. To ask for fatwa to Sharia National Board for new products that have no fatwa;
d. To conduct a periodical review on Sharia Principle compliance toward the mechanism of fund raising and distribution and banking services; and
e. To require data and information on Sharia aspect of bank business unit in implementing its duties.

The Sharia Principle in fund raising activities, financing and other BPRS services is business activity with no aspects of: *riba, maisir, gharar, haram* and *zalim*.

The number of DPS members in BUS shall be a minimum of 2 people or a maximum 50% of the total members of the Board of Directors. The number of DPS members in BUK with UUS or BPRS is a minimum of 2 people and a maximum of 3 people. DPS is led by a chairman from one of DPS members and a DPS member can only concurrently be a member of DPS in no more than 4 other sharia financial institutions.

Duties implementation of BPRS' Sharia Supervisory Board

Supervision on the implementation of Sharia Principle by DPS consists of: (i) supervision on new BPRS products and activities, and (ii) supervision on fund raising activities, financing and other BPRS services. The supervisory procedures carried out by DPS in the referred BPRS are among others: (i) to request for clarifications from the authorized BPRS officials concerning the objective, characteristic, and *fatwa* (legal decision) and/or *akad* (agreement) used as the basis in the launching of new products and new activities; (ii) To conduct study on feature, mechanism, requirements, regulations, system and procedure of new products and activities in relation to meeting Sharia Principle requirements; (iii) To provide opinions with regard to the aspects of meeting Sharia Principle requireentse on newly launched products and activities; (iv) To conduct audit in BPRS office for at least once a month; (v) To ask reports from BPRS Directors regarding products and activities in fund raising, financing and other BPRS service activities; (vi) To conduct investigation by sampling in at least 3 customers for each product and/or fund raising agreement, financing and other activities, including the management of restructured financing by BPRS; (vii) to provide opinions related to the aspect of meeting Sharia Principle requirements on fund raising, financing activities and other BPRS service activities; and calculation and report of financial transactions; and (viii) to make a report of result of supervision on meeting Sharia Principle requirement on BPRS business activities that will be delivered biannually by OJK.

6. **Foreign Workers Utilization and Transfer of Knowledge Program in Banking Sector**

Banks may utilize Foreign Workers (TKA) in running their operations by complying with BI regulation. Utilization of Foreign Workers by banks must consider the availability of Indonesian workforce. Banks may only utilize a TKA for the following positions or equivalent:

a. Member of Board of Commissioners and Board of Directors;
b. Executive Officer; and or
c. Experts/Consultant.

Banks are not allowed to utilize Foreign Workers in the departments of human resources and compliance. Banks must request OJK approval prior to appointing any TKA to fill the position as a member of the Board of Commissioners, Board of Directors and/or an Executive Officer, must submit to OJK the plan for utilizing foreign workers which should be stated in the Bank Business Plan, must guarantee the realization of transfer of knowledge in the utilization of any TKA. The obligation in the transfer of knowledge shall be performed through:

a. The Appointment of 2 Indonesian assistants for every 1 person of TKA;
b. Education and job training for the related assistants in accordance with the qualification of positions held by the TKA; and
c. Implementation of training or teaching by the TKA within a certain period especially for bank employees, students/college students, and/or the general public.

7. Fit and Proper Test in Conventional Commercial Banks and Rural Banks

FPT shall be conducted by OJK toward:

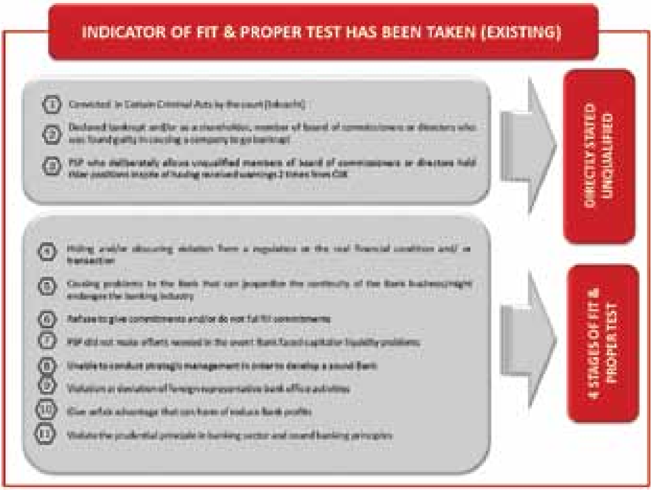
a. Candidates for PSP, candidates of members of Board of Commissioners and Board of Directors;
b. PSP, the members of Board of Commissioners, Board of Directors and Executive Officers; and
c. Parties, who are no longer held the position or no longer served as parties referred to in letter b, yet the persons in question are suspected to be involved in or responsible for any conduct or act, which is in the process of FPT in the bank or the representative office of foreign bank.

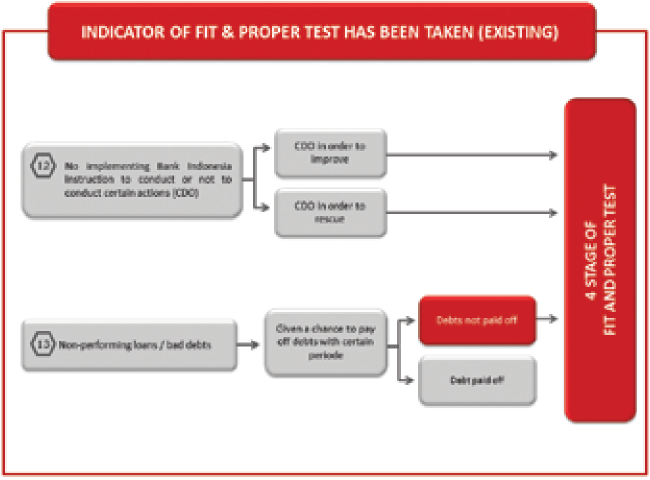
FPT will be implemented anytime if based on supervision, audit results or information from other sources there are indication of problems in integrity, competency, and/or feasibility/financial reputation.

Parties going through a legal process and/or through a FPT process in a bank may not be proposed to be the candidates for PSP, members of Board of Commissioners or members of Board of Directors.

Object of Fit and Proper Test	Factors of Fit and Proper Test
Candidates for PSP	Integrity and financial feasibility
Candidates for Members of Board of Commissioners and Board of Directors	Integrity, competency, and financial reputation

FPT in order to reassess a PSP, member of Board Commissioners and Board of Directors and Executive Officers shall be conducted in the event there are indications of integrity, financial feasibility, financial reputation and/or competency issues covering:





FPT shall be implemented based on evidence, data and information from off site supervision and/or on site supervision or other information that FPT has been conducted by OJK.

FPT shall be conducted with the following measures:

a. Clarification of evidence, data and information to the parties taken the tests;
b. Determination and communication of temporary result of the fit and proper tests to the parties taken the tests;
c. Responses from the tested parties toward temporary result of the fit and proper tests; and
d. Determination and notification of final result of the fit and proper tests to the parties taken the tests.

Sanctions of prohibition are also applicable for parties that got Disqualified category at the time of assessment, but the persons in question have already held a position as a PSP, member of Board of Commissioners, Board of Directors, and/or Executive Officers in other bank.

In the event Banks are under status of handling and rescue by LPS, fit and proper tests will only be performed to candidates of members of the Board of Commissioners and/or Board of Directors. Request for approval of candidates for members of the Board of Commissioners and/or Board of Directors in question shall be submitted to LPS.

8. Fit and Proper Test in Sharia Commercial Banks and Sharia Business Units

OJK shall perform FPT to:

a. Candidates for PSP, candidates for Board of Commissioners members, candidates for Board of Directors members, candidates for UUS Directors, and candidates for Head of Foreign Bank Representative Offices prior to carrying out their functions and duties in Sharia Banks, UUS or Foreign Bank Representative Offices;
b. PSP, members of Board of Commissioners, members of Board of Directors, Candidates for UUS Director, and Candidates for the Head of Foreign Bank Representative Offices prior to carrying out their functions and duties in Sharia Banks, UUS or Foreign Bank Representative Offices; and
c. Parties that had not held position or not served as

the parties as referred to in letter b anymore, who are indicated involved in or responsible for the conducts or acts but still in the process of FPT in Sharia Banks, UUS or Foreign Bank Representative Offices.

Based on the administrative reviews and interview result, OJK shall determine final result of FPT with a category Qualified or Disqualified.

Parties that have been given Disqualified grade, but already had approval and been appointed as members of the Board of Commissioners and members of Board of Directors of Sharia Bank in accordance with RUPS decision, then the parties in question are prohibited to act as Members of the Board of Commissioners and Members of Board of Directors in the relevant Sharia Banks. Furthermore, Sharia Banks must make a follow-up to the consequences of the Disqualified Grades, no longer than 3 months as of the date of notification from OJK. Besides, Sharia Banks must report the follow-up actions to OJK within 7 days at the longest.

The parties that have already been given Disqualified grades may serve again as PSP, Members of Board of Commissioners, Members of Board of Directors, UUS Directors, and Head of Foreign Bank Representative Offices if such parties have been undergoing sanctions, passing the sanction time, and also have first taken the FPT.

In the event Sharia Banks are under the handling or rescuing by LPS, the FPT will only be conducted to candidates for members of the Board of Commissioners and candidates for members of the Board of Directors. If Conventional Commercial Banks that have UUS are under the handling or rescuing of LPS, the FPT will only be conducted to candidates for UUS Director.

9. Merger, Consolidation and Acquisition of Banks Commercial Banks

Merger, Consolidation, and Acquisition can be conducted at the initiative of the relevant banks, at the request of OJK and or at the initiative of specialized agencies. Merger, Consolidation and Acquisition should obtain a prior approval from OJK.

Merger or consolidation can be done between a conventional bank and a Sharia Bank if the merged or consolidated bank becomes a Bank based on sharia principles or a conventional bank that has branch offices based on Sharia Principles.

Acquisition of Commercial Banks can be done by individuals or legal entities, either from the purchase of part of the banks shares or the entire shares directly or through stock exchange market resulting to the shifting of bank control to the acquiring party. Stocks purchase that considered causing the shifting of bank control, i.e. if the shareholding:

a. Becomes 25% of or more than the paid-up capital; or
b. Less than 25% of the paid-up capital but directly or indirectly controls the management and/or policy of banks.

Rural Banks/Sharia Rural Banks

Merger, Consolidation, and Acquisition of BPR/BPRS can be done at the initiative of the BPR/BPRS in question or at the request of OJK. Merger, Consolidation and Acquisition should have a prior approval from OJK.

Merger or Consolidation can only be done inter-Rural Bank or inter-BPRS. Merger or Consolidation between a BPR and BPRS can be conducted only if the merger or consolidation between the two Banks resulted in a BPRS.

Merger or consolidation of BPR/BPRS can be done:

a. Inter-BPR/BPRS domiciled in the same province; or
b. Inter-BPR/BPRS domiciled in different provinces provided that the merged/consolidated BPR/BPRS offices located in the same province.

Acquisition of BPR/BPRS can be done by individuals or legal entities through stocks acquisition resulted in the shift of BPR/BPRS control. Stocks purchase that considered resulting in a control shift of BPR/BPRS, if the shareholding:

a. Becomes 25% of or higher than the paid-up capital of the BPR/BPRS; or
b. Less than 25% of the paid-up capital of the BPR/

BPRS, but directly or indirectly control the bank management and/or policy.

10. **Establishment of Bank Offices**

Banks must state plans for opening, changing status, changing of address and/or closing bank offices for the next 1 year in the RBB. Submission of the plan shall be accompanied by a study in accordance with the regulation concerning Commercial Banks.

OJK has the right to instruct banks to postpone the plans in opening, changing status, and/or changing addresses of banks, if according to OJK assessment, there are among others an impairment in the soundness level and financial condition of banks, and/or an increase in the risk profiles of banks.

Banks should clearly state the name and type of bank office in the respective bank office.

Branch Offices of Commercial Banks Domestic

a. Opening a branch office should obtain approval from OJK;
b. Board of Directors or Acting Director shall submit a request for the opening of a branch office to OJK accompanied by supporting documents pursuant to the regulation concerning Commercial Banks;
c. Approval or rejection of bank application shall be given no longer than 20 working days after receipt of the complete documents; and
d. The opening of any branch office should be conducted no longer than 30 working days as of the issuance date of OJK's approval.

Branch Offices of Commercial Banks Overseas

a. The opening of a branch office, a representative office and other type of offices either an operational or non-operational office overseas should obtain OJK's approval. This approval must be performed within one year as of the issuance of OJK's approval, and can be extended not to exceed one year based on a justifiable reason;
b. The opening of an overseas office should also get approval from the authority of the country concerned;

c. Approval can be granted by OJK if it has become a foreign exchange bank at least for 24 months; has already stated the opening plan in the bank business plan; has met requirements of soundness level, risk profile and capital adequacy, and has an address or a clear operational office domicile; and
d. Approval or rejection of bank application shall be given no longer than 20 days after receipt of the complete documents.

Branch Offices of Rural Banks

a. A Rural Bank Branch Office can only be opened in the same province of its Head Office;
b. The opening of a Branch Office can only be performed with OJK's permission;
c. Areas of DKI Jakarta and Regency or City of Bogor, Depok, Tangerang, Bekasi and Karawang are determined as one area of Province for the needs of Branch Offices opening and it is also applicable for the opening of a Rural Bank Branch Office in the referred area due to a merger or consolidation;
d. Within the last 12 months the bank in question is categorized as a sound bank;
e. Within the last 3 months has Capital Adequacy Ratio (CAR) no less than 10%; and
f. Has a reliable information technology.

Sharia Commercial Banks and Sharia Business Units Offices

Plans for opening, change of status, change of address, and/or closing of a bank office and plans for opening, transferring, and/or discontinuing activities should be included in the RBB, accompanied by a "Study". BUS and UUS may open a Regional Office and Functional Office. Bank Offices of Sharia Commercial Banks and Sharia Business Unit.

Branch Offices of Sharia Commercial Banks Overseas

a. The opening of a branch office, a representative office and other types of office overseas can only be conducted with OJK's approval;
b. The opening of an overseas office should also get approval from the authority of the country

concerned;

c. Approval can be granted by OJK if it has become a foreign exchange bank at least for 24 months; has already stated the opening plan in the bank business plan; has met requirement of bank soundness level, capital adequacy and risk profile, and has an address or a clear operational office domicile; and
d. Approval or rejection of bank application shall be given no longer than 30 days after receipt of the complete documents.

Opening of Sharia Service of BUS at BUK

LSB is activities of fund raising and/or other provision of banking services based on Sharia Principle; not included the activities of fund distribution by BUK network offices for and on behalf of BUS. Meanwhile the Consulting Activities conducted are between BUS and BUK in the context of risk analysis on the financing of customer candidates and projects to be financed by BUS.

BUS may cooperate with BUK in opening LSB and/or using Consulting Activities in BUK, by meeting several requirements, among others as follows:

a. BUK that has ownership affiliation with bank, in which BUK is a PSP bank and PSP BUK is also a PSP bank; and
b. BUK does not have UUS, and BUK has acquired permit from OJK to implement agency activities and/or cooperation in accordance with the regulation that governs BUK business activities.

Branch Offices of Sharia Rural Banks

a. Opening a branch office of Sharia Rural Bank can only be done with OJK's approval.
b. The opening of a branch office must meet requirements at a minimum:
    - Located in the same Province as its head office;
    - Already stated in the annual working plan of;
    - Supported by a reliable information system technology; and
    - Paid-up capital shall be added by no less than 75% from the BPRS capital adequacy in accordance with the location of the branch office opening.
c. In particular for any BPRS which have a headoffice in

the areas of DKI Jakarta and Regency/City of Bogor, Depok, Tangerang and Bekasi, other than being able to open Branch Offices in the same Province as its head offices, the bank in question may also open branch offices in DKI Jakarta and Regency/City of Bogor, Depok, Tangerang and Bekasi.

Sharia Busines Unit

a. BUK that conduct business activities based on sharia principles must open UUS;
b. The opening of a UUS can only be done with OJK's approval in the form of a business license. The UUS working capital shall be set and maintained at no less than Rp100 billion;
c. UUS can be separated from BUK by:
    - Establishing new BUS; or
    - Transfer UUS rights and obligations to the existing BUS by fulfilling the prevailing requirements.
d. Additional Requirements in Opening UUS:
    - Analysis on BUK capital ability; and
    - Analysis on legal aspect fulfillment in segregating UUS to become BUS.

11. Conversion of a Bank's Name and Logo

Conversion of a Bank's name must be performed in compliance with the provisions stipulated in the applicable laws and regulations, including regulations issued by Ministry of Industry, Ministry of Law and Human Rights. In the event the relevant institutions have already issued approval documents on the conversion of the Bank's name, the said documents shall be submitted to OJK along with the application of request for the conversion of the bank's name.

12. Conversion of Business Operations of Conventional Banks to Sharia Banks

Conventional Banks can convert their business activities to Sharia Banks, while Sharia Banks are prohibited to change their business activities into Conventional Banks. The change of Conventional Banks business activities into Sharia Banks can only be done with the approval of OJK.
The conversion of Conventional Banks business activities

into Sharia Banks can be conducted as follows:

a. BUK to BUS,
b. BPR to BPRS.

Plan for the change of Conventional Banks business activities into Sharia Banks must be stated in the business plan of the Conventional Banks. A conventional Bank that will convert its business activities into a Sharia Bank must:

a. Adjust by the law;
b. Meet capital requirements;
c. Adjust requirements for Board of Directors and Board of Commissioners;
d. Establish DPS; and
e. Present initial financial statement as a Sharia Bank.

BUK that will make changes of their business activities to become a BUS must:

a. Have a Minimum Capital Adequacy Requirement (KPMM) of no less than 8%; and
b. Have a core capital of no less than Rp100 billion.

BPR that will convert its business activities into a BPRS must meet requirement on capital.

BUK/BPR that will convert its business activities into a BUS/BPRS must form a DPS.

BUK/BPR that already granted approval for the change of their business activities into BUS/BPRS must state clearly:

a. The word "Sharia" in the writing of the name; and
b. The iB logo in their forms, drafts, products, offices and networks of Sharia Banks offices.

13. Closing of Bank Branch Offices

Closing of domestic bank branch offices (KC) should get approval from OJK, a principle license and closing approval. Request for principle approval must be accompanied by explanations of the steps to be taken in the context of settlements of all KC obligations to the customers and the other parties. The request of closing approval should be submitted by banks no later than 6 months after the receipts of principle approvals by the banks and by enclosing documents proving that all banks obligations to customers and other parties have been settled; as well as statement letters from the Bank Board of Directors stating that settlement measures of all KC obligations to the customers and the other parties have been completed, and that the banks would take the responsibilities in case there are claims arising in the future.

The implementation of KC closing which has obtained approval for closing, should be carried out no later than 30 working days after OJK's approval date. Such implementation of KC closing must be announced by the relevant Banks in wide circulation newspapers in the domicile of the bank office no later than 10 working days after the closing approval date from OJK.

14. Closing of Sharia Business Unit

The closing of UUS has changed from previously 1 phase, to 2 phases:

a. Agreement on preparation of business license revocation, in order to settle UUS liabilities and receivables; and
b. Resolution in business license revocation, after all UUS liabilities and receivables are settled.

15. Requirement of Non-foreign Exchange Commercial Banks to Become Foreign Exchange Commercial Banks

Requirements for becoming Foreign Exchange Commercial Banks are as follows:

a. Capital Adequancy Ratio (CAR) minimum in the last month of 8%;
b. Good bank soundness level during the last 24 consecutive months;
c. Total paid-up capital no less than Rp150 billion;
d. Banks have conducted preparations to implement activities as Foreign Exchange Commercial Bank covering: organization, human resources, operational guidelines of foreign exchange activities including administration system and its supervision.

16. Conversion of Business License of Commercial Banks to Rural Banks in the context of Consolidation

Conversion of business licenses of Commercial Banks to Business Licenses of Rural Banks can only be done with the approval of OJK. Such conversion of licenses may be done voluntarily or mandatorily. Voluntary license conversion shall be conducted if there is a request from the shareholders of Commercial Banks with a core capital below Rp100 billion or shareholders of Commercial Banks that must still limit their business activities.

17. Determination of Status and Follow-up of Bank Supervision

Determination of supervision status of banks consisting of:

a. Normal supervision;
b. Intensive supervision; and
c. Special Supervision.

Intensive Supervision	Special Supervision
Criteria	
Banks placed under intensive supervision (BDPI) if they are rated as having potential difficulties that directly endanger business continuities if they meet one or more criteria as follows: a. KPMM ratio ≥ 8%, but less than KPMM ratio according to the risk profiles of banks that must be met by banks; b. Core capital ratio (tier 1) less than certain percentage set by OJK; c. Statutory Reserves in rupiah ≥ 5% but less than the ratio set for Rupiah GWM that must be met by Banks, and based on OJK assessment banks have fundamental issues on liquidity; d. Net non-performing loan more than 5% from the total credit; e. Soundness level of banks at composite ranking 4 or 5; f. Soundness level of banks at composite ranking 3 and GCG ranking 4;	OJK determined banks under special supervision (BDPK) when BDPI or banks under normal supervision are rated as experiencing difficulties that endanger their business continuities, i.e. if they meet one or more criteria as follows: a. KPMM ratio < 8%; b. Statutory Reserves in rupiah less than 5% and based on OJK assessment: • Banks experiencing fundamental liquidity issues; or • Banks experiencing development that deteriorates in a short time.
Period	
OJK determined that BDPI period shall be a maximum of 1 year since the date of OJK's letter of notification. OJK may extend the period of intensive supervision no more than 1 time and no longer than 1 year only for BDPI that meet criteria: a. Net non-performing loan more than 5% from the total credit and its settlement is complex in nature; b. Soundness level of banks at composite ranking 4 or 5; and/ or	OJK determined that BDPK period shall be a maximum of 3 months since the date of OJK's letter of notification.

<table>
<tr><th>Intensive Supervision</th><th>Special Supervision</th></tr>
<tr><td>c. Soundness level of banks at composite ranking 3 and GCG ranking 4.
Especially for criteria of b and c, extension of BDPI period shall also be followed by the increase of supervision measures.</td><td></td></tr>
<tr><th colspan="2">Supervisory Measures</th></tr>
<tr><td>Instruct banks to conduct mandatory supervisory actions, among others:
a. Write off non-performing loans and take into account banks losses with banks capital;
b. Limit payment of remuneration or other forms equivalent to the member of the Board of Commissioners and Board of Directors, or reward to related parties;
c. Do not make payment of subordinated loans;
d. Do not perform or delay capital distribution;
e. Strengthen capital of banks including through capital deposit;
f. Do not conduct certain transactions with related parties and/or other parties set by OJK;
g. Limit implementation on plans of launching new products and/or implementation of new activities;
h. Do not perform or limit asset growth, investment, and/or provision of new funds;
i. Sale a part or all assets and/or liabilities of banks to other banks or other parties;
j. Do not conduct expansion of office network;</td><td>1. Banks under special supervision must make capital increases to meet Minimum Capital Requirement (KPMM) and/or Statutory Reserves (GWM) pursuant to the applicable regulation.
2. Other than supervisory actions at the time of BDPI, in the context of special supervision, OJK has the rights to:
a. Prohibit banks to sell or reduce the total assets without OJK's approval except for SBI, SBIS, Checking Accounts at BI, interbank billing, SBN, and/or SBSN;
b. Prohibit banks to change ownership for;
1) Shareholders who have bank shares of 10% or more; and/or
2) PSP included in the parties that conduct controlling toward banks in a structure of bank business group, unless it has obtained OJK's approval.
c. Order banks to report any change of bank shares ownership that less than 10%.</td></tr>
</table>

Intensive Supervision	Special Supervision
k. Do not conduct certain business activities; l. Closing office network of banks; m. Do not conduct inter-bank transactions; n. Conduct merger or consolidation with other banks; o. Change the Board of Commissioners and/or the Board of Directors of Banks; p. Transfer the entire or a part of management of banks activities to other parties; and/or q. Sale banks to buyers willing to take over all liabilities of banks.	
BDPI must: a. Submit action plans according to the problems encountered; b. Submit realization of the action plans; c. Submit a list of related parties completely; and/or d. Conduct other actions and/or report certain things determined by OJK. In the event banks are determined as BDPI due to capital issues, banks and/or shareholders of banks must also submit capital restoration plans in order to solve capital issues of banks.	OJK shall freeze certain business activities of BDPK at most 1 month under a special supervision period, if: a. OJK assessed the condition of the concerned bank deteriorating; and/or b. There was a violation of banking regulation conducted by the Board of Directors, the Board of Commissioners and/or PSP.
Supervision Measures	
Banks shall be determined not under intensive supervision if banks condition improving and do not meet criteria of having potential difficulties that endanger business continuities.	OJK shall announce BDPK which certain business activities are frozen along with reasons and corrective actions that must be conducted and/or the bans ordered by OJK in 2 daily

Intensive Supervision	Special Supervision
	newspaper that have a wide circulation and in OJK homepage. On the other hand, in order to balance the information to public, then, if the concerned bank condition is improved and not categorized as a bank under special supervision, OJK also will announce it.
OJK shall inform banks determined not under intensive supervision anymore in writing.	Banks which certain business activities are frozen must inform the situation to their entire office networks.

Banks That Cannot Be Restructured

BDPK shall be determined to be the bank that cannot be restructured if:

a. The period of under special supervision has not passed yet but the condition of the bank is decreasing so that:
   - KPMM ratio ≤ 4% and considered unable to be increased to 8%, and/or
   - GWM ratio in Rupiah ≤ 0% and considered unable to be settled in accordance with the applicable regulations; or

b. The period of special supervision has been passed, and:
   - KPMM Bank ratio < 8%; and/or
   - GWM ratio in Rupiah < 5%

Banks with Systemic Impact

In the case BDPK allegedly having a systemic impact, OJK should inform the institution that has a function of establishing policy in order to prevent and handle crisis based on the provisions of legislation.

In the event the BDPK allegedly having a systemic impact meets the criteria as a bank worth restructuring, OJK will ask the aforereferred to institution to decide if:

a. The related bank has a systemic impact or not; and
b. The authorities to manage and determine handling measures against the bank determined as having systemic impact.

Banks with No Systemic Impact

In the event BDPK has no systemic impacts but still met the criteria of Banks that cannot be improved into sound Banks, OJK shall inform and request LPS decision to perform or not to perform rescue to the banks in question.

In the event LPS decides not to rescue the Banks that cannot be improved into sound Banks, OJK shall revoke business licenses of the Banks in question after receiving notification from LPS. Further settlements of the Banks which licenses have been revoked, shall be conducted by LPS in accordance with laws and regulations.

Bank under LPS Management or Restructuring

Banks under LPS management or restructuring shall not be included in BDPI or BDPK category. However, the referred bank are still obligated to conduct supervision as stipulated by OJK and in the case the aforereferred to bank met the criteria as a bank that cannot be restructured, OJK shall decide that the bank is unable to be restructured.

18. Follow-up Handling of BPR under Special Supervision Status

OJK shall determine BPR under special supervision status (BPR DPK) if meeting 1 or more of the following criteria:

a. CAR of < 4%;
b. Cash Ratio (CR) during the last 6 months of < 3%.

OJK shall inform the determination of BPR under special supervision to the relevant BPR. Apart from that, OJK shall also inform LPS regarding the BPR that have been determined as BPR DPK accompanied by explanation on the condition of the concerned BPR.

In the context of special supervision, OJK may instruct the BPR and/or BPR shareholders in question to perform actions among others:

a. Providing capital addition;
b. Writing off non-performing loans/bad debts and computing the said BPR losses against its capital;
c. Replacing members of the board of directors and/

or board of commissioners of the BPR;
d. Performing merger or consolidation with other BPR;
e. Selling BPR in question to any buyer that willing to take over the entire liabilities of BPR in question;
f. Transferring the management of the entire or a part of the said BPR activities to other parties;
g. Selling a part or the entire assets and/or liabilities of BPR to other parties; and/or
h. Terminate certain business activities within OJK specified time.

BPR under special supervision that have a CAR ≤ 0% and/or an average CR during the last 6 months of ≤ 1% are prohibited to conduct the activities of funds collection and distribution. If on the date of DPK determination BPR meet the criteria of CAR and CR as referred to, the prohibition of collecting and distributing funds shall be applicable as of BPR is determined under special supervision status.

The period of special supervision shall be set no longer than 180 days as of the date BPR in question determined under special supervision status by OJK. The said period can be extended for one time with a maximum period of 180 days as of the expiration date of the special supervision period if it meets the specified requirements.

OJK shall decide whether or not to remove the said BPR from the special supervision status if the said Rural Bank meets criteria of:

a. CAR of no less than 4%; and
b. CR average during the last 6 months of no less than 3%.

During the period of under special supervision status, OJK at any time may inform LPS and request LPS to make decision whether or not to rescue BPR, in the event BPR determined to be under special supervision meets the following criteria:

a. Having a CAR of ≤0% and/or CR average during the last 6 months of 1%; and
b. Based on OJK assessment, BPR in question is not able to increase the CAR to at least 4% and CR

average during the last 6 months of at least 3%.

At the period end of the special supervision, OJK shall inform and ask LPS to make a decision whether or not to rescue BPR that meets the criteria :

a. CAR of no less than 4%, and/or
b. CR average during the last 6 months of less than 3%.

In the event LPS decides not to rescue againts BPR, OJK shall revoke business license of BPR in question after receiving notification from LPS.

19. Follow-up Handling of BPRS under Special Supervision Status

OJK shall determine BPRS DPK if they meet 1 or more criteria as follows:

a. CAR of less than 4%, and/or
b. CR average during the last 6 months of less than 3%.

OJK shall inform LPS concerning BPRS determined DPK accompanied with remarks on the condition of BPRS in question.

BPRS DPK that have:

a. CAR equal to or less than 0%, and/or
b. CR average during the last 6 months equal to or less than 1%;

Not allowed to perform activities of funds collection and distribution. The prohibition referred to shall be applicable as of the prohibition date until BPRS in question removed from the DPK status. The period of special supervision is determined no longer than 180 days as of the date BPRS determined DPK by OJK and it can be extended for 1 time with a period of no longer than 180 days as of the date BPRS determined DPK by OJK.

During the supervision period, OJK at anytime can inform and ask LPS to make decision whether or not to rescue BPRS, in the event the BPRS DPK meets the following criteria:

a. Having a CAR of equal to or less than 0% and/or a CR average during the last 6 months equal to or less than 1%; and

b. Based on OJK assessment, BPRS are not able to increase the CAR to 4% at a minimum and CR average during the last 6 months of no less than 3%.

At the period end of the special supervision, OJK shall inform and ask LPS to give decision whether or not to rescue BPRS in question that meet the criteria of special supervision.
In the event LPS decides not to rescue BPRS, OJK shall revoke BPRS in question after receiving the notification from LPS.

20. Bank Liquidation

Bank liquidation is a rescue action of the entire rights and obligations of banks as the result of business license revocation and legal entity dissolution of the banks. Supervision and implementation of liquidated banks which licenses are revoked after October 2005 shall be conducted by LPS.

21. Business License Revocation at the Request of Shareholders (Self Liquidation)

Bank that its business license may be revoked at the request of its own shareholders are the bank that are not currently being placed under OJK's special supervision as governed in OJK regulation concerning follow up and determination of bank status.
Business license revocation at the request of bank shareholders may only be conducted by OJK if the banks have already settled their obligations to all customers and other creditors.
Business license revocation at the request of bank shareholders shall be conducted in two stages: approval of business license preparation, and decision of business license revocation.
Board of Directors of the Bank shall submit request for approval of business license revocation preparation to OJK and must be supported by related documents in compliance with the applicable regulations.
Further, OJK shall issue an approval letter on the preparation of business license revocation of the bank

and shall require the bank in question to discontinue all its business activities; to announce plan of the dissolution of the bank legal entity and also to plan on the settlements of bank obligations in two daily newspapers that have wide circulation no longer than 10 working days as of the date of approval letter for the preparation of bank business license; to immediately settle all obligations of the bank; and to appoint a public accountant office to conduct verification on the settlement of all bank obligations.

In the event the entire obligations of the bank have already been resolved, the Board of Directors shall submit a request for revocation of bank business license supported by related reports (according to the regulations) to OJK. If approval is granted, OJK shall issue a decree on the revocation of bank business license and request the bank in question to carry out the dissolution of its legal entity in compliance with the provisions of the applicable laws and regulations.

As of the issuance date of business license revocation, if in the future there are still some obligations that have not been resolved, the entire obligations shall be the accountability of the bank shareholders.

B. Regulation on Business Operations and Several Bank Products

1. Foreign Exchange Traders for Banks

Business activities in foreign exchange can only be carried out by banks that are included in the group of Business Activities Commercial Banks (BUKU-Bank Umum Kegiatan Usaha) 2, BUKU 3 and BUKU 4 that have received approvals from OJK. Banks included in BUKU 1 can only function as Foreign Exchange Trader (PVA-Pedagang Valuta Asing), which is governed in a separate regulation.

Requirements for Commercial Banks to do business activities in foreign exchange:

a. Bank's TKS level of composite 1 or 2 for the last 18 months;
b. Having core capital of no less than Rp1 trillion; and
c. Meeting KPMM ratio according to risk profile for

KPMM last assessment according to the applicable regulations.

Specifically for BPR and BPRS, they should meet the following requirements:

a. Having a sound TKS for the last 12 months; and
b. Meeting requirement of paid-up capital and management in accordance to the prevailing regulation.

2. Purchase of Foreign Currency against Rupiah to Banks

Customers or Foreign Parties can carry out purchase of foreign currencies against rupiah to Banks above USD100 thousand or equivalent per month per Customer or per Foreign Party, but only for any activity that is not speculative in nature with underlying. Purchase of foreign currency against rupiah by Customers covering spot transaction, forward transaction, and other derivative transactions. Purchase of foreign currencies against rupiah by Foreign Parties covering outright spot transactions.

3. Derivative Transactions

Banks can conduct derivative transactions both for own interest and on behalf of customers. In derivative transactions, Bank must perform "mark to market" and apply risk management in accordance with the applicable regulations. Banks can only conduct derivative transactions which are a derivative of exchange rate, interest rate, and/or the combination of exchange rate and interest rate. The referred transactions may be conducted provided that they are not structured products related to transactions of foreign currencies against rupiah. Banks are prohibited maintaining position on derivative transactions conducted by parties related to Banks and are prohibited providing credit facilities and or overdrafts for the needs of derivative transaction to customers including fulfillment of margin deposits in the context of margin trading transactions. Banks are also prohibited to conduct margin trading of foreign currencies against rupiah for their own interests or on behalf of the Customers.

4. **Commercial Paper**
   OJK issues a regulation stating that Commercial Paper (CP) that can be issued and traded through banking are only those issued by non-bank companies of Indonesia, with a maximum period of 270 days and that have obtained investment quality rating from the domestic securities rating agency (currently Pefindo), i.e. CP with the ability level to pay back adequately at a minimum. Banks that act as issuance organizers, issuing agents, paying agents, securities traders or financiers in the activities of CP are banks which in the context of soundness level and capital categorized within the last 12 months as good condition.
   Banks are prohibited:
   a. To act as issuance organizers, issuer agents, payment agents or financiers on the CP issuance from:
      - Companies that are members of relevant bank groups; and
      - Companies that have deposits categorized as Doubtful and Bad Debts (non-performing loans).
   b. To become guarantors of CP issuance.

5. **Deposits**
   a. **Demand Deposits**
      Demand Deposits are checking accounts where the withdrawals can be done by cheques, transfer forms, or other payment order facilities or by transfer. In the event of opening checking accounts, banks are prohibited to accept customers whose names listed in the existing national back list.
      Demand deposits in sharia banks can be based on wadi'ah or mudharabah agreements. For deposits based on *mudharabah* agreement, customers must maintain minimum deposits balance set by banks which cannot be withdrawn unless for closing the accounts. Profit sharing for demand deposits shall be based on the lowest balance of

month-end reports.

b. Time Deposits

Time deposits are deposits which withdrawal can only be done at certain time based on the agreements between depositing customers with the banks. Commercial Banks and Rural Banks can issue certicates on time deposits. Final income tax shall be imposed on time deposit interests.

Time deposits in sharia banks are based on *mudharabah* accounts with provision, among others, banks may not reduce the profit portions of customers without the approval of the relevant customers and cover the deposits cost with the ratio of bank profits.

c. Certificates of Deposit

Certificates of Deposit are deposits in the form of deposits which certificates are transferable. Commercial Banks can issue Certificates of Deposit with conditions among others:

- Can only be issued in bearer Rupiah;
- Nominal value at no less than Rp1 million;
- Period of no less than 30 days and no longer than 24 months; and
- Banks must impose income tax (PPh) upon the interests received by customers.

d. Savings

Savings are deposits where the withdrawals can only be done based on certain agreed terms, but may not be withdrawn by cheques, transfer forms and or other instruments equivalent. The terms of holding savings among others:

- Bank may only hold savings in Rupiah;
- Setting of interest rates is given to each bank; and
- Any savings interest received should be deducted by income tax (PPh).

Savings in sharia banks may be based on *wadi'ah* or *mudharabah*. In *wadi'ah* savings, banks may not promise to give rewards or bonuses to customers. In mudharabah savings, customers must invest certain minimum funds which amount determined by banks and may not be withdrawn by customers with the exception of accounts closing.

6. **Trust**

Trust is a business activity of Banks in the form of services in managing assets of the customers. In the said activity there are 3 parties involved, i.e.: (i) Settlors as the depositors who owns the properties/funds and who give authority to manage funds to Trustees; (ii) Trustees (in this case Banks) as the party that has been given authorities by Settlors/Depositors to manage properties/funds for the interests of the receiving benefits parties, i.e. the Beneficiaries; (iii) Beneficiaries as the parties receiving the benefits of the Trust activity. Trust activities cover among others: (i) paying agents; (ii) investment or funds agents either conventionally and/or based on sharia principles; (iii) borrowing agents; and/or (iv) financing agents based on Sharia Principles. Principles to be met in the Trust activities are as follows:

a. Trust activities perform by a work unit that is separated from other bank work units;
b. Properties entrusted by Settlors to be managed by Trustees are limited to financial assets;
c. Properties entrusted by Settlors to be managed by Trustees are recorded and reported separately from the bank assets;
d. In the event the banks conducted Trust activities are liquidated, all Trust assets are not included in the bankcruptcy estates (boedel pailit) and shall be returned to Settlors or transferred to replacement Trustees appointed by Settlors;
e. Trust activities shall be embodied in a written agreement of Indonesian language;
f. Trustees shall maintain confidentiality of data and information related to Trust activities as regulated in the Trust agreements with the exception of reporting interest to BI; and
g. Banks that undertake Trust activities shall be subject to the applicable provisions of the laws and regulations, including among others the regulation on Anti Money Laundering and Prevention of

Terrorism Funding (APU-PPT).

Trustee may be conducted by banks bank branch offices located overseas, under the following conditions:

a. Bank: Indonesian legal entity; having core capital of no less than Rp5 trillion and KPMM ratio of no lower than13% for the last consecutive 18 months; having a minimum TKS of Composite Level (PK-Peringkat Komposit) 2 for the last 2 rating periods (12 months) consecutively and having a minimum PK 3 for the previous 1 period; stating Trust activity plans in its Bank Business Plan (RBB); having the capacity to do Trust activities based on OJK assessment.
b. Office of Bank's Overseas Branch: Indonesian legal entity for at least 3 years since the enactment of existing regulation; having OJK assessment of possessing the capacity to do business activities.
   Trust; to specify Trust activity plan in RBB; to have a minimum CEMA calculated according to the applicable regulation as well as a minimum amount of Rp5 trillion and KPMM ratio minimum of 13% for the last consecutive 18 months; to have minimum TKS of PK 2 for two rating periods (12 months) consecutively and minimum PK3 for 1 period previously.

Bank that performs Trust activity should deliver a monthly report to BI with a copy to OJK, which includes the followings:

a. General information on human resources in Trustee business unit;
b. General information on Trust and Settler;
c. Information on Trust activities;
d. Information on Trust's assets and liabilities positions;
e. Record of nominal value presented in the original currencies and conversion values in Rupiah; and
f. Procedures of Trust activities recording which refers to the applicable Financial Accounting Standard Statement.

7. Regulation on Products of Sharia Banks and Sharia Business Units

Sharia Banks and UUS must report any new product launching plan to OJK. The referred product shall be products as set in the Book of Sharia Banking Product Codification. In the event banks will launch new products not listed in the Sharia Banking Product Codification Book, banks must obtain approval from OJK. Report of new products launching plans must be submitted no later than 15 days prior to the launching of the referred new products. OJK will grant approval or rejection on the request of new products no later than 15 days after all requirements met and reporting documents received completely. Banks must report realization of the new product launching no later than 10 days after the launching of the referred new products.

In order to accommodate market needs by still observing prudential and Sharia Principles, has issued a regulation in the form of Circulation Letter which governs the regulation on on *Qardh* product with Gold collateral (Gold Mortgage), and the regulation which governs gold ownership financing product for Sharia Banks and UUS.

8. Sharia Principle in the Activities of Collecting and Distributing Funds as well as Sharia Bank Services

Business activities of funds collection, funds distribution and bank service provision based on the sharia principle performed by banks are banking services. In implementing the referred banking services, banks must comply with sharia principles. The compliance with Sharia Princles shall be implemented by way of meeting basic regulations of the Islamic laws among others the principles of justice and balance *('adl wa tawazun)*, benefits *(maslahah),* universalism *(alamiyah)* and also not containing *gharar, maysir, riba, zalim and haram* (unlawful) objects.

Compliance with the Sharia Principles shall be performed as follows:

a. Collecting funds by using agreements among others *Wadi'ah Mudharabah;*

b. Distributing funds/financing by using agreements among others *Mudharabah, Musyarakah, Murabahah, Salam, Istishna', Ijarah, Ijarah Muntahiya Bittamlik* and *Qardh;* and
c. Providing services by using agreements among others *Kafalah, Hawalah* and *Sharf.*

In the event of disputes between Banks and Customers, the other settlement means that might be performed among others are through discussion, banking mediation, sharia arbitration or judiciary.

9. Regulation on Gold Ownership Financing Product for Sharia Bank and Sharia Business Unit

In order to improve prudential principle of banks in chanelling product of Gold Ownership Financing *(PKE-Pembiayaan Kepemilikan Emas)*, regulation related to the referred product has been set that includes:

a. Sharia Bank/UUS is obligated to have adequate written policies and procedures;
b. PKE collateral is gold financed by Sharia bank/UUS bound by fiduciary, kept physically in Sharia bank/UUS and cannot be exchanged with other collateral;
c. Sharia Bank/UUS is prohibited to charge storage and maintenance fee for gold used as PKE collateral;
d. The amount of PKE for each customer is a maximum of Rp150 million. It is possible for Customers to obtain PKE and Qardh with Gold Collateral at the same time, with a total balance of Rp250 million maximum, and balance of PKE of Rp150 million maximum;
e. The PKE down payment shall be a minimum of 20% for gold bars and a minimum of 30% for jewelry; and
f. The shortest PKE period is 2 year, and the longest is 5 years.

C. Regulation on Prudentiality

1. Core Capital of Commercial Banks

Complexity of the increasing business activities of banks is potentially causing the increasing of risks faced by banks. Such increasing risks needs to be followed by additional capital required by banks to bear the possibility of arising losses. Therefore, banks must have a minimum core capital required to support their business operations. Core capital comprises of paid-up capital and additional reserve capital at least in the amount of Rp100 billion.

2. Minimum Capital Adequacy Requirement Conventional Commercial Bank

In order to create a healthy banking system that is able to develop and compete nationally and internationally, banks needs to improve their capability to absorb risk caused by crisis and/or excessive growth of banking credit, through improvement of bank capital quality and quantity in accordance with the applicable international standard, namely Basel III.

In relation to the above matter, KPMM fulfillment obligation is regulated as follows:

a. Bank is obligated to provide minimum capital according to risk profile set as follows:
   - 8% of ATMR for bank with risk profile level 1;
   - 9% to <10% of ATMR for bank with risk profile level 2;
   - 10% to <11% of ATMR for bank with risk profile level 3; and
   - 11% to 14% of ATMR for bank with risk profile level 4 or 5.

   The determination on risk profile level refers to the applicable regulations on the assessment of commercial banks soundness level;
b. To calculate minimum capital according to risk profile, bank is obligated to have ICAAP, which include (i) active supervision from the Board of Commissioners and Directors, (ii) capital adequacy assessment, (iii) monitoring and reporting, and (iv) internal control; OJK will conduct a reassessment on ICAAP or referred to as SREP;
c. KC of Bank located overseas should meet the minimum CEMA of 8% from the total bank liabilities

each month and a minimum of Rp1 trillion. CEMA calculation is carried out at least once a month and should be completed by the 6^{th} of the following month;

d. Bank is obligated to provide main core capital (Common Equity Tier 1) for a minimum of 4.5% from ATMR and core capital (Tier 1) for a minimum of 6% from ATMR, either individually or by consolidating with Subsidiary Companies; and

e. Bank is obligated to form additional capital as a buffer on top of the KPMM according to risk profile determined as follows:
   - *Capital Conservation Buffer* of 2,5% from ATMR for banks categorized as BUKU 3 and BUKU 4, which fulfillment is carried out in stages;
   - *Countercyclical Buffer* within the range of 0% up to 2.5% from ATMR for all banks; and
   - *Capital Surcharge* for D-SIB within the range of 1% up to 2.5% from ATMR for banks determined as having systemic impact.

Rural Banks

BPR are required to have a minimum capital adequacy of 8% from ATMR. The capital consists of core capital and supplement capital that can only be taken into account at the highest of 100% from the core capital. ATMR consists of balance sheet assets of BPR that has been given weight in accordance with risk level inherent in each asset item.

Sharia Commercial Bank and Sharia Rural Banks

BUS and BPRS must provide minimum capital 8% from ATMR. UUS must provide a minimum capital from ATMR of their business activities based on the Sharia Principles. In the event the minimum capital of UUS is less than 8% from ATMR, then the head office of the conventional commercial bank of UUS must make addition to the shortage of minimum capital so that it reaches 8% from ATMR. ATMR for Sharia Commercial Banks consist of credit risk and market risk ATMR, while BPRS ATMR is only for credit risk ATMR. ATMR shall be calculated based on risk weight of each balance sheet assets item and off balance sheet account, as follows:

a. Balance Sheet assets which have been given weight according to risk level of fund provisions or bills inherent in each assets item;
b. Certain items in the list of commitment and contingency liabilities (off balance sheet account) which have been given weight and according to the risk level of fund provision inherent in each item after calculating it first with the weight of conversion factor.

3. Net Open Position

Net Open Position (PDN) in all is the sum of absolute value for the amount of the net difference between assets and liabilities in the balance sheet for each foreign currency added by the net difference between assets and liabilities either in the form of commitments or contingencies in the administrative accounts (off balance sheet) for each foreign currency stated in Rupiah in total.

Foreign Exchange Commercial Banks must manage and maintain NOP at the end of each working day in total no higher than 20% from the capital. Aside from that, banks must manage and maintain NOP no higher than 20% from the capital every 30 minutes as of the opening of bank treasury system up to the closing of bank treasury system.

The maintaining NOP at the end of each working day shall be calculated in consolidation, i.e.:

a. For banks of Indonesian legal entities covering all branch offices in the country and overseas;
b. For branch office of foreign banks covering all branches in Indonesia.

Violations to the provision of PDN shall be imposed administrative sanction among others in the form of written warnings, rangking decrease of management factor assessment and increase of risk profile assessment for Compliance Risk in the soundness level assessment, and Fit and Proper Test to the accountable management and/or executive officers.

4. **Legal Lending Limit**
   BMPK Regulation for Commercial Bank
   a. For parties not related to the bank: Fund provision to one borrower which is not a related party is set for no higher than 20% the bank capital. Whereas for a group of borrowers which is not a related party is set for no higher than 25% of the bank capital.
   b. For parties related to the bank: The entire portfolio of Funds Provision to parties related to the bank is set for no higher than 10% of the bank capital.
   c. Funds Provision by banks is categorized as Exceeding LLL if causing by the following:
      - impairment of bank capital;
      - changes in exchange rate;
      - changes in fair value;
      - business consolidation, changes in ownership structure and or changes in management structure causing changes in related parties and or borrowing groups;
      - changes in regulations.
   d. Concerning excess of LLL and and violations of LLL, banks are obligated to submit action plans to OJK and shall be imposed sanctions of bank soundness level assessment.

   LLL Regulation for BPR
   a. LLL for credits shall be calculated based on debit credit tray. LLL for Interbank Funds Placement in other BPR shall be calculated based on the nominal of Interbank Funds Placement;
   b. For parties not related to BPR:
      Funds provision to parties not related to BPR is set at no higher than 20% from the BPR capital. Meanwhile, for an unrelated group of borrowers is set at no higher than 30% from the BPR capital. Not including in the unrelated borrowing group is funds provision with core-plasm partnership pattern or PHBK pattern with requirements according to the regulation;
   c. For parties related to BPR:
      Funds provision to related parties is set at no

higher than 10% from the total BPR capital and the provision of funds must obtain the approval from one director and one commissioner.;

d. Placement to other BPR :
Interbank Funds Placement to other BPR which are Unrelated Parties is set at no less than 20% from BPR capital;

e. Funds provision in the form of credit of funds provision by BPR is categorized as Excess of LLL if causing the following:
   - Impairment of BPR Capital;
   - Business consolidation, business merger, change of ownership structure and/or management causes changes of related parties and/or borrowing groups; and
   - Changes in regulations.

f. Any BPR conducting infringements or exceeding LLL must submit an action plan to OJK and it shall be imposed sanctions of assessment on the soundness level of the BPR as governed in the applicable regulation.

Funds Distribution Maximum Limit of BPRS

a. Funds Distribution Maximum Limit (BMPD) is a maximum percentage of funds distribution realization toward BPRS capital, covering the BPRS financing and funds placement in other banks, whereas infringement of BMPD is the excess percentage of funds distribution at the time of realization toward BPRS capital with the allowed BMPD;

b. Calculation of BMPD for Financing is conducted based on agreement types used, i.e.:
   - Financing of *murabahah, istishna'* and multijasa calculated based on the basic price balance;
   - Financing of *salam* is calculated based on costs;
   - Financing of *mudharabah, musyarakah* and *qardh* is calculated based on the debit balance tray; and
   - Financing of *ijarah* or IMBT is calculated based on the assets cost balance of *ijarah* or IMBT deducted by the accumulation of depreciation

or amortization of assets.

c. Other BMPD calculation:
   - Interbank Funds Placement in the form of savings is performed based on the highest balance in the reporting month;
   - Interbank Funds Placement in the form of time deposits is conducted based on the nominal figure as stated in all deposit slips in the same BPRS;
   - BMPD for Funds Distribution to each and/or all Related Parties of 10% (ten percent) from the capital of BPRS;
   - BMPD for Funds Distribution to each Customer of Unrelated Party Facility Recipient of 20% from the capital of BPRS; and
   - BMPD for Funds Distribution in the form of Financing to one group of Unrelated Party Facility Recipient Customers of 30% from BPRS Capital, with Financing to each Customer of the Facility Recipient not to exceed 20% from the BPRS. Included in the understanding of one group of Facility Recipient Customers are non-Bank Facility Recipient Customers that have connection of management, ownership, or financial with the Bank as Facility Recipient Customers.

5. Assets Quality

Asset Quality of Conventional Commercial Banks

Banking as a financial institution that implements intermediation function is demanded to deliver financial statements which are accurate, comprehensive and reflecting a complete bank performance. One of the requirements in delivering accurate and comprehensive financial statements is to present it in accordance with the applicable financial accounting standard, specifically in forming Allowance for Impairment Losses (*CKPN-Cadangan Kerugian Penurunan Nilai*).

Aside from the above matter, in order to maintain business sustainability, bank still needs to manage credit risk exposure at sufficient level among others by maintaining asset quality and taking into account asset disposal allowance that will affect bank capital ratio.

Calculation of Asset Disposal Allowance (*PPA-Penyisihan Penghapusan Asset*) is conducted as follows:

a. Provision of allowance is conducted according to impairment concept in the form of CKPN and by maintaining PPA concept as prudential purposes;
b. Calculation of productive asset is still taking into account general and specific PPA, which is not charged to L/R but will affect KPMM calculation. Result of productive PPA calculation will affect KPMM calculation after deducted by the formed CKPN; and
c. Calculation of non-productive asset still includes specific PPA, which is not charged to L/R but will affect KPMM calculation.

The influence of Non-productive PPA in KPMM calculation overlooks the formed CKPN, considering it is disincentive since banks own non-productive assets.

Earning Assets Quality of BPR

BPR have roles in supporting the development of micro, small and medium enterprises (MSMEs). Rural Banks must always consider the principle of sound credits in order to distribute credits to MSMEs by still observing the prudential principle. Rural Banks should set the same KAP to some AP accounts used for financing 1 debtor at the same BPR. Regulation on KAP which has been improved and harmonized with Financial Accounting Standard for Entities without Public Accountabilities (SAK-ETAP) for Rural Banks and Accounting Guidelines for Rural Banks (PA BPR).

BPR must establish the same KAP to several AP accounts used to finance one Debtor at the same BPR. In the event there are different Assets Earning Qualities to several AP accounts for one Debtor at the same BPR, the referred BPR must set the quality of each AP following the lowest KAP.

Regulations related to debt restructuring, i.e.:

a. Bank must charge losses arising from debt restructuring after deducted by the excess of

PPAP due to improvement of credit quality after restructuring done; and

b. Excess of PPAP due to quality improvement of restructured credit, after deducted by losses arising from debt restructuring referred to, can only be acknowledged as revenues if there have already been three principal installments receipts upon the restructured credits.

BPR must apply accounting treatment of debt restructuring, including but not limited to the acknowledgement of the loss arising in the context of debt restructuring, in accordance with the Standard of Financial Accounting and Accounting Guidelines applicable for BPR.

Regulations related to Repossed Assets (AYDA), i.e.:

a. Repossed Assets must be accompanied by a statement letter of collateral transfer or a power of attorney to sell from debtor, and certificate of debt settlement (SKL) from a BPR to the debtor;
b. BPR in question must conduct efforts to settle AYDA no later than one year as of the takeover;
c. In case within one year the BPR is not able to settle AYDA, the value of AYDA recorded in the BPR balance sheet must be accounted as deduction factor of the BPR core capital in the calculation of KPMM;
d. In the event AYDA experiences impairment of values due to reassessment, the BPR must acknowledge the declining values as losses; and
e. In the event AYDA experiences improvement of values due to reassesement, the BPR may not acknowledge the increasing values as revenues.

Assets Quality for Sharia Commercial Banks and Sharia Business Units

Investment and/or provision of funds of banks must be conducted according to the prudential principle and meet the Sharia Principle. The bank management must assess, monitor and take anticipation measures in order to maintain the assets quality in current condition. Quality assessment shall be conducted to AP and ANP. Bank must set the same quality to several AP accounts used to finance 1 customer, in the same bank. Establishment of the same quality is also applicable for AP in the form of funds provision or claims given by more than 1 bank implemented based on joint financing agreement and/or syndication.

No.	Assets Type	Assets Quality				
		L	DPK	KL	D	M
1.	Financing	√	√	√	√	√
2.	Sharia Securities	√	-	√	-	√
3.	SBIS	√	-	-	-	-
4.	Placements in Other Bank	√	-	√	-	√
5.	Equity Participation (<20% - cost method)	√	-	√	√	√
6.	Equity Participation (20% - equity method)	√	-	-	-	
7.	Temporary Equity Participation (PMS)	√	-	√	√	√
8.	Off Balance Sheet Transactions i. Interbank Placements ii. Financing to Customers	 √ √	 √ √	 √ √	 √ √	 √ √
9.	AYDA	√	-	-	√	√
10.	Abandoned Properties	√	-	√	√	√
11.	Interoffice Accounts (RAK) & Suspense Account	√	-	-	-	√

Assets Quality of Sharia Rural Banks

BPRS are prohibited to conduct funds placement in the form of deposits in Conventional Commercial Banks and/or in the form of savings and time deposits in BPR. BPRS can only conduct placement of funds in BUK in the form of demand deposits/savings for the purpose of funds transfer for BPRS and their customers which categorized as non AP.

No.	Assets Type	Assets Quality			
		L	KL	D	M
1.	Financing	√	√	√	√
2.	Placements in Other Banks	√	√	-	√
3.	Repossed Assets (AYDA)	√	-	-	√
4.	Placements in Conventional Commercial Banks	√	√	-	√

6. Allowance for Assets

Conventional Commercial Banks

To cover the risks of funds investment losses, banks should form PPA against AP and ANP in the form of:

a. General reserves and special reserves for AP; and
b. Special reserves for ANP.

Other than calculating PPA, banks must establish CKPN based on the applicable standard financial accounting. The size of CKPN is established at no less than 1% from AP current not including SBI, SUN, and AP guaranteed by cash collateral. The size of special reserves for BUK is determined at a minimum of:

a. 5% from Assets of Under Special Attention quality after deducted by the collateral value;
b. 15% from Assets of Less Current quality after deducted by the collateral value;
c. 50% from Assets of Doubtful quality after deducted by the collateral value; and
d. 100% from Assets of Bad quality after deducted by the collateral value.

In the event the collateral will be used as PPA deduction, collateral appraisal at least should be performed by:

a. Independent Appraiser for AP toward debtors or borrowing groups with a total amount of > Rp 5 billion; and
b. Internal Appraiser for AP toward debtors or borrowing groups with a total amount up to Rp 5 billion.

Appraisal to the referred collateral must be conducted from the initial provision of AP. Collateral that can be counted as a deduction factor in the calculation of PPA consists of:

a. Securities and shares that are actively traded in Indonesian stock exchange market or having investment ranking and tied to lien;
b. Land, buildings, residential housing tied to mortgages;
c. Machinery which are a one unit with land and tied to mortgages;
d. Aeroplanes or sea ships/vessels with the size above 20 cubic meter tied to mortgages (hipotek);
e. Motor vehicles and inventories bound by fiduciaries; and/or
f. Warehouse receipts tied to warranty rights upon the warehouse receipts.

Establishment of reserves is applicable for credit withdrawal facilitation either committed or uncommitted in nature, and yet the reserves established is only for special reserves, i.e. credit withdrawal facilitation that has a non-current quality. Calculation of general and special PPA upon AP and calculation of special PPA upon ANP shall not be charged to profit and loss as it shall only influence the calculation of KPMM. Result of Productive PPA calculation will affect KPMM calculation after the deduction from the established CKPN. Meanwhile, the influence of Non-Productive PPA in the calculation of KPMM does not include CKPN establishment, considering this is a disincentive due to Banks have non earning assets.

Sharia Commercial Banks

Banks must establish PPA toward AP and ANP, in the form of general reserves and special reserves for AP and special reserves for ANP. General reserves of PPA for AP are set at no less than 1% from the entire AP categorized current, not including Sharia SBI and securities and/or bills issued by government based on the Sharia Principle, and also parts of AP guaranteed by government and cash collateral. The size of the established special reserves shall be set the same as what shall be required for Commercial Banks. The obligation to established PPA is not applicable to AP for lease transactions in the form of Ijarah agreement or lease transactions with ownership's right transfer in the form of IMBT agreement. Banks must establish depreciation/amortization for the lease transactions.

Collaterals/Guarantees that can be counted as deduction factors in the establishment of PPA consist of:

a. Cash collateral in the form of demand deposits, savings, marginal deposit and/or blocked gold accompanied with power of attorney to disburse;
b. The Government of Indonesia's guarantee pursuant to the applicable laws and regulations;
c. Securities and/or bills issued by the government;
d. Sharia securities that have investment rating and actively traded in the capital market;
e. Land and/or buildings not for residential buildings and machinery that considered as a one unit with the land and tied with mortgages;
f. Aeroplanes and sea vessels / ships with the size above 20 cubic meter;
g. Motor vehicles and inventories bound by fiduciaries; and
h. Warehouse receipts tied to warranty rights upon warehouse receipts.

Allowance for Earning Assets of Conventional Rural Banks

Exception for establishment of General Allowance for Earning Assets (PPAP) for AP in the form of:

a. Placement of BPR on SBI; and
b. Loans secured by liquid collateral in the form of SBI, government securities, savings and/or deposits blocked in the BPR accompanied by power of attorney to disburse and fiduciary money.

Expansion of the types and binding collateral to motivate credit distribution to MSMEs and the calculation of collateral values counted as deduction in the establishment of PPAP among others covers:

a. Gold jewelry;
b. Warehouse receipt;
c. Land and/or buildings with proof/title of ownership in the form of surat girik (letter C) or equivalent including deed of sale;
d. Business place/counter/kiosk/stall/right to use/

right to work on; and

e. Parts of funds guaranteed by BUMN/BUMD conducted business as credit guarantor.

OJK has the right to perform recalculation or the right not to recognize the collateral value counted for in the establishment of PPAP if the BPR in question does not comply with the regulation.

BPR must establish PPAP in the form of general PPAP and special PPAP. General PPAP shall be set at no less than 0.5% from AP with the quality of Current, not including placement of BPR on SBI and Loans guaranteed by liquid collateral of SBI, securities issued by the Government of RI, savings and/or time deposits blocked by the BPR in question accompanied by power of attorney for disbursement and fiduciary money.

Special PPAP shall be set no less than:

a. 10% from AP of Less Current quality after being deducted by the collateral value;
b. 50% from AP of Doubtful quality after being deducted by the collateral value; and
c. 100% from AP of bad debts quality after being deducted by the collateral value.

Collateral values that can be counted as deduction factors in the establishment of PPAP is set at no higher than:

a. 100% from liquid collateral, in the form of SBI, securities issued by the Government of RI, savings and/or time deposits blocked in the relevant Rural Bank accompanied by a power of attorney to disburse and fiduciary money.
b. 85% from the market value for collateral of gold jewelry;
c. 80% from the mortgage value for collateral in the form of land, buildings and/or houses having certificated tied to mortgages;
d. 70% from the collateral value in the form of warehouse receipts which appraisal performed less than or up to 12 months and in line with the applicable laws, regulations and procedures;
e. 60% from the tax object selling price (NJOP) for collateral in the form of land, buildings and/or

houses having certificates not tied to mortgages;

f. 50% from the tax object selling price (NJOP) for collateral in the form of land and/or buildings with proof/title of ownership of Surat Girik (Letter C) or equivalent including Deed of Sale (AJB) made by a notary or other authorized officer accompanied by SPPT in the last one year; and
g. 50% from the market value, lease price or transfer price for collateral in the form of business place/ kiosk/counter/stall/right to use/right to work on accompanied by proof of ownership or permit to use issued by a legitimate administrator or an authorized officer;
h. 50% from the market value for collateral in the form of motor vehicles, vessel or motor boats accompanied with proof of ownership and tied in accordance with the applicable provisions;
i. 50% from the collateral value in the form of warehouse receipt which appraisal conducted more than 12 up to 18 months and in line with the applicable laws, regulations and procedures;
j. 50 % for part of funds guaranteed by BUMN/BUMD conducting business as credit guarantors;
k. 30% from the market value for collateral in the form of motor vehicles, vessels or motor boats accompanied with proof of ownership and power of attorney to sell made/legalized by notaries; and
l. 30 % from the collateral value in the form of warehose receipt which appraisal conducted more than 18 months but not exceeding 30 months and in line with the applicable laws, provisions and procedures.

Allowance for Assets of BPR Sharia

BPRS must establish PPA toward AP and ANP. The PPA is in the form of general reserves and special reserves for AP and special reserves for ANP. The size of general reserves in a BPRS shall be no less than 0.5% from the total AP of Current category, not including Sharia CBI (SBIS). The regulation on the size of special reserves in a BPRS shall be set the same as the regulation on the size of special reserves in a Rural Bank. The obligation to establish PPAP shall not be applicable for AP in the form of ijarah or IMBT, but the Sharia Rural Bank in question must establish depreciation/amortization for ijarah or IMBT.

Collateral that can be counted as a deduction in the establishment PPAP consists of:

a. Facilities guaranteed by the government of Indonesia or regional government or BUMN/ BUMD;
b. Cash collateral; foreign banknotes, gold, savings dan/or time deposits blocked with power of attorney to disburse;
c. Land, buildings and houses by meeting certain requirements;
d. Warehouse receipts;
e. Business place/counter/kiosk managed by a management body; and
f. Motor vehicles and sea vessels meeting certain requirements.

7. Debt Restructuring

a. Debt restructuring is an improvement effort conducted by banks in credit activities toward debtors having difficulties to meet their obligations, performed among others through:
   - Impairment of lending rates;
   - Extension of the credit period;
   - Reduction in interest arrears;
   - Reduction in principal arrears;
   - Addition of credit facilities; and/or
   - Conversion of Credit into Temporary Equity Participation.
b. Banks can only perform Debt Restructuring to debtors which meet criteria as follows:
   - Debtors experiencing difficulties in paying lending principals and/or interests; and
   - Debtors have good business prospects and are able to meet obligations after debt restructuring.
c. Bank is prohibited from conducting Credit Restructuring with the purpose only to improve credit quality or to prevent the forming of PPA.

d. The quality of restructured credit is set as follows:
   - Maximum the same as the credit quality prior to credit restructuring, provided that the debtors have not fulfilled their obligations for paying the principal and/or interest installments in 3 consecutive periods in accordance with the agreement;
   - Can increase the credit quality at a maximum by 1 level from the quality prior to restructuring, after the debtors settled the payment of principal and/or interest installments in 3 consecutive periods as referred to in point a); and
   - Based on assessment factor toward the business prospect, debtor's performance and solvency:
     - After credit quality determination as referred to in letter b); or
     - In the event debtors do not meet the requirements and/or the payment obligations in Credit Restructuring agreement, during or after 3 periods of payment according to the agreed time.

e. Banks must charge any loss arising from debt restructuring after deducted by the excess of PPA. Recognition of revenue on the restructured debts shall be recognized and recorded in accordance with the applicable regulation on PSAK.

8. Financing Restructuring for Sharia Banks and UUS

Banks can conduct financing restructuring by applying the prudential principle. Banks must maintain and take measures so as the financing qualities after restructuring are in a current condition. Banks are prohibited to conduct financing restructuring with the purpose to prevent:

a. Impairment of financing qualities classification;
b. Establishment of bigger PPA; or
c. Derecognition of the accrual of margin income or ujrah.

Financing restructuring can only be done based on written requests from customers. Restructuring of financing can be conducted only for customers that meet the following criteria:

a. Customers experience impairment of payment ability; and
b. Customers have obvious sources for paying the installments and also the ability to meet their obligations after restructuring.

Financing restructuring must be supported by analyses and sufficient evidences and should be well documented. Banks must have written policies and SOP concerning financing restructuring.

9. Statutory Reserves

Conventional Commercial Banks

Banks are obligated to meet Statutory Reserves (GWM-Giro Wajib Minimum) in Rupiah, while foreign exchange bank is obligated not only to meet GWM in Rupiah but also in foreign currencies. GWM in Rupiah consists of Primary GWM, Secondary GWM and LDR GWM. Meeting GWM in Rupiah is determined as follows:

a. Primary GWM in Rupiah is 8% from DPK in Rupiah;
b. Secondary GWM in Rupiah is 4% from DPK in Rupiah;
c. Bank Indonesia Deposit Certificate (SDBI) is calculated as secondary GWM component since 1 September 2013; and
d. LDR GWM in Rupiah is the same as the calculation between Low Disincentive Parameter and High Disincentive parameter with the difference between bank LDR and target LDR, with due regard to the difference between bank KPMM and incentive KPMM.
    - LDR target limit is 78%-92%;
    - Incentive KPMM remains 14%;
    - Below Disincentive Parameter remains 0.1; and
    - Above Disincentive Parameter remains 0.2.

    GWM in foreign currency is set for 8% from DPK in foreign currency.

BI may provide leniency in the settlement of Primary GWM in Rupiah for banks conducting merger or consolidation. Other than that, BI can provide leniency on meeting requirements of LDR GWM to banks that is subjected to restriction of business activities by OJK, pertaining to credit channeling and fund raising activity based on OJK request.

Banks that violate GWM meeting obligations in foreign exchange paid in Rupiah using middle rate of BI transaction rate on the date of violation.

Sharia Commercial Banks and UUS

Banks must maintain GWM in rupiah, while Foreign Exchange Banks in addition to the obligation to meet GWM in rupiah must also maintain GWM in foreign currencies. GWM in rupiah is determined at 5% from Third Party Fund in rupiah and GWM in foreign currencies at 1% from Third Party Fund in foreign currencies. Apart from meeting such regulation, Banks having financing ratio in rupiah to Third Party Fund in rupiah less than 80% and:

a. Having Third Party Fund of ≥ Rp1 trillion up to Rp. 10 trillion must maintain additional GWM in rupiah of 1% from Third Party Fund in rupiah;
b. Having Third Party Fund in rupiah of ≥ Rp10 trillion up to Rp50 trillion must maintain additional GWM in rupiah of 2% from Third Party Fund in rupiah; and
c. Having Third Party Fund in rupiah of ≥ Rp50 trillion must maintain additional GWM in rupiah of 3% from Third Party Fund in rupiah.

Banks having financing ratio in rupiah against Third Party Fund in rupiah of 80% or higher; and/or having Third Party Fund in rupiah up to Rp1 trillion shall not be imposed obligation of additional GWM.

BI may provide leniency in meeting obligation of Primary GWM in Rupiah for banks conducting merger or consolidation on banks request to BI, accompanied by an agreement from OJK in regards to provision of merger or consolidation incentives. Banks that violate GWM requirement in foreign exchange paid in Rupiah using middle rate of BI transaction rate on the date of violation.

10. Transparency of Bank Financial Condition

Commercial Banks

In order to create basic market discipline and in line with the international standard development, it requires efforts to enhance transparency of bank financial condition and performance through publication of bank report to facilitate assessments by public and market players. Other than that, in order to improve transparency, bank should provide quantitative and qualitative information which is punctual, accurate, relevant, and adequate to facilitate the utilization of information in assessing financial condition, performance, risk profile, and bank risk management implementation, and also business activity including interest rate establishment.

In regards to transparency of financial condition, banks are obligated to develop and present financial reports that include:

a. Annual Report;
b. Quarterly Financial Publication Report;
c. Monthly Financial Publication Report;
d. Consolidated Financial Statements; and
e. Other Publication Reports.

BPR and Sharia BPR

In terms of transparency of financial condition, BPR and BPRS are obligated to make and present financial reports that consist of:

a. Annual Report;
b. Financial Publication Report.

Annual Report should includes at least:

a. General information: information on management, ownership, BPR business development, management strategy and policy, management report;
b. Annual Financial Report consists of: balance sheet, profit/loss statement, equity change report, cash flow report, etc.;
c. Opinion from Public Accountant on BPR Annual Financial Report audited by Public Accountant;
d. All transparency aspects and other information; and
e. All disclosure aspects as obligated by Financial Accounting Standard applicable for BPR.

Annual Financial Report of BPR that has a total asset ≥ Rp10 billion must be audited by Public Accountant and prepared in accordance with Standard of Financial

Accounting for Entity without Public Accountability (*SAK ETAP-Standar Akutansi Keuangan untuk Entitas Tanpa Akuntabilitas Publik*) and BPR Accounting Guidelines (*PA-Pedoman Akutansi BPR*). Annual Financial Report of BPR with total asset of more than Rp10 billion should be audited by Public Accountant.

Financial Publication Report should include at least: Balance Sheet, Profit/Loss Statements, Commitment and Contingency Report, KAP, Financial Ratio, and Composition of Management. BPR and BPRS should publish Financial Publication Report quarterly for the positions of March, June, September and December month-ends.

a. Announcement of Publication Financial report may be done through local daily newspaper or attached to announcement board or other media easily accessed by public at every office of BPR/BPRS;
b. BPR with total asset of more than Rp10 billion, specifically for its publication financial report for the position ended in December must be published in local daily newspaper and attached to announcement board or other media to facilitate public access at all BPR offices;
c. Quarterly Publication Financial Report must be presented in the form of comparison with the Quarterly Financial Publication Report of the previous year.

11. Transparency of Bank Products Information and Utilization of Customer Personal Data

Banks must apply information transparency on Products of Banks and utilization of Customers Personal Data established in the written policies and procedures. Banks must provide a full and clear information written in Indonesian on the characteristics (including risks) of each Bank product. In the event banks will provide and/or disseminate Customers Personal Data, banks must request written approvals from customers.

12. Prudential Principle in Capital Investment Activities of Commercial Bank

Bank can only conduct capital investment on companies engaging in financial sector. BUS can only conduct capital investment on sharia-based companies engaging in financial sector, while UUS and bank branches domiciled overseas can only conduct Temporary Capital Investment (*PMS-Penyertaan Modal Sementara*). Bank must receive OJK's approval on every capital investment. The number of capital investment portfolio is set for a maximum of the capital investment amount in accordance with the bank categorization based on business activities (BUKU), as regulated in the applicable regulation concerning business activities and office network based on core capital of banks.

Bank is prohibited from conducting capital investment more than the fund limit as referred to in the applicable regulations on Maximum Lending Limit (*BMPK-Batas Maksimum Pemberian Kredit*). Banks that will conduct capital investment should meet the following requirements: (a) capital investment plan should be stated in RBB; (b) having KPMM ratio according to risk profile as governs in the applicable regulation on Bank KPMM; (c) having TKS with composite level 1 or 2 for 3 consecutive rating periods or 4 consecutive rating periods should the investee is a new company and/or a foreign company; (d) does not interfere with bank business sustainability and does not significantly increase bank risk profile; (e) having written policies and procedures, which are made by the Board of Directors and approved by the Board of Commissioners; and (f) having an adequate internal control system for capital investment activity.

In the case that there are no regulations about KPMM that meet the risk profile for BUS, KPMM ratio shall be set to no lower than 10%.

a. Divested Capital Investment

- Obligation to divest capital investment conducted if: (1) Capital investment causes or predicted to cause decrease in bank capital and/or significant increase of bank risk profile; or (2) upon recommendation from the authority of Subsidiary Company and/or by OJK's order.

Self-initiated divested capital investment can be done under the following conditions:

a. Divesting aimed to adapt with bank business strategy;
b. Capital investment has been implemented for 5 years;
c. Stipulated in the RBB;
d. Divesting is conducted for a minimum 50% of shares owned;
e. Divesting is conducted through an arm's length transaction;
f. Divesting is not for capital gain; and
g. Approved by OJK.

b. Capital investment by Bank Subsidiaries

Capital investment by Bank subsidiaries should be ensured that: (1) Capital investment is only conducted by companies operating in financial sector and/or financial service support companies and in the form of shares; (2) Subsidiaries applies prudential principle and adequate risk management; and (3) Refer to regulations issued by Subsidiary authorities.

c. Accounting Treatment, Management, Quality and Transparency of Capital investment and PMS

- Accounting treatment refers to the applicable Financial Accounting Standard (SAK);
- Quality refers to the applicable regulations about bank asset quality assessment;
- Banks are obligated to reveal their activities in the Annual Reports by referring to the applicable regulation about transparency and publication of bank report; and
- Banks are obligated to implement risk management by referring to the applicable regulation about risk management application for commercial bank or for BUS and UUS.

d. Others

OJK, based on certain consideration, may order banks to divest capital investment or reject proposal for Capital Investment or self-initiated divesting.

13. **Prudential Principles in Assets Securitization Activities for Commercial Banks**
    Financial assets transferred in the efforts of Assets Securitization should be in the form of financial assets consisting of credits, claims arising from securities, future receivables and other financial assets equal to. Assets securitization must meet criteria of: having cash flows, owned by and under control of Original Creditor; and transferable freely to issuers. In the assets securitization, Banks can function as: Original Creditor, Supporting Credit Provider, Liquidity Facility Provider, Service Provider, Custodian Bank, Financier.

14. **Prudential Principles in the Implementation of Structured Product Activities for Commercial Banks**
    Structured Product is a product of banks which is a combination between 2 or more financial instruments in the form of non-derivative and derivative financial instruments, or derivative and derivative financial instruments, and at a minimum must have the characteristics as follows:
    a. Value or cash flow arising from the product is connected to one basic variable or a combination of basic variables such as interest rate, exchange rate, commodity and/or equity; and
    b. Change of pattern upon value or cash flow of the product is not regular if compared to the change of pattern of basic variables as referred to in letter a so that the change of value or cash flow does not reflect the entire changes of the basic variables linearly (asymmetric payoff), which among others marked by the existence of:
       Optionality (caps, floors, callars, step up/step down and/or call/put features); Leverage; Barriers (knock in/knock out); and/or Binary (digital ranges).

    Definition of derivative in this arrangement covers embedded derivatives.
    Activity of structured product is an activity and/

or process performed in connection with planning, development, issuance, marketing, offering, selling, operational implementation, and/or termination of activities related to the structured product.

Banks can only conduct structured product activities after obtaining principle approval and statement on effective to date for releasing each type of structured product from OJK.

Foreign Exchange Commercial Banks can only make structured product transactions connected to basic variable in the form of exchange rate and/or interest rate. Non-Foreign Exchange Commercial Bank can only make structured product transactions connected to basic variable of interest rate. Banks must include plans for structured product activities in the business plans of the banks. Banks must apply risk management effectively in conducting structured product activities. Banks are prohibited to use the words “deposits”, “time deposit”, ”protected”, “checking accounts”, “savings”, and/or other words that can give perception to customers that the bank in question give protection on the basic return of the structured product fully, if the structured products released by the bank does not accompanied with a full protection upon the principal in the original currency at maturity.

15. Prudential Principles in the Implementation of Agency Activities for Foreign Financial Products by Commercial Banks

Banks can only perform Activities on Agency for Foreign Financial Product after obtaining principle approvals from OJK. To be an agent for a Foreign Stock Investment Instrument, other than meeting the requirement of obtaining principle approval from OJK, banks also must meet the requirement for becoming an agent for foreign stock investment instrument in accordance with the regulation established by OJK. Banks are prohibited to act as sub agents in conducting agency activities for foreign financial products. The foreign financial product whereas banks can be the agents of, at least must meet the following requirements:

a. Already listed and/or complied with the regulation of the authority from the product issuer's country of origin; and
b. Has been reported to OJK by the banks.

Other than meeting the abovementioned requirements, Foreign Financial Products in the form of Non Stocks Investment Instrument that can be represented by Banks must be in the form of Structured Product and must meet the requirements as follows:

a. Issued by banks in foreign countries that have branch offices in Indonesia;
b. Connected with basic variables in the form of exchange rate and/or interest rate; and
c. Not a combination of various instruments with foreign currency derivative transactions against rupiah in the context of yield enhancement that is speculative in nature.

Foreign Financial Products are not included in Government guaranteed program since they are not deposits in banks.

16. Prudential Principle for Commercial Banks Conducting Handover a Portion of Work Implementation to Other Parties

In handing over a portion of work implementation to another party, or outsourcing, banks should implement prudential principle and risk management, and also be responsible on the work being outsourced to Service Provider Companies (*PPJ-Perusahaan Penyedia Jasa*).

Outsourcing can only be implemented for supporting works, whether in bank business activities or bank business supporting activities. The criteria of supporting work at least includes work with low risk, does not need high competency qualification in banking sector, and is not related directly to the process of decision making that influence bank operational.

Banks can only make an outsource agreement with PPJ that meets the following requirements:

a. An Indonesian legal entity in the form of limited liability or cooperation;
b. Having a valid business license from the authorized

agency according to its business sector;

c. Having good financial performance and reputation, and also adequate experience;
d. Having human resources that support the implementation of outsourced works; and
e. Having facility and infrastructure needed for outsourcing.

Several works that are not included in the scope of outsourcing are among others:

a. Outsourcing jobs to the head office or regional office of Banks domiciles overseas, parent company, and other entities in one business group of the Bank in question either in the country or outside the country, provided that the outsourced job is still subject to meet the applicable other regulation which govern specific activities/jobs, including the implementation of the outsourcing, as well as by considering the appropriateness and reasonableness of the referred outsourcing jobs;
b. Outsourcing jobs of consultancy or specialty services, such as services of legal consultant, notary, independent appraiser and public accountant; and
c. Outsourcing jobs of maintenance services for goods and buildings, e.g. Air Conditioners, photocopy machines, computers and printers and also maintenance of bank office buildings.

Prudential principles in handing over credit billing collection, among others:

a. Coverage of credit billings in this provision is credit billings in general, including credit billings without collateral and credit card charges;
b. Credit billings that can be outsourced the billings to other parties are credits with bad debts quality in accordance with applicable regulation on assets quality assessment of BU;
c. Cooperation agreement between Banks and the PPJ must be conducted in the form of agreement of employment service provision; and
d. Bank should have billing ethic policies in accordance with the application regulations.

Meanwhile the prudential principles in outsourcing cash management works include among others:

a. Bank can only make outsource agreement with PPJ that meets the requirements according to the applicable regulation; and
b. Outsourcing implemented by bank can be discontinued if it has a potential to endanger bank's business sustainability.

17. Application of Anti Fraud Strategy for Commercial Banks

Banks must own and apply strategy of anti Fraud adjusted to the internal and external environment, complexity of business activities, potentials, types, and Fraud risks and supported by adequate resources. Anti fraud strategy is a part of strategic policy which application realized in the Fraud control system. For Banks already owned anti Fraud strategy but have not complied with the minimum references, must adjust and improve the anti Fraud strategy they own and must submit result of anti Fraud strategy application monitoring to OJK.

In order to control risk of the Fraud occurrences, Banks must apply Risk Management with strength in some aspects, at least covering Management Active Supervision, Organization Structure and Accountability, as well as Control and Monitoring. Anti Fraud strategy which in its application shall be in the form of Fraud Control system, has 4 pillars, as follows:

a. Prevention: contains tools to reduce the potential of Fraud occurrences, at least covering anti Fraud awareness, vulnerability identification, and know your employee;
b. Detection: contains tools in order to identify and find Fraud occurrences in the business activities of Banks, covering at least policy and mechanism of whistleblowing, surprise audit, and surveillance system;
c. Investigation, Reporting, and Sanction: contains tools to dig information, reporting system, and imposition of sanctions on Fraud occurrences in the business activities of Banks, covering at least standard investigation, reporting mechanism, and

imposition of sanctions; and

d. Monitoring, Evaluation, and Follow up: contains tools to monitor and evaluate Fraud occurrences and the required follow up based on evaluation results, covering at least the monitoring and evaluation of Fraud occurrences and follow-up mechanism.

18. Guidelines for Calculating Risk-Weighted Assets for Credit Risk Using Standard Approach

This regulation is improvements of related regulations to ATMR so that KPMM calculation increasingly reflects risks faced by Banks and in line with the applicable international standard.

Basic rules in this regulation among others are as follows:

a. Credit Risk comprises of credit risk due to the failures of debtors, counterparty credit risks, and settlement risks;
b. Formula for ATMR calculation is Net Claims x Risk Weight;
c. Risk weight shall be determined based on: (i) ranking of debtors or counterparties, based on portfolio category; or (ii) certain percentage for certain type of bills/claims;
d. Portfolio category consists of: (i) Claims to the Government; (ii) Claims to Public Sector Entities; (iii) Claims to Multilateral Development Banks and International Institutions; (iv) Claims to Banks; (v) Loans with Residential Housing as the Collateral; (vi) Loans with Commercial Properties as Collateral; (vii) Loans for Employees or Retirees; (viii) Claims to Micro and Small Enterprises, and Retail Portfolios; (ix) Claims to Corporations; (x) Claims Already Due; (xi) Other Assets;
e. Ranking used is the latest ranking issued by rating agency acknowledged by OJK in accordance with the applicable regulations. Domestic ranking is used for determining risk weight of claims in rupiah and international ranking used for determining risk weight of claims in foreign currencies. Claims in the form of securities (SSB) are using SSB ranking, while claims in the form of other than SSB using ranking of

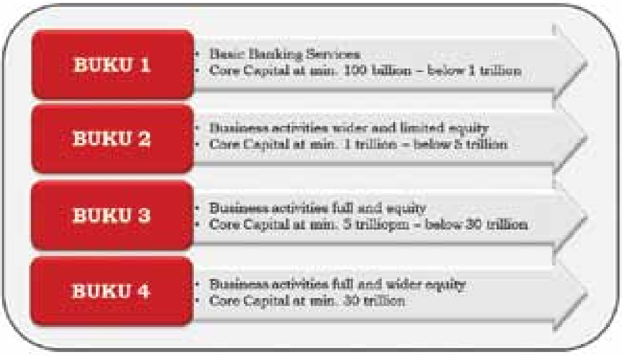
debtors in question; and

f. Technique of Credit Risk Mitigation (MRK) recognized is: (i) MRK Technique - Collateral; (ii) MRK Technique – Guarantee; (iii) MRK Technique – Credit Guarantee or Credit Insurance.

19. Business Operations and Office Networks of Commercial Banks Based on Core Capital

Banks in conducting their business activities and in expanding their office networks should be in accordance with basic capacities owned by the banks, namely core capital. By operating in accordance with their capacities, banks are expected to have better resilience and will be more efficient as their activities are concentrated to products and activities which indeed are their superiority. Based on their core capital, business activities of banks are classified into 4, namely: Business Activity Commercial Bank 1 or BUKU 1, BUKU 2, BUKU 3, or BUKU 4. In line with the magnitude of their core capital, business activity in BUKU 1 is more of basic banking services. Business activity in BUKU 2 is broader than BUKU 1 and so on up to BUKU 4 which covers full and complex business activity.

Figure 8
Business Activites of Commercial Bank



Banks must also meet magnitude of productive credit target according to the business activities of their group, from 55% for BUKU 1 up to 70% for BUKU 4. Those percentages are counted from the total credit portfolio of Banks in which includes the obligation of distributing MSMEs credits 20% from the total portfolio of credits.

Investment Cost of Bank Office Network

Office Type	BUKU 1 and BUKU 2	BUKU 3 and BUKU 4
Branch Office	Rp8.000.000.000,00	Rp10.000.000.000,00
Operational Regional Office	Rp8.000.000.000,00	Rp10.000.000.000,00
Sub-branch Office	Rp3.000.000.000,00	Rp 4.000.000.000,00
Functional Office Conducting Operational Activities	Rp3.000.000.000,00	Rp 4.000.000.000,00
Cash Office	Rp1.000.000.000,00	Rp 2.000.000.000,00
Other offices of operational nature overseas or Representative Office if conducting operational activities	Rp1.000.000.000,00	Rp 2.000.000.000,00

Similarly, location of bank offices has a different coefficient. To facilitate the calculation of core capital allocation, areas of Indonesia is divided into 6 zones, from Zone I which is a dense zone with high coeffient up to zone VI with a small number of banks and the lowest coefficient.

Figure 9
Zone Division and Coefficient Determination

If a bank will open a new office network, then the existing bank office networks at this time shall be first calculated with the core capital of the bank, then the rests will determine how many, what type of office, and where the location of the new office can be opened.

20. Business Operations and Office Networks of BUS and UUS Based on Core Capital

a. The opening of BUS and UUS office networks must be supported by adequate financial capability, which among others is reflected by the availability of core capital allocating according to the location and type of bank offices (Theoretical Capital), with due regard to development of sharia banking ahead. A part from that, in the context of balancing the spread of office network, banks are encourage to conduct expansion to areas underserved by banking service in order to support the efforts in the development of national building :

b. Delivery channel and sharia services are not included as bank office network opening;

c. OJK categorizes the entire provinces in Indonesia into 6 zones, i.e. Zone 1 to Zone 6, based on the analysis of bank density and equitable development in eto ach zone;

d. OJK determine office network opening cost based on type of bank office for each BUKU. Investment cost for BUKU 3 and 4 shall be higher than BUKU 1 and 2. BUKU classification for UUS is based on its parent BU core capital;

e. Bank calculates core capital allocation according to the location and type of existing offices, and plans for opening new offices. The definition of bank existing offices are offices that have been operating for less than or equal to 2 years.
The calculation of core capital allocation for UUS shall use the core capital of its BU parent;

f. Bank that submits plans for the opening of a new office network must include calculation on the availability of core capital allocation in RBB using the core capital for the position of September month-end;

g. OJK will assess a bank core capital position when the concerned bank applies for approval to open a new office network;
h. Bank that meets the TKS requirements and has core capital allocation availability according to the location and type of office may open a new office network with a total according to the availability of core capital allocation;
i. Bank, as referred to in point f, can receive incentive to open additional office network if the concerned bank distributes financing to MSME for a minimum of 20% and/or MSE a minimum of 10% of the total financing portfolio. Assessment of achievement in the financing distribution to MSME or MSE for UUS shall be calculated using the amount of financing and credit distribution to MSME or MSE by UUS and its BU parent by way of consolidation;
j. Bank that meets TKS requirements but does not have core capital allocation availability according to office location and type, can open a new office network if it distributes financing to MSME for a minimum of 20% or to MSE for a minimum 10% of the total of financing portfolio, and capital raising;
k. OJK also considers the achievement of bank efficiency level, which among others is measured through the ratio of Operating Cost against Operating Income (*BOPO-Biaya Operasional terhadap Pendapatan Operasional*) and Net Operating Margin ratio (NOM) to determine the number of bank new office network. Specifically for UUS, assessment of efficiency level achievement (BOPO ratio and Net Interest Margin) is measured using the achievement of efficiency ratio of UUS and its BU parent by way of consolidation;
l. Calculation of financing distribution achievement to MSME and/or MSE used in the plans for opening new office network in RBB using MSME and/or MSE data for the position of September month-end;
m. OJK will review the achievement of bank efficiency level and financing distribution to MSME and/or

MSE, whether at the time of assessment on the plan of new office network in RBB or when bank proposed the plan of opening new office network;

n. In order to increase equitable bank office network by BUKU 3 or BUKU 4, it regulated as follows:
   - Opening of 3 KC in Zone 1 or 2 should be followed by opening of 1 KC (conventional or Sharia) or by opening of 1 KC (conventional or Sharia) in Zone 5 or 6; and/or
   - Opening of 3 KCP in Zone 1 or 2 should be followed by opening of 1 KCP (conventional or Sharia) or by opening of 1 KC (conventional or Sharia) in Zone 5 or 6.

o. The responsibility to open KC or KCP in Zone 5 or 6 as referred to in letter n for BU that has UUS shall be regulated as follows:
   - In the event the opening of 3 KC or KCP in Zone 1 or 2 are conventional offices, the responsibility as referred to in point i and ii should be followed by the opening of 1 conventional 1 KC or KCP in the form of conventional or sharia KC or KCP;
   - In the event the opening of 3 KC or KCP in Zone 1 or 2 are sharia offices, the responsibility as referred to in point i and ii should be followed by the opening of 1 sharia KC or KCP.

p. The calculation of 3 KC or 3 KCP in Zone 1 or 2 is done cumulatively since this regulation comes into effect. Bank that has not realized its responsibility to open KC and/or KCP in Zone 5 or 6 will not be able to open a KC or KCP in Zone 1, 2, 3 and 4;

q. The responsibility to balance office network openings does not apply to bank owned by Pemda and one that opens KC or KCP in Zone 1 or 2 which is the provincial region of its head office domicile. The provincial region where the head office domiciled includes the provincial development areas as long as the Provincial Government of the said provincial development area does not own majority shares on the bank having a head office in such location; and

r. Bank that owns domestic and international office network before this regulation comes into effect can still operate the office networks.

D. Regulation on Bank Soundness Rating Assessment Conventional Commercial Banks

Banks should maintain and/or improve banks TKS by applying prudential principle and risk management in doing their business activities. Banks should conduct an assessment on soundness level by using Risk-based Bank Rating, whether individually or consolidated. Banks should conduct self-assessment on banks TKS at least every semester for the position of June and December month-ends. Bank should update banks TKS self-assessment anytime required.

Assessment factors of bank TKS shall include:

1. Risk Profile
2. Good Corporate Governance *(GCG)*;
3. Earnings; and
4. Capital.

The composite level (PK) of banks TKS is set based on comprehensive and structured analysis towards the level of each factor by considering materiality and significance of each factor, and by taking into account the bank ability in facing significant external condition changes. PK shall be categorized as follows:

PK	Criteria
PK-1	Banks are generally *in excellent condition*, therefore they are considered very capable to withstand any significant negative impact from changes in business condition and other external factors.
PK-2	Banks are generally *in fairly sound condition*, therefore they are considered to be able to withstand any negative impact from changes in business condition and other external factors.
PK-3	Banks are generally *in sound condition,* therefore they are considered to be able to withstand any negative impact from changes in business condition and other external factors.
PK-4	Banks are generally *in poor condition*, therefore they are considered less able to face any significant negative impact from changes in business condition and other external factors.

PK	Criteria
PK-5	Banks are generally *in unsound condition*, therefore they are considered not able to face any significant negative impact from changes in business condition and other external factors.

Sharia Commercial Bank

Assessment on BUS Soundness covers evaluation of the following factors: capital, asset quality, management, profitability, liquidity, and sensitivity to market risk.

1. Assessment on component ratings or financial ratios which establishes capital, asset quality, profitability, liquidity and sensitivity to market risk factors are counted in quantitative manner;
2. Assessment on component ratings which establishes management factor is calculated through analysis by considering supporting indicator and element of judgment.; and
3. Based on the assessment result of financial factor and management factor, PK is determined as follows:

PK	Description
PK-1	Indicating that the bank and UUS are considered *in excellent condition* and able to withstand any negative impact in the economy and financial industry.
PK-2	Indicating that the bank and UUS are considered *in sound condition* and able to withstand any negative impact in the economy and financial industry, however the bank and the UUS have minor weaknesses that can be resolved promptly through routine measures.
PK-3	Indicating that the bank and UUS are considered *in fairly sound*, however there are several weaknesses that might cause the composite ratings to deteriorate if the bank and UUS do not take immediate corrective actions.
PK-4	Indicating that the bank and UUS are considered *in poor condition* and sensitive to any negative impact in the economy and financial industry, or the bank and UUS have serious financial weakness, or a combination of several unsatisfactory factors that if not addressed effectively would potentially lead to difficulties that might endanger the survival of their business.

PK	Description
PK-5	Indicating that the bank and UUS are considered *very sensitive* to negative impact in the economy and financial industry, and are having difficulties that might endanger the business continuity.

Rural Banks

Basically, the soundness of Rural Banks are assessed using qualitative approach on various aspects that influence the condition and development of a bank, which covers aspects of Capital, Asset Quality, Management Quality, Earnings Ratios/Profitability, and Liquidity (CAMEL). Several matters related to the above assessment are among others:

1. Assessment result is determined in four categories: Sound, Fairly Sound, Poor and Unsound.
2. The weight of each CAMEL factor are as follows:

No	CAMEL Factor	Weight
1.	Capital	30%
2.	Earning Assets Quality	30%
3.	Management Quality	20%
4.	Profitability	10%
5.	Liquidity	10%

3. The implementation of provision which sanction shall be connected with Rural Banks soundness assessment consists of violation and or non-compliance with BMPK, APU and PPT regulations, and violation of regulation on bank product information transparency and usage of customers' personal data; and
4. Factors that might abort the assessment of bank soundness from sound to unsound condition are: internal dispute, involvement of other party outside of bank management, window dressing, insider trading practice, and other banking practice that might endanger the survival of banking business.

Sharia Rural Banks

Assessment of BPRS soundness covers the assessment of the following factors: capital, asset quality, earning ratios, liquidity and management. Assessment of the above components is carried out in quantitative and qualitative manners, while the assessment of the management factor is carried out in qualitative manner. Assessment by qualitative manner is carried out with consideration to supporting indicator and/or relevant benchmark. Based on the assessment of financial factor and management factor ratings, the PK which is the final result of Bank Soundness assessment shall be determined as follows:

PK	Description
PK-1	Indicating that the bank is in excellent condition, as a result of excellent business management.
PK-2	Indicating that the bank is in sound condition, as a result of good business management.
PK-3	Indicating that the bank is in fairly sound condition, as a result of a fairly good business management.
PK-4	Indicating that the bank is in poor condition, as a result of poor business management.
PK-5	Indicating that the bank is in unsound condition, as a result of bad business management.

E. Regulation on Self Regulatory Banking

1. Guidelines on the Formulation of Bank Credit Policy

Bank is obligated to have written guidelines of credit policy that at least contains and regulates principle matters as determined in the following PPKPB:

a. Prudential Principle in credit sector;
b. Organization and management in credit sector;
c. Credit approval policy;
d. Credit documentation and administration; and
e. Credit supervision and settlement of non-performing credit.

Bank is obligated to comply with the Bank Credit Policy that has been fomulated consistently.

2. Implementation of Good Corporate Governance Commercial Bank

Assessment of banks GCG implementation shall be carried out individually or by way of consolidation. The GCG rating factor shall be determined in 5 levels, namely Level 1, Level 2, Level 3, Level 4, and Level 5. The smaller number of GCG factor level reflects better GCG implementation, and for banks categorized in GCG 3, 4 or 5 should deliver an action plan. Banks conduct GCG assessment by developing adequacy analysis and effectiveness of GCG principles implementation carried out comprehensively and structured on 3 governance aspects: governance structure, governance process and governance outcome.

Sharia Commercial Bank and UUS

The implementation of GCG for BUS must at least be realized in the implementation of duties and responsibilities of the Board of Commissioners and Directors; the completeness of committees tasks and functions conducted by BUS internal control; implementation of duties and responsibilities of Board of Sharia Supervisors; the implementation of compliance function; internal and external audit; maximum limit of fund distribution; and transparency of BUS financial and non-financial condition. GCG implementation for UUS must be realized at least: in the implementation of duties and responsibilities of UUS Directors; Implementation of duties and responsibilities of Board of Sharia Supervisors; fund distribution to core financing customers and fund deposits by core depositors; and transparency of UUS financial and non-financial condition.

3. Internal Audit Work Unit of Commercial Banks

A Commercial Bank is obligated to establish Internal Audit Work (SKAI) as a part of the realization of Bank Internal Audit Function Standard Implementation. SKAI is a work unit that is directly responsible to the Managing Director. SKAI has duties and responsibilities to:

a. Help the Managing Director and the Board of Commissioners in conducting supervision by describing the plans, implementation or audit supervision result in operational manner;
b. Make analysis and conduct reviews in the sector of financel, accounting, operation and other sectors of activity through direct audit and indirect supervision;
c. Identify all possibilities to restore and improve

efficiency in using resources and funds; and

d. Give improvement advice and objective information on the activities that have been audited at all managerial levels.

4. Implementation of Compliance Function in Commercial Banks

Directors are obligated to foster and embody the implementation of Compliance Culture at all organization levels and business activities of banks, and are obligated to ascertain the implementation of the Bank's Compliance Function. Compliance Function of Bank covers the efforts to:

a. Realize the implementation of compliance culture at all levels of organization and bank activities;
b. Manage compliance risk faced by the bank;
c. Ensure that policy, regulation, system and procedure and business activities by the Bank are in compliance with OJK's regulation and the applicable of laws and regulations including the Sharia Principle for BUS and UUS; and
d. Ascertain bank's compliance towards commitment made by the bank to OJK and/or other supervisory authorities.

The Bank is obligated to have a Director who supervises Compliance Function and forms a compliance work unit. The Director who supervises compliance function and compliance work unit in a BUS and/or a BUK that has UUS, should coordinate with the Sharia Supervisory Board in relation to the implementation of compliance function of Sharia Principles.

The Director who supervises compliance function should meet the independency requirement; Managing Director and/or Deputy Managing Director are prohibited from having a dual position as Director supervising Compliance Function. The Director who supervises Compliance Function is prohibited from supervising business and operational functions; risk management that makes decision for business activities of the

Bank; treasury; finance and accounting; logistic and procurement of goods/services; information technology; and internal audit.

5. Bank Business Plans

Commercial Banks

A Commercial Bank is obligated to have a realistic Business Plan every year by taking into account:

a. External and internal factors that might influence the survival of the bank business;
b. Prudential Principles;
c. Implementation of risk management; and
d. Bank soundness principles.

For any Commercial Bank that has UUS, aside from the above matters, it also should have a specific Business Plan for UUS that becomes an integral part of a Commercial Bank's Business Plan.

The Business Plan should include at least the following:

a. Executive summary;
b. Management policy and strategy;
c. Risk management implementation and the Bank's current performance;
d. Projection of financial report and the assumptions used;
e. Projection of ratios and other items;
f. Funding plan;
g. Fund investment planning;
h. Capital planning;
i. Organization and human resources development planning;
j. Product release and/or new activity implementation planning;
k. Expansion and/or change of office network planning; and
l. Other information.

Bank can only make changes to the Business Plan if:

a. There are external and internal factors that significantly impacted the Bank's operation; and/or
b. There are factors that significantly influence the bank's performance based on OJK's consideration.

Change of a Business Plan can only be made 1 time, at the latest by the end of June in the current year.

Rural Banks

a. Rural Banks are obligated to prepare a realistic plan of activity and budget for 1 calendar year consisting at least:
   - Funds collecting plan;
   - Funds distribution plan consisting of work capital loans, investment credits and consumption loans;
   - Projection of balance sheet and calculation of loss and profit detailed in 2 semesters;
   - Human resources development planning; and
   - Efforts carried out to restore/improve bank's performance, which are efforts to settle non-performing loans, overcome loss, meet the capital shortage, etc.

b. Work Plan shall be prepared by the Directors or those at the same level and approved by the Board of Commissioners;

c. The Board of Directors shall be obligated to implement the work plan and the Board of Commissioners should supervise such action; and

d. The work plan should be submitted to OJK at the latest by the end of January of the related year. Report on the implementation of work plan should be submitted by the Board of Commissioners to OJK each semester at the latest by the end of August for June's month-end report and by the end of February for December's month-end report.

6. Implementation of Risk Management in the Utilization of Information Technology by Commercial Banks

Banks are obligated to implement risk management effectively in the use of Information Technology (IT). The implementation of risk management should cover at least:

a. Active supervision by Board of Commissioners and Directors;

b. Sufficiency in policy and procedures of IT usage;

c. Sufficiency in identification, measuring, monitoring and risk management process of IT usage; and

d. Internal control system on IT usage.

Banks are obligated to have Information Technology Steering Committee. The said committee is responsible for providing recommendation to the Directors concerning:

a. IT strategic plan that is in line with the strategic plan of bank's business activities;
b. Compatibility of IT projects that is approved in IT strategic plan;
c. Compatibility of the implementation of IT projects with the approved project planning;
d. Compatibility of IT with the needs of management information system and bank's business activities;
e. Effectiveness efforts in minimizing risk on bank investment in IT sector as to make the investment provide contribution to the achievement of bank's business goals;
f. Monitoring on IT performance and improvement efforts; and
g. Efforts in resolving various IT problems that cannot be resolved by the user's work unit and implementation in an effective, efficient and punctual manner.

7. Implementation of Risk Management to Commercial Banks

Bank must implement risk management effectively, both for the benefit of banks individually and banks in consolidation with subsidiaries. The implementation of risk management should at least include the following:

a. Active supervision by the Board of Commissioners and Directors;
b. Adequacy of policies, procedures and limit setting;
c. Adequacy of processes of identification, measurement, monitoring and risk control and also risk management information system; and
d. A comprehensive internal control system.

BUK must implement risk management for 8 risk types, namely: credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk, and compliance risk.

In conducting the assessment of risk profile, banks must refer to the applicable regulation on TKS BU assessment, and banks are obligated to deliver Risk Profile Report individually or by way of consolidation, by quarter for the positions in March, June and September.

Other than Risk Profile Report, banks must also submit several other reports in order to implement Risk Management, such as:

a. Report on New Product and Activity;
b. Report concerning condition that potentially might lead to significant loss to the Banks financial state; and
c. Other reports concerning Risk Management implementation, among others is Risk Management report on Liquidity risk.

Other reports concerning the launching of certain products or implementation of certain activities, among others are report on the implementation of activity related to mutual funds, and report on the implementation of product marketing in cooperation with insurance company (Bancassurance).

In implementing the risk management process and system, banks are obligated to establish:

a. Risk Management Committee that consists of at least the majority of the Board of Directors and related executive officers.
b. Risk Management work unit that is independent and directly responsible to the Managing Director or to the Director assigned specifically.

Banks are also obligated to have written policies and procedures to manage risks inherent in the banks new product and activity.

8. Application of Consolidated Risk Management to Banks Conducting Control to Subsidiaries

Considering that risk exposures of a bank might come up directly from its business activities, or indirectly from the business activities of its subsidiaries, each bank is obligated to implement risk management in consolidation with its subsidiaries, and to ensure that the prudential principles applied to the bank's business activity should also be applied to the activities of its subsidiaries. This obligation does not apply to subsidiaries owned in the context of credit restructuring. Based on this regulation, various requirements on prudentiality, among others are: ATMR, KPMM, KAP assessment, PPA formation, and BMPK calculation should be counted for / fulfilled by the Bank individually or in consolidaton to include the subsidiaries. The same goes with the soundness assessment, risk profile assessment, bank status establishment (as a supervisory follow-up) which also should be made individually or in consolidation. For Banks that have subsidiaries involving in insurance sector, the provision of prudentiality is not applicable, although the bank remains obligated to make assessment and submit report of risk management implementation that is carried out individually.

9. Implementation of Risk Management in Internet Banking

Bank that provides internet banking is obligated to implement risk management in internet banking activity effectively, which consists of:

a. Active supervision from Board of Commissioners and Directors;
b. Security control; and
c. Risk Management, especially legal risk and reputation risk.

In order to improve the effectiveness of risk management implementation, banks are obligated to evaluate and audit internet banking activities periodically.

10. Application of Risk Management to Banks Engaging in Joint Marketing with Insurance Companies/ Bancassurance

Bancassurance is cooperation between a Bank and an insurance company in marketing insurance products via Bank. This activity is classified into 3 business models: (i) Reference; (ii) Distribution cooperation; (iii) Integration of Product.

Bank that carries out bancassurance must comply with related regulations applicable in banking and insurance sectors, among others BI regulations related to risk management, bank confidentiality, product information transparency, and regulations on insurance supervisor authority mainly related to bancassurance.

In executing bancassurance, banks are not allowed to bear or take risks from insurance products that are being offered. All risks from the insurance products should be borne by bank partner insurance company.

11. Application of Risk Management in Bank Activities Related to Mutual Funds (Reksadana)

The increasing involvement of banks in activities related to Reksadana gives benefits but it also potentially leads to various risks for the banks. In connection with the above matter, banks should improve risk management implementation effectively by applying the prudential principle and protecting customers' interests. Bank activities related to Reksadana consist of banks roles as investors, marketing agents for Reksadana stocks and as Custodian Banks. In order to support effective application of risk management, the main things that should be carried out by banks are as follows:

a. To ensure that Investment Managers, the partners in activities related to Reksadana are registered and have permits from the capital market authority in accordance with the applicable regulations;
b. To ascertain that the related Reksadana has obtained effective statement from the capital market authority in accordance with the applicable regulations; and
c. To identify, measure, monitor and control the risks that might occur in the activities concerning Reksadana.

In implementing the prudential principle, banks are prohibited from taking any actions, whether directly or indirectly, that might cause Reksadana to have characteristics like bank products such as savings or time deposits.

12. Risk Management Certification for Managers and Officers of Commercial Banks

In applying an effective and planned risk management, banks should fill the positions of managers and officials with human resources that have competence and expertise in risk management, proven by risk management certificate issued by the Professional Certification Institute. Risk management certificate ownership for bank managers and officials is one of the aspects of competency factor assessment in the Fit and Proper Test. Banks are obligated to prepare a plan and implement human resources development program in order to improve competency and proficiency in the risk management sector. The human resources development program mentioned above should be embodied in the any Bank's business plan. Risk management certificate is classified into 5 levels based on rank and the Bank's organization structure, i.e. level 1 up to level 5. Risk management certification can only be issued by professional certification institute that has been recognized by authority. Risk Management certification issued by international institution or institution overseas may be considered for recognition as equivalent to risk management certification issued by the Professional Certification Institute if the issuers already recognized and accepted internationally and such certificate is issued within the last 4-year period.

13. Application of Risk Management to Commercial Banks Conducting Prime Customers Services

Priority Banking Services (LNP) is a part of banks business activities in providing services concerning product and/or activities with certain privileges for Priority Customers. A priority customer is individual who meet certain criteria or condition determined by the Bank in question to receive/use services with certain privileges in comparison with regular customers.

Banks that provide LNP are obligated to have written policies covering the followings:

a. Requirements for Priority Customer, by determining certain criteria/conditions to be met by customers;
b. Product coverage and/or bank activities by considering laws and regulations and other related legislation;
c. LNP privilege coverage, by still considering compliance with BI regulations and other related legislations; and
d. Brand name and Priority Customer Grouping, by clearly determining the difference of privileges for each group of Priority Customer.

In providing LNP, banks should implement Risk Management on certain aspects as follows:

a. Aspect of supporting privilege service that at least should cover the application of risk management for: (i) human resources; (ii) LNP operational; (iii) product offerings and/or activities, and (iv) information technology; and
b. Aspect of transparency, education and customer protection. In this aspect, the banks are obligated to carry out the following actions: (i) to explain LNP specification; (ii) to ascertain the relationship between Banks and Priority Customers; (iii) to ensure clear authority of market transaction; (iv) to provide periodic information.

Banks are obligated to manage data, document or letter concerning Priority Customer in LNP.

14. Application of Risk Management to Banks Providing Loans for Housing Ownership and Motor Vehicle Ownership

Bank needs to improve cautiousness in chanelling KPR, KPR iB/Sharia, KKB and KKB iB/Sharia as excessive growth of KPR, KPR iB, KKB and KKB iB will potentially lead to the increase of property price, which does not indicate the real market price (bubble), so as increasing Credit Risk for the Bank by huge property credit exposure. For that matter, in order that the conventional and Sharia banks are able to maintain productive economy and face future challenges in financial sector, a policy is required to strengthen the financial sector and to minimize the insecurity sources that might arise including the excessive growth of KPR, KPR iB, KKB and KKB iB. The KPR iB and KKB iB should still consider Sharia banking product characteristic, including the legal decision issued by the National Sharia Board – Indonesian Islamic Scholars Assembly (DSN-MUI). The policy should be carried out by establishing the amount of Loan to Value (LTV) for KPR, Financing to Value (FTV) for KPR iB and Down Payment (DP) for KKB and KKB iB.

To avoid the possibility of regulatory arbitrage, the LTV and DP policies should also be applied to sharia banks and sharia business units with special treatment for Musyarakah Mutanaqisah (MMQ) and Ijarah Muntahiyah bit Tamlik (IMBT) financing products.

The coverage of KPR iB (Sharia KPR) regulations includes financing given to individual customer and which not applicable for corporate customer. This regulation only applies to KPR iB in the form of residential housing/ apartment with a size bigger than 70 $m^{2.}$ BUS or UUS sharing in financing house ownership is treated against KPR iB with MMQ scheme that is determined to reach a maximum of 80% from the price of housing ownership. The deposit as down payment (DP) for KPR iB with IMBT scheme is determined to reach a minimum of 20% of the price to own the house being leased to the customer. The aforementioned deposit will be calculated as a down payment for housing purchase when IMBT is due.

In detail, the arrangement of credit down payment or DP on KKB/KKB iB is set as follows:

a. A minimum of 25%, for the purchase of two-wheel motor vehicles;
b. A minimum of 30%, for the purchase of motor vehicles with three wheels or more for non-productive requirements; and
c. A minimum of 20% for the purchase of motor vehicles with three wheels or more for productive requirements, should it meet the following conditions:
    - Vehicle with permit to transport people or goods, issued by the authority; or

- Proposed by individual or legal entity that owns a certain business permit issued by the authority and used to support the business operational activities.

OJK has expanded the scope of regulations, to include:

a. Property ownership credit that consists of house site ownership credit, multi-story house ownership credit, home office ownership credit and shop-house ownership credit; and

b. Property-collateralized consumption credit with the following parameters :

CREDIT / FINANCING *) & AGUNAN TYPE	CREDIT FACILITY I	CREDIT FACILITY II	CREDIT FACILITY> II
KPR Type > 70	70%	60%	50%
KPRS Type > 70	70%	60%	50%
KPR Type 22 – 70	-	70%	60%
KPRS Type 22 – 70	80%	70%	60%
KPRS Type s.d. 21	-	70%	60%
KPRuko / KPRukan	-	70%	60%

Note : *) Special financing *murabahah* and *istishna' contract*

FINANCING & AGUNAN TYPE (*MMQ & IMBT*)	CREDIT FACILITY	CREDIT FACILITY II	CREDIT FACILITY > II
KPR Type > 70	80%	70%	60%
KPRS Type > 70	80%	70%	60%
KPR Type 22 – 70	-	80%	70%
KPRS Type 22 – 70	90%	80%	70%
KPRS Type s.d. 21	-	80%	70%
KPRuko / KPRukan	-	80%	70%

15. Implementation of Risk Management in Sharia Banks

Banks business activities always face risks tightly related to their function as financial intermediation institutions. The fast-growing development of external and internal environment of Sharia Banks causes more complex risks to Sharia Banks. Banks are expected to adapt to the environment through implementation of risk management in accordance with Sharia Principles. The risk management principles implemented in Indonesian Sharia Banks are directed in line with the fixed rule issued by Islamic Financial Services Board (IFSB).

Application of risk management in Sharia banking is adjusted to the size and complexity of the business and to the Banks capacity. OJK has established this risk management rules as a minimum standard to be met by BUS and UUS so that Sharia Banks can develop them according to the needs and challenges faced; although it should be carried out in a healthy and persistent manner and in accordance with the Sharia Principles.

16. Implementation of Anti Money Laundering and Prevention of Terrorism Funding Programs

Bank is obligated to implement the Anti Money Laundering and Prevention of Terrorism Funding Programs or APU and PPT (used to be known as implementation of Know Your Customer – KYC Principle) as a prevention and eradication efforts of bank crimes involving money laundering and terrorism funding. The above programs are parts of comprehensive implementation of risk management. The APU and PPT implementation should cover:

a. Active supervision by Board of Commissioners and Directors;
b. Policies and procedures;
c. Internal control;
d. Management information system; and
e. Human resources and training.

In implementing APU and PPT programs, Banks are obligated to have written policies and procedures that include the followings:

a. Request of information and document;
b. Beneficial Owner;
c. Document verification;
d. Simpler CDD (Customer Due Diligence);

e. Relationship termination and transaction rejection;
f. Regulation on high risk area and PEP;
g. CDD execution by third party;
h. Update and monitoring;
i. Cross Border Correspondent Banking;
j. Funds transfer; and
k. Document management.

Banks are obligated to carry out CDD procedures when:

a. Having business relation with prospective Customers;
b. Having business relation with Walk In Customers (WIC);
c. Banks are uncertain about information given by the Customers, endorsees, and/or Beneficial Owners, or
d. Irregular financial transactions related to money laundering and/or terrorism funding occurring.

In order to prevent the use of any Bank as a media or target of money laundering or terrorism funding that involves internal parties of the Bank in question, the Bank is obligated to perform screening in recruiting new employees. This is due to the fact that the use of banking services as money laundering and terrorism fund media is made possible by the involvement of the Bank's personnel. Therefore, to prevent or detect criminal action of money laundering through banking institution, it is necessary to implement Know Your Employee (KYE) procedures, among others by screening and monitoring the employees' profile.

In implementing APU and PPT programs, banks are obligated to submit the followings to OJK:

a. Implementation Guidelines of APU and PPT Programs and action plans of the above guidelines, at the latest 12 months since the enactment of BI Regulations, and
b. Reports on update activities at the end of each year.

Result of assessment of APU and PPT programs implementation is calculated in the assessment of bank soundness through management factor. In case the assessment result reaches level 5, beside it will be computed in the level of bank soundness, it will also be connected to administrative sanction in the form of decrement of bank soundness level and discharge of the managers through the FPT mechanism.

17. Settlement of Customer's Complaints

Banks are obligated to resolve each complaint submitted by customers and or customers' representatives. Banks are obligated to have a unit or a function established especially in each office to handle and resolve any customer's complaint. To settle complaints, Banks are obligated to establish written policies and procedures that include the followings:

a. Receiving complaints;
b. Handling and resolving complaints; and
c. Monitoring the handling and resolving of complaints.

Complaints should be settled no later than 20 days since the receipt date of the written complaints. In the event of certain condition, banks can extend the period of settlement no longer than 20 working days.

In case the complaints are received verbally, the bank in question is obligated to settle them in 2 working days.

F. Regulation on Financing/Funding Facility to Banks

1. Short Term Funding Facilities for Conventional Commercial Banks

Banks that encounter short term funding difficulties may obtain Short Term Funding Facility (*FPJP-Fasilitas Pinjaman Jangka Pendek*) by meeting the set requirements. The definition of short term funding difficulty is a condition suffered by a bank due to smaller in-flow of funding in comparison to the outflow (mismatch) in Rupiah, therefore the bank is unable to meet its GWM obligation. Banks that may propose for FPJP requests should have KPMM ratio of minimum 8% and should meet the capital requirement according to risk profile based on OJK calculation, meet certain capital requirement and owns high quality collateral of adequate value.

FPJP is provided in the amount of the FPJP ceiling, which calculation is based on the estimated amount of liquidity needs until bank can meet GWM requirement. Assets that can be used as FPJP collateral are: SBI/SBIS, SBN, Corporate Bonds, and Credit Asset. BI executes FPJP collateral when FPJP is due and there is no FPJP extension or FPJP agreement terminated and the balance of checking accounts in Rupiah at BI is not adequate to cover the interest and/or FPJP principal value.

FPJP periods:

a. Each FPJP period shall be no longer than 14 calendar days; and
b. FPJP periods may be extended up to 90 calendar days.

BI will terminate FPJP agreement in the event the collateral value decreasing at the time of FPJP liquidation termination period, so that the value of the remaining ceiling is smaller than the value of collateral depreciation and decrease of FPJP collateral value occurs as follows:

a. Banks cannot deliver collateral to add and/or replace FPJP collateral after the period is over; and
b. Banks still have remaining unused ceiling that is smaller than the decrease of collateral value or banks have already used the entire FPJP ceiling.

2. Short Term Funding Facility for BPR

BPR that faces difficulty in short term funding can propose FPJP as long as it meets the following criteria:

a. TKS assessment for the last 6 months at least adequately healthy;
b. Owns cash ratio of an average of 4.05% in the last 6 months;
c. Has KPMM ratio (CAR) of 8% minimum; and
d. Has negative daily cash flow for the last 14 calendar days.

FPJP ceiling shall be given for no higher than the amount needs by BPR for short term funding to reach Cash Requirement Ratio of 10%. FPJP must be guaranteed by BPR with high quality collateral in adequate value. Those included as high value collaterals are SBI; and/or credit assets. BPR that needs FPJP shall submit a written request to BI. The period of each FPJP is 30 calendar days and can be extended consecutively with the total duration of no longer than 90 calendar days.

3. **Facility of Sharia Short Term Funding for Sharia Commercial Banks**

Sharia banks that encounter difficulties in Short Term Funding can request FPJPS to BI, with conditions of having high quality collateral with adequate collateral value, KPMM ratio of 8% minimum and also meeting capital requirement according to banks risk profiles. FPJPS shall be given for a maximum of 14 calendar days and may be extended consecutively with the total duration of no longer than 90 calendar days. FPJPS is given equal to the amount of the FPJPS ceiling, calculated based on the estimation of liquidity needs until the bank meets GWM requirement.

Collateral referred to can be in the form of:

a. Securities that includes: (i) Bank Indonesia Sharia Certificate (SBIS); (ii) National Sharia Securities (SBSN); and (iii) Securities issued by other Legal Entity under a certain condition set by BI (Sharia Corporate Bonds/Corporate Sukuk)
b. Financing assets that can only be collateralized if banks do not have adequate securities or banks do not have securities worth for collaterals. The financing assets referred to above can be made into collateral if meet the following requirements: (i) of good quality for the last 12 consecutive months; (ii) not included in consumption financing except housing ownership financing; (iii) financing is guaranteed with land or building collateral with a minimum value of 140% of the financing ceiling; (iv) not included in the financing for bank related parties; (v) financing has never been restructured; (vi) remaining period before due date in 12 months from the date FPJPS is approved; (vii) Outstanding financing does not go beyond the maximum limit of fund distribution at the time of distribution and does not exceed the financing ceiling; (viii) has financing

agreement and legally binding collateral; and (ix) haircut financing assets that can be used as FPJPS collateral for a minimum 200% of FPJPS ceiling.

In regards to the use of the above FPJPS, BI should receive returns with revenue sharing ratio from returns realization level before the distribution to bank recipients of FPJPS.

4. Facility of Sharia Short Term Funding for BPRS

BPRS that suffers from short-term financing problems may request for FPJPS as long as it meets the following criteria:

a. Minimum soundness composite level (PK) 3 for the last 2 periods;
b. Minimum management factor assessment level C for the last 2 periods; and
c. With negative daily cash flow for the last 14 calendar days.

FPJPS ceiling shall be given for no higher than needed for short-term financing for BPRS to reach Cash Flow Ratio of 10%. FPJPS shall be given based on Mudharabah agreement and should be secured with sufficient value of high quality collateral.

5. Intraday Liquidity Facility for Conventional Commercial Bank

Intraday Liquidity Facility (*FLI-Fasilitas Likuiditas Intrahari*) is the availability of funding by BI to banks, in which banks are participants of BI Real Time Gross Settlement System (BI-RTGS) and participants of Bank of Indonesia National Clearing System (SKNBI), which is implemented by way of repurchase agreement (repo) of securities that should be completed at the same day of utilization. Banks can receive FLI, whether in the form of FLI-RTGS or FLI-Clearing, after signing FLI Utilization Agreement and submit the supporting documents required to BI.

Banks can use FLI, if meet the following requirements:

a. Have securities that can be repo by BI, in the form of SBI, SDBI, and/or SBN that are recorded in trading account in BI Scripless Securities Settlement System (BI-SSSS). The securities referred to should meet the

following requirements:
- SBI, with remaining period of minimum 2 workdays when FLI is due;
- SDBI, with remaining period of minimum 2 workdays when FLI is due;
- SBN, with remaining period of minimum 3 workdays when FLI is due.

b. Are not under sanction of suspension as BI-RTGS participating banks and/or termination as clearing participating banks; and
c. Active status as participants of BI-SSSS.

6. FLI for Commercial Banks Based On Sharia Principles

Intraday Liquidity Sharia Facility (FLIS) is a financing facility provided by BI for Banks that have positions as participants of BI-RTGS System and SKNBI performed through repurchase agreement (repo) of securities that should be settled at the same day as the day of use.
Banks may use FLIS whether FLIS-RTGS or FLIS Clearing, should it meet the following conditions:

a. Own securities that can be repo to BI in the form of SBIS, SBSN and/or other Sharia securities as defined by BI.
b. Of active status as participant of BI-SSSS; and
c. Of active status as participant of BI-RTGS and/or not in the middle of termination sanction as SKNBI participant.

7. Emergency Financing Facility for Commercial Banks

Emergency Financing Facility **(**FPD) is a financing facility provided by BI, decided by the Committee of Financial System Stability (KSSK), secured by the Government for the Bank that suffers from liquidity problems which has systemic effect and potentially leads to crisis, and yet is still within solvability level. In the event Banks are not able to acquire funds to resolve liquidity problem, it could submit a request for FPD from BI under the following conditions:

a. Bank is having liquidity problem with systemic impact;

b. Ratio of Minimum Capital Adequacy Requirement (KPMM) is positive; and
c. Bank owns assets for collateral.

FPD is only given to banks of Indonesian legal entities. Banks that receive FPD are obligated to submit action plans, action plan realizations and daily liquidity reports to BI. Banks that receive FPD shall be positioned Under Special Supervision status. Such status of Under Special Supervision will end if the bank that receives FPD has settled its responsibilities and meets several conditions as stated in the applicable BI Regulations.

G. Regulations Related to MSME

1. Distribution of Credit/Financing by Conventional/ Sharia Commercial Banks for MSME Development

Banks are obligated to distribute funding in the form of credit or financing to MSME with portion to total credit or financing for a minimum of 20% in stages, and bank should refer to BI regulation that governs the following:

a. RBB in regard to MSME credit/financing distribution plan report as governs in the applicable regulation; and
b. LBU/LBUS in regards to MSME credit or financing distribution realization report.

Patterns of cooperation in MSME credit or financing distribution:

a. BU/BUS may cooperate with certain financial institution, such as: BPR, BPRS, and/or other Non-Bank Financial Institutions (Credit Cooperatives, Baitul Maal Wa Tamwil) and other agencies that are of similar type);
b. Conducted in executing pattern, channeling pattern, and syndication pattern. Specifically for executing pattern, in order to guarantee funding distribution to MSME, BU/BUS make a cooperation agreement with financial institution and report the realization of funding distribution in executing pattern quarterly to BI in 10 work days at the latest after the relevant quarter.

2. **Business Plan**

   Banks are obligated to develop and submit MSME Lending or Financing Plan in with regard to the achievement of MSME Credit or Financing ratio against the total Lending or Financing, namely:

   a. Year 2013 and 2014, according to bank ability;
   b. Year 2015, a minimum of 5%;
   c. Year 2016, a minimum of 10%;
   d. Year 2017, a minimum of 15%;
   e. Year 2018 and onward, a minimum of 20%.

   Formulation of MSME Lending or Financing plan is classified based on business field, type of utilization and province.

3. **Legal Lending Limit**

   Credit to customer through financing institution with channeling method is exempted from the definition of debtors' group if it meets certain conditions. Besides, credit with plasma-core partnership pattern, in which the core company secures credit for the plasma company, is also exempted from the debtors' group definition if it meets certain conditions.

4. **Risk-Weighted Assets for Billings to Micro and Small Enterprises and Retail Portfolio**

   In accordance with the regulations on guidelines of Risk Weighted Assets calculation for credit risk using standard approach, the risk weight for billings to micro-small enterprises and retail portfolio that meet certain criteria is defined at 75%.

5. **Review of Asset Quality**

   Quality requirement may be based on punctuality of payment of principal and/or interest for credit and other fund distribution that is given by each bank to 1 debtor or 1 project with a total amount less than or equal to Rp1 billion, other credit funding given by each bank to MSME debtors under certain conditions, and credit/other funding distribution to debtors with business location in certain areas and with total amount less than or equal to Rp1 billion. Other than that, in terms of using collateral to reduce PPA, the collateral appraisal for AP to debtors or debtor groups with total amount up to Rp5 billions, should be carried out by the bank internal appraiser.

H. Other Regulations

1. Bank Indonesia Rupiah Deposit Facility

Bank Indonesia Rupiah Deposit Facility (FASBI) is a facility provided by BI to Banks for placing their funds in BI. FASBI term is a maximum of 7 days since the date of transaction up to maturity. FASBI cannot be traded, cannot be used as collateral, and cannot be liquidated before the due date.

2. Facility of BI Sharia Deposits in Rupiah

Facility of BI Sharia Deposits Rupiah, hereinafter referred to a FASBIS, is a deposit facility provided by BI for banks to place their funding in BI, in the context of Sharia standing facilities. FASBIS applies *wadiah* akad (deposit). FASBIS period shall be no longer than 14 calendar days, started from the date the transaction is made up to the due date. FASBIS cannot be traded, cannot be used as collateral, and cannot be liquidated before it is due.

3. Bank Foreign Loans

Banks may receive Foreign Loan (*PLN-Pinjaman Luar Negeri*), whether short term or long term, and in receiving PLN referred to the bank should apply prudential principle. Banks entering the market for a long term PLN should have an approval from BI in advance and stated their plans in RBB. Banks are obligated to limit its daily balance position of short-term PLN not to exceed 30% of the relevant Bank Capital.

The limitation referred to does not apply to: (i) Short Term PLN from PSP in order to manage bank liquidity problem, (ii) Short Term PLN from PSP in order to distribute credit to real sector, (iii) Business Fund of foreign bank branches in Indonesia shall be up to 100% of the Declared Business Fund, (iv) Demand Deposit, Saving Deposit owned by foreign country representatives and international institutions, including their staff, (v) Demand Deposits owned by Non-Citizens used for investment activities in Indonesia, and (vi) Demand Deposits owned by Non-Citizens that accommodates repo sale proceeds (divestment) on direct investment, shares purchase, Indonesian corporate bonds purchase, and/or SBN purchase.

4. Interbank Financial Market Based On Sharia Principles (PUAS)

The instrument used by investors in PUAS transaction up until now is Interbank Mudharabah Investment Certificate (SIMA). In order to encourage PUAS development, BI has perfected the regulations concerning PUAS and SIMA including among others improvement of PUAS participants by adding Foreign Banks, role of financial market brokers in PUAS transactions, mechanism of transfer of PUAS instrument ownership before maturity date, and sanctioning. Meanwhile, the regulation concerning SIMA adds a condition to include information of asset type that becomes the basis of SIMA issuance on SIMA issuing date. The above regulation concerning SIMA allows the Banks to choose which assets to be used as underlying when issuing SIMA, so as to make it easier for banks to determine profit sharing ratio from the defined assets (not financing pooling).

Other than that, BI has issued regulation on Commodity Trading Certificate Based on Interbank Sharia Principle (SiKA). SiKA is a certificate based on sharia principles issued by BUS or UUS in a PUAS transaction that becomes a proof of purchase with deferred payment on commodity trading in the stock exchange. SiKA is issued with a murabahah contract.

5. Certification Body for BPR / BPRS

a. The purpose and the establishment of a Certification Body are:
   - To guarantee the quality of Certification System;
   - To guarantee the implementation of Certification System; and
   - To improve the quality and professionalism of human resources in BPR / BPRS

b. Conditions that should be met by the Certification Body:
   - Have vision and mission to improve and develop human resources of Rural Banks that support the creation of healthy, strong and efficient industry of Rural Banks/Sharia Rural Banks.
   - Have instruments consisting of at least: Certification Board, National Curriculum Committee, and Management.
   - Have and implement tasks based on competence and commitment to manage, define and set up the Certification System.

6. Restriction of Rupiah Transaction and Foreign Currency Loans by Banks

Banks are prohibited and/or limited and/or exempted from making certain transactions with Foreign Parties, in which the Foreign Parties include:

a. Foreign Citizen;
b. Foreign legal entity and other foreign institution, but not including representative office of Foreign Bank in Indonesia, Foreign Investment Company (PMA), Foreign legal entity or foreign institution of non-profit business;
c. Indonesian citizen who is a permanent resident in other country and does not reside in Indonesia;
d. Overseas bank offices of a Bank with headquarter in Indonesia;
e. Overseas company's office of a company with Indonesian legal status.

Certain prohibited transactions made by Banks with Foreign Parties are:

a. Credit in Rupiah and or foreign currency;
b. Placement in Rupiah;
c. Purchase of securities in Rupiah that is issued by Foreign Parties;
d. Interoffice billings in Rupiah;
e. Interoffice billings in foreign currency in regards to overseas credit;
f. Equity participation in Rupiah;
g. Rupiah transfer to account owned by Foreign Parties

and or joint account between Foreign Parties and Non-Foreign Parties in domestic Banks.;

h. Rupiah transfer to account owned by Foreign Parties and or joint account between Foreign Parties and Non-Foreign Parties in overseas Banks.

Aside from the above, banks are prohibited from transferring Rupiah to non-Foreign Parties overseas.

Transactions that Banks are limited to make with Foreign Parties are:

a. Derivatives transactions Sell of foreign currency against rupiah; and
b. Derivatives transactions Purchase of foreign currency against rupiah.

Exemptions in transaction prohibition and limitation are as follows:

a. Prohibition of credit provision does not apply to: credit in the form of syndication that meets certain criteria; credit card; consumption credit used domestically; intraday overdraft; overdraft due to administration fee; billings takeover from corporation appointed by the Government to manage assets of Banks in regards to Indonesian banking restructuring by Foreign Parties, which payments are secured by prime banks;
b. Prohibition of securities purchase in Rupiah does not apply to: securities purchase related to exports from Indonesia and imports to Indonesia and domestic trade; Bank draft purchase in Rupiah issued by overseas Bank for the interest of TKI (Indonesian Migrant Workers);
c. Prohibition of Rupiah transfer does not apply to: Indonesian economic activities; or between account owned by the same Foreign Parties; and
d. Prohibition of derivative transaction in foreign currency against Rupiah does not apply in case the derivative transaction is made for the purpose of hedging in the following activities and completed with supporting documents: investment in Indonesia with minimum terms of 3 months; exports and imports using L/C; domestic trade using Letter of Credit with Domestic Documentation (SKBDN).

7. National Clearing System

Clearing is the exchange of aerogram and/or Electronic Financial Data (*DKE-Data Keuangan Elektronik*) among the clearing participants on behalf of the participants or customers, which calculation result is completed in a certain time. SKNBI is BI clearing system that includes debit clearing and credit clearing, which completion is implemented nationally. Last settlement of debit clearing and credit clearing should be carried out by National Clearing Organizer (*PKN-Penyelenggara Kliring Nasional*) based on net multilateral calculation and implemented based on debt renewal (novation) principle by considering the adequacy of Participants' funds, which is final and cannot be cancelled. The last settlement is also implemented based on same day settlement principle. The nominal value of debit note issued by banks for clearing through debit clearing in SKNBI management shall not exceed Rp10 million per debit note. The limit of credit transfer nominal value for credit clearing shall be below Rp100 million per transaction.

8. Real Time Gross Settlement

In order to encourage the achievement of payment system that is efficient, fast, secure and reliable to support the stability of financial system, BI implemented BI-RTGS system. BI-RTGS is electronic fund transfer system among Participants in Rupiah currency which settlement is carried out immediately per transaction individually.

9. Certificate of Bank Indonesia

Certificate of Bank Indonesia (SBI) is securities in rupiah currency issued by BI as short-term admission of debt and is one of the instruments in Open Market Operation. SBI is issued scripless which trade is carried out by discount system. SBI can be owned by Banks and other parties defined by BI and is transferrable (negotiable).

SBI can be purchased in initial public offering and is traded in secondary market with repurchase agreement/repo or outright buying/selling.

10. Sharia BI Certificates

Sharia BI Certificates (SBIS) is short-term securities based on Sharia principles in Rupiah currency issued by BI. SBIS is issued as one of the instruments in open market operation concerning monetary control carried out based on Sharia principles. SBIS is issued using Ju'alah contract.

BI defines and provides rewards on the issued SBIS that is payable on the maturity date. SBIS can be owned by BUS and UUS.

11. Government Securities

Govermant Securities (SUN) are comercial paper in the form debts instruments in rupiah or foreign currency which interesrt and principal payments are guaranteed by the State of the Republic of Indonesia, in accordance with thier validities. SUN consists of Treasury Bill (SPN-Surat Utang Negara) and State Bonds: SPN have a 12-month term with discounted interest payment, while Government Bonds have maturity of more than 12 months with a coupon and or discounted interest payment. Individuals, corporations, joint ventures, associations, or organized groups are able to purchase SUN in the initial public offering, by submitting purchase offer to BI auction agents through bidders that consist of Banks, Money Market Brokerage Companies and Stock Exchange Companies that meet the criteria and conditions as defined by the Minister of Finance. Implementation of SUN auction and administration applies to SUN in Rupiah currency and foreign currencies

12. Sharia-based State Securities

Sharia-based State Securities (SBSN) or State *Sukuk*, is securities issued based on Sharia Principle, in Rupiah, as evidence of participation to SBSN asset. Short term SBSN or known as Sharia-Based Government Treasury Bills is SBSN with a period of 12 months, which returns are paid in the form of coupons and/or discounts. Long

Term SBSN is SBSN with longer than 12-month period, which reward is paid in the form of coupons and/or discounts. Retail SBSB or Government Retail Sukuk is SBSN sold to individual or Indonesian citizen via sales agent.

Individual or a group of people and/or organized asset, whether as legal entity or not, may purchase SBSN in Initial Public Offering for Short Term and Long Term SBSN.

13. Bank Secrecy

Bank secrecy is everything related to information about depositors and their deposits. Information on customers other than depositors and their deposits are not considered information that should be kept confidential by banks. The above regulation also applies to the affiliated parties.

Regulation of Bank Secrecy does not apply to:

a. Tax interests;
b. Settlement of bank's account receivables that has been submitted to the Agency of State Account Receivables and Auctions (BUPLN) / Committee of State Account Receivables (PUPN);
c. Interests of justice in a criminal case;
d. Interests of justice in a civil case between a bank and its customers;
e. Interbank information exchange;
f. Written request, consent or authority from the depositors;
g. Request from legal heirs of deceased depositors; and
h. In the context of audits related to money laundering.

Implementation of regulation in letters a, b and c should first obtain written instruction or permit from OJK Manager to open thre Bank secrecy; while the implementation of regulation in letters d, e, f, g and h does not need any written instruction or permit.

14. Human Resources Development in Banking Sector

BU/BUS and BPR/BPRS should provide education funds to improve SDM knowledge and skills in banking sector. The amount of education funds for a BU/BUS is of 5% at a minimum from the amount of SDM expenditure budget, while for a BPR/BPRS is at least 5% of the realization of SDM cost in the previous year. If there is education funding remaining, it should be added to the education funds for the following year. Education and training can be implemented as follows:

a. Self organized by the bank;
b. Participate in other educational program conducted by other banks;
c. organize the educational program together with other banks; or
d. Send SDM to join education program organized by banking education institution.

The above education plan should obtain approval from the Board of Commissioners or BU/BUS/BPR/BPRS Supervisory Board and should be reported to OJK in the Annual Work Plan Report.

15. Incentive in the Context of Banking Consolidation

OJK provides incentive to Banks that perform merger or consolidation. The forms of the incentive are as follows:

a. Facilitation in granting permit to become foreign exchange bank;
b. Temporary leniency in the fulfillment of Rupiah GWM obligation;
c. Extension period to settle BMPK excess that arises as the result of merger or consolidation;
d. Facility in granting permit to open a branch office;
e. Reimbursement of a part of consultant fee in implementing due diligence; and or
f. Temporary leniency in implementing several provisions stipulated in the regulation on GCG for BU/BUS.

Banks planning merger or consolidation are obligated to propose a request for incentive utilization plan submitted by one of the banks participating in merger or consolidation and signed by the Managing Directors of all banks participating in the merger or consolidation.

16. Accounting Guidelines of Indonesian Banking for Conventional Commercial Banks

In connection with the implementation of Guidelines of Financial Accounting Standard (PSAK) No. 50 about Financial Instrument: Assessment and Disclosure, and PSAK No. 55 concerning Financial Instrument: Recognition and Measurement, BI has made adjustment of PAPI 2001 to PAPI 2008. PAPI 2008 is a reference in the formulation and presentation of Bank's financial statements. Considering the nature of PAPI as implementation guidance from PSAK, for matters that are not regulated in PAPI it should refer to the applicable PSAK.

17. Guidelines for Indonesian Sharia Banking Accounting for Sharia Banks and UUS

In 2013, revision to Guidelines for Indonesian Sharia Banking Accounting (*PAPSI-Pedoman Akutansi Perbankan Syariah Indonesia*) 2003 is issued by BI in cooperation with Indonesian Accountant Association (IAI), and applies only to BUS and UUS, in which PAPSI becomes the reference in preparing and delivering Sharia banks financial reports. PAPSI also becomes the executing guidance that contains further description of several PSAK relevant to Sharia banking industry, such as PSAK specific for Sharia transaction, PSAK No. 50, PSAK No. 55, and PSAK No. 60, also PSAK No.48, as well as to address the issuance of Fatwa DSN Number: 84/DSN-MUI/XII/2012 dated 21 December, 2012 about *Murabahah* Revenue Recognition Method in Sharia Financial Institution (*LKS-Lembaga Keuangan Syariah*). The above revision is expected to improve transparency of financial condition and report of BUS and UUS to become more relevant, comprehensive, reliable and comparable to a more suitable condition and recent development. Matters that are not regulated in PAPSI 2013 remain guided by the applicable PSAK and its implementation guidelines, provided that it does not contradict the Sharia Principle.

Several key regulations in PAPSI 2013 among others are: (i) revenue recognition using annuity method or proportional method can only be used for revenue recognition on financing on the basis of trading. In the case where the annuity method is used, *murabahah* transaction record should use PSAK 55, PSAK 50, PSAK 60, and other relevant PSAK; meanwhile, in the event where proportional method is used, *murabahah* transaction record should use PSAK 102. Whereas, the use of one of the above methods should be implemented for all types of *murabahah* financing portfolio, as well as to be disclosed in accounting policies and to be implemented consistently, (ii) CKPN requirement on financial and non-financial assets in accordance with the applicable financial accounting standard.

18. Decision on the Utilization of Financial Accounting Standard in BPR

In order to improve the transparency of Rural Bank financial condition and preparation of relevant, comprehensive, reliable and comparable financial report, Rural Banks are obligated to prepare and present a financial report based on SAK relevant to Rural Banks. Considering the complexity of PSAK 50 and 55 and the possibility of difficulty in applying them to UKM, in May 2009, the Indonesian Institute of Accountants (IAI) has released SAK Entity without Public Accountability (ETAP) for UKM. Considering the characteristic of Rural Banks that have limited business activities pursuant to the Act on Banking and based on consultation with IAI, the following considerations have been made:

a. Implementation of PSAK 50/55 – Financial Instrument, in replacement of PSAK 31, is considered not suitable for Rural Banks' operational characteristic and requires high cost in comparison with the benefit gained;
b. DSAK-IAI stated that SAK ETAP can be applied to entity that has significant public accountability provided that the authority regulates the use of the said SAK ETAP.

19. Transparency of Prime Lending Rate Information

The objective of regulation concerning the transparency of Prime Lending Rate (*SBDK-Suku Bunga Dasar Kredit*) information is to improve transparency on banking product characteristics, including benefits, costs and risks to provide clarification to customers, and to improve good governance and encourage healthy competition in banking industry through the creation of a better market discipline.

SBDK calculation is the result of 3 components: (1) Fund Basic Price for Loans or HPDK (*Harga Pokok Dana untuk Kredit*) derived from fund raising activities; (2) Overhead costs for banks in the forms of non-interest operating costs, paid for fund raising and credit distribution, including payment of taxes; and (3) Profit Margin set by banks in fund distribution activity. In SBDK calculation, banks have not taken into account the component of individual risk premium of Banks customers. SDBK is the lowest interest rate used as a basis for banks to set their credit interest rate to be charged to customers.

SDBK calculation in Rupiah that should be reported to OJK and published; shall be calculated for 4 types of credit: (1) Corporate Credit, (2) Retail Credit, (3) Micro Credit, and (4) Consumption Credit (KPR and Non-KPR – Non KPR credit does not include fund distribution via credit card and Non-Collateral Credit (KTA)). The classification of the above credits is based on the criteria set by bank internal and only applies to credit using Rupiah currency.

20. Rating Agency and Ratings Recognized by Bank Indonesia

The rating agency recognized by BI is rating agency that meets the following evaluation aspects: (i) evaluation criteria and (ii) publication media and disclosure coverage.

The evaluation criteria to be met include independency, objectivity, public disclosures, and transparency of rating, resources, and credibility of rating agency. The publication media and disclosure coverage regulate the obligation of rating agency to have website and to disclose all the information that is obligated to be published. In regards to the rating agency and ratings, BI has updated the list based on evaluation result and monitoring of the completion of said evaluation aspects. Rating agencies can be crossed out of the list recognized by BI based on: (i) BI evaluation result, if the related rating agency does not meet the conditions that have been set or makes other violation; and or (ii) Request from the rating agency. Crossing out of rating agency from the list upon its own request is possible if it meets certain procedures and the related rating agency has finished all its obligations.

The list of rating agencies and ratings recognized by BI is published through BI website (www.bi.go.id). The bank remains obligated to make evaluation and is fully responsible for the use of rating result by the rating agencies recognized by BI.

I. Bank Reports

Type of Report	Commercial Bank	Rural Bank
1. Periodic Report		
a. Daily Period	• Report on PUAB transactions, PUAS transactions, securities transactions in secondary market, and foreign exchange transactions • Report on Net Open Position • Report on certain Items in Balance Sheet • Report on cash flow projection • Report on Interest rate and margin of mudharabah investment time deposit	
b. Weekly Period	• Report on Derivative Transaction • Report on Third Party Funds • Report on Government owned Third Party Fund • Report on Weekly items in Balance sheet. • Report on cash flow projection	
c. Monthly Period	• Reports on Commercial Bank Monthly (LBU) / Sharia Commercial Bank Monthly (LBUS) • Monthly Publication of Financial Statements • Report on Foreign Exchange Flows • Report on Funds • Report on Debt Restructuring / Financing • Report on Debtor (SID) • Report on BMPK • Report on Maturity Profile • Report on Market Risk • Report on Depositor and Core Debtor • Report on Minimum Capital Requirement Taking Into Account the market risk • Report on Mudharabah investment (for Sharia Bank) • Report on structured product transaction	• Monthly Report • LLL Report • Debtor Report (SID)

Type of Report	Commercial Bank	Rural Bank
	• Report on ATMR for credit risk using standard method • Report on SBDK calculation • Report on the implementation of payment instrument activities using card (APMK) and monthly electronic money • Letter of Credit with Domestic Documentation (SKBDN) • Report on Custodian Activity • Remittance of Indonesian Migrant Workers (TKI) overseas and Foreign Workers (TKA) in Indonesia • Government Account Mutation • Report on Bank Activity as Agent for non-bank Product in the form of Foreign Financial Product • Report on Banking Transactions through e-banking delivery channel • Report of Executive Officer • Report on Office Networks	
d. Quarterly Period	• Report on Financial Publication • Report on Business Plan Realization • Report on management and settlement of customer's complaints • Report on Risk Profile • Report on consolidated Risk Profile • Report on Financial Statements of Subsidiaries • Report on Bank Transaction with special relationship • Distribution of profit sharing for Customers • Report on Risk Weighted Assets for credit risk using consolidated bank standard method • Report pertaining to the implementation of activities as Mutual Fund Sales Agent / non-bank products	• Report on Financial Publication • Report on management and settlement of customer's complaints

Type of Report	Commercial Bank	Rural Bank
	• Report on Payment Instrument Activities using Card (APMK) and electronic money	
e. Semi-annually Period	• Report on Supervision of Board of Commissioners related to Bank Working Plan Implementation • Report on Implementation and Key Result of Internal Audit • Report on Implementation of Compliance Director's Task • Report on Source and Uses of Qardh fund, Report on Sources and Uses of Zakat, Infaq, Shodaqah (ZIS) funds. • Self assessment of Bank Soundness Rating	• Report on Work Plan Implementation
f. Annually Period	• Report on Business Plan • Annual Financial Statements • Annual Reports • Report on Foreign Loan Plan • Report on Information Sytem Technology • Report on Good Corporate Governance / GCG Implementation • Report on Business Group Structure • Report on Outsourcing Plan • Report on non-performing outsourcing • Report on Customer's Data Update Plan • Report on Customer's Data Update realization • Report on Banking Employment BUS and BUK that has UUS are obligated to submit the following reports: - Report on ZIS Sources and Uses - Report on Qardh Fund Sources and Uses - Report on changes in Committed Investment Fund	• Rural Bank Business Plan • Annual Financial Statements • Report on Business Group Structure

Type of Report	Commercial Bank	Rural Bank
g. Three Year Period	• Report on External Party Reassessment of Bank Internal Audit Performance	
2. Other Report		
	• Report pertaining to Bank institution • Report pertaining to Bank management • Report pertaining to Bank operation • Special reports pertaining to Bank development and supervision • Reports on suspicious financial transaction and to PPATK on cash transaction • Report pertaining to Bank's new product and activity	• Report pertaining to Bank institution • Report pertaining to Bank management • Report pertaining to Bank operation • Special report pertaining to Bank development and supervision • Report to PPATK on suspicious financial transaction


OTORITAS JASA KEUANGAN

CHAPTER VII

OTHERS

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VII. OTHERS

A. Banking Popular Terminology

Terminology	Description
Collateral	Collateral given by debtor customers to the bank in relation to loans or financing facility.
Automated Cash Machine (ATM)	Machine with computer system activated using bank's magnetic card coded or given password. From this machine customers may save money, withdraw cash, transfer fund to other accounts, and other routine transactions.
Bank Notes	Form, note, and other written evidence that proves a transaction, containing description or payment order.
Cheque	Written order from a customer to a bank in order to withdraw fund for the amount written on the customer's behalf or bearer.
National Black List	A compilation list of Bank's Individual Black List in Bank Indonesia, (DHIB) which data derived from the Office of National Black List Management (KPDHN), to be accessed by Banks.
Bank Guarantee	Leasing contract between leasing object owner including ownership of payment guarantee given to guarantee recipient, in case the guaranteed party does not fulfill its obligation.
Debit Card	Bank's card that can be used to pay for a transaction and/or withdraw a sum of money charged to the card holder's account using PIN (Personal Identification Number).
Credit Card	Card issued by banks or credit card management companies that give the right to the person who meets certain conditions, whose name is written on the card, to use it as credit payment instrument on purchase of goods or services, or to withdraw cash within the credit limit as set by the banks or credit card management companies.
Safe Deposit Box	Box rental service to keep valuables things or commercial papers that is specifically made of steel material and placed inside a strong vault, burglarproof and fireproof, to guarantee the safety of the valuables kept and give sense of security to users.

Terminology	Description
Deposit Insurance Agency (LPS)	A legal entity that undertakes insurance activities of customers' savings.
PIN (Personal Identification Number)	Confidential numbers given to cardholders (credit card, ATM card, debit card, etc), which coded numbers can be given by the bank or financing company, or chosen by the cardholders.
Transfer/ Remittance	Service for money transfer from one account's owner to another or to the same account's owner, from one city to another or to the same city, in Rupiah or in foreign currency.
Not-Passing List (DTL)	A list managed by OJK that contains the names of parties that did not pass the fit and proper test towards shareholders, controlling shareholders, board of commissioners, board of directors and executive officers.
Customer Due Diligence (CDD)	Activities in the form of identification, verification and supervision by Banks to ensure that the transaction is in accordance with the customer's profile. CDD should be performed when: a. Making business relations with prospective customers; b. Making business relations with WIC; c. Bank doubts the accuracy of information given by customers, endorsees, and/or Beneficial Owners, or d. There are unusual financial transactions related to money laundering and/or terrorism funding.
Enhanced Due Diligence (EDD)	More depth CDD conducted by Banks when having business relations with customers who are considered having high risks, including Politically Exposed Person towards the possibility of money laundering and terrorism funding.
Politically Exposed Person (PEP)	Persons who are trusted with public authorities, among others State/Government Offcials as stated in the provisions of laws and regulations which governs The State Officials, and/or persons recorded as members of a political party which have influence over the political party's policies and operations, whether the persons in question are Indonesian citizens or Foreign citizens.

Terminology	Description
Politically Exposed Person (PEP)	Persons who are trusted with public authorities, among others State/Government Offcials as stated in the provisiWons of laws and regulations which governs The State Officials, and/or persons recorded as members of a political party which have influence over the political party's policies and operations, whether the persons in question are Indonesian citizens or Foreign citizens.
Walk In Customer (WIC)	Users of bank services who do not have account with the related Bank, not including parties who receive orders or assignments from Customers to make transactions on behalf of the Customers.

B. Banks' Roles in the Prevention and Eradication of Money Laundering (TPPU) Based on The Act of The Republic of Indonesia No. 8 Year 2010

1.	**Money Laundering:** Money laundering is an act to place, transfer, shift, spend, pay, grant, deposit, bring to foreign country, alter the form, exchange with currency or securities, or other actions to assets that is known or estimated to be the result of criminal actions, with an intention to hide or disguise the source of the assets, to resemble legit assets.
2.	**Criminal Acts of Money Laundering :** Every person who place, transfer, shift, spend, pay, grant, deposit, bring to foreign country, alter the form, exchange with currency or securities, or other actions to their assets that is known or estimated to be a result of criminal actions in order to hide or disguise them to resemble legit assets. People who are committed such crimes are punishable for 20 years of imprisonment and fines for a maximum of Rp10 billion.
3.	**Suspicious Financial Transactions**: a. Financial transaction that deviates from profile, characteristic, or pattern of transactions by the related service users; b. Financial transaction by service users that are suspected to be made to evade the concerned transaction reporting that should be submitted by the reporting parties, pursuant to RI Law No. 8 Year 2010; c. Financial transactions made or cancelled using assets suspected to be the result of criminal actions; or d. Financial transactions requested by the Center of Financial Reporting and Analysis.

4.	**The Result of Criminal Actions:** The definition of Results of Criminal Action are assets obtained from criminal actions such as: corruption; bribery; narcotics; psychotropic; labor smuggling; migrant smuggling; in banking sector; in capital market sector; in insurance sector; custom; human trafficking; illegal guns trafficking; kidnapping; terrorism; theft; embezzlement; scam; counterfeiting money; gambling; prostitution; in tax sector; in forestry sector; in environmental sector; in marine and fishery sector; or other criminal actions that are punishable for 4 years imprisonment or more, committed in Indonesian territories or the crimes are committed outside the territory of the Republic of Indonesia but such actions are crimes according to the Indonesian Law.
5.	**Reporting Parties include:** a. Financial service providers: bank, financing company, insurance company and insurance broker, financial institution for pension fund, stock company, investment manager, custodian, trustee agent, postal service as demand deposit service provider, foreign exchange trader, operator of card payment, operator of e-money and/or e-wallet, cooperatives that implement credit, pawnbroker, company operating in commodity futures trading sector, or operator of money delivery. b. Other supplier of goods and/or services: property company/agent, motor vehicle seller, diamond jewelry/gold seller, artwork and antique sellers, or auction house.
6.	**Implementation of Know Your Customer Principle:** Reporting parties should implement Know Your Customer Principle, which is implemented in each Supervisory and Management Institution. The requirement to implement Know Your Customer principle should be carried out when: a. Having a business relation with Customer; b. There is a financial transaction in Rupiah and/or foreign currency that is worth at least Rp.100 million; c. There is a suspicious financial transaction (TKM) that is related to money laundering and terrorism funding; or d. Reporting parties doubt the accuracy of information reported by Service Users. Know Your Customer Principle includes: a. Service User identification; b. Service User verification; c. Service User transaction supervision. Anyone that makes a transaction with the reporting parties should submit true identity and information needed by the reporting parties, which at the very least contains identity, source of fund, and purpose of transaction, by filling out a form provided by the reporting parties and attaching the supporting documents.

7.	**Requirement to report by Financial Service Provider :** 1. Financial Service Provider (PJK) should submit a report to PPATK, containing the following matters: a. Suspicious financial transactions; b. Cash transaction amounting to minimum Rp.500 million or using foreign currencies of an equal value, made in one transaction or several transaction within one workday, and/or c. Financial transaction of fund transfer to and from foreign country. 2. Suspicious Transaction Report (STR) should be submitted within 3 business days at the latest since the date the PJK found out about such transactions. 3. Cash Transaction Report should be submitted within 14 business days at the latest, starting from the date of the transaction. 4. Report requirement for bank PJK does not apply to bank confidentiality regulations.
8.	**Implementation of Reporting Requirement:** 1. The implementation of reporting requirement by reporting parties does not apply to regulation of confidentiality for the related authorities. 2. Unless there was an element of authority abuse; the reporting parties, officials, and employees cannot be prosecuted in criminal or civil lawsuits on the implementation of reporting requirement according to this law.
9.	**Protection for Reporting Parties and Witness:** 1. PPATK officials and employees, investigators, general prosecutors, or judges, should keep the confidentiality of the reporting parties and witnesses. 2. Anyone who reports alleged money laundering actions should be provided with special protection by the Government from the possibilities of threat that might endanger the person, his life and/or his assets, including his family. 3. Anyone who testifies in criminal actions of money laundering should be provided with special protection by the Government from the possibilities of threat that might endanger the person, his life and/or his assets, including his family. 4. Reporting parties and/or witnesses cannot be prosecuted in criminal or civil lawsuits on their reports and/or testimony. 5. Witness who provides false information under oath, will be prosecuted according to The Book of Criminal Law .
10.	Compliance supervisor on reporting requirement for reporting parties is implemented by The Supervisory and Management Agency and/or PPATK.

	In the event compliance supervision on reporting requirement is not implemented or there is no Supervisory and Management Agency, the task would be carried out by PPATK.
11.	In the event Supervisory and Management Agency found Suspicious Financial Transaction that was not reported by the reporting parties to PPATK, the Supervisory and Management Agency should submit the findings to PPATK.
12.	Supervisory and Management Agency should inform PPATK about each activity and transaction that is known or alleged directly or indirectly made with the intention of money laundering.
13.	Financial Service Provider should terminate business relation with customers if: a. The concerned customer refuses to follow Know Your Customer Principle; or b. The financial service provider doubts the accuracy of information given by the customer. The financial service provider should report to PPATK about the termination of business relation as a suspicious financial transaction.
14.	Financial service provider may postpone the transaction for a maximum of 5 business days, starting from the date of the transaction delay. Such delay is implemented if the customer: a. Makes suspicious transaction using assets that resulted from criminal actions (as referred to above); b. Has an account to deposit assets that comes from criminal actions (as referred to above); c. Known and/or alleged to use false documentation. Implementation of transaction delay is recorded in the statement of transaction delay. Financial service provider should report the statement of transaction delay to PPATK by attaching the statement of transaction delay within 24 hours from the time the delay was made. PPATK should reconfirm the implementation of transaction delay in line with RI Law No. 8 Year 2010. In the case the transaction delay has been implemented up to the fifth day, the financial service provider should decide whether to continue processing the transaction or to reject it.

C. Types of Contract in Sharia Banking Activities

Contract	Description
Mudharabah	Business cooperation contract between the first party (malik, shahibul mal, or Sharia Bank) who provides the entire capital and the second party ('amil, mudharib, or Customer) who operates as fund manager by sharing business profit in accordance with the written agreement in the contract, while loss shall be totally borne by the Sharia Bank save the second party makes intentional mistake, negligence or violation of the contract.
Musyarakah	Cooperation contract between two parties or more in a certain business activity, for which each party provides a portion of fund under a condition that the profit will be shared in accordance to the agreement, while loss shall be borne in accordance with the respective portion of fund.
Murabahah	Financing contract on certain goods by confirming the purchase price to the buyer and the buyer pays a higher price as agreed profit.
Salam	Financing contract on certain goods by pre-order and pre-payment under mutually agreed conditions.
Istishna'	Financing contract on made-to-order goods under certain criteria and conditions that is mutually agreed by the buyer (mustashni') and the seller or maker (shani').
Ijarah	Contract on supplying fund in order to transfer the right to use or benefit of goods or services based on leasing transaction, without transferring ownership of the related goods.
Ijarah Muntahiyah Bit Tamlik (IMBT)	Contract on providing fund in order to transfer the right of use or benefit of goods or services based on leasing transaction, with an option to transfer the ownership of the related goods.
Qardh	Contract on lending fund to Customer under the condition that the Customer is obligated to return the fund within the mutually agreed period of time.
Wadi'ah	Contract on depositing goods or money between the party who owns the goods or money and the party who is entrusted to guarantee the safety, security and the wholeness of the goods or money.


OTORITAS JASA KEUANGAN

CHAPTER VIII

LIST OF REGULATION

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VIII. LIST OF REGULATION

		Topic	Regulation Number
A.	**Regulation of Institution, Management and Ownership of Bank**		
	1.	- Establishment of Conventional Commercial Banks - Ownership of Conventional Commercial Bank - Management of Conventional Commercial Bank - Opening of Conventional Commercial Bank Branch Offices - Closing of Conventional Commercial Bank Branch Offices - Business License Revocation by Shareholders' Request (Self Liquidation)	- PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Commercial Banks. - PBI No.13/27/PBI/2011 dated 28 December 2011 concerning Amendment on PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Commercial Bank. - SE BI No.14/4/DPNP dated 25 January 2012 concerning Commercial Banks. - PBI No.14/8/PBI/2012 dated 13 July 2012 concerning Commercial Bank Shareholding. - PBI No.14/26/PBI/2012 dated 27 December 2012 concerning Business Activities and Office Network Based on Bank Core Capital.
	2.	- Establishment of Sharia Commercial Banks (BUS) - Ownership of BUS - Management of BUS - Opening of BUS Branch Offices - Closing of BUS Branch Offices	- PBI No.11/3/PBI/2009 dated 29 January 2009 concerning Sharia Commercial Banks. - PBI No.15/13/PBI/2013 dated 24 December 2013 concerning Amendment to PBI No.11/3/PBI/2009 on Sharia Commercial Banks. Amending PBI No.11/3/PBI/2009; Revoking PBI Article 26 paragraph (1) No.14/6/PBI/2012.
	3.	- Establishment of Conventional Rural Bank (BPR) - Ownership of Conventional BPR - Management of Conventional BPR - Opening of Conventional BPR Branch Offices - Closing of Conventional BPR Branch Offices	- PBI No.8/26/PBI/2006 dated 8 November 2006 concerning Rural Bank (BPR).
	4.	- Establishment of BPRS - Ownership of BPRS	- PBI No.11/23/PBI/2009 dated 1 July 2009 concerning Sharia Rural Banks.

		Topic	Regulation Number
		- Management of BPRS - Opening of BPRS Branch Offices - Closing of BPRS Branch Offices	
	5.	Sole Proprietorship on Indonesian Banking	- PBI No.14/24/PBI/2012 date 26 December 2012 concerning Sole Proprietorship on Indonesian Banking. - SE BI No.15/2/DPNP dated 4 February 2013 concerning Sole Proprietorship in Indonesian Banking. Revoking SE BI No.9/32/DPNP dated 12 December 2007.
	6.	- Opening of Foreign Bank Branch Offices - Opening of Foreign Bank Representative Offices	- SK DIR No.32/37/KEP/DIR dated 12 May 1999 concerning Requirements and Procedures of Opening of Branch Office (KC), Sub-branch Office (KCP) and Representative Office (KPW) of Banks domiciled abroad. - PBI No.8/4/PBI/2006 dated 30 January 2006 concerning the Implementation of Good Corporate Governance for Commercial Bank.
	7.	Opening of Sharia Business Units (UUS)	- PBI No.11/10/PBI/2009 dated 19 March 2009 concerning Sharia Business Unit. - PBI No.15/14/PBI/2013 dated 24 December 2013 concerning Amendment to PBI No.11/10/PBI/2009 on Sharia Business Units (UUS). Amending PBI No.11/10/PBI/2009.
	8.	Sharia Supervisory Board (DPS)	- PBI No.11/3/PBI/2009 dated 29 January 2009 concerning Sharia Commercial Bank. - PBI No.11/23/PBI/2009 dated 1 July 2009 concerning Sharia Rural Bank. - PBI No.11/10/PBI/2009 concerning Sharia Business Unit. - SE BI No.15/22/DPbS dated 27 June 2013 concerning

		Topic	Regulation Number
			Implementation Guidelines on Duties and Responsibilities of Sharia Supervisory Board of BPRS. Revoking SE BI No.8/19/DPbS dated 24 August 2006. - PBI No.15/14/PBI/2013 dated 24 December 2013 concerning Amendment to PBI No.11/10/PBI/2009 on Sharia Business Units (UUS). Amending PBI No.11/10/PBI/2009.
	9.	Sharia Banking Committee	- PBI No.10/32/PBI/2008 dated 20 November 2008 concerning Sharia Banking Committee.
	10.	Utilization of Foreign Workers (TKA) and Transfer Knowledge Program in Banking Sector	- PBI No.9/8/PBI/2007 dated 6 Juni 2007 concerning Utilization of Foreign Staff and Transfer Knowledge Program in Banking Sector.
	11.	Fit and Proper Test in Commercial Banks and Rural Banks	- PBI No.12/23/PBI/2010 dated 29 December 2010 concerning Fit & Proper Test. - PBI No.6/23/PBI/2004 dated 9 Agustus 2004 concerning Fit and Proper Test of Rural Banks. - SE BI No.13/8/DPNP dated 28 March 2011 concerning Fit and Proper Test. - SE BI No.13/26/DPNP dated 30 November 2011 concerning Revision on SE No.13/8/DPNP dated 28 March 2011 concerning Fit and Proper Test. - PBI No.14/6/PBI/2012 dated 18 June 2012 concerning Fit and Proper Test of Sharia Bank and Sharia Business Unit. - PBI No.14/9/PBI/2012 dated 26 July 2012 concerning Fit and Proper Test of BPR. - SE BI No.14/25/DPbS concerning Fit and Proper Test of Sharia Bank and Sharia Business Unit. - SE BI No.14/36/DKBU dated 21 December 2012 concerning Fit

		Topic	Regulation Number
			and Proper Test of BPR. - PBI No.15/13/PBI/2013 dated 24 December 2013 concerning Amendment to PBI No.11/3/PBI/2009 on Sharia Commercial Banks. Amending PBI No.11/3/PBI/2009; Revoking Provision in PBI Article 26 paragraph (1) No.14/6/PBI/2012. - SE BI No.15/45/DPNP dated 18 November 2013 concerning Amendment to SE BI No.14/36/DKBU.
	12.	Purchase of Commercial Bank Shares	- SK DIR BI No.32/50/KEP/DIR dated 14 May 1999 concerning Requirements and Procedures of Purchase of Commercial Bank Shares. - PBI No.14/8/PBI/2012 dated 13 July 2012 concerning Commercial Bank Shareholding. - SE BI No.15/4/DPNP dated 6 March 2013 concerning Shares Ownership of Commercial Banks.
	13.	Incentive for Banking Consolidation	- PBI No.8/17/PBI/2006 concerning Incentive In The Context of Banking Consolidation. - PBI No.9/12/PBI/2007 dated 21 September 2007 concerning Amendment on PBI No.8/17/PBI/2006 concerning Incentive in the Context of Banking Consolidation. - SE BI No.9/20/DPNP dated 24 September 2007 concerning Incentive in the Context of Banking Consolidation.
	14.	Merger, Consolidation and Acquisition of Commercial Bank	- SK DIR No.32/51/KEP/DIR dated 14 May 1999 concerning Requirements and Procedures of Merger, Consolidation and Acquisition of Commercial Bank.
	15.	Merger, Consolidation and Acquisition of Rural Bank	- SK DIR No.32/52/KEP/DIR dated 14 May 1999 concerning Requirements and Procedures

	Topic	Regulation Number
		of Merger, Consolidation and Acquisition of Rural Bank.
16.	Change of Name and Logo of Banks	- PBI No.11/3/PBI/2009 dated 29 January 2009 concerning Sharia Commercial Bank. - PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Commercial Bank. - PBI No.13/27/PBI/2011 dated 28 December 2011 concerning Amendment of PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Commercial Bank. - SE BI No.14/4/DPNP dated 25 January 2012 concerning Commercial Bank.
17.	Conversion of Conventional Banks Bussines Activities to Sharia Banks	- PBI No.11/15/PBI/2009 dated 29 April 2009 concerning Conversion of Conventional Bank Business Activities to Sharia Banks.
18.	Requirements for Conversion of Non-Foreign Exchange Commercial Banks to Foreign Exchange Commercial Banks	- SK Dir No.28/64/KEP/DIR dated 7 September 1995 concerning Requirements for Conversion of Non-Foreign Exchange Commercial Banks to Foreign Exchange Commercial Banks. - PBI No.15/12/PBI/2013 dated 12 December 2013 concerning Capital Adequacy Requirement for Commercial Banks.
19.	Conversion of Business License of Commercial Bank to Rural Bank for Consolidation Purposes	- PBI No.10/9/PBI/2008 dated 22 February 2008 concerning Conversion of Business License of Commercial Banks to Rural Banks for Consolidation Purposes.
20.	Determination on the Status and Follow Up of Bank Supervision	- SE BI No.15/2/DPNP dated 4 February 2013 concerning Sole Proprietorship on Indonesian Banking. Revoking SE BI No.9/32/DPNP dated 12 December 2007. - PBI No.15/2/PBI/2013 dated 20 May 2013 concerning Determination on Status and

		Topic	Regulation Number
			Follow-up of Conventional Commercial Banks Supervision. Revoking PBI No.13/3/PBI/2011 dated 17 January 2011.
	21.	Follow Up Handling of Rural Bank Under Special Supervision Status (DPK)	- PBI No.11/20/PBI/2009 dated 4 June 2009 concerning Follow Up Handling of Rural Bank Under Special Supervision Status (DPK).
	22.	Follow Up Handling of Sharia Rural Bank Under Special Supervision Status	- PBI No.13/6/PBI/2011 dated 24 January 2011 concerning Follow Up Handling of Sharia Rural Bank Under Special Supervision Status.
	23.	Liquidation of Commercial Banks	- Act No.24 Year 2004 concerning LPS.
	24.	Liquidation of Rural Bank	- SK DIR No.32/54/KEP/DIR dated 14 May 1999 concerning Procedures of Business License Revocation, Dissolution and Liquidation of Rural Bank.
	25.	Business License Revocation of Bank Branch Offices Domiciled Overseas	- SK DIR No.32/53/KEP/DIR concerning Procedures of Business License Revocation, Dissolution and Liquidation of Rural Banks. - PP No.25 year 1999 dated 3 May 1999 concerning Business License Revocation, Dissolution and Liquidation of Banks. - PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Commercial Banks.
B.	**Regulation on Business Activities and Several Products of Banks**		
	1.	Foreign Exchange Traders (PVA) for Banks	- PBI No.12/3/PBI/2010 dated 1 March 2010 concerning Application of Anti Money Laundering and Prevention of Terrorism Funding Programs in Non-Bank Forex Traders. - PBI No.12/22/PBI/2010 dated 22 December 2010 concerning Forex Traders. - SE BI No.15/27/DPNP dated 19 July 2013 concerning Commercial

		Topic	Regulation Number
			Banks Requirements to Conduct Business Activities in Foreign Exchange. Revoking SE BI No.28/4/UPPB.
	2.	Purchase of Foreign Currency Against Rupiah to Banks	- PBI No.10/28/PBI/2008 dated 12 November 2008 concerning Purchase of Foreign Currencies Against Rupiah to Banks.
	3.	Derivative Transactions	- PBI No.7/31/PBI/2005 dated 13 September 2005 concerning Derivative Transactions. - PBI No.13/8/PBI/2011 dated 4 February 2011 concerning Daily Report of Commercial Banks. - PBI No.10/38/PBI/2008 dated 16 December 2008 concerning Amendment of PBI No.7/31/PBI/2005 dated 13 September 2005 concerning Derivative Transactions.
	4.	Commercial Paper (CP)	- SK DIR No.28/52/KEP/DIR dated 11 August 1995 concerning Requirements on the Issuance and Trading of Commercial Paper (CP)/Securities Through Commercial Banks in Indonesia.
	5.	- Deposits - Demand Deposits (Giro) - Time Deposits - Certificates of Deposits - Savings	- Act No. 10 Year 1998 concerning Banking System.
	6.	Products of Sharia Banks and Sharia Business Units	- Act No. 21 Year 2008 concerning Sharia Banking. - PBI No.10/17/PBI/2008 dated 25 September 2008 concerning Products of Sharia Banks and Sharia Business Units. - SE BI No.14/7/DPbS dated 29 February 2012 concerning Qardh Product with Gold Collateral for Sharia Banks and Sharia Business Units. - SE BI No.14/16/DPbS dated 31 May

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			2012 concerning Product of Gold Ownership Financing for Sharia Banks and Sharia Business Units.
	7.	Sharia Principle in the Activities of Sharia Banks' services on Funds Collection and Distribution	- Act No. 21 Tahun 2008 concerning Sharia Banking. - PBI No.9/19/PBI/2007 dated 17 December 2007 concerning the Implementation of Sharia Principle in the Activities of Funds Collection and Distribution, and Provision of Sharia Bank Services. - PBI No.10/16/PBI/2008 dated 25 September 2008 concerning the Amendment of PBI No.9/19/PBI/2007 on the Implementation of Sharia Principle in the Activities of Funds Collection and Distribution, and Provision of Sharia Bank Services.
	8.	Bank Activities at Capital Market	- SE BI No.14/13/DPNP dated 9 April 2012 concerning Revocation of SE BI No.23/15/BPPP dated 28 February 1991 concerning Bank Activities at Capital Market.
	9.	Bank Business Activities in the Form of Storage Management (Trust)	- PBI No.14/17/PBI/2012 dated 23 November 2012 concerning Bank Business Activities in the Form of Storage Management (Trust). - SE BI No. 15/10/DPNP dated 28 March 2013 concerning Trust Activities by Commercial Bank Management Submitted to BI.
	10.	Application of Policy on the Financing Product of Ownership for Housing and Motor Vehicle for Sharia Commercial Banks and Sharia Business Units	- SE BI No.15/40/DKMP dated 24 September 2013 concerning Application for Risk Management on Bank Conducting Lending or Financing of Housing Ownership, Credit for Consumption Financing with Property Collateral and Credit or Financing for Motor Vehicles. Revoking SE BI No.14/10/DPNP and No.14/33/DPbS.

		Topic	Regulation Number
C.	**Prudential Regulation**		
	1.	Core Capital of Commercial Banks	- PBI No.7/15/PBI/2005 concerning Minimum Core Capital Total of Commercial Banks. - PBI No.9/16/PBI/2007 dated 3 December 2007 concerning Amendment of PBI No.7/15/PBI/2005 on Minimum Core Capital Total of Commercial Banks. - PBI No. 14/26/PBI/2012 dated 27 December 2012 concerning Business Activities and Office Network Based on Bank Core Capital. - SE BI No.15/6/DPNP dated 8 March 2013 concerning Commercial Bank Business Activities Based on Core Capital. Revoking SE BI No.11/35/DPNP. - SE BI No.15/7/DPNP dated 8 March 2013 concerning the Opening of Office Network of Commercial Banks Core Capital. - SE BI No.15/8/DPbS dated 27 March 2013 concerning the Opening of Office Network of BUS and UUS Core Capital.
	2.	Capital Adequacy Requirement (KPMM) of Conventional Commercial Banks	- SE BI No.9/31/DPNP dated 12 December 2007 concerning Guidelines on Internal Model Utilization in CAR Calculation of Commercial Banks by Taking Into Account Market Risks. - SE BI No.9/33/DPNP dated 18 December 2007 as last amended by SE BI No.14/21/DPNP dated 18 July 2012 concerning Guidelines on Standard Method Utilization in the CAR Calculation of Commercial Banks by Taking Into Account Market Risks. - PBI No.10/15/PBI/2008 dated 24 September 2008 concerning Capital Adequacy Requirement of Commercial Bank.

		Topic	Regulation Number
			- SE BI No.14/37/DPNP dated 27 December 2012 concerning CAR according to Risk Profiles and fulfillment of Capital Equivalency Maintenated Assets (CEMA). - PBI No.14/18/PBI/2012 dated 28 November 2012 concerning Capital Adequacy Requirement. - PBI No.15/12/PBI/2013 dated 12 December 2013 concerning Minimum Capital Adequacy Requirement (KPMM) of Commercial Banks. Revoking Article 7 paragraph (1) PBI No.14/18/PBI/2012; Revoking PBI No.14/18/PBI/2012 as of 1 January 2015.
	3.	Minimum Capital Adequacy Requirement (KPMM) for BUS	- PBI No.7/13/PBI/2005 concerning Minimum Capital Adequacy Requirement (KPMM) for Commercial Banks Based on Sharia Principles. - PBI No.8/7/PBI/2006 dated 27 February 2006 concerning amendment of PBI No.7/13/PBI/2005 on (KPMM) for Commercial Banks Based on Sharia Principles.
	4.	Minimum Capital Adequacy Requirement (KPMM) for BPR	- PBI No.8/18/PBI/2006 dated 5 October 2006 concerning (KPMM) for Rural Banks.
	5.	Minimum Capital Adequacy Requirement (KPMM) for BPRS	- PBI No.8/22/PBI/2006 dated 5 October 2006 concerning (KPMM) for Sharia Rural Banks based on Sharia Principles.
	6.	Net Open Position (PDN)	- PBI No.5/13/PBI/2003 dated 17 July 2003 concerning Net Open Position of Commercial Banks. - PBI No.6/20/PBI/2004 dated 15 July 2004 concerning Amendment of PBI No.5/13/PBI/2003 dated 17 July 2003 concerning Net Open Position of Commercial Banks.

	Topic	Regulation Number
		- PBI No.7/37/PBI/2005 dated 30 September 2005 concerning Second Amendment of PBI No.5/13/PBI/2003 dated 17 July 2003 concerning Net Open Position of Commercial Banks. - PBI No.12/10/PBI/2010 dated 1 July 2010 concerning Third Amendment of PBI No.5/13/PBI/2003 dated 17 July 2003 concerning Net Open Position of Commercial Banks.
7.	Maximum Limit of Credit Provision (BMPK)	- PBI No.7/3/PBI/2005 dated 20 January 2005 concerning Maximum Limit of Credit Provision of Commercial Banks. - PBI No.8/13/PBI/2006 dated 5 October 2006 concerning amendment of PBI No.7/3/PBI/2005 dated 20 January 2005 concerning Maximum Limit of Credit Provision of Commercial Banks. - PBI No.11/13/PBI/2009 dated 17 April 2009 concerning Maximum Limit of Credit Provision of Rural Banks. - PBI No.13/5/PBI/2011 dated 24 January 2011 concerning Maximum Limit of Funds Distribution of Sharia Rural Banks.
8.	- Assets Quality of Commercial Banks - Allowance for Earning Assets (PPAP) of Conventional Commercial Bank	- PBI No.14/15/PBI/2012 concerning Assessment of Asset Quality of Commercial Banks. - SE BI No.15/28/DPNP dated 31 July 2013 concerning Assessment.
9.	- Earning Assets Quality of BPR - Allowance for Earning Assets (PPAP) of Conventional Rural Banks	- PBI No 8/19/PBI/2006 dated 5 October 2006 concerning Earning Assets Quality and Establishment of Allowance for Earning Assets of Rural Banks. - PBI No. 13/26/PBI/2011 dated 28 December 2011 concerning Amendment to PBI No. 8/19/

		Topic	Regulation Number
			PBI/2006 concerning Earning Assets Quality and Establishment of Allowance for Earning Assets of Rural Banks.
	10.	- Assets Quality of Sharia Commercial Banks - Allowance for Assets (PPA) of Sharia Commercial Banks	- PBI No.13/13/PBI/2011 dated 24 March 2011 concerning Assessment of Assets Quality for Sharia Commercial Banks and Sharia Business Units.
	11.	- Assets Quality of BPRS - Allowance for Assets (PPA) of BPRS	- PBI No.13/14/PBI/2011 dated 24 March 2011 concerning Assessment of Assets Quality for BPRS.
	12.	Financing Restructuring for Sharia Banks and UUS	- PBI No.10/18/PBI/2008 dated 25 September 2008 concerning Financing Restructuring for Sharia Banks and Sharia Business Units. - PBI No.13/9/PBI/2011 dated 8 February 2011 concerning the Amendment of PBI No.10/18/PBI/2008 dated 25 September 2008 on Financing Restructuring for Sharia Banks and Sharia Business Units.
	13.	Statutory Reserves (GWM) for Conventional Commercial Banks	- PBI No.10/19/PBI/2008 dated 14 October 2008 concerning Statutory Reserves of Commercial Banks in Bank Indonesia in Rupiah and Foreign Currencies. - PBI No.10/25/PBI/2008 dated 23 October 2008 concerning the Amendment of PBI No.10/19/PBI/2008 dated 14 October 2008 concerning Statutory Reserves of Commercial Banks in Bank Indonesia in Rupiah and Foreign Currencies. - PBI No.15/15/PBI/2013 dated 24 December 2013 concerning Statutory Reserves of Commercial Banks in Rupiah and Foreign Currencies for Conventional Commercial Banks. Revoking PBI No.12/19/PBI/2010; PBI No.13/10/PBI/2011 and PBI

		Topic	Regulation Number
			No.15/7/PBI/2013. - SE BI No.15/41/DKMP dated 1 October 2013 concerning Calculation of Secondary Statutory Reserves and Statutory Reserves Based on Loan to Deposit Ratio in Rupiah. Revoking SE BI No.11/29/DPNP.
	14.	Statutory Reserves for Sharia Commercial Banks	- PBI No.15/16/PBI/2013 dated 24 December 2013 concerning Statutory Reserves in Rupiah and Foreign Currencies for Sharia Commercial Banks and Sharia Business Units. Revoking PBI No. 6/21/PBI/2004, PBI No.8/23/PBI/2006 and PBI No.10/23/PBI/2008.
	15.	Transparency of Financial Condition of Banks	- PBI No.3/22/PBI/2001 dated 13 December 2001 concerning Transparency of Banks Financial Condition. - PBI No.7/50/PBI/2005 dated 29 November 2005 concerning the Amendment of PBI No.3/22/PBI/2001 dated 13 December 2001 on Transparency of Banks Financial Condition. - PBI No.14/14/PBI/2012 dated 18 October 2012 concerning Transparency and Publication of Bank Reports (amending PBI No.3/22/PBI/2001 dated 13 December 2001 on Transparency of Banks Financial Condition).
	16.	Transparency of Financial Condition of BPR	- PBI No.15/3/PBI/2013 dated 21 May 2013 concerning Financial Condition Transparency of Rural Banks. Revoking PBI No.8/20/PBI/2006 dated 5 October 2006.
	17.	Transparency of Financial Condition of BPRS	- PBI No.7/47/PBI/2005 dated 14 November 2005 concerning Transparency of Financial Condition of Sharia Rural Banks.

	Topic	Regulation Number
18.	Transparency of Bank Product Information & Utilization of Customers Personal Data	- PBI No.7/6/PBI/2005 dated 20 January 2005 concerning Transparency of Bank Product Information & Utilization of Customers Personal Data. - SE No.7/25/DPNP dated 18 July 2005 concerning Transparency of Bank Product Information & Utilization of Customers Personal Data.
19.	Prudential Principle in the Investment Activities of Commercial Banks	- PBI No.15/11/PBI/2013 dated 22 September 2013 concerning Prudential Principle in Capital Investment Activities. Revoking PBI No.5/10/PBI/2003.
20.	Prudential Principle in Assets Securitization Activities	- PBI No.7/4/PBI/2005 dated 20 January 2005 concerning Prudential Principle in Assets Securitization Activities for Commercial Banks.
21.	Prudential Principle in Implementing Structured Product Activities for Commercial Banks	- PBI No.11/26/PBI/2009 dated 1 July 2009 concerning Prudential Principle in Implementing Structured Product Activities for Commercial Banks.
22.	Prudential Principle in Implementing Agency Activities of Overseas Financial Product by Commercial Banks	- PBI No.12/9/PBI/2010 dated 29 June 2010 concerning Prudential Principle in implementing Agency Activities of Overseas Financial Product by Commercial Banks .
23.	Prudential Principle for Commercial Banks handing over parts of Job Implementation to Other Parties	- PBI No.13/25/PBI/2011 dated 9 December 2011 concerning Prudential Principle for Commercial Banks Handing Over Parts of Job Implementation to Other Parties. - SE BI No.14/20/DPNP dated 27 June 2012 concerning Prudential Principle for Commercial Banks Handing Over parts of Job Implementation to Other Parties.

		Topic	Regulation Number
	24.	Application of Anti Fraud Strategy for Commercial Banks	- SE BI No.13/28/DPNP dated 9 December 2011 concerning Application of Anti Fraud Strategy for Commercial Banks.
	25.	Guidelines on ATMR Calculation According to Risks for Credit Risk Using Standard Approach	- SE BI No.13/6/DPNP dated 18 February 2011 concerning Guidelines on ATMR Calculation According to Risks for Credit Risk Using Standard Approach.
D.	**Regulation on The Assessment of Bank Soundness Level**		
	1.	Soundness Level Assessment of Commercial Banks	- PBI No.13/1/PBI/2011 dated 5 January 2011 concerning Soundness Level Assesment of Commercial Banks. - SE BI No.13/24/DPNP dated 25 October 2011 concerning Soundness Level Assesment of Commercial Banks. - SE BI No.15/15/DPNP dated 29 April 2013 concerning Implementation of Good Corporate Governance for Commercial Banks. Revoking SE BI No.9/12/DPNP dated 30 May 2007 and attachment of SE BI No.13/24/DPNP.
	2.	Soundness Level Assessment of Sharia Commercial Banks (BUS)	- PBI No.9/1/PBI/2007 dated 24 January 2007 concerning the System of Soundness Level Assessment of Commercial Banks Based on Sharia Principle.
	3.	Soundness Level Assessment of Rural Banks	- SK Dir.No.30/12/KEP/DIR dated 30 April 1997 concerning Procedures of BPR Soundness Level Assessment. - PBI No.9/17/PBI/2007 dated 4 December 2007 concerning the System of Soundness Level Assessment of Rural Bank based on Sharia Principles. - SE BI No.30/3/UPPB dated 30 April 1997 concerning Procedures of BPR Soundness Level Assessment.

		Topic	Regulation Number
	4.	Soundness Level Assessment of Sharia Rural Banks	- PBI No.9/17/PBI/2007 dated 4 December 2007 concerning the System of Soundness Level Assessment of Rural Bank based on Sharia Principles.
E.	**Regulation on Self Regulatory Banking (SRB)**		
	1.	Guidelines on Formulation of Policy on Bank Credit (PPKPB)	- SK DIR No.27/162/KEP/DIR dated 31 March 1995 concerning Requirements for the Formulation and Implementation of Policy on Bank Credits for Commercial Banks.
	2.	Implementation of Good Corporate Governance (GCG) for Commercial Banks	- PBI No.8/4/PBI/2006 dated 30 January 2006 concerning the Implementation of Good Corporate Governance (GCG) for Commercial Banks. - PBI No.8/14/PBI/2006 dated 5 October 2006 concerning the Amendment of PBI No.8/4/PBI/2006 dated 30 January 2006 concerning the Implementation of Good Corporate Governance (GCG) for Commercial Banks. - SE BI No.15/15/DPNP dated 29 April 2013 concerning Implementation of Good Corporate Governance for Commercial Banks. Revoking SE BI No.9/12/DPNP dated 30 May 2007 and attachment of SE BI No.13/24/DPNP dated 25 October 2011.
	3.	Implementation of GCG For Sharia Commercial Banks and Sharia Business Units	- PBI No.11/33/PBI/2009 dated 7 December 2009 concerning the Implementation of Good Corporate Governance For Sharia Commercial Banks and Sharia Business Units.
	4.	Internal Audit Work Unit (SKAI) of Commercial Banks	- PBI No.1/6/PBI/1999 dated 20 September 1999 concerning the ssignment of Compliance Director and Application of Internal Audit Function Implementation Standard of Commercial Banks.

		Topic	Regulation Number
			- PBI No.13/2/PBI/2011 dated 12 January 2011 concerning the Implementation of Compliance Function of Commercial Banks.
	5.	Implementation of Compliance Function of Commercial Banks	- PBI No.13/2/PBI/2011 dated 12 January 2011 concerning the Implementation of Compliance Function of Commercial Banks.
	6.	Bank Business Plan	- PBI No.12/21/PBI/2010 dated 19 October 2010 concerning Bank Business Plan.
	7.	Application of Risk Management in the Utilization of Information Technology by Commercial Banks	- PBI No.9/15/PBI/2007 dated 30 November 2007 concerning the Application of Risk Management in the Utilization of Information Technology by Commercial Banks.
	8.	Application of Risk Management for Commercial Banks	- PBI No.5/8/PBI/2003 dated 19 May 2003 concerning Application of Risk Management for Commercial Banks. - PBI No.11/25/PBI/2009 dated 1 July 2009 concerning the Amendment of PBI No.5/8/PBI/2003 dated 19 May 2003 concerning the Application of Risk Management for Commercial Banks. - SE BI No.5/21/DPNP dated 29 September 2003 concerning Application of Risk Management for Commercial Banks. - SE BI No.13/23/DPNP dated 25 October 2011 concerning the Amendment of SE BI No.5/21/DPNP dated 29 September 2003 concerning Application of Risk Management for Commercial Banks. - PBI No.13/23/PBI/2011 dated 2 November 2011 concerning Application of Risk Management for Sharia Commercial Banks and Sharia Business Units.

		Topic	Regulation Number
	9.	Application of Consolidated Risk Management for Banks Conducting Control to Subsidiaries	- PBI No.8/6/PBI/2006 dated 30 January 2006 concerning Application of Consolidated Risk Management for Banks Conducting Control to Subsidiaries.
	10.	Application of Risk Management in Internet Banking	- SE BI No.6/18/DPNP dated 20 April 2004 concerning Implementation of Risk Management Activities Through Internet Banking Services. - PBI No.9/15/PBI/2007 dated 30 November 2007 concerning Application of Risk Management in the Utilization of Information Technology by Commercial Banks.
	11.	Application of Risk Management to Banks Conducting Activities of Marketing Cooperation with Insurance Companies / Bancassurance	- SE BI No.6/18/DPNP dated 20 April 2004 concerning Implementation of Risk Management Activities Through Internet Banking Services. - PBI No.9/15/PBI/2007 dated 30 November 2007 concerning Application of Risk Management in the Utilization of Information Technology by Commercial Banks.
	12.	Application of Risk Management to Bank Conducting Activities Related to Mutual Funds	- SE BI No.7/19/DPNP dated 14 June 2005 concerning Application of Risk Management to Bank Conducting Activities Related to Mutual Funds. - SE BI No.11/36/DPNP dated 31 December 2009 concerning the Amendment of SE BI No.7/19/ DPNP dated 14 June 2005 concerning Application of Risk Management to Bank Conducting Activities Related to Mutual Funds.
	13.	Risk Management Certification for Management and Officers of Commercial Banks	- PBI No.11/19/PBI/2009 dated 4 June 2009 concerning Risk Management Certification for Management and Officers of Commercial Banks. - PBI No.12/7/PBI/2010 dated 19

	Topic	Regulation Number
		April/2010 concerning the Amendment of PBI No.11/19/PBI/2009 dated 4 June 2009 concerning Risk Management Certification for Management and Officers of Commercial Banks.
14.	Application of Risk Management to Commercial Banks Conducting Customer Service Excellence (LNP)	- SE BI No.13/29/DPNP dated 9 December 2011 concerning the Application of Risk Management to Commercial Banks Conducting Customer Service Excellence (LNP).
15.	Application of Risk Management to Banks Conducting Activities of Loan Provisions for Motor Vehicles and Housing Ownership	- SE BI No.15/40/DKMP dated 24 September 2013 concerning Application of Risk Management to Banks Conducting Activities of Lending or Financing of Housing Ownership, Credit for Consumption Financing with Property Collateral and Credit or Financing of Motor Vehicles. Revoking SE BI No.14/10/DPNP and No.14/33/DPbS.
16.	Application of Risk Management to Sharia Banks	- PBI No.13/23/PBI/2011 dated 2 November 2011 concerning Application of Risk Management to Sharia Banks and Sharia Business Units.
17.	Application of Anti Money Laundering and Prevention of Terrorism Funding Programs for Commercial Banks	- PBI No.14/27/PBI/2012 dated 28 December 2012 concerning the Application of Anti Money Laundering and Prevention of Terrorism Funding Programs for Commercial Banks. - SE BI No.15/21/DPNP dated 14 June 2013 concerning Application of Anti Money Laundering and Prevention of Terrorism Funding Programs for Commercial Banks. Revoking SE BI No.11/31/DPNP.
18.	Application of Anti Money Laundering and Prevention of Terrorism Funding Programs for BPR and BPRS	- PBI No.12/20/PBI/2010 dated 4 October 2010 concerning the Application of Anti Money Laundering and Prevention of

		Topic	Regulation Number
			Terrorism Funding Programs for Rural Banks and Sharia Rural Banks.
	19.	Settlement of Customers Complaints	- PBI No.7/7/PBI/2005 dated 20 January 2005 concerning Settlements of Customers' Complaints. - SE BI No.7/24/DPNP dated 18 July 2005 concerning Settlements of Customers' Complaints. - PBI No.10/10/PBI/2008 dated 28 February 2008 concerning the Amendment of PBI No.7/7/PBI/2005 dated 20 January 2005 concerning Settlements of Customers Complaints. - SE BI No.10/13/DPNP dated 6 March 2008 concerning the Amendment of SE BI No.7/24/DPNP dated 18 July 2005 concerning Settlements of Customers Complaints.
	20.	Guidelines on Policy and Procedure of Credits for BPR	- SE BI No.14/26/DKBU on Policy and Procedure of Credits for Rural Banks.
F.	**Regulation On Financing**		
	1.	Facilities of Short Term Funding (FPJP) for Commercial Banks	- PBI No.14/16/PBI/2012 dated 23 November 2012 concerning Facilities of Short Term Funding (FPJP) for Commercial Banks. - SE BI No.15/11/DPNP dated 8 April 2013 concerning Facilities of Short Term Funding for Commercial Banks. Revoking SE BI No.10/39/DPM.
	2.	Facilities of Short Term Funding (FPJP) for BPR	- PBI No.10/35/PBI/2008 dated 5 December 2008 concerning Facilities of Short Term Funding (FPJP) for Rural Banks.
	3.	Facilities of Short Term Funding (FPJP) for Sharia Commercial Banks	- PBI No.11/24/PBI/2009 dated 1 July 2009 concerning Facilities of Short Term Funding (FPJP) Sharia Commercial Banks.

	Topic	Regulation Number
		- PBI No.14/20/PBI/2012 dated 17 December 2012 concerning the Amendment of PBI No.11/24/PBI/2009 concerning Facilities of Short Term Funding (FPJP) for Sharia Commercial Banks. - SE BI No.15/44/DPbS dated 24 October 2013 concerning Sharia-based Facilities of Short Term Funding for Sharia Commercial Banks. Revoking SE BI No.6/9/DPM and SE BI No.7/35/DPM.
4.	Facilities of Short Term Funding (FPJPS) for BPRS	- PBI No.11/29/PBI/2009 dated 7 July 2009 concerning Facilities of Short Term Funding (FPJPS) for Sharia Rural Banks.
5.	Intraday Liquidity Facilities (FLI)	- PBI No.10/29/PBI/2008 dated 14 November 2008 concerning Intraday Liquidity Facilities (FLI) for Commercial Banks - PBI No.12/13/PBI/2010 dated 4 August 2010 concerning the Amendment of PBI No.10/29/PBI/2008 dated 14 September 2008 concerning Intraday Liquidity Facilities (FLI) for Commercial Banks
6.	Intraday Liquidity Facilities for Commercial Banks Based on Sharia Principle (FLIS)	- PBI No.11/30/PBI/2009 dated 7 July 2009 concerning Intraday Liquidity Facilities based on Sharia Principles.
7.	Facilities of Emergency Financing (FPD) for Commercial Banks	- PBI No.10/31/PBI/2008 dated 18 September 2008 concerning Facilities of Emergency Financing.
8.	Transfer of Liquidity Credit Management of Bank Indonesia in the Context of Credit Program	- PBI No.14/19/PBI/2012 dated 30 November 2012 concerning the Amendment of PBI No.5/20/PBI/2003 concerning Transfer of Liquidity Credit Management of Bank Indonesia in the Context of Credit Program.
9.	Lending or Financing and Technical Assistance for Development of Micro, Small	- PBI No.14/22/PBI/2012 dated 21 December 2012 concerning Credit Provisions or Financing

		Topic	Regulation Number
		and Medium Enterprises (MSME)	and Technical Supports for the Development of Micro, Small and Medium Enterprises. - SE BI No.15/35/DPAU dated 29 August 2013 concerning Lending or Financing by Commercial Banks and Technical for the Development of Micro, Small and Medium Enterprises.
G.	**Regulation Related to UMKM (MSME)**		
	1.	Technical Supports	- PBI No.7/39/PBI/2005 dated 18 Oktober 2005 concerning the Provision of Technical Supports in the Development of MSME.
	2.	Business Plans	- PBI No.6/25/PBI/2004 dated 22 October 2004 and SE BI No.6/44/ DPNP dated 22 October 2004 concerning Business Plans of Commercial Banks.
	3.	Maximum Limit of Credit Provisions	- PBI No.7/3/PBI/2005 dated 20 January 2005 concerning Maximum Limit of Credit Provisions. - PBI No.8/13/PBI/2006 dated 5 October 2006 concerning the Amendment of PBI No.7/3/ PBI/2005 dated 20 January 2005 concerning Maximum Limit of Credit Provisions for Commercial Banks.
	4.	Weighted Assets Based on Risks for MSME	- SE BI No.11/3/DPNP dated 27 January 2009 concerning Weighted Assets Calculation According to Risk (ATMR) for Operational Risks Using Basic Indicator Approach (PID). - SE BI No.13/6/DPNP dated 18 February 2011 concerning Guidelines on the Calculation of Weighted Assets Based on Risks for Credit Risk with Standard Approach.

		Topic	Regulation Number
	5.	Assets Quality Assessment	- PBI No.11/2/PBI/2009 dated 29 January 2009 concerning Third Amendment of PBI No.7/2/PBI/2005 concerning Assets Quality Assessment for Commercial Banks. - PBI No.13/13/PBI/2011 dated 24 March 2011 concerning Assets Quality Assessment for Sharia Commercial Banks. - PBI No.13/14/PBI/2011 dated 24 March 2011 concerning Assets Quality Assessment for BPRS.
H.	**Other Regulations**		
	1.	Facilities of BI Deposits in Rupiah (FASBI)	- SE BI No.6/5/DPM dated 16 February 2004 concerning Implementation and Settlement of Bank Indonesia Deposits Facilities in Rupiah (FASBI). - SE BI No.7/4/DPM dated 1 February 2005 concerning the Amendment of SE BI No.6/5/DPM dated 16 February 2004 concerning Implementation and Settlement of Bank Indonesia Deposits Facilities in Rupiah (FASBI).
	2.	Foreign Loans (PLN) of Banks	- PBI No.7/1/PBI/2005 dated 10 January 2005 concerning Foreign Loans of Banks. - PBI No.10/20/PBI/2008 dated 14 October 2008 concerning amendment of PBI No.7/1/PBI/2005 dated 10 January 2005 concerning Foreign Loans of Banks. - PBI No.13/7/PBI/2011 dated 28 January 2011 concerning second amendment of PBI No.7/1/PBI/2005 dated 10 January 2005 concerning Foreign Loans of Banks. - PBI No.15/6/PBI/2013 dated 30 August 2013 concerning the Third Amendment to PBI No. No.7/1/

		Topic	Regulation Number
			PBI/2005 dated 10 January 2005 on Bank Foreign Loans. Amending Provision of Article 3B of PBI No. No.7/1/PBI/2005.
	3.	Interbank Market Money Based on Sharia Principle (PUAS)	- PBI No.9/5/PBI/2007 dated 30 March 2007 concerning Interbank Market Money Based on Sharia Principle. - PBI No.14/1/PBI/2012 dated 4 January 2012 concerning the Amendment of PBI No.9/5/PBI/2007 dated 30 March 2007 concerning Interbank Market Money Based on Sharia Principle.
	4.	Certification Agency for BPR/BPRS	- SE BI No.6/34/DPBPR concerning Certification Agency for Rural Banks/Sharia Rural Banks.
	5.	Limitation of Rupiah Transactions and Foreign Currencies by Banks	- PBI No.7/14/PBI/2005 dated 14 June 2005 concerning Limitatation of Rupiah Transactions and Foreign Currencies Credits Provison by Banks.
	6.	National Clearing System (SKN)	- PBI No.7/18/PBI/2005 dated 22 July 2005 concerning National Clearing System of Bank Indonesia. - PBI No.12/5/PBI/2010 dated 12 March 2010 concerning the Amendment of PBI No.7/18/PBI/2005 dated 22 July 2005 concerning National Clearing System of Bank Indonesia.
	7.	Real Time Gross Settlement (RTGS)	- PBI No.10/6/PBI/2008 dated 18 February 2008 concerning BI System of Real Time Gross Settlement.
	8.	Certificates of BI (SBI)	- PBI No.12/11/PBI/2010 dated 2 July 2010 concerning Monetary Operations.
	9.	BI Sharia Certificates (SBIS)	- PBI No.10/11/PBI/2008 dated 31 March 2008 concerning BI Sharia Certificates. - PBI No.12/18/PBI/2010 dated 30 August 2010 concerning the

	Topic	Regulation Number
		Amendment of PBI No.10/11/PBI/2008 dated 31 March 2008 on Sharia BI Certificates.
10.	Treasury Bills (SUN)	- PBI No.7/20/PBI/2005 dated 26 July 2005 concerning the Issuance, Sales and Purchase as well as SUN Administration.
11.	Bank Confidentiality	- Act No.10 Year 1998. - PBI No.2/19/PBI/2000 dated 7 September 2000 concerning Requirements and Procedures of Administration Instruction or Written Permission to Open Bank Confidentiality.
12.	Banking Human Resources Development	- PBI No.5/14/PBI/2003 dated 23 July 2003 concerning Obligation of Funds Provision of Education and Training for Human Resouces Development.
13.	Banking Mediation	- PBI No.8/5/PBI/2006 concerning Banking Mediation. - PBI No.10/1/PBI/2008 dated 30 January 2008 concerning the Amendment of PBI No.8/5/PBI/2006 concerning Banking Mediation. - SE BI No.8/14/DPNP dated 1 June 2006 concerning Banking Mediation.
14.	Debtor Information System (SID)	- PBI No.9/14/PBI/2007 dated 30 November 2007 concerning Debtor Information System. - PBI No.15/1/PBI/2013 dated 18 February 2013 concerning Credit Information Management Agency. - SE BI No.15/49/DPKL dated 5 Desember 2013 concerning Credit Information Management Agency.
15.	Guidelines on Indonesian Banking Accounting (PAPI) for Conventional Commercial Banks	- SE BI No.11/4/DPNP dated 27 January 2009 concerning the Implementation of Guidelines on Indonesian Banking Accounting.

		Topic	Regulation Number
			- SE BI No.11/33/DPNP dated 8 December 2009 concerning Revision of SE BI No.11/4/DPNP dated 27 January 2009 concerning Implementation of Guidelines on Indonesian Banking Accounting .
	16.	Guidelines on Sharia Banking Accounting (PAPSI) for Sharia Banking and Sharia Business Units	- SE BI No.15/26/DPbS dated 10 July 2013 concerning Implementation of Indonesian Sharia Banking Accounting Guidelines. Revoking SE BI No.5/26/BPS.
	17.	Decision on the Utilization of Financial Accounting Standard for BPR	- SE BI No.11/37/DKBU dated 31 December 2009 concerning the Decision on the Utilization of Financial Accounting Standard for Rural Banks.
	18.	Transparency on Credit Basic Interest Rate	- SE BI No.13/5/DPNP dated 8 Februari 2011 concerning the Transparency on Credit Basic Interest Rate. - SE BI No.15/1/DPNP dated 15 January 2013 concerning the Transparency on Credit Basic Interest Rate.
	19.	Rating Agencies and Ranking Recognized by BI	- SE BI No.13/31/DPNP dated 22 December 2012 concerning Rating Agencies and Ranking Recognized by BI.
	20.	Special Treatment toward Bank Loans for Certain Areas in Indonesia affected by Natural Disasters	- PBI No.8/15/PBI/2006 dated 5 October 2008 concerning Special Treatment toward Bank Loans for Certain Areas in Indonesia Affected by Natural Disasters.
I.	**Reports of Banks**		
	1.	Commercial Banks	- SE BI No.13/12/PBI/2011 dated 17 March 2011 concerning the Amendment of PBI No.5/26/PBI/2003 on Monthly Reports of Sharia Commercial Banks. - SE BI No.13/15/DPbS dated 30 May 2011 concerning Monthly Reports of Sharia Rural Bank.

		Topic	Regulation Number
			- SE BI No.13/30/DPNP dated 14 December 2001 as last revised by SE BI No.13/30/DPNP dated 16 December 2011 concerning the Third Revision of SE No. 3/30/DPNP dated 14 December 2001 concerning Quarterly and Monthly Publication Financial Statements of Commercial Banks, and Specific Reports Submitted to Bank Indonesia. - PBI No.13/19/PBI/2011 dated 22 September 2011 concerning the Amendment of PBI No.8/12/PBI/2006 concerning Periodic Reports of Commercial Banks. - PBI No.13/8/PBI/2011 dated 4 February 2011 concerning Daily Reports of Commercial Banks. - SE BI No.14/8/DPNP dated 6 March 2012 concerning the Second Revision of Bank Indonesia Circular Letter No. 8/15/DPNP dated 12 July 2006 concerning Periodic Reports of Commercial Banks. - PBI No.14/12/PBI/2012 dated 15 October 2012 concerning Reports of Commercial Banks' Head Office. - SE BI No.14/31/DPNP dated 31 October 2012 concerning Reports of Commercial Banks' Head Office. - SE BI No.14/35/DPNP dated 10 December 2012 concerning Annual Reports of Commercial Banks and Specific Annual Reports Submitted to Bank Indonesia. - SE BI No.15/14/DPNP dated 24 April 2013 concerning the Third Amendment to SE BI No.8/15/DPNP dated 12 July 2006 concerning Periodical Reports of Commercial Banks. Revoking Forms 9a and 14 of SE BI No.8/19/DPNP. - SE BI No.15/48/DSta dated 2

		Topic	Regulation Number
			Desember 2013 concerning Amendment Kedua atas SE BI No.13/3/DPM dated 14 February 2011 concerning Daily Report of Commercial Banks. - SE BI No.15/52 DSta dated 30 Desember 2013 concerning the Third Amendment to SE BI No.13/3/DPM dated 14 February 2011 concerning Daily Report of Commercial Banks.
	2.	Rural Bank	- SE BI No.12/15/DKBU dated 11 June 2010 on the Second Amendment to SE BI No.8/7/DPBPR dated 23 February 2006 concerning Monthly Reports of Rural Banks. - SE BI No. 13/15/DPbS dated 30 May 2011 concerning Monthly Reports of Sharia Rural Banks. - SE BI No.15/20/DKBU dated 22 May 2013 concerning Monthly Report of Rural Banks. Revoking SE BI No.8/7/DPBPR dated 23 February 2006 and SE BI No.12/15/DKBU dated 11 June 2010; Provisions in items VII and VIII.A amended by SE BI No.15/39/DPNP dated 17 September 2013. - SE BI No.15/29/DKBU dated 31 July 2013 concerning Annual Report and Financial Statements of Rural Banks. Revoking SE BI No.8/30/DPBPR; Provision of item III amended by SE BI No.15/43/DPNP dated 21 October 2013. - SE BI No.15/39/DPNP dated 17 September 2013 concerning Amendment to SE BI No.15/20/DKBU dated 22 May 2013 concerning Monthly Report of Rural Banks. Amending provisions in items VII and VIII.A of SE BI No.15/20/DKBU.

		Topic	Regulation Number
			- SE BI No.15/43/DPNP dated 21 October 2013 concerning Amendment to SE BI No.15/29/DKBU dated 31 July 2013 concerning Publication of Annual Report and Financial Statements of Rural Banks.

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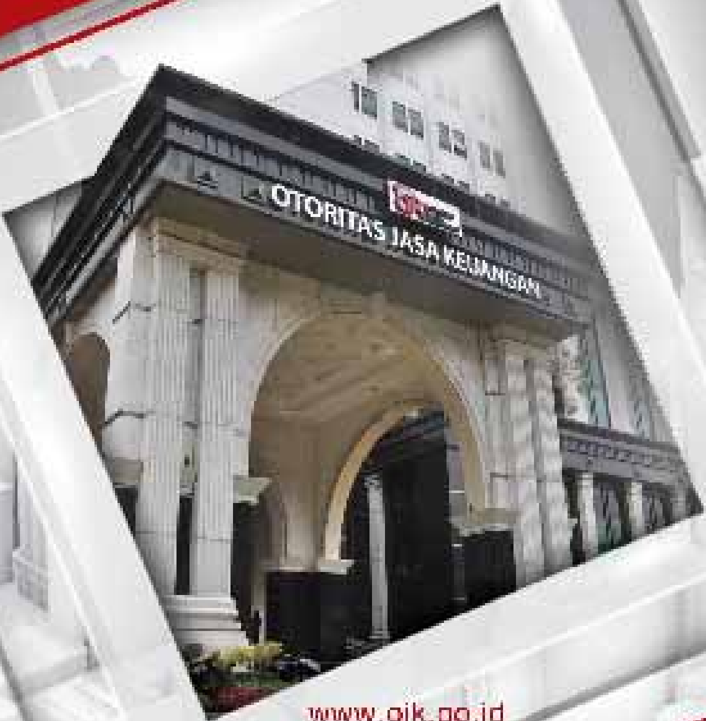

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