

REGULATION OF BANK INDONESIA
NUMBER: 10/15/PBI/2008
REGARDING
THE CAPITAL ADEQUACY RATIO FOR COMMERCIAL BANK
BY THE GRACE OF GOD THE ALMIGHTY
GOVERNOR OF BANK INDONESIA

Considering:

- a. to establish sound banking system capable to develop and compete both domestically and internationally; the structure, requirement, calculation of bank capital adequacy must meet the prevailing international standards;
- b. that in reference to the prevailing international standards, bank capital functions as cushions to absorb the loss arising from various risks need to be harmonized to better reflect risk profile encompassing credit, market, operational and other material risks;
- c. the rapid development and innovation in the financial markets allow banks to reckon various financial instruments as capital components;
- d. that considering the foregoing premises as referred to in letter a, letter b and letter c, provisions concerning Minimum Capital Adequacy Requirement for Commercial Bank need to be set forth in Regulation of Bank Indonesia;

In view of:

- 1. Act Number 7 Of 1992 regarding Banking (State Gazette of the Republic of Indonesia Of 1992 Number 31, Supplement to the State Gazette) as amended by Act Number 10 Of 1998 (State Gazette of the Republic of Indonesia Of 1998 Number 182, Supplement to the State Gazette of the Republic of Indonesia Number 3790);
- 2. Act Number 23 Of 1999 regarding Bank Indonesia (State Gazette of the Republic of Indonesia Of 1999 Number 66, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 Of 2004 (State Gazette of the Republic of Indonesia Of 2004 Number 7, Supplement to the State Gazette of the Republic of Indonesia Number 4357);

HAS DECREED:

To enact : THE BANK INDONESIA REGULATION CONCERNING CAPITAL ADEQUACY RATIO FOR COMMERCIAL BANK

CHAPTER I
GENERAL PROVISION

Article 1

In this Bank Indonesia Regulation, the terminology specified hereunder shall have the following meanings:

1. Bank is Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, including branch offices of foreign banks;
2. Subsidiary Company is legal entity or company owned and or controlled by Bank either directly or indirectly operating domestically or internationally, undertaking financial business activities, comprising of:
 - a. Subsidiary Company, namely Subsidiary in which Bank has ownership of more than 50% (fifty percent);
 - b. Participation Company, namely a Subsidiary Company with the Bank ownership equal to or less than 50% (fifty percent), notwithstanding the exercises control over the company;
 - c. Company with the ownership of bank of more than 20% (twenty percent) up to 50% (fifty percent) meeting the following requirements:
 - (1) The Bank and other stakeholders in the subsidiary company share equal percentage of ownership respectively;
 - (2) Respective shareholders exercise mutual control over the Subsidiary Company;
 - d. Other entities that on the basis of prevailing financial accounting standards shall be consolidated, notwithstanding excluding insurance company and company owned for the purpose of credit restructuring.
3. Control is control as referred to provision of Bank Indonesia concerning transparency of financial condition of Bank;
4. Credit Risk is risk of losses as a result of the failure of the counterparty to meet its obligation;
5. Market Risk is risk of losses of on and off balance sheet positions including derivative transactions as a result of the changes in market conditions, including the risk of changes in option prices;

6. Operational risk is a risk of loss resulting from inadequate internal processes, failure of the internal processes, human errors, systemic errors, and/or other events that may disrupt Bank operations.
7. Trading Book is the entire position of financial instruments both on and off balance sheets including derivative transactions held for:
 - a. trading or hedging purposes, either for proprietary, brokering and market making positions, consisting of:
 - (1) short-term positions for resale;
 - (2) positions intended to exercise either real or potential gain against price movement;
 - (3) positions intended to lock in arbitrage profits;
 - b. hedging purposes on other positions in the Trading Book
8. Banking Book is any position other than those of the Trading Book.

Article 2

- (1) Bank must maintain minimum capital adequacy ratio (CAR) of 8% (eight percent);
- (2) For Bank exercising Control over Subsidiary Company, provision as referred to in paragraph (1) is applicable to the Bank either individually or consolidated with Subsidiary Company.
- (3) To prevent from potential losses according to Bank risk profile, Bank Indonesia may require Bank to maintain capital greater than the minimum standard set forth in provision as referred to in paragraph (1) and paragraph (2).
- (4) The Bank potential loss as referred to in paragraph (3) may result from:
 - a. Credit, Market, and Operational Risks that may not be accurately measured in the calculation of RWA as referred to in paragraph (1) and paragraph (2);
 - b. Other material risks such as interest rate risk in the Banking Book, liquidity risk and concentration risk;
 - c. Other various related factors;
- (5) The adequacy of capital as referred to in paragraph (1) shall be expressed in percentage of CAR.

Article 3

Bank shall be prohibited to distribute profits in case such profit distribution results in capital shortfall in accordance with the provision as referred to in Article 2 paragraph (1) and paragraph (2).

CHAPTER II
CAPITAL
Part One
General
Article 4

- (1) Capital of Bank whose head quarter located in Indonesia shall consist of:
 - a. Tier 1 capital
 - b. Tier 2 capital
 - c. Tier 3 capital
- (2) In calculating consolidated capital, to be eligible as tier 1, tier 2 and tier 3 capital, the capital component of the Subsidiary Company shall meet the prevailing requirements for capital component as determined individually by Bank.

Article 5

- (1) Capital as referred to in Article 2 paragraph (1) of branch office of foreign bank shall be Net Head Office Fund duly comprising of:
 - a. Net Inter Office Fund
 - b. Retained earnings and profit of the previous year upon the exclusion of influencing factors as referred to in Article 10 paragraph (2);
 - c. Current of profit of 50% (fifty percent) upon the exclusion of the influencing factors as referred to in Article 10 paragraph (2);
 - d. General Capital Reserves;
 - e. Designated Capital Reserves;
 - f. Revaluation of fixed assets with the scope and calculation guidelines as referred to in Article 16 paragraph (1) letter c; and
 - g. Provision of Earning Asset Loss as referred to in Article 16 paragraph (1) letter d, taking into account all deductible factors of capital component as referred to in the Article 10 paragraph (1) letter b, Article 13 and Article 20.
- (2) Calculation of Net Inter Office Fund as the component of capital as referred to in paragraph (1) letter a shall be conducted through the followings:
 - a. The declared Net Inter Office Fund shall be taken into account when the actual is greater than the declared Net Inter Office Fund;
 - b. The actual Net Inter Office Fund shall be taken into account when the actual is smaller than the declared Net Inter Office Fund;

- c. The actual Net Inter Office Fund shall be taken into account as deductible factor to the Capital as referred to paragraph (1), when the Actual Net Inter Office Fund is negative.

Part Two

Tier 1 Capital

Article 6

- (1) Bank shall maintain tier 1 capital as referred to in Article 4 paragraph (1) letter a at least 5% (five percent) of RWA either individually or consolidated.
- (2) Tier 1 capital as referred to in paragraph (1) shall consist of:
 - a. Paid-up capital;
 - b. Disclosed reserves; and
 - c. Innovative capital instrument.

Article 7

Paid-up capital as referred to in Article 6 paragraph (2) letter a, shall meet the following terms and conditions:

- a. It shall be issued and fully paid;
- b. It shall be permanent;
- c. It shall be available to absorb losses prior to and during the time of liquidation;
- d. Return or yield may not be assured and accrued;
- e. It shall not be protected and guaranteed either by Bank or Subsidiary Company.

Article 8

Non-cumulative preferred stock issued for the special purposes and with call option, may be recognized as the component of paid-up capital as referred to in Article 6 paragraph (2) of letter a, provided:

- a. It satisfies the terms and conditions as referred to in Article 7 letter a, letter c, letter d, letter e, and;
- b. Call option can be exercised upon satisfying the following criteria:
 - 1. it is solely exercised under the Bank's initiative;
 - 2. the call option is not exercised until 5 (five) years after its issuance;
 - 3. it has obtained approval from Bank Indonesia; and
 - 4. it shall not decrease Capital below the minimum requirement as referred to in Article 2 paragraph (1) and paragraph (2).

Article 9

Repurchase of treasury stock that has been recognized as the component of paid-up capital can be exercised upon satisfying the following requirements:

- a. after the period of 5 (five) of as of the date of issuance;
- b. for specific purposes;
- c. it shall refer to the prevailing legislations;
- d. it shall obtain approval from Bank Indonesia;
- e. it shall not decrease capital below the minimum requirement as referred to in Article 2 paragraph (1) and paragraph (2).

Article 10

(1) Disclosed reserve as referred to in Article 6 paragraph (2) letter b shall comprise of the followings:

- a. Addition factors:
 - 1. agio;
 - 2. donated capital;
 - 3. general capital reserves;
 - 4. designated capital reserves;
 - 5. profit of previous years;
 - 6. current profit of 50% (fifty percent);
 - 7. positive translation adjustment in financial statement;
 - 8. paid up capital satisfying the following criteria:
 - a. have been fully paid-up as additional capital despite some requirements have not yet been satisfied such as no general shareholders meeting and approval of the article of agreement from the relevant authority;
 - b. pledged in a zero return escrow account;
 - c. shall not be withdrawn by the prevailing shareholders or prospective shareholders and shall be available to absorb any losses; and
 - d. The use of capital shall be made under the approval of Bank Indonesia.
 - 9. Warrant issued as incentive to the shareholders of Bank amounting to 50% (fifty percent), that fulfills the following requirements:
 - a. the underlying instrument is ordinary shares;
 - b. can not be converted into any forms other than shares; and
 - c. value taken into account is fair value of the warrant at the date of issuance;

10. stock option issued through Employee/Management Stock Option Program amounting to 50% (fifty percent), satisfying the following requirements:
 - a. the underlying instrument is ordinary shares;
 - b. can not be converted into any forms other than shares; and
 - c. value taken into account is fair value of the stock option at the date of issuance;

Offsetting factors:

1. disagio;
2. previous years' losses;
3. current year losses;
4. negative translation adjustment of financial statement;
5. other comprehensive income with negative value, including unrealized losses arising from the declined fair value of equity participation classified as available for sale;
6. negative translation between allowance for earning asset losses and allowance for the decline of the earning asset value;
7. negative translation between the adjustment value of financial instrument in the trading book and the value as stipulated in the prevailing accounting standard.

- (2) In the calculation of the previous and current year's profit and loss as referred to in paragraph (1) letter a point 5 and 6 shall be excluded from:
 - a. deferred tax;
 - b. translation adjustment for fixed assets revaluation;
 - c. increase in fair value of fixed assets;
 - d. increasing or declining in fair value for financial liabilities; and/or
 - e. gain on sale of securities.

Article 11

- (1) Innovative capital as referred to in Article 6 paragraph (2) letter c that may be calculated shall be as the highest tier 1 capital component of 10% (ten percent) of tier 1 capital as referred to in Article 4 paragraph (1) letter a.

(2) Innovative Capital as referred to in paragraph (1) shall comply with any and all terms set forth as follows:

- a. It shall be issued and fully paid;
- b. It shall have no period and terms and conditions so required the full payment determined by Bank hereafter;
- c. It shall be available to absorb the arising loss prior the liquidation and at the time of liquidation and it shall be subordination, that in fact, it is declared in the documentation of issuance/agreement;
- d. Acquisition of yield may be neither assured nor accumulated within among periods;
- e. It shall be neither protected nor guaranteed by Bank or Subsidiary Company;
- f. If it is included by call option, it shall fulfill the following terms:
 - 1. It shall be only executed within at least 10 (ten) days upon the issuance of capital instrument;
 - 2. the documentation of issuance shall notify that such option is only able to execute under the approval of Bank Indonesia; and
 - 3. in the event that innovative capital instrument contains step-up feature, then such step-up feature shall fulfill the following terms and conditions:
 - a) Step-up feature shall be limited, determined and declared clearly in agreement of instrumental issuance;
 - b) It could be only realized once within the period of instrument i.e. upon the period of at least 10 (ten) days as of the date of the issuance; and
 - c) The amount of step-up feature shall be relevant with and in reference to the market condition and shall be not more than one of the following limits:
 - 1) 100 (one hundred) basis points; or
 - 2) 50% (fifty percent) of initial margin (credit spread)
 - g. It shall obtain approval from Bank Indonesia to be assessed as capital component.

(3) Cap option execution as referred to in paragraph (2) letter f point 1 and point 2 shall be only conducted by Bank to the extent that:

- a. It shall obtain approval from Bank Indonesia;
- b. It shall not result in decrease of capital below the minimum requirement as referred to in Article 2 paragraph (1) and paragraph (2); and
- c. It shall be changed with capital instrument set forth as follows:
 - 1. it has similar or better quality; and
 - 2. it has equal or different amount, in so far that it shall not exceed 10% (ten percent) of tier 1 capital as referred to in Article 4 paragraph (1) letter a.

Article 12

- (1) In consolidated KPPM calculation, minority interest is calculated as tier 1 capital as referred to in Article 4 paragraph (1) letter a, unless there is a part of minority interest that is not in accordance with the terms of tier 1 capital component.
- (2) Minority interest as referred to in paragraph (1) is not calculated in tier 1 capital in consolidation manner, if the ownership of Bank on Subsidiary Company is 50% (fifty percent) or less than and fulfills the following conditions:
 - a. There is no relation/affiliation made between other shareholders (minority interest) and Bank; or
 - b. There is no declaration letter or resolution of general meeting of shareholders (RUPS) of Subsidiary Company declaring the undertaking of other shareholders (minority interest) in order to support Bank business group capital.

Article 13

Tier 1 Capital as referred to in Article 4 paragraph (1) letter a, shall be calculated by offset set forth as follows:

- a. Goodwill;
- b. Other intangible assets; and/or
- c. Offset against tier 1 capital as referred to in Article 20.

The Third Chapter

Tier 2 Capital

Article 14

- (1) Tier 2 Capital as referred to in Article 4 paragraph (1) letter b may be only calculated at most of 100% (one hundred percent) of tier 1 capital as referred to in Article 4 paragraph (1) letter a.
- (2) Tier 2 Capital as referred to in paragraph (1) shall consist of the following matters:
 - a. Upper tier 2 capital; and
 - b. Lower tier 2 capital.

Article 15

- (1) Upper tier 2 capital as referred to in Article 14 paragraph (2) letter a in form of capital instrument as referred to in Article 16 paragraph (6) letter a shall comply with all terms and conditions set forth as follows:

- a. It shall be issued and fully paid;
- b. It shall have no period and requirement that shall be obliged to fully pay by Bank hereafter
- c. It shall be available to absorb loss in the event that the amount of loss suffered by Bank exceed the retained profit and reserves including tier 1 capital, though Bank has not yet been liquidated and at the nature of subordination that in actual manner, it shall be declared in documentation of issuance/agreement;
- d. Principal Payment and/or yield shall be deferred and accumulated within among periods (cumulative) if:
 - 1. Such payment may cause individual KPPM and/or consolidated KPPM fail to fulfill the prevailing provision;
 - 2. Bank is in loss condition; or
 - 3. due to the condition of profitability of the Bank, it shall not possible to pay such yield.
- e. It shall neither protected nor guaranteed by Bank or Subsidiary Company;
- f. If it is included by call option feature, it shall fulfill the following terms and conditions:
 - 1. It shall be only executed within at least 10 (ten) ofs upon the issuance of capital instrument;
 - 2. documentation of issuance shall declare that the option is only capable to execute under the approval of Bank Indonesia; and
 - 3. In the event that capital instrument contains step-up feature, then such step-up feature shall fulfill the following terms and conditions:
 - a) Step-up feature shall be limited, determined and declared clearly in agreement of instrumental issuance;
 - b) It may be only realized once within the period of instrument i.e. upon the period within at least 10 (ten) ofs as of the date of issuance; and
 - c) The amount of step-up feature shall be relevant and in reference to the market condition and shall not exceed the amount of one of limits as follows:
 - 1) 100 (one hundred) of basis points; or
 - 2) 50% (fifty percent) of initial margin (credit spread)
- g. It shall obtain approval from Bank Indonesia to be calculated as capital component, except overflow of innovative capital exceeding innovative capital limit.

(2) Call option execution as referred to in paragraph (1) letter f point 1 and point 2 may be only performed by Bank, to the extent that:

- a. It shall obtain approval from Bank Indonesia;
- b. It shall not result in decrease of capital below the minimum requirement as referred to in Article 2 paragraph (1) and paragraph (2); and
- c. It shall be changed with capital instrument set forth as follows:
 1. it has similar or better quality; and
 2. it has equal or different amount, in so far that it shall not exceed 10% (ten percent) of tier 1 capital as referred to in Article 14 paragraph (1).

Article 16

(1) Upper tier 2 capital shall consist of:

- a. Capital Instrument in form of shares or other capital instruments fulfilling terms and conditions as referred to in Article 15;
- b. Part of innovative that may not be calculated in tier 2 capital;
- c. Revaluation of fixed assets, comprised:
 1. Difference of revaluation of fixed asset that firstly was classified as balance of earnings, of 45% (forty five percent); and
 2. increase of fair value against fixed asset that has not yet been realized so first classified to be balance of earnings of 45% (forty five percent);
- d. General reserves of deduction for allowance for earning asset losses that shall be obliged to be form by the highest amount of 1.25% (one point twenty five percent) of ATMR to Credit Risk;
- e. Such other comprehensive incomes at most of 45% (forty five percent) shall be unrealized profit arising from the increase of participation fair value so classified in available group to be sold.

(2) Positive increment of general reserves so duly formed by the limit as referred to in paragraph (1) letter f may be calculated as offset of ATMR calculation to Credit Risk.

Article 17

- (1) Lower tier 2 capital as referred to in Article 14 paragraph (2) letter b may be only calculated at most of 50% (fifty percent) of tier 1 capital as referred to in Article 4 paragraph (1) letter a.
- (2) Lower tier 2 capital as referred to in paragraph (1) shall fulfill all terms and conditions set forth as follows:

- a. It shall be issued and fully paid;
- b. It shall have period of agreement within less than 5 (five) years and shall be merely fully paid after obtaining approval from Bank Indonesia;
- c. It shall be available to absorb loss at the time of liquidation and shall be subordination, so expressly declared in documentation of issuance/agreement;
- d. Principal payment and/or yield shall be deferred and accumulated within among periods (cumulative), including due payment, if:
 - g. The aforementioned payment may cause individual KPMM or consolidated KPMM fails to fulfill the prevailing provision;
 - 1. Bank is in loss condition; or
 - 2. due to the condition of profitability of the Bank, it shall not possible to pay such yield.
- e. It shall neither protected nor guaranteed by Bank or Subsidiary Company;
- f. If it is included by call option feature, it shall fulfill the following terms and conditions:
 - 1. It shall be only executed within at least 5 (five) years upon the issuance of capital instrument;
 - 2. documentation of issuance shall declare that the option is only capable to execute under the approval of Bank Indonesia; and
 - 3. In the event that capital instrument contains step-up feature, then such step-up feature shall fulfill the following terms and conditions:
 - a) Step-up feature shall be limited, determined and declared clearly in agreement of instrumental issuance;
 - b) It may be only realized once within the period of instrument i.e. upon the period within at least 10 (ten) years as of the date of issuance; and
 - c) The amount of step-up feature shall be relevant and in reference to the market condition and shall not exceed the amount of one of limits as follows:
 - 1) 100 (one hundred) of basis points; or
 - 2) 50% (fifty percent) of initial margin (credit spread)
 - g. It shall obtain approval from Bank Indonesia to be calculated as capital component, except overflow of innovative capital exceeding innovative capital limit

(3) Call option execution as referred to in paragraph (1) letter f point 1 and point 2 may be only performed by Bank, to the extent that:

- a. It shall obtain approval from Bank Indonesia;

- b. It shall not result in decrease of capital below the minimum requirement as referred to in Article 2 paragraph (1) and paragraph (2); and
- c. It shall be changed with capital instrument set forth as follows:
 - 1. it has similar or better quality; and
 - 2. it has equal or different amount, in so far that it shall not exceed 10% (ten percent) of tier 1 capital as referred to in Article 17 paragraph (1)

(4) The amount that may be calculated as lower tier 2 capital shall be the amount of lower tier 2 capitals as deducted by amortization using pro rata method.

(5) Amortization as referred to in paragraph (4) shall be conducted to the remaining instrumental period of the last 5 (five) ofs.

(6) In case of options, then the period until the Bank may execute such option shall constitute remaining period of the instrument.

Article 18

Call money on subordinated loan or subordinated bond or any matters complying the criteria of tier 2 capital in such other Banks shall be assessed as offset against such subordinated loan or subordinated bond to be the component of tier 2 capital of Receiving/Issuing Bank.

Article 19

Part of tier 2 capital so formed as sinking fund shall not be assessed as the component of tier 2 capital, if:

- a. Bank has determined to retain and manage the sinking fund in special manner; and
- b. Bank has published the formation of such sinking fund, including in General Meeting of Shareholders for Bond (RUPO).

Article 20

(1) Certain factors that shall be the offset of capital component as referred to in Article 4 paragraph (1) hereof shall include:

- a. Bank Participation including:
 - 1. All Bank Participations to Subsidiary Company, except provisional equity participation for the purpose of credit restructuring;
 - 2. All participations to the company or legal entity with ownership of Bank that is more than 20% (twenty percent) until 50% (fifty percent), however Bank shall have no the Control
 - 3. All participations to the insurance company

- b. Shortfall of compliance with the ratio rate of Risk Based Capital/RBC minimum in insurance company so owned and controlled by Bank;
- c. Exposure of security

(2) The offset as referred to in paragraph (1) letter a and letter b shall be calculated of 50% (fifty percent) of tier 1 capital as referred to in Article 4 paragraph (1) letter a and 50% (fifty percent) of tier 2 capital as referred to in Article 4 paragraph (1) letter b.

(3) The entire offset of capital as referred to in paragraph (1) letter a and letter b, shall not be re-calculated in ATM in terms of Credit Risk.

The Fourth Chapter

Tier 3 Capital

Article 21

(1) Tier 3 capital as referred to in Article 4 paragraph (1) letter c may be required to the extent that it fulfills the following criteria:

- a) It shall be only required to calculate Market Risk;
- b) It shall be not more than 250% (two hundred fifty percent) of the part of tier 1 capital as allocated to calculate Market Risk; and
- c) The highest amount of tier 2 capital and tier 3 capital shall be 100% (one hundred percent) of tier 1 capital as referred to in Article 4 paragraph (1) letter a.

(2) Tier 3 capital as referred to in paragraph (1) shall fulfill all terms and conditions set forth as follows:

- a. It shall be issued and fully paid;
- b. The effective period of agreement shall be within at least 2 (two) years and it may be only fully paid upon approval from Bank Indonesia;
- c. It shall be available to absorb loss at the time of liquidation and shall be subordination, so expressly declared in documentation of issuance/agreement;
- d. Principal payment and/or yield shall be deferred and accumulated within among periods (cumulative), including due payment, if:
 - 1. The aforementioned payment may cause Individual KPMM or Consolidated KPPM fail to fulfill the prevailing terms and conditions;
 - 2. Bank shall be in loss condition; or
 - 3. due to the condition of profitability of Bank, it may not possible to pay such yield;
- e. It shall neither be protected nor guaranteed by Bank or Subsidiary Company;

- f. If it is included call option feature, it shall fulfill the following terms and conditions:
 - 1. It may be only executed within at least 2 (two) ofs upon the submission of capital instrument;
 - 2. documentation of issuance shall declare that the option may be only executed under the approval so granted by Bank Indonesia; and
 - 3. In the event that capital instrument contains step-up feature, then such step-up feature shall comply with the terms and conditions set forth as follows:
 - a) Step-up feature shall be limited, determined, and declared expressly and explicitly in agreement of instrumental issuance;
 - b) It may be only realized once within the period of instrument i.e. upon the period of at least 2 (two) ofs upon the issuance; and
 - c) The amount of step-up feature shall be relevant and in reference to the market condition and not more than one of limits set forth as follows:
 - 1) 100% (one hundred) of basis points; or
 - 2) 50% (fifty percent) of initial margin (credit spread).
- g. It shall obtain approval from Bank Indonesia to be assessed as the capital component, except tier 3 capital as referred to in paragraph (4) letter b and letter c.

(3) Execution of call option as referred to in paragraph (2) letter f point 1 and point 2 may be only conducted by Bank , to the extent that:

- a. It shall obtain approval from Bank Indonesia; and
- b. It shall not result in decrease of capital below minimum requirement as referred to in Article 2 paragraph (1) and paragraph (2).

(4) Tier 3 capital shall consist of:

- a. Short term Subordinated Loan or Subordinated bond;
- b. Tier 2 capital that is not allocated to cover capital charge to Credit Risk and/or capital charge to Operational Risk, but fulfilled the terms and conditions as tier 2 capital (unused but eligible tier 2); and
- c. Part of lower tier 2 capital exceeding lower tier 2 capital limit.

Article 22

In consolidated KPPM calculation, in terms of the component of innovative capital, upper tier 2 capital, lower tier 2 capital and tier 2 capital, Bank hereto shall be obliged to submit supporting data showing that the capital component of Subsidiary Company so calculated shall have fulfilled any and all terms and conditions as capital component.

CHAPTER III
Risk-Weighted Assets
The First Part
General
Article 23

Risk-Weighted Assets (RWA) as referred to in Article 2 paragraph (1) and paragraph (2) shall comprise the followings:

- a. RWA to Credit Risk;
- b. RWA to Operational Risk;
- c. RWA to Market Risk.

Article 24

- (1) Each Bank shall be obliged to calculate RWA to Credit Risk and RWA to Operational Risk.
- (2) RWA to Market Risk shall be only calculated by Bank fulfilling certain criteria.

Article 25

Such certain criteria as referred to in Article 24 paragraph (2) shall be as follows:

- a. Individual Bank shall fulfill one of criteria as follows:
 - 1. Bank with the total asset of Rp.10.000.000.000.000,00 (ten trillion rupiah) or more;
 - 2. Foreign Exchange Bank with the position of financial instrument in form of security/commercial paper and/or derivative transaction in Trading Book shall be Rp.20.000.000.000,00 (twenty billion rupiah) or more;
 - 3. Non-Foreign Bank with the position of financial instrument in form of security/commercial paper of interest rate in Trading Book of Rp25.000.000.000,00 (twenty five billion rupiah) or more;

And/or;

- b. Consolidated Bank and Subsidiary Company shall fulfill one of criteria as follows:
 - 1. Consolidated Foreign Exchange Bank and Subsidiary Company shall have the position of financial instrument in form of security/commercial paper including financial instrument so exposed by Equity Risk and/or transaction of derivative in Trading Book and/or financial instrument so exposed by Commodity Risk in Trading Book and Banking Book of Rp20.000.000.000,00 (twenty billion rupiah) or more;
 - 2. Consolidated Non-Foreign Bank and Subsidiary Company shall have the position of financial instrument in form of security/commercial paper including financial instrument so exposed by Equity Risk and/or derivative transaction in Trading Book and/or

financial instrument so exposed by Commodity Risk in Trading Book and Banking Book of Rp25.000.000.000,00 (twenty five billion rupiah) or more.

- c. Obligation to calculate Market Risk as referred to in Article 24 paragraph (2) shall be also applicable to Bank with the network of office and/or Subsidiary Company in such other countries and subsidiary office of Bank whose head office having its official domicile in foreign country.

Article 26

Financial Asset in the course of initial account determined as financial asset measured in fair value through profit and loss statement and credit so classified in traded group shall be excluded from the coverage of Trading Book.

Article 27

Securities in Trading Book as referred to in Article 25 paragraph a point 2 and point 3, letter b point 1 and point 2 shall only include securities so duly classified in traded group.

Article 28

Bank upon merger, consolidation or acquisition fulfilling criteria as referred to in Article 25, within at least 3 (three) periods of monthly report in the first 6 (six) months upon such merger, consolidation or acquisition declared to be effective shall be obliged to calculate Market Risk in the calculation of KPMM as of the 7th (seventh) months upon merger, consolidation, or acquisition declared to be effective.

Article 29

If Bank fulfills the criteria as referred to in Article 25 and Bank as referred to in Article 28, then the aforementioned Banks shall be obliged to continue to calculate Market Risk in Minimum capital adequacy requirements, though Bank hereafter shall not again fulfill the aforementioned criteria.

The Second Part

Credit Risk

Article 30

- (1) In terms of RWA calculation to Credit Risk, Bank hereto shall conduct it under the following approaches:

- a. Standardized Approach; and/or
- b. Internal Rating based Approach.

(2) If Bank use the approach as referred to in paragraph (1) letter b, such Bank shall be obliged to first obtain approval from Bank Indonesia.

(3) Further regulation regarding the use of each approach as referred to in paragraph (1) and paragraph (2) shall be then regulated in Circular Letter of Bank Indonesia.

The Third Chapter

Operational Risk

Article 31

(1) In terms of RWA calculation to Operational Risk, Bank hereto shall conduct it under the following approaches:

- a. Basic Indicator Approach;
- b. Standardized Approach; and/or
- c. Advanced Measurement Approach.

(2) If Bank use the aforementioned approaches as referred to in paragraph (1) letter b and letter c, then Bank shall be obliged to first obtain approval from Bank Indonesia.

(3) Further regulation regarding the use of each approach as referred to in paragraph (1) and paragraph (2) shall be then regulated in Circular Letter of Bank Indonesia.

The Fourth Chapter

Market Risk

Article 32

(1) Market Risk so duly calculated by Individual and consolidated Bank and Subsidiary Company shall be as follows:

- a. Interest rate risk; and/or
- b. Exchange rate risk.

(2) Consolidated Bank shall be obliged to calculate equity risk and/or commodity risk, in addition to Market Risk as referred to in paragraph (1), if the said consolidated Bank fulfill the following criteria:

- a. It shall have Subsidiary Company so exposed by equity risk and/or commodity risk; and
- b. Consolidated Bank and Subsidiary Company shall fulfill criteria as referred to in Article 25 letter b.

Article 33

- (1) In terms of RWA calculation to Market Risk, Bank shall conduct it under the followings:
 - a. Standard Method ; and/or
 - b. Internal Model.
- (2) If Bank fulfills the criteria as referred to in Article 25, Bank shall be obliged to first use Standard Method in Market Risk Calculation.
- (3) If Bank conducts it under the approach as referred to in paragraph (1) letter b, then Bank shall be obliged to first obtain approval from Bank Indonesia.
- (4) Further regulation regarding the use of each method as referred to in paragraph (1) and paragraph (2) shall be then regulated in Circular Letter of Bank Indonesia.

CHAPTER IV

REPORT

Article 34

- (1) If Bank fulfills the criteria as referred to in Article 25, then Bank shall be obliged to submit KPMM calculation report under the calculation of Market Risk.
- (2) Arrangement and submission of KPMM calculation report by calculating Market Risk as referred to in paragraph (1) shall refer to the provision regarding Periodic Report of Commercial Bank.
- (3) Report related to the Internal Model quarterly to be first arranged in the end of quarter after Internal Model is used to calculate KPMM.

CHAPTER V

TRANSITIONAL PROVISION

Article 35

Capital Instrument so approved by Bank Indonesia as the component of tier 2 capital or tier 3 capital prior to the effectiveness of this provision shall continue to be calculated as the component of capital until the termination of such instrumental period.

CHAPTER VI

PENALTY

Article 36

If Bank commits violation to the provision so regulated in Article 3, Article 6 paragraph (1), Article 9, Article 11 paragraph (1) and paragraph (3), Article 15 paragraph (2), Article 15 paragraph (1), Article 17 paragraph (1) and paragraph (3), Article 21 paragraph (1) and paragraph (3), Article 22,

Article 24, Article 28, Article 29, Article 30, Article 31, Article 32, and Article 33 hereunder, then consequently, the said Bank shall be subject to administrative penalty set forth as follows:

- a. Written reprimand letter;
- b. Freezing of certain business activities;
- c. Decrease of bank rating; and/or
- d. Specification of Bank management and or shareholders in the register so restricted to be as Bank management and shareholders.

As referred to in Article 52 of Act Number 7 Of 1992 regarding Banking as amended by Act Number 10 Of 1998.

Article 37

If Bank fails to comply with the provision as referred to in Article 2 paragraph (1) and paragraph (2), then consequently, Bank shall be placed in special supervision as regulated in provision of Bank Indonesia regarding further act of supervision and determination of Bank Status.

Article 38

If Bank commits violation to the provision of report as referred to in Article 34, then consequently, Bank shall be subject to penalty as regulated under the prevailing provision regarding Periodic Report of Commercial Bank.

Article 39

If Bank conducts trading in respect of financial asset in the group so available to trade, under the pattern as same as trading against financial assets in trade group:

- a. In significant amount; and/or
- b. In high frequency.

Then consequently, Bank shall be subject to penalty, such as Bank shall be not permitted to classify the subsequent purchase of financial assets in the group so available to trade, within 6 (six) months as of the date of the issuance of guidelines certificate by Bank Indonesia.

Article 40

In the event that Bank commits the aforementioned acts as referred to in Article 39 twice, then Bank shall be subject to penalty, such as Bank shall be not permitted to classify the subsequent purchase of financial assets in the group so available to trade within 1 (one) ofs as of the date of the issuance of guidelines certificate by Bank Indonesia.

Article 41

In the event that Bank commits the aforementioned acts as referred to in Article 39 more than twice, then consequently, Bank shall be subject to penalty, such as Bank shall be not permitted to classify the subsequent purchase of financial assets in the group so available to trade within 2 (two) ofs as of the date of the issuance of guidelines certificate by Bank Indonesia.

CHAPTER VII

CLOSING PROVISION

Article 42

Provision with regard to the replacement treatment among Banks in form of subordinated loan or subordinated bond as the offset against subordinated loan or subordinated bond to Bank reserving as the issuer as referred to in Article 19, shall be effective to the replacement so conducted upon the effectiveness of this provision.

Article 43

By the enactment of this Regulation of Bank Indonesia, then:

- a. Regulation of Bank Indonesia Number 3/21/PBI/2001 dated 13th December 2001 regarding Minimum Capital Adequacy Requirement For Commercial Bank;
- b. Article 6 and Article 7 of Regulation of Bank Indonesia umber 8/67/PBI/2006 dated 30th January 2006 regarding Application of Risk Management in consolidation manner to Bank Performing Control to Subsidiary Company;
- c. Article 2, Article 3, Article 4, Article 5, Article 7, Article 8, Article 10, Article 18, Article 31, Article 34, Article 35, Article 36, and Article 37 of Regulation of Bank Indonesia Number 9/13/PBI/2007 dated 1st November 2007 regarding Minimum Capital Adequacy Requirement For Commercial Bank under Market Risk Assessment;
- d. Point II of Circular Letter of Bank Indonesia Number 26/1/BPPP dated 29th May 1993 regarding Minimum Capital Adequacy Requirement For Commercial Bank

Shall be revoked and declared null and void.

Article 44

By the enactment of Regulation of Bank Indonesia, then:

- a. Provision of implementation of Regulation of Bank Indonesia Number 9/13/PBI/2007 dated 1st November 2007 regarding Minimum Capital Adequacy Requirement For Commercial Bank under Market Risk Assessment;

b. Provision of implementation of Regulation of Bank Indonesia Number 8/6/PBI/2006 dated 30th January 2006 regarding Application of Risk Management in consolidation manner to Bank Performing Control to Subsidiary;

Shall remain effective, to the extent that it shall be not in contravention with Regulation of Bank Indonesia.

Article 45

This Regulation of Bank Indonesia shall take effect as of 1st January 2009.

To promulgate this regulation to the public, it is hereby ordered to announce the enactment of this Act by placing it in the State Gazette of the Republic of Indonesia.

Stipulated in Jakarta

On the date of 14 September 2008

GOVERNOR OF BANK INDONESIA

[Signed]

BOEDIONO

Enacted in Jakarta

On the date of 24 September 2008

MINISTER OF ACT AND HUMAN RIGHT

OF

THE REPUBLIC OF INDONESIA

[Signed]

ANDI MATTALATA

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2008 NUMBER 135 DPNP

ELUCIDATION
OF
REGULATION OF BANK INDONESIA
NUMBER: 10/15/PBI/2008
REGARDING
MINIMUM CAPITAL ADEQUACY REQUIREMENT FOR COMMERCIAL BANK

GENERAL

In order to create sound banking system that is capable to develop and compete both national and international, the structure, requirements, and assessment of capital adequacy of Bank shall be necessary to harmonize pursuant to the prevailing international standard. The International Standard as the reference of this harmonization shall be “International convergence of Capital Measurement and Capital Standards; A Revised Framework” or well known as Basel II and International Accounting Standard (IAS) so adopted in Financial Accounting Standard Statement (PSAK) i.e. IAS 39 adopted in PSAIK NO.55.

Assessment of capital adequacy shall constitute one of principal aspects in prudential principle implementation. The capital is functioned as a support to absorb loss arising from various risks. Therefore, in case of the assessment of capital adequacy pursuant to international standard, Bank shall require to adjust such capital adequacy with risk profile of Bank including credit risk, market risk, operational risk, and such other risks at the nature of material both so measured quantitatively and assessment qualitatively.

In addition to, financial market in the world experiences more fast development. The development of financial market results in availability of various financial instruments that may be considered as capital.

On the other sides, the current applicable provision related to the capital adequacy remain spread in several separated provisions, such that in order to simplify users to comprehend it, it shall be necessary to combine the regulation to be one provision.

In conclusion of the foregoing premises, then rearrangement shall be necessary in respect of provision regarding Minimum Capital Adequacy Requirement For Commercial Bank in one Regulation of Bank Indonesia.

ARTICLE BY ARTICLE

Article 1

Self-explanatory

Article 2

Paragraph (1)

Risk-weighted Assets (RWA) shall include RWA to Credit Risk, RWA to Market Risk, and RWA to Operational Risk

Paragraph (2)

Self-explanatory

Paragraph (3)

Self-explanatory

Paragraph (4)

Letter a

Risk may not be fully measurable accurately, due to the weakness of risk control to Credit Risk, Market Risk, and Operational Risk.

Letter b

Self-explanatory

Letter c

Self-explanatory

Letter d

Self-explanatory

Paragraph (5)

KPMM Ratio means comparison between capital and RWA. Consolidated KPMM Ratio is conducted by comparing the capital in consolidation manner and RWA in consolidation manner.

Article 3

Distribution of Profit means payment of dividends, bonus payment to the management (management fee).

Article 4

Self-explanatory

Article 5

Paragraph (1)

Letter a

Business Fund shall refer to provision of Bank Indonesia regarding requirements and procedures in terms of the opening of branch office, subsidiary office, and representative office of bank having its domicile in foreign country.

Business Fund shall constitute net fund originated from Bank head office in foreign branch office after decreasing the placement of foreign branch office in the relevant Bank offices in foreign countries, so duly always registered whilst the operation of foreign branch offices in Indonesia and declared as Business Fund.

Letter b

Retained Earnings means net earning balance after deduction for tax to be retained in the subsidiary office in Indonesia under decision made by their head office.

Letter c

Current Of Profit means profit so obtained in current of fiscal of after deduction of tax assessment.

In the event that in the current of fiscal of, Bank suffers loss, then all losses shall be the offset of capital.

Letter d

Capital general reserves means reserves formed from funds set aside from retained earnings or Profit carry-forward after deduction of tax and it obtains approval from the head office as capital general reserves.

Letter e

Capital designated reserves means reserves formed from fund set aside from retained earnings or profit carry-forward after deduction of tax assessment for certain purposes and it obtains approval from the head offices.

Letter f

Self-explanatory

Letter g

Self-explanatory

Paragraph (2)

Determination of declared Business Fund amount shall refer to the prevailing provision of Bank Indonesia regarding foreign loan.

Article 6

Paragraph (1)

Self-explanatory

Paragraph (2)

Letter a

Treatment as paid-up capital component shall refer to the prevailing Acts and regulation and financial accounting standard regarding equity accounting.

Paid-up capital shall include:

1. Common stock;
2. prefferent stock (it shall grant/vest entitlement to the holder to first receive dividend from such other classified shareholders) non-cumulative stock (perpetual non cumulative preference share); or
3. Non-cumulative prefferent stock issued for special purpose under call option feature.

Letter b

Self-explanatory

Letter c

Innovative capital means debt instrument with capital characteristic (instrument hybrid)

Innovative capital shall include:

1. Debt instrument with capital characteristic, at the nature of subordination, no period, and the payment of yield could not be accumulated (perpetual non cumulative subordinated debt).
2. Other hybrid instrument with no period and yield payment could not be accumulated (perpetual and non cumulative).

Article 7

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

It shall be included in the categorize so protected and guaranteed by Bank or Subsidiary Company i.e. protection and guarantee so received from such other stakeholders, but it is conducted through Bank or Subsidiary Company, e.g. premium/fee for the purpose of guarantee so duly paid by Bank or Subsidiary Company.

Article 8

It shall be included special purposes i.e. for the purpose of merger, acquisition or consolidation.

Article 9

Letter a

Self-explanatory

Letter b

Certain purposes to conduct repurchase of stock that has been recognized as paid-up capital component i.e. stock supply for the purpose of employment/management stock option program or in order to prevent take over effort.

Letter c

Pursuant to Act No.40 Of 2007 regarding Limited Liability Company as effective currently shall be declared that the total nominal amount of all stocks so repurchased by the company shall not exceed 10% (ten percent) of allocated capital. The aforementioned repurchased stocks shall be only authorized by the company within not more than 3 (three) of.

Letter d

Self-explanatory

Letter e

Self-explanatory

Article 10

Paragraph (1)

Letter a

Point 1

Agio means positive increment of capital as received by bank at the time of the issuance of share, due to share market price that is higher than nominal value.

Point 2

Donated Capital means capital so recovered from donations of shares provided by Bank, including the difference between recorded value and sale price, if such shares are sold.

Point 3

Capital General Reserves means reserves so formed from fund set aside from retained earnings or profit carry-forward after deduction of tax with approval from the General Meeting of Shareholders or meeting of members as capital general reserves.

Point 4

Capital designated reserves means reserves formed from fund set aside from retained earnings or profit carry-forward after tax aside for specific purposes as approved by the General Meeting of Shareholders or member of members.

Point 5

Profit carry-forward after tax shall include:

- a. Profit carry-forward means net Profit carry-forward after deduction for tax, and for which use has not been stipulated by General Meeting of Shareholders or meeting of members;
- b. Retained earnings means net profit balance after deduction for tax as decided not to be distributed by General Meeting of Shareholders or member of meeting.

Point 6

Current of profit means profit so obtained in the current of fiscal of after deduction of tax assessment.

Point 7

Positive increment of financial statement description means exchange difference arising as result in financial statement description of branch office of Bank and/or Subsidiary Company in foreign country

as regulated under the prevailing financial accounting standard with regard to financial statement description in foreign currency.

Point 8

If pursuant to the research of Bank Indonesia, it is acknowledged that the respective shareholders of Bank or Funds for Paid-up capital fails to fulfill the terms and conditions either as shareholder or capital, then consequently, such fund may not be recognized as capital component.

Point 9

In reference to general definition so applicable in capital market, “warrant” means the stock as issued by company granting authority to the stockholder in order to order the stock from the aforementioned company under certain price and period.

Point 10

Self-explanatory

Letter b

Point 1

Disagio means negative increment of paid-up capital received by Bank in the course of stock issuance, due to the share market price that is lower than nominal value.

Point 2

Loss carry-forward means loss carry-forward as booked by Bank in the past ofs.

Point 3

Current of loss means loss so booked by Bank within the current ofs.

Point 4

Negative Increment of Financial Statement Description means exchange difference arising due to financial statement description from branch office of bank and/or Subsidiary Company in foreign countries as regulated under the prevailing financial accounting standard with regard to the financial statement description in foreign currency.

Point 5

Other negative comprehensive incomes means post in equity intended to collect the downgrading of fair value against participation in group so available to be sold.

Participation as classified in available group to be sold means share participation fulfilling the criteria of cost method use and having fair value.

Point 6

Negative increment of Deduction for allowance for earning asset losses and allowance for loss of downgrading of financial asset value for earning assets means negative increment of the total allowance for earning assets losses (general reserves and specific reserves for earning assets) so duly formed pursuant to the prevailing provision of Bank Indonesia with the total allowance for loss of downgrading of financial asset value (impairment) for earning assets (both individually and collectively) on the basis of the applicable financial accounting standard.

Point 7

Negative increment arising as a result in the amount of adjustment to the valuation result (mark to market) from financial instrument in Trading Book considering certain various factors i.e. due to less liquid position, it exceeds the amount of adjustment as required pursuant to the financial accounting standard so applicable regarding measurement of financial instrument, especially, financial instrument measured on the basis of fair value.

Pursuant to the applicable Guidelines of Indonesian Banking Accounting (PAPI), adjustment in respect of financial instrumental valuation result shall directly deduct or increase the recorded value of financial instrument.

Paragraph (2)

Letter a

Deferred tax means transaction arising as a result in the application of PSAK regarding income tax accounting.

In calculation of KPMM in individual manner, the effect of deferred tax as issued at the amount of net asset difference of deferred tax shall be deducted for deferred tax assessment.

In the event that the deferred tax assessment exceeds the deferred tax asset, then the effect of deferred tax assessment so duly issued from profit/loss carry-forward or current of profit/loss shall be null.

In consolidated KPPM calculation, the deferred tax asset of a company shall not be mutually written off with the deferred tax assessment of other companies in Bank business group.

Therefore, the effect of deferred tax in consolidated KPMM calculation shall be calculated and issued separately to respective entity.

By the issuance of the effect of deferred tax under the calculation of profit or loss, then the asset of deferred tax shall not be calculated in WRA calculation.

Letter b

Difference of revaluation of fixed assets means the difference of revaluation of fixed assets as classified in profit balance, in the event that Bank conducts revaluation of fixed assets prior to the effectiveness of PSAK 16 and then uses cost method in the measurement of fixed assets.

The matter including in this component shall be the remaining positive increment of revaluation of fixed assets in the implementation of reorganization quasi.

Letter c

This treatment is intended to Bank using model of revaluation of fixed asset as regulated in PSAK 16 regarding Fixed Asset.

Calculation of fair value of fixed asset shall refer to the prevailing financial accounting standard regarding fixed asset.

Letter d

It occurs, if Bank determines to measure financial assessment in fair value through fair value option pursuant to the applicable financial accounting standard.

Letter e

Gain on sale of asset in security transaction means gain so obtained by Bank as originator on asset sale in security transaction (gain on sale) sourced from expected future margin or servicing income.

Article 11

Paragraph (1)

Self-explanatory

Paragraph (2)

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

Any matters so included in the category as protected and guaranteed by Bank or Subsidiary Company shall be protection and guarantee so received from such other stakeholders, but it is conducted through Bank or Subsidiary Company, e.g. premium/fee for the purpose of guarantee paid by Bank or Subsidiary Company

Letter f

Point 1

Self-explanatory

Point 2

Self-explanatory

Point 3

Step-up feature means feature promising the increase of interest rate, if the call option is not executed within the determined period.

Letter a)

Self-explanatory

Letter b)

Self-explanatory

Letter c)

“Margin” (credit spread) means margin between instrumental yield/interest rate and risk free instrumental interest rate.

Illustration of step-up limit determination on the basis of step-up agreement shall be as follows:

1. Step-up on fixed interest rates

For example:

a. Step-up that may be realized upon the issuance of 10 ofs shall not exceed 100 bp (100 bp=1%).

- Recent interest rate (of 1-10)= 7% fixed interest rate
- Current Interest Rate (since of 11)= 7% + 1% = 8% fixed interest rate

b. Step-up that may be realized upon the issuance of 10 ofs shall not exceed 50% (fifty percent) of initial margin (credit spread).

- Recent interest rate (of 1-10)= 7% fixed interest rate.

For an example, at the time of issuance, risk free instrumental interest rate =6%, then 50% (fifty percent) of initial margin (credit spread) shall be 50% x (7%-6%)= 0.5%.

- Current interest rate (since of 11)= 7% + 0.5% = 7.5% fixed interest rate.

2. Step-up on floating interest rate.

There are 2 examples:

a. If reference rate does not change

1) Step-up that may be realized upon the issuance of 10 ofs shall not exceed 100 bp

- Recent Interest Rate (of 1-10)= 10 ofs Govt' Bond + spread 1.5% (spread during the instrumental issuance)

- Current Interest Rate (since of 11)= 10 ofs Govt' Bond + spread 2.5% (initial spread 1.5% + 1%)

2) Step up that may be realized upon the issuance of 10 ofs shall not exceed 50% (fifty percent) of initial margin (credit spread)

- Recent Interest Rate (of 1-10)= 10 Of Govt' Bond + spread 1.5% (spread during the instrumental issuance)=7%.

e.g. with the free risk instrumental interest rate = 6%, then 50% (fifty percent) of initial margin (credit spread) shall be 50% x (7% -6%) = 0.5%

- Current Interest rate (since of 11)= 10 Of Govt' Bond + spread 2% (initial spread 1.55 + 0.5%).

b. if reference rate changes

- 1) step-up that may be realized upon the issuance of 10 ofs shall not exceed 100 bp.

The increase of interest rate shall not exceed 1% (one percent) of initial spread (at the time of instrumental issuance) using current reference rate so compared with reference rate at the time of instrumental issuance.

e.g. reference rate of 10 of Govt' Bond changes to be LIBOR

- Recent Interest Rate (of 1-10)

The assumption during the issuance of interest rate instrument shall be 7% (10 of Govt' Bond of 5% plus spread of 2%). While, at the same time, LIBOR is 5.5%. Therefore, spread of LIBOR at the time the interest rate of 7% shall be 1.5% (7%-5.5%).

- Current Interest Rate (since of 11)= LIBOR + spread 2.5% (initial spread 1.5% + 1%).

- 2) step-up that may be realized upon the issuance of 10 ofs shall not exceed 50% (fifty percent) of initial margin (credit spread)

The increase of interest rate shall not exceed 50% (fifty percent) of initial spread of (at the time of instrumental issuance) using current reference rate so compared with reference rate at the time of instrumental issuance

e.g. reference rate of 10 of Govt' Bond changes to be LIBOR.

- Recent Interest Rate (of 1-10)

The assumption at the time of issuance of interest rate instrument is 7% (10 of Govt' Bond of 5% plus spread of 2%). While, at the same time LIBOR is 5%.

Therefore, spread of LIBOR at the time the interest rate of 7% is 1.5% (7%-5.5%).

e.g. with the risk free instrumental interest rate= 6%, then 50% (fifty percent) of initial margin (credit spread) shall be $50\% \times (7\% - 6\%) = 0.5\%$.

- Current Interest Rate (since of 11)= LIBOR + spread of 2% (initial spread 1.5% + 0.5%).

3) Step-up with the fixed interest rate changing to be floating interest rate.

- a. Step-up that may be realized upon the issuance of 10 ofs shall not exceed 100 bp

The increase of interest rate shall not exceed 1% (one percent) of initial spread (at the time of instrumental issuance) and floating interest rate so required upon the 10th Ofs compared with the interest rate at the time of instrumental issuance.

e.g. the changes of fixed rate to be floating rate (LIBOR + spread).

- Recent interest rate (of 1-10)= 7% fixed rate

The assumption of LIBOR is 5.5% at the time of instrumental issuance. Therefore, at the interest rate of 7%, then the spread against LIBOR shall be 1.5%

- Current interest rate (since of 11) = LIBOR + spread of 2.5% (initial spread 1.5% + 1%)

b. Step-up that may be realized upon the issuance of 10 ofs shall not exceed 50% (fifty percent) of initial margin (credit spread).

The increase of interest rate shall not exceed 50% (fifty percent) of initial margin (credit spread) (at the time of instrumental issuance) with the floating interest rates so required upon the 10th Ofs compared with the interest rate at the time of instrumental issuance.

e.g. fixed rate changes to be floating rate (LIBOR + Spread).

Recent Interest Rate (of 1-10) = 7% fixed rate

The assumption of LIBOR is 5.5% at the time of instrumental issuance. Therefore, at the interest rate of 7%, then the spread against LIBOR shall be 1.5%.

e.g. at the risk free instrumental interest rate = 5%, then 50% of initial margin (credit spread) shall be 50%
 $x (7\% - 6\%) = 0.5\%$

Current Interest Rate (since of 11) = LIBOR + Spread of 2% (initial spread 1.5% + 0.5%).

Letter g

Self-explanatory

Paragraph (3)

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Point 1

Similar or better quality means capital instrument of which at least fulfill the requirements as innovative capital component

Point 2

Tier 1 capital means tier 1 capital at the time of compensation.

Limit of 10% (ten percent) of tier 1 capital shall be calculated with due observance of all available innovative capital instruments.

The example of “the different amount” shall be as follows:

For an example, innovative capital so executed shall be Rp.100.000.000,- (one hundred million rupiah), however, whilst the compensation, tier 1 capital of Bank changes, such that innovative capital limit becomes the highest one of Rp.150.000.000,- (one hundred fifty five million rupiah).

Due to this condition, then Bank may provide compensation for such innovative capital of Rp.150.000.000,- (one hundred fifty million rupiah).

Article 12

Paragraph (1)

Terms and conditions of tier 1 capital component shall refer to the terms with regard to paid-up capital and capital additional reserves (retained earnings and current of profit).

Paragraph (2)

Self-explanatory

Article 13

Letter a

Pursuant to the prevailing financial accounting standard, goodwill shall constitute positive increment between acquisition fee and part of acquiring company on fair value and assessment so identified on the date of exchange transaction.

Goodwill shall be considered as offset item only in consolidated Bank KPMM calculation.

Letter b

Such other intangible assets shall include copy right, patent right, and other intellectual property rights.

Letter c

Self-explanatory

Article 14

Self-explanatory

Article 15

Paragraph (1)

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

Categorize so protected and guaranteed by Bank or Subsidiary Company shall be protection and guarantee so received by such other parties, but it is conducted through Bank or Subsidiary Company, such as premium/fee for the purpose of guarantee so duly paid by Bank or Subsidiary Company.

Letter f

Point 1

Self-explanatory

Point 2

Self-explanatory

Point 3

Step-up feature means feature promising the increase of interest rate, if call option is not executed within determined period.

Letter a)

Self-explanatory

Letter b)

Self-explanatory

Letter c)

“Margin” (credit spread) means the difference between yield/instrumental interest rate and risk-free instrumental interest rate.

Determination of the extent of step-up shall refer to the illustration so classified in elucidation set forth in Article 11 paragraph (2) letter f point 3 letter c).

Letter g

Self-explanatory

Paragraph (2)

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Point 1

Similar or better quality means capital instrument of which at least fulfill the requirements as the component of upper tier 2 capital.

Point 2

Tier 2 capital limit shall be calculated with due observance of all tier capital instrument so available either upper tier 2 capital and lower tier 2 capital.

The example of “the different amount” shall be as follows:

e.g. the tier 2 capital as executed shall be Rp.500.000.000,- (five hundred million rupiah), but at the time of compensation, the tier 1 capital of Bank

changes, such that the tier 2 capital limit becomes the highest one of Rp.400.000.000,- (four hundred million rupiah).

Due to this condition, then Bank may provide the compensation for the tier 2 capital of Rp.400.000.000,- (four hundred million rupiah).

Article 16

Paragraph (1)

Letter a

The example of “capital instrument in form of share or such other capital instrument fulfilling the requirements as referred to in Article 15 hereunder” shall be as follows:

1. Preferent stock (granting entitlement to the holder to first receive dividend from such other classified shareholders) in cumulative manner (Perpetual cumulative preference share)
2. Debt instrument with the capital characteristic, at the characteristic of subordination, no period, at the nature of cumulative, and fulfilling all requirements to be able to calculate as upper tier 2 capital component (Perpetual cumulative subordinated debt).
3. Debt instrument having the characteristic such as capital so automatically without requirement may be converted to be shares under the approval granted by Bank Indonesia (Mandatory convertible bond).

Condition and value of conversion shall be determined at the time of issuance whose amount shall be in reference to the market condition.

Letter b

“part of innovative capital which is unaccountable in tier 1 capital” means positive increment of capital instrument fulfilling the requirement as innovative capital component from the limit of 10% (ten percent) of the tier 1 capital.

Letter c

Point 1

The difference of fixed asset revaluation value in this point shall have been firstly issued from calculation of profit/loss in last of constituting the tier 1 capital component.

This treatment is intended to Bank conducting revaluation of fixed asset prior to PSAK 16 (Revision) regarding the effective Fixed Asset and then the use of cost method in the measurement of fixed asset.

The difference of fixed asset revaluation value shall be upon the assessment of tax.

Point 2

The increase of fair value on fixed asset as set forth in this point shall have firstly issued from the calculation of profit/loss carry-forward and/or the current of profit/loss constituting the component of tier 1 capital.

Letter d

Formation of general reserves for Deduction for allowance for earning asset losses so duly made shall refer to the provision of Bank Indonesia regarding the quality of asset. For an example:

General reserves for deduction for allowance for earning asset losses so duly made shall be Rp.15.000.000,- (fifteen million rupiah) and WRA of Bank to Credit Risk shall be Rp.1.000.000.000,- (one billion rupiah).

General Reserves that is accountable as the component of upper tier 2 capital at the highest level of $1.25\% \times \text{Rp.}1.000.000.000,- = \text{Rp.}12.500.000,-$ (twelve million five hundred thousand rupiah)

In this matter, there is excessive of general reserves of Rp.2.500.000,- (two million five hundred thousand rupiah) that is uncountable as upper tier 2 capital.

Letter e

Participation as classified in the available group to be sold means stock participation fulfilling the criteria of cost method and having fair value.

Paragraph (2)

The excessive of general reserves for the deduction for allowance for earning asset losses in accordance with the example provided in the elucidation of paragraph (1) letter d shall be Rp.2.500.000,- (two million five hundred rupiah) as the offset item for the WRA calculation to Credit Risk.

Article 17

Paragraph (1)

The component of lower tier 2 capital shall include:

- a. Preferent stock which may be re-withdrawn upon certain periods (Redeemable Preference Shares);
- b. Subordinated loan or subordinated bond

Paragraph (2)

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

The categorize so protected and guaranteed by Bank or Subsidiary Company shall be protection and guarantee as received from such other stakeholders, but it is conducted through Bank or Subsidiary Company, such as premium/fee for the purpose of guarantee so duly paid by Bank or Subsidiary Company.

Letter f

Point 1

Self-explanatory

Point 2

Self-explanatory

Point 3

“Step-up feature” means a feature promising the increase of interest rate, if call option is not executed within the determined periods.

Letter a)

Self-explanatory

Letter b)

Self-explanatory

Letter c)

“Margin (credit spread)” means the difference between yield/instrumental interest rate and risk free instrumental interest rate. Calculation of determination of step-up limit shall refer to the illustration set forth in elucidation of Article 11 paragraph (2) letter f point 3 letter c).

Letter g

Self-explanatory

Paragraph (3)

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Point 1

Similar or better quality means capital instrument of which at least fulfill the requirements as lower tier 2 capital components.

Point 2

Lower tier 2 capital limit is calculated with due observance of all available instruments of lower tier 2 capital.

The example of “the different amount” shall be as follows:

e.g. tier 2 capital so executed shall be Rp.200.000.000,- (two hundred million rupiah), but at the time of compensation, tier 1 capital of Bank changes, such that the lower tier 2 capital limit to be the highest one of Rp.100.000.000,- (one million rupiah).

Due to this condition, then Bank hereto may pay compensation for the lower tier 2 capital only of Rp.100.000.000,- (one hundred million rupiah).

Paragraph (4)

Amortization using pro rate method means pro rata amortization.

Paragraph (5)

Amortization is calculated under capital instrumental value so calculated by the deduction of sinking fund.

Paragraph (5)

Illustration of amortization implementation

Example 1:

Bank issues subordinated bond with the period of 10 (ten) yrs and call option in the end of the 5th yrs.

In this condition, Bank hereto shall be obliged to calculate the amortization as of the first of.

If in the end of the 5th yrs, Bank fails to execute such call option, then as of the first 6th yrs, such subordinated bond may be calculated again in KPMM calculation with due observance of limit so required, including obligation to calculate the aforementioned amortization.

Example 2:

Bank issues subordinated bond with the period of 10 yrs and call option after in the end of the 5th Of.

In this condition, then the remaining instrumental period in the initial issuance shall be 5 (five) yrs. Such amortization shall be obliged to be commenced to calculate by Bank as of the first of.

After at then end of the 5th Of until due, Bank fails to calculate again the subordinated bond as lower tier 2 capital, though Bank has not executed such call option.

Article 18

Subordinated loan or subordinated bond value from the Issuing Bank so deducted shall be upon the calculation of sinking fund.

For an example:

Bank A issues instrument including as lower tier capital component in form of subordinated bond of Rp.100 billion.

Bank A also purchases the instrument of tier 2 capital in form of subordinated bond (both including upper tier 2 capital and lower tier 2 capital) so issued by Bank B of Rp.20 billion.

In this condition, then the subordinated bond that is uncountable as lower tier 2 capital component by Bank A is only Rp.100 billion- Rp.20 Billion = Rp.80 billion, hereafter adjusted by permitted lower tier 2 capital limit.

Article 19

Self-explanatory

Article 20

Paragraph (1)

Letter a

Participation value so calculated means book value recorded in balance sheet.

Letter b

Shortfall is calculated as offset items required only in consolidated KPMM calculation.

The shortfall of Company conducting Insurance business activities of RBC minimum is calculated, if the concerned company fails to fulfill RBC minimum until the determined period by the competent authorized supervisor.

The Insurance Company so controlled by Bank shall refer to the definition of Control as referred to in this provision

Letter c

Treatment to the exposure of security as the capital offset shall refer to the provision of Bank Indonesia regarding security of asset.

“Exposure of security” means credit enhancement, liquidity support and asset backed securities.

Paragraph (2)

Self-explanatory

Paragraph (3)

Self-explanatory

Article 21

Paragraph (1)

Letter a

Self-explanatory

Letter b

By this regulation, then the tier 1 capital so duly allocated to Market Risk at minimum of 28.5% (twenty eight point five percent) of capital charges to Market Risk.

Letter c

Self-explanatory

Paragraph (2)

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

Categorize so protected and guaranteed by Bank or Subsidiary Company shall be protection and guarantee so received by such other parties, but it is conducted through Bank or Subsidiary Company, such as premium/fee for the purpose of guarantee so duly paid by Bank or Subsidiary Company.

Letter f

Point 1

Self-explanatory

Point 2

Self-explanatory

Point 3

Step-up feature means feature promising the increase of interest rate, if the call option is not executed within the determined period

Letter a)

Self-explanatory

Letter b)

Self-explanatory

Letter c)

“Margin” (credit spread) means margin between instrumental yield/interest rate and risk free instrumental interest rate.

Calculation of determination of step-up limit shall refer to the illustration set forth in elucidation of Article 11 paragraph (2) letter f point 3 letter c).

Letter g

Self-explanatory

Paragraph (3)

Self-explanatory

Paragraph (4)

Letter a

Self-explanatory

Letter b

Utilization of tier 2 capital as tier 3 capital component shall remain with due observance of the amount limit of tier 2 capital and tier capital.

Letter c

“part of lower tier 2 capital) exceeding the limit of lower tier 2 capital shall be the positive increment of capital instrument fulfilling the requirement as lower tier 2 capital of the limit of 50% (fifty percent) of tier 1 capital.

Article 22

Supporting document shall constitute the completion submitted to show that the requirements as regulated in this provision shall have been fulfilled.

Article 23

Self-explanatory

Article 24

Self-explanatory

Article 25

Self-explanatory

Article 26

Treatment of admission and measurement shall refer to the Statement of Financial Accounting Standard (PSAK) No.55 (Revision 2006) with regard to Financial Instrument: Admission and Measurement.

Article 27

Self-explanatory

Article 28

Example 1:

Prior the merger or consolidation implementation, both Bank A and Bank B fail to comply with the criteria to calculate Market Risk.

Within 6 (six) months, upon the effectiveness of merger or consolidation, in the 1st (first) month, 3rd (third) month and 4th (fourth) month, either merged or consolidated Bank shall fulfill the criteria to calculate the Market Risk.

Therefore, merged or consolidated Bank shall be obliged to calculate Market Risk as of the 7th (seventh) month.

Example 2:

Bank A fails to fulfill the criteria to calculate Market Risk, then Bank A acquire financial company X, such that bank A conducts consolidation to the company X.

Within 6 (six) months, upon the effectiveness of company acquisition X, in the 2nd (second) month, 4th (fourth) month, and 6th (sixth) month, consolidated Bank and company X fulfill the criteria to calculate the Market Risk.

Therefore, consolidated bank and Subsidiary Company “X” shall be obliged to calculate Market Risk as of the 7th (seventh) month.

Article 29

Self-explanatory

Article 30

Self-explanatory

Article 31

Self-explanatory

Article 32

Paragraph (1)

Letter a

“Risk of Interest Rate” means risk of loss as a result of the change of financial instrumental price from the position of Trading Book due to the changes of interest rate.

Letter b

Risk of exchange rate means risk of loss as a result of the changes of Trading Book and Banking Book position value due to the changes of foreign exchange rate including the changes of gold price.

Paragraph (2)

Risk of equity means risk of loss as a result of the changes of financial instrumental price from the position of Trading Book due to the changes of stock price.

Risk of commodity means risk of loss as a result of the changes of financial instrumental price from the position of Trading Book and Banking Book due to the changes of commodity price.

Article 33

Paragraph (1)

Self-explanatory

Paragraph (2)

If Bank currently fulfills the criteria to calculate Market Risk, then the calculation of Market Risk shall be commenced to conduct under Standardized Method.

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Article 34

Paragraph (1)

KPMM calculation report with due observance of Market Risk shall include position report calculated in Market Risk, KPMM ratio calculation report, value at risk and capital charges calculation report, back testing report and stress testing report.

Paragraph (2)

Self-explanatory

Paragraph (3)

For an example:

If bank A shall have obtained approval to use Internal Model to calculate Market Risk in February 2009, then the report related to the Internal Model shall be arranged to the first time in the end of March 2009.

Article 35

Self-explanatory

Article 36

Self-explanatory

Article 37

Self-explanatory

Article 38

Self-explanatory

Article 39

“Significant amount” means significance to the total financial asset in available group to be sold.

Article 40

Self-explanatory

Article 41

Self-explanatory

Article 42

Self-explanatory

Article 43

Self-explanatory

Article 44

Self-explanatory

Article 45

Self-explanatory