BANK INDONESIA REGULATION

NUMBER 14/ 18 /PBI/2012

CONCERNING

MINIMUM CAPITAL ADEQUACY REQUIREMENT FOR COMMERCIAL BANKS

BY THE GRACE OF GOD ALMIGHTY

THE GOVERNOR OF BANK INDONESIA,

Considering:

a. Whereas in order to create a healthy banking system and capable to develop and compete nationwide as well as in global, the structure, requirements and the calculation of capital adequacy of banks should be adjusted with the prevailing international standards;
b. whereas in line with the prevailing international standards, calculation of capital adequacy should be adjusted; so that not only capable to absorb the potential losses arising but also from other material risks such as credit risk concentration, interest rate risk in the banking book and liquidity risk
c. whereas in line with the development of business risk and complexity of the Bank as well as the application of risk-based supervision, then the Bank should conduct an assessment of a risk profile and level of capital adequacy to anticipate potential losses on risk exposure as well as to keep fulfilling minimum capital adequacy requirement as the prevailing requirements;
d. whereas in line with the economical dynamic and global financial system as well as to maintain national financial system stability, should be allocated certain amount of branch office business funds that located abroad to be placed into certain financial assets;
e. whereas based on the consideration stated in letter a, letter b, letter c, letter d, needs to reorganize the Bank Indonesia Regulation concerning Minimum Capital Adequacy Requirement for Commercial Banks;

In view of:

1. Act Number 7 Year 1992 concerning Banking (State Gazette of Republic of Indonesia Year 1992 Number 31, Supplement to State Gazette of the Republic of Indonesia Number 3472) as amended by Act Number 10 Year 1998 (State Gazette of the Republic of Indonesia Year 1998 Number 182, Supplement to State Gazette of the Republic of Indonesia Number 3790)
2. Act Number 23 Year 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Year 1999 Number 66, Supplement to State Gazette of the Republic of Indonesia Number 3843) as most recently amended by Act Number 6 Year 2009 concerning the Stipulation of Government Regulation In Lieu of Law Number 2 Year 2008 concerning the Second Amendment to Act Number 23 Year 1999 concerning Bank Indonesia into Act (State Gazette of the Republic of Indonesia Year 2009 Number 7, Supplement to State Gazette of the Republic of Indonesia Number 4962);

HAS DECREED:

To stipulate: BANK INDONESIA REGULATION CONCERNING MINIMUM CAPITAL ADEQUACY REQUIREMENT FOR COMMERCIAL BANKS.

CHAPTER I
GENERAL PROVISIONS
Article 1

The Bank Indonesia Regulation shall read as follows:

1. Bank shall be a Commercial Bank as referred to in Act Number 7 Year 1992 concerning Banking as amended by Act Number 10 Year 1998 including the foreign bank branches, which conducts conventional business activities.
2. Board of Directors:

a. in the case of a Bank legally incorporated as a Limited Liability Company, is the board of directors as referred to in the Act concerning Limited Liability Companies;
b. in the case of a Bank legally incorporated as a Regional Government Enterprise, is the board of directors as referred to in the Act concerning Regional Government Enterprises;
c. in the case of a Bank legally incorporated as a Cooperative, is the management as referred to in the Act concerning Cooperatives.
d. in the case of foreign bank branch office which located abroad is the head of branch office and an officer one level below the head of branch office.

3. Board of Commissioners:
   a. in the case of a Bank legally incorporated as a Limited Liability Company, is the board of commissioners as referred to in the Act concerning Limited Liability Companies;
   b. in the case of a Bank legally incorporated as a Regional Government Enterprise, is the supervisory board as referred to in the Act concerning Regional Government Enterprises;
   c. in the case of a Bank legally incorporated as a Cooperative, is the supervisory board as referred to in the Act concerning Cooperatives;
   d. in the case of foreign bank branch office which located abroad is the designated party to conduct the supervising function.
4. Subsidiary company is the legal entity or company owned and/or controlled directly or indirectly by Bank, both domestically and abroad that conducts business activity in the field of finance, consisting of:
   a. Subsidiary Company is a company that more than 50% (fifty percent) owned by the Bank;
   b. Participation Company is a Subsidiary Company with 50% (fifty percent) or less ownership by the Bank, but the Bank has control over the company;
   c. Company with the Bank ownership more than 20% (twenty percent) up to 50% (fifty percent) that fulfills the following requirements:
      (1) the ownership of the Bank and other parties over the Subsidiary Company are equal; and (2) respective owners together control the Subsidiary Company;

   d. Other entities based on the prevailing financial accounting standard must be consolidated, but excluding insurance companies and companies owned in order for a restructuring of credit.

5. Control is the control as stated in Bank Indonesia Regulation concerning transparency and publication of Bank statements.
6. Capital Equivalency Maintained Assets which from this point forward called as CEMA is the allocation of funds from a bank branch office which domiciled abroad that must be placed on financial assets in the amount and certain requirements.
7. Internal Capital Adequacy Assessment Process which from this point forward called as ICAAP is a process conducted by the Bank to stipulate capital adequacy in accordance with the Bank risk profile and the determination of the strategy to maintain funds level.
8. Supervisory Review and Evaluation Process which from this point forward called as SREP is the reexamination process conducted by Bank Indonesia based on the result of Bank's ICAAP.
9. Credit Risk is a risk due to the failure of the debtor and/or other party in fulfilling obligation to the Bank.
10. Market Risk is a risk on balance position and off balance sheet including derivative transaction, due to the overall changes of market condition, including the risk of price change option
11. Operational Risk is a risk due to inadequacy and/or malfunction of the internal process, human error, failure of system, and/or external events that affecting the operations of the Bank.
12. Trading Book is the entire position of financial instrument in the balance sheet and off balance sheet including derivative transaction owned by the Bank for:
    a. trading purposes and transferable freely or the entire value can be hedged, from transaction for proprietary purposes, based on customer's request or brokerage activities, and in order to market making, which consist of:
        1) position owned for resale in the short term;
        2) position owned to gain short term realized profit and/or the potential of price movement; or
        3) position owned for the purpose of locking in arbitrage profits;
    b. the purpose of hedging over other positions in Trading Book.
13. Banking Book is the entire other positions excluded in the Trading Book.

Article 2

(1) Bank is required to provide minimum capital in accordance with risk profile.

(2) The provision of minimum capital as referred to in paragraph (1), calculated by using the Minimum Capital Adequacy Requirement (KPMM) ratio.

(3) The provision of minimum capital as referred to in paragraph (1) the lowest defined as follows:

   a. 8% (eight percent) of Risk Weighted Assets (ATMR) for Banks with risk profile rating 1 (one);
   b. 9% (nine percent) to less than 10% (ten percent) of ATMR for Banks with risk profile rating 2 (two);
   c. 10% (ten percent) to less than 11% (eleven percent) of ATMR for Banks with risk profile rating 3 (three);
   d. 11% (eleven percent) to 14% (fourteen percent) of ATMR for Banks with risk profile rating 4 (four) or rating 5 (five).

(4) Bank Indonesia is able to stipulate minimum capital greater than minimum capital as referred to in paragraph (3), in terms of Bank Indonesia rates the Bank as facing potential losses which requires a larger capital.

Article 3

In terms of Bank having and/or doing Control over Subsidiary Company, the minimum capital adequacy requirement as referred in Article 2 apply for the Bank either individually as well as in the consolidation of the Subsidiary Company.

Article 4

Bank is prohibited from conducting profit distribution if the profit distribution causes the Bank's capital condition does not fulfill the provisions as referred to in Article 2 and Article 3.

CHAPTER II
CAPITAL
Part One
General

Article 5

(1) For the Bank which head office domiciled in Indonesia, Capital consists of:

a. core capital (tier 1);

b. supplementary capital (tier 2); and

c. additional supplementary capital (tier 3),

after taking into consideration the factors that become a deduction of capital as referred to in Article 14 and Article 21.

(2) In the calculation of capital consolidation, capital components of Subsidiary Company that can be counted as core capital, supplementary capital, and additional supplementary capital should fulfill the applicable requirements for each capital component as applied for the Bank individually.

Article 6

(1) Capital for branch office domiciled abroad consist of:

a. business funds;

b. profit retained and last year's profit after excluded the influence factors as referred to in Article 11 paragraph (2);

c. 50% (fifty percent) of current year profit after excluded the influence factors as referred to in Article 11 paragraph (2);

d. general capital reserves;

e. reserve capital purpose;

f. fixed asset revaluation with coverage and calculation as referred to in Article 17 paragraph (1) letter c; and

g. general reserves for the Provision for Asset Losses (PPA) over productive assets using the calculation as referred to in Article 17 paragraph (1) letter d;

after taking into consideration the factors that become a deduction of capital as referred to in Article 11 paragraph (1) letter b, Article 14, and Article 21.

(2) The calculation of business capital as the capital component as referred to in paragraph (1) letter a conducted as follows:

a. In terms of the actual business capital position is larger than the declared business capital; then the declared business capital will be used for the calculation.

b. In terms of the actual business capital position is lower than the declared business capital; then the actual business capital will be used for the calculation.

c. In terms of the actual business capital is in negative position; then the amount becomes the deduction of capital factor as referred to in paragraph (1).

Part Two

Core Capital

Article 7

(1) Bank entitled to provide core capital as referred to in Article 5 paragraph (1) letter a, at least 5% (five percent) from ATMR, individually or as consolidated with Subsidiary Company.

(2) Core capital as referred to in paragraph (1) consist of:

a. paid up capital;

b. disclosed reserve; and

c. innovative capital instrument.

Article 8

Paid up capital as referred to Article 7 paragraph (2) letter a, should fulfill the following requirements:

a. published and has completely paid up;

b. permanent

c. available to absorb losses that occurred before the liquidation as well as during liquidation

d. the earning yield is uncertain and cannot be accumulated between the period; and

e. not protected or guaranteed by the Bank or Subsidiary Company

Article 9

The non-cumulative preferred share which has been issued for special purpose and has call option feature, can be included as paid up capital component as referred to in Article 7 paragraph (2) letter a, if:

a. fulfill the requirements as referred to in Article 8 letter a, letter c, letter d, letter e; and

b. the call option can be executed by fulfilling the following requirements:

1. only by the Bank's initiative;

2. within the period of 5 years after being issued or the issuing purpose will be canceled;
3. approved by Bank Indonesia; and
4. not causing capital decrease under the minimum requirements as referred to in Article 2 and Article 3.

Article 10

The treasury stock which have been acknowledge as the paid up capital component should only be done by fulfilling the following requirements:

a. within the period of 5 years after being published;
b. for certain purpose;
c. obliged to refer to the applicable laws and regulations;
d. approved by Bank Indonesia; and
e. not causing capital decrease under the minimum requirements as referred to in Article 2 and Article 3

Article 11

(1) The disclosed reserve as referred to in Article 7 paragraph (2) letter b, consist of:
   a. the enhancer factors, which are:
      1. agio;
      2. contribution capital
      3. general capital reserves;
      4. reserve capital purpose;
      5. past years profit;
      6. 50% (fifty percent) of current profit year;
      7. the higher difference on the description of financial statements;
      8. capital deposit fund, which fulfill the following requirements:
         a) has been paid in full for the purpose of capital increase, but not yet supported by the completeness of requirements to be classified as paid up capital as the implementation of the General Meeting of Shareholders (RUPS) as well as the ratification of the articles of association by the competent authority;
         b) placed in an escrow account which does not get the earning yield;

c) should not be withdrawn by shareholders/prospective shareholders and should be available to absorb loss; and
d) the use of the Fund should be with approval from Bank Indonesia.
9. Warrants issued as an incentive to the shareholders of the Bank as much as 50% (fifty percent), by fulfilling the following requirements:
a) the underlying instrument is common stock;
b) can not be converted into a form other than stock
c) the amount that taken into consideration is the fair value of the warrant on the issued date
10. Stock option issued through an employee/management stock option as much as 50% (fifty percent), by fulfilling the following requirements:
a) the underlying instrument is common stock;
b) can not be converted into a form other than stock
c) the amount that taken into consideration is the fair value of the stock option on the issued date of compensation

b. the deduction factors, which are:
1. disagio;
2. past years loss;
3. current year loss
4. the lower difference on the description of financial statements;
5. other negative comprehensive income, which includes unrealized loss arising from the decreasing fair value of the equity participation which is classified as available for sale;
6. the lower difference between PPA for productive asset and allowance for impairment losses for productive asset;
7. the lower difference between the amount of adjustment to the valuation of financial instruments in the Trading Book and the amount of adjustment based on the applicable financial accounting standards; and
8. non-productive PPA.

(2) In the calculation of the profit-loss in the past years and/or current year as referred to in paragraph (1) letter a number 5 and number 6 should be excluded from the influence of factors as follows:
a. deferred tax;
b. the difference in value of fixed assets revaluation;

c. the increasing in value of fixed assets;

d. the increasing or decreasing in value of fixed assets over financial liabilities; and/or

e. profit on sale of assets in the transaction of securities (gain on sale)

Article 12

(1) Innovative capital as referred to in Article 7 paragraph (2) letter c that taken into consideration as the highest core capital component as much as 10% (ten percent) from the core capital as referred to in Article 5 paragraph (1) letter a.

(2) Innovative capital as referred to in paragraph (1) should fulfill the following requirements:

a. published and has completely paid up;

b. does not have a time period and no requirements which requires payment by the Bank in the future;

c. available to absorb loss which happened before or during liquidation and is subordinated, which clearly declared in the publishing documentation/agreement;

d. the earning yield is uncertain and cannot be accumulated between the period;

e. not protected or not guaranteed by the Bank or Subsidiary Company;

f. if carries with call option feature, should fulfill the following requirements:

1. can only be executed, the soonest in 10 (ten) years after the capital instrument being published;

2. publishing documentation should declared that the option can only be executed with the approval of Bank Indonesia; and

3. in terms of innovative capital instrument with step-up feature, the step-up feature should fulfill the following requirements:

a) the step-up feature is limited, defined, and clearly stated in the publishing instruments agreement;

b) realization can only be done once during the period of the instrument, which is the soonest in 10 (ten) years after time period of publishing; and

c) the step-up features relevant and in line with market conditions and not greater than any of the following limitations:

1) 100 (one hundred) basis points; or

2) 50% (fifty percent) from initial margin (credit spread)

g. to be taken into consideration as capital component with the approval from Bank Indonesia

(3) Call option as referred to paragraph (2) letter f number 1 and number 2 should only be executed by the Bank as long as:

a. approved by Bank Indonesia;

b. not causing capital decrease under the minimum requirements as referred to in Article 2 and Article 3; and

c. replaced by capital instruments that has:

1. same or better qualities; and
2. same or different amount as long as not more than 10% (ten percent) from the core capital as referred to in Article 5 paragraph (1) letter a.

Article 13

(1) In terms of the consolidated calculation of KPMM ratio, minority interest is taken into consideration as core capital as referred to in Article 5 paragraph (1) letter a, excluding the parts concerning minority interests which do not comply with the core capital requirements components.

(2) Minority interest as referred to in paragraph (1) shall not be taken into consideration in the consolidated core capital if the Bank ownership on Subsidiary Company is 50% (fifty percent) or less, and fulfilling the following conditions:

a. there is no relation/affiliation between other shareholders (minority interest) with the Bank; or

b. there is no statement letter or RUPS of the Subsidiary Company's decision which declared the willingness of other shareholders (minority interest) to support the Bank's capital business group;

Article 14

The core capital as referred to in Article 5 paragraph (1) letter a, shall be taken into consideration with the deduction factors as follows:

a. Goodwill;

b. Other intangible assets; and/or

c. Other core capital deduction factor as referred to in Article 21

Part Three
Supplementary Capital
Article 15

(1) Supplementary capital as referred to in Article 5 paragraph (1) letter b, can only be taken into consideration at the highest as 100% (one hundred percent) from the core capital as referred to in Article 5 paragraph (1) letter a.

(2) Supplementary capital as referred to in paragraph (1) consists of:

a. Supplementary capital upper level (upper tier 2); and

b. Supplementary capital lower level (lower tier 2).

Article 16

(1) Supplementary capital upper level (upper tier 2) as referred to in Article 15 paragraph (2) letter a, in the form of capital instrument as referred to in Article 17 paragraph (1) letter a should fulfill the following requirements:

a. published and has completely paid up;

b. does not have a time period and no requirements which requires payment by the Bank in the future;

c. available to absorb loss in terms of the amount of Bank loss exceeding the profit retained and deposits which includes core capital although the Bank is not in liquidation and is subordinated, which clearly declared in the publishing documentation/agreement;

d. Principal payments and / or earning yield is being suspended and accumulated in between period (cumulative) if the referred payment can cause the ratio of KPMM, individually as well as consolidated, does not fulfill the requirements as referred to in Article 2 and Article 3.

e. Not protected or not guaranteed by the Bank or Subsidiary Company;

f. if carries with call option feature, should fulfill the following requirements:

1. can only be executed, the soonest in 10 (ten) years after the capital instrument being published;
2. publishing documentation should declared that the option can only be executed with the approval of Bank Indonesia; and

3. in terms of capital instrument with step-up feature, the step-up feature should fulfill the following requirements:
    a) the step-up feature is limited, defined, and clearly stated in the publishing instruments agreement;
    b) realization can only be done once during the period of the instrument, which is the soonest in 10 (ten) years after time period of publishing; and
    c) the step-up features relevant and in line with market conditions and not greater than any of the following limitations:
        3) 100 (one hundred) basic points; or
        4) 50% (fifty percent) from initial margin (credit spread)

g. to be taken into consideration as capital component with the approval from Bank Indonesia, unless it is an excess from innovative capital instrument.

(2) Call option as referred to paragraph (1) letter f number 1 and number 2 should only be executed by the Bank as long as:

a. approved by Bank Indonesia;
b. not causing capital decrease under the minimum requirements as referred to in Article 2 and Article 3; or
c. replaced by capital instruments that has:
    1. same or better qualities; and
    2. same or different amount as long as not more than the limitation for supplementary capital as referred to in Article 15 paragraph (1).

Article 17

(1) Supplementary capital upper level (upper tier 2) consists of as follow:

a. capital instrument in the stock form or other capital instrument that fulfill the requirements as referred to in Article 16;
b. parts of innovative capital that cannot be taken into consideration in the core capital;
c. fixed asset revaluation which covers
    1. the difference in value of fixed assets revaluation which were classified into profit balance, as much as 45% (forty five percent); and
    2. the increasing in value of fixed assets were unrealized which have previously been classified into profit balance, as much as 45 % (forty five percent);

d. general reserves of PPA over productive assets which obliged to be formed with the highest amount at 1.25% (one point twenty five percent) from ATMR for Credit Risk; and
e. Other comprehensive earnings, the highest at 45% (forty five percent), which is the unrealized profit that arises from the increasing in fixed value inclusion that classified in the available for sale category..

(2) The higher difference on general supplementary that obliged to be formed from the limitation as referred to in paragraph (1) letter d, can be taken into consideration as the decreasing calculation factor of ATMR for Credit Risk.

Article 18

(1) Supplementary capital lower level (lower tier 2) as referred to in Article 15 paragraph (2) letter b, can only be taken into consideration, the highest at 50% (fifty percent) from the core capital as referred to in Article 5 paragraph (1) letter a.
(2) Supplementary capital lower level (lower tier 2) as referred to in paragraph (1) shall fulfill the following requirements:
   a. published and has completely paid up;
   b. time period of the agreement is at least 5 years and can only be settled after being approved by Bank Indonesia;
   c. available to absorb loss which happened during liquidation and is subordinated, which clearly declared in the publishing documentation/agreement;
   d. Principal payments and/or earning yield is being suspended and accumulated in between period (cumulative), including payment upon due date, if the referred payment can cause the ratio of KPMM, individually as well as consolidated, does not fulfill the requirements as referred to in Article 2 and Article 3;
   e. not protected or not guaranteed by the Bank or Subsidiary Company;
   f. if carries with call option feature, should fulfill the following requirements:
      1. can only be executed, the soonest in 5 (five) years after the capital instrument being published;
      2. publishing documentation should declared that the option can only be executed with the approval of Bank Indonesia; and
      3. in terms of innovative capital instrument with step-up feature, therefore the step-up feature should fulfill the following requirements:

a) the step-up feature is limited, defined, and clearly stated in the publishing instruments agreement;
b) realization can only be done once during the period of the instrument, which is the soonest in 5 (five) years after time period of publishing; and
c) the step-up features relevant and in line with market conditions and not greater than any of the following limitations:
1) 100 (one hundred) basis points; or
2) 50% (fifty percent) from initial margin (credit spread)

g. to be taken into consideration as capital component with the approval from Bank Indonesia

(3) Call option as referred to paragraph (2) letter f number 1 and number 2 should only be executed by the Bank as long as:
a. approved by Bank Indonesia;
b. not causing capital decrease under the minimum requirements as referred to in Article 2 and Article 3; and
c. replaced by capital instruments that has:
1. same or better qualities; and
2. at the same or different amount but not over the limitation of supplementary capital lower level (lower tier 2) as referred to paragraph (1).

(4) The amount that can be taken into consideration as supplementary capital lower level (lower tier 2) is the amount of supplementary capital lower level (lower tier 2) subtracted with amortization which is counted by using straight-line method.

(5) Amortization as referred to in paragraph (4) conducted for the past 5 years of remaining time of the instrument.

(6) In terms of options, therefore the time period for the Bank to execute the option is the remaining terms of the instrument.

Article 19

The placement of funds on subordinate loan or subordinate obligation or which fulfill the criteria of supplementary capital on other Bank is taken into consideration as the deduction factor over subordinate loan or subordinate obligation which becomes the supplementary capital component of originating bank/bank of issue.

Article 20

Parts of the supplementary capital which has been in the form of sinking fund shall not be taken into consideration as component of supplementary capital, if the Bank:

a. has determined to set aside and manage the sinking fund specifically; and

b. has published the forming of sinking fund, including in the General Meeting of Obligators (RUPO).

Article 21

(1) The capital deduction factors as referred to in Article 5 paragraph (1) and Article 6 paragraph (1) are as follow:

   a. Bank equity participation, which covers:

      1. the entire Bank participation to the Subsidiary Company, except the inclusion of a temporary equity participation in credit restructuring.

      2. the entire equity participation to the company or legal entity, with the Bank ownership more than 20% (twenty percent) up to 50% (fifty percent) but the Bank does not have Control

      3. the entire equity participation to the insurance company

   b. shortfall from completing the minimum solvability ratio level (Risk Based Capital/RBC minimum) of the insurance company owned and controlled by the Bank; and

   c. securitization exposure

(2) The deduction as referred to in paragraph (1) letter a and letter b, as much as 50% (fifty percent) from the core capital as referred to in Article 5 paragraph (1) letter a and 50% (fifty percent) from the supplementary capital as referred to in Article 5 paragraph (1) letter b.

(3) The entire capital deduction factors as referred to in paragraph (1) letter a and letter b shall not be taken into consideration in the ATMR for Credit Risk.

Part Four

Additional Supplementary Capital

Article 22

(1) Additional supplementary capital as referred to in Article 5 paragraph (1) letter c, can be used if fulfilling the following criteria:

   a. only for measuring the Market Risk

b. not more than 250% (two hundred and fifty percent) of core capital which being allocated to calculate the Market Risk; and
c. the highest amount of supplementary capital and the additional supplementary capital is 100% (one hundred percent) from core capital as referred to in Article 5 paragraph (1) letter a.

(2) Additional supplementary capital (tier 3) as referred to in paragraph (1) shall fulfill the following requirements:
a. published and has completely paid up
b. time period of the agreement is at least 2 (two) years and can only be executed with the approval of Bank Indonesia;
c. available to absorb loss which happened during liquidation and is subordinated, which clearly declared in the publishing documentation/agreement;
d. Principal payments and/or earning yield is being suspended and accumulated in between period (cumulative), if the referred payment can cause the ratio of KPMM, individually as well as consolidated, does not fulfill the requirements as referred to in Article 2 and Article 3;
e. Not protected or not guaranteed by the Bank or Subsidiary Company;
f. if carries with call option feature, should fulfill the following requirements:
   1. can only be executed, the soonest in 2 (two) years after the capital instrument being published;
   2. publishing documentation should declared that the option can only be executed with the approval of Bank Indonesia; and
   3. in terms of innovative capital instrument with step-up feature, therefore the step-up feature should fulfill the following requirements:
      a) the step-up feature is limited, defined, and clearly stated in the publishing instruments agreement;
      b) realization can only be done once during the period of the instrument, which is the soonest in 2 (two) years after time period of publishing; and
      c) the step-up features relevant and in line with market conditions and not greater than any of the following limitations:
         1) 100 (one hundred) basis points; or
         2) 50% (fifty percent) from initial margin (credit spread)

g. to be taken into consideration as capital component with the approval from Bank Indonesia, excluding the component of additional supplementary capital (tier 3) as referred to in paragraph 4 letter b and letter c.

(3) Call option as referred to paragraph (2) letter f number 1 and number 2 should only be executed by the Bank as long as:

a. approved by Bank Indonesia;
b. not causing capital decrease under the minimum requirements as referred to in Article 2 and Article 3; and

(4) Additional supplementary capital (tier 3) consist of:

a. short term subordinated loan or subordinated bond;
b. supplementary capital which is not allocated to cover capital charges of Credit Risk and/or capital charges of Operational Risk, but fulfill the requirements for supplementary capital (unused but eligible tier 2); and
c. parts of supplementary capital lower level (lower tier 2) which exceeds the limitation of supplementary capital lower level.

Article 23

In terms of the consolidated calculation of KPMM ratio, for innovative capital component, supplementary capital upper level (upper tier 2), supplementary capital lower level (lower tier 2), and additional supplementary capital (tier 3), Bank is obliged to submit supporting data showing that capital component of Subsidiary Company which considered as fulfilling the entire requirements for capital component.

Part Five

Capital Equivalency Maintained Assets (CEMA)

Article 24

(1) Branch office of a Bank which domiciled abroad obliged to fulfill the minimum CEMA.

(2) The minimum CEMA as referred to in paragraph 1 obliged to be fulfilled from the business funds as referred to in Article 6 paragraph (1) letter a.

(3) The business funds owned by branch office of a Bank which domiciled abroad shall fulfill the minimum capital as per the risk profile and the minimum CEMA.

(4) The minimum CEMA as referred to in paragraph 1 shall be calculated every month

(5) The minimum CEMA as referred to in paragraph 1 shall be defined as much as 8% (eight percent) from total amount of Bank's liability every month and at least Rp1.000.000.000.000,00 (one trillion Rupiah)

(6) The minimum CEMA as referred to in paragraph 1 obliged to be fulfilled and placed at the latest on day 6th of the next month.

Article 25

(1) Bank is obliged to determined financial asset used to fulfill the minimum CEMA.

(2) Financial asset which has been determined to fulfill the minimum CEMA shall not be exchanged until the next period of the fulfillment of CEMA.

(3) Financial asset as referred to in paragraph 1 which fulfill the requirements and shall be taken into consideration as the CEMA are as follow:

   a. Securities published by the government the Republic of Indonesia and meant to be held until maturity

   b. Securities published by other banks with Indonesian legal entity and fulfilled the following criteria:

      1. non equity;
      2. has investment rating;
      3. not meant for trading purposes;

   and/or

   c. Securities published by the corporation with Indonesian legal entity and fulfilled the following criteria:

      1. non equity;
      2. securities rating at least in A+ rank or equivalent;
      3. not meant for trading purposes; and
      4. portion of corporate securities is 20% (twenty percent) at the highest from the total of minimum CEMA

(4) Financial assets which used as CEMA shall be free from being claimed by any party.

(5) The calculation of financial assets used to fulfill CEMA shall be done as follows:

   a. for financial assets owned by the Bank shall be counted based on registered value of financial assets at the last position of monthly statement;

b. for financial assets bought after the last position of monthly statement shall be counted based on registered value of financial assets at purchase position of financial assets

CHAPTER III

RISK WEIGHTED ASSETS

Part One

General

Article 26

Risk Weighted Assets (ATMR) which is used on the calculation of minimum capital as referred to in Article 2 paragraph (3), consist of as follow:

a. ATMR for Credit Risk;
b. ATMR for Operational Risk;
c. ATMR for Market Risk;

Article 27

(1) Every Bank obliged to determine ATMR for Credit Risk and ATMR for Operational Risk.
(2) ATMR for Market Risk only obliged to determine by Bank that fulfilled certain criteria.

Article 28

Certain criteria as referred to in Article 27 paragraph (2) are as follow:

a. Bank which individually fulfill one of the following criteria:
    1. Bank with total assets of Rp10.000.000.000.000,00 (ten trillion Rupiah) or more;
    2. Foreign exchange bank with financial instrument position in the form of securities and/or derivative transaction in the form of a Trading Book as much as Rp20.000.000.000,00 (twenty billion Rupiah) or more;
    3. Non foreign exchange bank with financial instrument position in the form of securities and/or derivative transaction in the form of a Trading Book as much as Rp25.000.000.000,00 (twenty five billion Rupiah) or more;

    and/or;
b. Bank which consolidated with Subsidiary Company fulfill one of the following criteria:

1. Bank which consolidated with Subsidiary Company owned financial instrument position in the form of securities, including financial instrument which being exposed with equity risk and/or derivative transaction in the form of a Trading Book and or financial instrument which being exposed with commodity risk in the form of a Trading Book and Banking Book as much as Rp20.000.000.000,00 (twenty billion Rupiah) or more;
2. Non foreign exchange bank which consolidated with Subsidiary Company owned financial instrument position in the form of securities, including financial instrument which being exposed with equity risk and/or derivative transaction in the form of a Trading Book and or financial instrument which being exposed with commodity risk in the form of a Trading Book and Banking Book as much as Rp25.000.000.000,00 (twenty five billion Rupiah) or more.
3. Bank with office chain and/or Subsidiary Company which domiciled abroad or branch office domiciled abroad

Article 29

Financial assets which at the early recognition determined as financial assets that being calculated at fair value through the statement of profit and loss and loan which is classified as trading, are excluded in the scope of Trading Book.

Article 30

Securities in the Trading Book only consist of securities classified as trading.

Article 31

Bank, which qualifies the requirements as referred to in Article 28 after merger, consolidation, or acquisition, at least for 3 period of monthly statements within the first 6 months after the merger, consolidation, or acquisition determined as effective is obliged to calculate the Market Risk in the KPMM ratio calculation starting at the 7^{th} month after the merger, consolidation, or acquisition determined as effective.

Article 32

Bank which fulfilled the requirements as referred to in Article 28 and Bank as referred to in Article 31 remain obliged to calculate the Market Risk in the KPMM although afterwards the Bank does not fulfilling the criteria referred to.

Part Two
Credit Risk
Article 33

(1) On Risk Weighted Assets (ATMR) calculation for Credit Risk, Bank is using as follow:
   a. Standardized Approach; and/or
   b. Internal Rating Based Approach.

(2) Bank that use the approach as referred to in paragraph (1) letter b obliged to firstly gain approval from Bank Indonesia.

(3) The following provision concerning every approach used as referred to in paragraph (1) shall be subsequently regulated in Circular Letter of Bank Indonesia.

Part Three
Operational Risk
Article 34

(1) On Risk Weighted Assets (ATMR) calculation for Operational Risk, Bank is using as follow:
   a. Basic Indicator Approach;
   b. Standardized Approach; and/or
   c. Advanced Calculation Approach.

(2) Bank that use the approach as referred to in paragraph (1) letter b and letter c obliged to firstly gain approval from Bank Indonesia.

(3) The following provision concerning every approach used as referred to in paragraph (1) and paragraph (2) shall be subsequently regulated in Circular Letter of Bank Indonesia.

Part Four
Market Risk
Article 35

(1) Market Risk which is obliged to be calculated by Bank, individually as well as consolidated with Subsidiary Company are as follow:
   a. interest rate risk; and/or
   b. exchange rate risk

(2) Bank in consolidated obliged to calculate the equity risk and/or commodity risk, excluding market risk as referred to in paragraph (1) if fulfilling the following requirements:
   a. owned Subsidiary Company which being exposed with equity risk and/or commodity risk; and
   b. consolidated with Subsidiary Company fulfill the requirements as referred to in Article 28 letter b.

Article 36

(1) Bank obliged to perform daily valuation to the position of Trading Book accurately.
(2) In performing the valuation as referred to in paragraph (1), Bank obliged to have policy and procedure of the valuation, including having management information system and control of the enabling valuation process and integrated with the risk management system.
(3) Policy and procedure of the valuation as referred to in paragraph (2) obliged to be based on awareness principal.

Article 37

(1) The valuation process obliged to be performed based on fair value.
(2) In terms of financial instruments that actively traded as referred to in paragraph (1) conducted by using close out prices or market quotation from independent source.
(3) The valuation of financial instrument as referred to in paragraph (2) are using as follow:
   a. bid price for assets owned or liability which will be issued; and/or
   b. ask price for assets which will be gained or liability issued.
(4) In terms of unavailability of market price as referred to in paragraph (2), Bank shall determined fair value by using certain judgment model/technique based on awareness principal.

Article 38

(1) Bank obliged to conduct verification on the process and result of valuation.
(2) Verification process as referred to in paragraph (1) obliged to be conducted at least once a month by the parties that are not doing the valuation.
(3) Bank obliged to adjust the result of valuation based on verification as referred to in paragraph (1).

Article 39

Bank obliged to conduct result adjustment of valuation, at the soonest, which not showing fair value in terms of:

a. Significant changes on the economic condition.
b. The price of financial instrument used as reference is the price of a transaction being forced, a liquidation being forced, or sales due to financial difficulties.
c. Financial instrument is nearly due; and/or
d. Uncommon price used as reference due to other conditions.

Article 40

(1) In addition to the adjustment as referred to in Article 39, Bank obliged to conduct adjustment on valuation on less liquid positions by taken into consideration on certain factors.
(2) In terms of conducting adjustment as referred to in paragraph (1), Bank obliged to consider impact of the adjustment as the core capital deduction factors in the calculation of KPMM ratio.

Article 41

(1) On Risk Weighted Assets (ATMR) calculation for Market Risk, Bank is using as follow;
    a. Standard Method
    b. Internal Model
(2) Bank that fulfill the criteria as referred to in Article 28, firstly obliged to use the Standard Method to calculate the Market Risk.
(3) Bank that use the approach as referred to in paragraph (1) letter b obliged to firstly gain approval from Bank Indonesia.
(4) The following provision concerning every approach used as referred to in paragraph (1) and paragraph (2) shall be subsequently regulated in Circular Letter of Bank Indonesia.

CHAPTER IV

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) AND SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

Part One

Scope of Internal Capital Adequacy Assessment Process (ICAAP)

Article 42

(1) In terms of fulfilling the obligation as referred to in Article 2 and Article 3, Bank obliged to have ICAAP which adjusted with the size, characteristics, and business complexity of the Bank.

(2) ICAAP shall at least covers as follow:

   a. Board of commissions and Directors' active supervision;
   b. Assessment of capital adequacy;
   c. Observation and reporting; and
   d. Internal control.

(3) Bank obliged to make a documentation of ICAAP.

Part Two

Supervisory Review and Evaluation Process (SREP)

Article 43

(1) Bank Indonesia conducts SREP.

(2) Based on SREP, Bank Indonesia shall request Bank to make a correction on the ICAAP.

Article 44

(1) If there were a difference in the result of capital calculation based on the risk profile, between the results of Bank's self assessment with the result of SREP, therefore the calculation applied is the result of SREP.

(2) If Bank Indonesia evaluate the capital owned by Bank shall not fulfill the minimum capital in accordance with risk profile as referred to in Article 2 and Article 3, therefore Bank Indonesia request the Bank to:

   a. provides additional capital to fulfill the minimum capital in accordance with risk profile
   b. repair the quality of risk management process; and/or
   c. reducing risk exposure

Article 45

In terms of assessment conducted by Bank Indonesia there was decrease tendency of Bank capital which potentially causing the Bank's capital being under the KPMM, Bank Indonesia shall request Bank to conduct:

a. limitation on certain business activity;
b. limitation on the opening of office network; and/or
c. limitation on the capital distribution.

CHAPTER V
REPORT

Article 46

(1) Bank that fulfill criteria as referred to in Article 28 obliged to deliver KPMM by taking into consideration on the Market Risk;
(2) The preparation and delivery of KPMM report calculation by taking into consideration on the Market Risk as referred to in paragraph (1), shall be obliged to refer to the provision concerning periodic report of commercial bank.
(3) The statement related to the Internal Model quarterly, arranged firstly at the end of the quarter after Internal Model was being used to calculate the KPMM ratio.

Article 47

(1) Bank obliged to submit assessment report of capital adequacy in accordance with risk profile to Bank Indonesia
(2) The report as referred to in paragraph (1) submitted along with self assessment of the Bank soundness

Article 48

(1) Branch office domiciled abroad obliged to submit the fulfillment report of minimum CEMA
(2) The fulfillment report of CEMA as referred to in paragraph (1) shall at least contain information concerning:
    a. The average total liabilities of banks on a weekly basis as referred to Article 24 paragraph (5);
    b. The amount of the allocation of funds in the form of CEMA;
    c. The type of assets and the criteria fulfillment of financial assets of CEMA;

d. The recorded values of each financial assets of CEMA;
e. Maturity date of financial assets of CEMA.

Article 49

(1) The report as referred to in Article 48 paragraph (1) arranged every month and obliged to be submitted to Bank Indonesia the latest on day 8th of the next month.
(2) In terms of the deadline for the submission of report as referred to in paragraph (1) shall be on Saturday, Sunday, and/or public holidays; therefore the fulfillment report of minimum CEMA shall be submitted on the next working day.

Article 50

(1) Bank shall be declared as late in submitting the report as referred to in Article 47 paragraph (1) and in Article 48 paragraph (1), if the report accepted by Bank Indonesia after the deadline of the report submission up to no longer than 5 (five) days after the deadline of the report submission.
(2) Bank shall be declared as not submitting the report as referred to in Article 47 paragraph (1) and in Article 48 paragraph (1), if the report has not been accepted by Bank Indonesia up to the time limit of delay as referred to in paragraph (2)
(3) Bank which being declared as not submitting the report as referred to in paragraph (2) still obliged to submit the report as referred to in Article 47 paragraph (1) and in Article 48 paragraph (1).

Article 51

The report as referred to in Article 47 paragraph (1) and in Article 48 paragraph (1) shall be submitted to:

a. The Department of Bank Supervision, Jalan M.H. Thamrin No.2, Jakarta 10350, for the Bank which headquartered is in the region of Bank Indonesia Headquarters; or
b. Bank Indonesia local Representative Office, for the Bank which headquartered is in the region of Bank Indonesia Headquarters.

CHAPTER VI

PENALTY

Article 52

Banks which violate the provisions as regulated in Article 2, Article 3, Article 4, Article 7 paragraph (1), Article 10, Article 12 paragraph (1) and paragraph (3), Article 15 paragraph (1), Article 16 paragraph (2), Article 18 paragraph (1) and paragraph (3), Article 22 paragraph (1) and paragraph (3), Article 23, Article 24, Article 25, Article 27, Article 31, Article 32, Article 33, Article 34, Article 35, Article 36, Article 37, Article 38, Article 39, Article 40, Article 41, Article 42, Article 47, Article 48, and Article 49 subject to administrative penalty, among others in the form of:

a. written warning;
b. prohibition on the transfer of profit for branch office of the Bank domiciled abroad;
c. freezing of certain business activities;
d. prohibition of opening office network;
e. declining of bank soundness rating; and/or
f. the inclusion of the managers and/or Bank shareholders in the list of people prohibited from being shareholders and board of the Bank

Article 53

Bank that violates the provisions of the reporting as referred to in Article 46 shall be given penalty as regulated in the applicable provisions concerning Periodic Reports of Commercial Bank.

Article 54

(1) Aside from penalty as referred to in Article 52, Bank which declared as:
    a. being late in submitting the report as referred to in Article 50 paragraph (1) shall be charged with a mandatory penalty to pay Rp1.000.000,00 (one million Rupiah) per day of delay;
    b. not submitting the report as referred to in Article 50 paragraph (2) shall be charged with a mandatory penalty to pay Rp50.000.000,00 (fifty million Rupiah).
(2) In terms of Bank being charged to pay a mandatory penalty for not submitting the report; therefore the obligation to pay penalties for being late on submitting report is not enforced.

Article 55

Aside from being charged with administrative penalty as referred to in Article 52, Bank that unable to fulfill the prevailing minimum capital as referred to in Article 2 and as referred to in Article 3 obliged to perform the steps or act of supervision as referred to in the provisions of Bank Indonesia concerning follow-up on monitoring and determination of the status of the Bank.

Article 56

Bank that conduct transaction of financial assets in the available for sale group, with pattern similar to the transaction of financial assets in the trading group :

a. in significant amount; and/or
b. in high frequency.

shall be charged with a penalty in the form of not allowed to classify the next purchasing of financial assets in the available for sale group, for 6 (six) months effective as of the date of a letter of guidance issued by Bank Indonesia.

Article 57

In terms of Bank taking action as referred to in Article 56 for the second time, Bank shall be charged with a penalty in the form of not being allowed to classify the next purchasing of financial assets as available for sale, for 1 (one) year effective as of the date of a letter of guidance issued by Bank Indonesia.

Article 58

In terms of Bank taking action as referred to in Article 56, for more than 2 (two) times, Bank shall be charged with a penalty in the form of not being allowed to classify the next purchasing of financial assets as available for sale, for 2 (two) years effective as of the date of a letter of guidance issued by Bank Indonesia.

CHAPTER VII

CONCLUDING PROVISIONS

Article 59

(1) Branch office of Foreign Bank obliged to fulfill the minimum CEMA as much as 8% (eight percent) from total liabilities of the bank as referred to in Article 24 at the latest position on June 2013.
(2) If the minimum CEMA as referred to in paragraph (1) is lower than Rp1.000.000.000.000,00 (one trillion Rupiah); branch office of foreign Bank

obliged to fulfill the minimum CEMA as much as Rp1.000.000.000.000,00 (one trillion Rupiah) as referred to in Article 24 paragraph (5) at the latest position on December 2017.

Article 60

(1) Calculation of the minimum capital according to the risk profile as referred to in Article 2 and Article 3, for the first time, uses the risk profile rating at the position on December 2012.

(2) The minimum capital adequacy requirement according to the risk profile stipulated as follows:
   a. the fulfillment of minimum capital at the position on March to August is based on the risk profile rating at the position on December a year before;
   b. the fulfillment of minimum capital at the position on September to February of the next year is based on the risk profile rating at the position on June;
   c. in terms of changes on the risk profile rating in between the period of risk profile assessment; the fulfillment of minimum capital is based on the last position of the risk profile rating.

Article 61

Further provision of Bank Indonesia Regulations is stipulated in the circular letter of Bank Indonesia.

Article 62

At the time of this Bank Indonesia Regulation went into effect, then:

a. Bank Indonesia Regulation Number: 9/13/PBI/2007 concerning Minimum Capital Adequacy Requirement Of Commercial Bank by Calculating Market Risk (State Gazette of the Republic of Indonesia Year 2007 Number 128, Supplement to State Gazette of the Republic of Indonesia Number 4773);
b. Bank Indonesia Regulation Number: 10/15/PBI/2008 concerning Minimum Capital Adequacy Requirement Of Commercial Bank (State Gazette of the Republic of Indonesia Year 2008 Number 135, Supplement to State Gazette of the Republic of Indonesia Number 4895),

are revoked and shall no longer be valid.

Article 63

This Bank Indonesia Regulation shall be effective on the stipulated date.

For the purpose public cognizance, it is ordered that this Bank Indonesia Regulation be promulgated in the State Gazette of the Republic of Indonesia.

Enacted in Jakarta
On November 28, 2012
GOVERNOR OF BANK INDONESIA

DARMIN NASUTION

Promulgated in Jakarta
On November 28, 2012

MINISTER OF LAW AND HUMAN RIGHTS OF THE
REPUBLIC OF INDONESIA

AMIR SYAMSUDIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA YEAR 2012 NUMBER 261
DPNP

ELUCIDATION

ON

BANK INDONESIA REGULATION

NUMBER: 14/ 18/PBI/2012

CONCERNING

MINIMUM CAPITAL ADEQUACY REQUIREMENT OF COMMERCIAL BANK

I. GENERAL

In order to create a healthy banking system and capable to develop and compete nationwide as well as in global; therefore structure, requirements and the calculation of capital adequacy of banks should be adjusted with the prevailing international standards. International standards that become a reference is "International Convergence of Capital Measurement and Capital Standard: A Revised Framework" which known better as Basel II.

Basel II document requires the Bank to develop Internal Capital Adequacy Assessment Process (ICAAP) is a process conducted by the Bank to stipulate capital adequacy in accordance with risk profile of the Bank as part of the enhancement of the effectiveness of risk management practices at the Bank.

Furthermore Bank Indonesia will conduct Supervisory Review and Evaluation Process (SREP) against adequacy of ICAAP which conducted by Bank to ensure that Bank's capital rating is effective and in accordance with the risk profile.

Business development of complexity, technology, products and also services of the Bank leads to the increasing risk profile bank. The risks referred to are not only Credit Risk, Market Risk, and Operational Risk but also other risks which cover credit risk concentration, market risk on Trading Book, liquidity risk, strategic risk, legal risk, compliance risk and reputation risk, as well as the impact of the application of stress testing. In order to absorb those risks Banks need to provide adequate capital.

In conducting SREP over Bank's ICAAP, Bank Indonesia is doing reexamination over the results of the bank's capital adequacy assessment in accordance with risk profile. Furthermore Bank Indonesia shall request Bank to make a correction on the ICAAP, including other steps of correction.

Meanwhile, the economical dynamic and the development of global financial sectors occurred recently encouraging Bank Indonesia as the local authority (host supervisor) make efforts to strengthen capital of Foreign Bank's branch office , in order to maintain the stability of the financial system, especially the stability of the national banking. One of the steps taken is through the allocation of business fund of the foreign bank's branch office in to the certain liquid financial assets in Indonesia.

With respect to these matters, therefore needs to reorder the Bank Indonesia Regulation concerning Minimum Capital Adequacy Requirement of Commercial Bank.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

Risk profile is the risk profile of Bank as regulated in the provisions of Bank Indonesia concerning the bank soundness rating of commercial bank.

Paragraph (2)

"KPMM ratio" is the comparison between Bank capitals with Risk Weighted Assets (ATMR)

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 3

Self-explanatory.

Article 4

' Profit distribution ' is, among others, payment of dividends and bonus payments to the management (management fee).

Article 5

Self-explanatory.

Article 6

Paragraph (1)

Letter a

"Business funds" is the net funds of foreign bank branch office derived from the placement of its headquarters after being deducted with the placement of the foreign bank branch office at the offices of the concerned banks abroad, that should always be recorded every time in Indonesia during the branch offices of the bank operating in Indonesia and being declared (declared on the business funds).

Letter b

"Profit retained" is the net profit balance after deducting the taxes which by its headquarters decided to hold at its branch office in Indonesia.

"Last year profit" is the entire net profit years ago deducted with tax, and its applications have not been appointed by its headquarters.

In terms of Bank owns loss-balance years ago, the entire loss shall be the capital deduction factors.

Letter c

"Current year profit" is the profit earned in the current year after being deducted with tax estimation.

In terms of the Bank experience losses in the current year , the entire loss shall be the capital deduction factors.

Letter d

"General capital reserves" is the reserves formed from retained earnings or from last year profit after being deducted with tax, and have gained approval from its headquarters as the general capital reserves.

Letter e

"Reserve capital purpose" is the reserve formed from retained earnings or from last year profit after being deducted with tax, that set aside for a specific purpose and already gained approval from its headquarters.

Letter f

Self-explanatory.

Letter g

Self-explanatory.

Paragraph (2)

The determination of the amount of the declared business fund referring to Bank Indonesia prevailing provisions concerning offshore loans.

Article 7

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

The treatment as paid up capital component refers to the provisions and regulations, and accounting standards that apply; concerning equity.

Which belongs to paid up capital, among others are as follow:

1. common stock;
2. preferred share (which given the rights to its holder to firstly accept dividend from another classification of shareholders) non cumulative (perpetual non cumulative preferred share); and
3. non cumulative preferred share which is issued for certain purposes with call option feature.

Letter b

Self-explanatory.

Letter c

"Innovative capital" is a debt instrument with capital characteristic (hybrid instrument). Innovative capitals are as follow:

1. debt instrument with capital characteristic, subordinated, does not have tenure, and yield payment cannot be accumulated (perpetual non cumulative subordinated debt); and

2. other hybrid instrument without tenure, perpetual and non cumulative.

Article 8

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Included in the protected category as well as guaranteed by the Bank or Subsidiary Company, is protection or guaranteed accepted from other party but conducted through Bank or Subsidiary Company, for example premium/fee as warranty of payment by the Bank or Subsidiary Company.

Article 9

Included as special purposes is merger, acquisition, or consolidation purposes.

Article 10

Letter a

Self-explanatory.

Letter b

Certain purposes to conduct stock repurchase as the component of paid up capital, which is as the stock inventory for employee/management stock option or to avoid take over attempt.

Letter c

In accordance with Act Number 40 year 2007 concerning Limited Liability Company declared that the nominal amount of the entire repurchase stock by company shall not be more than 10% (ten percent) from the capital being placed. Repurchase stock shall only be owned by company no longer than 3 (three) years.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Article 11

Paragraph (1)

Letter a

Number 1

“Agio” is the excess on capital deposit accepted by Bank during stock published due to the stock market price is higher than the nominal value.

Number 2

“Capital contribution” is the regained capital from the contribution of the bank stocks, including the differences between registered value with selling price if the mentioned stock is being sold.

Number 3

“General reserve capital” is the reserve which formed from allowance of retained earning or from last year profit after deducted with tax, and has gained approval from General Meeting of Shareholders (RUPS) or member meeting as general reserve capital.

Number 4

“Appropriated reserve capital” is the reserve which formed from allowance of retained earning or from last year profit after deducted with tax which being excluded for certain purposes and has gained approval from General Meeting of Shareholders (RUPS) or member meeting

Number 5

Past years profit after being calculated with the tax are covering:

a. last year profit, which is the entire net profit of the past years which deducted by tax, and not yet determined its application by RUPS or member meeting.

b. retained earnings is the net profit balance after being deducted with tax by RUPS or member meeting which decided not to be distributed.

Number 6

"Current year profit" is the profit earned in current year after being deducted with tax estimation.

Number 7

"Excess on the explanation of financial statement" is the difference of exchange rate arising from the explanation of financial statement of Bank branch office and/or foreign Subsidiary Company, as regulated in accounting financial standards concerning the explanation of financial statement in foreign currency.

Number 8

If based on research of Bank Indonesia, prospective shareholders of the Bank or the capital deposit funds being noted as not eligible as the shareholders or as the capital, therefore the funds shall not be admitted as capital component.

Number 9

Referring to the common definition accepted in the capital market, what meant by "warrant" is the securities which was published by a company which entitle the holders of securities to order stocks from the company on certain price and period.

Number 10

Self-explanatory.

Letter b

Number 1

"Disagio" is the lower difference of capital deposit accepted by the Bank during stock published due to the stock market price is lower than the nominal value.

Number 2

"Past years loss" is the entire loss which accounted by Bank in the past years.

Number 3

"Current year loss" is the loss which accounted by Bank in current year.

Number 4

"Lower difference in the explanation of financial statement" is the difference of exchange rate arising from the explanation of financial statement of Bank branch office and/or foreign Subsidiary Company, as regulated in accounting financial standards concerning the explanation of financial statement in foreign currency.

Number 5

Other negative comprehensive income is the post in equity which aims to accommodate reasonable depreciation for inclusion in the category available for sale.

"Equity participation which is classified as available for sale" is equity participation which fulfill the criteria to use cost methods cost and has fair value.

Number 6

"Lower difference between PPA of productive assets and allowance for impairment losses of productive assets" is the lower difference between total PPA (general reserves and special reserve over the entire productive assets) which obliged to be formed in accordance with the regulation of Bank Indonesia that applies with a total allowance for impairment losses of the entire productive assets (individually and collectively) in accordance with the prevailing standard of accounting financial. The definition of productive assets refers to the regulation of Bank Indonesia concerning the asset quality assessment of commercial bank.

Number 7

This lower difference arise due to mark to market of financial instrument in the Trading Book that considers certain factors, among other is the position of being less liquid which exceeds the number of adjustment that required according to the accounting standards applicable to financial concerning the measurement of financial instruments, especially financial instruments that is measured based on the fair value.

According to the prevailing Indonesian Banking Accountancy Guidelines (PAPI), adjustment to the financial instruments valuation result will directly reduce or increase the value of the recorded financial instruments.

Number 8

Non productive PPA is the obliged allowance formed for non productive assets in accordance with the regulation of Bank Indonesia concerning asset quality assessment of commercial Bank.

Paragraph (2)

Letter a

Deferred tax is the transaction arises as a result of implementing the Financial Accounting Standard (PSAK) concerning income tax accounting.

In the calculation of the individual minimum capital, the influence of a tax-deferred issued is the net difference of tax-deferred assets and tax-deferred liabilities.

In terms of tax-deferred liabilities is above the tax-deferred assets, the influence of tax-deferred calculation which will be taken out from last year’s or current year’s profit/loss is zero.

In the calculation of consolidated KPMM, tax-deferred assets of a company shall not be net-off with tax-deferred liabilities of other company in the business group of banks.

Therefore, the influence of consolidated tax-deferred calculation shall be counted and taken out separately for each entity.

By taking out the tax-deferred impact from profit or loss calculation, the tax-deferred assets shall not be calculated in the ATMR calculation.

Letter b

"The difference in value of fixed assets revaluation" is the difference in value of fixed assets revaluation which is classified to retained earnings in terms of Bank doing revaluation on fixed assets before PSAK 16 was implemented and furthermore using cost methods in measurement of fixed asset.

Included in this component is the higher difference of revaluation on fixed assets which remaining from the implementation of a quasi reorganization.

Letter c

This treatment is provided for Bank that use the model of fixed assets revaluation as regulated in PSAK 16 concerning Fixed Assets.

The assessment of fixed assets remain occurs to the prevailing financial accounting standard concerning fixed assets.

Letter d

This happen if the Bank decided to measure the financial liability on the fair value through profit and loss (fair value option) in accordance with the prevailing financial accounting standard.

Letter e

"Gain on sale of assets in the transaction of securitization (gain on sale)" is profit gained by Bank as the originator on sale of assets in the transaction of securitization (gain on sale) which is from capitalization of expected future margin or income capitalization from the provision of services (servicing income).

Article 12

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Included in the protected category as well as guaranteed by Bank or Subsidiary Company, which is a protection as well as a warrant accepted from other party but still conducted through Bank or Subsidiary Company, for example the premium/fee in terms of the warrant paid by Bank or Subsidiary Company.

Letter f

Number 1

Self-explanatory.

Number 2

Self-explanatory.

Number 3

Step-up feature is a feature that promising the increase of interest rate if the purchase option shall not be executed in the period of time that has been set.

Letter a)

Self-explanatory.

Letter b)

Self-explanatory.

Letter c)

"Margin (credit spread)" is the difference between the levels of earning yield/instrument of interest appointed with a risk free instrument of interest.

The illustrations on setting the step-up limit based on the step-up agreement are as follow:

1. Fixed interest rates step-up

   Example:

   a. the realization of step-up after 10 years of issuance shall not exceed 100 bp (100 bp = 1%)

of the previous Interest rate (year 1-10) = 7% fixed interest rate

The new interest rate (since year 11) = 7% + 1% = 8% fixed interest rate

b. the realization of step-up after 10 years of being published shall not exceed 50% (fifty percent) of the margin (credit spread) at the beginning

The previous interest rate (year 1-10) = 7% fixed interest rate

For example, at the time of issuance, the risk free rate = 6%, therefore 50% from the margin (credit spread) at the beginning is 50% x (7% - 6%) = 0.5%

The new interest rate (since year 11) = 7% + 0.5% = 7.5% fixed interest rate

2. Step-up of floating interest rates

There are two examples:

a. If the reference rate does not change

1) the realization of step-up after 10 years of being published shall not exceed 100 bp of the previous Interest rate (year 1-10) = 10-years Government Bond + Spread 1.5% (spread during instrument being issued)

The new interest rate (since year 11) = 10-years + Spread 2.5% (spread at the beginning 1.5% + 1%)

2) the realization of step-up after 10 years of being issued shall not exceed 50 bp of the margin (credit spread) at the beginning

The previous interest rate (year 1-10) = 10-years Government Bond + Spread 1.5% (spread during instrument being issued) = 7%

For example with the risk free rate = 6%, therefore 50% from the margin (credit spread) at the beginning is 50% x (7% - 6%) = 0.5%

The new interest rate (since year 11) = 10-years Government Bond + Spread 2% (spread at the beginning 1.5% + 0.5%)

b. If the reference rate changes

1) the realization of step-up after 10 years of being issued shall not exceed 100 bp

The increase of Interest rate shall not exceed 1% of spread at the beginning (spread during instrument being issued) by using the new reference rate compare with the reference rate during instrument being published

For example reference rate of 10-years Government Bond changed to LIBOR.

Previous interest rate (year 1-10)

The assumption during instrument being issued is 7% (10-year Government Bond 5% plus spread 2%)

Meanwhile at the same time, LIBOR is 5.5%. This means that LIBOR during the 7% of interest rate is 1.5% (7% - 5.5%)

The new interest rate (since year 11) = LIBOR + Spread 2.5% (spread at the beginning 1.5% + 1%)

2) the realization of step-up after 10 years of being issued shall not exceed 50% (fifty percent) of the margin (credit spread) at the beginning by using the new reference rate compare with the reference rate during instrument being issued

For example reference rate of 10-years Government Bond changed to LIBOR

The previous interest rate (year 1-10)

The assumption during instrument being issued is 7% (10-year Government Bond 5% plus spread 2%)

Meanwhile at the same time, LIBOR is 5.5%. This means that LIBOR during the 7% of interest rate is 1.5% (7% - 5.5%)

For example with the risk free rate = 6%, therefore 50% from the margin (credit spread) at the beginning is 50% x (7% - 6%) = 0.5%

The new interest rate (since year 11) = LIBOR + Spread 2% (spread at the beginning 1.5% + 0.5%

3. Step-up with changes from fixed interest rates to floating interest rates
   a. the realization of step-up after 10 years of being issued shall not exceed 100 bp

      The increase of Interest rate shall not exceed 1% of spread at the beginning (during instrument being issued) with floating interest rates which used after the 10th year compare with the reference rate during instrument being published.

      For example, the changes from fixed rates to floating (LIBOR+spread)

      The previous interest rate (year 1-10) = 7% fixed rate

      The assumption of LIBOR is 5.5% instrument is issued. Therefore, with the interest rate at 7% then LIBOR spread is 1.5%.

The new interest rate (since year 11) = LIBOR + Spread 2.5% (spread at the beginning 1.5% + 1%

b. the realization of step-up after 10 years of being published shall not exceed 50% (fifty percent) of the margin (credit spread) at the beginning.

The increase of Interest rate shall not exceed 50% of margin at the beginning (during instrument is issued) with floating interest rates which used after the 10^{th} year compare with the interest rate during instrument being issued.

For example, the changes from fixed rates to floating (LIBOR+spread)

The previous interest rate (year 1-10) = 7% fixed rate

The assumption of LIBOR is 5.5% during instrument being issued. Therefore, with the interest rate at 7% then LIBOR spread is 1.5%.

For example with risk free rate = 6%, therefore 50% from the margin (credit spread) at the beginning is 50% x (7% - 6%) = 0.5%

The new interest rate (since year 11) = LIBOR + Spread 2% (spread at the beginning 1.5% + 0.5)

Letter g

Self-explanatory.

Paragraph (3)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Number 1

What meant by the same or better quality is the capital instrument which is at the least fulfills the requirements of innovative capital component.

Number 2

Core capital is the core of capital during placement.

The 10% (ten percent) limitation of core capital considers the entire available capital instrument.

The example of “different amount” is as follow:

If the innovative capital being executed is as much as Rp100.000.000,00 (one hundred million Rupiah), but during replacement, Bank’s core capital is changing, therefore the innovative capital limitation, for example, becomes at the highest Rp150.000.000,00 (one hundred and fifty million Rupiah).

With this condition, Bank can replace the innovative capital as much as Rp 150.000.000,00 (one hundred and fifty million Rupiah).

Article 13

Requirements of core capital components refer to the requirements concerning paid-up capital and disclosed reserve (retained earning and current year profit).

Article 14

Letter a

In accordance with the prevailing accounting financial standards, goodwill is the excess difference between the cost of acquisition and parts of the acquisition over the asset fair value and liability that can be identified on the exchange transaction date.

Goodwill is calculated as the deduction factor in Bank’s minimum capital requirement calculation, both individually and consolidated.

Letter b

Included as other intangible assets, among others are copy right, patent, and other intellectual property right, excluding computer software.

Letter c

Self explanatory.

Article 15

Self explanatory.

Article 16

Paragraph (1)

Letter a

Self explanatory.

Letter b

Self explanatory.

Letter c

Self explanatory.

Letter d

Self explanatory.

Letter e

Included in the protected category as well as guaranteed by Bank or Subsidiary Company is the protection or guaranteed accepted from other party but conducted through Bank or Subsidiary Company, for example premium/fee in order to make the warrant being paid by the Bank or Subsidiary Company.

Letter f

Number 1

Self explanatory.

Number 2

Self explanatory.

Number 3

Step-up feature is the feature which promise the increasing of interest rate level if purchase option is not executed in the period of time that has been set.

Letter a)

Self explanatory

Letter b)

Self explanatory

Letter c)

"Margin (credit spread)" is the difference between the earning yield/ nterest with the risk free rate.

The determination of step-up amount refers to the illustrations stated in the explanation in Article 12 paragraph (2) letter f number 3 letter c).

Letter g

Self explanatory.

Paragraph (2)

Letter a

Self explanatory.

Letter b

Self explanatory.

Letter c

Number 1

The same or better quality is the capital instrument which at least fulfills the requirements as component of supplementary capital upper level (upper tier 2).

Number 2

The limitation on supplementary capital is calculated by considering the entire available supplementary capital instrument such as the supplementary capital upper level (upper tier 2) as well as the supplementary capital lower level (upper tier 2)

The example of "different amount" is as follow:

If the supplementary capital being executed is as much as Rp500.000.000,00 (five hundred million Rupiah), but during replacement, Bank's core capital is having a changes, therefore the supplementary capital limitation, for example, becomes at the highest as much as Rp400.000.000,00 (four hundred million Rupiah).

With this condition, Bank can replace the supplementary capital as much as Rp 400.000.000,00 (four hundred million Rupiah).

Article 17

Paragraph (1)

Letter a

The example of "capital instruments in the form of stock or other capital instrument which fulfill the requirements referred to in Article 16" are:

1. Preferred share (which gives the rights to its holder to firstly accept dividend from another classification of shareholders) cumulatively (perpetual non cumulative preferred share).
2. Debt instrument with capital characteristic, subordinated, no tenure, cumulative, and fulfills the entire requirements to be taken into consideration as the supplementary capital upper level (perpetual cumulative subordinate debt); and
3. Debt instrument with characteristics similar to the capital that automatically without any requirements can be converted to stock and after getting approval from Bank Indonesia (mandatory convertible bond).

   Condition and value of conversion shall be stated during issuance which amount is in accordance with market condition.

Letter b

"Parts of innovative capital that cannot be taken into consideration in the core capital" is the excess difference of capital instrument which fulfill the requirements as innovative capital component from the limitation as much as 10% (ten percent) from the core capital.

Letter c

Number 1

The difference in value of fixed assets revaluation on this number is already taken out from the calculation of last year's profit/loss which is the core capital component.

This treatment is for Bank that conducts fixed assets revaluation before PSAK 16 (revised) concerning Fixed Assets, effective and furthermore using the cost methods on the calculation of fixed assets.

The difference in value of fixed assets revaluation is after calculating the tax.

Number 2

The increasing on fair value of fixed assets on this number already taken out from the calculation of last year's profit/loss and/or current year profit/loss which is the core capital component.

This treatment provided for Bank that use the model of fixed assets revaluation as regulated in PSAK 16 concerning Fixed Assets.

Letter d

The forming of PPA over productive assets which is obliged to be formed refers to Bank Indonesia regulation concerning the assessment on the assets quality of commercial bank.

Example:

The general allowance of PPA over productive assets which is obliged to be formed is Rp15.000.000,00 (fifteen million Rupiah) and Bank ATMR for Credit Risk is Rp1.000.000.000,00 (one billion Rupiah).

The general allowance that can be calculated as the supplementary capital component upper level, the highest is 1.25% x Rp1.000.000.000,00 = Rp12.500.000,00 (twelve million five hundred thousand Rupiah).

In this matter, there is an excess amount of general allowance of Rp2.500.000,00 (two million five hundred thousand Rupiah) which can not be calculated as the supplementary capital component upper level (upper tier 2).

Letter e

Equity participation which is classified as available for sale is the stock participation that fulfills the cost method criteria and has fair value.

Paragraph (2)

The excess amount of general allowance of PPA over productive assets in accordance with the explanation on paragraph (1) letter d which is Rp 2.500.000,00 (two million five hundred thousand Rupiah) becomes the reducing factor on ATMR calculation for Credit Risk.

Article 18

Paragraph (1)

Included in the supplementary capital component lower level (lower tier 2), among others are as follow:

a. preferred shares that can be withdrawn after certain period of time (redeemable preferred shares) and/or
b. subordinated loan or subordinated obligation

Paragraph (2)

Letter a

Self explanatory.

Letter b

Self explanatory.

Letter c

Self explanatory.

Letter d

Self explanatory.

Letter e

Included in the protected category as well as guaranteed by Bank or Subsidiary Company, which is a protection as well as a warrant accepted from other party but conducted through Bank or Subsidiary Company, for example the premium/fee in terms of the warrant paid by Bank or Subsidiary Company.

Letter f

Number 1

Self explanatory.

Number 2

Self explanatory.

Number 3

“Step-up features” is features that promises increasing interest rate level if the buy option is not be executed in the period of time that has been set.

Letter a)

Self explanatory.

Letter b)

Self explanatory.

Letter c)

“Margin (credit spread)” is the difference between the levels of earning yield/ interest with a risk free rate.

The determination of step-up rates refers to the illustrations stated in the explanation in Article 12 paragraph (2) letter f number 3 letter c)

Letter g

Self explanatory

Paragraph (3)

Letter a

Self explanatory.

Letter b

Self explanatory.

Letter c

Number 1

The same or better quality is the capital instrument which at least fulfills the requirements as supplementary capital component lower level (lower tier 2).

Number 2

The limitations on supplementary capital lower level (lower tier 2) is calculated by considering the entire available supplementary capital instrument lower level (lower tier 2).

The example of “different amount” is as follow:

If the supplementary capital being executed is Rp200.000.000,00 (two hundred million Rupiah), but during replacement, Bank’s core capital is changing, therefore the supplementary capital component lower level (lower tier 2), for example, becomes at the highest as much as Rp100.000.000,00 (one hundred million Rupiah).

With this condition, Bank can replace the supplementary capital component lower level (lower tier 2) only as much as Rp 100.000.000,00 (one hundred million Rupiah).

Paragraph (4)

Straight-line amortization method is pro-rate amortization.

Paragraph (5)

Amortization is calculated based on the capital instrument value which have included the deduction from settlement of allowance (sinking fund).

Paragraph (5)

The illustration on amortization:

Example 1:

Bank published the subordinated debt which have 10 years tenure and have buy option at the end of the fifth year.

In this condition, Bank is obliged to start calculating amortization since the first year.

If at the end of fifth year, Bank does not execute the buy option therefore starting the sixth year, the subordinated debt can be recalculated as capital component by concerning the required limitation, including the requirement to calculate amortization.

Example 2:

Bank issues subordinated debt which have 10 years tenure and have the buy option after the end of the fifth year.

In this condition, therefore the time period left for the instrument during the early publishing is 5 (five) years. Obliged amortization started to be calculated by Bank since the first year. After the end of the fifth year until maturity, Bank can not recalculate the subordinate debt as supplementary capital lower level (lower tier 2) although Bank has not executed the buy option.

Article 19

The value of subordinated loan or subordinated obligation from Bank of issue that being deducted is after calculating the settlement of allowance (sinking fund).

Example:

Bank A issues an instrument which includes as supplementary capital component lower level (lower tier 2) in the form of subordinated obligation as much as Rp 100.000.000.000,00 (one hundred billion Rupiah).

Bank A also purchased supplementary capital instrument (which including supplementary capital upper level as well as supplementary capital lower level) which published by Bank B for Rp 20.000.000.000,00 (twenty billion Rupiah)

In this condition, therefore subordinated obligation that can be calculated as supplementary capital lower level (lower tier 2) by Bank A is only as much as Rp100.000.000.000,00 - Rp20.000.000.000,00 = Rp80.000.000.000,00, which then adjusted with the limitation of the approved supplementary capital lower level (lower tier 2).

Article 20

Self explanatory.

Article 21

Paragraph (1)

Letter a

The equity participation value which is taken as consideration is the book value which stated in the balance sheet.

Letter b

Shortfall is considered as the reducing factor only in the calculation of consolidated KPMM ratio.

Shortfall of a company conducting insurance activity from the minimum Risk Based Capital (RBC) is taken into consideration if the mentioned company can not fulfill the minimum RBC up to the time period stated by the supervising authority.

The insurance company that controlled by Bank refers to the definition of Controlling as referred to in this regulation.

Letter c

The treatment to securitization exposure as the deduction refers to Bank Indonesia Regulation concerning assets securitization.

What meant by “securitization exposure” is the credit enhancement, liquidity support, and asset backed securities.

Paragraph (2)

Self explanatory.

Paragraph (3)

Self explanatory.

Article 22

Paragraph (1)

Letter a

Self explanatory.

Letter b

According to this regulation, the core capital which should be allocated to the Market Risk is at least 28.5% (twenty eight point five percent) from the capital charges of 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

Included in the protected category as well as guaranteed by the Bank or Subsidiary Company, which is protection or guaranteed accepted from other party but conducted through Bank or Subsidiary Company, for example premium/fee in order to make the warrant being paid by the Bank or Subsidiary Company.

Letter f

Number 1

Self explanatory.

Number 2

Self explanatory.

Number 3

Step-up feature is a feature that promises the increase of interest rate if the buy option can not be executed in the period of time that has been set.

Letter a

Self explanatory.

Letter b

Self explanatory.

Letter c

"Margin (credit spread)" is the difference between the levels of earning yield/ interest with a risk free rate.

The determination of step-up rate refers to the illustrations stated in the explanation in Article 12 paragraph (2) letter f number 3 letter c)

Letter g

Self explanatory.

Paragraph (3)

Self explanatory.

Paragraph (4)

Letter a

Self explanatory.

Letter b

The utilization of supplementary capital (tier 2) as the additional supplementary capital component (tier 3) shall consider the amount limitation of supplementary capital (tier 2) and supplementary capital component (tier 3)

Letter c

“Parts of the supplementary capital lower level (lower tier 2) which over the limitation of supplementary capital lower level (lower tier 2)” is the excess difference of capital instrument which fulfills the requirements as the supplementary capital lower level component (lower tier 2) of the 50% (fifty percent) limit of the core capital.

Article 23

Supporting documents are the completeness to show that the requirements as organized in this regulation have been fulfilled.

Article 24

Paragraph (1)

Self explanatory.

Paragraph (2)

Self explanatory.

Paragraph (3)

Self explanatory.

Paragraph (4)

Self explanatory.

Paragraph (5)

“Total amount of Bank’s liability” is the total liability deducted by the entire liability between offices (headquarter and other branch office domiciled abroad)

Total amount of Bank’s liability which use as the basis of minimum CEMA calculation is based on the average weekly Bank’s liability, on the occurred month.

Example on the calculation:

Total amount of the liability at the last position of week I, week II, week III, and week IV, each week are as much as Rp 10 trillion, Rp 15 trillion, Rp 10 trillion, and Rp 20 trillion. Therefore, the average of total liability =

((Rp 10 trillion + Rp 15 trillion + Rp 10 trillion + Rp 20 trillion) : 4) =

Rp 13.75 trillion

The calculation of CEMA based on the average of total liability is 8% x Rp 13.75 trillion = Rp 1.1 trillion.

Then, the minimum CEMA that obliged to be maintained, is the highest of Rp 1 trillion with Rp 1.1 trillion, which is Rp 1.1 trillion.

Paragraph (6)

Example:

The minimum CEMA for the position in March 20xx is Rp 1.1 trillion, have to be placed in the financial instrument, which fulfill the requirements, the latest at 6 April 20xx.

Article 25

Paragraph (1)

Self explanatory.

Paragraph (2)

Self explanatory.

Paragraph (3)

Letter a

"Securities" being published by the government of the Republic of Indonesia are:

1. The Government Securities as referred to in the prevailing Act; and
2. The Government Sharia Securities as referred to in the prevailing Act.

Letter b

Number 1

"Non equity" is the securities that shall not be taken into consideration as the capital component by Bank of issue.

Number 2

"Investment rating" is as organized in the Bank Indonesia regulation concerning rating institution and rating that admitted by Bank Indonesia.

Number 2

Self explanatory.

Letter c

Self explanatory.

Paragraph (4)

What is meant by free of claim, among others are free from lawsuits, suit, admissions and possession, and also not being guaranteed to other party or being seized by the authority.

Example:

Financial assets used to fulfill minimum CEMA shall not be repo to other party.

The proven free of claim, among others is by the letter of acknowledgement from branch office of foreign bank.

Paragraph (5)

"Registered value of financial assets" is the financial assets in the balance sheet after being deducted by allowance for impairment losses..

Article 26

Self explanatory.

Article 27

Self explanatory.

Article 28

Self explanatory.

Article 29

Treatment of the recognition and measurement refers to the PSAK Number 55 (Revised 2006) concerning Financial Instrument: Recognition and measurement.

Article 30

Self explanatory.

Article 31

Example 1:

Before conducting a merger or consolidation, Bank A and Bank B do not fulfill the criteria to calculate the Market Risk. During the 6 (six) months after the merger or consolidation declared as effective, on the first, third and fourth month, Bank which has been merged or consolidated fulfill the criteria to calculate the Market Risk. Therefore, Bank which has been merged or consolidated obliged to calculate the Market Risk starting the seventh month.

Example 2:

Bank A does not fulfill the criteria to calculate Market Risk. Then, Bank A held an acquisition on financial company X, so Bank A conducting a consolidation to company X. For 6 (six) months after the acquisition of company X declared as effective, on second, fourth and sixth month, Bank that consolidated with company X fulfill the criteria to calculate Market Risk. Therefore, Bank that consolidated with subsidiary company "X" obliged to calculate the Market Risk starting the seventh month.

Article 32

Self explanatory.

Article 33

Self explanatory.

Article 34

Self explanatory.

Article 35

Paragraph (1)

Letter a

"Interest rate risk" is the risk of loss due to the changes in financial instrument price of the Trading Book position caused by the changes of interest rate.

Letter b

"Exchange rate risk" is the risk of loss due to the changes in Trading Book and Banking Book position caused by the changes of the exchange rate of foreign currency, including changes in the price of gold.

Paragraph (2)

"Equity risk" is the risk of loss due to the changes in financial instrument value of the Trading Book position caused by the changes of the share prices.

"Commodity risk" is the risk of loss due to the changes in financial instrument price of the Trading Book and Banking Book position caused by the changes of price commodities.

Article 36

Paragraph (1)

Self explanatory.

Paragraph (2)

The policies and procedures among others are the clear determination of responsibility from many parties involved in the valuation determination, source of market information, and reexamination process of the appropriate valuation, frequency of valuation (daily), time determination and the delivery of verification result, periodically as well as incidental, and also the valuation adjustment procedure.

Management information system and valuation process control at least cover documentation of policy and valuation procedure which have been determined and also the clear reporting lines for business unit responsible of the valuation and verification process.

Paragraph (3)

The policies and procedures of valuation based on concerns principal which among others is conducting valuation by concerning the determination of risk management aspects and common valuation procedure.

Article 37

Paragraph (1)

In accordance with the prevailing accounting financial standard, “fair value” is a value where an asset can be exchanged or an obligation being settled, between the understanding and willing to conduct transaction fairly (arm’s length transaction).

Paragraph (2)

What meant by “financial instrument being traded actively” is if the financial instrument price is available in a timely manner and can be obtained routinely at the stock market, the dealer, broker, or other agents, and also that the price based on arm’s length basis)

Transaction price happened or quotation of market price from an independent source are the exchange prices, screen prices, or a quotation which the most conservative given by at least 2 (two) brokers and/or market maker with good reputation, that at least one of them is independent.

The use of an independent source conducted consistently unless if the price gained not showing fair value.

Paragraph (3)

Letter a

“Bid price” is the purchase price quoted by an independent source.

Letter b

“Ask price (offer price)” is the selling price quoted by an independent source.

Paragraph (4)

Following are among others included in judgment model:

a. price used which arise from the transaction occurs in the past 10 (ten) working day
b. market price used from other instrument that has similar characteristic (at the least of the time period, rate/coupon level, rating, and group of

publisher);

c. discounted cash flow

d. option pricing model; or

e. judgment model/technique that generally used by market maker in stipulating the instrument price

The application of prudent principal in using judgment model/technique, among others considers the segregation of duty and competency of the involved parties in the development and usage of model, and ensure to conduct reexamination on the accuracy of judgment model/technique by an independent function, and also the procedure and development documentation and the changes on judgment model/technique.

Article 38

Paragraph (1)

The verification conducted to ensure the accuracy of preparation of profit-loss statement.

Verification of the process and result of valuation at least conducted towards the reasonableness of the price and market information which used as the input in judgment model/technique.

Paragraph (2)

Self explanatory.

Paragraph (3)

Adjustment was carried out towards the value of financial instruments in the balance sheet directly affects the profit-loss statement.

Article 39

The adjustment of valuation result conducted based on the daily monitoring as well as the verification result by the parties that are not participating in the execution of valuation.

For example, the valuation which not yet reflecting the reasonable value can occur in the valuation using the judgment model/technique.

Letter a

What meant by “significant changes on the economic condition” among other is the changes of yield curve significantly beyond the market expectation.

Letter b

Self explanatory

Letter c

The remaining time period factor up to maturity is being considered, concerning that it is getting closer to due date, the value of financial instruments are closer to the nominal value.

Letter d

Including other conditions, among others are as follow:

a. the chances of potential loss that arise due to the counterparty is unable to meet their obligations (unearned credit spreads).
b. the chances of cost or penalty calculation that arise due to the early termination.
c. the cash-flow mismatch which causing the price to be affected by the calculation of costs (investing and funding costs).
d. certain condition happened which causing the uncertainty on valuation model, for example the inability to capture changes in abnormal condition

Article 40

Paragraph (1)

What meant by “certain factors”, among others, are the average and volatility of trading volume, the average volatility from the average volatility of a range of supply and demand of quotations (bid/ask spreads), and the availability of market quotes.

Paragraph (2)

Adjustment will not reduce the value of financial instrument in the balance sheet and shall not affecting the profit and loss statement

Article 41

Paragraph (1)

Self explanatory

Paragraph (2)

Bank that just fulfill the criteria to calculate Market Risk, therefore the Market risk calculation must begin by using the standard method

Paragraph (3)

Self explanatory.

Paragraph (4)

Self explanatory.

Article 42

Paragraph (1)

Self explanatory.

Paragraph (2)

Letter a

The active supervision of the Board of Commissioners and Board of directors, among others to understand the nature and level of the risks faced by the Bank, assessing risk management adequacy quality, and relating the level of risk with capital adequacy owned by Bank.

Letter b

The assessment of capital adequacy, among others is the process of relating risk level with capital adequacy level of the bank by concerning the strategy and business plan of the Bank.

Letter c

Observation and reporting, among others are the observation and reporting system of risk exposure, also the impact of risk profile changes towards capital needs of the Bank.

Letter d

Internal control, among others are the adequacy of internal control and reexamination.

Reexamination conducted by internal party of the Bank which is competent and independent towards the process of capital adequacy stipulation.

Paragraph (3)

Self explanatory.

Article 43

Self explanatory.

Article 44

Self explanatory.

Article 45

Letter a

Self explanatory.

Letter b

Self explanatory.

Letter c

What meant by “limitation on the capital distribution”, among others is in the form of limitation or suspension on bonus and/or dividend.

Article 46

Paragraph (1)

KPMM report by calculating the Market Risk, among others covers the report position which calculated in the Market Risk, report on KPMM ratio calculation, report on the calculation of value at risk and capital charges, back testing report, and also stress testing report.

Paragraph (2)

Self explanatory.

Paragraph (3)

Example:

If Bank A gained approval to use the Internal Model to calculate the Market Risk on November 2012, the obligation to submit the report related to the Internal Model incur for the first time at the end of December 2012.

Article 47

Paragraph (1)

The risk profile is based on the result of Bank’s self assessment

Paragraph (2)

The submission of the self assessment of the Bank soundness rating refers to Bank Indonesia regulation concerning the assessment of commercial bank soundness rating.

Article 48

Paragraph (1)

Self explanatory.

Paragraph (2)

Letter a

Self explanatory.

Letter b

Self explanatory.

Letter c

Self explanatory.

Letter d

What meant by registered value is the value of financial value on the balance sheet after being deducted by the allowance for impairment losses.

Letter e

Self explanatory.

Article 49

Self explanatory.

Article 50

Self explanatory.

Article 51

Self explanatory.

Article 52

Self explanatory.

Article 53

Self explanatory.

Article 54

Self explanatory.

Article 55

Self explanatory.

Article 56

What meant by “significant amount” is significant to the total of financial assets in the available for sale group.

Article 57

Self explanatory.

Article 58

Self explanatory.

Article 59

Self explanatory.

Article 60

The risk profile rating used is the risk profile rating based on assessment by Bank Indonesia.

Article 61

Self explanatory.

Article 62

Self explanatory.

Article 63

Self explanatory.