

FINANCIAL SERVICES AUTHORITY
REPUBLIC OF INDONESIA

COPY OF
FINANCIAL SERVICES AUTHORITY REGULATION
NUMBER 8/POJK.03/2014
CONCERNING
RISK-BASED BANK RATING FOR ISLAMIC COMMERCIAL BANKS
AND ISLAMIC BUSINESS UNITS

WITH THE BLESSINGS OF GOD ALMIGHTY
FINANCIAL SERVICES AUTHORITY BOARD OF COMMISSIONERS,

- Considering : a. whereas bank soundness constitutes a means for supervisory authorities in determining bank supervision strategy and focus;
- b. whereas changes in business complexity and risk profile originating from bank as well as bank's subsidiary company as well as changes in the approach for the assessment of bank condition adopted internationally influence the approach for the assessment of bank rating;
- c. whereas in the framework of stepping up effectiveness of the assessment of bank rating in facing the changes as referred to in letter b, enhancement is required to the assessment of bank rating with risk-based approach (Risk-based Bank Rating);
- d. whereas the assessment of bank rating also requires adjustment to the implementation of consolidated supervision;
- e. whereas based on considerations as referred to in letter a, letter b, letter c, and letter d, it is deemed necessary to adjust Risk-based Bank Rating for Islamic Commercial Banks and Islamic Business Units in a Financial Services Authority Regulation;
- In view of : 1. Act Number 21 of 2008 concerning Islamic Banking

(State Gazette of the Republic of Indonesia Number 94 of 2008, Supplement to the State Gazette of the Republic of Indonesia Number 4867);

2. Act Number 21 of 2011 concerning Financial Services Authority (State Gazette of the Republic of Indonesia Number 111 of 2011, Supplement to the State Gazette of the Republic of Indonesia Number 5253);

HAVE DECREED

To enact : FINANCIAL SERVICES AUTHORITY REGULATION CONCERNING RISK-BASED BANK RATING FOR ISLAMIC COMMERCIAL BANKS AND ISLAMIC BUSINESS UNITS.

CHAPTER I

GENERAL PROVISIONS

Article 1

The terminologies used in this Financial Services Authority Regulation have the following meanings:

1. Bank is Islamic Commercial Bank and Islamic Business Unit.
2. Islamic Commercial Bank is Islamic Commercial Bank referred to in Act Number 21 of 2008 concerning Islamic Banking.
3. Islamic Business Unit is Islamic Business Unit referred to in Act Number 21 of 2008 concerning Islamic Banking.
4. Board of directors is board of directors referred to in Act Number 40 of 2007 concerning Limited Liability Companies.
5. Board of commissioners is board of commissioners referred to in Act Number 40 of 2007 concerning Limited Liability Companies.
6. Bank Rating is result of the assessment of Bank's condition performed based on risks including risk related to the application of Islamic principles and Bank's performance or called Risk-based Bank Rating.
7. Composite Rating is the final rating on result of the assessment of Bank Rating.
8. Subsidiary company is a company that is directly or indirectly owned and/or controlled by Bank, located domestically as well as abroad, that meets the criteria as referred to in prevailing regulation concerning implementation of

consolidated risk management for Bank that exercises control over subsidiary company.

9. Control means Control as referred to in prevailing regulation concerning transparency in Bank financial condition.

Article 2

- (1) Bank is obliged to maintain and/or step up Bank Rating by implementing prudential principles, Islamic principles, and risk management in conducting business activities.
- (2) In the framework of executing responsibilities in relation to Bank business sustainability, the Board of Directors and the Board of Commissioners are responsible to maintain and monitor Bank Rating as well as take necessary measures to maintain and/or step up Bank Rating as referred to in paragraph (1).
- (3) Islamic Commercial Bank is obliged to perform assessment of Bank Rating individually as well as in consolidated manner.
- (4) Islamic Business Unit is obliged to perform assessment of Bank Rating individually.

CHAPTER II

ASSESSMENT OF BANK RATING

Article 3

- (1) Bank is obliged to perform self-assessment of Bank Rating as referred to in Article 2 paragraph (3) and paragraph (4).
- (2) Self-assessment of Bank Rating as referred to in paragraph (1) shall be performed at least each semester for end of June and end of December positions.
- (3) Bank is obliged to update self-assessment of Bank Rating at any time required.
- (4) Result of self-assessment of Bank Rating as referred to in paragraph (2) and paragraph (3), which has been approved by the Board of Directors, should be submitted to the Board of Commissioners.
- (5) Bank is obliged to submit result of self-assessment of Bank Rating as referred to in paragraph (4) to the Financial Services Authority as follow:

- a. in regard individual assessment of Bank Rating, no later than 31 July for assessment of Bank Rating of end of June position and 31 January for assessment of Bank Rating of end of December position; and
- b. in regard assessment of Bank Rating in consolidated manner, no later than 15 August for assessment of Bank Rating of end of June position and 15 February for assessment of Bank Rating of end of December position.

Article 4

- (1) The Financial Services Authority shall perform assessment of Bank Rating each semester for the positions of end of June and end of December.
- (2) The Financial Services Authority shall perform updating of assessment of Bank Rating at any time required.
- (3) Assessment of Bank Rating as referred to in paragraph (1) and updating of assessment of Bank Rating as referred to in paragraph (2) shall be performed based on audit results, periodic reports submitted by Bank, and/or other information.

Article 5

- (1) In the event there is a difference between the result of Bank Rating assessment performed by the Financial Services Authority referred to in Article 4 and the result of Bank Rating self-assessment referred to in Article 3, the Financial Services Authority is obliged to hold a prudential meeting with bank.
- (2) If after the prudential meeting has been held as referred to in paragraph (1) there is still a difference between the results of Bank Rating assessments, the accepted version is the result of Bank Rating assessment performed by the Financial Services Authority.

CHAPTER III

MECHANISM FOR INDIVIDUAL ASSESSMENT OF BANK RATING

Article 6

- (1) Islamic Commercial Bank is obliged to perform individual assessment of Bank Rating as referred to in Article 2 paragraph (3) with the assessment scope covering the following factors:
 - a. risk profile;

- b. Good Corporate Governance;
 - c. earnings; and
 - d. capital.
- (2) Islamic Business Unit is obliged to perform individual assessment of Bank Rating as referred to in Article 2 paragraph (4) with the assessment scope covering the risk profile.

Article 7

- (1) Assessment of the risk profile factor as referred to in Article 6 paragraph (1) letter a and Article 6 paragraph (2) constitutes an assessment of inherent risk and quality of the implementation of risk management in Bank operation that is performed on 10 (ten) risks, namely:
- a. credit risk;
 - b. market risk;
 - c. liquidity risk;
 - d. operational risk;
 - e. legal risk;
 - f. strategic risk;
 - g. compliance risk;
 - h. reputation risk;
 - i. rate of return risk; and
 - j. equity investment risk
- (2) Assessment on the Good Corporate Governance factor as referred to in Article 6 paragraph (1) letter b constitutes an assessment of Islamic Commercial Bank management on the implementation of Good Corporate Governance principles.
- (3) Assessment of the earnings factor as referred to in Article 6 paragraph (1) letter c covers assessment of the earnings performance, earnings sources, and earnings sustainability of Islamic Commercial Bank.
- (4) Assessment of the capital factor as referred to in Article 6 paragraph (1) letter d covers assessment of capital adequacy level and capital management of Islamic Commercial Bank.

Article 8

- (1) The rating of each factor in the assessment of Bank Rating as referred to in Article 6 is determined based on a comprehensive and structured analysis framework.
- (2) The rating of each factor in the assessment of Bank Rating as referred to in paragraph (1) is categorized as follows:
 - a. Rating 1;
 - b. Rating 2;
 - c. Rating 3;
 - d. Rating 4; and
 - e. Rating 5.
- (3) Determination of the rating of risk profile factor is undertaken in the following stages:
 - a. determination of the risk level of each risk as referred to in Article 7 paragraph (1);
 - b. determination of the levels of composite inherent risk and composite quality of risk management implementation; and
 - c. determination of the rating of risk profile factor based on a comprehensive and structured analysis on the results of determinations as referred to in letter a and letter b is made by giving attention to the significance of each risk on the overall risk profile.
- (4) Determination of the rating of Good Corporate Governance factor is undertaken based on a comprehensive and structured analysis on the assessment result of the implementation of Islamic Commercial Bank's Good Corporate Governance principles and other information related to Islamic Commercial Bank's Good Corporate Governance.
- (5) Determination of the rating of earnings factor is undertaken based on a comprehensive and structured analysis on earnings parameters/indicators by giving attention to the significance of each parameter/indicator as well as other problems that influence Islamic Commercial Bank's earnings.
- (6) Determination of the rating of Islamic Commercial Bank capital factor is undertaken based on a comprehensive and structured analysis on capital parameters/indicators by giving attention to the significance of each parameter/indicator as well as other problems that influence Islamic Commercial Bank capital.

Article 9

- (1) The composite rating of Bank Rating is determined based on a comprehensive and structured analysis on the rating of each factor as referred to in Article 8 paragraph (3), paragraph (4), paragraph (5), and paragraph (6) by giving attention to the materiality and significance of each factor.
- (2) The composite rating of Bank Rating as referred to in paragraph (1) is categorized as follows:
 - a. Composite Rating 1 (CR-1);
 - b. Composite Rating 2 (CR-2);
 - c. Composite Rating 3 (CR-3);
 - d. Composite Rating 4 (CR-4);
 - e. Composite Rating 5 (CR-5).
- (3) Composite Rating 1 (CR-1) reflects Bank's condition that is in general extremely sound and as such is assessed as being extremely capable of facing significant negative influence from changes in business condition and other external factors.
- (4) Composite Rating 2 (CR-2) reflects Bank's condition that is in general sound and as such is assessed as being capable of facing significant negative influence from changes in business condition and other external factors.
- (5) Composite Rating 3 (CR-3) reflects Bank's condition that is in general adequately sound and as such is assessed as being adequately capable of facing significant negative influence from changes in business condition and other external factors.
- (6) Composite Rating 4 (CR-4) reflects Bank's condition that is in general less sound and as such is assessed as being less capable of facing significant negative influence from changes in business condition and other external factors.
- (7) Composite Rating 5 (CR-5) reflects Bank's condition that is in general unsound and as such is assessed as being incapable of facing significant negative influence from changes in business condition and other external factors.

Article 10

In the event, based on results of the Financial Services Authority's identification and assessment, problems or violations are found that are significantly influencing or will influence Bank's operations and/or business sustainability, the

Financial Services Authority has the authority to lower the Composite Rating of Bank Rating.

CHAPTER IV
MECHANISM FOR ASSESSMENT OF ISLAMIC COMMERCIAL
BANK RATING LEVEL IN CONSOLIDATED MANNER

Article 11

- (1) Islamic Commercial Bank is obliged to perform assessment of Bank Rating in consolidated manner as referred to in Article 2 paragraph (3) with the assessment scope covering the following factors:
 - a. risk profile;
 - b. Good Corporate Governance;
 - c. earnings; and
 - d. capital.
- (2) Determination of the rating of Islamic Commercial Bank risk profile factor in consolidated manner is undertaken by giving attention to:
 - a. the significance or materiality of the share of the Subsidiary Company in the Islamic Commercial Bank in consolidated manner; and/or
 - b. the Subsidiary Company's problems that have significant influence on the Islamic Commercial Bank's risk profile in consolidated manner.
- (3) Determination of the rating of Good Corporate Governance factor in consolidated manner is undertaken by giving attention to:
 - a. the significance or materiality of the share of the Subsidiary Company in the Islamic Commercial Bank in consolidated manner; and/or
 - b. the problems related to implementation of Good Corporate Governance principles at the Subsidiary Company that have significant influence on the implementation of Good Corporate Governance principles.
- (4) Determination of the rating of earnings factor in consolidated manner is undertaken based on a comprehensive and structured analysis on certain earnings parameters/indicators produced from the Islamic Commercial Bank's consolidated financial report and other financial information by giving attention to:
 - a. the significance or materiality of the share of Subsidiary Company in the Islamic Commercial Bank in consolidated manner; and/or
 - b. earnings problems at the Subsidiary Company that have significant influence on consolidated earnings.

- (5) Determination of the consolidated rating of capital factor in consolidated manner is undertaken by taking into consideration the risk profile based on a comprehensive and structured analysis on certain capital parameters/indicators produced from the Islamic Commercial Bank's consolidated financial report and other financial information by giving attention to:
- a. the significance or materiality of the share of Subsidiary Company in the Islamic Commercial Bank in consolidated manner; and/or
 - b. capital problems at the Subsidiary Company that have significant influence on consolidated capital.

Article 12

In the case of an Islamic Commercial Bank that performs assessment of Bank Rating in consolidated manner:

- a. mechanism for determining the rating of each assessment factor and the composite rating of Bank Rating in consolidated manner; and
- b. categorization of the rating of each assessment factor and the composite ratings in consolidated manner,

should refer to mechanism for the determination and categorization of Bank individual rating as stipulated in Article 8, Article 9, and Article 10.

CHAPTER V

FOLLOW-UP ON RESULTS OF ASSESSMENT OF BANK RATING

Article 13

- (1) In the event, based on results of Bank Rating assessment performed by the Financial Services Authority and/or results of self-assessment performed by Bank, there is:
- a. Rating of Bank Rating factor that is determined to be of rating 4 or rating 5;
 - b. Composite rating of Bank Rating that is determined to be of rating 4 or rating 5; and/or
 - c. Composite rating of Bank Rating that is determined to be of rating 3 but there are significant problems that require resolution so as not to disrupt the sustainability of Bank's business,

then Bank's Board of Directors, Board of Commissioners, and/or controlling shareholders are obliged to submit an action plan to the Financial Services Authority.

- (2) The Financial Services Authority has the authority to request the Bank to make adjustments to the action plan referred to in paragraph (1).
- (3) Bank is obliged to submit an action plan:
 - a. within specific time deadline set by the Financial Services Authority, in the case of an action plan that constitutes follow-up of the results of Bank Rating assessment made by the Financial Services Authority;
 - b. in the case of an action plan that is the follow up of Bank self-assessment result, no later than 15 August, for Bank Rating assessment for end of June position and no later than 15 February, for Bank Rating assessment for end of December position.

Article 14

Bank is obliged to submit a report on implementation of the action plan referred to in Article 13 no later than:

- a. 10 (ten) working days after the target date for the action plan completion; and/or
- b. 10 (ten) working days after end of the month and it is submitted monthly, when there is a significant problem that will disrupt on-time completion of the action plan.

Article 15

The Financial Services Authority has the authority to perform an audit on the implementation of the action plan by Bank.

CHAPTER VI

SANCTIONS

Article 16

Any Bank committing violations against the provisions set forth in Article 2, Article 3, Article 6, Article 7, Article 8, Article 9, Article 11, Article 12, Article 13, Article 14, and Article 17 paragraph (1) and paragraph (2) shall be imposed with administrative sanctions in the forms of:

- a. written reminder;
- b. lowering of Bank Rating;

- c. freezing of certain business activities; and/or
- d. the stating of Bank management and/or shareholders in the list of parties who have received the predicate of having failed the fit and proper test.

CHAPTER VII
OTHER PROVISIONS

Article 17

- (1) In the framework of preparation for effective implementation of the assessment of Bank Rating, both in individual as well as consolidated manners, Islamic Commercial Bank is obliged to perform a trial run of the assessment of Bank Rating referred to in this Financial Services Authority Regulation for the position of the assessment of Islamic Commercial Bank Rating of end of March 2014.
- (2) In the framework of preparation for effective implementation of the individual assessment of Bank Rating, Islamic Business Unit is obliged to perform a trial run of the assessment of Bank Rating referred to in this Financial Services Authority Regulation for the position of the assessment of Islamic Business Unit rating of end of March 2014.
- (1) The Financial Services Authority has the authority to request for results of the trial run of the assessment of Bank Rating as referred to in paragraph (1) and paragraph (2).

Article 18

The implementing stipulations of this Financial Services Authority Regulation shall be further provided in a Financial Services Authority Circular Letter.

CHAPTER VIII
CONCLUDING PROVISIONS

Article 19

- (1) With the enforcement of this Financial Services Authority Regulation, Bank Indonesia Regulation Number 9/1/PBI/2007 concerning System for Assessment of Islamic Commercial Bank Rating is declared to be no longer valid since 1 July 2014.

(2) Assessment of Bank Rating based on this Financial Services Authority Regulation shall be effective starting 1 July 2014 for the assessment of Bank Rating for end of June 2014 position.

Article 20

This Financial Services Authority Regulation shall come into effect as of the date of enactment.

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

Ratified in Jakarta
On 11 June 2014
CHAIRMAN OF BOARD OF
COMMISSIONERS OF
FINANCIAL SERVICES
AUTHORITY,

MULIAMAN D. HADAD

Enacted in Jakarta
On 13 June 2014
MINISTER OF LAW AND HUMAN RIGHT
REPUBLIC OF INDONESIA

AMIR SYAMSUDIN
STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 134 OF 2014

Copy in accordance with original
LEGAL DIRECTOR I
LEGAL DEPARTMENT,

TINI KUSTINI