

COPY OF
FINANCIAL SERVICES AUTHORITY REGULATION
NUMBER 4 /POJK.03/2016
CONCERNING
ASSESSMENT OF COMMERCIAL BANK SOUNDNESS LEVEL

WITH THE BLESSINGS OF GOD ALMIGHTY,

BOARD OF COMMISSIONERS OF
FINANCIAL SERVICES AUTHORITY,

- Considering:
- a. whereas bank soundness constitutes a vehicle for supervisory authorities in determining bank supervision strategy and focus;
 - b. whereas changes in business complexity and risk profile originating from a bank as well as the bank's subsidiary company as well as changes in the internationally adopted approach for the assessment of bank condition influence the approach to the assessment of bank soundness level;
 - c. whereas in the framework of stepping up effectiveness of the assessment of bank soundness level in facing the changes as referred to in letter b, assessment of bank soundness level with risk-based approach is required;
 - d. whereas the assessment of bank soundness level also requires alignment 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 stipulate a Financial Services Authority Regulation concerning Assessment of Commercial Bank Soundness Level;
- In view of:
- 1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472) as amended by

Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);

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);

HAS DECREED:

To enact: FINANCIAL SERVICES AUTHORITY REGULATION
CONCERNING ASSESSMENT OF COMMERCIAL BANK
SOUNDNESS LEVEL

CHAPTER I GENERAL PROVISIONS

Article 1

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

1. Bank is a commercial bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, including branch offices of banks domiciling abroad, which conduct business activities in conventional manner.
2. Board of Directors means:
 - a. in the case of a Bank legally incorporated as a Limited Liability Company, it is the board of directors as referred to in Act Number 40 of 2007 concerning Limited Liability Companies;
 - b. in the case of a Bank legally incorporated as:
 - 1) a Regional Government Public Company or Regional Government Limited Liability Company, it is the board of directors as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015.
 - 2) a Regional Government Enterprise, it is the board of directors of any Bank that has not changed into a Regional Government Public Company or

Regional Government Limited Liability Company as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015;

- c. in the case of a Bank legally incorporated as a Cooperative, it is the management as referred to in Act Number 25 of 1992 concerning Cooperatives;
 - d. in the case of a Bank that is a branch office of a bank domiciling abroad, it is the head of the branch office and officers of one level below the branch office head.
3. Board of Commissioners means:
- a. in the case of a Bank legally incorporated as a Limited Liability Company, it is the board of commissioners as referred to in Act Number 40 of 2007 concerning Limited Liability Companies;
 - b. in the case of a Bank legally incorporated as:
 - 1) a Regional Government Public Company, it is the supervisory board as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015.
 - 2) a Regional Government Limited Liability Company, it is the commissioner as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015.
 - 3) a Regional Government Enterprise, it is the supervisors of any Bank that has not changed into a Regional Government Public Company or Regional Government Limited Liability Company as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015;
 - c. in the case of a Bank legally incorporated as a Cooperative, it is the supervisors as referred to in Act Number 25 of 1992 concerning Cooperatives;
 - d. in the case of a Bank that is a branch office of a bank domiciling abroad, it is the party assigned to perform the supervisory function.
4. Bank Soundness Level is the result of the assessment of Bank's condition performed on Bank's risks and performance.
5. Composite Rating is the final rating on result of the assessment of Bank Soundness Level.
6. Subsidiary company is a company that is owned and/or directly or indirectly controlled by a Bank, located both within the country and abroad, that meets the criteria as referred to in the regulation that governs the implementation of consolidated risk management

for Banks that exercise control over subsidiary companies.

7. Control means control as referred to in the regulation that governs the implementation of integrated risk management for financial conglomerates.

Article 2

- (1) Bank is obliged to maintain and/or step up Bank Soundness Level by implementing prudential principles and risk management in conducting business activities.
- (2) In the framework of executing Bank's responsibilities in relation to Bank's business sustainability, the Board of Directors and the Board of Commissioners are responsible for maintaining and monitoring Bank Soundness Level as well as taking required measures to maintain and/or step up Bank Soundness Level as referred to in paragraph (1).
- (3) Bank is obliged to perform assessment of Bank Soundness Level by using risk-based approach (Risk-based Bank Rating) in individual as well as consolidated manners.

CHAPTER II

ASSESSMENT OF BANK SOUNDNESS LEVEL

Article 3

- (1) Bank is obliged to perform self-assessment of Bank Soundness Level as referred to in Article 2 paragraph (3).
- (2) Self-assessment of Bank Soundness Level as referred to in paragraph (1) should 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 Soundness Level at any time required.
- (4) Result of self-assessment of Bank Soundness Level 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 Soundness Level as referred to in paragraph (4) to Financial Services Authority as follow:
 - a. in regard individual assessment of Bank Soundness Level, no later than 31 July for assessment of Bank Soundness Level of end of June position and 31 January for assessment of Bank Soundness Level of end of December position; and

- b. in regard assessment of consolidated Bank Soundness Level, no later than 15 August for assessment of Bank Soundness Level of end of June position and 15 February for assessment of Bank Soundness Level of end of December position.
- (6) If the time limit for submission of result of self-assessment of Bank Soundness Level as referred to in paragraph (5) falls on a Saturday, Sunday, or public holiday, the result of self-assessment of Bank Soundness Level shall be submitted on the next working day.

Article 4

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

Article 5

In the framework of Bank supervision, when there is a difference between result of the assessment of Bank Soundness Level performed by Financial Services Authority as referred to in Article 4 and result of self-assessment of Bank Soundness Level as referred to in Article 3, the assessment of Bank Soundness Level performed by Financial Services Authority prevails.

CHAPTER III

MECHANISM FOR INDIVIDUAL ASSESSMENT OF BANK SOUNDNESS LEVEL

Article 6

Bank is obliged to perform individual assessment of Bank Soundness Level using the risk-based approach (Risk-Based 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 (GCG);
- c. profitability (earnings); and
- d. capital.

Article 7

- (1) Assessment of the risk profile factor as referred to in Article 6 letter a constitutes an assessment of inherent risks and quality of the risk management implementation in Bank operations that should be performed on 8 (eight) risks, namely:
 - a. credit risk;
 - b. market risk;
 - c. liquidity risk;
 - d. operational risk;
 - e. legal risk;
 - f. strategic risk;
 - g. compliance risk; and
 - h. reputation risk.
- (2) Assessment on the GCG factor as referred to in Article 6 letter b constitutes an assessment of Bank's management on the implementation of GCG principles.
- (3) Assessment of the profitability (earnings) factor as referred to in Article 6 letter c covers assessment of Bank profitability (earnings) performance, profitability (earnings) sources, and profitability (earnings) sustainability.
- (4) Assessment of the capital factor as referred to in Article 6 letter d covers assessment of capital adequacy level and capital management.

Article 8

- (1) The rating of each factor in the assessment of Bank Soundness Level as referred to in Article 6 is determined based on a comprehensive and structured analysis framework.
- (2) Determination of the rating of risk profile factor is undertaken through 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 result of determinations as referred to in letter a and letter b, which is performed by taking notice of the significance of each risk on the overall risk profile.

- (3) Determination of the rating of GCG factor is undertaken based on a comprehensive and structured analysis on the result of assessment of the implementation of Bank's GCG principles and other information related to Bank's GCG.
- (4) Determination of the rating of profitability (earnings) factor is undertaken based on a comprehensive and structured analysis on profitability parameters or indicators by taking notice of the significance of each parameter or indicator as well as taking into consideration other problems that influence Bank's profitability (earnings).
- (5) Determination of the rating of Bank capital factor is undertaken based on a comprehensive and structured analysis on capital parameters or indicators by taking notice of the significance of each parameter or indicator as well as taking into consideration other problems that influence Bank's capital.

Article 9

- (1) The Composite Rating of Bank Soundness Level is determined based on a comprehensive and structured analysis on the rating of each factor as referred to in Article 8 paragraph (2), paragraph (3), paragraph (4), and paragraph (5) by taking notice of the materiality and significance of each factor.
- (2) The Composite 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); and
 - e. Composite Rating 5 (CR-5).
- (3) Composite Rating 1 (CR-1) as referred to in paragraph (2) letter a reflects Bank's condition that is in general extremely sound and as such is assessed of being extremely capable of facing significant negative influence from changes in business condition and other external factors.
- (4) Composite Rating 2 (CR-2) as referred to in paragraph (2) letter b reflects Bank's condition that is in general sound and as such is assessed of being capable of facing significant negative influence from changes in business condition and other external factors.
- (5) Composite Rating 3 (CR-3) as referred to in paragraph (2) letter c reflects Bank's condition that is in general adequately sound and as such is assessed of being adequately

capable of facing significant negative influence from changes in business condition and other external factors.

- (6) Composite Rating 4 (CR-4) as referred to in paragraph (2) letter d reflects Bank's condition that is in general less sound and as such is assessed of being less capable of facing significant negative influence from changes in business condition and other external factors.
- (7) Composite Rating 5 (CR-5) as referred to in paragraph (2) letter e reflects Bank's condition that is in general unsound and as such is assessed of being not capable of facing significant negative influence from changes in business condition and other external factors.

Article 10

In the event, based on results of 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, Financial Services Authority has the authority to lower the Composite Rating of Bank Soundness Level.

CHAPTER IV

MECHANISM FOR ASSESSMENT OF CONSOLIDATED BANK SOUNDNESS LEVEL

Article 11

- (1) Bank is obliged to perform assessment of consolidated Bank Soundness Level using the risk-based approach (Risk-based 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 (GCG);
 - c. profitability (earnings); and
 - d. capital.
- (2) Determination of the rating of Bank consolidated risk profile factor is undertaken by taking notice of:
 - a. the significance or materiality of the share of the Subsidiary Company in the Bank in consolidated manner; and/or
 - b. the Subsidiary Company's problems that have significant influence on the Bank's risk profile in consolidated manner;

- (3) Determination of the rating of consolidated GCG factor is undertaken by taking notice of:
 - a. the significance or materiality of the share of the Subsidiary Company in the Bank in consolidated manner; and/or
 - b. the problems related to implementation of GCG principles at the Subsidiary Company that have significant influence on the implementation of GCG principles in consolidated manner;
- (4) Determination of the rating of consolidated profitability factor is undertaken based on a comprehensive and structured analysis on certain profitability parameters or indicators resulting from the Bank's consolidated financial reports and other financial information by taking notice of:
 - a. the significance or materiality of the share of the Subsidiary Company in the Bank in consolidated manner; and/or
 - b. profitability problems at the Subsidiary Company that have significant influence on profitability in consolidated manner.
- (5) Determination of the rating of consolidated capital factor is undertaken based on a comprehensive and structured analysis on certain capital parameters or indicators resulting from the Bank's consolidated financial reports and other financial information by taking notice of:
 - a. the significance or materiality of the share of the Subsidiary Company in the Bank in consolidated manner; and/or
 - b. capital problems at the Subsidiary Company that have significant influence on capital in consolidated manner.

Article 12

In the case of a Bank that performs assessment of Bank Soundness Level in consolidated manner:

- a. mechanism for the determination of the rating of each assessment factor and determination of the Composite Rating of Bank Soundness Level in consolidated manner; and
- b. categorization of the rating of each assessment factor and the Composite Rating in consolidated manner,

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

CHAPTER V

FOLLOW-UP ON RESULTS OF THE ASSESSMENT OF BANK SOUNDNESS LEVEL

Article 13

- (1) In the event, based on results of the assessment of Bank Soundness Level performed by Financial Services Authority and/or results of self-assessment by Bank, there is:
 - a. Bank Soundness Level factor that is determined to be of rating 4 or rating 5;
 - b. Composite Rating of Bank Soundness Level that is determined to be of rating 4 or rating 5; and/or
 - c. Composite Rating of Bank Soundness Level that is determined to be of rating 3 but there are significant problems that require resolutions so as not to disrupt the sustainability of Bank's business,the Bank's Board of Directors, Board of Commissioners, and/or controlling shareholders are obliged to submit an action plan to Financial Services Authority.
- (2) Financial Services Authority has the authority to request the Bank to make adjustments to the action plan as referred to in paragraph (1).
- (3) Bank is obliged to submit an action plan:
 - a. within the certain time limit set by Financial Services Authority, in the case of an action plan that constitutes a follow-up of the result of Bank Soundness Level assessment made by Financial Services Authority;
 - b. in the case of an action plan that constitutes a follow-up of Bank self-assessment result, no later than 15 August, for Bank Soundness Level assessment for end of June position and 15 February, for Bank Soundness Level assessment for end of December position.
- (4) If the time limit, for submission of an action plan on the result of Bank's self-assessment as referred to in paragraph (3) letter b, falls on a Saturday, Sunday, or public holiday, **the action plan on** the result of Bank's self-assessment shall be submitted on the next working day.

Article 14

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

- a. 10 (ten) working days since the target date for the action plan completion; and/or

- b. 10 (ten) working days after the end of the month and it is submitted monthly, in the event there is a significant problem that will hamper timely completion of the action plan.

Article 15

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

CHAPTER VI SANCTIONS

Article 16

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

- a. written warning;
- b. lowering of Bank Soundness Level
- c. freezing of certain business activities; and/or
- d. the stating of the names of Bank's management and/or shareholders in the list of parties that have received the predicate of having failed the fit and proper test.

CHAPTER VII CONCLUDING PROVISIONS

Article 17

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

Article 18

With the enforcement of this Financial Services Authority Regulation:

- a. Bank Indonesia Regulation Number 13/1/PBI/2011 dated 5 January 2011 concerning Assessment of Commercial Bank Soundness Level (State Gazette of the Republic of

Indonesia Number 1 of 2011, Supplement to the State Gazette of the Republic of Indonesia Number 5184) is revoked and declared to be no longer valid.

- b. The implementing stipulations of Bank Indonesia Regulation Number 13/1/PBI/2011 dated 5 January 2011 concerning Assessment of Commercial Bank Soundness Level are declared to still be valid as long as they are not in conflict with this Financial Services Authority Regulation.

Article 19

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 26 January 2016

CHAIRMAN OF BOARD OF COMMISSIONERS
FINANCIAL SERVICES AUTHORITY

signed

MULIAMAN D. HADAD

Enacted in: Jakarta

On 27 January 2016

MINISTER OF LAW AND HUMAN RIGHT
REPUBLIC OF INDONESIA

signed

YASONNA H. LAOLY

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 16 OF 2016

Copy is in accordance with the original

Legal Director I

Legal Department

signed

Yuliana

ELUCIDATION
TO
FINANCIAL SERVICES AUTHORITY REGULATION
NUMBER 4 /POJK.03/2016
CONCERNING
ASSESSMENT OF COMMERCIAL BANK SOUNDNESS LEVEL

I. GENERAL REVIEW

In accordance with Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, a Bank is obliged to maintain its soundness. Bank soundness is a reflection of Bank's condition and performance, which constitute a vehicle for supervisory authorities in determining supervision strategy and focus for the Bank. In addition, Bank soundness is also important to all related parties, namely owners, management, and the public that uses the Bank's services.

Development of the banking industry, particularly the products and services, which are becoming more complex and diverse, can raise Bank's risk exposure and risk profile. Along with this fact, the internationally-accepted approach to assessment is also heading towards the risk-based supervision approach. Increased risk exposure and risk profile as well as the implementation of risk-based Supervision approach in turn influence assessment of Bank Soundness Level.

In line with Bank business development that is constantly dynamic and influences the risk level that Bank faces, methodology for the assessment of Bank Soundness Level should be able to reflect Bank's current condition currently and in the future. This methodology is required so that the assessment of Bank Soundness Level can be more effectively used as a tool for evaluating Bank's performance, including in regard the implementation of risk management with a focus on significant risks, and compliance to prevailing regulations as well as implementation of the prudential principles.

The assessment of Bank Soundness Level using the risk-based approach constitutes a comprehensive and structured assessment of result of the integration between risk profile and performance, which covers the implementation of good corporate governance, profitability, and capital.

This approach enables Financial Services Authority as the supervisory body to undertake supervisory actions that are appropriate and timely because the assessment is performed comprehensively on all assessment factors and is focused on significant risks as

well as can immediately be communicated to the Bank for the purpose of determining supervision follow-up actions.

In addition, in line with implementation of the risk-based supervision, supervision cannot be sufficiently conducted only on the Bank at individual level but supervision should also be conducted on the Bank in consolidated manner, including in the assessment of soundness level. Therefore, assessment of Bank Soundness Level should also cover assessment of Bank Soundness Level in consolidated manner.

In this regard, it is deemed necessary to enact provisions concerning Bank Soundness Level in a Financial Services Authority Regulation.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

Bank soundness should be maintained and/or stepped up so that public trust in Banks can be maintained.

Bank Soundness Level is used as one of the vehicles in performing evaluation on the condition of and problems being faced by a Bank as well as in determining follow-up actions for resolving Bank's weaknesses and problems, both in the form of corrective actions by the Bank as well as supervisory actions by the Financial Services Authority.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Assessment of Bank Soundness Level in consolidated manner is applied on Bank that exercises Control over Subsidiary Companies.

Article 3

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Updating of the self-assessment of Bank Soundness Level is performed at any time, among others in the event of:

- a. worsening of Bank financial condition;
- b. Bank is facing problems among others liquidity and capital risks; or
- c. other conditions which according to the Financial Services Authority require updating of the assessment of soundness level.

Paragraph (4)

In the case of a branch office of a bank domiciling abroad, result of self-assessment is submitted to the party which according to Bank's internal organization structure has the responsibility for directly supervising the activities and performance of the branch office of a bank domiciling abroad in Indonesia.

Paragraph (5)

Self-explanatory.

Paragraph (6)

"Public holiday" means a national public holiday determined by the central government and/or a local public holiday determined by the regional government.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Other information can be in the form of:

- a. information on the results of evaluations by other authorized authorities;
- b. generally known information such as the result of evaluation by a rating institution and information from mass media; and/or
- c. data or information related to a branch office of a bank domiciling abroad concerning the financial condition and rating of its head office abroad, which is produced by authorized authorities or international rating institution.

Article 5

Self-explanatory.

Article 6

Assessment of Bank Soundness Level using risk-based approach (Risk-based Bank Rating) is performed based on a comprehensive analysis on the performance, risk profile, problems being faced by, and development prospect of the Bank

Article 7

Paragraph (1)

Assessment of the inherent risks constitutes an assessment on risks that are inherent in Bank's business activities, both those that can be quantified as well as those that cannot, which have the potential of influencing Bank's financial position.

Assessment of the quality of risk management implementation constitutes an assessment of the aspects of:

- a. risk good corporate governance;
- b. risk management framework;
- c. risk management process, adequacy of human resources, and adequacy of management information system; as well as
- d. adequacy of risk control system that takes notice of Bank's business characteristics and complexity.

The definition and coverage on each risk refer to the regulation that governs the implementation of risk management for commercial banks.

Paragraph (2)

GCG principles and evaluation focus on the implementation of GCG principles refer to the regulation that governs good corporate governance for commercial banks by taking notice of Bank's business characteristics and complexity.

Paragraph (3)

Assessment of Bank's profitability (earnings) performance, sources of profitability (earnings), and profitability's (earnings') sustainability is performed by taking into consideration the aspects of level, trend, structure, and stability, and by taking notice of the performance of peer group as well as Bank's profitability management, both through analyses of quantitative as well as qualitative aspects.

Analysis of the quantitative aspects is performed by using core indicators as the basis for evaluation. In addition, when necessary, the use of other

supporting indicators can be added in order to sharpen the analysis, which is aligned to Bank's business scale, characteristics, and/or business complexity. Analysis of the qualitative aspects is performed among others by taking into consideration profitability management, profitability (earnings) contribution to capital expansion, and profitability (earnings) prospect.

Paragraph (4)

Assessment of the level of capital adequacy and capital management is performed by Bank by taking into consideration the level, trend, structure, and stability, and by taking notice of the performance of peer group as well as Bank's capital management both through analyses of quantitative as well as qualitative aspects.

Analysis of the quantitative aspects is performed by using core indicators. In addition, when necessary, the use of other supporting indicators can be added in order to sharpen the analysis, which is aligned to Bank's business scale, characteristics, and/or complexity.

Analysis of the qualitative aspects is performed among others by taking into consideration capital management and the capacity to access capital.

Article 8

Paragraph (1)

The rating of each factor is categorized as follows:

- a. Rating 1;
- b. Rating 2;
- c. Rating 3;
- d. Rating 4; and
- e. Rating 5.

Smaller factor rating sequence reflects better Bank's condition.

Paragraph (2)

Letter a

Risk level is determined based on the level of inherent risks and quality of risk management implementation of each risk.

Letter b

Determination of the inherent risk level and quality of risk management implementation on composite basis is performed based on a comprehensive and structured analysis of the level of inherent risk

and quality of risk management implementation of each risk by taking notice of the significance of each risk in the overall risk profile.

Letter c

Self-explanatory.

Paragraph (3)

Result of the assessment of Bank's GCG principle implementation as stipulated in the regulation that governs GCG for commercial banks is only one of the sources for the assessment of Bank's GCG factor rating in the assessment of Bank Soundness Level.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 9

Paragraph (1)

The comprehensive analysis is also performed by taking into consideration Bank's capacity to face significant changes in external condition.

Paragraph (2)

Smaller Composite Rating sequence reflects Bank's condition that is sounder.

Paragraph (3)

A condition that is generally extremely sound so as to be assessed of being extremely capable of facing significant negative influence coming from changes in business condition and other external factors is reflected in the ratings of assessment factors, among others risk profile, implementation of GCG, profitability (earnings), and capital, which in general are extremely good. If there is a weakness, in general the weakness is not significant.

Paragraph (4)

A condition that is generally sound so as to be assessed of being capable of facing significant negative influence coming from changes in business condition and other external factors is reflected in the ratings of assessment factors, among others risk profile, implementation of GCG, profitability (earnings), and capital, which are in general good. If there is a weakness, in general the weakness is less significant.

Paragraph (5)

A condition that is generally adequately sound so as to be assessed of being adequately capable of facing significant negative influence coming from changes in business condition and other external factors is reflected in the ratings of assessment factors, among others risk profile, implementation of GCG, profitability (earnings), and capital, which are in general adequately good. If there is a weakness, in general the weakness is sufficiently significant and if it cannot be well resolved by management, it can disrupt the sustainability of Bank's business.

Paragraph (6)

A condition that is generally less sound so as to be assessed of being less capable of facing significant negative influence coming from changes in business condition and other external factors is reflected in the ratings of assessment factors, among others risk profile, implementation of GCG, profitability (earnings), and capital, which are in general less than good. There is a weakness that is in general significant and cannot be well resolved by the management and is disrupting the sustainability of Bank's business.

Paragraph (7)

A condition that is generally not sound so as to be assessed of being not capable of facing significant negative influence coming from changes in business condition and other external factors is reflected in the ratings of assessment factors, among others risk profile, implementation of GCG, profitability (earnings), and capital, which are in general not good. There is a weakness that is in general extremely significant and as such its resolution requires funding support from the shareholders or fund sources from other parties to strengthen the Bank's financial condition.

Article 10

Analysis of the significance of the influence of a problem is performed by taking into consideration among others:

- a. negative impact of the problem and/or violation against stipulations on the sustainability of Bank's business or performance;
- b. there is an indication of deliberate violation of stipulations;
- c. there is an indication of deliberate non-fulfillment of commitment; and/or
- d. number and/or frequency of violations.

Examples of problems or violations that have significant influence are among others manipulation, including window dressing and internal management disputes that influence the operations and/or sustainability of the Bank's business.

Article 11

Paragraph (1)

Assessment of the Bank Soundness Level using the risk-based approach (Risk-based Bank Rating) is performed based on a comprehensive analysis of Bank's performance, risk profile, problems being faced, and development prospect.

Assessment of each factor is performed in a consolidated manner between the Bank and Subsidiary Companies.

Paragraph (2)

Subsidiary Company risk, which is assessed by measuring the risk profile in consolidated manner, is determined by taking notice of the business characteristics of the Subsidiary Company and its influence in Bank's risk profile in consolidated manner.

The measuring of risk level in consolidated manner is performed by using risk measuring parameters that are in line with the business characteristics of the Subsidiary Company.

Paragraph (3)

GCG assessment factors of Subsidiary Company, which are used in assessing the implementation of the GCG principles in consolidated manner, are determined by taking notice of the business characteristics of the Subsidiary Company and its influence in Bank's GCG in consolidated manner.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 12

Self-explanatory.

Article 13

Paragraph (1)

The action plan shall contain measures for improvement, which the Bank will execute for the purpose of resolving significant problems being faced, as well as the target time of completion.

The action plan submitted by the Bank constitutes the Bank's commitment to Financial Services Authority.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Letter a

The certain time limit for submission of the action plan is determined by Financial Services Authority by taking into consideration the level of complexity and significance of Bank's problems.

Letter b

Self-explanatory.

Paragraph (4)

"Public holiday" means a national public holiday determined by the central government and/or a local public holiday determined by the regional government.

Article 14

Letter a

Target completion time for the action plan covers the target completion time for each stage of the action plan as well as the overall completion.

The report on the action plan implementation that shall be submitted by the Bank shall contain among others explanations concerning realization of the action plan implementation, supplemented by proofs of implementation and/or related supporting documents.

Letter b

The report on action plan implementation that shall be submitted by Bank shall contain among others explanations on the development and problems being faced in the implementation of the action plan, supplemented by proofs and/or related supporting documents.

Article 15

Self-explanatory.

Article 16

Article 16

Self-explanatory.

Article 17

Self-explanatory.

Article 18

Self-explanatory.

Article 19

Self-explanatory.

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF INDONESIA
NUMBER 5840