BANK INDONESIA

No. 7/ 53 /DPbS   Jakarta, 22 November 2005

<u>CIRCULATION LETTER</u>

To

<u>ALL COMMERCIAL BANKS CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES IN INDONESIA</u>

Re.: <u>Minimum Capital Adequacy Requirement (KPMM) for Commercial Bank Conducting Business Based on Sharia Principle</u>

With the coming into force of the Bank Indonesia Regulation No. 7/13/PBI/2005 dated 10 June 2005 concerning The Minimum Capital Adequacy Requirement (KPMM) For Commercial Banks Based On Sharia Principles (State Gazette of the Republic of Indonesia Number 47 of 2005, Supplement to the State Gazette of the Republic of Indonesia Number 4501), it is necessary to stipulate implementation provisions concerning the calculation of the Minimum Capital Adequacy Requirement (KPMM) for Commercial Banks conducting business based on Sharia Principle, in a Circulation Letter containing the following matters:

I. GENERAL

1. With regard to developing its business and absorb its loss risk, capital is one of the most important factors for a sharia bank. For a sound Indonesian sharia banking able to compete internationally, the capital of a sharia bank must always comply with the applicable international standard. The *Islamic Financial Services Board* (IFSB) has issued an international valid capital guidance providing the opportunity for the respective countries to make adjustment by considering local sharia banking condition. As in the case of the implementation in other countries, in applying the capital calculation in Indonesia several adjustment have been made to the business conducted by the banking sector in Indonesia at present.

<u>2. The</u>...

2. The Minimum Capital Adequacy Requirement (KPMM) provision for a bank is based on asset risk in its widest meaning, both asset recorded in the balance sheet and also assets which are administrative in nature as reflected in contingent liabilities and/or commitments provided by a bank for third parties and also market risk. Technically the obligation to provide a minimum capital is measured from a certain percentage against the Risk Weighted Assets.
3. Banks are obligated to provide a minimum capital at 8% (eight percent) from the Risk Weighted Assets.
4. A Sharia Business Unit (UUS) must provide a minimum capital of the Risk Weighted Assets from its business operation based on the sharia principle. In the event that the minimum capital of a UUS is less than 8% (eight percent) of the Risk Weighted Assets the conventional bank head office of the UUS must provide for the deficit of the minimum capital to meet the 8% (eight percent) of the Risk Weighted Assets.

II. CAPITAL ASPECTS

1. According to Article 3 paragraph (1) of the Bank Indonesia Regulation the Capital for commercial bank conducting business based on sharia principle, consists of a core capital (tier I Capital), supplementary capital (tier 2 Capital) and additional provisional capital (tier 3 Capital) . The component detail of such respective capital is as follows:

   1.1. Core Capital (Tier 1 Capital)

   Core Capital Tier 1 Capital consists of:

   a. Paid up Capital, capital that has been paid up cash by the owner amounting to the share nominal. Banks incorporated as a legal cooperative, the paid up capital consists of principal savings, mandatory savings, and endowments as stipulated in Act No.25 of 1992 regarding Cooperatives.
   b. Disclosed reserve capital, consists of:

1) Shares ...

1) Shares agio, the excess balance between paid up capital accepted by the bank and issued shares nominal value. In the event that the bank owns a disagio the balance between paid up capital accepted by the bank and the issued share nominal value becomes a deducting factor of the core capital.
2) Donated capital is capital obtained by the bank from endowments. Capital originating from outside parties donation received by the bank in the form of a legal cooperative is also included in the sense of endowment capital.
3) General Reserve, a reserve from retained earnings or from net profit after tax, and approved by a general meeting of shareholders or members meeting according to the incorporation provision or articles of association of the respective bank.
4) Designated Reserve, a reserve from retained earnings or from net profit after tax retained for a certain objective and has obtained the approval of the general meeting shareholders or members meeting.
5) Retained earnings after deduction for taxes , is the total net profit of previous years after tax calculation, and not yet decided on its usage by of the general meeting of shareholders or members meetings.

   In the event that the bank has a loss carry-forward such losses shall become a factor reducing the Core Capital (Tier 1 Capital).
6) Current year's earning, profit obtained in the current book year after being reduced by an estimate of tax payables. Only 50% of the current book year profit is calculated as Core Capital (Tier 1 Capital).

   In the event that in the current year the bank suffer a loss, all losses become a reducing factor of the Core Capital (Tier 1 Capital).

   In the profit calculation the effect of deferred tax calculation

must ...

must be removed and the lack of total reserved and total amount allowance for earnings asset loses, from the total which should actually be available according to Bank Indonesia regulations which is a cost component burdened on the current year earning.

7) Increment for translatiopn adjustment in financial statement of overseas branch offices as the result of consolidating the financial statement of the overseas branches with its parent company.

   In the event of a deduction for translation adjustment in financial statement of overseas branch offices, such balance shall be a reducing factor of the core capital.

8) Funds paid up as capital , fund fully paid for the purpose of adding capital but not yet supported by completing the requirement to be grouped into paid up capital by convening a general meeting of shareholders and or authorization from a competent institution.

9) Declining value of equity participation in the portfolio available for sale is a factor of decreasing the core capital.

   The amount of the Core Capital (Tier 1 Capital) is the amount mentioned in number 1) until number 9) above, reduced by goodwill contained in the bankbooks.

1.2. Supplementary Capital (Tier 2 Capital)

Supplementary capital (Tier 2 Capital) may consist of:

1) Increment from revaluation of fixed assets is a value resulting from the balance of revaluating the fixed asset of the bank that has obtained the approval of the Tax Directorate General. The balance of the fixed asset revaluation cannot be capitalized in the paid up capital and or distributed as share bonus and or dividend.

2) General reserve from allowance for earnings asset loses, a general reserve composed by burdening loss and profit of current year, with

the ...

the intention to accommodate losses which may occur as a result of not recovering part or the whole productive assets.

Allowance for earnings asset loses which treat as a general reserve is calculated as a Supplementary capital (Tier 2 Capital) component of maximum 1,25% of the Risk Weighted Assets total.

While Allowance for earnings asset loses which treat as a special reserve is calculated as reducing the nominal value in the Risk Weighted Assets calculation.

3) Loan capital fulfilling Bank Indonesia criteria, such as loan supported by instrument or documents with the following characteristics:
   1. based on Qardh principle;
   2. not guaranteed by the issuer, by nature similar to capital, and paid up in full;
   3. may not be repaid or withdrawn at the initiative of the holder without approval from Bank Indonesia; and
   4. has the same standing as capital in the event that the losses of the bank exceed the balance of profit and reserve, including tier 1 capital, notwithstanding the bank is not liquidated.

   In the sense of this loan capital, for a bank with a cooperative legal entity, the meaning of loan capital is similar to the provision regulated in Law No.25 of 1992 regarding Cooperatives.

4) Subordinated Investment which in a Sharia Bank monthly report is called as Subordinated Loan, is a loan meeting the following criteria
   1. based on the mudharabah or musyarakah principle;
   2. a written agreement exist between the bank and the investor;
   3. has prior approval from Bank Indonesia, in regard to which the Bank, when applying for approval, must submit the program for repayment of the subordinated investment;
   4. not guaranteed by the Bank concerned and is paid up in full;
   5. minimum tenor of 5 (five) years;

6. repayment ...

6. repayment prior to maturity must have prior approval from Bank Indonesia, and Bank Capital after this repayment shall notwithstanding remain sound; and
7. in the event of liquidation, right of claim shall have last prioryty after all existing borrowings (same status as capital).

The total subordinated investment able to be calculated as capital for the remaining period of the last 5 (five) years are the total subordinated investment reduced by amortization calculated by a straight-line method or prorata.

The total subordinated investment that can be calculated as a Supplementary capital (Tier 2 Capital) component is maximum 50% (fifty percent) of the core capital.

5) Increase in value of equity participation in the portfolio available for sale shall not exceed 45% (forty five percent).

1.3. All capital components as stipulated in number 1.1 and number 1.2 is calculated by a reducing factor in the form of all participation conducted by the Bank.

1.4. Additional Supplementary Capital (Tier 3 Capital)

a. Additional Supplementary Capital (Tier 3 Capital) in the calculation of the minimum capital adequacy requirement is a short term subordinated investment meeting the criteria established by Bank Indonesia as follows:

1. based on the *mudharabah* or *musyarakah* principle;
2. not guaranteed by the Bank concerned and paid up in full;
3. has a contracted tenor of no less than 2 (two) year;
4. may not be repaid prior to the scheduled date stipulated in the loan agreement, and only with approval from Bank Indonesia;
5. has a lock-in clause stating that no drawing is permitted of installments on principal, including repayment at maturity, if the payment would result in failure of the minimum capital adequacy

requirement ...

requirement (KPMM) of the bank to comply with the applicable provision

6. has a cleary articulated agreement on placement of the sobordinated investment, including repayment schedule; and
7. has prior approval from Bank Indonesia.

b. Additional Supplementary Capital (Tier 3 Capital) in the calculation of the minimum capital adequacy requirement (KPMM) can only be used to calculate Market Risk, by meeting the following requirement:

1) The Total Additional Supplementary Capital (Tier 3 Capital) must not exceed 250% (two hundred fifty percent) of the core capital (tier 1 capital) is allocated for calculating the market risk. With this regulation, at least 28.5% (twenty eight point five percent) of the core capital (tier I capital) not used to calculate the risk exposure of fund distribution (Credit Risk) originating of the calculation of the Risk Weighted Assets must be allocated to calculate the market risk.

   The 28.5% originate from the following equation:

   Capital burden for Market Risk = 100

   Tier I allocated for Market Risk = x%

   Tier 3 allocated for Market Risk = 2.5x%

   x% +2.5x% = 100

   3.5x% = 100

   x = 100/3.5% =28.57% or rounded 28.5%.

2) The Total of the Supplementary Capital (tier 2 Capital) and Additional Supplementary Capital (tier 3 Capital) is at the utmost 100% (a hundred percent) of the core capital (tier 1 Capital)

c. Supplementary Capital (tier 2 Capital) not used to calculate Credit Risk including excess of subordinated investment exceeding 50% of the core capital (tier 1 capital) may be added to the additional supplementary capital (tier 3 Capital)as long as it meets the requirements as considered in letter b.

d. Subordinated ...

d. Subordinated Investment included in the Additional Supplementary Capital (tier 3 Capital) is not amortized.

2. According to the provisions in Article 3 paragraph (4) of the Bank Indonesia regulation mentioned above, the capital for a UUS of a Bank with a domestic head office and a UUS of a foreign bank branch offices, is a fund reserved by the bank head office or the foreign bank branch office for business based on sharia principle.

III. CALCULATION PROCEDURE OF MINIMUM CAPITAL ADEQUACY REQUIREMENT (KPMM)

1. Basic Calculation of the minimum capital adequacy requirement (KPMM)
   a. The calculation of the minimum capital adequacy requirement (KPMM) is based on the Risk Weighted Assets by calculating credit risk and market risks. What is meant by asset in this calculation include both assets stated in the balance sheet and also several administrative post in the assets and still contingent in nature and/or commitment provided by a bank for third parties.
   b. In calculating the Risk Weighted Assets by considering credit risk, against the respective balance sheet asset post is assigned a risk weight of which the amount is based on the degree of risk contained in the asset itself or its risks degree based on the customer's grouping, guarantor and nature of the collateral.
   c. The Risk Weighted Assets calculation for productive asset is differentiated as follows:
      1) funds channeled into various forms of earning assets in which the funds originate from deposits under the *mudharabah muthlaqah* principle, based on the profit and loss sharing method, shall be assigned a weighting of 1% (one percent);
      2) funds channeled into various forms of earning assets backed by collateral, in which the funds originate from equity and/or deposits

under ...

under the *wadiah, qardh,* and *mudharabah muthlaqah* principles based on the revenue sharing method, shall be further differentiated as follows:

a) if extended or guaranteed by the government or central bank, shall be assigned a weighting of 0% (zero percent);

b) if extended or guaranteed by another bank, shall be assigned a weighting of 20% (twenty percent);

c) if extended or guaranteed by a private company, shall be assigned a weighting based on the rating held by the company concerned;

3) channeling of funds in the form of receivables for home ownership guaranteed by first mortgage for use as residence, for which the funds originate from equity and/or deposits under the *wadiah, qardh,* and *mudharabah muthlaqah* principles based on the revenue sharing method, shall be assigned a weighting of 35% (thirty-five percent);

4) channeling of funds into various forms of venture capital for which the funds originate from *wadiah, equity, qardh,* and *mudharabah muthlaqah* shall be assigned a weighting of 150% (one hundred and fifty percent).

d. The Risk Weighted Assets calculation by calculating market risk, only applied to the foreign exchange risk.

2. By observing principles as considered in number 1, the risk weight detailing for all Balance Sheet assets is as follows:

0% : 1. Cash.

2. Gold and golden currency.
3. Commemorative coins.
4. Placement at Bank Indonesia:
   4.1. Wadiah Demand Deposit with Bank Indonesia;
   4.2. SWBI;
   4.3. Others;
5. Interbank placements:

5.1. In another country central bank;

5.2. In another bank guaranteed by the central government and central bank.

6. Securities owned:

6.1. Sharia Securities issued by another country Government;

6.2. Sharia Securities issued by the central bank of another country;

6.3. Money market securities / Sharia capital market.

6.3.1. Issued or guarantee by the central Bank and central government;

6.3.2. Issued or guarantee by cash money, foreign currencies, gold, gold currencies, and demand deposit, deposits and savings in concerned bank, amounting to the value of such securities.

7. Receivable, financing, *ijarah* or other collection to or guaranteed by:

7.1. Central Bank;

7.2. Central government.

8. Receivable , financing, *ijarah* or other collection secured (guaranteed) by cash money, foreign currencies, gold, golden currencies, demand deposit, deposit, and savings in the concerned bank amounting to the value of such security.

1 % : Channeling of funds in the form of financing, receivables, *ijarah* and other kind of investment of which the fund sources originates from a third party fund on the *mudharabah mutlaqah* principle based on profit and loss sharing method.

20% : 1. Interbank placement;

2. Money market Securities / sharia capital market issued or secured (guaranteed) by other bank, regional administration, non departmental institution in Indonesia, Multilateral Development

Bank, Islamic Development Bank, BUMN (State Owned Company) and another country central government company.

3. Money market securities / sharia capital market issued or secured (guaranteed) by private parties with a company rating AAA to AA- according to Standard & Poor's rating or equal ratings from a rating institution acknowledged by Bank Indonesia.
4. Receivable, financing, *ijarah* or other collection to or secured (guaranteed) by another bank, regional administration, non departmental institution in Indonesia, Multilateral Development Bank, Islamic Development Bank, BUMN and another country central government company;
5. Receivable, financing, *ijarah* or other collection to or secured (guaranteed) by private parties with a company rating AAA to AA- according to Standard & Poor's rating or equal ratings from a rating institution acknowledged by Bank Indonesia.

35% : Housing ownership receivable guaranteed by first mortgage for use as residence.

50% : 1. Money market securities / Sharia capital market issued or secured (guaranteed) by private parties with a company rating A+ to A- according to Standard & Poor's rating or equal ratings from a rating institution acknowledged by Bank Indonesia.

2. Receivable, financing, *ijarah* or other collection to or secured by private parties with a company rating A+ to A- according to Standard & Poor's rating or equal ratings from a rating institution acknowledged by Bank Indonesia.

100% : 1. Money market securities / Sharia capital market issued or secured (guaranteed) by private parties with a company rating BBB+ through BBB- or BB+ through B_ according to Standard & Poor's rating or equal ratings from a rating institution acknowledged by Bank Indonesia.

2. Money market securities / Sharia capital market issued or secured (guaranteed) by company with no rating.
3. Receivable, financing, ijarah or other collection to or secured (guaranteed) by private parties with a company rating BBB+ through BBB- or BB+ through B- according to Standard & Poor's rating or equal ratings from a rating institution acknowledged by Bank Indonesia.
4. Receivable, financing, ijarah or other collection to or secured (guaranteed) by private parties with no rating.
5. Participation, *istishna* Assets in settlement, Fixed Asset book value and Inventory, Inter Office Assets and Various Asset.

150% : 1. Money market securities / Sharia capital market issued or secured (guaranteed) by a company with a rating lower than B- according to Standard & Poor's rating or from a similar rating institution acknowledged by Bank Indonesia.
2. Receivable, financing, ijarah or other collection to or secured by private parties with a rating lower than B- according to Standard & Poor's rating or from a similar rating institution acknowledged by Bank Indonesia.

3. Administrative Asset Weight Risk

Calculation of the weight risk of administrative asset is conducted through 2 (two) stages.

3.1. Stage One

First the conversion factor is stipulated for the Administrative Asset, i.e. a certain factor applied in conversing the administrative asset into its corresponding balance sheet asset. The conversion quantification factor for each administrative asset is based on its level of possibility to become an effective balance sheet asset. Details of the administrative asset conversion both in rupiah or foreign currency is as follows:

20 % : Outstanding L/Cs (not including standby L/C).

50% : 1. Bank guarantee issued not in the framework of financing or receivable.

2. Undirsbursed financing facility extended to a customer as of the end of the calendar year.

100% : guarantees (including standby L/Cs) and risk sharing for provision of financing and endorsement or assigment of securities based on sharia principles.

3.2. Second Stage

After the conversion factor is known such respective administrative asset is converted into its matching balance sheet assets. Further to it, to calculate the administrative asset weight risk is done by multiplying the conversion factor with the asset weight risk with the matching balance sheet asset weight risk.

Based on such calculation, the grouping of the risk weight amount of the respective asset administrative shall become as follows:

0% : 1. Facility provided or secured (guaranteed) by the Central Government of the Republic of Indonesia and Bank Indonesia, and the central bank and central government of another country, including:

a. Undirsbursed financing facility extended to a customer as of the end of the calendar year.
b. guarantees (including standby L/Cs) and risk sharing for provision of financing and endorsement or assigment of securities based on sharia principles..
c. Bank guarantee issued not in the framework of providing financing or receivables .
d. Outstanding L/Cs (not included standby L/C) .

2. Undirsbursed financing facility extended to a customer guranteed by cash money, foreign currency money, gold, gold currency, and demand deposit, deposit, and savings with the concerned bank at the value amount of its security.

4% ...

4% : Outstanding L/Cs (not included standby L/C) opened by request of domestic banks including branch office of a bank domiciled overseas, regional government, state non departmental institution in Indonesia, multilateral development bank, Islamic Development Bank, BUMN (state owned companies) and another country central government, commercial bank conducting business based on sharia principle included in a prime bank overseas, private company with an AAA until AA- rating.

10% : 1. Facility provided for or secured (guaranteed) by domestic banks including branch office of a bank domiciled overseas, local government, state non department institution in Indonesia, multilateral development bank, Islamic Development Bank, BUMN (state owned companies) and another countries central government, commercial bank conducting business activities based on the sharia principle included in the prime bank overseas and private company having the rating AAA until AA- including:
   a. Undirsbursed financing facility extended to a customer as of the end of the calendar year.
   b. Bank guarantee issued not in the framework of providing financing .
2. Outstanding L/Cs (not included standby L/C) and opened on the application of a private company with A+ through A- rating.

20% : 1. Outstanding L/Cs (not including standby L/C) and opened on an application of the company with:
   a. BBB+ through BBB- rating;
   b. BB+ through B- rating; and
   c. do not have any rating.

2. Guarantees ...

2. Guarantees (including standby L/Cs) and risk sharing for provision of financing and receivable or endorsement or assigment of securities based on sharia principles issued on the application of:
   a. Domestic Banks including branch office of a bank domiciled overseas
   b. Regional Government in Indonesia
   c. Non departmental institution in Indonesia
   d. Commercial Bank conducting business based on sharia principle included in a prime bank overseas.
   e. Private company with an AAA+ through AA- rating

25% : 1. Undirsbursed financing facility extended to a customer as of the end of the calendar year provided for companies with an A+ through A- rating.
2. Bank guarantee issued not with regard to financing private companies with an A+ through A- rating.

30% : Outstanding L/Cs (not included standby L/C) opened on an application of a private company with a lower than B- rating.

50% : 1. Undirsbursed financing facility extended to a customer as of the end of the calendar year provided for companies with:
   a. a rating of BBB+ through BBB-;
   b. a rating of BB+ through B-; and
   c. without rating.
2. Guarantees (including standby L/Cs) and risk sharing for provision of financing and receivable or endorsement or assigment of securities based on sharia principles issued by application of private company with a rating A+ through A-.
3. Guarantees issued on application of company which is not for provision of financing with:
   a. a rating of BBB+ through BBB-;

b. a rating ...

b. a rating of BB+ through B-; and

c. without rating.

75% : 1. Undirsbursed financing facility extended to a customer as of the end of the calendar year provided for company with a rating of lower than B-.

2. Guarantees issued on an application of company which is not for provision of financing with a rating lower than B-.

100% : Guarantees (including standby L/Cs) and risk sharing for provision of financing and receivable or endorsement or assigment of securities based on sharia principles issued by application of private companies with:

a. a rating of BBB+ through BBB-;

b. a rating of BB+ through B-; and

c. without rating.

150% : Guarantees (including standby L/Cs) and risk sharing for provision of financing and receivable or endorsement or assigment of securities based on sharia principles issued by application of private company with a rating lower than B-.

4. Foreign Exchange Risk Calculation

a. Foreign Exchange Risk Calculation is conducted to the banking book position in foreign exchange including gold. The position against gold is calculated the same as foreign currencies with the consideration that gold price fluctuation is nearly the same as the fluctuation at the exchange rate of foreign currencies and the Bank treat gold transaction similar to foreign currencies transaction;

b. The position of an instrument with a denomination in foreign currency besides under going the credit risk has also the possibility of the bank suffering from foreign exchange risk;

c. Capital Expense for exchange rate risk is based on the Net Open Position ;

d. Every working day the Bank must maintain the Net Open Position ; at the highest amounting to:

1) 20% ...

1) 20% of the capital for banks considering the Credit Risk in the calculation of minimum capital adequacy requirement (KPMM); or
2) 30% of the capital for Banks calculating both Credit Risk and Market Risk in the KPMM calculation.

e. The Net Open Position; is a number that is a total of the absolute value for the amount of:
   1) the net balance of assets and liability in the balance sheet for each foreign currency, plus;
   2) net balance of receivables and payables either as a commitment or contingency in the administrative account for the respective foreign currency;

   all of it recognize in Rupiah.

f. Conduct on structural position
   1) a Bank may submit an application to Bank Indonesia for exemption of structural position in foreign currency of the Net Open Position; calculation;
   2) Structural position is positions that at least meet the criteria as regulated in the applicable provisions concerning a general bank net foreign exchange position;
   3) If the Bank choose to exempt such structural position such exemption must be consistently executed and obtain Bank Indonesia approval;
   4) With regard to obtain an approval of Bank Indonesia, the bank must submit supporting documents related to the status of the structural position and prove of transaction booking.

      example:

      Structural position in the form of overseas fixed asset must be supported among others by documents as proof of ownership, payment, and book keeping documents.
   5) Bank Indonesia may request additional documents to the bank to ensure the feasibility of a structural position going to be exempted from the Net Open Position calculation.

5. Method ...

5. Method of calculating the minimum capital adequacy requirement (KPMM)

5.1. Bank minimum capital adequacy requirement (KPMM) for the Credit Risk and market risk is calculated based on the addition of:

a. Balance sheet Risk Weighted Assets obtained by way of multiplying the assets nominal value concerned with the weight risk in letter III.2;

b. Administrative Risk Weighted Assets obtained by multiplying administrative account nominal value concerned with the weighted risk mentioned in number III.3.3.2;

c. Risk Weighted Assets of the market risk.

5.2. Considering the Credit Risk and Market Risk the KPMM calculation formula is as follows:

KPMM = <u>(Tier l+Tier 2+Tier 3)- Equity participation</u> = 8%
Risk Weighted Assets (Risk of fund distribution) + 12,5 x capital expenses for Market Risk

5.3. Prior to allocating capital expenses for Market Risk, the Bank must meet the KPMM for Credit Risk minimally 8% according to applicable provisions with the formula:

KPMM = <u>{Tier I+Tier 2)- Equity sharing</u> = 8%
Risk Weighted Assets (Credit Risk)

5.4. In implementing calculation as considered in number 5.2, a Bank must execute the following steps:

5.4.1. Calculate Risk Weighted Assets for Credit Risk according to applicable provisions;

5.4.2. Calculate capital expenses amount for Market Risk, which is Exchange Rate Risk;

5.4.3. Calculate Market Risk, which is the Exchange Rate Risk by converting the amount of capital expenses for Market Risk as, considered in number 5.4.2 to become equivalent to Risk Weighted Assets (multiplied with the number 12,5 which is 10018);

5.4.4. Total Risk Weighted Assets for Credit Risk with Risk Weighted Assets for Market Risk;

5.4.5. Calculate ...

5.4.5. Calculate Bank capital consisting of Core Capital (tier I Capital, Supplementary Capital (tier 2 Capital), and Additional Supplementary Capital (tier 3 Capital) allocated to cover Market Risk after being deducted by Participation;

5.4.6. Divide total capital as considered in number 5.45 with the total of Risk Weighted Assets as considered in number 5.4.4, and the result expressed in percentage.

5.5. Additional Supplementary Capital (tier 3 Capital) used in the calculation of the KPMM ratio is the amount needed to cover Market Risk.

5.6. Additional Supplementary Capital (tier 3 Capital) meeting requirements but not applied in the KPMM ratio calculation as considered in number 5.5, calculated as a ratio of excess Additional Supplementary Capital (excess tier 3 capital ratio), with the formula:

$$\text{Excess Supplementary Capital ratio} = \frac{\text{Excess of Additional Supplementary Capital}}{\text{Risk Weighted Assets (Credit Risk)} + \text{Risk Weighted Assets (Market Risk)}}$$

IV. ILUSTRATION OF KPMM RATIO CALCULATION

An illustration of Bank "A" KPMM calculation and Risk Weighted Assets:

1. Core capital (tier 1 Capital) of 700
2. Supplementary Capital (tier 2 Capital) of 100
3. Additional Supplementary Capital (tier 3 Capital) of 600
4. Risk Weighted Assets for Fund Distribution Risk Credit Risk of 7500
5. Capital Expenses for Market Risk is 406

The KPMM ratio calculation steps are as follows:

1. Calculate Risk Weighted Assets for Market Risk by multiplying the capital expenses for market risk by 12.5 to become 5075 (406 x 12,5)
2. Calculate minimum capital adequacy requirement (KPMM) to cover Credit Risk, by multiplying Risk Weighted Assets for Fund Distribution Risk by 8% (KPMM ratio) to become 7500 x 8% = 600

3. Calculate ...

3. Calculate tier 1 and tier 3 allocated for market risk by the following method:
    a. Capital expenses for Market Risk is 406;
    b. The total of tier 3 does not exceed 250% or 2.5 times of the tier I allocated for the Market Risk, so that capital expenses for e Market Risk is 350% or 3.5 kali of tier 1 allocated for Market Risk;
    c. Tier I allocated for Market Risk is 406, therefore Tier I allocated to cover Market Risk is 406/3.5 = 116
    d. Tier 3 is 406 - 116 = 290
4. Calculation of total capital eligible to cover Credit Risk and Market Risk, are as follows:
    a. Bank A allocates a tier 1 of 500 and tier 2 of 100 to cover Credit Risk;
    b. After calculating Credit Risk, the balance of tier I and able to cover the Market Risk is 200;
    c. Tier 3 allocated for covering Market Risk is a maximum of 250% or 2.5 times of tier I, which is 500;
    d. As Bank A only requires Tier 1 of 116 and Tier 3 of 290 to cover Market Risk, Bank A owns 84 tier I and 252 remaining unused but eligible tier 3 to cover the Market Risk requirement for the next period.

V. SUBMISSION OF REPORT

1. According to Article 16 of Bank Indonesia Regulation No. 7/ 13/PBI/2005 dated 10 June 2005 concerning Minimum Capital Adequacy Requirement (KPMM) for Commercial Bank based on Sharia Principle, the Bank must report the calculation of the Minimum Capital Adequacy Requirement (KPMM) provision by using the Format according to the Attachment I and Attachment II at the latest the 21 of the next month after the concerned report.
2. The report as considered in number 1 is submitted in disc format and computerized to Bank Indonesia with the following address:
    a. Sharia Banking Directorate, J1. M.H. Thamrin No. 2, Jakarta 10110, for Banks with Head Offices in the working area of Bank Indonesia Central Office; or

b. Local Bank Indonesia Office, for Bank with head offices outside the working area of Bank Indonesia Central Office.

VI. MISCELLANEOUS

Considering that capital is an important factor for a bank in developing a sound business and able to absorb (contain) loss risk, the bank owners and management are requested to:

1. Adjust its expansion plan according to what the bank capital can accommodate.
2. Constantly monitoring the bank capital condition according to the above provisions by calculating its capital adequacy for at least monthly periods by using data according to monthly reports submitted to Bank Indonesia.
3. In case the Bank uses an internal model in calculating Capital Charge to meet the minimum capital, the use of such internal model must have a prior approval of the Sharia Banking Directorate of Bank Indonesia

VII. CONCLUDING PROVISIONS

1. This Bank Indonesia Circulation Letter is valid as of 22 November 2005 and effectively valid since the reporting period of the December 2005 monthly data reporting submitted in January 2006.
2. With the coming into force of this Circulation Letter, the Bank Indonesia Circulation Letter No.26/1/BPPP dated 29 May 1993 concerning Minimum Capital Adequacy Requirement for a General Bank dated 29 May 1993, it is declared no longer valid.

For public to be informed, it is ordered that this Circular Letter be promulgated in the State Gazette of the Republlic of Indonesia.

Kindly be informed.

BANK INDONESIA,

signed

(Siti Ch. Fadjrijah)
DEPUTY GOVERNOR

Attachment I

Attachment to the Bank Indonesia Circulation Letter No. 7/53/DPbS dated 22 November 2005

MINIMUM CAPITAL ADEQUACY REQUIREMENT (KPMM) AND RISK WEIGHTED ASSETS

PT. BANK XYZ
Month : ……………………………

(amount in Rp.)

No.	COMPONENT	TOTAL OF EACH COMPONENT	Amount
I.	Capital *)		
	1. Core Capital (Tier 1 Capital)		
	1.1. Paid up capital		
	1.2. Shares agio		
	Shares Disagio (-/-)		
	1.3. Donated capital		
	1.4. General reserve		
	1.5. Designated reserve		
	1.6. Retained earnings after deduction for taxes		
	1.7. Loss carry-forward (-/-)		
	1.8. Current years earnings profit after tax (50 %)		
	1.8.1. Tax Calculation		
	1.8.2. Impact of deferred tax		
	1.8.2.1. Deferred tax income		
	1.8.2.2. Deferred tax expenses		
	1.8.3. Lack of allowance for earnings asset loses (PPAP)		
	1.8.4. formulation Others		
	1.9. Current year losses (-/-)		
	1.10. Increment for translatiopn adjustment in financial statement of overseas branch offices		
	1.11. deduction for translation adjustment in financial statement of overseas branch offices (-/-)		
	1.12. Funds paid up as capital		
	1.13. Declining value of equity participation in the portfolio available for sale (-/-)		
	1.14. Sub total		
	1.15. Goodwill (-/-)		
	1.18. Total core capital (1.14 – 1.15)		
	2. Supplementary Capital (Tier 2 Capital)		
	2.1. Increment from revaluation of fixed assets		
	2.2. General reserve from allowance for earnings asset loses (maximum 1,25 % from ATMR)		
	2.3. Loan capital		
	2.4. Sub-ordinated Investment (maximum 50 % of total core capital)		
	2.5. Increase in value of equity participation in the portfolio available for sale (Maximum 45 %)		
	2.6. Total of supplementary Tier 2 capital (2.1 – 2.5)		
	2.7. Total of supplementary Tier 2 capital calculated (maximum 100 % of the core capital total)		
	2.8. Total of Core Tier 1 Capital and Supplementary Tier 2 Capital (1.18 + 2.7)		

No.	COMPONENT	TOTAL OF EACH COMPONENT	Amount
	3. Participation 4. Total of Core Tier 1 Capital and Supplementary Tier 2 Capital minus Participation Placement (2.8 – 3) 5. Additional Supplementary Tier 3 Capital 5.1. Core Tier 1 Capital allocated for Market Risk 5.2. Unappropriated Supplementary Capital for Credit Risk 5.3. Sub-ordinated Investment for Market Risk 5.4. Total of Additional Supplementary Tier 3 Capital (5.1 – 5.3) 5.5. Total of Additional Supplementary Tier 3 Capital meeting the criteria for market risk 6. Amount of Core Tier 1 Capital, Supplementary Tier 2 Capital and Added Supplementary Tier 3Capital ((1.18 + 2.8 + 5.5) – 3)		

*) Remark : The capital for a UUS is fund provision by a bank central office for business based on Sharia principle.

No.	COMPONENT	Nominal	Special PPAP		Bbt Risk %	ATMR
(1)	(2)	(3)	(4)	(5) = (3) - (4)	(6)	(7) = (5) x (6)
II	Weighted Asset According to Fund Distribution Risk					
	A. CURRENT ASSET (Rupiah & Foreign Currency)					
	1. Cash				0	
	2. Gold and Commemorative coins					
	2.1. Gold and gold currencies				0	
	2.2. Commemorative coins				0	
	3. Placement at Bank Indonesia					
	3.1. Wadiah Demand Deposit with Bank Indonesia				0	
	3.2. SWBI				0	
	3.3. Others				0	
	4. Interbank Placement :					
	4.1. In another country central bank				0	
	4.2. In another bank guranteed by central government and central bank				0	
	4.3. In other bank				20	
	4.4. For fund distribution of which the fund originate from a profit loss sharing account				1	
	5. Securities owned:					
	5.1. Sharia Securities issued by another country government				0	
	5.2. Sharia Securities issued by another country central bank				0	
	5.3. Money market securities / Sharia capital market					
	5.3.1. Issued or guranteed by central bank and central government				0	
	5.3.2. Issued and guranteed by cash, foreign currency, gold, gold currency and demand deposit, deposit and savings with concerned bank amounting to the value of such security				0	
	5.3.3. Issued or guranteed by another bank, regional government, State Owned Companies, non department institution in Indonesia, Multilateral Development, Islamic Development Bank (IDB)				20	
	5.3.4. Issued or guranteed by State Owned Company and State Owned Company of another country				20	
	5.3.5. Issued or guranteed by other private company:					
	5.3.5.1. Company with AAA through AA- rating				20	
	5.3.5.2. Company with A+ through A- rating				50	
	5.3.5.3. Company with BBB through BBB- rating				100	
	5.3.5.4. Company with BB+ through B- rating				100	
	5.3.5.5. Company with rating under B-				150	
	5.3.5.6. Company without rating				100	
	5.4. For fund distribution of which the fund originate from profit loss sharing account				1	

No.	C O M P O N E N T	Nominal	Special PPAP		Bbt Risk %	ATMR
(1)	(2)	(3)	(4)	(5) = (3) - (4)	(6)	(7) = (5) x (6)
	6. Receivable					
	6.1. Receivable to or guranteed: (special receivable murabaha and istishna', must be deducted by the deferred margin)					
	6.1.1. Central Bank				0	
	6.1.2. Central Government				0	
	6.1.3. Cash, foreign currency, gold, gold currencies, and demand deposit, deposits and savings in concerned bank to the amount of such risk.				0	
	6.1.4. Other bank, regional government, BUMD, non department institution in Indonesia, Multilateral Development Bank, Islamic Development Bank (IDB).				20	
	6.1.5. BUMN and companies of another country central government				20	
	6.1.6. Other parties					
	6.1.6.1. Company with AAA through AA- rating				20	
	6.1.6.2. Company with A+ through A- rating				50	
	6.1.6.3. Company with BBB through BBB- rating				100	
	6.1.6.4. Company with BB+ through B- rating				100	
	6.1.6.5. Company with rating under B-				150	
	6.1.6.6. Company without rating				100	
	6.2. Housing Ownership Receivable is guranteed by a first lien mortgage with the objective to be occupied.				35	
	6.3. Unguranteed fund distribution and its fund sources from wadiah, equity participation, qardh and mudharabah mutiaqah.				150	
	6.4. For fund distribution of fund originate from profit loss sharing account				1	
	7. Financing					
	7.1. Financing provided or secured: (for Mudharabah, especially by Revenue Sharing)					
	7.1.1. Central Bank				0	
	7.1.2. Central Government				0	
	7.1.3. Cash, foreign currency, gold, gold currency, and demand deposit, deposits and savings in concerned bank, amounting to the value of such security.				0	
	7.1.4. Other bank, regional government, state company, non department institution in Indonesia, Multilateral Development Bank, Islamic Development Bank (IDB).				20	
	7.1.5. BUMN and another country central government state company				20	
	7.1.6. Other parties					

No.	COMPONENT	Nominal	Special PPAP		Bbt Risk %	ATMR
(1)	(2)	(3)	(4)	(5) = (3) - (4)	(6)	(7) = (5) x (6)
	7.1.6.1. Company with AAA through AA- rating				20	
	7.1.6.2. Company with A+ through A- rating				50	
	7.1.6.3. Company with BBB through BBB- rating				100	
	7.1.6.4. Company with BB+ through B- rating				100	
	7.1.6.5. Company with rating under B-				150	
	7.1.6.6. Company without rating				100	
	7.2. For non-collateral fund distribution and the sources from wadiah, equity participation, qardh and mudharabah mutiaqah.				150	
	7.3. For fund distribution originating from profit loss sharing account				1	
	8. Provisions				100	
	9. Ijarah (deducted by accumulation of depreciation/ amortization of ijarah assets)					
	9.1. Ijarah assets leased or guranteed:					
	9.1.1. Central Bank				0	
	9.1.2. Central Government				0	
	9.1.3. Cash, foreign currency, gold, gold currencies, and demand deposit, deposits and savings in concerned bank, amounting to the value of such security.				0	
	9.1.4. Other bank, regional government, BUMD, non department institution in Indonesia, Multilateral Development Bank, Islamic Development Bank (IDB).				20	
	9.1.5. BUMN and companies of another country central government				20	
	9.1.6. Other parties					
	9.1.6.1. Company with AAA through AA- rating				20	
	9.1.6.2. Company with A+ through A- rating				50	
	9.1.6.3. Company with BBB through BBB- rating				100	
	9.1.6.4. Company with BB+ through B- rating				100	
	9.1.6.5. Company with rating below B-				150	
	9.1.6.6. Company without rating				100	
	9.2. For non-collateral fund distribution and the sources from wadiah, equity participation, qardh and mudharabah mutiaqah.				150	
	9.3. For ijarah assets of funds originating from profit loss sharing account				1	
	10. Other Receivables					
	10.1. Other receivables to or guranteed by :					
	10.1.1. Central Bank				0	
	10.1.2. Central Government				0	
	10.1.3. Cash, foreign currency, gold, gold currencies, and demand deposit,				0	

No.	C O M P O N E N T	Nominal	Special PPAP		Bbt Risk %	ATMR
(1)	(2)	(3)	(4)	(5) = (3) - (4)	(6)	(7) = (5) x (6)
	deposits and savings in concerned bank, amounting to the value of such security.					
	10.1.4. Other bank, regional government, BUMD, non department institution in Indonesia, Multilateral Development Bank, Islamic Development Bank (IDB).				20	
	10.1.5. BUMN and companies of another country central government				20	
	10.1.6. Other parties					
	10.1.6.1. Company with AAA through AA- rating				20	
	10.1.6.2. Company with A+ through A- rating				50	
	10.1.6.3. Company with BBB through BBB- rating				100	
	10.1.6.4. Company with BB+ through B- rating				100	
	10.1.6.5. Company with rating under B-				150	
	10.1.6.6. Company without rating				100	
	10.2. For non collateral fund distribution and the sources from wadiah, equity participation, qardh and mudharabah mutiaqah.				150	
	10.3. For other collection with fund originating from profit loss sharing account				1	
	11. Equity participation in with regard to restructurisation financing				100	
	12. Istishna' asset in settlement				100	
	13. Fixed asset and inventory (book value)					
	13.1. Land and Building premises				100	
	13.2. Accumulated building depreciation				100	
	13.3. Inventory				100	
	13.4. Accumulated inventory depreciation				100	
	14. Inter office asset					
	14.1. Operational activities in Indonesia (Assets)				100	
	14.2. Operational activities outside Indonesia (Assets)				100	
	15. Various assets				100	
	16. Balance sheet ATMR total					
	B. ADMINISTRATIVE ACCOUNT (Rupiah & Foreign Currency)					
	1. Undirsbursed financing facility provided for or guaranteed by securities, issued by :					
	1.1. Central Bank				0	
	1.2. Central Government				0	
	1.3. Cash, foreign currency, gold, gold currencies, and demand deposit, deposits and savings in concerned bank, amounting to the value of such security.				0	
	1.4. Other bank, regional government, BUMD, non department institution in Indonesia, Multilateral Development Bank, Islamic Development Bank (IDB).				10	

No.	C O M P O N E N T	Nominal	Special PPAP		Bbt Risk %	ATMR
(1)	(2)	(3)	(4)	(5) = (3) - (4)	(6)	(7) = (5) x (6)
	1.5. BUMN and companies of another country central government				10	
	1.6. Other parties					
	1.6.1. Company with AAA through AA- rating				10	
	1.6.2. Company with A+ through A- rating				25	
	1.6.3. Company with BBB through BBB- rating				50	
	1.6.4. Company with BB+ through B- rating				50	
	1.6.5. Company with rating under B-				75	
	1.6.6. Company without rating				50	
	2. Guarantee / Bank Guarantee					
	2.1. With regard to financing including standby L/C & risk-sharing and endorsement or securities guarantee given on application :					
	2.1.1. Central Bank and Central Government				0	
	2.1.2. Other bank, regional government, BUMD, non department institution in Indonesia, Multilateral Development Bank, Islamic Development Bank (IDB).				20	
	2.1.3. BUMN and state owned companies of another country central government				20	
	2.1.4. Other parties issued or guaranteed by private parties :					
	2.1.4.1. Company with AAA through AA- rating				20	
	2.1.4.2. Company with A+ through A- rating				50	
	2.1.4.3. Company with BBB through BBB- rating				100	
	2.1.4.4. Company with BB+ through B- rating				100	
	2.1.4.5. Company with rating under B-				150	
	2.1.4.6. Company without rating				100	
	2.2. Not in the meaning of financing, such as bid bonds, performance bonds and advance payments bonds given on application :					
	2.2.1. Central Bank and Central Government				0	
	2.2.2. Other bank, regional government, BUMD, non departmental institution in Indonesia, Multilateral Development Bank, Islamic Development Bank (IDB).				10	
	2.2.3. BUMN and state own companies of another country central government				10	
	2.2.4. Other parties issued or guaranteed by another private company:					
	2.2.4.1. Company with AAA through AA- rating				10	

No.	COMPONENT	Nominal	Special PPAP		Bbt Risk %	ATMR
(1)	(2)	(3)	(4)	(5) = (3) - (4)	(6)	(7) = (5) x (6)
	2.2.4.2. Company with A+ through A- rating				25	
	2.2.4.3. Company with BBB through BBB- rating				50	
	2.2.4.4. Company with BB+ through B- rating				50	
	2.2.4.5. Company with rating under B				75	
	2.2.4.6. Company without rating				50	
	2.3. Outstanding L/C (not included standby L/C) provided by					
	2.3.1. Central Bank and Central Government				0	
	2.3.2. Other bank, regional government, BUMD, non department institution in Indonesia, Multilateral Development Bank, Islamic Development Bank (IDB).				4	
	2.3.3. BUMN and state own companies of another country central government				4	
	2.3.4. Other parties					
	2.3.4.1. Company with AAA through AA- rating				4	
	2.3.4.2. Company with A+ through A- rating				10	
	2.3.4.3. Company with BBB through BBB- rating				20	
	2.3.4.4. Company with BB+ through B- rating				20	
	2.3.4.5. Company with rating under B				30	
	2.3.4.6.Company without rating				20	
	2.4. Term contract net position of foreign currency				4	
	3. Administrative account ATMR amount					
	C. ATMR AMOUNT (A.16 + B.3)					
II.	Market Risk ATMR Taken from Attachment II x 12,5					
III.	Credit and Market Risk ATMR Amount					
IV.	Minimum Capital (8 % x ATMR total) = (8 % x III)					
V	Excess or Lack of Capital (I. 6 – III)					
VI.	Capital Ratio (I.6 : III) x 100 %					

Attachment II

Attachment to the Bank Indonesia Circulation Letter No. 7/53/DPbS dated 22 November 2005

Exposure of Exchange Rate (Banking Book)

Foreign Currency		Exchange Rate	Foreign Exchange Position [(Assets, Liabilities, and Administrative Account (not included option)]		Structural Position		Warrant exchange position (not incIduing option) after calculating Structural Position		Total position Net Foreign Exchange
			Long	Short	Long	Short	Long	Short	
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(11)
United State Dollar	USD						0	0	0
Euro	EUR						0	0	0
Australian Dollar	AUD						0	0	0
Canada Dollar	CAD						0	0	0
Kroner Denmark	DKK						0	0	0
Hongkong Dollar	HKD						0	0	0
Ringgit Malaysia	MYR						0	0	0
New Zealand Dollar	NZD						0	0	0
Kroner Norwegia	NOK						0	0	0
England Pounsterling	GPB						0	0	0
Singapore Dollar	SGD						0	0	0
Kroner Swedish	SEK						0	0	0
Franc Swiss	CHF						0	0	0
Yen Japan	JPY						0	0	0
Kyat Burma	BUK						0	0	0
Rupee India	INR						0	0	0
Dinar Kuwait	KWD						0	0	0
Pakistan Rupee	PKR						0	0	0
Filipine Peso	PHP						0	0	0
Ryad Saudi Arabia	SAR						0	0	0
Srilanka Rupee	LKR						0	0	0
Bath Muangthai	THB						0	0	0
Brunei Darussallam Dollar	BND						0	0	0
Gold							0	0	0
Other currencies …							0	0	0
							Total Capital Charge		