FINANCIAL SERVICES AUTHORITY REGULATION

NUMBER /POJK.03/2016

CONCERNING

MINIMUM CAPITAL ADEQUACY REQUIREMENT FOR COMMERCIAL BANKS

BY THE GRACE OF GOD ALMIGHTY

BOARD OF COMMISSIONERS OF FINANCIAL SERVICES AUTHORITY,

Considering: :

a. whereas in order to create a banking system that is sound and has the capacity to develop as well as compete at national as well as international levels, Bank should enhance its capacity to absorb risks arising from crisis condition and/or excessive banking credit growth;

b. whereas to enhance Bank's capacity to absorb risks, it is necessary to step up the quality and quantity of Bank capital in line with prevailing international standards;

c. whereas the stepping up of capital quality shall be undertaken through adjustments to Bank capital's requirements for components and instruments, as well as adjustments to capital ratios;

d. whereas in stepping up the quantity of capital, Bank needs to establish additional capitals on top of the minimum capital adequacy requirement in line with the risk profile, which will function as buffers when there are monetary and economic crises that can disrupt the financial system stability.

e. whereas based on the considerations stated in letter a, letter b, letter c, and letter d, it is necessary to re-stipulate Financial Services Authority Regulation concerning Minimum Capital Adequacy Requirement for Commercial Banks

In view of : 1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992. Supplement to 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 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:

Menetapkan : FINANCIAL SERVICES AUTHORITY REGULATION CONCERNING MINIMUM CAPITAL ADEQUACY REQUIREMENT FOR COMMERCIAL BANKS

CHAPTER I

GENERAL PROVISIONS

Article 1

This Financial Services Authority Regulation shall read as follows:

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

a. In the case of a Bank legally incorporated as a Limited Liability Company, is the board of directors as referred to in Act Number 40 of 2007 concerning Limited Liability Companies;
b. for a Bank legally incorporated as a:
    1) Regional Government Enterprise, is the board of directors as referred to in Act Number 23 of 2014 concerning Regional Governments as lastly amended by Act Number 9 of 2015.
    2) Regional Government Enterprise, is the board of Directors of a Bank that have not been incorporated into Regional Public Companies or Regional Holding Companies as referred to in Act Number 23 of 2014 concerning Regional Governments as lastly amended by Act Number 9 of 2015.
c. In the case of a Bank legally incorporated as a Cooperative, is the management as referred to in the Act Number 25 of 1992 concerning Cooperatives.
d. in the case of foreign bank branches, is the head of the branch and an officer of one level below the head of the branch.

3. Board of Commissioners:
    a. In the case of a Bank legally incorporated as a Limited Liability Company, is the board of commissioners as referred to in Act Number 40 of 2007 concerning Limited Liability Companies;
    b. for a Bank legally incorporated as a:
        1) Regional Public Companies, is the supervisory board as referred to in Act Number 23 of 2014 concerning Regional Governments as lastly amended by Act Number 9 of 2015.
        2) Regional Holding Companies, are commissioners as referred to Act Number 23 of 2014 concerning Regional Governments as lastly amended by Act Number 9 of 2015.
        3) Regional Goverment Enterprises, are supervisors of Banks that have not been incorporated into Regional Public Companies or Regional Holding Companies as referred to in Act Number 23 of

2014 concerning Regional Governments as lastly amended by Act Number 9 of 2015.

c. In the case of a Bank legally incorporated as a Cooperative, is the management as referred to in the Act Number 25 of 1992 concerning Cooperatives.

d. in the case of foreign bank branches, is the party designated to conduct the supervisory function

4. Subsidiary Company is a legal entity or company owned and/or controlled directly as well as indirectly by Bank both domestically and abroad, which conducts business activities in the field of finance, consisting of:
   a. Subsidiary Company, which is a Subsidiary Company with more than 50% (fifty percent) ownership by the Bank;
   b. Participation Company, which is a Subsidiary Company with 50% (fifty percent) or less ownership by the Bank but the Bank has Control over the company;
   c. Any company with Bank ownership of more than 20% (twenty percent) up to 50% (fifty percent) that meets the following terms:
      1) the ownerships of the Bank and other parties over the Subsidiary Company are equal; and
      2) each owner has joint Control over the Subsidiary Company;
   d. Other entities which based on the prevailling financial accounting standards must be consolidated,

but excluding insurance companies and companies owned in relation to credit restructuring.

5. Control is the control referred to in the regulation concerning on the implementation of integrated risk management for financial conglomerates.
6. Capital Equivalency Maintained Assets, hereinafter referred to as CEMA, is the allocation of net inter office fund of a foreign bank branches, which

must be placed on financial assets in certain amounts and under certain terms.

7. Internal Capital Adequacy Assessment Process, hereinafter referred to as ICAAP, is a process conducted by Bank to determine capital adequacy in accordance with Bank's risk profile and the strategy for maintaining capital level.
8. Supervisory Review and Evaluation Process, hereinafter referred to as SREP, is the review process conducted by The Financial Services Authority on the result of Bank's ICAAP.
9. Capital Conservation Buffer is an additional capital which is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred.
10. Countercyclical Buffer is an additional capital that aims to ensure that banking sector capital requirements take account of the macro-financial environment in which banks operate. It will be deployed by national jurisdictions when excess aggregate credit growth is judged to be associated with a build-up of system-wide risk to ensure the banking system has a buffer of capital to protect it against future potential losses.
11. Capital Surcharge for Domestic Systemically Important Bank, hereinafter referred to as D-SIB, is an additional capital that functions to reduce negative impacts on the financial system stability and the economy when failures occur on the part of a Bank that has systemic impacts through the enhancement of Bank's capacity to absorb losses.
12. Credit Risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.
13. Market Risk is defined as the risk of losses in on and off-balance-sheet positions arising from movements in market prices.
14. Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

15. Trading Book is the entire position of financial instruments in the balance sheet and off balance sheet including derivative transactions owned by the Bank:
    a. for trading purposes and can be transferred freely or can be hedged entirely, both from proprietary postiion transactions, at the requests of customers or brokering activities, and in relation to market making, which cover:
        1) positions owned for resale within the short term;
        2) positions owned for the purpose of gaining actual and/or potential short-term profit of price movements; or
        3) positions owned for the purpose of locking in arbitrage profits;
    b. for the purpose of hedging over other positions in Trading Book
16. Banking Book is all other positions not included in the Trading Book.

Article 2

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

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

(3) The lowest provision of minimum capital referred to in paragraph (1) is determined as follows

a. 8% (eight percent) of Risk Weighted Assets (RWA) for Banks with risk profile rating 1 (one);

b. 9% (nine percent) up to less than 10% (ten percent) of RWA for Banks with risk profile rating 2 (two);

c. 10% (ten percent) up to less than 11% (eleven percent) of RWA for Banks with risk profile rating 3 (three); or

d. 11% (eleven percent) up to 14% (fourteen percent) of RWA for Banks with risk profile ratings 4 (four) or 5 (five).

(4) The Financial Services Authority has the authority to determine minimum capital that is greater than minimum capital that is referred to in paragraph (3), in the case when The Financial Services Authority assesses the Bank as facing potential losses that require a larger capital.

(5) Minimum capital adequacy requirement that is in accordance with the risk profile referred to in paragraph (1) is determined as follows:

(6) Fulfilment of minimum capital for the positions of the months of March upto August is based on the risk profile rating for the position of December in the previous year.

(7) Fulfilment of minimum capital for the positions of the months of September upto February of the following year is based on the risk profile rating for month of June position.

(8) In the case where there is a change in the risk profile rating in between the risk profile assessment periods, minimum capital fulfilment is based on the lastest risk profile rating.

Article 3

(1) In addition to the minimum capital adequacy requirement in accordance with the risk profile as referred to in Article 2, Bank is also obliged to establish additional capitals as buffers in accordance with the criteria provided in this regulation.

(2) The additional capitals as referred to in paragraph (1) can be in the forms of:
   a. Capital Conservation Buffer;
   b. Countercyclical Buffer; and/or
   c. Capital Surcharge for D-SIB.

(3) The amounts of additional capitals as referred to in paragraph (2) are provided as follows:
   a. Capital Conservation Buffer is determined to be 2.5% (two point five percent) of RWA;

b. Countercyclical Buffer is determined to be in the range of 0% (zero percent) upto 2.5% (two point five percent) of RWA;

c. Capital Surcharge untuk D-SIB is determined to be in the range of 1% (one percent) up to 2.5% (two point five percent) of RWA.

(4) Determination of the percentage amount of Countercyclical Buffer as referred to in paragraph (3) letter b is made by the authorized authority.

(5) The Financial Services Authority can determine the figures for the percentage range of the Capital Surcharge for D-SIB as referred to in paragraph (3) letter c.

(6) In determining the Capital Surchage for D-SIB as referred to paragraph (5), the Financial Services Authority will coordinate with the authorized authority.

(7) The Financial Services Authority can determine a percentage figure of Capital Surcharge for D-SIB that is larger than the range referred to in paragraph (3) letter c.

(8) The additional capitals referred to in paragraph (3) are met with the common equity tier 1 components

(9) The fulfilment of additional capitals referred to in paragraph (8) is calculated after the common equity tier 1 component is allocated to meet the provision requirement for:

a. minimum common equity tier 1 as referred to in Article 11 paragraph (3);

b. minimum tier 1 capital as referred to in Article 11 paragraph (2); and

c. minimum capital in accordance with the risk profile as referred to in Article 2 paragraph (3).

Article 4

(1) The obligation to establish Capital Conservation Buffer referred to in Article 3 paragraph (3) letter a applies to Banks classified as

Commercial Banks Classification Based on Business Activities (BUKU) 3 and BUKU 4.

(2) The obligation to establish Countercyclical Buffer referred to in Article 3 paragraph (3) letter b applies to all Banks.

(3) The obligation to establish Capital Surcharge for D-SIB referred to in Article 3 paragraph (3) letter c applies to Banks that are determined to have systemic impacts.

Article 5

(1) The Financial Services Authority determines Banks having systemic impacts as referred to in Article 4 paragraph (3).

(2) The Financial Services Authority coordinates with the authroized authority in determining Banks having systemic impacts as referred to in paragraph (1).

Article 6

(1) Bank's obligation to establish an additional capital in the form of Capital Conservation Buffer referred to in Article 3 paragraph (3) letter a shall be in force in stages starting 1 January 2016.

(2) The establishment of Capital Conservation Buffer referred to in paragraph (1) should be met in stages as follows:

a. 0.625% (zero point six hundred twenty five percent) of RWA starting 1 January 2016;
b. 1.25% (one point twenty five percent) of RWA starting 1 January 2017;
c. 1.875% (one point eight hundred seventy five percent) of RWA starting 1 January 2018; and
d. 2.5% (two point five percent) of RWA starting 1 January 2019..

(3) Bank's obligation to establish an additional capital in the form of Countercyclical Buffer referred to in Article 3 paragraph (3) letter b shall be in force starting 1 January 2016.

(4) Bank's obligation to establish a Capital Surcharge for D-SIB for Banks that are determined to have systemic impacts as referred to in Article 3 paragraph (3) letter c shall be in force starting 1 January 2016.

(5) The calculation method and procedure for establishing Capital Surcharge for D-SIB shall be further stipulated in a Financial Services Authority regulation.

(6) The Financial Services Authority will coordinate with the authorized authority in determining the calculation method and procedure for establishing Capital Surcharge for D-SIB as referred to in paragraph (5).

Article 7

In the case of Banks that have and/or undertake Control over Subsidiary Companies, the minimum capital adequacy requirement referred in Article 2 and the obligation to establish additional capitals as buffers as referred to in Article 3 apply for the Bank individually as well as in consolidation with the Subsidiary Companies.

Article 8

(1) Bank is prohibited from undertaking earnings distribution if the earnings distribution will cause Bank's capital condition not to meet the provisions referred to in Article 2 either individually as well as in consolidation with the Subsidiary Companies.

(2) Bank shall be imposed with limitation on earnings distribution if such earnings distribution will cause Bank's capital condition not to meet the provisions referred to in Article 3, individually as well as in consolidation with the Subsidiary Companies.

(3) Banks are obliged to impose a limitation on earnings distribution as referred to in paragraph (2)

(4) The Financial Services Authority impose a limitation on earnings distribution as referred to in paragraph (2).

CHAPTER II
CAPITAL

Part One
General Provisions

Article 9

(1) For Banks which incorporated in Indonesia, Capital consists of:
  a. Tier 1 capital, which covers:
    1. Common Equity Tier 1;
    2. Additional Tier 1; and
  b. Tier 2
(2) Capitals as referred to in paragraph (1) should take into account factors that are capital deductions as referred to in Article 17 and Article 22.
(3) In the calculation of consolidated capital, Subsidiary Companies' capital components that can be counted as Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital should meet the prevailing requirement of each capital component applicable to the Bank individually.
(4) In the calculation of consolidated capital as referred to in paragraph (3), Additional Tier 1 capital and Tier 2 capital that is issued by a non-bank subsidiary must:
  a. fulfill the requirements as referred to in paragraph (3); and
  b. have the feature of being able to be converted into common stocks or undergo the write down mechanism when in consolidation a Bank's business sustainability has the potential to be disrupted (point of non-viability),
(5) The feature to convert into common stock or the write down mechanism as referred to in paragraph (4) letter b is stated cleraly in the issuing documentations.

Article 10

(1) Capital for foreign bank branches consist of:

a. net inter office fund;
b. retained earnings and last year earnings after the exclusion of influencing factors as referred to in Article 14 paragraph (2);
c. current year earnings after the exclusion of influencing factors as referred to in Article 14 paragraph (2);
d. general reserve;
e. fixed asset revaluation surplus balance;
f. other comprehensive income in the forms of unrealized gain from increases in financial asset fair values classified in the available-for-sale category;
g. specific reserve; and
h. general reserve of the Provision for Asset Losses (PPA) on earning assets by using the calculation as referred to in Article 20 paragraph (1) letter c.

(2) The capital referred to in paragraph (1) should take into account factors that are capital deductions as provided in Article 14 paragraph (1) letter b, Article 17, and Article 22.

(3) The calculation of net inter office fund as the capital component as referred to in paragraph (1) letter a is performed as follows:

a. In the case where the actual net inter office fund position is larger than the declared net inter office fund, the declarednet inter office fund will be used for the calculation.
b. In the case where the actual net inter office fund position is smaller than the declared net inter office fund, the actual net inter office fund will be used for the calculation.
c. In the case where the actual net inter office fund position is negative, that amount becomes a capital component deduction factor as referred to in paragraph (1).

Part Two
Tier 1 Capital

Article 11

(1) Tier 1 capital as referred to in Article 9 paragraph (1) letter a consists of:
  a. Common Equity Tier 1 which covers:
    1. paid-up capital;
    2. disclosed reserve; and
  b. Additional Tier 1

(2) Bank is obliged to provide Tier 1 capital at the lowest at 6% (six percent) of RWA, individually as well as in consolidation with Subsidiary Companies.

(3) Bank is obliged to provide Common Equity Tier 1capital at the lowest at 4.5% (four point five percent) of RWA, individually as well as in consolidation with Subsidiary Companies.

Article 12

The paid-in capital instruments as referred to in Article 11 paragraph (1) letter a number 1 should meet the following terms:

  a. issued and fully paid;
  b. subordinate towards other capital components
  c. permanent;
  d. available for absorbing losses that occur before liquidation as well as during liquidation;
  e. the earnings yield cannot be determined and cannot be accumulated between periods;
  f. not protected or guaranteed by the Bank or Subsidiary Company;
  g. has the characteristic of payment of dividends or yields as follows:
    1. originating from retained earnings and/or current year earning;

2. does not have a determined value and is not tied to values paid on capital instruments; andtidak memiliki fitur preferensi; dan

h. fund source does not come form issuing Bank either directly or indirectly.

Article 13

Repurchase of shares (treasury stocks) that have been acknowledged as paid-in capital component can only be made by meeting the following terms:

a. after 5-year period since issuance;
b. for specific purposes;
c. executed in accordance with prevailing legislations;
d. After having obtained The Financial Services Authority's approval; and
e. not causing a reduction in capital under the minimum requirement as referred to in Article 2, Article 3, and Article 7.

Article 14

(1) Disclosed reserve as referred to in Article 11 paragraph (1) letter a number 2 consists of:

a. Addition factors, namely:
    1. agio that originates from issuance of instruments that are considered as Common Equity Tier 1
    2. contributed capital;
    3. general reserve;
    4. previous years earnings;
    5. current year earnings;
    6. positive adjustment due to financial statement translation;
    7. capital deposit fund, which meets the following terms:

a) has been fully paid for the purpose of capital addition, however is not yet supported by fulfilment of requirements to be classified as paid-in capital, such as implementation of shareholders general meeting as well as ratification of the Articles of Association from the authorized agency;
b) has been placed into an escrow account that does not give earnings yield;
c) is not allowed to be withdrawn by the shareholders/candidate shareholders and is available for absorbing losses; and
d) The use of the fund should have The Financial Services Authority's approval;

8. warannts that have been issued as an incentive to Bank's shareholders, which are acknowledged at 50% (fifty percent) of the fair value and should meet the following terms:
   a) the underlying instruments are common stocks;
   b) cannot be converted into other forms except shares; and
   c) the value that is taken into the calculation is the fair value of the warrants at the date of issue;
9. stock options issued through the shares-based employee/management compensation program (employee/management stock option) that is acknowledged at 50% (fifty percent), which meet the following terms:
   a) the underlying instruments are common stocks;
   b) cannot be converted into other forms except shares; and
   c) the value that is taken into the calculation is the fair value of the stock options at the award date of the compensation;

10. other comprehensive income in the forms of unrealized gain from increases in financial asset fair values classified in the available-for-sale category;
11. fixed asset revaluation surplus balance;

b. deduction factors, namely:
   1. disagio that originates from the issuance of instruments considered as Common Equity Tier 1;
   2. previous years loss;
   3. current year loss;
   4. negative adjusment due to financial statement translation;;
   5. other comprehensive income in the forms of:
      a) unrealized loss from decreases in financial asset fair values classified in the available-for-sale category; dan
      b) losses from the recalculation of fixed benefit pension programs;
   6. negative difference between regulatory Provision for Asset Losses (PPA) on earning assets and Allowance for Impairment Losses (CKPN) on earning assets;
   7. negative difference between the amount of adjustment to the result of financial instrument valuation in the Trading Book and the amount of adjustment based on the prevailling financial accounting standards; and
   8. Provision for Asset Losses (PPA) on non-earning assets

(2) Calculation of previous years and/or current year earnings and loss referred to in paragraph (1) letter a number 4 and number 5 should exclude the influence of the following factors:
   a. increases or decreases in the fair values of financial liabilities; and/or
   b. gain from sales of assets in securitization transactions (gain on

sale).

Article 15

(1) The Additional Tier 1 capital instrument as referred to in Article 11 paragraph (1) letter b should meet the following terms:
    a. issued and fully paid;
    b. does not have a maturity period and does not have terms that require acquittal by the Bank in the future;
    c. buy back or payment of principal of the instrument requires prior approval from the supervisor
    d. does not have step-up features;
    e. have the feature of being able to be converted into common stocks or undergo the write down mechanism when the Bank’s business sustainability has the potential to be disrupted (point of non-viability), which is clearly stated in the issuance documentation/agreement;
    f. of subordination nature at the time of liquidation, which is clearly stated in the issuance documentation/agreement;
    g. the dividend/coupon is uncertain and cannot be accumulated between periods;
    h. not protected or guaranteed by Bank or Subsidiary Company;
    i. does not have the feature of payment of dividends/coupon that are sensitive to credit risk;
    j. if supplemented with the call option feature, it must meet the following terms:
        1. can only be executed at the earliest 5 (five) years after the capital instruments are issued; and
        2. issuance documentation has to state that the option can only be executed at the Financial Services Authority’s approval.
    k. cannot be purchased by issuing Bank and/or Subsidiary Company;

l. fund source does not come from issuing Bank either directly or indirectly;

m. does not have a feature that will hamper capital addition process in the future; and

n. has obtained the Financial Services Authority's approval to be taken into account as capital component.

(2) Execution of the call option referred to in paragraph (1) letter j number 1 and number 2 can only be performed by the Bank as long as:

a. it has obtained the Financial Services Authority's approval;

b. it will not cause a reduction in capital under the minimum requirements referred to in Article 2, Article 3, and Article 7; and

c. it is replaceable by other capital instruments of the same or better quality.

Article 16

(1) In the calculation consolidated minimum capital adequacy requirement ratio, minority interest is taken into account as Common Equity Tier 1 capital, except the part of minority interest that does not comply with the requirements of main core capital component.

(2) Minority interest referred to in paragraph (1) can be taken into account in the consolidated Common Equity Tier 1 capital if the Bank's ownership in the Subsidiary Company is more than 50% (fifty percent) and meeting the following terms:

a. the Subsidiary Company is a Bank;

b. there is a relation/affiliation between non-controlling shareholders of the Subsidiary Company (minority interest) with the Bank; and

c. there is a commitment on the part of non-controlling shareholders of the Subsidiary Company (minority interest) to support the capital of Bank's business group, which is incorporated in a statement or minutes of meeting of the Shareholders General Meeting of the

Subsidiary Company.

Article 17

(1) The Common Equity Tier 1 capital referred to in Article 9 paragraph (1) letter a number 1 shall be taken into account with deduction factors in the forms of:
   a. calculation of deferred tax;
   b. goodwill;
   c. other intangible assets;
   d. all Bank's participations, which cover:
      1. Bank's participation in Subsidiary Company except Bank's temporary capital participation at Subsidiary Company in relation to credit restructuring;
      2. Participations at companies or legal entities in which Bank has more than 20% (twenty percent) upto 50% (fifty percent) ownerships but Bank has no Control; and
      3. participations in insurance companies;
   e. capital shortfall against the minimum solvency ratio (minimum Risk Based Capital/ RBC) at insurance companies owned and controlled by Bank;
   f. securitization exposure; and
   g. other Common Equity Tier 1 capital deduction factors as referred to in Article 22.

(2) capital deduction factors referred to in paragraph (1) letter d and letter e are not taken into account again in RWA for Credit Risk.

Part Three

Tier 2 Capital

Article 18

Tier 2 capital referred to in Article 9 paragraph (1) letter b can only be taken into account at the highest 100% (one hundred percent) of the Tier 1 capital referred to in Article 9 paragraph (1) letter a.

Article 19

(1) Tier 2 capital instruments referred to in Article 9 paragraph (1) letter b should meet the following terms:
   a. issued and already fully paid;
   b. has a tenure of 5 (five) years or more and can only be paid off after the Financial Services Authority’s approval is obtained;
   c. has the feature of being able to be converted into common stocks or undergo the write down mechanism when the Bank’s business sustainability has the potential to be disrupted (point of non-viability), which is clearly stated in the issuance documentation/agreement;
   d. of subordination nature, which is clearly stated in the issuance documentation/ agreement;
   e. payments of principals and/or dividend/coupon shall be deferred and accumulated between periods (cummulative) when such payments can cause the ratio of minimum capital adequacy requirement individually or in consolidation not meet the requirements referred to in Article 2, Article 3, and Article 7;
   f. not protected or guaranteed Bank or Subsidiary Company;
   g. does not have the feature of payment of dividends or coupon that are sensitive to the credit risk;
   h. does not have the step-up feature;
   i. if supplemented with the call option feature, it must meet the following terms:
      1. can only be executed at the earliest 5 (five) years after the capital instruments are issued; and

2. issuance documentation has to state that the option can only be executed at the Financial Services Authority’s approval.

j. does not have a term for accelerated interest or principal payments, which is stated in the issuance documentation;

k. cannot be purchased by issuing Bank and/or Subsidiary Company;

l. fund source does not come from issuing Bank either directly or indirectly; and

m. has obtained the Financial Services Authority’s approval to be taken into account as capital component.

(2) Execution of the call option referred to in paragraph (1) letter i number 1 and number 2 can only be performed by the Bank as long as:

a. it has obtained the Financial Services Authority’s approval; and

b. it will not cause a reduction in capital under the minimum requirements referred to in Article 2, Article 3, and Article 7 or be replaced by capital instruments which:

1. have the same or better quality; and

2. have the same or different amounts as long as they do not exceed the limit for Tier 2 capital as referred to in Article 18.

(3) The amount that can be taken into account as Tier 2 capital is the amount of Tier 2 capital deducted by amortization that is calculated using the straight-line method.

(4) The amortization referred to in paragraph (3) is performed on the remaining last 5 (five) years of the instrument’s tenure.

(5) In the case there is a call option, the period after which the Bank can execute the call option is the remaining tenure of the instrument.

Article 20

(1) Tier 2 capital consist of:

a. capital instruments in the forms of shares or other forms that meet the terms referred to in Article 19.

b. agio or disagio originating from issuance of capital instruments that are categorized as Tier 2 capital;
c. general reserve for Provision for Asset Losses (PPA) on earning assets, which should be calculated at the highest amount of 1.25% (one point twenty five percent) of RWA for Credit Risk; and
d. specific reserve

(2) Positive difference between general reserve that should be calculated and the limit referred to in paragraph (1) letter c can be taken into account as a deduction factor in the calculation of RWA for Credit Risk.

Article 21

Part of the supplementary capital which has been established as sinking fund shall not be taken into account as Tier 2 capital component, if the Bank:

a. has determined to set aside and manage the sinking fund in a specific manner; and
b. has publicized the establishment of the sinking fund, including in the Bondholders General Meeting (RUPO).

Article 22

(1) Factors that are capital deductions referred to in Article 9 paragraph (2) and Article 10 paragraph (2) cover:
   a. repurchase of capital instruments that have been acknowledged as Bank capital component; and
   b. placement of fund in another Bank's debt instrument that has been acknowledged as capital component by that other Bank (issuing Bank).

(2) All capital deduction factors referred to in paragraph (1) letter b are not taken into account again in RWA for Credit Risk.

Article 23

In the case of calculation of consolidated minimum capital adequacy requirement referred to in Article 9 paragraph (3), Bank is obliged to submit supporting data for the Additional Tier 1 capital and Tier 2 capital components, which shows that capital component of Subsidiary Company that is taken into account has met all the requirements as capital component.

Part Four

Capital Equivalency Maintained Assets (CEMA)

Article 24

(1) The foreign bank branches should meet minimum CEMA.
(2) Minimum CEMA referred to in paragraph (1) is determined to be 8% (eight percent) of Bank's total liability in each month and at the smallest amounting to Rp1,000,000,000,000.00 (one trilion rupiah).
(3) Fulfilment of the minimum CEMA referred to in paragraph (2) shall be made in stages as follows:
    a. Upto November 2017 position, minimum CEMA is determined to be 8% (eight percent) of total Bank's liability in each month;
    b. Starting December 2017 position, minimum CEMA is determined to be 8% (eight percent) of total Bank's liability in each month and at the smallest amounting to Rp1,000,000,000,000.00 (one trilion rupiah).

Article 25

(1) Minimum CEMA referred to in Article 24 paragraph (2) should be met with net inter office fund as referred to in Article 10 paragraph (1) letter

a.

(2) The net inter office fund owned by the foreign bank branches should meet the minimum capital adequacy requirement in accordance with the risk profile and minimum CEMA.

(3) Minimum CEMA referred to in Article 24 paragraph (2) is calculated each month.

(4) Minimum CEMA referred to in Article 24 paragraph (2) should be fulfilled and placed at the latest on the 6th of the following month.

Article 26

(1) The foreign bank branches should determine the financial assets used to fulfill minimum CEMA.

(2) Financial assets which have been determined to fulfill minimum CEMA cannot be exchanged until the next period of the fulfillment of minimum CEMA.

(3) Financial assets referred to in paragraph (1) that meet the terms and can be taken into account as CEMA are as follow:
   a. securities issued by the Republic of Indonesia Government that are intended to be held until maturity;
   b. securities issued by other Banks, which are Indonesian legal entities, and meet the following criteria:
      1. non equity;
      2. has investment rating; and
      3. not intended for trading purposes; and/or
   c. securities issued by corporations, which are Indonesian legal entities, and meet the following criteria:
      1. non equity;
      2. securities rating at least A+ or equivalent;
      3. not intended for trading purposes; and
      4. the portion of corporate securities is at the highest 20% (twenty

percent) of total minimum CEMA

(4) Financial assets used as CEMA should be free from claims from any party.

(5) The calculation of financial assets used to fulfill minimum CEMA shall be performed as follows:
   a. for financial assets already owned by Bank, the calculation shall be based on the book values of the financial assets at the position of the end of the reporting month;
   b. for financial assets purchased after the position at the end of the reporting month, the calculation shall be based on the book values of the financial assets at purchase positions of the financial assets

CHAPTER III
RISK WEIGHTED ASSETS (RWA)
Part One
General Provisions
Article 27

Risk Weighted Assets (RWA), which are used in the calculation of minimum capital referred to in Article 2 paragraph (3), and calculation of the establishment of additional capitals as buffers referred to in Article 3 paragraph (3), consist of:

a. RWA for Credit Risk;
b. RWA for Operational Risk; and
c. RWA for Market Risk;

Article 28

(1) Every Bank is obliged to take into account RWA for Credit Risk and RWA for Operational Risk.

(2) In addition to fulfilling the obligation referred to in paragraph (1), Banks

that meet certain criteria should also take into account RWA for Market Risk.

Article 29

Certain criteria as referred to in Article 28 paragraph (2) are:

a. Bank which individually meets one of the following criteria:
    1. Bank with total assets of Rp10,000,000,000,000.00 (ten trillion Rupiah) or more;
    2. Bank that undertakes business activities in foreign currencies with the position of financial instruments in the forms of marketable securities and/or derivative transactions in the Trading Book amounting to Rp20,000,000,000.00 (twenty billion rupiah) or more;
    3. Bank that does not undertake business activities in foreign currencies with the position of financial instruments in the forms of marketable securities and/or interest rate derivative transactions in the Trading Book amounting to Rp25,000,000,000.00 (twenty five billion rupiah) or more;
b. Bank that in consolidation with Subsidiary Company meets one of the following criteria:
    1. Bank that undertakes business activities in foreign currencies, which in consolidation with Subsidiary Company has the position of financial instruments in the forms of marketable securities, including financial instruments that are being exposed to equity risk and/or derivative transactions in the Trading Book and/or financial instruments that are being exposed to commodity risk in the Trading Book and Banking Book amounting to Rp20,000,000,000.00 (twenty billion rupiah) or more;
    2. Bank that does undertake business activities in foreign currencies, which however in consolidation with Subsidiary Company has a position of financial instruments in the forms of marketable

securities, including financial instruments that are being exposed to equity risk and/or derivative transactions in the Trading Book and/or financial instruments that are being exposed to commodity risk in the Trading Book and Banking Book amounting to Rp25,000,000,000.00 (twenty five billion rupiah) or more;

c. Bank with a network of offices and/or Subsidiary Companies abroad and branch offices of banks domiciling abroad.

Article 30

Financial assets, which at the initial acknowledgement are determined as financial assets measured at fair values through the profit and loss statement, and credits classified in the trading category, are excluded in the scope of Trading Book.

Article 31

Marketable securities in the Trading Book only consist of marketable securities classified in the trading category.

Article 32

Bank, which after having conducted a merger, a consolidation, or an acquisition, meets certain criteria referred to in Article 29, at least in 3 (three) monthly reporting periods within the first 6 (six) months after the merger, consolidation, or acquisition is determined to be effective, is obliged to take into account Market Risk in the calculation of minimum capital adequacy requirement ratio starting in the 7th month after the merger, consolidation, or acquisition is determined to be effective.

Article 33

Bank, which already meets certain criteria referred to in Article 29, and Bank referred to in Article 32 are obliged to yet take into account Market Risk in the minimum capital adequacy requirement although afterwards the Bank no longer meets the said certain criteria.

Part Two
Credit Risk
Article 34

(1) In the calculation of RWA for Credit Risk, Bank shall use:
   a. Standardized Approach; and/or
   b. Internal Rating Based Approach.
(2) In the early stages of the implementation, the calculation of RWA for Credit Risk shall use the Standardized Approach.
(3) Banks shall obtain prior approval from the Financial Services Authority in order to use the Internal Rating Based Approach as referred to in paragraph (1) letter b.

Part Three
Operational Risk
Article 35

(1) In the calculation of RWA for Operational Risk, Bank shall use 3 (three approaches), which are:
   a. Basic Indicator Approach;
   b. Standardized Approach; and/or
   c. Advanced Measurement Approach.
(2) For the initial phase, the calculation of RWA for Operational Risk shall be conducted using the Basic Indicator Approach
(3) Bank that uses the approaches referred to in paragraph (1) letter b and

letter c should first obtain the approval of the Financial Services Authority.

Part Four

Market Risk

Article 36

(1) Market Risks that should be taken into account by Bank, individually as well as in consolidation with Subsidiary Company are:
   a. interest rate risk; and/or
   b. exchange rate risk
(2) Bank in consolidation should take into account the equity risk and/or commodity risk, in addition to the Market Risk referred to in paragraph (1) when meeting the following criteria:
   a. owning Subsidiary Company that is being exposed to equity risk and/or commodity risk; and
   b. in consolidation with Subsidiary Company meets the criteria referred to in Article 29 letter b.

Article 37

(1) Bank is obliged to perform daily valuation of the Trading Book position accurately.
(2) In performing the valuation referred to in paragraph (1), Bank should have valuation policy and procedure, including owning a management information system and valuation process control, which are adequate and integrated with the risk management system.
(3) The valuation policy and procedure referred to in paragraph (2) should be based on the prudential principles.

Article 38

(1) The valuation process should be performed based on fair value.

(2) On financial instruments that are actively traded, the valuation process referred to in paragraph (1) shall be performed by using close out prices or market quotations from independent sources.

(3) Valuation on the financial instrument referred to in paragraph (2) shall use:

   a. bid price for assets owned or liabilities that will be issued; and/or

   b. ask price for assets that will be gained or liabilities owned.

(4) In the case of market price unavailability referred to in paragraph (2), Bank shall determine the fair value by using an assessment model or technique based on the prudential principles.

Article 39

(1) Bank should perform verification on the process and result of valuation.

(2) The verification process referred to in paragraph (1) should be performed at least 1 (one) time in 1 (one) month by a party that is not involved in performing the valuation.

(3) Bank should make adjustments to the valuation result based on result of verification referred to in paragraph (1).

Article 40

Bank should immediately make an adjustment to the valuation result that does not yet reflect the fair value, in the case when:

a. significant changes have occurred in the economic condition.

b. the price of the financial instrument used as reference is a price arising from a forced transaction, a forced liquidation, or sales due to financial difficulties.

c. the financial instrument is close to maturity; and/or

d. the price that is used as reference is not fair value due to other conditions.

Article 41

(1) In addition to the adjustment referred to in Article 40, Bank should perform an adjustment on the valuation of the less liquid position by taken into consideration certain factors.

(2) In the case where an adjustment as referred to in paragraph (1) is made, Bank should take into account the impact of the adjustment as the Common Equity Tier 1 capital deduction factor in the calculation of minimum capital adequacy requirement ratio.

Article 42

(1) In the calculation RWA for Market Risk, Bank shall use;
   a. Standard Method; and/or
   b. Internal Model

(2) Bank that meets the certain criteria as referred to in Article 29, should first use the Standard Method to calculate the Market Risk.

(3) Bank should first obtain the approval of the Financial Services Authority in order to use the Internal Model as referred to in paragraph (1) letter b.

CHAPTER IV

Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review and Evaluation Process (SREP)

Part One

Scope of Internal Capital Adequacy Assessment Process (ICAAP)

Article 43

(1) In fulfilling the minimum capital adequacy requirement according to the risk profile as referred to in Article 2 individually as well as in

consolidation with Subsidiary Company, Bank should own ICAAP that is adjusted with the size, characteristics, and complexity of the Bank's business.

(2) ICAAP shall at least cover:

a. active oversight by Boards of Commissioners and Directors;

b. assessment of capital adequacy;

c. monitoring and reporting; and

d. internal control.

(3) Bank should make a documentation of ICAAP.

Part Two

Supervisory Review and Evaluation Process (SREP)

Article 44

(1) SREP is performed by the Financial Services Authority.

(2) Based on result of SREP, the Financial Services Authority can request Bank to make a correction on the ICAAP.

Article 45

(1) If there is a difference in the result of capital calculation based on the risk profile between the result of Bank's self assessment and the result of SREP, the capital calculation that is applicable is the result of SREP.

(2) In the case where the Financial Services Authority assesses that capital owned by the Bank does not meet the required minimum capital in accordance with the risk profile as referred to in Article 2 individually as well as in consolidation with Subsidiary Company, the Financial Services Authority can request the Bank to:

a. provide additional capital in order to meet the minimum capital adequacy requirement in accordance with the risk profile;

b. repair the quality of risk management process; and/or
c. reduce risk exposure

Article 46

In the case where the Financial Services Authority assesses that there is a decreasing trend in Bank's capital that has the potential to cause Bank's capital to be below the minimum capital adequacy requirement, the Financial Services Authority can request Bank among others to apply:

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

CHAPTER V
REPORTING

Article 47

(1) Bank that meets the requirement to undertake calculation of consolidated minimum capital adequacy requirement as referred to in Article 7 is obliged to submit the report on calculation of consolidated minimum capital adequacy requirement.
(2) Bank that meets certain criteria referred to in Article 29 is obliged to submit the report on calculation of minimum capital adequacy requirement which takes into account Market Risk.
(3) The preparation and submission of the reports referred to in paragraph (1) and paragraph (2) should refer to the regulation concerning periodic reports of commercial banks.

Article 48

(1) Bank is obliged to submit to the Financial Services Authority the report on calculation of minimum capital adequacy requirement in accordance with the risk profile.

(2) The report referred to in paragraph (1) shall be submitted along with submission of the result of self assessment on Bank's Soundness Rating.

Article 49

(1) The foreign bank branches is obliged to submit the report on fulfilment of CEMA.

(2) The report on fulfillment CEMA referred to in paragraph (1) shall at least contain information concerning:

a. The average total liability on a weekly basis as referred to Article 24 paragraph (2);

b. The amount of allocation of net inter office funds in the form of CEMA;

c. Types of assets and fulfillment of the criteria of CEMA's financial assets;

d. Book value of each of CEMA's financial asset;

e. Maturity dates of CEMA's financial assets.

Article 50

(1) The report referred to in Article 49 paragraph (1) shall be prepared every month and should be submitted to the Financial Services Authority at the latest on the 8th of the next month.

(2) In the case the deadline for submission of the report referred to in paragraph (1) falls on a Saturday, Sunday, and/or public holiday, the report on fulfillment of CEMA shall be submitted on the next working day.

Article 51

(1) Bank shall be declared as being late in submitting the reports referred to in Article 48 paragraph (1) and Article 49 paragraph (1) when the reports are received by the Financial Services Authority after the deadlines for the report submissions up to no later than 5 (five) days after the deadlines of the report submissions.
(2) Bank shall be declared as not having submitted the reports referred to in Article 48 paragraph (1) and Article 49 paragraph (1) when the reports are not received by the Financial Services Authority up to the deadlines of late submissions referred to in paragraph (1)
(3) Bank that are declared as not having submitted the reports referred to in paragraph (2) still has the obligation to submit the reports as referred to in Article 48 paragraph (1) and Article 49 paragraph (1).

Article 52

The reports referred to in Article 48 paragraph (1) and Article 49 paragraph (1) shall be submitted to:

a. The relevant Department of Bank Supervision or Regional Office 1 Greater Jakarta, Banten, Lampung, and Kalimantan for banks headquartered or are foreign bank branches in the Greater Jakarta (Jabodetabek) area, as well as Banten Province.
b. Regional or Representative Office of the Financial Services Authority for Banks headquarterd outside the Greater Jakarta (Jabodetabek) area and Banten Province.

CHAPTER VI
OTHER PROVISIONS

Article 53

Bank is prohibited from undertaking trading of financial assets classified in the available-for-sale category in a pattern similar to the trading of financial assets classified in the trading category:

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

Article 54

With regards to economic conditions and the stability of the financial system as well as acknowledging prudential principles, the Financial Services Authority has a right to determine:

a. A risk weight for RWA that is different than a risk weight stipulated in regulations issued to implement this regulation; and
b. A capital charge for a buffer that is different than the amount of capital charge that is stipulated in this regulation.

CHAPTER VII

SANCTIONS

Article 55

Any Bank that violates the provisions set forth in Article 2 paragraph (1), Article 3 paragraph (1), Article 4, Article 6 paragraph (1), Article 6 paragraph (2), Article 6 paragraph (3), Article 6 paragraph (4), Article 7, Article 8 paragraph (1), Article 8 paragraph (3), Article 9 paragraph (2), Article 10 paragraph (2), Article 11 paragraph (2), Article 11 paragraph (3), Article 12, Article 13, Article 15, Article 16, Article 18, Article 19, Article 20 paragraph (2), Article 21, Article 23, Article 24 paragraph (1), Article 25, Article 26, Article 27, Article 28, Article 29, Article 30, Article 31, Article 32, Article 33, Article 34 paragraph (2), Article 34 paragraph (3), Article 35 paragraph (2), Article 35 paragraph (3), Article 36, Article 37, Article 38 paragraph (1), Article 39, Article 40, Article 41, Article 42 paragraph (2), Article 42 paragraph (3), Article 43 paragraph (1), Article 43 paragraph (3), Article 47, Article 48 paragraph (1), Article 49 paragraph (1), Article 50 paragraph (1), or Article 51 paragraph (3) shall be imposed with administrative sactions, among others in the forms of:

a. written warning;
b. prohibition on the transfer of profit for foreign bank branches;
c. prohibition from undertaking business activity expansion;
d. freezing of certain business activities;
e. prohibition from opening office network;
f. lowering of Bank soundness rating; and/or
g. the stating of Bank management and/or shareholders in the list of persons prohibited from becoming Bank’s shareholders and management.

Article 56

Bank that violates the provisions on reporting referred to in Article 47 shall be imposed with sanctions provided in the prevailing stipulation concerning Periodic Reports of Commercial Banks.

Article 57

(1) Aside from the sanctions referred to in Article 55, Bank that is declared as:
    a. being late in submitting the report referred to in Article 51 paragraph (1) shall be imposed with a sanction of mandatory payment amounting to Rp1,000,000.00 (one million Rupiah) per day of delay;
    b. not having submitted the report referred to in Article 51 paragraph (2) shall be imposed with a sanction of mandatory payment amounting to Rp50,000,000.00 (fifty million Rupiah).

(2) In the case where Bank is imposed with a sanction of mandatory payment because it is declared as not to have submitted the reports, the sanction to make mandatory payment due to late submission of reports is not applicable.

Article 58

Aside from being imposed with administrative sanctions as referred to in Article 55, Bank, which is unable to meet the minimum capital adequacy requirement in accordance with the risk profile as referred to in Article 2 individually as well as in consolidation with Subsidiary Company, is obliged to undertake measures or supervisory actions provided in the regulation concerning Bank supervision follow-up actions and status determination.

Article 59

(1) Bank that violates the provision referred to in Article 53 shall be imposed with the sanction of not being allowed to classify the next purchases of financial assets into the available-for-sale category for 6 (six) months starting from the issuance date on the supervisory letter from The Financial Services Authority.
(2) Bank that violates the provision referred to in Article 53 for the second time shall be imposed with the sanction of not being allowed to classify the next purchases of financial assets into the available-for-sale category for 1 (one) year starting from the issuance date on the supervisory letter from The Financial Services Authority.
(3) Bank that violates the provision referred to in Article 53 for more than two times shall be imposed with the sanction of not being allowed to classify the next purchases of financial assets into the available-for-sale category for 2 (two) years starting from the issuance date on the supervisory letter from The Financial Services Authority.

CHAPTER VIII
TRANSITIONAL PROVISIONS
Article 60

Capital instruments that do not have maturity dates and are acknowledged in the calculation of Minimum Capital Requirements on the 31 December 2013 position but no longer meet the capital component criteria according to this regulation can still be acknowledged as capital component until 31 December 2018.

Article 61

Capital instruments that have maturity dates and are acknowledged in the calculation of Minimum Capital Requirements on the 31 December 2013 position but no longer meet the capital component criteria according to this regulation can still be acknowledged as capital component until maturity and their tenures cannot be extended.

Article 62

Capital instruments issued starting 1 January 2014 should already meet the terms set forth in this regulation.

CHAPTER IX
CONCLUDING PROVISIONS
Article 63

Further provisions of this Financial Services Authority Regulation shall be stipulated in a Financial Services Authority Circular Letter.

Article 64

At the time this Financial Services Authority Regulation comes into force:

a. Bank Indonesia Regulation Number 15/12/PBI/2013 dated 12 December 2013 concerning Minimum Capital Adequacy Requirement for Commercial Banks (State Gazette of the Republic of Indonesia Number 223 of 2013, Supplement to State Gazette of the Republic of Indonesia Number 5469)
b. Bank Indonesia Circular Letter Number 9/31/DPNP dated 12 December 2007 concerning Guideline for The Use of Internal Model in The Calculation of Minimum Capital Adequacy Requirement for Commercial Banks by Taking Into Account Market Risk;

are revoked and declared no longer valid

Article 65

At the time this Financial Services Authority Regulation comes into force:

a. Bank Indonesia Circular Letter Number 9/33/DPNP dated 18 December 2007 concerning Guideline for The Use of Standard Method in The Calculation of Minimum Capital Adequacy Requirement for Commercial Banks by Taking Into Account Market Risk;
b. Bank Indonesia Circular Letter Number 11/3/DPNP dated 27 January 2009 concerning Calculation of Risk-Weighted Asset (ATMR) for Operational Risk Using Basic Indicator Approach
c. Bank Indonesia Circular Letter Number 13/6/DPNP dated 18 February 2011 concerning Guidelines for the Calculation of Risk-Weighted Assets for Credit Risk by Using Standardized Approach
d. Bank Indonesia Circular Letter Number 14/21/DPNP dated 18 July 2012 concerning Amendment to Bank Indonesia Circular Letter Number

9/33/DPNP dated 18 December 2007 concerning Guideline for The Use of Standard Method in The Calculation of Minimum Capital Adequacy Requirement for Commercial Banks by Taking Into Account Market Risk;

e. Bank Indonesia Circular Letter Number 14/37/DPNP dated 27 December 2012 concerning Minimum Capital Adequacy Requirement In Accordance With Risk Profile and Fulfilment of Capital Equivalency Maintained Assets (CEMA),

shall still be effective as long as it is not in conflict with the provisions in this Financial Services Authority Regulation.

Article 66

At the time this Financial Services Authority Regulation comes into force, the regulations to implement:

a. Bank Indonesia Regulation Number 14/18/PBI/2012 dated 28 November 2012 concerning Minimum Capital Adequacy Requirement for Commercial Banks Indonesia (State Gazette of the Republic of Indonesia Number 261 of 2012, Supplement to State Gazette of the Republic of Indonesia Number 5369); and
b. Bank Indonesia Regulation Number 15/12/PBI/2013 dated 12 December 2013 concerning Minimum Capital Adequacy Requirement for Commercial Banks (State Gazette of the Republic of Indonesia Number 223 of 2013, Supplement to State Gazette of the Republic of Indonesia Number 5469)

unless otherwise stated in Article 65, is still valid as long it as it is not in conflict with the provisions in this Financial Services Authority Regulation.

Article 67

The provisions of this Financial Services Authority Regulation shall be effective 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
CHARIMAN OF BOARD OF COMMISSIONERS
FINANCIAL SERVICES AUTHORITY

MULIAMAN D. HADAD

Enacted in: Jakarta
On

MINISTER OF LAW AND HUMAN RIGHT
REPUBLIC OF INDONESIA

YASONNA H. LAOLY

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER

ELUCIDATION
TO
FINANCIAL SERVICES AUTHORITY REGULATION
NUMBER: /POJK.03/2016
CONCERNING
MINIMUM CAPITAL ADEQUACY REQUIREMENT FOR COMMERCIAL BANKS

I. GENERAL REVIEW

Experience from the monetary and economic crises, which have occurred in various countries in the last few years, shows that the failure of Bank is caused among others by inadequate quality and quantity in Bank capital to anticipate risks being faced. In the framework to step up the quality and quantity of Bank capital so that Bank can be more able to absorb potential loss caused by financial and economic crises as well as excessive credit growth, the requirements for capital components and instruments as well as calculation of Bank capital adequacy need to be adjusted to the prevailing international standards. The International Standard that is used as reference is the "Global Regulatory Framework for More Resilient Banks and Banking System",more known as the Basel III.

In order to step up the quality of Bank capital quality, capital components and requirement for instruments are adjusted by referring to prevailing international standards. Bank Tier 1 capital component particularly should be dominated by high quality capital instruments, namely common stocks and retained earnings that is part of the Common Equity Tier 1.

The quality of the other core capital component, namely Additional Tier 1 is stepped up to only comprise financial instruments that are subordinated to payments of dividends or coupon that are non-cummulative and that meet certain criteria. The Additional Tier 1 capital component is an enhancement of the innovative capital component that was previously part of Bank Tier 1 capital.

In line with the stepping up of the Tier 1 capital quality, the components and requirements for instruments of the Tier 2 capital are also adjusted, among others by the deletion of the categories of Upper Tier 2 and Lower Tier 2. The Tier 3 component, which previously could be issued only for capital calculation for market risk, is deleted with the enforcement of Basel III. In order to ensure that Bank capital's quality and level are adequate, enhancement are made to capital ratios, which cover Tier 1 capital ratio and Common Equity Tier 1 capital ratio.

Bank is obliged to establish additional capital in the forms of Capital Conservation Buffer dan Countercyclical Buffer, and Banks that are considered to have the potential to be systemic are obliged to establish additional capital in the form of Capital Surcharge. The purpose of the establishment of these additional capitals is as buffers for absorbing risks caused by crisis condition and/or excessive banking credit growth. The obligation to establish additional capitals shall be implemented in stages starting in 2016 to give sufficient time to Banks for establishing these additional capitals.

In view of these matters, it is deemed necessary to re-stipulate the regulation concerning Minimum Capital Adequacy Requirement for Commercial Banks in a Financial Services Authority Regulation.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

"Risk profile" is the risk profile of Bank as provided in the stipulation concerning assessment of the soundness rating of Commercial Banks.

Paragraph (2)

"Minimum Capital Adequacy Requirement ratio" is the comparison between Bank capital and Risk Weighted Assets (RWA)

Paragraph (3)

Self explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 3

Paragraph (1)

The establishment of additional capitals in addition to the minimum capital referred to in this paragraph has the function as buffers when financial and economic crises occur that can disrupt the financial system stability.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Paragraph (6)

The meaning of “authorized authority” is Bank Indonesia

Paragraph (7)

Self-explanatory.

Paragraph (8)

The additional capital requirement as referred to in paragraph (3) for foreign bank branches is fulfilled from net inter office fund placed in the CEMA

Paragraph (9)

Self-explanatory.

Article 4

Paragraph (1)

The Commercial Bank Classification Based on Business

Activities refers to a stipulation that provides on business activities and office network based on Bank Tier 1 capital.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 5

Paragraph (1)

Self-explanatory.

Paragraph (2)

The meaning of “authorized authority” is Bank Indonesia.

Article 6

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Paragraph (6)

The meaning of “authorized authority” is Bank Indonesia.

Article 7

Self-explanatory

Article 8

Paragraph (1)

“Earnings distribution” means among others payment of dividends and payment of bonuses to the management.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory

Paragraph (4)

Determination of limit on earnings distribution among others takes into consideration factors such as the size of shortage in fulfilment of additional capitals, Bank financial condition, projection of Bank capacity to step up capital, and the trend of Bank business expansion.

Article 9

Self-explanatory

Article 10

Paragraph (1)

Letter a

“Net inter office fund” is the amount of placement from bank head office at the foreign bank branches after deducted by placement originating from that bank branch office at:

1. head office;
2. branch offices of related bank located abroad; and
3. other offices such as sister companies of foreign bank branches,

that have been declared as net inter office fund (declared net inter office fund) and have to be recorded all the time in Indonesia as long as the bank branch office operates in Indonesia. Net inter office funds fund does not include components in the inter-office account that are not net funds, such as interest liability and other liabilities as well as interest receivable and other receivables.

”Placements” cover placements on all financial assets in accordance with prevailing accounting standard.

Letter b

“Retained earnings” is the net retained earnings after deducted by taxes which by its head office’s decision is to be retained at its branch office in Indonesia.

"Last year earnings" is the entire net earnings of previous years after deducted by taxes, and its use has not been determined by its head office.

In the case where Bank has loss balance from previous years, the entire loss shall become a capital deduction factor.

Letter c

"Current year earnings" is profit earned in the current accounting year after deducted by tax estimation.

In the case where Bank experiences losses in the current year, the entire loss shall become a capital deduction factor.

Letter d

"General reserve" is reserve established from retained earnings after deducted by taxes, and has obtained approval from its head office as general reserve.

Letter e

"Fixed asset revaluation surplus balance" is the difference in revaluation of Bank-owned assets.

Acknowledgement of fixed asset revaluation surplus shall continue to refer to the prevailing accounting standards concerning fixed assets.

Letter f

The meaning of "financial assets classified in the available-for-sale category" shall refer to the prevailing accounting standards concerning financial instruments.

Letter g

"Specific reserve" is a reserve established from retained earnings after deducted by taxes for a certain purpose and has obtained the approval of its head office.

Letter h

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Determination of the amount of declared net inter office fund shall refer to the prevailing regulation concerning foreign loan.

Article 11

Paragraph (1)

Letter a

Number 1

Paid-up capital includes common stocks in accordance with the prevailing legislation and financial accounting standards concerning financial instruments.

Number 2

Self-explanatory.

Letter b

Additional Tier 1 capital components cover among others:

1. debt instruments that have capital characteristic, of subordination nature, do not have tenures, and payments of dividend/coupon cannot be accumulated (perpetual non cumulative subordinated debt);
2. perpetual non cummulative preference shares, both with and without buy option feature (call option);
3. hybrid instruments that do not have tenures and payments of dividend/coupon cannot be accumulated (perpetual and non cumulative); and
4. agio or disagio originating from the issuance of instruments classified as Additional Tier 1 capital.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 12

Letter a

Self-explanatory.

Letter b

Additional tier 1 instruments are subordinate towards, among others, holders of instruments that fullfill the criteria of Additional Tier 1 capital, Tier 2 Capital, Depositors and Creditors.

Letter c

The meaning of feature that is permanent among others include, there is no expectation that the issuer will buy back, or other activities that would give such expectations.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Letter f

These instruments are classified in the category that is protected or guaranteed by the Bank or Subsidiary Company, which means the protection as well guarantee that shall be received by other parties that shall be made through the Bank or Subsidiary Company, for example, premium/fee in the framework of a guarantee paid by the Bank or Subsidiary Companies

Letter g

Self-explanatory.

Letter h

Self-explanatory.

Article 13

Letter a

Self-explanatory.

Letter b

Certain purpose in undertaking repurchase of shares that have been acknowledged as paid-in capital component is as an inventory of shares in the framework of employee/management stock option program or to avoid take-over effort.

Letter c

"Prevailing legislations" mean among others Act Number 40 of 2007 concerning Limited Liability Companies and other legislations in the capital market.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Article 14

Paragraph (1)

Letter a

Number 1

"Agio" is the positive difference between paid in amount received by Bank at issuance of shares because the share market price is higher than the nominal value.

Number 2

"Contributed Capital" is capital that is regained from the contribution of bank shares, including the difference between book value and the selling price if the said shares are sold.

Number 3

"General reserve" is a reserve that is established from retained earnings after deducted by taxes, and has obtained the approval of the Shareholders General Meeting or meeting of members as a general reserve.

Number 4

Previous years earnings after taking into account the taxes covers:

a. last year earnings, which is the entire net income of the previous years after being deducted by taxes, and its use has not been determined by the Shareholders General Meeting or meeting of members; and

b. retained earnings is net retained earnings after being deducted by taxes, which the Shareholders General Meeting or meeting of members has decided not to be distributed.

Number 5

"Current year earnings" is the profit earned in current accounting year after being deducted by tax estimation.

Number 6

"Positive adjustment due to financial statement transalation" is the exchange rate difference arising from the translation of the financial statement of Bank branch office and/or Subsidiary Company domiciling abroad, as regulated in the prevailing financial accounting standard concerning the translation of financial statement in foreign currency.

Number 7

If based on the Financial Services Authority's research, prospective shareholders of the Bank or the paid-in capital funds are known as not having met the requirement to become shareholders or as capital deposit funds cannot be acknowledged as capital component.

Number 8

"Warrants" are securities issued by a company which entitle the security holders to order shares from the company at a certain price and for a certain period of time.

Number 9

Self-explanatory.

Number 10

The meaning of “financial assets classified in the available-for-sale category” shall refer to the prevailing accounting standard concerning financial instruments.

Number 11

“Fixed asset revaluation surplus balance” is the difference arising from the revaluation of Bank-owned fixed assets.

The acknowledgement of fixed asset revaluation surplus balance shall follow the prevailing accounting standard concerning fixed assets.

Letter b

Number 1

“Disagio” is the negative difference in paid in amount received by the Bank when issuing shares because the share market price is lower than the nominal value.

Number 2

“Previous years loss” is the entire losses recorded by the Bank in the previous years.

Number 3

“Current year loss” is the entire losses recorded by Bank in the current accounting year.

Number 4

“Negative adjusment due to financial statement translation” is exchange rate difference arising from financial report translation of Bank branch office and/or Subsidiary Company domiciling abroad as regulated in the prevailing financial accounting standard concerning translation of financial report in foreign currency.

Number 5

Letter a)

The meaning of “financial assets classified in the available-for-sale category” shall refer to the prevailing accounting standard concerning financial instruments.

Letter b)

The meaning of losses of the recalculation of the fixed benefit pension program shall adopt the prevailing financial accounting standards concerning employee benefits.

Number 6

“Negative difference between regulatory Provision for Asset Losses (PPA) on earning assets and Allowance for Impairment Losses (CKPN) on earning assets.” is the negative difference between total PPA(general reserve and specific reserve over the entire earning assets) that should be established in accordance with the stipulation on assessment of Commercial Bank asset quality and total CKPN on the entire earning assets (individually and collectively) in accordance with the prevailing financial accounting standard.

Number 7

The negative difference arises because the amount of adjustment to the result of valuation (mark to market) of the financial instruments in the Trading Book that takes into account certain factors, among others the less liquid position, exceeds the amount of required adjustment based on the prevailing financial accounting standard concerning measuring financial instruments, particularly financial instruments that are measured based on the fair values.

In accordance with the prevailing Indonesian Banking Accounting Guideline (PAPI), adjustment to the financial instrument valuation result will directly reduce or increase the book values of the financial instruments.

Number 8

Provision for Asset Losses (PPA) on non-earning assets is a reserve that should be established for non earning assets in accordance with the regulation concerning assessment of Commercial Bank asset quality.

Paragraph (2)

Letter a

This situation occurs when Bank decides to measure financial liabilities at fair values through profit and loss (fair value option) in accordance with the prevailing financial accounting standard.

Letter b

“Gain from sales of assets in securitization transactions (gain on sale)” is gain earned by Bank as the originating creditor (originator) on sales of assets in securitization transactions originating from capitalization of expected future margin or capitalization of income from provision of services (servicing income).

Article 15

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

In order to obtain approval from the supervisor, Banks shall not assume or expect that approval from the supervisor will be given.

Letter d

“Step-up feature” is a feature that promises a rise in interest rate or the rate of Dividend/Coupon if the call option is not executed in the set time period.

Letter e

The Financial Services Authority has the authority to determine the condition in which Bank is declared to have its business sustainability disrupted (point of non viability) and instruct the Bank to convert its additional core capital instruments into common stocks or to undertake write down.

The write down mechanism includes among others reduction of the value of liabilities, reduction of the value of liabilities at the time the call option is executed, or reduction of a part of or the entire payment of dividend/coupon.

The issuance documentation should have a clause stating that the Additional Tier 1 capital instruments can be converted into common stocks or that a write down can be undertaken when there is an instruction from The Financial Services Authority.

Letter f

The Additional Tier 1 capital instruments are subordinate to among others depositors, creditors, and holders of instruments that meet the criteria of supplementary capital.

Letter g

In cases where the dividend/coupon is not paid, it does not limit the payment of dividends or coupons for other instruments, except for common stock.

Letter h

The category of being protected or guaranteed by Bank or Subsidiary Company includes protections or guarantees received by other parties but these are undertaken through the Bank or Subsidiary Company, such as premia/fees in relation to guarantee paid by the Bank or Subsidiary Company.

Letter i

“Dividends or coupon that are sensitive to credit risk” means that the rates of the dividends or coupon are set based on the rating or credit risk level of the issuing Bank.

Letter j

Even though there is a call option, Banks shall not prepare criterias or certain conditions that allow for the execution of call options.

Letter k

Self-explanatory.

Letter l

Self-explanatory.

Letter m

Features that will hamper capital addition process in the future are among others a term that obliges the Bank to give compensation to investors if the Bank issues a new capital instrument at lower price.

Letter n

Self-explanatory

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

"Of the same or better quality" means a capital instrument that at least meets the requirements to be Additional Tier 1 capital component.

Article 16

"Minority interest" means it is not the interest of the controlling shareholders as referred to in the prevailing accounting standard.

Article 17

Paragraph (1)

Letter a

The amount of deferred tax used as deduction is 100% both for calculations of deferred tax in previous years as well as current year.

Deferred tax is a transaction arising as the result of the application of Statement of Financial Accounting Standards (PSAK) concerning income tax accounting.

In the calculation of individual minimum capital adequacy requirement, deferred tax that is taken out is the positive difference between deferred tax asset minus deferred tax liability. If there is a negative difference, the calculation of deferred tax that will be taken out is zero.

In the calculation of consolidated minimum capital adequacy requirement, the deferred tax asset of a company should not offset the deferred tax liability of another company in Bank business group.

Therefore, the influence of deferred tax in the calculation of consolidated minimum capital adequacy requirement should be calculated and excluded separately for each entity.

By the exclusion of the impact of deferred tax from the calculation of Common Equity Tier 1 capital, deferred tax asset will not be taken into account in the calculation of RWA.

Letter b

The definition of goodwill shall refer to the prevailing financial accounting standard.

Goodwill is taken into account as a deduction factor in the calculation of Bank's minimum capital, both individually as well as in consolidation.

Letter c

The definition of intangible asset shall refer to the prevailing financial accounting standard.

All intengible assets are calculated as subtracting factors to Tier 1 Capital.

Intangible assets include among others copy rights, patents, and other intellectual property rights including computer software applications developed by the Bank.

Letter d

The value of participation that is taken into account is the book value recorded in the balance sheet.

Letter e

Capital shortfall is taken into account as a deduction factor only in the calculation of consolidated minimum capital adequacy requirement ratio.

Capital shortfall of an insurance company from minimum RBC (Risk Based Capital) is taken into account when the said company does not meet minimum RBC up to the deadline set by the Financial Services Authority.

Letter f

Treatment of securitization exposure as a deduction to capital or for it to be taken into account as RWA shall refer to the stipulation concerning asset securitization.

"Securitization exposure" means supporting credits (credit enhancement), liquidity facilities (liquidity support), and asset backed securities.

Letter g

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 18

Self-explanatory.

Article 19

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

The Financial Services Authority has the authority to determine the condition in which a Bank is declared to have its business sustainability disrupted (point of non viability) and to instruct the Bank to convert Tier 2 capital instruments into common stocks or to undertake a write down.

The write down mechanism includes among others reduction of the value of liabilities, reduction of the value of liabilities at the time the call option is executed, or reduction of a part of or the entire payment of dividend/coupon.

The issuance documentation should have a clause stating that the Tier 2 capital instruments can be converted into common stocks or that a write down can be undertaken when there is an instruction from the Financial Services Authority.

Letter d

Tier 2 capital instruments are subordinate to among others depositors and creditors.

Letter e

Self-explanatory.

Letter f

The category of being protected or guaranteed by Bank or Subsidiary Company includes protections or guarantees received by other parties but these are undertaken through the Bank or Subsidiary Company, such as premia/fees in relation to guarantee paid by the Bank or Subsidiary Company.

Letter g

“Dividends or coupon that are sensitive to credit risk” means that the rates of the dividends or coupon are set based on the rating or credit risk level of the issuing Bank.

Letter h

“Step-up feature” is a feature that promises a rise in interest rate or the rate of dividend/coupon if the call option is not executed in the set time period.

Letter i

Even though there is a call option, Banks shall not prepare criterias or certain conditions that allow for the execution of call options.

Letter j

Self-explanatory.

Letter k

Self-explanatory.

Letter l

Self-explanatory.

Letter m

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Number 1

“Of the same or better quality” means a capital instrument that at least meets the requirements to be Tier 2 capital component.

Number 2

Paragraph (3)

"The straight-line method" is the calculation of amortization on pro rata basis.

Paragraph (4)

Amortization is calculated based on the value of capital instrument that has taken into account a deduction from the sinking fund.

Paragraph (5)

The illustrations on amortization:

1. Bank issues subordinated bond which has 10-year tenure and has a call option at the end of the fifth year.

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

   If by the end of fifth year, Bank does not execute the call option, starting the beginning of the sixth year the subordinated bond can be taken into account again in the calculation of minimum capital adequacy requirement by taken into consideration the required limitation, including the requirement to take into account amortization.
2. Bank issues subordinated bond which has 10 year tenure and has the call option after the fifth year.

   In this condition, the remaining time period left of the instrument at the initial issuance is 5 (five) years. Amortization should start to be taken into by Bank since the first year.

   After the end of the fifth year until maturity, Bank cannot recalculate the subordinated bond as supplementary capital although Bank has not executed the call option.

Article 20

Paragraph (1)

Letter a

Examples of “capital instruments in the forms of stocks or other forms that meet the requirements” are:

1. Preferred stock (which gives the right to its holder to receive dividends first before shareholders of other classifications) cumulatively (cummulative preference share).
2. Debt instrument with the characteristic of capital, which is of subordination nature, cumulative and meeting all requirements to be recalculated as Tier 2 capital component (cummulative subordinated bond); and
3. Debt instrument with characteristic similar to capital, which without any terms and condition can be automatically converted into shares after having obtained the Financial Services Authority’s approval (mandatory convertible bond)

   Condition and value of the conversion should be determined at the time of issuance which amount is in accordance with market condition.

Letter b

“Agio” is the positive difference in paid in amount received by Bank at the time of issuance of Tier 2 capital instrument because the market price of the capital instrument is higher than the nominal value.

“Disagio” is the negative difference in paid in amount received by the Bank at the time of issuance of supplementary capital instrument because the market price of the capital instrument is lower than the nominal value.

Letter c

The general reserve for Provision for Asset Losses (PPA) on earning assets that should be established shall refer to the regulation concerning assessment of Commercial Bank asset quality.

Example:

The obligatory general reserve for Provision for Asset Losses (PPA) on earning assets is established at Rp15,000,000.00 (fifteen million Rupiah) and Bank RWA for Credit Risk is Rp1,000,000,000.00 (one billion Rupiah).

The general reserve for Provision for Asset Losses (PPA) on earning assets that can be calculated as the Tier 2 capital component is at the highest 1.25% x Rp1,000,000,000.00 = Rp12,500,000.00 (twelve million five hundred thousand rupiah).

In this case, there is an excess amount of general reserve of Rp2,500,000.00 (two million five hundred thousand rupiah) which can not be taken into accout as the Tier 2 capital component.

Letter d

"Specific reserve" is a reserve establish from retained earnings after having been deducted by taxes for a specific purpose and after having obtained the approval of the Shareholders General Meeting or meeting of members.

The use of the specific reserve is prioritized to offset Banks' losses in a way that the general reserve is inadequate to offset a Bank's losses.

Paragraph (2)

The excess amount of general reserve for Provision for Asset Losses (PPA) on earning assets in accordance with the example in the explanation of paragraph (1) letter c is Rp2,500,000.00 (two million five hundred thousand rupiah) becomes a reducing factor in RWA calculation for Credit Risk.

Article 21

Self-explanatory.

Article 22

Paragraph (1)

Letter a

Repurchase of Common Equity Tier 1 capital, Additional Tier 1 capital, or Tier 2 capital instruments that have been acknowledged as Bank capital components become the deduction factor in each relevant capital component.

Example 1:

Repurchase of capital instruments that have to be deducted from the Common Equity Tier 1 capital includes among others repurchase of capital instruments that have been issued by Bank, directly as well as indirectly.

Example 2:

Repurchase of capital instruments that has to be deducted from the Additional Tier 1 capital includes among others execution of the call option.

Letter b

Placement of fund in debt instrument that has been acknowledged as capital component by another Bank shall be a capital deduction factor for the Bank that makes the fund placement on the capital component of the same or better quality.

Example 1:

Bank A has a Tier 2 capital component amounting to Rp100,000,000,000.00 (one hundred billion rupiah).

Bank A purchases subordinated bond issued by Bank B, which is Bank B's Tier 2 capital component amounting to Rp 20.000.000.000,00 (twenty billion Rupiah).

In this condition, Bank A's Tier 2 capital is deducted by the subordinated bond purchased by Bank A from Bank B, namely:

Rp100,000,000,000.00 - Rp20, ,000,000.00 =

Rp80,000,000,000.00

The Rp80,000,000,000.00 (eighty billion rupiah) is then acknowledged as Tier 2 capital by taking into consideration the allowed limit of the Tier 2 capital.

<u>Example 2</u>:

Bank A has a Tier 2 capital component amounting to Rp10,000,000,000.00 (ten billion rupiah) and Common Equity Tier 1 capital amounting to Rp100,000,000,000.00 (one hundred billion rupiah).

Bank A purchases subordinated bond issued by Bank B, which is Bank B's Tier 2 capital component amounting to Rp 20.000.000.000,00 (twenty billion Rupiah).

In this condition, Bank A's Tier 2 capital is deducted by the subordinated bond purchased by Bank A from Bank B, namely:

Rp10,000,000,000.00 - Rp20,000,000,000.00 = (Rp10,000,000,000.00)

The Rp10,000,000,000.00 (ten billion rupiah) is then deducted from Bank A's Common Equity Tier 1 capital.

<u>Example 3</u>:

Bank A only has Common Equity Tier 1 capital component amounting to Rp100,000,000,000.00 (one hundred billion rupiah) and does not have any other capital components.

Bank A purchases subordinated bond issued by Bank B, which is Bank B's Tier 2 capital component amounting to Rp 20.000.000.000,00 (twenty billion Rupiah).

In this condition, Bank A's Common Equity Tier 1 capital is deducted by the subordinated bond purchased by Bank A from Bank B, namely:

Rp100,000,000,000.00 - Rp20,000,000,000.00 = Rp80,000,000,000.00 (eighty billion rupiah)

Paragraph (2)

Self-explanatory

Article 23

Self-explanatory.

Article 24

Paragraph (1)

Self-explanatory

Paragraph (2)

"Bank's total liability" is total liability deducted by the entire inter-office liabilities (head office and other branch offices domiciling abroad).

Bank's total liability used as the basis for determining minimum CEMA is calculated based on the weekly average of Bank's liability in the relevant month.

Example:

Average total liability positions at the end of week I, week II, week III, and week IV are respectively Rp 10 trillion, Rp 15 trillion, Rp 10 trillion, and Rp 20 trillion. Therefore, average total liability = ((Rp 10 trillion + Rp 15 trillion + Rp 10 trillion + Rp 20 trillion) : 4) = Rp 13.75 trillion

The calculation of CEMA based on average total liability is 8% x Rp13.75 trillion = Rp 1.1 trillion.

As such, minimum CEMA that should be maintained is the highest between

Rp 1 trillion and Rp 1.1 trillion, namely Rp 1.1 trillion.

Paragraph (3)

Self-explanatory

Article 25

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

Self-explanatory

Paragraph (4)

Example:

Minimum CEMA for the position of March 20xx is Rp 1.1 trillion should be placed on financial instruments that meet the requirements at the latest on 6 April 20xx.

Article 26

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

Letter a

Examples of securities issued by the Republic of Indonesia Government among others cover:

1. Surat Utang Negara/SUN (Conventional Government Securities) as referred to in the legislation concerning Surat Utang Negara/ SUN; and
2. Surat Berharga Syariah Negara/SBSN (Islamic Government Securities) as referred to in the legislation concerning Surat Berharga Syariah Negara

These securities issued by the Government of the Republic of Indonesia that are intended to be owned until maturity are:

1. Securities that are categorized as “hold to maturity”; or
2. Securities categorized as “available-for-sale” supported by Bank’s commitment:
   - to own the said securities until maturity; and
   - to use the said securities only for anticipating the impact of problems in the global economy and financial system that disrupt branch offices in Indonesia, and/or the financial system and banking system stability in Indonesia,

   which are incorporated in a statement.

Letter b

Number 1

“non-equity” means that the marketable securities are not taken into account as capital component by the issuing Bank.

Number 2

The meaning of “has of investment rating” is as provided in the stipulation concerning rating institutions and ratings that are acknowledged by the Financial Services Authority.

Number 3

Self-explanatory.

Letter c

Self-explanatory.

Paragraph (4)

Being free from claims means being free from claims, law suits, acknowledgement, being under the power of another party, as well as not being guaranteed to other parties or confiscated by an authorized party.

Example:

Financial assets used as CEMA cannot be used in a repurchase agreement (repo) to other parties.Being free of claims is proven among others by a statement from the foreign bank branches.

Paragraph (5)

“Book values of financial assets” are the financial assets’ values in the balance sheet after being deducted by Allowance for Impairment Losses (CKPN)

Article 27

Self-explanatory.

Article 28

Self-explanatory.

Article 29

Self-explanatory.

Article 30

The treatment for the acknowledgement and measurement shall refer to the prevailing financial accounting standard concerning financial instruments.

Article 31

Self-explanatory.

Article 32

Example 1:

Before conducting a merger or consolidation, Bank A and Bank B do not meet the criteria for taking into account Market Risk. During 6 (six) months after the merger or consolidation is declared effective, on the first, third and fourth months the Bank resulting from the merger or consolidation meets the criteria for taking into account Market Risk.

As such, the Bank resulting from the merger or consolidation is obliged to take into account Market Risk starting from the seventh month.

Example 2:

Bank A does not meet the criteria for taking into account Market Risk. Then, Bank A acquires the financial company X, so Bank A undertakes a consolidation with company X. For 6 (six) months after the acquisition of company X is declared effective, on the second, fourth and sixth months, the Bank that consolidates with company X meets the criteria for taking into account Market Risk.

As such, Bank in consolidation with Subsidiary Company X is obliged to take into account Market Risk starting in the seventh month.

Article 33

Self-explanatory.

Article 34

Self-explanatory.

Article 35

Self-explanatory.

Article 36

Paragraph (1)

Letter a

"Interest rate risk" means the risk of loss due to a change in the price of the financial instrument from Trading Book position caused by a change in interest rate.

Letter b

"Exchange rate risk" means the risk of loss due to a change in the value of position in Trading Book and Banking Book caused by a change in foreign currency exchange rate including a change in the price of gold.

Paragraph (2)

"Equity risk" is the risk of loss due to a change in the price of the financial instrument from Trading Book position caused by a change in the share price.

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

Article 37

Paragraph (1)

Self-explanatory.

Paragraph (2)

The valuation policy and procedure among others cover clear determination of responsibility from various parties involved in the valuation determination, source of market information, and review process of the feasibility of the valuation, frequency of the valuation (daily), determination of time for end of day valuation (closing price), procedure for implementation and submission of verification result, periodically as well as incidentally, as well as procedure for valuation adjustment.

Management information system and control of the valuation process at least shall cover documentation of valuation policy and procedure that have been determined as well as clear reporting lines for working units responsible for the valuation and verification processes.

Paragraph (3)

The valuation policy and procedure that are based on the prudential principles among others conduct valuations by observing the implementation of risk management aspects and fair valuation procedure.

Article 38

Paragraph (1)

"Fair value" is a value at which an asset can be exchanged or an obligation can be settled between parties who have the understanding and desire to conduct transaction fairly (arm's length transaction).

This definition is in accordance with the prevailing financial accounting standard.

Paragraph (2)

"Financial instruments are actively traded" when the prices of the financial instruments are available at any time and can be obtained routinely at the bourse, security dealers, security brokers, or other agents, and the prices are from actual transactions conducted at arm's length basis.

Transaction prices that occur or quoted market prices from independent sources among others cover the exchange prices at the bourse, prices displayed on the dealers' screens (screen prices), or the most conservative quotations given by at least 2 (two) brokers and/or market makers with good reputation, at least one of which is an independent party.

The use of independent sources is done consistently except when the prices obtained do not show fair values.

Paragraph (3)

Letter a

"Bid price" is the purchase price quoted by an independent source.

Letter b

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

Paragraph (4)

When conducting fair value valuations, Banks shall maximize the use of data showing actual market prices (observable input) and minimize the use of data that is not the actual market price or a data that is determined using a particular model/technique (unobservable). Assessment models or techniques include among others:

a. the use of prices arising from transactions occuring in the past 10 (ten) working days;
b. the use of market price from another instrument that has similar characteristics (at least the tenure, interest/coupon rate, rating, and issuer group)
c. analysis of discounted cash flow
d. option pricing model; or
e. assessment model/technique that is generally used by market players in determining the instrument price

The application of prudential principles in using the assessment model/technique, among others, pays attention to:

a. the segregation of duties and competencies of the parties involved in the development and use of the model;
b. ensuring the undertaking of review on the accuracy of the assessment model or technique by an independent function;
c. the procedure and documentation of the development and changes of the assessment model or technique;
d. the knowledhe of the Board of Directors of a Bank to understand the valuation position of the Trading Book or other fair value positions that is calculated using a model and also understand uncertainty;
e. the data that is used in calculating fair value is the actual market rate and has to be researched periodically;
f. an appraisal methodology that is accepted widely for certain products should be used wherever possible;
g. a model that is developed shall use correct assumptions and Banks shall have an outline of the model that is used to verify

the valuation results periodically; and

h. the knowledge of the risk management work unit in acknowledging the limitations of the model that is used in the valuation of fair fair value.

Article 39

Paragraph (1)

Verification is conducted to ensure the accuracy of preparation of profit- loss statement.

Verification of the process and result of valuation is at least conducted on the reasonableness of the market price and the information used as the input in the assessment model/technique.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Adjustment is carried out on the value of financial instrument in the balance sheet and the profit-loss statement.

Article 40

The adjustment to valuation result is conducted based on the daily monitoring as well as the verification result by the parties that do not participate in the execution of the valuation.

For example, valuation which does not yet reflect reasonable value can occur in the valuation using the assessment model/technique.

Letter a

"Significant changes in the economic condition" are among other the significant change of the yield curve beyond market expectation.

Letter b

Self-explanatory.

Letter c

The factor of remaining time period up to maturity is taken into account, considering that the closer to due date, the closer the value of the financial instrument to the nominal value.

Letter d

Other conditions include among others:

1. the possibility of potential loss arising because the counterparty is unable to meet its obligation (unearned credit spreads).
2. the possibility of cost or penalty calculation arising because of early termination.
3. the possibility of cash-flow mismatch which causes the price to be influenced by calculation of cost for borrowing and investing fund (investing and funding costs).
4. The possibility of the occurrence of a certain condition which causes uncertainty on the valuation model, for example the inability to capture changes in an abnormal condition

Article 41

Paragraph (1)

"Certain factors" include among others the average and volatility of trading volume, the average volatility from the range of supply and demand quotations (bid/ask spreads), and the availability of market quotes.

Paragraph (2)

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

Article 42

Self-explanatory.

Article 43

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Active oversight by the Board of Commissioners and Board of Directors among others includes understanding the nature and level of risks that face the Bank, assessing the adequacy of risk management quality, and relating the level of risks with the adequacy of capital owned by Bank.

Letter b

Assessment of capital adequacy includes among others the process of relating risk level with capital adequacy level of the Bank by taking into consideration the strategy and business plan of the Bank.

Letter c

Monitoring and reporting includes among others the monitoring and reporting system of risk exposure, as well as the impact of risk profile changes on capital needs of the Bank.

Letter d

Internal control includes among others the adequacy of internal control and review.

Review is conducted by an internal party in the Bank that has adequate competency and is independent to the process of capital adequacy determination.

Paragraph (3)

Self-explanatory.

Article 44

Self-explanatory.

Article 45

Self-explanatory.

Article 46

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

“Limitation on capital distribution” includes among others limitation or postponement on payment of bonuses and/or dividends.

Article 47

Paragraph (1)

Self-explanatory.

Paragraph (2)

Report on minimum capital adequacy requirement by taking into account Market Risk includes among others report on position calculated in the Market Risk, report on the calculation of minimum capital adequacy requirement ratio, report on the calculation of value at risk and capital burden, back testing report, as well as stress testing report.

Paragraph (3)

Self-explanatory.

Article 48

Paragraph (1)

The risk profile is based on result of Bank's self assessment.

Report on calculation of inimum capital adequacy requirement in accordance with the risk profile includes among others:

1. strategy for capital management;
2. identification and measurement of material risks; and
3. assessment of capital adequacy;

Paragraph (2)

The submission and deadline for submission of result of self assessment of Bank's Soundness Rating shall refer to a stipulation concerning assessment of soundness rating of commercial banks.

Article 49

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

“Book value” means the value of financial asset in the balance sheet after being deducted with Allowance for Impairment Losses (CKPN).

Letter e

Self-explanatory.

Article 50

Paragraph (1)

Self-explanatory.

Paragraph (2)

A “Public Holiday” means a national holiday that is set by the central government and/or a local holiday that is set by the regional government.

Article 51

Self-explanatory.

Article 52

Self-explanatory.

Article 53

“Significant amount” means it is significant against total financial asset in the available-for-sale category.

Article 54

Self-explanatory.

Article 55

Self-explanatory.

Article 56

Self-explanatory.

Article 57

Self-explanatory.

Article 58

Self-explanatory.

Article 59

Self-explanatory.

Article 60

Self-explanatory.

Article 61

Self-explanatory.

Article 62

Self-explanatory.

Article 63

Self-explanatory.

Article 64

Self-explanatory.

Article 65

Self-explanatory.

Article 66

Self-explanatory.

Article 67

Self-explanatory.

SUPPLEMENT TO STATE GAZETTE OF REPUBLIC OF INDONESIA NUMBER