

BANK INDONESIA REGULATION

NUMBER: 13/13/PBI/2011

CONCERNING

ASSET QUALITY RATING

FOR ISLAMIC COMMERCIAL BANKS AND ISLAMIC BUSINESS UNITS

BY THE GRACE OF THE ALMIGHTY GOD

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas the sustainability of a bank depends on the ability of the bank to make investment by taking into account the prudential principles and Sharia principles;
 - b. whereas the assessment of asset quality in the context of provision of allowance for loan losses is one form of risk management that aims to ensure that the bank can absorb the expected losses;
 - c. whereas by the enactment of laws on Islamic banking and the harmonization with other relevant provisions, it is necessary to make adjustment of provisions pertaining to the assessment of asset quality and the provision of allowance for asset losses;
 - d. whereas based on the considerations as referred to in letter a, b, and c, it is necessary to revise the provisions pertaining to asset quality for Islamic Commercial Banks and Islamic Business Units in a Bank Indonesia Regulation;

- In view of:
1. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended several times and most recently amended by Act Number 6 of 2009 concerning the Stipulation of Government Regulation in Lieu of Act Number 2 of 2008 concerning the Second Amendment to Act Number 23 of 1999 concerning Bank Indonesia into Act (State Gazette of the Republic of Indonesia Number 7 of 2009, Supplement to the State Gazette of the Republic of Indonesia Number 4962);
 2. Act Number 21 of 2008 concerning Islamic Banking (State Gazette of the Republic of Indonesia Number 94 of 2008 , Supplement to State Gazette of the Republic of Indonesia Number 4867);

HAS DECREED

To enact : BANK INDONESIA REGULATION CONCERNING ASSET QUALITY RATING FOR ISLAMIC COMMERCIAL BANKS AND ISLAMIC BUSINESS UNITS.

CHAPTER I

GENERAL PROVISIONS

Article 1

The terminology used in this Bank Indonesia Regulation has the following meaning:

1. Bank is an Islamic Commercial Bank and an Islamic Business Unit as defined in Act Number 21 of 2008 concerning Islamic Banking.
2. Islamic Rural Bank, hereinafter referred to as BPRS (*Bank Pembiayaan Rakyat Syariah*), is an Islamic Rural Bank as referred to in Act Number 21 of 2008 concerning Islamic Banking.
3. Earning Assets are placement of Bank both in rupiah and any foreign exchange in order to gain income, in the form of Financing, Islamic Securities, Islamic Certificate of Bank Indonesia, Capital Participation, Temporary Capital Participation, Interbank Placement, commitments and contingencies in the Off Balance Sheet Transactions, and other forms of provision of funds that are deemed equivalent with the abovementioned.
4. Financing is the provision of funds or receivables which are considered equal with that in the form of:
 - a. profit-sharing transactions in the form of *mudharabah* and *musyarakah*;
 - b. leasing transactions in the form of *ijarah* or lease-purchase in the form of *ijarah muntahiyah bittamlik*;
 - c. sale-purchase transactions in the form of *murabahah*, *salam* and *istishna'* receivables;
 - d. lending–borrowing transaction in the form of *qardh receivables*; and

e. lease service transactions in the form of *ijarah* for multiservices transactions

based on the agreement or arrangement between the Bank and another party that requires the party that is funded and / or provided with facilities to repay the funds after a specified period of time along with *ujrah*, without any yield, or profit-sharing.

5. Financing based on a *mudharabah* contract, hereinafter referred to as *Mudharabah* Financing, is Financing in the form of business cooperation between the Bank which provides all the capital and the customer that manages the fund by sharing the profits in accordance with the agreement which is set forth in the contract, while the loss is entirely borne by the Bank unless the customer commits a willful mistake, failure or breach of the agreement.
6. Financing based on a *musyarakah* contract, hereinafter referred to as *Musyarakah* Financing, is Financing in the form of cooperation between the Bank and the customer that has a certain business in which each party provides some portion of funds provided that the profits will be shared according to the agreement, while the losses are borne in proportion to each contribution of fund.
7. Financing based on a *murabahah* contract, hereinafter called *Murabahah* Financing, is the Financing of an item by conformation of its purchase price to the buyer and the buyer pays the price with an extra amount as a profit which is agreed upon.
8. Financing based on a *salam* contract, hereinafter referred to as *Salam* Financing, is the Financing of an item by way

of making order while the payment is made in advance under certain agreed conditions.

9. Financing based on a *istishna* contract, hereinafter referred to as *Istishna*' Financing, is the Financing of an item in the form of an order of production of a certain item under certain criteria and conditions which are agreed between the customer and the seller or the manufacturer of the item.
10. Financing based on an *ijarah* contract, hereinafter referred to in *Ijarah* Financing, is the Financing of the transfer of rights to use or benefits from goods or services based on a lease, without the transfer of ownership of the goods.
11. Financing based on an *ijarah muntahiya bittamlik* contract, hereinafter referred to as *Ijarah Muntahiya Bittamlik* Financing, is the Financing of the transfer of rights to use or benefits of the goods or services based on a lease transaction with an option of the transfer of ownership of the goods.
12. Financing based on a *qardh* contract, hereinafter referred to as *Qardh* Financing, is Financing in the form of loan granted to the customer provided that the customer repays the funds received at the agreed time.
13. Islamic Securities is a proof of investment based on the principles of Sharia commonly traded in the money market and / or capital market including Islamic bonds, Islamic certificates of mutual funds and other securities based on the principles of Sharia.
14. Islamic Certificate of Bank Indonesia, hereinafter referred to as SBIS, is a short-term securities in rupiah currency issued by Bank Indonesia.

15. Sharia Principle means the principle of Islamic law in banking activities based on a *fatwa* (guidance) which is issued by the institution that has the authority in the issuance of *fatwa* in the Islamic matters.
16. Capital Participation is the investment of the Bank's fund in the form of share ownership in a company which is engaged in Islamic finance, including investment of fund in the form of convertible bonds or certain types of transactions based on the Principles of Sharia after which the Bank holds or will hold shares in a company which is engaged in the field of Islamic finance.
17. Temporary Capital Participation is the capital participation by a Bank, which includes the purchase of shares and/or conversion of Financing into shares in the customer's company to overcome the failure in the distribution of funds and/or the receivables during a certain period of time as referred to in Bank Indonesia provisions.
18. Interbank Placement is an investment in Islamic Commercial Banks, Islamic Business Units and/or BPRS, in the form of, among other things, demand deposit (*giro*), savings, time deposit, Financing, and / or other forms of placement based on the Principles of Sharia.
19. Off Balance Sheet Transaction is the commitments and contingencies (off-balance sheet) based on the Principles of Sharia consisting of bank guarantees, acceptance/endorsement, irrevocable Letter of Credit (L/C) which is still valid, import drafts acceptance on the basis of time Letter of Credit, standby Letter of Credit and other guarantees based on the Principles of Sharia.

20. Projected Profit Sharing, hereinafter referred to as PBH, is an estimate of revenues which will be received by the Bank from the customers of *Mudharabah* Financing and *Musyarakah* Financing after calculating the profit sharing ratio, with the amount and due date as agreed between the Bank and the customer.
21. Realization of Profit Sharing, hereinafter referred to as RBH, means the revenue received by the Bank from the customers of the *Mudharabah* Financing and *Musyarakah* Financing after taking into account the profit sharing ratio.
22. Non-Earning Assets is the Bank's assets other than Earning Assets with potential losses, such as in the form of Foreclosed Collateral, Abandoned Property, and Inter-Office Account and Suspense Account.
23. Foreclosed Collateral hereinafter referred to as AYDA, is part or whole of collateral that the Bank purchases, either through an auction or other non-auction events, based on voluntary delivery of the collateral by the owner or by authorization to sell obtained from the owner of the collateral, with the obligation to liquidate it.
24. Inter-Office Account is an account receivable arising from inter-office transactions which have not been settled within a specified period of time.
25. Suspense Account is an account used to hold transactions which are not identified or are not supported by adequate documentation so that they cannot be classified in the proper accounts.
26. Allowance for Asset Losses hereinafter referred to as PPA is a reserve which should be established by a certain percentage based on the quality of the assets.

27. Independent Appraiser is Public Appraisal Services hereinafter referred to as KJPP that:
- a. has no connection in terms of ownership, management and finance with the Bank and the customer that receives the facility;
 - b. conducts an assessment based on professional code of ethics and other provisions as determined by the competent institution;
 - c. uses assessment methods based on professional assessment standards issued by the competent institution;
 - d. has a business license from the competent institution to operate as an appraisal company, and
 - e. is recorded as a member of an association recognized by the competent institution.
28. Micro, Small and Medium-sized Enterprises, hereinafter referred to as MSME, is MSME as defined in Act No. 20 of 2008 on Micro, Small, and Medium-sized Enterprises.
29. Capital Adequacy Ratio, hereinafter referred to as CAR, is CAR as stipulated in Bank Indonesia provisions concerning capital adequacy ratio.

CHAPTER II

ASSET QUALITY

Article 2

- (1) Investment and/or provision of funds by the Bank shall be carried out pursuant to the prudential principles and the Principles of Sharia.

- (2) The Bank shall assess, monitor and take some anticipatory measures in order to maintain the asset quality in the state of Current.

Article 3

The assessment of asset quality shall be conducted on Earning Assets and Non-Earning Assets.

Article 4

- (1) The Bank shall conduct assessment and classification of asset quality in accordance with this Bank Indonesia Regulation.
- (2) In the event of any discrepancy in terms of the result of the assessment of asset quality between the Bank and Bank Indonesia, the quality of assets which prevails is the one set by Bank Indonesia.
- (3) The Bank shall be required to adjust the quality of the assets in accordance with the assessment of quality determined by Bank Indonesia as referred to in paragraph (2) in reports which are submitted to Bank Indonesia and/or in a publication report as set forth in the applicable Bank Indonesia provisions, no later than the next reporting period upon notification from Bank Indonesia.

CHAPTER III

EARNING ASSETS

Part One

General

Article 5

- (1) The Bank shall classify into the same quality several accounts of Earning Assets used to fund one (1) customer at the same Bank.
- (2) The classification into the same quality as referred to in paragraph (1) shall also be applicable to Earning Assets in the form of provision of funds or receivables granted by more than 1 (one) Bank implemented in accordance with a collective and/or syndicated Financing agreement.
- (3) In the event that there is a different quality of Earning Assets as referred to in paragraph (1) and paragraph (2), the Bank shall classify the same quality each of the Earning Assets by adjusting it to the lowest quality of Earning Assets.
- (4) The provisions as referred to in paragraph (3) may be waived if the Earning Assets are classified by different assessment factors.

Article 6

The Bank shall be required to assess the quality of Earning Assets on a monthly basis.

Article 7

- (1) The investment of the Bank in the form of Earning Assets shall be supported with complete documents and provision of sufficient information.
- (2) Bank Indonesia shall have the right to downgrade the quality of the Earning Assets which have been classified by the Bank as Current and Special Mention to be Substandard as the highest quality, in the event the

investment documents do not fund provide sufficient information to support the classification in question.

Part Two

Financing

Article 8

- (1) The assessment of quality of Earning Assets in the form of Financing shall be carried out based on the following factors:
 - a. business prospects;
 - b. the customers' performance, and
 - c. the ability to pay.
- (2) The Earning Assets in form of Financing shall be classified into Current, Special Mention, Sub-standard, Doubtful, and Loss.

Article 9

- (1) The assessment of business prospects as referred to in Article 8 paragraph (1) letter a shall include the assessment of the following components:
 - a. potential for business growth;
 - b. market conditions and the position of the customers in the competition;
 - c. the quality of management and workforce issues;
 - d. support from groups or affiliations, and
 - e. efforts of the customers in order to preserve the environment.
- (2) The assessment of the performance of the customer as referred to in Article 8 paragraph (1) letter b shall include the assessment of the following components:

- a. profits;
 - b. capital structure;
 - c. cash flow; and
 - d. sensitivity to market risks.
- (3) The assessment of the ability to pay as referred to in Article 8 paragraph (1) letter c shall include the assessment of the following components:
- a. timely payment of principal and margin/profit sharing/fee;
 - b. availability and accuracy of the customer's financial information;
 - c. complete Financing documents;
 - d. compliance with Financing agreements;
 - e. suitability of the use of funds, and
 - f. reasonableness of the sources of payment of obligations.

Article 10

- (1) The classification of quality of Earning Assets in the form of Financing shall be carried out by analyzing the assessment factors as referred to in Article 8 by considering the components referred to in Article 9.
- (2) The classification of quality of Earning Assets in the form of Financing as referred to in paragraph (1) shall take into account:
 - a. the significance and materiality of each assessment factor and component; and
 - b. the relevance of the assessment factors and components to the customer concerned.

Article 11

- (1) The Bank shall have internal provisions which set forth the criteria and requirements of the customer of Financing that is required to submit the financial statements which have been audited by public accountant, including provisions on the deadline for submission of the statements.
- (2) The obligation of the customer to submit financial statements as referred to in paragraph (1) shall be included in the agreement between the Bank and the customer.
- (3) The internal provisions as referred to in paragraph (1) shall comply with the applicable laws and regulations.
- (4) The quality of Earning Assets in the form of Financing granted to a customer that does not submit the financial statements as referred to in paragraph (1) shall be downgraded one level and the highest quality achievable shall be Sub-standard.

Article 12

- (1) The assessment of the quality of Earning Assets in the form of *Mudharabah* Financing and *Musyarakah* Financing shall be conducted based on the ability to pay with reference to the ratio of RBH to PBH and/or the timely payment of principal.
- (2) The calculation of the ratio of RBH to PBH as referred to in paragraph (1) shall be made based on the accumulation during the current period of *Mudharabah* Financing and *Musyarakah* Financing.
- (3) PBH shall be calculated based on the business feasibility analysis and cash inflow of the customer during the

period of *Mudharabah* Financing and *Musyarakah* Financing.

- (4) The Bank may change PBH upon agreement with the customer in the event that there are changes in the condition of the macroeconomy, markets, and politic which affect the customer's business.
- (5) The Bank shall include PBH and the changes in PBH in the *Mudharabah* Financing and *Musyarakah* Financing agreement between the Bank and the customer.

Article 13

- (1) In *Mudharabah* Financing, the Bank shall not have the obligation to determine the scheduled payments of principal by the Customer.
- (2) The Bank shall take some measures to reduce the risk of nonpayment of principal on its due date in the event that in the *Mudharabah* Financing it has been agreed that there shall be no regular payments of the principal
- (3) For *Musyarakah* Financing which is effective for more than 1 (one) year, the Bank shall establish regular payments of principal in accordance with the projected cash inflow in the customer's business.
- (4) The payment of installment or full payment of principal of *Mudharabah* Financing and *Musyarakah* Financing shall be included in the Financing agreement between the Bank and the customer.

Article 14

- (1) The assessment of the quality of Earning Assets in the form Financing and other forms of provision of funds may

only be based on the assessment factor, namely the ability to pay for:

- a. Financing and other forms of provision of funds provided by each Bank to 1 (one) customer or 1 (one) project with a maximum amount of Rp1,000,000,000.00 (one billion rupiah);
 - b. Financing and other forms of provision of funds provided by each Bank to the customer of every MSME in the amount of:
 - 1) from Rp1,000,000,000.00 (one billion rupiah) to Rp20,000,000,000.00 (twenty billion rupiah) for any Bank that meets the following criteria:
 - i. rated “strong” in terms of adequacy of risk control systems for credit risks;
 - ii. rated at least 3 (three) for its composite rating for the level of soundness; and
 - iii. has a minimum CAR equal to the one prescribed in the applicable regulations.
 - 2) from Rp1,000,000,000.00 (one billion rupiahs) until 10,000,000,000.00 (ten billion rupiah) for a Bank that meets the following criteria:
 - i. rated “acceptable” in terms of adequacy of risk control systems for credit risks;
 - ii. rated at least 3 (three) for its composite rating for the level of soundness, and
 - iii. has a minimum CAR equal to the one prescribed in the applicable regulations;
- (2) To the assessment of the quality of Earning Assets in the form of Financing and other forms of provision of fund as referred to in paragraph (1) letter b on Islamic Business Unit and the following provisions shall be applicable:

- a. the rating in the assessment of the adequacy of the risk control system for credit risks shall refer to the adequacy of the risk control system of the Islamic Business Unit, and
 - b. the composite ranking for the level of soundness and CAR shall refer to the composite rating of the level of soundness and CAR of its parent bank.
- (3) The provisions as referred to in paragraph (1) letter b shall not apply to Financing and other forms of provision of funds granted to 1 (one) MSME customer in the amount greater than Rp1,000,000,000.00 (one billion rupiah), which is:
- a. Financing which is restructured; and / or
 - b. The provision of funds for 50 (fifty) largest customers of the Bank.
- (4) In the event of significant deviation from the principle of sound financing, the assessment of quality of Earning Assets in the form of Financing and other forms of provision of funds provided by the Bank to the MSME customer as referred to in paragraph (1) letter b shall be based on assessment factors as referred to in Article 8 paragraph (1).

Article 15

- (1) The rating in the assessment of adequacy of risk control system for credit risks, the composite rating of the level of soundness, and the CAR used in the assessment of the quality of Earning Assets in Financing and other forms of provision of funds as referred to in Article 14 paragraph (1) letter b shall be based on Bank Indonesia which is notified to the Bank in each semester.

- (2) The use of rating in the assessment of adequacy of risk control system for credit risks, the composite rating of Bank's level of soundness, and the CAR used in the assessment of the quality of Earning Assets in the form of Financing and other forms of provision of funds as referred to in Article 14 paragraph (1) shall be as follows:
- a. the assessment of the quality of Earning Assets in the form of Financing and other forms of provision of funds in January to June uses the rating of the assessment of the adequacy of risk control system for credit risks, the composite rating of the level of soundness, and the CAR of the Bank at the latest in position in September of the previous year, and
 - b. the assessment of the quality of Earning Assets in the form of Financing and other forms of provision of funds from July to December uses the rating of the assessment the adequacy of risk control system for credit risks, the composite rating of the level of soundness, and the CAR of the Bank at the latest in position in March of the same year.

Part Three

Islamic Securities

Article 16

The Bank shall have written policies and procedures for Earning Assets in the form of Islamic Securities, as follows:

- a. the policy on Earning Assets in the form of Islamic Securities shall be approved by the Board of Commissioners;

- b. procedures for Earning Assets in the form of Islamic Securities shall at least be approved by the Board of Directors;
- c. the Board of Commissioners shall actively supervise the implementation of the policy on Earning Assets in the form of Islamic Securities, and
- d. policy and procedures for Earning Assets in the form of Islamic Securities are an integral part of the Bank's risk management policies as stipulated in the applicable Bank Indonesia regulations.

Article 17

- (1) The Bank may invest in Islamic Securities.
- (2) Islamic Securities as referred to in paragraph (1) may be traded throughout in accordance with the Principles of Sharia.

Article 18

- (1) The quality of Earning Assets in the form of Islamic Securities which are recognized at the market value shall be classified as Current provided that they meet the following requirements:
 - a. actively traded in the stock exchange in Indonesia;
 - b. information on the market value is available in a transparent manner;
 - c. the yield has been received in the right amount and the right time, according to the agreement, and
 - d. it has not yet matured.
- (2) The quality of Earning Assets in the form of Islamic Securities which are recognized based on the acquisition

cost or recognized based on the market value but not actively traded in the stock exchange in Indonesia and/or transparent information about the market value of which is not available shall be classified as follows:

a. Current, if:

- 1) it has an investment grade or a higher one as issued by a rating agency recognized by Bank Indonesia and issued within the past year;
- 2) the yield has been received in the right amount and the right time, according to the agreement, and
- 3) it has not yet matured;

b. Sub-standard, if:

- 1) it has an investment grade or a higher one issued by a rating agency recognized by Bank Indonesia and issued within the past year;
- 2) there is a delay in the payment of the regular profit sharing/margin/fee or other similar obligations, and
- 3) it has not yet matured;

or

- 1) has a grade at least 1 (one) level below the investment grade issued by the rating agency as recognized by Bank Indonesia and issued within the past year;
- 2) there is no delay in the payment of regular profit sharing/margin/fee or other similar obligations, and
- 3) it has not yet matured;

c. Loss, in the event that the Islamic Securities does not meet the criteria referred to in letter a and letter b.

- (3) The quality of Earning Assets in the form of Islamic Securities other than Islamic Securities as described in paragraph (1) and paragraph (2), issued by the customer shall be consistent with the quality of Earning Assets in the form of Financing as referred to in Article 8.

Article 19

- (1) The Bank is prohibited from having Earning Assets in the form of shares and/or Islamic Securities which are connected with or guaranteed by underlying reference assets in the form of shares.
- (2) The Bank may only have Islamic Securities which are connected with or guaranteed by underlying reference assets provided that:
 - a. The accuracy of the underlying assets is assured;
 - b. The Bank has the right over the underlying assets or rights over the value of the underlying assets;
 - c. The Bank has clear information, precise, and accurate information on the details of the underlying asset, which includes the issuer and the value of each underlying asset, including any changes thereto, and
 - d. The Bank carries out the administration of the details of the composition and the issuer of the underlying assets as well as adjusting the administration in the event of changes in the composition of assets.

Article 20

- (1) The assessment of the quality of Earning Assets in the form of Islamic Securities which are connected with or guaranteed by underlying reference assets as referred to in Article 19, for which the payment of the obligation is directly related to the underlying assets (*pass through*), which may be redeemed and may not be redeemed by the issuer, shall be based on:
 - a. The quality of Earning Assets in the form of Islamic Securities as referred to in Article 18 paragraph (2),
or
 - b. The quality of the underlying asset if the Islamic Securities does not have a grade.
- (2) The assessment of the quality of Earning Assets in the form of Islamic Securities in the form of mutual fund certificate shall be based on:
 - a. the quality of Earning Assets in the form of Islamic Securities as referred to in Article 18 paragraph (2);
or
 - b. the quality of the underlying assets of the mutual fund certificate and the quality of the issuer of the mutual fund certificate, if the mutual fund certificate does not have a grade.

Article 21

The quality of Earning Assets in the form of Islamic Securities issued or endorsed by another Bank shall be classified as follows:

- a. Islamic Securities which have a grade and/or are actively traded in the stock exchange in Indonesia shall be determined by the lowest quality between:

- 1) the result of the assessment pursuant to applicable provisions on the quality of Earning Assets in the form of Islamic Securities, or
 - 2) the result of the assessment pursuant to provisions on the quality of Earning Assets in the form Placement with Other Banks.
- b. Islamic Securities which based on their characteristics are not actively traded in the stock exchange in Indonesia and do not have a grade shall be classified based on the quality of Earning Assets in the form Placement with Other Banks.

Article 22

The quality of Earning Assets in the form of SBIS and Islamic Securities and/or receivables issued by the Government of Indonesia based on the Principles of Sharia shall be classified as Current.

Part Four

Capital Participation

Article 23

- (1) Capital Participation in which the portion of the Bank is lower than 20% (twenty percent) shall be recorded using the cost method and classified as follows:
 - a. Current, if based on the audited financial statements of the last financial year, the company in which the Bank places its investment makes profits and does not suffer cumulative losses;

- b. Sub-standard, if based on the audited financial statements of the last financial year, the company in which the Bank places its investment suffers losses up to 25% (twenty five percent) of the capital of the company;
 - c. Doubtful, if based on the audited financial statements of the last financial year, the company in which the Bank places its investment suffers losses more than 25% (twenty five percent) up to 50% (fifty percent) of the capital of the company, or
 - d. Loss, if based on the audited financial statements of the last financial year, the company in which the Bank places its investment suffers losses more than 50 % (fifty percent) of the capital of the company;
- (2) Capital Participation in which the portion of the Bank is more than 20% (twenty percent) shall be recorded using the equity method and classified as Current.
- (3) In Capital Participation, the Bank shall also be subject to Bank Indonesia Regulations which govern the prudential principles on the capital participation, and the applicable *fatwa* issued by National Sharia Board of Indonesian Ulema Council.

Article 24

- (1) The quality of Earning Assets in the form of Temporary Capital Participation shall be assessed based on the duration of participation which has been determined as set forth in this Bank Indonesia Regulation.
- (2) The quality of Earning Assets in the form of Temporary Capital Participation shall be classified as follows:
- a. Current, if it does not exceed 1 (one) year;

- b. Sub-standard, if it exceeds 1 (one) year but it does not exceed 4 (four) years;
 - c. Doubtful, if it already exceeds (four) years but it does not exceed 5 (five) years, or
 - d. Loss, if it exceeds 5 (five) years or it has not been withdrawn although the customer's company has acquired cumulative profits.
- (3) Bank Indonesia shall have the authority to downgrade the quality of Temporary Capital Participation as referred to in paragraph (2) if there is sufficient evidence that:
- a. the Temporary Capital Participation is expected to be sold at a lower price than the book value; and / or
 - b. the sale of the Temporary Capital Participation is expected to be difficult to do within a period of 5 (five) years.
- (4) Concerning Temporary Capital Participation, the Bank shall also be subject to Bank Indonesia regulations governing the prudential principle in capital participation and the applicable *fatwa* issued by the National Sharia Board of the Indonesia Ulema Council.

Part Five

Interbank Placement

Article 25

The Bank shall have written policies and procedures regarding Earning Assets in the form of Interbank Placement, provided that:

- a. the policy on the placement shall be approved by the Board of Commissioners;

- b. the procedure for placement shall be approved at least by the Board of Directors;
- c. the Board of Commissioners shall actively supervise the implementation of policy on placement, and
- d. placement policy and procedure are the integral part of the Bank's risk management policy as stipulated in Bank Indonesia regulations.

Article 26

- (1) The quality of Earning Assets in the form of Interbank Placement shall be classified as follows:
 - a. Current, if:
 - 1) the bank that receives placement has CAR at least equal to the one prescribed by the applicable regulations, and
 - 2) Interbank Placement meets the following conditions:
 - i. there are no arrears in the payment of principal for a *qardh* contract;
 - ii. it may be withdrawn at any time for demand deposits and savings based on a *wadiah* contract;
 - iii. there are no arrears in the payment of investment and/or for profit sharing for savings or time deposits based on a *mudharabah* contract;
 - iv. there are no arrears in the payment of principal of investment and/or the ratio of PBH to RBH is greater than or equal to 80% (eighty percent) for *Mudharabah* Financing and *Musyarakah* Financing; or

- v. there are no arrears in the payment of principal and/or margin for *Murabahah* Financing.
- b. Sub-standard, if:
 - 1) the bank that receives placement has the CAR at least equal to the one prescribed by the applicable regulations, and
 - 2) Interbank Placement meets the following conditions:
 - i. there are arrears in the payment of principal for up to 5 (five) business days for a *qardh* contract;
 - ii. it may not be withdrawn for up to 5 (five) business days for demand deposits and savings based on a *wadiah* contract;
 - iii. there are arrears in the payment of investment and/or profit sharing for up to 5 (five) business days for savings or time deposits based on a *mudharabah* contract;
 - iv. there are arrears in the payment of principal of investment for up to 5 (five) business days and/or the ratio of RBH to PBH is more than 30% (thirty percent) but less than 80% (eighty percent), or the ratio of RBH to PBH is less than 30% (thirty percent) for up to 3 (three) payment periods for *Mudharabah* Financing and *Musyarakah* Financing, or
 - v. there are arrears of payment of principal and/or margin for up to 5 (five) business days for *Murabahah* Financing.

- c. Loss, if:
- 1) the bank that receives placement has lower CAR than the one prescribed by the applicable regulations; and
 - 2) the bank that receives placement has been placed under special supervision, suspension of all business activities has been imposed on the bank, or its business license has been revoked; and / or
 - 3) Interbank Placement meets the following conditions:
 - i. there are arrears in the payment of principal for more than 5 (five) business days for a *qardh* contract;
 - ii. it may not be withdrawn for more than 5 (five) business days for demand deposits and savings based on a *wadiah* contract;
 - iii. there are arrears in the payment of investment and/or profit sharing for more than 5 (five) business days for savings or time deposits based on a *mudharabah* contract
 - iv. there are arrears in the payment of principal of investment for more than 5 (five) business days and/or the ratio of RBH to PBH is equal to or less than 30% (thirty percent) for more than 3 (three) payment periods for *Mudharabah* Financing and *Musyarakah* Financing, or

- v. there are arrears in the payment of principal and/or margin for more than 5 (five) business days for *Murabahah* Financing.
- (2) The quality of Earning Assets in the form of Placement with Other Banks in the form of Financing to a BPRS in the context of Linkage Program using the executing pattern shall be classified as follows:
- a. Current, if:
 - 1) the BPRS that receives placement has CAR at least equal to the one prescribed by the applicable regulations, and
 - 2) Interbank Placement with the BPRS meets the following conditions:
 - i. there are no arrears in the payment of principal for a *qardh* contract;
 - ii. it may be withdrawn at any time for savings based on a *wadiah* contract;
 - iii. there are no arrears in the payment of investment and / or profit sharing for savings or time deposits based on the *mudharabah* contract;
 - iv. there are no arrears in the payment of principal of investment and/or the ratio of the RBH to PBH is more than or equal to 80% (eighty percent) for *Mudharabah* Financing and *Musyarakah* Financing, or
 - v. there are no arrears in the payment of principal and/or margin for *Murabahah* Financing.
 - b. Sub-standard, if:

- 1) the BPRS that receives placement has lower CAR than the one prescribed by the applicable regulations, and
 - 2) placement with the BPRS meets the following conditions:
 - i. there are arrears in payment of principal for up to 30 (thirty) days for a *qardh* contract;
 - ii. it may not be withdrawn for up to 30 (thirty) days for savings based on a *wadiah* contract;
 - iii. there are arrears in payment of investment and / or profit sharing for up to 30 (thirty) days for savings or time deposits based on a *mudharabah* contract;
 - iv. there are arrears in the payment of principal of investment for up to 30 (thirty) days and / or the ratio of RBH to PBH is more than 30% (thirty percent) but less than 80% (eighty percent), or the ratio of the RBH to PBH is equal or more less than 30% (thirty percent) for up to 3 (three) payment periods for *Mudharabah* Financing and *Musyarakah* Financing, or
 - v. there are arrears in the payment of principal and/or margin for up to 30 (thirty) days for *Murabahah* Financing.
- c. Loss, if:
- 1) the BPRS that receives placement has CAR lower than the one prescribed by the applicable regulations, and

- 2) the BPRS that receives placement has been placed under special supervision, suspension of all business activities has been imposed on the bank, or its business license has been revoked; and/or
- 3) placement with the BPRS meets the following conditions:
 - i. There are arrears in the payment of principal of more than 30 (thirty) business days for a *qardh* contract;
 - ii. it may not be withdrawn for more than 30 (thirty) business days for savings based on a *wadiyah* contract;
 - iii. there are arrears in the payment of investment and/or profit sharing for more than 30 (thirty) business days for savings or time deposits based on a *mudharabah* contract;
 - iv. there are arrears in the payment of principal of investment for more than 30 (thirty) business days and/or the ratio of PBH to RBH is equal to or less than 30% (thirty percent) for more than 3 (three) payment periods for *Mudharabah* Financing and *Musyarakah* Financing; or
 - v. there are arrears in the payment of principal and/or margin for more than 30 (thirty) business days for *Murabahah* Financing.

Article 27

The quality of acceptance receivables shall be classified as follows:

- a. in accordance with the quality of Earning Assets in the form of Interbank Placement as referred to in Article 26 in the event that the party that is required to settle the receivables is another bank, or
- b. in accordance with the quality of Earning Assets in the form of Financing as referred to in Article 8 in the event that the party that is required to settle the receivables is a customer.

Part Six

Off Balance Sheet Transactions

Article 28

The quality of Earning Assets in the form of Off Balance Transaction shall be classified as follows:

- a. in accordance with the quality of Earning Assets in the form of Interbank Placement as referred to in Article 26 in the event that the opposite party to the Off Balance Sheet Transaction is another bank, or
- b. in accordance with the quality of Earning Assets in the form of Financing as referred to in Article 8 in the event that the opposite party in the Off Balance Sheet Transaction is a customer.

Article 29

- (1) The quality of Earning Assets in the form of Off Balance Sheet Transaction as referred to in Article 28 shall not apply to contingent liabilities and commitments which:

- a. may be unconditionally canceled at any time by the Bank, or
 - b. are canceled automatically by the bank in the event the customer's condition is downgraded to Substandard, Doubtful, or Loss.
- (2) The Bank which has contingent liabilities and commitments as referred to in paragraph (1) shall include the provisions as referred to in paragraph (1) letter a or letter b into the agreement between the Bank and the customer.

CHAPTER IV

NON EARNING ASSETS

Part One

General

Article 30

The Bank shall assess the quality of non-earning assets on a monthly basis.

Part Two

Foreclosed Collateral

Article 31

The Bank shall have written policies and procedures for Non-Earning Assets in the form of Foreclosed Collateral.

Article 32

- (1) The Bank may repossess collateral for the settlement of Financing.

- (2) The repossession of collateral as referred to in paragraph (1) may only be executed against the customer of Financing which is classified as Loss.

Article 33

- (1) The Bank shall assess the Foreclosed Collateral at the time of the repossession of collateral at its net realizable value.
- (2) The net realizable value as referred to in paragraph (1) shall be determined by an Independent Appraiser, for a Foreclosed Collateral which has the value of Rp5,000,000,000.00 (five billion rupiah) or more.
- (3) The maximum net realizable value shall be the amount of Financing which is settled by the Foreclosed Collateral.

Article 34

- (1) The Bank that repossess the collateral as referred to in Article 32 shall realize the Foreclosed Collateral not later than 1 (one) year from the date of repossession.
- (2) The Bank shall document the realization of the Foreclosed Collateral as referred to in paragraph (1).

Article 35

The quality of Non-Earning Assets in the form of Foreclosed Collateral shall be classified as follows:

- a. Current, in the event the Foreclosed Collateral is owned for up to 1 (one) year; or
- b. Loss, in the event the Foreclosed Collateral is owned for more than 1 (one) year.

Part Three

Abandoned Property

Article 36

- (1) The Bank shall conduct the identification and classification of the Abandoned Property it owns.
- (2) The determination of the Abandoned Property as referred to in paragraph (1) shall be approved by the Board of Directors and documented.
- (3) In the event that the major portion of the property is used for Bank's ordinary business activities, the remaining portion that is not used shall not be classified as the Abandoned Property.
- (4) In the event that a small portion of the property is used for the Bank's ordinary business activities, the remaining portion that is not used shall be classified as the Abandoned Property.

Article 37

- (1) The Bank shall make efforts to settle the Abandoned Property it owns.
- (2) The Bank shall document the settlement of the Abandoned Property as referred to in paragraph (1).

Article 38

- (1) The quality of Non-Earning Assets in the form of Abandoned Property shall be classified as follows:
 - a. Current, if the Abandoned Property is owned for up to 1 (one) year;

- b. Sub-standard, if the Abandoned Property is owned for 1 (one) year to 3 (three) years;
 - c. Doubtful, if the Abandoned Property is owned for 3 (three) years to 5 (five) years, or
 - d. Loss, if the Abandoned Property is owned for more than 5 (five) years.
- (2) The quality of the Abandoned Property that has not been settled as referred to in Article 37 shall be determined to be one level below the one prescribed in the provision as referred to in paragraph (1).

Part Four

Inter-office Accounts and Suspense Accounts

Article 39

- (1) The Bank shall make efforts to settle the Inter-office Accounts and the Suspense Accounts.
- (2) The quality of Earning Assets in the form of Inter-office Account and Suspense Account shall be classified as follows:
- a. Current, if the Inter-office Accounts and the Suspense Accounts are recorded in the books of the Bank for up to 6 (six) months, or
 - b. Loss, if the Inter-office Accounts and the Suspense Accounts are recorded in the books of the Bank for more than 6 (six) months.

CHAPTER V

ALLOWANCE FOR ASSET LOSSES

Part One

General

Article 40

- (1) The Bank shall establish Allowance for asset losses on Earning Assets and Non-Earning Assets.
- (2) The Allowance for Asset Losses as referred to in paragraph (1) shall be in the form of:
 - a. general and special reserves for Earning Assets, and
 - b. a special reserve for Non-Earning Assets.
- (3) The Allowance for Asset Losses as referred to in paragraph (1) shall be established at least as stipulated in this Bank Indonesia Regulation.

Part Two

Procedure for Establishment

Article 41

- (1) The establishment of a general reserve for Allowance for Asset Losses as referred to in Article 40 paragraph (2) letter shall be determined to be at least 1% (one percent) of all of Earning Assets which are classified as Sub-standard.
- (2) The establishment of a general reserve for Allowance for Asset Losses as referred to in paragraph (1) shall not apply to Earning Assets in the form of SBIS, Islamic Securities issued by the Government of Indonesia, and portion of Earning Assets guaranteed by the guarantee of the Government of Indonesia, or cash collateral as referred to in Article 43 letters a and b.
- (3) The establishment of a special reserve for Allowance for Asset Losses as referred to in Article 40 paragraph (2) shall be determined to be at least:

- a. 5% (five percent) of the Earning Assets which are classified as Special Mention after deducting the value of the collateral;
 - b. 15% (fifteen percent) of the Earning Assets and Non-Earning Assets which are be classified as Substandard after deducting the value of the collateral;
 - c. 50% (fifty percent) of the Earning Assets and Non-Earning Assets which are classified as Doubtful after deducting the value of the collateral, or
 - d. 100% (one hundred percent) of the Earning Assets and Non-Earning Assets which are classified as Loss after deducting the value of the collateral.
- (4) The obligation to establish a special reserve for Allowance for Asset Losses as referred to in paragraph (1) and paragraph (3) shall not apply to Earning Assets in the form of *Ijarah* Financing or *Ijarah Muntahiya Bittamlik* Financing.
- (5) The Bank shall establish depreciation or amortization of Earning Assets in the form of:
- a. *Ijarah* Financing in accordance with the Bank's policy on depreciation or amortization for similar assets; and/or
 - b. *Ijarah Muntahiya Bittamlik* Financing in accordance with the lease term.
- (6) The use of the value of collateral as deduction in the calculation of Allowance for Asset Losses as referred to in paragraph (3) shall only be applicable to Earning Assets.

Article 42

The establishment of Allowance for Asset Losses for Earning Assets in the form of Financing shall be as follows:

- a. *Murabahah* Financing, *Istishna'* Financing, and multiservice Financing shall be calculated based on the basic cost;
- b. *Salam* Financing shall be calculated based on the acquisition cost; and
- c. *Mudharabah* Financing, *Musyarakah* Financing and *Qardh* Financing shall be calculated based on the outstanding balance.

Part Three

Collateral Valuation

Article 43

The value of collateral which is calculated as a reduction in the establishment of Allowance for Asset Losses shall be determined as follows:

- a. for collateral in the form of guarantee from the Government of Indonesia in accordance with the applicable laws and regulations legislation, it is 100% (one hundred percent) of the value of the secured object;
- b. for cash collateral in the form of demand deposits, savings, time deposits, deposit of collateral and / or gold which are blocked and accompanied by a power of attorney for withdrawal, it is a maximum of 100% (one hundred percent);

- c. for collateral in the form of securities and/or receivables which are issued by the Government of Indonesia, it is a maximum of 100% (one hundred percent);
- d. for collateral in the form of Islamic Securities which are actively traded in the stock exchange in Indonesia or have an investment grade and pledged, it is a maximum of 50% (fifty percent) of the value listed in the stock exchange at the end of the month;
- e. for collateral in the form of land and/or buildings used for residential purposes based on *deed of mortgage*, it is a maximum of:
 - 1) 70% (seventy percent) of the fair value if:
 - a) the valuation by an Independent Appraiser is performed in the past 18 (eighteen) months, or
 - b) the valuation by an internal appraiser is performed in the past 12 (twelve) months;
 - 2) 50% (fifty percent) of the fair value if:
 - a) the valuation by an Independent Appraiser is performed between the past 18 (eighteen) months and 24 (twenty four) months, or
 - b) the valuation by an internal appraiser is performed between the past 12 (twelve) months and 18 (eighteen) months;
 - 3) 30% (thirty percent) of the fair value if:
 - a) the valuation by an Independent Appraiser is performed between the past 24 (twenty four) months and 30 (thirty) months, or
 - b) the valuation by an internal appraiser is performed between the past 18 (eighteen) months and 24 (twenty four) months;
 - 4) 0% (zero percent) of the fair value if:

- a) the valuation by an Independent Appraiser is performed more than thirty (30) months ago, or
 - b) the valuation by an internal appraiser is performed more than 24 (twenty four) months ago;
- f. for collateral in the form of land and/or buildings for residential purposes and a place for machinery that are considered as an inseparable part of the land which is made collateral based on *deed of mortgage*; aircrafts and marine vessels measuring over 20 (twenty) cubic meters based on a hypothec; motor vehicles and supplies based on a fiduciary contract, as well as warehouse receipts based on security rights over warehouse receipts, for a maximum of:
- 1) 70% (seventy percent) of the fair value if the valuation is performed within the past 12 (twelve) months;
 - 2) 50% (fifty percent) of the fair value if the valuation is performed between the past 12 (twelve) months and 18 (eighteen) months;
 - 3) 30% (thirty percent) of the fair value if the valuation is performed between the past 18 (eighteen) months and 24 (twenty four) months; or
 - 4) 0% (zero percent) of the fair value if the valuation is performed more than 24 (twenty four) months ago.

Article 44

- (1) The value of the collateral which is calculated as deduction in the establishment of Allowance for Asset Losses shall not exceed the value of the collateral agreement.

- (2) The value of the collateral which is calculated as deduction in the establishment of Allowance for Asset Losses shall be the lowest value of the calculation as referred to in Article 43 and the value of the collateral agreement.

Article 45

- (1) The valuation of collateral shall be performed by an Independent Appraiser for Financing in the amount of more than Rp5,000,000,000.00 (five billion rupiah) which is provided to customers or groups of customers.
- (2) The valuation of collateral may be performed by the Bank's internal appraiser for Financing with a maximum amount of Rp5,000,000,000.00 (five billion rupiah) which is provided to customers or groups of customers.
- (3) In the event that the valuation of collateral for Financing in the amount of more than Rp5,000,000,000.00 (five billion rupiahs) is not performed by an Independent Appraiser as referred to in paragraph (1), the result of the valuation of collateral shall not be considered as deduction in the calculation of Allowance for Asset Losses.
- (4) The Bank shall use the lowest value in the event there are a number of values from the Independent Appraiser (KJPP) or the internal appraiser.

Article 46

- (1) Bank Indonesia shall be authorized to conduct recalculation of the value of collateral which has been

deducted in the calculation of Allowance for Asset Losses, such as if:

- a. the collateral is not supported with a relevant document and supported by a collateral agreement made not in compliance with the applicable laws and regulations;
 - b. the valuation is not performed in accordance with the provisions of Article 43, Article 44, and Article 45, or
 - c. the insurance agreement that protects the collateral does not include banker's clause which grants the Bank the right to recover the insurance coverage in the event of the payment of claims.
- (2) The insurance company which provides protection to the collateral as referred to in paragraph (1) letter c:
- a. shall meet the capital requirements as established by the competent institution, and
 - b. shall not be a party related with the Bank or a group of borrowers and the Bank's customer, unless the collateral is reinsured to an insurance company that is not a party related with the Bank or a group of borrowers and the Bank's customer.
- (3) The Bank shall adjust the calculation of Allowance for Asset Losses in accordance with the calculation determined by Bank Indonesia as referred to in paragraph (1) in reports submitted to Bank Indonesia and/or a publication report as set forth in Bank Indonesia regulations, not later than the next reporting period upon the notice from Bank Indonesia.

CHAPTER VI

CONDITIONAL WRITE-OFF AND ABSOLUTE WRITE-OFF

Article 47

- (1) The Bank shall have written policy and procedures for conditional write-off (*hapus buku*) and absolute write-off (*hapus tagih*) of Financing, which include the following:
 - a. the policy on conditional write-off and absolute write-off shall be approved by the Board of Commissioners;
 - b. the procedures for conditional write-off and absolute write-off shall be approved at least by the Board of Directors;
 - c. the Board of Commissioners shall actively supervise the implementation of the policy on conditional write-off and absolute write-off, and
 - d. the policy and procedures for conditional write-off and absolute write-off shall constitute an integral part of the Bank's risk management policy as stipulated in the applicable Bank Indonesia regulations.
- (2) Conditional write-off and absolute write-off may only be performed on Earning Assets in the form of Financing which is classified as Loss.
- (3) Conditional write-off shall not be performed partially on the part of Earning Assets in the form of Financing (partial write-off).
- (4) Absolute write-off may be performed either on the part or the whole of all Earning Assets in the form of Financing.

Article 48

- (1) Conditional write-off and absolute write-off as referred to in Article 47 may only be performed after the Bank make its best efforts to settle the Assets which are classified as Loss.
- (2) The Bank shall administer documents about the efforts as referred to in paragraph (1) and the grounds for considerations of the implementation of conditional write-off and absolute write-off.
- (3) The Bank shall administer the data and information in the form of Funding Earning Assets that have been conditionally written off and / or permanently written off.

CHAPTER VII

SANCTIONS

Article 49

- (1) The Bank that does not apply the provisions of Article 2, Article 4, paragraph (1), Article 4 paragraph (3), Article 5 paragraph (1), Article 5 paragraph (3), Article 6, Article 7, paragraph (1), Article 11 paragraph (1), Article 11 paragraph (2), Article 11 paragraph (3), Article 12 paragraph (5), Article 13 paragraph (2), Article 13 paragraph (3), Article 13 paragraph (4), Article 16, Article 19 paragraph (1), Article 23, Article 24 paragraph (4), Article 25 , Article 30, Article 31, Article 32 paragraph (2), Article 33 paragraph (1), Article 33 paragraph (2), Article 34, Article 36 paragraph (1), Article 36 paragraph (2), Article 37, Article 39 paragraph (1), Article 40 paragraph (1), Article 41 paragraph (5), Article 44 paragraph (1), Article 45 paragraph (1), Article 45 paragraph (4), Article

46 paragraph (3), Article 47 paragraph (1), Article 47 paragraph (2), and/or Article 48 shall be subject to administrative sanctions of as referred to in Article 58 paragraph (1) of Act No. 21 of 2008 concerning Islamic Banking.

- (2) In addition to the sanctions as referred to in paragraph (1), any Bank which violates Article 19 shall establish the Allowance for Loan Losses on Assets as much as 100% (one hundred percent) of the relevant assets.

CHAPTER VIII

TRANSITIONAL PROVISION

Article 50

The classification by quality and the establishment of Allowance for Asset Losses on Non-Earning Assets in the form of Foreclosed Collateral owned by the Bank prior to the coming into force of this Bank Indonesia Regulation shall be conducted in accordance with Bank Indonesia Regulation No. 8/21/PBI/2006 concerning Asset Quality Rating of Commercial Banks which Conduct Business Based on the Principles of Sharia as amended by Bank Indonesia Regulation Number 10/24/PBI/2008.

CHAPTER IX

CLOSING PROVISION

Article 51

Further provisions of Bank Indonesia Regulation shall be set out in Circular Letter of Bank Indonesia.

Article 52

At the time of this Bank Indonesia Regulation comes into force:

- a. Bank Indonesia Regulation Number 8/21/PBI/2006 concerning Asset Quality Rating for Commercial Banks which Conduct Business Based on the Principles of Sharia;
- b. Bank Indonesia Regulation Number 9/9/PBI/2007 concerning the Amendment to Bank Indonesia Regulation Number 8/21/PBI/2006 concerning Asset Quality Rating for Commercial Banks which Conduct Business Based on the Principles of Sharia; and
- c. Bank Indonesia Regulation Number 10/24/PBI/2008 concerning the Second Amendment to Bank Indonesia Regulation No. 8/21/PBI/2006 concerning Asset Quality Rating for Commercial Banks which Conduct Business Based on the Principles of Sharia

shall be revoked and no longer valid.

Article 53

The implementing provisions of Bank Indonesia Regulation Number 8/21/PBI/2006 concerning Asset Quality Rating for Commercial Banks which Conduct Business Based on the Principles of Sharia as last amended by Bank Indonesia Regulation Number 10/24/PBI/2008 shall remain applicable provided that the provisions do not contravene this Bank Indonesia Regulation.

Article 54

This Bank Indonesia Regulation shall come into force on the date of enactment.

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

Enacted in Jakarta

Dated : March 24, 2011

GOVERNOR OF BANK INDONESIA,

DARMIN NASUTION

Promulgated in Jakarta

Dated 24 March 2011

THE MINISTER OF LAW AND HUMAN RIGHTS

REPUBLIC OF INDONESIA,

PATRIALIS AKBAR

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 40 OF
2011

DPbS

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER: 13/13 / PBI/2011
CONCERNING
ASSET QUALITY RATING
FOR COMMERCIAL BANKS ISLAMIC SHARIA AND BUSINESS UNIT

I. GENERAL REVIEW

In facing the increasing competitive business, Banks should be able to make investment that can yield optimal profits while continue to observe the prudential banking principles and the principles of Sharia. The development of Islamic banking industry needs to be supported by policies and regulations that provide opportunities for Banks to offer Islamic banking products and services that are increasingly suitable to the characteristics of the customer's business activities they finance. In order to anticipate the risk of loss that may arise in investment, Banks are required to establish allowance for loan losses based on the result of the assessment of asset quality they conduct.

With the enactment of Act Number 21 of 2008 concerning Islamic Banking, Act Number 19 of 2008 concerning State Islamic Securities and amendments to other relevant provisions and in order to support the development of Islamic banking industry, it is necessary revise some restrictions and criteria for asset quality assessment and the establishment of allowance for loan losses for any provision of funds.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

The term "prudential principle in investment and/or provision of funds" is the investment and/or provision of funds made based on, among other things:

- 1) business feasibility analysis which takes into account at least 5Cs (Character, Capital, Capacity, Condition of economy, and Collateral) and/or
- 2) the assessment of the business prospects, performance, and the ability to pay.

Paragraph (2)

The term "rate" is to evaluate the condition of the customer and/or feasibility of the business to be financed.

The term "monitoring" is overseeing the development of the customer's business performance.

The phrase "take anticipatory measures" means taking action and preventing the possibility of failure in the investment of funds.

Article 3

Self-explanatory.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

The assessment of asset quality which is determined by Bank Indonesia, among other things, based on evaluation or supervision of the Bank.

Paragraph (3)

The terms “notice” includes a notice by Bank Indonesia to the Bank in the exit meeting.

Article 5

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Example:

Bank A grants *Mudharabah* Financing and *Murabahah* Financing to customer X. The results of the assessment conducted by Bank A show that the Earning Assets has the following quality:

- a. Special Mention, for *Mudharabah* Financing, and
- b. Sub-standard, for *Murabahah* Financing.

Since the financing is used to fund one (1) customer, the quality of the Earning Assets classified by Bank A to customer X is the lower one, i.e. Sub-standard.

Paragraph (4)

Since the assessment factors for the classification of quality of Earning Assets in the form of Financing are

different from the assessment factors for the classification of Earning Assets in the form of Islamic Securities, the quality of both types of Earning Assets may be different even though it is for the same customer.

Article 6

Self-explanatory.

Article 7

Paragraph (1)

The term "complete documents" means documents of investment which at least include the application, analysis, decision, and monitoring of investment and any changes in them.

Paragraph (2)

Self-explanatory.

Article 8

Self-explanatory.

Article 9

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

The term "customer" means a customer that has to carry out environmental management in accordance with the laws and regulations.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 10

Self-explanatory.

Article 11

Paragraph (1)

The obligation to audit the financial statements is to ensure that the financial statements are accurate and reliable, since the financial condition of the customer is one of the criteria in the classification of the quality of Earning Assets in the form of Financing.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The phrase "laws and regulations" include Government Regulation Number 24 of 1998 concerning the Company's

Annual Financial Statements, as amended by Government Regulation No. 64 of 1999.

Paragraph (4)

Self-explanatory.

Article 12

Paragraph (1)

Self-explanatory.

Paragraph (2)

The phrase "accumulation during the current period of Financing" means the total sum of RBH or PBH since the beginning of Financing up to the position in the month in which the assessment is conducted.

Example:

Mudharabah Financing was granted in March 2011, for a term of 1 (one) year. The accumulated PBH in June 2011 was conducted by computing the total of PBH of March 2011, PBH of April 2011, PBH of May 2011 and PBH of June 2011.

Paragraph (3)

PBH is not always determined based on a monthly period.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 13

Paragraph (1)

Whether the payment of installment of principal is necessary to be decided regularly is determined depending on the characteristics of the customer's business which is financed.

Paragraph (2)

“Measures to reduce risks” include the evaluation of the customer’s business performance at least once in 1 (one) year.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 14

Paragraph (1)

Letter a

The phrase "other forms of provision of fund" means the issuance of guarantee and/or the opening of Letter of Credit (L/C).

Letter b

The adequacy of risk control system refers to Bank Indonesia provisions on risk management for Banks.

The evaluation of level of soundness refers to Bank Indonesia provisions on the level of soundness of the Bank.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Letter a

Self-explanatory.

Letter b

For an Islamic Business Unit, "50 (fifty) largest customers" means 50 (fifty) largest customers of an Islamic Business Unit, not including the customers of its parent bank.

Paragraph (4)

Self-explanatory.

Article 15

Self-explanatory.

Article 16

Self-explanatory.

Article 17

Paragraph (1)

Self-explanatory.

Paragraph (2)

The phrase "may be traded provided that in accordance with the Principles of Sharia" means a contract which is used as the basis for the issuance of Islamic Sharia may be traded by referring to the fatwa of the National Sharia Board of the Indonesia Ulema Council.

Article 18

Paragraph (1)

The phrase "Islamic Securities" recognized based on the market value" means securities which are available for sale and Islamic Securities in the portfolio for trading.

Letter a

The phrase "actively traded in the stock exchange" means there is a significant volume of arm's length transactions in the stock exchange in Indonesia in the last 10 (ten) business days.

Letter b

Transparent information about the market value should be able to be obtained from the common media publications for stock exchange transactions.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Paragraph (2)

The phrase " Islamic Securities" recognized based on the acquisition cost" means securities which are held to maturity.

The term "investment grade and rating agencies" means the grade and rating agencies recognized by Bank Indonesia in accordance with the applicable provisions on rating agencies and grades.

Paragraph (3)

Self-explanatory.

Article 19

Paragraph (1)

Islamic Securities which are connected or guaranteed by underlying reference assets in the form of shares may only be owned for the purpose of Capital Participation or Temporary Capital Participation and upon approval of Bank Indonesia as referred to in the applicable Bank Indonesia provisions.

Paragraph (2)

Letter a

The existence of assets is believed if the assets in question are kept such as in a custodian bank, Indonesian Central Securities Depository (KSEI), or Bank Indonesia.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Article 20

Paragraph (1)

The payment of obligation of Islamic Securities is considered directly related to the underlying assets (pass through) if the payment of principal and margin/profit

sharing/fee of Islamic Securities is solely derived from the payment of principal and margin/ profit sharing/fee of the underlying assets.

Paragraph (2)

Letter a

The classification of quality of Earning Assets in the form of Islamic Securities in the form of mutual fund certificate pursuant to the provisions on the assessment of quality of Earning Assets in the form of Islamic Securities is conducted on mutual fund certificate as a product and on each kind of the assets underlying the relevant mutual fund certificate.

Letter b

The assessment of quality of the underlying assets of a mutual fund certificate and quality of the issuer of mutual fund certificate focuses on:

1. The performance, liquidity and reputation of the issuer and other relevant parties such as insurance company, and
2. The diversified portfolio owned by the issuer which takes into account the risk and the prudential principle.

Article 21

Letter a

Number 1)

Self-explanatory.

Number 2)

The term "Other Banks" means the issuing bank or the bank which gives endorsement.

Letter b

Islamic Securities which based on their characteristics are not actively traded in the stock exchange in Indonesia and do not have a grade include export draft.

The term "Other Banks" means the issuing bank or the bank which gives endorsement.

Article 22

Self-explanatory.

Article 23

Paragraph (1)

The term "cumulative losses" means the losses of a company after deduction of profits and losses of the previous years.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 24

Paragraph (1)

Self-explanatory.

Paragraph (2)

The term "cumulative profits" means profits after deduction of losses from the previous years.

Paragraph (3)

Sales which are lower than the book value and difficulty in sales within a period of 5 (five) years are partly due to weak financial conditions, corporate management, market conditions or lack of demand for the company's shares.

Paragraph (4)

Self-explanatory.

Article 25

Self-explanatory.

Article 26

Paragraph (1)

Letter a

Number 1)

The term "CAR" is Capital Adequacy Ratio determined by Bank Indonesia for banks in Indonesia or by the competent authorities for banks overseas in accordance with applicable regulations.

Number 2)

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Paragraph (2)

"Linkage Program" is collaboration between the Bank and a BPRS in channeling Financing to MSMEs. Linkage Program with executing pattern is Financing granted by the Bank to the BPRS to be loaned to the Micro and Small Enterprises and the risks are borne by a BPRS.

Article 27

The term "acceptance receivables" means receivables arising as a result of acceptance of usance draft.

Article 28

Self-explanatory.

Article 29

Self-explanatory.

Article 30

Self-explanatory.

Article 31

The phrase "written policies and procedures" include the mechanism of repossession of Foreclosed Collateral and requirements of Foreclosed Collateral.

Article 32

Self-explanatory.

Article 33

Paragraph (1)

The term "net realizable value" means the estimated market price less the estimated costs of repossession of the Foreclosed Collateral.

Paragraph (2)

Self-explanatory.

Paragraph (3)

At the time of the repossession of the Foreclosed Collateral, the Bank records as follows:

- if the net realizable value is greater than the value of Financing (the customer's debt), the Bank records the value of the Foreclosed Collateral at the same value as the value of Financing and the surplus is recorded off balance sheet by the Bank because it is the right of the customer, or
- If the net realizable value is lower than the Financing (the customer's debt), the Bank records the value of the Foreclosed Collateral at the same value as the value of net realizable value and the deficit is recorded as the customer's liability in the books of the Bank.

Article 34

Paragraph (1)

The arrangement means that the Bank shall immediately sell the Foreclosed Collateral within a maximum period of

1 (one) year in accordance with Act Number 21 of 2008 concerning Islamic Banking and shall not keep the collateral for a longer period than that.

In the event of the proceeds from the selling of Foreclosed Collateral are larger than the customer's debt the surplus becomes the customer's right. In the event that the proceeds from the selling of Foreclosed Collateral are smaller than the customer's debt the deficit remains the customer's liability. If the Bank is unable to collect the customer's liability, the Bank may record it as the Bank's loss.

Paragraph (2)

Documentation includes evidence such as data and information about marketing and sales of the Foreclosed Collateral.

Article 35

Self-explanatory.

Article 36

Paragraph (1)

The term "Abandoned Property" means fixed assets held by the Bank in the form of land and/or buildings that are not used for the Bank's general business activities.

The term of abandoned property does not include:

- the property which is categorized as the Bank's asset in *Ijarah* Financing in accordance the applicable *fatwa* and provisions;

- the property used to support the business activities of the Bank, all held within a reasonable number, such company house and educational facilities, or
- other properties that have been determined to be used for Bank's operations in the near future, such as land and buildings on that land that is being prepared for a Bank's office.

Paragraph (2)

Self-explanatory.

Paragraph (3)

For example:

A property in the form of a building has 10 (ten) floor. The 1st floor to 6th floor are used for common business activities. The 7th floor through 10th floor are not classified as the Abandoned Property even if they are not used.

Paragraph (4)

For example:

A property in the form of a building of 1,000 square meters. An area of 200 square meters is used for common business activities. The remaining area of 800 square meters is classified as the Abandoned Property.

Article 37

Paragraph (1)

The phrase "efforts to settle" include the marketing and selling of the Abandoned Property.

Paragraph (2)

The documentation includes evidence such as data and information on marketing and selling of the Abandoned Property.

Article 38

Self-explanatory.

Article 39

Paragraph (1)

The settlement efforts are required in order that all Bank transactions are recognized and recorded based on the characteristics of the transactions and to reduce the possibility of fraud transactions that may result in losses for the Bank.

Paragraph (2)

Inter-office Account which is assessed is the Inter-office Account item on the assets side without any set-off done to the Inter-office Account on the liabilities side, considering that there is no certainty whether the opposite party to the transaction is the same party or office.

Article 40

Paragraph (1)

The establishment of Allowance for Asset Losses on Non-Earning Assets shall be intended to encourage the Bank to make efforts to settle and to anticipate potential losses.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 41

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Depreciation or amortization for *Ijarah* Financing or *Ijarah Muntahiya Bittamlík* Financing shall refer to the applicable financial accounting standards for Islamic banks. Depreciation or amortization policy shall be consistent and reflect the expected pattern of consumption of future economic benefits of the *ijarah* object.

Paragraph (6)

Self-explanatory.

Article 42

The term "Multiservice Financing" means the Financing from the Bank to customers in order to obtain the benefits of a service.

Article 43

Letter a

The term "Government of Indonesia" means the central government.

Letter b

The term "demand deposits, savings, and time deposits" means demand deposits, savings and time deposits with the conventional commercial banks.

Letter c

Self-explanatory.

Letter d

Investment grade is based on the grade in the past year which is recognized by Bank Indonesia in accordance with the applicable provisions on the rating agencies and the grade. If the grade issued by the rating agencies in the past year is not available, the securities are considered to have no grade.

Letter e

Binding of collateral under deed of mortgage shall comply with the provisions and procedures in the laws and regulations, including but not limited to in terms of registration, so that the Bank has the right of preference to the relevant collateral.

The term "fair value" refers to the applicable financial accounting standards.

Letter f

The placement of deed of mortgage over the land and machinery on the land shall be clearly stated in the Deed of the Granting of deed of mortgage.

A collateral contract with a hypothec shall be in accordance with the provisions and procedures in the laws and regulations, including but not limited to in terms of registration, so that the Bank has the right of preference to the relevant collateral.

A collateral contract with a fiduciary shall be in accordance with the provisions and procedures in the laws and regulations, including but not limited to in terms of registration, so that the Bank has the right of preference to the relevant collateral.

The term "warehouse receipt" means a warehouse receipt as referred to in Act Number 9 of 2006 concerning The Warehouse Receipt System and other laws and regulations. The security right over a warehouse receipt is the security right over the warehouse receipt for the repayment of debt, which make the party receiving the security right to be prioritized over other creditors.

The fair value of the warehouse receipt is the value determined by the competent agency or authorities in accordance with the laws and regulations that apply to the warehouse receipt.

Article 44

The value of the collateral may change depending on latest valuation, among other things, due to changes in the market value, Sales Value of Tax Object (NJOP), and the physical changes of the collateral.

Article 45

Paragraph (1)

The ceiling for all facilities granted to customers or groups of customers shall be determined to be Rp5,000,000,000.00 (five billion rupiah).

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 45

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The term “notice” includes a notice given by Bank Indonesia to then Bank to in the exit meeting.

Article 47

Paragraph (1)

The term "conditional write-off" means the administrative action of the Bank to remove the provision of funds or receivables classified as Loss from on balance sheet into off balance sheet at the amount of the customer's liability without prejudice to the right of the Bank to collect it from the customer.

The term "absolute write-off" means the act of the Bank to completely and permanently delete the customer's liability that cannot be settled from off balance sheet (the right to collect is removed)

The policy and procedures for conditional write-off and absolute write-off include the requirements, limits, powers and responsibilities and procedures for conditional write-off and absolute write-off.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (3)

Conditional write-off is performed all Financing which is granted provided and bound by an agreement.

Paragraph (4)

The absolute write-off on part of the Earning Assets in the form of Financing may only be done in the context of

restructuring of Financing or of the settlement of Financing.

Article 48

Paragraph (1)

Some efforts which may be made include collection from the customers, restructuring of financing, demand for payment from the party that provides guarantee for the relevant Earning Assets and the settlement of Financing through the repossession of collateral.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 49

Self-explanatory.

Article 50

Self-explanatory.

Article 51

Self-explanatory.

Article 52

Self-explanatory.

Article 53

Self-explanatory.

Article 54

Self-explanatory.

SUPPLEMENT TO STATE GAZETTE OF THE REPUBLIC OF
INDONESIA NUMBER 5205

DPbS