INDONESIA BANKING BOOKLET 2017

BANKING LICENSING AND INFORMATION DEPARTMENT

Menara Radius Prawiro
Jl. MH Thamrin No.2, Jakarta 10350
konsumen@ojk.go.id
1500 655/ Fax (021) 386032
www.ojk.go.id
official.ojk
@OJKINDONESIA
@OJKINDONESIA
Jasakeuangan
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FOREWORD

This Indonesia Banking Booklet 2017 constitutes a publication media presenting brief information concerning Indonesian banking industry. This booklet is expected to enable the readers to obtain brief information concerning direction of the banking policies in 2017 as well as policies and regulations in the banking sector issued by Indonesia Financial Services Authority (OJK) in 2016.

The brief information presented in this booklet concerns among others: (i) vision, missions, functions, and tasks of OJK; (ii) information on cooperation and coordination between OJK and Bank Indonesia (BI); (iii) the authorities of OJK in the regulating and supervising of banks; and (iv) banking regulations issued in 2016, which cover among others: (a) fit and proper test for the Main Parties in Financial Service Institutions; (b) transformation of Conventional Micro Finance Institutions to Rural Bank and Sharia Micro Finance Institutions to Sharia Rural Bank; as well as (c) several OJK’s regulations that are conversions from BI regulations, including among others Assessment of Commercial Bank Soundness Level, Business Activities and Office Networks Based on Bank Core Capital, Commercial Bank Share Ownership, and others.

We realize that there are yet shortcomings in the presentation of Indonesia Banking Booklet 2017 in terms of contents and format, however, we still hope that the information presented can yet provide optimal benefits to the readers.

Jakarta, March 2017
Banking Licensing dan Information Department
Indonesia Financial Services Authority
<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOREWORD</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
</tr>
<tr>
<td>I.  INDONESIA FINANCIAL SERVICES AUTHORITY</td>
</tr>
<tr>
<td>A.  OJK’s Vision and Missions</td>
</tr>
<tr>
<td>B.  OJK’s Objective</td>
</tr>
<tr>
<td>C.  OJK’s Strategic Values</td>
</tr>
<tr>
<td>D.  OJK’s Functions and Tasks</td>
</tr>
<tr>
<td>E.  OJK’s Organization</td>
</tr>
<tr>
<td>F.  Coordination Mechanism Between OJK dan BI</td>
</tr>
<tr>
<td>II. BANKING</td>
</tr>
<tr>
<td>A.  Definitions</td>
</tr>
<tr>
<td>B.  Bank Business Activities</td>
</tr>
<tr>
<td>C.  Business Activities Prohibited For Banks</td>
</tr>
<tr>
<td>III. BANK REGULATION AND SUPERVISION</td>
</tr>
<tr>
<td>A.  Objectives of Bank Regulation and Supervision</td>
</tr>
<tr>
<td>B.  Authorities of Bank Regulation and Supervision</td>
</tr>
<tr>
<td>C.  Bank Supervision System</td>
</tr>
<tr>
<td>D.  Banking Information System For The Purpose Of Supporting Bank Supervision Task</td>
</tr>
<tr>
<td>E.  Bank Preliminary Investigation</td>
</tr>
<tr>
<td>F.  Bank Investigation</td>
</tr>
<tr>
<td>G.  Customer Education and Protection</td>
</tr>
<tr>
<td>IV. BANKING DEVELOPMENT AND POLICY DIRECTION</td>
</tr>
<tr>
<td>A.  Banking Sector Development in 2016</td>
</tr>
<tr>
<td>B.  Banking Sector Policy Direction in 2017</td>
</tr>
<tr>
<td>C.  Roadmap for Indonesian Banking Development</td>
</tr>
<tr>
<td>D.  Roadmap of Indonesian Sharia Banking</td>
</tr>
<tr>
<td>E.  Roadmap of Sustainable Finance</td>
</tr>
<tr>
<td>F.  ASEAN Banking Integration Framework (ABIF)</td>
</tr>
<tr>
<td>G.  Basel Framework</td>
</tr>
<tr>
<td>H.  Development of Sharia Banking</td>
</tr>
<tr>
<td>I.  Development of RB</td>
</tr>
<tr>
<td>J.  Integrated Supervision</td>
</tr>
<tr>
<td>V. KEY BANKING REGULATIONS</td>
</tr>
<tr>
<td>V.1. Regulations on Bank Institutional Arrangement, Management, and Ownership</td>
</tr>
<tr>
<td>1. Establishment of Banks</td>
</tr>
</tbody>
</table>
2. Bank Ownership
3. Sole Ownership in Banks in Indonesia
4. Share Ownership of Commercial Bank
5. Management and Human Resources
6. Fit and Proper Test for Main Parties of Financial Service Institutions
7. Bank Merger, Consolidation, and Acquisition
8. Incentives In Bank Consolidation
9. Opening of Bank Office
10. Changes in Bank Name and/or Logo
11. Closing of Bank Branch Offices
12. Bank Liquidation
13. Revocation of Business License At The Request of Shareholders (Self Liquidation)
14. Business License Revocation as Follow Up Of The Condition Of Not Being Able to Be Rehabilitated
15. Change in Conventional Bank Business Activities To Sharia Bank

V.2. Regulations Concerning Bank Business Activities, Supporting Activities, and Services
1. Bank Business Activities
2. Foreign Currency Trader for Banks
3. Derivative Transactions
4. Deposits
5. Non-Office Based Financial Services For The Purpose Of Financial Inclusion (Laku Pandai)
6. Credit Restructuring
7. Custodian with Management (Trust)
8. Guidelines for Development of Bank Credit Policies
10. Stipulations on Sharia Products

V.3. Stipulation Concerning Prudential Principle
1. Bank Core Capital
2. Minimum Capital Adequacy Requirement
3. Stipulation Concerning Maximum Legal Lending Limit
4. Asset Quality
5. Provision for Asset Write Off
6. Implementation of Anti Fraud Strategy For Commercial Banks
8. Prudential Principle In Commercial Bank Capital Participation Activities
9. Prudential Principle For Commercial Banks That Outsource Part of The Implementation of Works To Other Parties
10. Prudential Principle In Asset Securitization Activities For Commercial Banks
11. Prudential Principle In The Conduct of Structured Product Activities for Commercial Banks
13. Implementation of Good Corporate Governance
15. Implementation of Risk Management For Commercial Banks, Rural Banks, and Financial Conglomerates
16. Implementation of Risk Management In The Use of Information Technology By Commercial Banks
17. Consolidated Risk Management Implementation For Bank That Exercises Control Over Subsidiary Companies
18. Implementation of Risk Management in Internet Banking
19. Risk Management Implementation at Banks That Extend Residential House Ownership Credits (KPR) and Motor Vehicle Credits (KKB)
20. Risk Management Certification for Commercial Bank Managers and Officers
21. Implementation of Anti Money Laundering and Prevention Of The Funding of Terrorism Program
22. Utilization of Foreign Workers and Transfer of Knowledge Program in Banking Sector
23. Implementation of Risk Management at Banks That Conduct Activities of Marketing Cooperation With Insurance Companies / Bancassurance
24. Implementation of Risk Management On Bank Activities Related To Mutual Funds
25. Implementing Risk Management At Commercial Banks That Provide Prime Customer Service
27. Requirement To Meet Liquidity Coverage Ratio For Commercial Banks

V.4. Regulations Concerning Reports and Accounting Standards
1. Transparency of Bank Financial Condition
2. Information Transparency on Bank Products and Use of Customer Personal Data
3. Indonesian Banking Accounting Guidelines for Commercial Banks
4. Indonesian Sharia Banking Accounting Guidelines for Sharia Banks and SBU
5. Determination on The Use of Financial Accounting Standards for RB
6. Periodic Reports of Commercial Banks and Other Reports

V.5. Stipulations concerning Bank Supervision
1. Bank Business Plan
2. Assessment of Bank Soundness Level
3. Determination of Bank Supervision Status and Follow Up
4. Follow Up On The Handling Of RB and SRB Of The Status of Under Special Supervision

V.6. Regulations Concerning Consumer Education and Protection
1. Financial Literacy and Inclusion
2. Settlement of Consumer Complaints
3. Marketing of Products and/or Services
4. Standard Agreements
5. Confidentiality of Consumer Personal Data and/or Information

V.7. Other Regulations
1. Rating Institutions and Ratings Acknowledged By OJK
2. Certification Institutions For Rural Banks/Sharia Rural Banks
3. Bank Secrecy
4. Submission of Customer Information related to Taxes
5. Authority On Criminal Investivations In Financial Services Sector

VI. LIST OF REGULATIONS
A. New Regulations In 2016
B. Banking Regulations That Are Still In Force
   B.1. Regulations Concerning Institutional Arrangement
   B.2. Regulations Concerning Bank Business Activities, Support Activities, and Services
   B.3. Regulations Concerning Prudential Principle
   B.4. Regulations Concerning Reports and Accounting Standards
   B.5. Regulations Concerning Bank Supervision
   B.6. Regulations Concerning Consumer Education and Protection
   B.7. Other Regulations

OTHER MATTERS
1. Popular Terminologies In Banking Industry
2. Types of agreements in sharia banking business activities
<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>OJK’s Organization Structure</td>
<td>11</td>
</tr>
<tr>
<td>3.1</td>
<td>Risk Based Supervision Cycle</td>
<td>23</td>
</tr>
<tr>
<td>3.2</td>
<td>Roadmap for Development and Data Coverage of SLIK</td>
<td>29</td>
</tr>
<tr>
<td>3.3</td>
<td>Framework of Credit Reporting System in Indonesia</td>
<td>30</td>
</tr>
<tr>
<td>3.4</td>
<td>Consumer and Public Protection</td>
<td>39</td>
</tr>
<tr>
<td>3.5</td>
<td>Logo of OJK’s Consumer Services</td>
<td>40</td>
</tr>
<tr>
<td>3.6</td>
<td>Infographics of OJK’s Consumer Services</td>
<td>42</td>
</tr>
<tr>
<td>3.7</td>
<td>Infographics of IDR Standard</td>
<td>45</td>
</tr>
<tr>
<td>3.8</td>
<td>Infographics of LAPS</td>
<td>46</td>
</tr>
<tr>
<td>3.9</td>
<td>Method for Monitoring and Analyzing Consumer Protection</td>
<td>47</td>
</tr>
<tr>
<td>3.10</td>
<td>Illustration of a Case of Fund Accumulation Without Permit</td>
<td>49</td>
</tr>
<tr>
<td>4.1</td>
<td>Roadmap of Sustainable Finance 2015-2024</td>
<td>61</td>
</tr>
<tr>
<td>4.2</td>
<td>Implementation of Basel II in Indonesia</td>
<td>63</td>
</tr>
<tr>
<td>4.3</td>
<td>Framework for Basel III Capital in Indonesia</td>
<td>64</td>
</tr>
<tr>
<td>4.4</td>
<td>Holistic Framework for Transformation Program</td>
<td>66</td>
</tr>
<tr>
<td>4.5</td>
<td>Stages of BPD Transformation Implementation</td>
<td>67</td>
</tr>
<tr>
<td>5.1</td>
<td>Characteristics of BSA</td>
<td>114</td>
</tr>
<tr>
<td>5.2</td>
<td>Scope of services and classification of laku pandai agent</td>
<td>116</td>
</tr>
<tr>
<td>5.3</td>
<td>Commercial Bank Based On Business Activities</td>
<td>121</td>
</tr>
</tbody>
</table>
LIST OF TABLES

Table 3.1. : Types of Bank Risks 24
Table 3.2. : Matrix of Implementation of Risk Based Supervision 25
Table 5.1. : Objects and Criteria of Fit and Proper Test 98
Table 5.2. : Division of zones and determination of coefficients 100
Table 5.3. : Certificate of Deposit With Agreement 112
Table 5.4. : Type of Laku Pandai Agent 115
Table 5.5. : SCB-SBU Asset Quality 131
Table 5.6. : SRB Asset Quality 132
Table 5.7. : Parameters of Property-Backed Consumption Credit 162
Table 5.8. : Procedures and Deadline for Submission and Announcement of Publicized Reports 172
Table 5.9. : Bank Reports 176
Table 5.10. : Categories of Commercial Bank Composite Ratings 181
Table 5.11. : Weights of CAMEL Factors 182
Table 5.12. : Determination of Bank Supervision Status 183
CHAPTER 1

INDONESIA
FINANCIAL
SERVICES
AUTHORITY
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I. INDONESIA FINANCIAL SERVICES AUTHORITY

Indonesia Financial Services Authority/Otoritas Jasa Keuangan (OJK) is an independent institution and free from interferences by other parties which has functions, tasks, and authorities of regulation, supervision, on-site supervision, and investigation of the Financial Services Sector (FSS) as referred to the Law of The Republic Of Indonesia Number 21 of 2011 on Financial Services Authority.

A. OJK’s Vision and Missions

Vision
To become a supervising agency of the financial services industry, which is trustworthy, protects the interests of consumers and public, and able to develop the financial services industry into a national economic pillar that has global competitive power as well as able to advance public welfare.

Missions
1. To realize the establishment of all activities in the financial services sector in an orderly, fair, transparent, and accountable manner.
2. To realize a financial system that grows in a sustainable and stable manner.
3. To protect the interests of consumers and public.

B. OJK’s Objective

OJK is established with the objective that all activities in the FSS:
1. operate in an orderly, fair, transparent, and accountable manner;
2. are able to create a financial system that grows in a sustainable and stable manner; and
3. are able to protect the interests of consumers and public.

C. OJK’s Strategic Values

1. Integrity
Integrity means acting in an objective, fair, and consistent manner in accordance with the code of ethics and organizational policies by upholding honesty and commitments.

2. Professionalism
Professionalism means working with full responsibility based on high competence to achieve the best performance.
3. Synergy
   Synergy means undertaking productive and quality collaboration with all stakeholders, both internal and external.

4. Inclusivity
   Inclusivity means being open to and accepting diverse stakeholders as well as widening public’s opportunities and access to the financial industry.

5. Visionary
   Visionary means having extensive insight and foresight (forward looking) as well as thinking out of the box.

D. OJK’s Functions and Tasks

OJK has the function of establishing an integrated system of the regulation and supervision of overall activities in the FSS. In addition, OJK performs the task of regulation and supervision of:

1. financial service activities in the Banking sector;
2. financial service activities in the Capital Market sector; and
3. financial service activities in the Insurance, Pension Fund, Financing Institution, and other Financial Service Institution (FSI) sectors.

E. OJK’s Organization

OJK is led by the Board of Commissioners comprising nine members appointed by a Presidential Decree and has a collective and collegial nature, with the following membership arrangement:

1. Chairman, concurrently member;
2. Vice Chairman functioning as the Head of Ethics Committee, concurrently as member;
3. Chief Executive functioning as Banking Supervisor, concurrently as member;
4. Chief Executive functioning as Capital Market Supervisor, concurrently as member;
5. Chief Executive functioning as Insurance, Pension Fund, Financing Institutions, and Other Financial Services Institutions Supervisor, concurrently as member;
6. Head of Board of Auditors, concurrently as member;
7. Commissioner in charge of Consumer Education and Protection division;
8. Ex-officio member from Bank Indonesia, who is concurrently a member of the Board of Governors of Bank Indonesia; and
9. Ex-officio member from the Ministry of Finance, who is an Echelon I level official at the Ministry of Finance.

F. Coordination Mechanism Between OJK and BI

To optimize coordination in the implementation of the functions, tasks, and authorities of OJK and BI, a Joint Decree Between OJK and BI has been agreed upon as a reference for coordination. Based on this Joint Decree, both institutions have agreed to establish the Macrophotential and Micropotential Coordination Forum/Forum Koordinasi Makroprudensial and Mikroprudensial (FKMM), complemented with the stipulation of Implementation Guidelines for Cooperation and Coordination Mechanism between BI and OJK/Petunjuk Pelaksanaan Mekanisme Kerjasama dan Koordinasi BI dan OJK (Juklak Mekor BI dan OJK) as well as the establishment of Forum for Coordination in Information Exchange and Reporting System/Forum Koordinasi Pertukaran Informasi dan Sistem Pelaporan (FKPISP)

1. Joint Decree Between OJK and BI

The importance of coordination between OJK and BI is a mandate of Law of The Republic of Indonesia Number 21 of 2011 on Financial Services Authority, specifically Article 39 which is related to coordination in the development of regulations concerning banking supervision and Article 40 which is related to implementation of special examinations on certain banks. As a follow up of this Law, OJK and BI have agreed on Cooperation and Coordination For The Purpose of Task Implementation in the form of a Joint Decree between BI and OJK Number 15/1/KEP.GBI/2013 and No. PRJ-11/D.01/2013 dated 18 October 2013. This Joint Decree mandates that the basic principles in the implementation of coordination involve:

a. being collaborative;

b. enhancement of efficiency and effectiveness;

c. avoidance of duplications;

d. complementing regulation of the financial sector;

e. ensuring smooth implementation of the tasks of OJK and BI.

In the meantime, scope of the Mechanism of Cooperation and Coordination Between OJK and BI, as stipulated in Article 3 paragraph (2) of the Joint Decree between BI and OJK dated 18 October 2013, covers four aspects, namely:
a. cooperation and coordination in task implementation in accordance with the authorities of respective parties;
b. exchange of LJK’s information as well as management of the reporting systems of banks and financing companies by BI and OJK;
c. use of properties and documents owned or used by BI and OJK; and
d. management of BI’s officers and staff transferred to or employed at OJK.

2. Joint Decree Between OJK and BI concerning Debtor Information System/Sistem Informasi Debitur (SID)

Based on Article 69 of Law of The Republic of Indonesia Number 21 of 2011 on Financial Services Authority, the functions, tasks, and authorities of BI covering authorities related to regulation and supervision in the banking sector as well as SID (stipulated in Article 32 of Act no. 23 of 1999 concerning Bank Indonesia) become the functions, tasks, and authorities of OJK.

For the purpose of supporting smooth implementation of the tasks of OJK and BI concerning management and development of SID, OJK and BI have agreed on a Joint Decree No. 17/3/NK/GBI/2015 and No. PRJ-50A/D.01/2015 dated 3 December 2015. This Joint Decree is used as the basis by OJK and BI in undertaking cooperation and coordination related to SID currently managed by BI and SID further developed by OJK which is called Sistem Layanan Informasi Keuangan (SLIK). The cooperation and coordination cover among others:

a. management of SID at BI during the transition period; and
b. development and management of SID at OJK.

3. Macroprudential and Microprudential Coordination Forum/Forum Koordinasi Makroprudensial dan Mikroprudensial (FKMM)

FKMM is a forum established to smoothen and optimize cooperation and coordination in the implementation of the functions, tasks, and authorities of OJK and BI. This forum discusses issues of coordination between OJK and BI, which are principle and strategic nature and require joint agreement and follow up by both institutions or by either institution in accordance with their respective authorities. Principle and strategic
policies are institutional policies, both in the form of policy statements as well as regulations or stipulations, which are related to implementation of the tasks of the institutions and have wide impacts, both inside as well as outside the institutions.

4. Development of Implementation Guidelines for Cooperation and Coordination Mechanism between BI and OJK/Petunjuk Pelaksanaan Mekanisme Kerjasama dan Koordinasi BI dan OJK (Juklak Mekor BI dan OJK)

Juklak Mekor covers eight areas, namely:

a. coordination and cooperation as well as exchange of information resulting from supervision of FSIs and Macro-Surveillance;

b. coordination and cooperation in the implementation of bank on-site supervision;

c. coordination and cooperation in the field of payment system;

d. coordination and cooperation as well as exchange of information for the purpose of the development of joint studies and/or researches;

e. coordination and cooperation as well as exchange of information related to Indonesia’s stance on issues on international fora;

f. coordination and cooperation as well as exchange of information for the purpose of dissemination to and education for the public;

g. coordination between BI’s domestic representative offices and OJK’s regional offices/offices; and

h. coordination concerning determination and updating of the list of systemic banks.

Guide for The Implementation of Cooperation and Coordination for the purpose of extending Short Term Liquidity Loans / Sharia Short Term Liquidity Loans as one of the follow ups of the ratification of the Act concerning Prevention and Handling of Financial System Crisis (PHFSC Act), which stipulates that banks which experience short term liquidity problems may submit requests for Short Term Liquidity Loans / Sharia Short Term Liquidity Loans from BI.

5. Coordination with BI related to membership of the Financial System Stability Committee

For the purpose of realizing financial system stability, on 17 March 2016, Act Number 9 of 2016 concerning Prevention and Handling of Financial System Crisis
(PHFSC Act) was passed. PHFSC Act has the objectives of setting measures for preventing and handling of financial system crisis conditions particularly through coordination between four institutions that are members of the Financial System Stability Committee (FSSC), comprising Minister of Finance as Coordinator, Governor of BI and Chairman of OJK’s Board of Commissioners as Members with voting right, and Head of Board of Commissioners of Deposit Guarantee Institution (DGI) as Member without voting right. With the existence of PHFSC Act, cooperation and coordination between members of FSSC cover four aspects, namely:

a. monitoring and maintenance of the financial system stability;

b. handling of financial system crisis;

c. handling of systemic bank problems (liquidity and solvency), both under a condition of normal financial system stability as well as a condition of financial system crisis; and

d. exchange of data and / or information required for the purpose of preventing and handling of financial system crisis.

As a follow up on the PHFSC Act, coordination undertaken between OJK and DGI among others is related to coordination for the purpose of the handling of bank problems, including the implementation of recovery and resolution plans. Meanwhile, coordination undertaken between OJK and BI among others is related to:

a. determination and updating of the list of Systemic Banks; and

b. extensions of Short Term Liquidity Loans, specifically concerning assessment of the fulfilment of collateral requirements, estimate of bank capacity to repay the Short Term Liquidity Loans, and joint supervision on banks which receive Short Term Liquidity Loans.
Draft OJK Regulation concerning Prevention and Handling of Financial System Crisis

As a follow up of Act Number 9 of 2016 concerning Prevention and Handling of Financial System Crisis (PHFSC), in 2017 OJK plans to issue regulations concerning Intermediary Banks, Determination of The Supervisory Status and Follow Up of Commercial Bank, and Recovery Plans for Systemic Banks.

1. Intermediary Bank
An Intermediary bank is a commercial bank established by the DGI to be used as a resolution vehicle that receives the transfer of part or all of the assets and/or liabilities of a bank that is handled by the DGI. Next, the intermediary bank will carry out banking business activities and will transfer its ownership to another party. An Intermediary Bank may be established and undertake business activities after having received a permit from OJK.

2. Determination of The Supervisory Status and Follow Up of Commercial Bank
Supervisory statuses for Systemic Banks and banks other than Systemic Banks comprise normal supervision, intensive supervision, and special surveillance with certain parameters for each supervisory status.
OJK sets supervisory measures that should be implemented by banks. These are preventive measures with the purpose of overcoming problems as early as possible so as not to disrupt the sustainability of bank businesses.

3. Action Plans (Recovery Plans) for Systemic Banks
A Systemic Bank should be able to set a plan for when the bank experiences a financial stress condition that can endanger the bank's business sustainability in the form of an Action Plan (Recovery Plan).
The Recovery Plan developed by a Systemic Bank shall contain various scenarios for the purpose of preventing, recovering, and/or resolving financial problems that endanger its business sustainability.
6. Forum Coordination in Information Exchange and Reporting System/ Forum Koordinasi Pertukaran Informasi dan Sistem Pelaporan (FKPISP)

For the purpose of transferring the bank supervision function from BI to OJK, Forum Coordination in Information Exchange and Reporting System/ Forum Koordinasi Pertukaran Informasi dan Sistem Pelaporan (FKPISP) has been established as a vehicle for harmonization, collaboration, and communication in the execution of information exchange as well as management of bank and financing company reporting systems.

In order to support cooperation and coordination between BI and OJK, the following have been agreed upon:

a. guide for the execution of FSI data/information exchange by BI and OJK;

b. guide for the execution of the right to access reporting applications and applications developed by BI and OJK; and

c. flow of coordination at the occurrence of changes and development of the reporting system.

The mechanism for data/information exchange between BI and OJK shall be executed as follows:

a. the method for information exchange shall be through an integrated information exchange facility;

b. BI and OJK shall provide/place data/information at an Integrated Information Exchange Repository Facility (IIERF). Development of IIERF shall be supported by the infrastructure of respective institutions and connected each other.

c. the method for data and/or information exchange shall use direct access to the applications;

d. OJK/BI shall have direct access right to several reporting applications and processing applications by OJK/BI which are used for the purpose of implementing their tasks in accordance with their respective authorities as stipulated in the implementing guidelines;

e. method for data and/or information exchange through other facilities; and

f. data and/or information exchange can be performed through e-mails, CDs, hard disks, host to host connections, or other media.
Figure 1.1: OJK’s Organization Structure

**BOARD OF COMMISSIONERS**

- **Member 1** Chairman
- **Member 2** Vice Chairman/Chairman of Ethics Committee
- **Member 3** Chief Executive of Bank Supervisors
- **Member 4** Chief Executive of Capital Market Supervisors
- **Anggota 5** Chief Executive of NBFI Supervisors
- **Member 6** Chairman of Board of Auditors
- **Member 7** In Charge of Consumer Education and Protection
- **Member 8** Ex-Officio Member from Bank Indonesia
- **Member 9** Ex-Officio Member from Ministry of Finance

**MANAGER OF OPERATIONAL ACTIVITIES**

- **ADK Bidang 1**
- **ADK Bidang 2**
- **ADK Bidang 3**
- **ADK Bidang 4**
- **ADK Bidang 5**
- **ADK Bidang 6**
- **ADK Bidang 7**

- **DKS 1**
- **DKS 2**
- **DKS 3**
- **DKS 4**
- **DKS 5**
- **OJKI**
- **DKB 1**
- **DKB 2**
- **DKB 3**
- **DKB 4**
- **DKM 1**
- **DKM 2**
- **DKI 1**
- **DKI 2**
- **DKAI**
- **DKEP**
II. BANKING

Banking refers to everything related to a bank, which includes the institution, business activities, as well as the procedures and processes involved in the execution of bank business activities.

A. Definitions

1. Bank are business entities that collect funds from the public in the form of deposits and channels the funds to the public in the form of credits and/or other forms for the purpose of enhancing the living standard of the community.
2. Commercial Bank (CB) are banks that conduct business activities in the conventional manner and/or based on sharia principles, which within its business activities provide services related to payment flows.
3. Rural Banks (RB) are banks that conduct business activities in the conventional manner or based on sharia principles, which not provide services related to payment flows.
4. Conventional Banks are banks that conduct business activities in the conventional manner. Based on the types, there are Conventional Commercial Banks (CCB) and Rural Banks (RB).
5. Sharia Bank are banks that conduct business activities based on Sharia Principles. Based on the types, there are Sharia Commercial Banks (SCB) and Sharia Rural Banks (SRB).
6. Sharia Principles are Islamic law principles in banking activities based on fatwa (legal decisions) issued by an institution that has the authority to determine fatwa in the field of sharia.

B. Bank Business Activities

1. Business Activities that can be undertaken by any CB are:
   a. collect funds from public in the form of deposits, comprising demand deposits (giro), term deposits, certificates of deposit, savings deposits, and/or other equivalent forms;
   b. extending credits;
   c. issuing promissory notes;
   d. buying, selling, or guaranteeing at own risks as well as for the interests and at the instructions of its customers, in the forms of:
      1) drafts/bills of exchange, including drafts accepted by banks, which validity periods are no longer than the norm in the trading of referred drafts;
      2) promissory notes and other commercial papers which validity periods are no longer than the norm in the trading of referred notes;
      3) state treasury bills and government securities;
      4) Certificates of Bank Indonesia (SBI)
      5) Bonds;
      6) commercial papers with maturity periods of up to one year; and
7) other commercial paper instruments with maturity periods of up to one year.

e. transferring money both for own interest as well as for the interests of customers;

f. placing funds at, borrowing funds from, or lending funds to other banks, using notes, telecommunication facilities, as well as sight drafts, checks, or other facilities;

g. receiving payments from claims on securities and making settlements with or between third parties;

h. providing deposit boxes for safe keeping of goods and securities;

i. undertaking custodial activities for the interests of other parties based on contracts;

j. undertaking fund placements from customers to other customers in the form of securities not listed at the stock exchanges;

k. undertaking factoring activities, credit card business, and trust activities;

l. providing financing and/or undertaking other activities based on Sharia Principles, in accordance with prevailing regulations;

m. conducting other activities commonly undertaken by banks as long as they are not in conflict with the Act concerning Banking and other prevailing legislations;

n. conducting activities in foreign currencies by complying with prevailing regulations;

o. undertaking capital participation activities at other banks or companies in the financial field, such as leasing business, venture capital, security company, insurance, as well as settlement and custodial clearing institution, by complying with prevailing regulations;

p. conducting temporary capital participation activities to resolve the impact of credit failure or financing failure based on Sharia Principles, with the requirement to withdraw its participation, by complying with prevailing regulations;

q. acting as the founder of pension funds and management of pension funds in accordance with the provisions of prevailing pension fund legislations; and

r. conducting bank business activities in the form of custodianship with management/trust.

2. Business Activities that can be undertaken by any SCB and any Sharia Business Unit (SBU) are:

a. collecting funds in the form of Deposits, comprising Demand Deposits (Giro), Savings Deposits, or other equivalent forms based on wadi’ah agreement or other agreement that are not in conflict with Sharia Principles;
b. collecting funds in the form of investments, comprising Deposits, Savings Deposits or other equivalent forms based on mudharabah agreement or other equivalent agreement that are not in conflict with Sharia Principles;

c. channeling yield-sharing financing based on mudharabah agreement, musyarakah agreement, or other agreement that are not in conflict with Sharia Principles;

d. channeling financing based on murabahah agreement, salam agreement, istishna agreement, or other agreement that are not in conflict with Sharia Principles;

e. channeling financing based on qardh agreement or other agreement that are not in conflict with Sharia Principles;

f. channeling financing for leases of movable or immovable properties to customers based on ijarah agreement and/or lease purchase in the form of Ijarah Muntahiya Bittamlık (IMBT) or other agreement that are not in conflict with Sharia Principles;

g. undertaking debt taken-overs based on hawalah agreement or other agreement that are not in conflict with Sharia Principles;

h. undertaking debit card and/or financing card businesses based on Sharia Principles;

i. buying, selling or guaranteeing at own risks third-party securities issued based on real transactions and Sharia Principles, such as among others ijarah, musyarakah, mudharabah, murabahah, kafalah, atau hawalah agreement;

j. buying securities based on Sharia Principles issued by the government and/or BI;

k. receiving payments from claims on securities and making settlements with or between third parties based on Sharia Principles;

l. providing deposit boxes for safe keeping of goods and securities based on Sharia Principles;

m. transferring money, both for own interest as well as for the interests of customers based on Sharia Principles;

n. providing letter of credit or bank guarantee facilities based on Sharia Principles;

o. conducting other activities common in the banking field and social field as long as they are not in conflict with Sharia Principles and in accordance with the provisions of prevailing legislations;

p. conducting foreign currency activities based on Sharia Principles;

q. conducting temporary capital participation activities to resolve the impact of financing failure based on
Sharia Principles, with the requirement to withdraw its participation;

r. conducting activities in the capital market as long as they are not in conflict with Sharia Principles and the provisions of prevailing legislations in the capital market field;

s. operating banking activities or products based on Sharia Principles by using electronic devices;

t. issuing, offering, and trading in short-term securities based on Sharia Principles through the money market, both directly as well as indirectly; and

u. providing SCB other products or undertaking other activities that are based on Sharia Principles.

3. In addition to activities referred to in number two above, business activities listed below can only be conducted by SCB, namely:

a. buying, selling, or guaranteeing at own risks third-party securities issued based on real transactions and Sharia Principles, such as *ijarah*, *musharakah*, *mudharabah*, *murabahah*, *kafalah*, or *hawalah* agreement;

b. undertaking custodianship for the interests of other parties based on agreement that are in accordance with Sharia Principles;

c. undertaking the function of trustee based on *wakalah* agreement;

d. conducting capital participation activities at other SCB or financial institutions that conduct business activities based on Sharia Principles;

e. acting as the founder and management of pension funds based on Sharia Principles; and

f. issuing, offering, and trading in long-term securities based on Sharia Principles through the capital market, both directly as well as indirectly;

4. Business Activities that can be undertaken by a RB are:

a. accumulation of funds from the public in the form of deposits, comprising term deposits, savings deposits, and/or other equivalent forms;

b. extending credits;

c. providing financing and/or fund placements based on Sharia Principles, in accordance with regulations set by Bank Indonesia; and

d. undertaking fund placements in the forms of Certificates of BI, term deposits, certificates of deposits and/or savings deposits at other banks.

5. Business Activities that can be undertaken by a SRB are:

a. collecting funds from the public in the forms of:

1) deposit in the form of savings deposit or equivalent forms based on *wad'iyah* agreement or other agreement that are not in conflict with Sharia Principles; and

2) investment in the form of a term deposit or
savings deposit or other equivalent forms based on *mudharabah* agreement or other agreement that are not in conflict with Sharia Principles.

b. channeling funds to the public in the forms of:
   1) yield-sharing financing based on *mudharabah* or *musyarakah* agreement;
   2) financing based on *murabahah*, *salam*, or *istishna* agreement;
   3) financing based on *qardh* agreement;
   4) financing for leases of movable or immovable properties to customers based on *ijarah* agreement or lease purchase in the form of IMBT; and
   5) debt taken-over based on *hawalah* agreement.

c. fund placements at other sharia banks in the form of trusts based on *wadi’ah* agreement or investments based on *mudharabah* agreement and/ or other agreement that are not in conflict with Sharia Principles;

d. transferring money, both for own interest as well as for the interests of customers, through the accounts of the SRB existing at SCB, CCB, and SBU; and

e. providing other products or undertaking other activities of sharia banking in accordance with Sharia Principles based on OJK’s approvals

6. Business Support Activities

Business support activities are other activities conducted by banks outside bank business activities. These business support activities are related to human resources, risk management, compliance, internal audit, accounting and finance, Information Technology (IT), logistics and security.

C. Business Activities Prohibited For Banks

1. CB are prohibited from conducting the following business activities:
   a. undertaking capital participation, except when related to the activities referred to in part B number 1 letter o and p in the explanation on CB Business Activities;
   b. conducting insurance business; and
   c. undertaking other businesses outside business activities referred to in part B number 1.

2. SCB and SBU are prohibited from conducting the following business activities:
   a. conducting business activities that are in conflict with Sharia Principles;
   b. conducting activities of selling and buying shares directly in the capital market;
   c. undertaking capital participations, except:
      1) conducting capital participation activities at
a SCB or Financial Institution that conducts business activities based on Sharia Principles and conducting temporary capital participation activities to resolve the impact of financing failure based on Sharia Principles, with the requirement to withdraw its participation (specifically for SCB); and

2) conducting temporary capital participation activities to resolve the impact of financing failure based on Sharia Principles, with the requirement to withdraw its participation (specifically for SBU);

d. conducting insurance business activities, except as a marketing agent of sharia insurance products.

3. RB are prohibited from conducting the following business activities:
   a. receiving deposits in the form of demand deposits (giro) and participating in payment flow;
   b. conducting business activities in foreign currencies except as a Foreign Currency Trader with OJK's approval;
   c. undertaking capital participations;
   d. undertaking insurance business; and
   e. undertaking other businesses outside those referred to in part B number 4.

4. SRB are prohibited from conducting the following business activities:
   a. conducting business activities that are in conflict with Sharia Principles;
   b. receiving deposits in the form of demand deposits (giro) and participating in payment flow;
   c. conducting business activities in foreign currencies except in foreign currency exchanges with OJK's approval;
   d. conducting insurance business activities, except as a marketing agent of sharia insurance products;
   e. undertaking capital participations, except in institutions established for overcoming liquidity problems of SRB; and
   f. undertaking other businesses outside business activities of SRB referred to in part B number 5.
CHAPTER 3

BANK REGULATION AND SUPERVISION
III. BANK REGULATION AND SUPERVISION

OJK grants and revokes licenses on certain banking institutions and business activities, sets regulations, conducts bank supervision as well as imposes sanctions on banks.

A. Objectives of Bank Regulation and Supervision

Bank regulation and supervision aim at optimizing the functions of Indonesian banking industry in order to create a banking system that is sound, both overall as well as individually, and able to well maintain the interests of the public, develops properly and beneficial for the national economy.

B. Authorities of Bank Regulation and Supervision

1. The right to license is an authority to set the procedures for bank licensing and establishment, which covers the granting and revocation of bank business licenses, granting of permits for opening, closing, and transferring bank offices, granting of approvals on bank ownership and management, granting of licenses to banks for conducting certain business activities.

2. The right to regulate is an authority to set regulations concerning banking business aspect and activities for the purpose creating a sound banking industry that is able to provide banking services desired by the public.

3. The right to control involves:
   a. on-site supervision, which comprises general examination and specific examination, with the objective of obtaining a picture of bank financial situation and monitoring bank compliance level to prevailing regulations, as well as finding out whether there are unsound practices that endanger bank business sustainability; and
   b. off-site supervision, which is supervision using monitoring tools such as periodic reports submitted by banks, reports of examination results, and other information.

4. The right to impose sanction is the authority to impose sanctions in accordance with the provisions of legislations on a bank when the bank does not fully comply or does not comply with regulations. This action contains an element of nurturing so that banks operate in accordance with sound banking principles.

5. The right to investigate in accordance with the law gives OJK the authority to perform investigations within the FSS, including in the banking sector. Investigations
shall be conducted by investigators in Republic of Indonesia's Police and Civil Servant officers in OJK. Results of investigations shall be submitted to public prosecutors for prosecutions.

C. Bank Supervision System

In carrying out bank supervision task, at present OJK runs its supervision system by using two approaches, namely:

1. Compliance Based Supervision (CBS), which is based on the monitoring of bank compliance to regulations that are related to bank operation and management in the past with the objective of ensuring that banks have operated and been managed properly and correctly in accordance with prudential principle. Supervision on the fulfilment of the compliance aspect is an integral part of the implementation of risk based bank supervision; and

2. Risk Based Supervision (RBS) is bank supervision that uses risk-based strategies and methodologies that enable bank supervisors to detect significant risks at early stage and take appropriate and timely supervisory measures.

Bank risk-based supervision/examination is performed on the following types of risks:
### Table 3.1. Types of Bank Risks

<table>
<thead>
<tr>
<th>Types of Bank Risks</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Risk</strong></td>
<td>Risk that arises from failure on the part of a counterparty in meeting its obligation.</td>
</tr>
<tr>
<td><strong>Market Risk</strong></td>
<td>Risk that arises from a movement in market variables (adverse movement) in a portfolio owned by bank that can cause a loss to the bank. Market variables are among others interest rate and exchange rate.</td>
</tr>
<tr>
<td><strong>Liquidity Risk</strong></td>
<td>Risk that is due to bank's inability to meet its obligations that have become due.</td>
</tr>
<tr>
<td><strong>Operational Risk</strong></td>
<td>Risk that is due to inadequate and/or non-functioning internal process, human error, system failure, or existence of an external problem that influences bank operation.</td>
</tr>
<tr>
<td><strong>Legal Risk</strong></td>
<td>Risk that is due to the existence of weaknesses in the juridical aspect. Juridical aspect weaknesses are caused among others by the existence of lawsuits, absence of supporting legislations or weaknesses in the agreements such as unfulfilment of agreement validity requirement or flawed collateral agreement.</td>
</tr>
<tr>
<td><strong>Reputation Risk</strong></td>
<td>Risk that is due to among others the existence of a negative publication related to bank business activities or negative perception on the bank.</td>
</tr>
<tr>
<td><strong>Strategic Risk</strong></td>
<td>Risk that is due to inaccuracy of a decision made and/or implementation of a strategic decision as well as a failure in anticipating changes in business environment.</td>
</tr>
<tr>
<td><strong>Compliance Risk</strong></td>
<td>Risk that is due to bank not complying or not executing the provisions of legislations and other prevailing regulations.</td>
</tr>
<tr>
<td><strong>Rate of Return Risk</strong></td>
<td>Risk arising from changes in rates of return paid by bank to the customers that are caused by changes in rates of return received by bank from funds channeling, which can influence the behavior of third-party fund customers of the bank.</td>
</tr>
</tbody>
</table>
### Types of Bank Risks

<table>
<thead>
<tr>
<th>Type of Risk</th>
<th>CCB</th>
<th>RB</th>
<th>SCB/SBU</th>
<th>Conglomerate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity Investment Risk</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Market Risk</td>
<td>√</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Liquidity Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Operational Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Legal Risk</td>
<td>√</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Reputation Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Strategic Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Compliance Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Rate of Return Risk</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Equity Investment Risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intra-Grop Transaction Risk</td>
<td></td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Insurance Risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Equity Investment Risk
Risk arising from the situation in which bank participates in bearing customer business losses financed in a yield-sharing based financing, those using the net revenue sharing method as well as those using the profit and loss sharing method.

#### Intra-group transaction risk
Risk that is due to dependency of one entity, directly or indirectly, on another entity in the same financial conglomerate for the purpose of fulfilling obligations under written as well as unwritten agreements, whether followed and/or not followed by fund transfers.

#### Insurance risk
Risk that is due to failure on the part of the insurance company to meet its obligation to the policy holders as the result of insufficient process for risk selection (underwriting), determination of premium (pricing), use of re-insurance, and/or handling of claims.

---

**Table 3.2. Matrix of Implementation of Risk Based Supervision**

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of Risk</th>
<th>CCB</th>
<th>RB</th>
<th>SCB/SBU</th>
<th>Conglomerate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>2</td>
<td>Market Risk</td>
<td>√</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>3</td>
<td>Liquidity Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>4</td>
<td>Operational Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>5</td>
<td>Legal Risk</td>
<td>√</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>6</td>
<td>Reputation Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>7</td>
<td>Strategic Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>8</td>
<td>Compliance Risk</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>9</td>
<td>Rate of Return Risk</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Equity Investment Risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Intra-Grop Transaction Risk</td>
<td></td>
<td></td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>12</td>
<td>Insurance Risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
D. Banking Information System For The Purpose Of Supporting Bank Supervision Task

1. Bank Information System

Bank Information System/Sistem Informasi Perbankan (SIP) is an information system used by bank supervisors in analyzing a bank’s condition, performing assessment of Bank Soundness Level by using Risk Based Bank Rating (RBBR), speeding up access to information on bank’s financial condition, enhancing security and integrity of banking data and information. SIP is developed for the purpose of supporting bank supervision task through quality information, by providing the following functions:

   a. as a business tool while at the same time a medium for rapid information presentation up to the strategic level;
   b. providing information at macro level, individual bank level, as well as other information related to bank business environment; and
   c. integrating data which is currently scattered in different systems.

SPRINT for Banking

Sistem Perizinan dan Registrasi Terintegrasi (SPRINT) is the development of the banking E-Licensing application, which has been implemented since May 2015. The banking E-licensing application has the feature of online tracking, which includes institutional licensing and Fit and Proper Test of New Entry in the CCB and RB/SRB categories, including product licensing for sharia banking.

For information, the licensing process within the OJK is divided into two, namely Solo Licensing (licensing that only involves one compartment) and Interconnected Licensing (licensing involving more than one compartment).

OJK has started to develop the SPRINT application for the Banking sector since 2016. The SPRINT application is an application used for submitting various types of licensing processes at OJK from all actors of the financial services
industry under the authority of OJK. The application is expected to be able to accommodate the needs of the banking industry to undertake online licensing processes, which involve document upload (digital documents) directly through the system and online tracking system. Development scope of the banking SPRINT application is being expanded in stages since 2016 so that in the end all licensing existing at OJK will be able to be requested through one application. Objectives for the development of the SPRINT application are as follows:

a. to provide ease in the licensing process as well as to reduce the frequency of correspondence and face-to-face meetings to complete the requirements;
b. to assist parties from banks to monitor each stage of the licensing process as the materialization of transparency in the licensing process;
c. to provide ease in submission of information updates related to banking licensing, covering among others information related to licensing regulations and submission of complete licensing documents; and
d. to speed up the licensing process and to provide excellent services to the banking industry

Development scope of the banking SPRINT application is being expanded in stages since 2016 so that in the end all licensing existing at OJK will be able to be requested through one application. At present, the SPRINT application has been developed for the interconnection licensing, which are Bancasurveillance as well as integrated Public Accountant and Public Accounting Firm Licenses. In 2018, it is hoped that the SPRINT application will be able to be used for submitting institutional licensing as well as Fit and Proper Test of CCB.

Considering the licensing process that uses the SPRINT application has an impact in a change in the current business licensing process, OJK will make adjustments on the regulation side.

2. RB Supervision Management Information System

For the purpose of implementing RB supervision function, OJK has implemented the following information systems:

a. an online reporting system that enables RB to submit online periodic reports to OJK through BI
so that report submission can be more effective and efficient. There are four types of online periodic reports that are submitted by RBs, namely: Monthly Report, Report on Legal Lending Limit, Report on SID, and RB Condensed Financial Statement; and

b. data processing system, which is developed to eliminate data input repetition and as such to minimize human errors and data inconsistency. Data of RB periodic reports received by OJK is processed for the purposes of supervision and statistics. Statistical data is required particularly as the supporting material for policies related to the development of the RB industry.

As an effort for enhancing the quality of RB supervision, development of RB information systems are directed towards a more focused supervision system, covering off site as well as on site supervision, on the conditions being faced by RBs. The RB’s Early Warning System (EWS) is implemented to support off site monitoring of RB conditions, and then to supplement assessment of RB soundness level that is conducted periodically. Results of EWS analysis are intended to be used in determining focus of the supervision to be undertaken by the supervisors, which is expected to enhance the effectiveness and efficiency of on site supervision.

In addition, the RB’s Enterprise Data Warehouse is developed with the expectation of being an effective vehicle for monitoring and presenting information on the overall RB condition as input in determining policies to be adopted.

3. Debtor Information System
Debtor Information System/Sistem Informasi Debitur (SID) is a system that provides debtor information resulting from the processing of debtor reports, both individuals as well as business entities, which is developed among others to support bank supervision task as well as to support the operational activities of Non-Bank Financial Industry (NBFI), particularly in relation to the handling of risk management. Information collected in SID includes debtor core data, business entity management and owners, information on fund provision facilities received by debtors (credits, managed credits, securities, irrevocable L/C, bank guarantees, participations, and/or other claims), collaterals, guarantors, and debtor financial reports.
Development of Sistem Layanan Informasi Keuangan
With the enactment of Law of The Republic Indonesia Number 21 of 2011 on Financial Services Authority, since 31 December 2013, management and supervision of SID as well as implementation of the information exchange system between financial institutions have become the tasks and authorities of OJK. For the purpose of implementing the tasks of OJK as well as in consideration of the development of business needs, development of technology, and regulatory changes, OJK deems it necessary to develop a SID that is reliable and integrated as well as follows international best practices.

At the beginning of its implementation, Sistem Layanan Informasi Keuangan (SLIK) will provide debtor information service in replacement of the role of SID that is currently managed by BI. For the purpose of creating a SLIK that is reliable and capable of meeting the needs of the financial services industry, SLIK will widen number of reporters and coverage of data by incorporating all FSIs comprising CB, RB/SRB, and Non-Bank Financial Industry. Roadmap of SLIK development and data coverage are depicted in the figure below:

Figure 3.2. Roadmap for Development and Data Coverage of SLIK

April 2017
April 2017, Real data reporting is obligatory for all SID reporters (CBs, RCBs/SRCBs, Financing Institutions, and Other FSIs)

Jan 2018
Fully Operated

Dec 2022
Dec 2022, Obligatory Membership for all VCCs, IFCs and other FSIs that provide funds (Pawn Companies, MFIs, etc.)

Apr 2017
Launching SLIK

Dec 2018
Dec 2018, Obligatory Membership for all RCBs/SRCBs and financing institutions

Pararel Run SID BI s/d Des 2017
At present, OJK is developing an OJK Regulation and an OJK Circular Letter concerning SLIK that are targeted to complete in Semester I of 2017 and is going to be implemented together with the implementation of SLIK. The OJK Regulation will govern the reporting of and requests for debtor information through SLIK.

Credit Reporting System
The Credit Reporting System (CRS) that is going to be implemented in Indonesia is a dual system concept so that in Indonesia in the future there will be a Public Credit Registry (PCR) managed by OJK and a number of Private Credit Bureus (PCB) managed by private parties. This concept will synergize the role of OJK as the authority in charge of collecting data from FSI and the power of private sector in developing innovations that will produce various information products and services required by FSI. The dual CRS concept in Indonesia is described as follows:

On the side of PCR, at present OJK is developing SLIK, which is a system that will replace SID that is currently managed by BI. SLIK will be useful for supporting OJK’s tasks as well as assisting the public and FSS’s actors in making decisions on financing and investments.
future, SLIK will be further developed to support financing and investments in the capital market and NBFI, as well as provide market intelligence.

On the side of PCB, a PCB in Indonesia is known with the name of Lembaga Pengelola Informasi Perkreditan (LPIP) regulated in BI Regulation Number 15/1/PBI/2013 concerning LPIP and BI Circular Letter Number 15/49/DPKL dated 5 December 2013 concerning LPIP. A LPIP is an institution or agency that collects and processes credit data and other data to produce value-added credit information such as credit profile and credit scoring, customer monitoring, credit alerts, and Small Medium Enterprise (SME) grading. A LPIP can undertake cooperation with financial and non-financial institutions in order to widen and enrich the coverage of credit data and other data. In 2015, OJK has issued 2 licenses to LPIP, namely PT Kredit Biro Indonesia Jaya and PT PEFINDO Biro Kredit. BI has undertaken channeling of credit data originating from SID to these two LPIP.

E. Bank Preliminary Investigation

Banks, as intermediation institutions, are often used as the vehicles and/or targets for the unlawful enrichment of selves, family members, or certain groups which can ultimately lead to the banks experiencing structural problems. Such actions can be done either by Members of the Board of Commissioners and Board of Directors, employees, affiliated parties, owners/shareholders of the bank, or other parties, in which, if no preventive measures (to prevent the recurrence of such actions) and repressive measures (on parties proven to have committed such actions) are taken, may cause a decline in the level of public confidence in the banking system.

Law of The Republic of Indonesia Number 21 of 2011 on Financial Services Authority has given a mandate to OJK on the regulation and supervision of banks. In performing bank supervision task, OJK may find deviations from banking regulations, both those of administrative nature as well as those that have indications of banking criminal offenses. The handling of deviations from banking regulations that have indications of banking criminal offenses need
to be made cautiously in order to avoid impacts that might influence bank reputation and for the purpose of creating a banking system that is sound, which in turn supports financial system stability.

Information on deviations from banking regulations that have indications of banking criminal offenses may come from results of bank supervision and/or other parties. In the event the handling of these deviations needs to be followed up with investigations, the investigations will be conducted on the bank’s affiliated parties and/or other parties that use the bank as a vehicle and/or target. In addition, OJK has the authority to impose administrative sanctions on banks in accordance with prevailing legislations.

The investigation methodology used for finding out deviations that have occurred and the related parties as well regulations that have been violated involves among others:

1. undertaking of a research/review of preliminary supporting documents and information received to identify quality and quantity of the suspected banking criminal offenses that have occurred;
2. undertaking of meetings/clarification sessions/interviews with the Board of Directors, bank officers/staff or other parties in order to obtain information that will further clarify the position of the case;
3. undertaking on the spot check of the object of the investigation, for example, through a direct visit to the customer’s address in order to find out the existence and validity of the information; and
4. collecting additional supporting documents related to the indications of suspected banking criminal offenses.

In accordance with the formulation of banking criminal offences stipulated in Articles 46 up to 50A of Act No. 7 of 1992 concerning Banking as amended by Act No. 10 of 1998 or Article 59 up to 66 of Act No. 21 of 2008 concerning Sharia Banking, deviations from banking regulations that have indications of banking criminal offenses are differentiated in their relation to:

1. Licenses, including among others accumulation of funds from the public in the form of deposits without the approval of OJK.
2. Bank secrecy, including among others:
   a. enforcing bank or affiliated parties to provide
explanations concerning deposit customers and their deposits without a written instruction or approval from OJK;

b. providing explanations that should be kept confidential; and

c. not providing explanations that should be provided for the purposes of taxes and bank receivable settlements, the interests of justice in criminal cases, as well as at the requests, approvals, or authorizations of deposit customers.

3. Bank supervision, including among others bank obligation to submit to OJK information and explanations on their businesses and obligations.

4. Bank business activities, including among others:

a. false recording, deliberate elimination of or omission to make records in the accounting books, as well as obscuring, changing, hiding, deleting, or elimination records from accounting books;

b. requesting or accepting, approving or permitting to receive a reward for personal gain in carrying out bank operational activities;

c. neglecting to take measures necessary for ensuring bank’s compliance to the provisions of prevailing legislations; and

d. giving instruction for the execution or non-execution of actions that cause bank not performing steps necessary for ensuring bank’s compliance to the provisions of prevailing legislations.

When the investigation results find the existence of suspected banking criminal offences that have been made by affiliated parties and/or other parties, the cases are further handed over to OJK’s work unit that performs the investigation task.

F. **Bank Investigation**

As mandated in Article 9 of Law of The Republic of Indonesia Number 21 of 2011 on Financial Services Authority, in order to perform the supervision task, OJK has the authority to undertake investigations on FSIs, actors, and/or financial service support activities as referred to in legislations prevailing in the FSS.

OJK’s Investigators are Investigation Officers of the
In order to create effective coordination between supervisory institutions in the field of public fund accumulation and investment management as well as with other law enforcement officers, regulators, supervisory institutions, and law enforcers have established Task Force for Investment Alert/Satgas Waspada Investasi (SWI) through Chairman of Capital Market and Financial Institution Supervisory Agency Decree Number Kep-208/BL/2007 dated 20 June 2007 for 2007 work period that is renewed annually. At the beginning of the formation of SWI, regulators and supervisory institutions as well as law enforcement officers who were its members were the Capital Market and Financial Institution Supervisory Agency, Ministry of Trade, the Police's Criminal Investigation Agency, as well as Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK).

After the handover of the tasks and functions of the Capital Market and Financial Institution Supervisory Agency to OJK, Chairman of Capital Market and Financial Institution Supervisory Agency Decree Number Kep-208/BL/2007 dated 20 June 2007 was superseded by OJK's Board of Commissioners Decree Number 01/KDK.04/2013 dated 26 June 2013.

OJK's Board of Commissioners Decree Number 01/KDK.04/2013 dated 26 June 2013 was latest superseded by OJK's Board of Commissioners Decree Number 01/KDK.01/2016 dated 1 January 2016 concerning Establishment of Task Force for Handling of Suspected Unlawful Actions In The Field of Public Fund Accumulation and Investment Management. Based on this OJK's Board of Commissioners Decree, OJK is mandated to carry out the task as Chairman of SWI. OJK's task as Chairman of SWI is to coordinate the prevention and handling of suspected unlawful actions in the field of public fund accumulation and investment management.

In order to strengthen the function of SWI, a Memorandum of Understanding concerning Coordination of The Prevention
and Handling of Suspected Unlawful Actions In The Field of Public Fund Accumulation and Investment Management has been signed by the heads of seven ministries and/or institutions on 21 June 2016. The Memorandum of Understanding has been developed as SWI’s legal umbrella for strengthening joint commitment between the Ministries/Institutions in the implementation of SWI’s main tasks. In addition, SWI and the Indonesian Direct Selling Association have agreed upon Cooperation in The Prevention and Handling of Suspected Illegal Investment Practices with the Pyramid Scheme System dated 3 August 2016.

**Membership of SWI Head Office**
Membership of SWI Head Office is as follows:
1. OJK;
2. RI’s Public Prosecutor;
3. RI’s Police;
4. RI’s Ministry of Trade, in this respect Directorate Generale of Domestic Trade and Commodity Futures Trade Supervisory Agency;
5. RI’s Ministry of Communication and Information;
6. RI’s Ministry of Cooperation and Small- and Medium-Scale Enterprises; and
7. Capital Investment Coordination Agency.
SWI’s secretariat is located at OJK’s Head Office. SWI is obliged to submit reports related to task implementation to OJK’s Chairman of Board of Commissioners periodically.

**Establishment of SWI Regional Work Teams**
The rise of activities in public fund accumulation and investment management without permits or misuses of licenses that have occurred in different regions in Indonesia necessitates the establishment of SWI Regional Work Teams in order to ensure optimum, efficient, and quick responses by SWI Regional Work Teams on complaints and/or reporting from the public.

SWI Regional Work Teams have been established in order to increase the effectiveness of the operational level coordination of the technical implementation of the Memorandum of Understanding on Coordination of The Prevention and Handling of Suspected Unlawful Actions In The Field of Public Fund Accumulation and Investment Management by the heads of seven ministries and/or institutions. In order to achieve that objective, the SWI Regional Work Teams are tasked to inventorize and analyze cases of suspected
illegal investments as well as undertake coordination with related agencies in accordance with the fields, including the possibility of joint investigations and reporting to local police offices.

The establishment of SWI Regional Work Teams is expected to give benefits not only to certain groups but also to FSIs and the Public.

1. Benefits for FSIs are:
   a. revive public interest and trust in financial service products being offered; and
   b. increase income, both from the side of third-party funds as well as the side of lending, and thus support economic growth.

2. Benefits for the public are:
   a. the public can more quickly obtain information related to activities of unlawful accumulation of public funds and investment management;
   b. reduce the potential for losses due to less effective handling;
   c. provide ease to the public in lodging reports and/or questions related to activities of fund accumulation and investment management without permits and have loss potential; and
   d. avoidance from investment activities on unclear financial instruments.

Accessing and submitting information related to illegal investments can be made through:

Website : waspadainvestasi.ojk.go.id
Email : waspadainvestasi@ojk.go.id
Telephone : 1 500 655

G. Customer Education and Protection

Article 4 of Law of The Republic of Indonesia Number 21 of 2011 on Financial Services Authority states that one of the tasks of OJK is to provide protection for the Consumers and/or the public. In relation to Consumer protection, this Act states that:

1. A Financial Service Institution is an institution that conducts activities in the Banking, Capital Market, Insurance, Pension Fund, Financing Institution sectors and other Financial Service Institutions.

2. Consumers are parties who place their funds and/or utilize services provided at FSIs, covering among others customers at Banks, investors at Capital Market, police holders at the Insurance sector, as well as participants in Pension Funds, based on legislations applicable in
For the purpose of implementing Consumer protection, OJK has issued OJK Regulation Number 1/POJK.07/2013 concerning Financial Services Sector Consumer Protection, which states that Financial Services Business Actors (FSI) are Commercial Banks, Rural Banks, Security Companies, Investment Advisors, Custodian Banks, Pension Funds, Insurance Companies, Re-insurance Companies, Financing Institutions, Pawn Companies, and Guarantee Companies, covering those that conduct business activities in conventional manner as well as based on sharia principles. This regulation stipulates the obligation of FSI to provide financial education to the Consumers and/or public so that they can better understand the basic features, rights, obligations prior to and when utilizing financial products / services. This can reduce the potential for Consumer losses due to lack of understanding/lack of clarity/erroneous information given by FSI.

In addition, with regards Consumer protection, FSIs are obliged to apply transparency principle, fair treatment, reliability, Consumer data/information confidentiality and security, and complaint handling, as well as settlements of disputes with the consumers in a simple, quick, and financially affordable manner.

OJK has two approaches in performing its function in the field of FSS consumer education and protection, namely:

1. Preventive actions

Preventive actions are carried out in the forms of regulation and implementation in the field of consumer education and protection. Education, which is preventive in nature, is required as the initial step for enhancing financial literacy of the public so that they have a good understanding of financial service products and services (including basic features, benefits and risks of financial service products and services, as well as the rights and obligations of financial consumers).

Preventive activities can be conducted through various media and ways, namely:

a. provision of financial information and education, whether directly (face to face), through public service advertisements, and through online media (sikapiuangmu.ojk.go.id, dan media sosial);

b. consumer and/or public complaint service through OJK’s Consumer Services;
c. market intelligence for preventing potential losses on the part of the consumers;
d. self assessments submitted by FSI;
e. Thematic Surveillance; and
f. suspension of activities or other actions.
In addition to providing education and conveying information, OJK should also ensure that products and services made available by FSI meet the consumer protection principle.

OJK Circular Letter No. 12/SEOJK.07/2014 concerning Provision of Information For The Purpose of The Marketing of Financial Service Products and/Or Services governs the offering of FSIs' products/services through personal communication devices (telephone, text message service, email, and equivalent devices) or direct visits that are often felt to be annoying by the Consumers and/or public. The following are points that FSIs should comply with in giving offers of products/services through personal communication devices, namely:

a. communication may only be made on Monday through Saturday, but not on national holidays, from 08.00 – 18.00 local time, except at the agreements or requests of candidate Consumers or Consumers.
b. inform the name of the FSI and explain first the purpose and objective before offering the FSI’s products and/or services; and
c. in the case the FSI is using a personal communication device in the form of telephone:
   1) the FSI should make available and use a voice recording device;
   2) when required as evidence of the existence of a legal action undertaken by a Consumer and the FSI at Court and/or when required by the Supervision Department, a printed copy and/or letter signed by the Consumer should be presented; and
   3) the voice recording device that records the Consumer’s approval presented in printed form can be treated as the equivalent of a written approval statement signed by the Consumer.

2. Repressive Actions
Repressive actions are undertaken in the forms of complaint settlements, facilitations for dispute settlements, suspensions of activities or other actions, and legal defenses to protect consumers. OJK undertakes preventive and repressive actions that are
3. Integrated Consumer Services OJK

Establishment of Integrated Consumer Services is one of the implementation forms of the mandate of the Act concerning OJK in its effort to provide education and protection for the Consumers and public against violations of the Act and regulations applicable in the FSS under the authority of OJK. There are several ways to access these services, namely:

Telepon : 1500-655
E-Mail : konsumen@ojk.go.id
Faksimili : (021) 386-6032
Website : http://konsumen.ojk.go.id
Mobile Apps : Android, iOS
SikapiUangmu (QR Code)

Figure 3.4. Consumer and Public Protection

directed at financial inclusion and financial system stability. Repressive actions are executed through:

a. facilitations for complaint settlements; and
b. legal defenses for Consumers (by instructing FSBAs to settle Consumers’ complaints).
1. Investor Alert Portal
   List of investment companies that are not listed at and not under the supervision of OJK, which functions as a reminder for the investors to be cautious in undertaking investments in order to minimize losses due to illegal investment practices.

2. Financial Information
   A collection of articles concerning finance, which provides information and tips on financial products and services.

3. OJK's Consumer Services
   Consumers and/or the public may submit information, questions, and complaints.

4. Educational Activities
   It presents all educational activities undertaken by OJK.

5. Financial Plan
   It assists consumers and/or the public in planning and managing personal finance.

6. Financial Calculator
   It provides financial simulations for financial planning and management.

7. Short Survey
   On Short Opinion Poll on financial literacy.

For the purpose of providing consistent services, meeting prevailing regulations, achieving Consumer/public satisfaction, and performing continuous enhancement, OJK's Consumer Services has implemented and obtained ISO 9001:2015 certification since 24 November 2016.

Figure 3.5. Logo of OJK's Consumer Services
ISO 9001:2015

There are three types of Consumer Services OJK that the public can have, namely:

a. a place for the Consumers to convey information;

b. a place for financial Consumers and the public to ask questions;

c. a place for the Consumers to lodge complaints related to products and / or services developed and offered by FSI under the authority of OJK. Specifically in regard
the lodging of complaints, complete documents are required as follows:
1) evidence that the complaint has been lodged at the related FSI and / or its answer;
2) complete personal identity;
3) description of complaint; and
4) supporting documents (if any)
Consumers and/or the public will not be charged for obtaining all above mentioned services.
In addition, Customer Services OJK have been supported by the Integrated Consumer Service System that has the following features:

a. Trackable
With a trackable system, Consumers are able at any time to know about the progress of complaints that have been lodged at OJK.

b. Traceable
With a traceable system, FSI are able to know the resolution process of complaints or disputes that cannot be settled between the FSI and their Consumers, for which the Consumers have requested settlement facilitation from the OJK.
Figure 3.6. Infographics of OJK’s Consumer Services

**COMMUNICATION DEVICES**

**LETTERS**
Member of OJK’s Board of Commissioners in charge of Consumer Education and Protection, Menara Radius Prawiro 2nd Floor, Kompleks Perkantoran Bank Indonesia, Jl. MH. Thamrin No. 2 Jakarta

**WEBSITE**
sikapiuangmu.ojk.go.id

**EMAIL**
konumen@ojk.go.id

**TELEPHONE**
1500655

**FAX**
021-386-6032

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**INFORMATION RECEIPT SERVICE**

Receipt of INFORMATION → information material REVIEW process → Submission of Response (optional) → SUBMISSION of information to related work unit/institution (optional)

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**INFORMATION PROVISION SERVICE**

QUESTION → question REVIEW available → Submit a Response not available → COORDINATION with related work unit/institution
COMPLAINT REQUIREMENTS

COMPLAINT MATERIALS
- VALUE of dispute
- SETTLEMENT already ATTEMPTED with FSBA
- Of CIVIL nature
- NOT dispute under judicial process
- Never been facilitated by OJK or other dispute settlement institutions

WRITTEN REQUEST containing the chronology & supporting documents of the complaint
- proof of PERSONAL IDENTITY

Proof of REPORTING to FSBA

STATEMENT that the dispute is not under judicial process or being facilitated by another dispute settlement institution

CONSUMER COMPLAINT SERVICE

ADMINISTRATIVE verification
DOCUMENT COMPLETENESS request

agreement
LIMITED facility
appointment of FACILITATOR
FURTHER verification

agreement MONITORING
LAPS

SUPERVISOR

20 HK

Dispute

OJK

PUJK
4. Internal Dispute Resolution Standard (IDR Standard)

OJK expects that each FSI can implement IDR standard to realize excellent consumer protection. Broadly, an IDR standard has three important benefits for a FSI, namely: encouraging the FSI to have a guide / basis for developing a minimum Standard Operating Procedure (SOP) for the implementation of consumer services; providing certainly in business process / mechanism related to IDR; and encouraging good settlements of complaints on the sides of the FSI and Consumers.

Implementation of IDR Standard should be based on nine principles:

a. Visibility
   A FSI publicizes the procedure for lodging Complaints to Consumers, public, and other stakeholders.

b. Accessibility
   A FSI has a facility for Complaint Handling service that is easily accessible for the Consumers.

c. Responsive
   A FSI immediately handles, follows up and settles Consumer Complaints as well as provides clear information on the statuses and results of Complaint Handling to the Consumers in accordance with prevailing procedures and regulations.

d. Fair Treatment
   A FSI handles each Consumer Complaint in a fair, objective, and impartial manner.

e. Cost of Complaint Service
   A FSI does not impose charges on Complaint Handling, except for other services requested by the Consumer outside those already made available by the FSI, which amounts are communicated to and approved by the Consumer and are verifiable.

f. Data Confidentiality
   A FSI saves guard the confidentiality of information concerning Consumers who have lodged complaints against any party whosoever, except when required by OJK for the purpose of settling complaints, required by legislations and/or with the approvals of the Consumers.

g. Focus on Consumer
   A FSI, in a balanced manner, pays attention to the interests of Consumers through commitment and implementation in Complaint settlements without neglecting the rights and obligations of both parties.

h. Accountability
   A FSI has clear functions, structures, systems,
rights and obligations, responsibilities, and authorities, both on the parts of the FSI as well as the Consumers, in relation to implementation, reporting, as well as decision making by FSI on Complaint Handling.

i. Continuous Improvements
A FSI undertakes continuous improvements on Complaint Handling process in order to enhance the quality of products and/or services. In implementing complaint handling, a FSI is obliged to perform follow ups and settlements of complaints within no later than 20 working days, with a time extension of no later than the next 20 working days by giving written notices to the Consumers prior to the expirations of the set time periods (under certain conditions).

Figure 3.7. Infographics of IDR Standard

<table>
<thead>
<tr>
<th>EFFICIENCY &amp; EFFECTIVENESS</th>
<th>FAIRNESS &amp; INDEPENDENCE</th>
<th>ACCESSIBILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of a work unit/FUNCTION for the handling of complaints which is accountable to the board of directors</td>
<td>owning INTERNAL CONTROL system that performs internal AUDIT function</td>
<td>services for &amp; settlement of complaints by FSBA</td>
</tr>
<tr>
<td>provision of supporting TRAINING for employees at minimum 1 time during their service periods</td>
<td></td>
<td>for complaint services &amp; settlement at PBSA Work Unit</td>
</tr>
<tr>
<td>SHOULD own PROCEDURE and SERVICES for complaint settlement</td>
<td>FOLLOW UP on complaints</td>
<td></td>
</tr>
<tr>
<td>provision of ACCESS to complaint monitoring by OJK</td>
<td>provision of INFORMATION on STATUS of complaints</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PROHIBITION to impose charges</td>
<td></td>
</tr>
</tbody>
</table>

SETTLEMENT FORM
Complaint

- existence of DISCREPANCIES in agreement
- existence of MATERIAL loss
- consumption has met the OBLIGATION
- related to FINANCIAL aspect

REQUIRED IDENTITY & INFORMATION

MECHANISM

- SHOULD own PROCEDURE and SERVICES for complaint settlement
- provision of ACCESS to complaint monitoring by OJK
- FOLLOW UP on complaints
- provision of INFORMATION on STATUS of complaints
- PROHIBITION to impose charges

REPORTING

- reported PHYSICALLY and ELECTRONICALLY
- submitted every 3 MONTHS on the 10th
- imposition of SANCTION of payment penalty on FSA that is late in submitting/does not submit report

5. Alternative Dispute Resolution Bodies
Dispute settlements through Alternative Dispute Resolution Bodies/Lembaga Alternatif Penyelesaian Sengketa (LAPS) are made when dispute settlements between consumers and FSI, known as IDR, do not reach agreements. LAPS provides dispute settlement services that can be accessed easily, are quick,
The banking sector already has the Indonesian Banking Alternative Dispute Settlement Bodies/Lembaga Alternatif Penyelesaian Sengketa Perbankan Indonesia (LAPSPI), which has started to operate at the beginning of 2016.

Types of services provided by LAPSPI:

a. **Mediation**
   A method for settling disputes through a third party (mediator) to help the disputants to reach an agreement.

b. **Adjudication**
   A method for settling disputes through a third party (adjudicator) which will make a decision on a dispute that arises between the referred parties. An adjudication decision is binding on the parties concerned if the consumer accepts it. In the event the consumer rejects the decision, the consumer may seek another resolution effort.

c. **Arbitration**
   A method for settling a civil dispute of court based on an arbitration agreement made in writing by the disputants. An arbitration decision is final and binding on the parties.

![Figure 3.8. Infographics of LAPS](image)
6. Market Conduct
For the purpose of creating and developing the FSS and enhancing Consumer protection, OJK undertakes Consumer protection monitoring and analysis by using the Self Assessment by FSI method and Thematic Surveillance. The Self Assessment is one of the techniques for Consumer protection monitoring by the filling out of a working paper that describes the condition of Consumer protection implementation performed by a FSI through the implementation of:

a. provision of education;
b. conveyance of information for the purpose of the marketing of financial service products and/or services;
c. standard agreements between Consumers and FSI;
d. confidentiality and security of Consumer personal data and/or information;
e. consumer complaint services and settlements by FSI; and
f. services for the purpose of dispute settlements.

Based on results of the Self Assessments, OJK conducts analyses that are verified against the complaint reports, market intelligence results, mystery shopping, and supervision database. Results of thematic surveillance analyses, in which results of initial analyses are compared with results of implementation of the thematic surveillance activities, through Consumer protection policy as well as market intelligence results, are further discussed to come up with recommendations for the bank supervision work unit to perform supervisory actions (imposition of sanctions).

Figure 3.9. Method for Monitoring and Analyzing Consumer Protection

<table>
<thead>
<tr>
<th>Method for Monitoring and Analyzing Consumer Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self Assessment</strong></td>
</tr>
<tr>
<td>The consumer protection monitoring and analyzing process in FSS is executed through the filling out of working papers by FSBA as referred to in the guide for consumer protection monitoring and analyzing in FSS.</td>
</tr>
<tr>
<td><strong>Thematic Surveillance</strong></td>
</tr>
<tr>
<td>The Consumer Protection Monitoring and Analyzing Process in FSS is based on the theme of being applicable on FSBA products and/or services that have loss potentials for the Consumers</td>
</tr>
</tbody>
</table>
Tips on Secured Internet Banking

1. Protect the computer with anti-virus, spyware filter, and e-mail filter softwares as well as firewall program.
2. Immediately contact and report to the FSI whenever there is something suspicious.
3. Do not answer any e-mail that requests for personal information. A FSI will never request personal information such as Personal Identification Number (PIN) or password.
4. Ensure that you are accessing the correct website address of the FSI’s internet banking. Do not click on a website address that is deliberately misspelled or is similar with the genuine address.

Tips on Investment Characteristics To Cautious Of

1. Offering extremely high rate of return.
2. Guarantee of free risk investment.
3. Giving huge bonuses and cash backs for members who can recruit other members.
4. Misuses of the testimonies of community leaders for giving effects of endorsement and trust.
5. Promises of ease in withdrawals of assets already invested and security guarantee on assets already invested (ease, flexibility, and security).
6. Buy back guarantee without write down.
7. A Surat Izin Usaha Perdagangan/SIUP (Trading Business License) is not a license for accumulating public fund and managing investments.

Tips on Consumer Protection

1. First, review the profile of FSI that offers the products or services.
2. Review whether the products or services offered have received approvals or are listed at the OJK.
3. Read carefully each information or contract related to the products or services offered by the FSI and request
49

explanations when required, in order to have clear understanding of all matters prior to buying or signing any contract / agreement.

4. FSI is obliged to give a copy of contract / agreement to the Consumer.

5. Be cautious of any attractive offer or advertisement that promises a much higher return than the common practice, and immediately lodge a report or complaint to OJK whenever a problem arises in relation to a product or service already used by the Consumer.

Figure 3.10. Illustration of a Case of Fund Accumulation Without Permit

Bata, Bate, Bati and Batu with various ways to attract the attention of the public to accumulate funds at PT Bata Bersaudara

The public trusts and is interested to become members and place funds at PT Bata Bersaudara

In 2 years period, funds amounting to Rp800 billion from 7,000 people were accumulated

Bata obliged the members to find candidate new members, but many members refused and became angry

Public members who were members began to be worried and requested early fund disbursements.

After year 3, PT Bata Bersaudara began to have difficulty in finding new members, and thus payments of interests to members began to stall

PT Bata Bersaudara did not have a permit from OJK for accumulating funds from the public. Members lodged a complaint on this problem to Law Enforcement Officer.
CHAPTER 4

BANKING DEVELOPMENT AND POLICY DIRECTION
IV. BANKING DEVELOPMENT AND POLICY DIRECTION

A. Banking Sector Development in 2016

OJK encourages Financial Services Industry to step up its contributions in promoting economic growth, as well as in increasing public purchasing power and equitable distribution of income so that it can assist the Government in the effort to enhance public welfare with the focus of reducing poverty and unemployment level.

OJK has issued a number of strategic initiatives related to banking in the context of expanding public and Micro, Small, and Medium Enterprise (MSME) financial access in the regions, namely:

1. optimizing work program that has been initiated with Financial Services Industry, government, and BI, comprising among others Non Office Based Financial Services in the context of Inclusive Finance/Layanan Keuangan Tanpa Kantor dalam rangka Keuangan Inklusif (Laku Pandai) program, Student Savings/Simpanan Pelajar (Simpel) Program, Reach, Synergym and Guideline/Jangkau, Sinergi, dan Guideline (JARING) program, agriculture and livestock insurance, fisherman insurance, and credit guarantees for MSMB program, as well as financing programs provided by other financing companies;

2. expansion of People Business Credit/Kredit Usaha Rakyat (KUR) program, which up to now has been channeled more in the trade sector (66,8%) and has been still focused on Java island, to be more directed in productive sectors and more spread out into various regions through expansion of parties who can channel such credits;

3. expanding and optimizing the role of the Regional Financial Access Acceleration Team/Tim Percepatan Akses Keuangan Daerah (TPAKD). In 2016, 45 TPAKD have been established all over Indonesia, both at kabupaten/kota (regency/municipality) levels as well as provincial level. In 2017, OJK has inaugurated 41 TPAKD, comprising six TPAKD at the provincial level and 35 TPAKD at the kabupaten/kotal levels;

4. development of the financial technology financing model for the expansion of financial access. OJK has issued a regulation that governs information technology based peer to peer lending services;

5. encouraging the banking sector to channel credits to productive sectors and to explore the potential for channeling credits to various regions which have the potentials but are limited in their financial access. OJK is projecting a credit growth of 9% - 12% in 2017.

6. optimizing the role of Regional Development Banks (RDBs) to develop the regions. Most of the credit exposure of RDB has still been dominated by consumption credit.
With an overall total asset of Rp525 trillions, RDB have an extremely significant role in promoting regional economic development.

### B. Banking Sector Policy Direction in 2017

OJK plans to issue some key policies concerning banking with the objectives of strengthening integrated supervision, arrangement of risk management, and strengthening the capacity of the national Financial Services Industry, namely:

1. regulations concerning liquidity risk management of conglomerates, capital management of conglomerates, and intra-group transaction exposures to supplement regulations concerning the management of capital adequacy, risk and governance management of financial conglomerates that have been issued. Currently, the strength and resilience of the FSS are very much influenced by the conditions of financial conglomerates which dominate three forth of the financial market share in Indonesia.

2. good and effective implementation of the regulation concerning Liquidity Coverage Ratio (LCR) so that the monitoring of banking sector’s liquidity can be more accurate and the supervisory actions taken can be more precise. In addition, OJK will issue a regulation concerning Net Stable Funding Ratio (NSFR) which will be applied on BUKU 3 and 4 banks as well as foreign banks.

3. in meeting the mandate of the Act concerning Prevention and Handling of Financial System Crisis, OJK has issued several related regulations, particularly a regulation concerning Recovery Plans for Systemic Banks. To supplement this regulation, OJK is also planning to issue regulations concerning enhancement of supervisory statuses and follow ups of commercial banks and establishment of intermediary banks; and

4. in the field of sharia finance, OJK plans to promote the establishment of Jakarta International Islamic Financial Center (JI-IFC), which will be sharia business and investment center in the form of a Special Economic Zone. The establishment of this JI-IFC will constitute the initial step to make Indonesia become the world’s sharia financial center.
important pillars that lay the foundation for FSS’s role in answering current economic development needs and at the same time in becoming a platform for the strengthening of FSS in the future, namely:

1. contributive
   optimizing FSS’ role in supporting the acceleration of national economic growth
2. stable
   maintaining financial system stability as the foundation for sustainable development
3. inclusive
   realizing public financial independence and supporting efforts to enhance equitable development

C. Roadmap for Indonesian Banking Development

Roadmap for Indonesian Banking Development/Roadmap Pengembangan Perbankan Indonesia (RP2I) 2015 – 2019 covers development of Conventional Banks with the objective to ensure banking sector development runs in alignment with the vision of Indonesian development, to create Indonesia that is independence, advanced, just, and prosperous. Directions of the Indonesian banking industry's development and strengthening incorporated in RP21 are designed to anticipate challenges that will face the banking industry, both at the domestic as well as global scales. RP21 has also been designed to yet observe opportunities for the banking industry which are Indonesia's potentials and advantages in line with the effort to promote the national economy in order to achieve high and sustainable economic growth.

1. Indonesian Banking Opportunities and Challenges
   Indonesia has a huge potential of growing and developing into an advance country in the future. This huge potential requires financing support from the whole FSS, including from the banking industry. In addition to this financing need on the domestic side, the potential for development comes from the region, namely implementation of the ASEAN Economic Community (AEC) and existence of Foreign Bank Branch Offices (FBBO) or banks with foreign ownerships that can create opportunities in supporting the national economic growth. Furthermore, in this era of rapid IT development, financial technology also has a significant role in the future development of the banking industry.

2. Policy Direction for Medium Term Banking Development 2015 - 2019
   Things that will the focusses of OJK in development of
the banking industry in the medium term and that are expected to be able to respond to changes in the internal and external environments of the banking industry are among others:

a. optimizing the role of banks in the effort to support food security, energy and other priority sectors, financing of certain economic sectors, as well as development and implementation of sustainable funding principles;

b. enhancement of bank ownership structure in support of sustainable economic development. This is in line with developments of governance and risk management as well as international standard implementation, from the sides of regulations, reporting, and supervision;

c. implementation of risk based integrated supervision by: (i) undertaking supervision on conglomerate companies in order to early detect risks that can arise in the financial services system; (ii) developing and implementing risk based supervision mechanism; and (iii) stepping up investigations of professional compliance and compliance of the supporting institutions;

d. strengthening of crisis management protocol and inter-institution coordination through enhancement of the mechanism for prevention and handling of crisis, enhancement of recovery and resolution plan, and enhancement of inter-institution coordination in relation to the handling of financial crisis;

e. discussion concerning the reciprocity principle applicable for Indonesian banks to expand their service reach in the ASEAN region and mechanism for dispute settlement in anticipation of the emergence of cross-border disputes between ASEAN countries. In anticipation of the rise in competition against banks from other ASEAN countries, OJK has encouraged the national banks to enhance their capacities, in terms of capital as well as infrastructure, through the consolidation process in order to have stronger competitiveness in the ASEAN financial market;

f. development of micro finance products and/or services in accordance with business needs so that banks can support the increase in business funds access for MSMA. In order to step up the capacities of banks, including sharia banks, in reaching communities, which up to this time have not had or lacked financial access, the inclusive finance initiative and Laku Pandai (branchless banking) are undertaken.

g. development of information technology infrastructure
to make it more optimal and yet can still maintain security and reliability of the application services and data/information;

h. strengthening the functions and role of RDB in supporting regional economies through: (i) strengthening the capacity and governance of RDB through RDB transformation program that has been initiated by OJK through the involvement of Rural Development Bank Association/Asosiasi Bank Pembangunan Daerah (Asbanda) and Ministry of Home Affairs that will be the reference in strengthening the capacity and governance of RDB, and (ii) enhancement of the owners’ commitment in supporting the role and capacity of RDB;

i. enhancement of the role of sharia banks with expansions of businesses, network, sharia financial products, and fair playing field for SCB by developing regulations that encourage the growth of SCB in accordance with business characteristics and the industry’s level of preparedness; and

j. strengthening the capital structure and institutional structure of RB through synergy with commercial banks and enhancement of the owners’ commitment to RB’ role in supporting regional economies. Furthermore, in the effort to enhance the quality of supervision over RB, OJK will implement risk based supervision.

D. Roadmap of Indonesian Sharia Banking


RPSI is expected to be able to be the reference for sharia banking stakeholders in developing the sharia banking industry so that it is expected to increase its role and contribution in supporting the national economy and financial system stability as well as increasing/equalizing public welfare.

RPSI Vision for 2015 – 2019:
“Realizing sharia banking sector that gives significant contribution to sustainable economic growth, equitable development, and financial system stability as well as that has high competitiveness”.

This vision is translated into policy directions, work program, and implementation time plan, comprising seven policy directions.
The seven policy directions for development of the sharia banking sector 2015 – 2019 are as follows:

1. strengthening policy synergy between the authority and the government and other stakeholders, by:
   a. promoting the establishment of RI’s National Committee for Sharia Finance Development;
   b. stepping up cooperation between regulators and universities;
   c. establishment center for researches and development of sharia banking and finance; and
   d. initiating and developing sharia investment banks, particularly for the purpose of financing government projects.

2. strengthening of the capital and business scale as well as improving efficiency, by:
   a. enhancement of the policy on minimum core capital and BUKU classification of SCB;
   b. promoting the establishment of sharia BUMN/BUMD (State-Owned Business Enterprises/Regional-Owned Business Enterprises) banks; and
   c. optimizing the role and enhancing the commitment of Conventional Commercial Bank (CCB) to develop sharia banking services so that the share of sharia banking services can reach a minimum share above 10% of the parent CCB’s assets.

3. improving the funding structure to support widening of the financing segment, by:
   a. optimizing the management of haj/wakaf/zakat/infaq/shodaqoh funds through sharia banking;
   b. encouraging involvement of the sharia banks in management of the funds of central/regional governments and BUMN/BUMD; and
   c. encouraging fund placements resulting from emissions of SUKUK (sharia securities) at sharia banks.

4. improving the quality of services and product diversity, by:
   a. enhancing the role of Working Group Perbankan Syariah/WGPS (Sharia Banking Working Group) in developing sharia banking products;
   b. enhancing regulation concerning new products and activities; and
   c. developing and enhancing sharia banking product standard (including documentations) in line with business characteristics.

5. improving the quantity and quality of human resources and IT as well as other infrastructure, by:
   a. development of sharia banking curriculum standard in universities;
   b. mapping competency and competency standard
for sharia bankers as well as review policy related to allocation of budget for bank human resource development; and
c. development of professional certification program as well as other human resource development programs for sharia banking in cooperation with medium-level and higher-level education institutions or banking consultants.

6. enhancing public literacy and preference, by:
   a. holding Pasar Rakyat Syariah (Sharia People’s Market); and
   b. Islamic Banking (iB) campaign program on sharia banking products and sharia banking strengthening of positioning, differentiation, branding program.

7. strengthening as well as harmonization of regulations and supervision, by:
   a. enhancement of the policy related to Financing To Value (FTV);
   b. development of Early Warning System (EWS) application for SCB and SBU; and
   c. enhancement of regulations concerning the institutions of SCB and SBU and also guidelines for supervision and licensing.

E. Roadmap of Sustainable Finance
Sustainable development is a development concept that emphasizes on interrelationship of three main aspects, namely economic growth, sosial life sustainability, and environmental preservation in a sustainable manner. Sustainable development concept is adopted more by advance countries as well as developing countries, particularly after the ending of the Millenium Development Goals (MDGs) in 2015 and the start of the Sustainable Development Goals (SDGs) for implementation years of 2016 up to 2030. One of the triggering factors for the implementation of the Sustainable Development Goals is climate change, which is due to development processes. Therefore, implementation of the Sustainable Development Goals has become the main issue in each implementation of development, both medium-term as well as long-term, both at national as well as global scales.

For the purpose of facilitating financing/fund provision for sustainable development as well as adaptation to and mitigation of climate change, OJK with Ministry of Environment and Forestry has launched the Roadmap Keuangan Berkelanjutan/RKB (Roadmap of Sustainable Finance) on 5 December 2014. This roadmap contains presentations of work plan concerning the development of sustainable financing
for all Financial Service Institution (FSI). The Launching of RKB has received appreciations, both from domestic side as well as international side. OJK is even the first authority within the FSS that issues a Roadmap with a comprehensive scope because it regulates the whole FSS.

The background for the launching of RKB is the need for strategic and systematic measures in giving direction to FSS to take an active role and give a positive contribution to the sustainable development process (Long-Term Development Plan (RPJP) 2015-2024 and Medium-Term Development Plan (RPJMN) 2015-2019 which stand on 3P, namely Profit, People, and Planet. The RKB has the objective of translation the sustainable financing condition that the Financial Services Industry’s desires to achieve in relation to sustainable financing in Indonesia in the short-term, medium-term, and long-term (2015-2024).

Specifically for FSI, implementation of sustainable financing has the objectives: (i) to enhance the resilience and competitiveness of FSI so that they can have the capacity to growth and develop in a sustainable manner; (ii) to provide sources of funds required by the public, which refers to RPJP and RPJMN that have the characteristic of 3P; and (iii) to contribute to the national commitment on the problem of global warning through business activities that prevent/mitigate or even adapt to climate change towards a low-carbon economy that is competitive. The RKB states the limit on the definition of sustainable financing, which is overall support from Financial Services Industry for sustainable growth resulting from an alignment of economic, social, and environmental interests.

Sustainable Financing comprises four dimensions, namely: (i) to reach industry, social, and economic exellences for the purpose of reducing the threat of gobal warning and prevention of environmental and other social problems; (ii) to help shift the target to a low-carbon economy that is competitive; (iii) strategically promotes environmentally friendly investments in various business/economic sectors; and (iv) supports Indonesia’s Development Principles, namely 4 P (pro-growth, pro-jobs, pro-poor, dan pro-environment) as stated in the RPJMN.

The RKB has four sustainable financing principles, namely: (i) a risk management principle that integrates the environment protection and sosial aspects into the risk management of FSS; (ii) priority economic sector sustainable development principle that is inclusive by stepping up financing activities, particularly in agriculture sectors (agriculture, livestock husbandry, and maritime), infrastructure, industry, energy, and MSMBs; (iii) environmental and social governance and reporting principle, by running strong environmental governance and social practices, as well as transparency in the operational activities
of the FSS and the customers of FSS; and (iv) enhancement of capacity and collaborative partnership principle by developing capacities of human resources, IT, and operational processes of each FSS.

In the implementation of RKB, three focus areas are expected, namely: (i) a step up of fund provisions from FSI for green projects; (ii) a step up of demand for green projects; and (iii) enhancement of supervision and coordination in the implementation of financing sustainability.

In the effort to implement RKB strategically, there are two main agendas, namely short – medium term (2015 – 2019) and long term (2015 – 2024). For the short – medium term, focus is given to the laying down of the basic framework of regulations and reporting system, enhancement of understanding, knowledge, as well as competent human resources who are actors of the Financial Services Industry, provision of incentives as well as coordination between related institutions.

Meanwhile, for the long term, focus is given to the integration of risk management, good corporate governance, bank soundness level assessment, and development of integrated information system of sustainable financing.

Up to 2016, the RKB has been implemented through the implementation of various programs, such as among others:

1. awareness program: the holdings of seminars, workshops (nasional and international), and the awarding of Sustainable Finance Award (SFA);
2. capacity building: training of basic level environmental analysis for FSIs and supervisors of FSI, comprising 19 batches (+ 570 participants);
3. guidelines: green lending model, containing among others: renewable energy and efficient energy, green building, volume 1.0 sustainable financing of organic agriculture of oil palm trees, guide for implementation of ESG and teaching learning modul on environmental analysis;
4. coordination & collaboration: Sustainable Financing Coordination Forum has twice involved elements from the government, FSI, association, international institutions and Non-Government Organizations, sectoral coordination forums, participations in international forums (among others, G20, United Nation Environment Program);
5. industry participation: pilot project entitled first movers on sustainable banking, participated by eight banks; and
6. reviews and preparation of sustainable financing regulations: reviews involved potential funding for renewable energy and efficient energy projects, project based financing, preparation of sustainable financing regulation, and preparation of regulations on sustainable financing, and preparation of regulation on sustainable reporting.
Figure 4.1. Roadmap of Sustainable Finance 2015-2024

Foundation for Implementing SF:
1. Policy on principles of SF
2. Policy on increase in SF portion
3. Policy on SF supervision

Incentive for cooperation with other institutions:
1. Fiscal Incentives
2. Non-Fiscal Incentives

Incentives (within OJK’s control):
1. Prudential Incentives
2. Information Hub
3. SF Award
4. Policy on Reporting

Resilience strengthening:
1. Strengthening of risk management in GCG related to the environment and social condition

2015 - 2019:
Campaigns, training on living environment analysis, development of Green Projects, FSI access to Global Public Funds, Coordination on SF Policy

F. ASEAN Banking Integration Framework (ABIF)
ABIF is an ASEAN’s initiative with the objectives to create an integration mechanism and to accelerate banking integration through the provision of market access and operational flexibility in ASEAN countries by observing the fulfilment of prevailing prudential requirements in each of the ASEAN countries.

ABIF Guidelines has been agreed upon at the end of 2014. This document becomes the guide for ASEAN countries in undertaking bilateral agreements related to banks that will be present in the ASEAN banking market. The ABIF Guidelines stipulates integration principles that should be referred to as well as stages that should be followed in this integration process.

The best banks owned by the ASEAN countries or known with the terminology of Qualified ASEAN Bank (QAB) should meet the agreed requirements, namely:
1. having good track record, as shown among others by a large market share;
2. having adequate capital, and is financially sound;
3. having good governance; and
4. supported by the home country authority to be a QAB.

In 1 August 2016, OJK and Bank Negara Malaysia (BNM) have signed a Bilateral Agreement (BA) in relation to ABIF framework. In addition, on 31 March 2016, OJK has signed a Letter of Intent (LOI) with Bank of Thailand (BOT) to start the negotiation for ABIF BA.

G. Basel Framework
1. Implementation of Basel Capital Framework
   Indonesia, as one of the members in the G-20 forum as well as other international forums, such as Financial Stability Board (FSB), Basel Committee on Banking
Supervision (BCBS), has given its commitment in adopting recommendations produced by those forums. In line with that, and with the transfer of bank supervision function from BI to OJK, the implementation of OJK’s tasks in the future will not be separated from efforts to adopt those various recommendations. In the process of adopting the various above-mentioned recommendations, OJK will continue to adjust to the condition and development of the domestic banking industry.

2. Evolution of Basel Capital Framework
Capital is one of the main focusses of bank supervisory authority in implementing the prudential principle. BCBS has issued one capital framework concept that has become an international standard, namely:

a. in 1988, it issued the capital concept as well as the calculation of Risk Weighted Assets (RWA) specifically for credit risk;

b. in 1996, it enhanced the capital component by adding Tier 3 as well as calculation of RWA for market risk;

c. in 2006, it issued the document entitled International Convergence on Capital Measurement and Capital Standard (A Revised Framework) or better known as Basel II;

d. in 2009, it issued Basel 2.5 recommendation, which covers the framework of RWA calculation for market risk by using the internal model, imposition of capital burden for securitization transactions, risk management aspect on compensation, concentration risk, reputation risk, and stress testing, valuation of all exposures recorded based on fair values, and disclosure on securitization;

e. in 2010, in response to the global financial crisis, BCBS issued a recommendation on enhancement of bank resilience, both at the micro level as well as the macro level, or better known as Basel III; and

f. in 2014, BCBS issued a document entitled “The Standardised Approach For Measuring Counterparty Credit Risk Exposures (SA-CCR)” as part of its effort to continuously enhance the CCR framework that has been issued previously.

3. Implementation of Basel II Framework in Indonesia
a. Basel II Framework (Pillar 1, Pillar 1, and Pillar 3) in Indonesia has been fully implemented since December 2012. A number of regulations related to Basel II implementation are illustrated as follows:
In line with the enhancement of SA-CCR by BCBS, OJK has issued a SA-CCR Consultative Paper on 30 September 2016 for requesting responses from various related parties.

b. Basel 2.5 Framework

For the purpose of the implementation of the remuneration framework in Indonesia as a part of the Basel 2.5 framework, OJK has issued OJK Regulation No. 45/POJK.03/2015 concerning Implementation of Governance in Provision of Remunerations dated 23 December 2015. Furthermore, in January 2016, OJK has also made an enhancement to Basel 2.5 Consultative Paper issued in 2013 by issuing a Consultative Paper concerning securitization in January 2016.

c. Basel III Framework

1) Capital Framework

On 12 December 2013, BI Regulation No.15/12/PBI/2013 was issued concerning Minimum Capital Adequacy Requirement for Commercial Banks, which stipulates: (i) enhancement of capital quality through changes in component and requirement on capital instruments in accordance with the Basel III framework; (ii) the obligation to provide capital ratio, which comprises core capital ratio of no lower than 6% of RWA and ratio of main core capital of no lower than 4.5% of RWA; and (iii) the obligation to establish additional capital as the buffer above the obligation to provide minimum capital in accordance with the risk profile.

Implementation of the regulation on Basel III has been made in stages since 2014 to reach full implementation in 2019, with the following implementation stages:
2) Liquidity Framework

In addition to capital framework, Basel III also introduces two internationally applicable standards for measuring certain liquidity minimum level that a bank needs to maintain as anticipation in facing crises, namely Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR constitutes a liquidity measurement with the objective of enhancing bank short term liquidity resilience by maintaining High Quality Liquid Asset (HQLA) in sufficient amount in order to cover net cash flow amounts for the next 30 days. Meanwhile, NSFR constitutes a liquidity measurement with the purpose of enhancing bank long term liquidity resilience by requiring any bank to fund its activities with stable funds in amounts exceeding the required amounts during a period of one year stress.

For the purpose of LCR implementation in Indonesia, OJK has issued OJK Regulation No.42/POJK.03/2015 concerning Obligation To Meet LCR in December 2015. In accordance with the prevailing OJK Regulation, the obligation to meet LCR is made in stages in line with the BCBS timeline, namely since 31 December 2015 with a minimum ratio of 70% up to 1 January 2019 with a ratio of 100% (each year, it is increased by 10%).

Meanwhile, in relation to NSFR that is in line with BCBS timeline, implementation of NSFR
will start in 1 January 2018. Along this line, OJK has issued a NSFR Consultative Paper on 30 September 2016 to request responses from various parties.

3) Leverage Framework

In an effort to limit the formation of excessive leverage in the banking system, BCBS has also introduced an additional ratio, namely leverage ratio, as one non-risk based approach to supplement the capital ratios in line with the risk profile that have been in effect. The purpose of the leverage ratio is as a backstop of capital ratios in line with risk profile to prevent the formation of excessive leverage to prevent the occurrence of worsening deleveraging process that can endanger the whole financial system and the economy. The minimum leverage ratio that has to be met is 3%, calculated by dividing core (tier 1) capital with bank total exposure (without weighted risk).

For the purpose of implementing leverage ratio, OJK has issued leverage ratio Consultative Paper in October 2014 to request responses from various related parties. Leverage ratio in Indonesia has started to be effectively implemented since 1 January 2018. This is in line with BCBS timeline that requires leverage ratio to be part of Pillar 1 since 1 January 2018.

In addition, in line with the requirements of BCBS that there is an obligation to disclose leverage ratio to the public since January 2015, banks have been requested to perform trial calculation and disclosure of leverage ratio respectively starting with data for the period of December 2014 in Quarter I 2015 together with the publicized financial report. At the end of 2016, BCBS has determined the assessment result of the Regulatory Consistency Assessment Program (RCAP) on regulations for the banking sector in Indonesia with the score Compliant (C) for RCAP LCR and Largely Compliant (LC) for Capital RCAP. These scores are optimal levels on assessment of regulation consistency in
the banking field in Indonesia currently. Grade C for LCR constitutes the highest grade, while grade LC for Capital is the second highest grade below grade C.

This shows that banking regulations in Indonesia have been in line with prevailing international banking standards. It is expected that these results can increase public confidence in banking operations in Indonesia. In addition, this provides ease to banks in Indonesia in developing their activities as well as undertake cross borders transactions and to increase investor confidence because there is a security guarantee that when undertaking operational activities, they are already in line with prevailing international banking standards.

Transformation of Regional Development Banks

The Regional Development Bank (RDB) Transformation Program was launched in 26 May 2016 by the President of RI with the vision of creating RDB to become banks with high competitiveness, strong, as well as having significant contribution to the economic growth and equalization at the regions in a sustainable manner. This vision is going to be realized through three goals, namely: (i) enhancement of the competitiveness of RDB; (ii) strengthening institutional resilience; and (iii) enhancement of the contribution of RDB to regional economies. These are illustrated in the following chart:

Figure 4.4. Holistic Framework for Transformation Program
In order to achieve this vision, the RDB Transformation Program will be implemented through three stages/phases, namely: (i) Foundation Building; (ii) Growth Acceleration; and (iii) Market Leadership. In the implementation of the program, each RDB will enter each stage and set business goals and targets in line with the capacity and preparedness of each RDB, as depicted in the following figure:

RDG Transformation Program will be implemented through three stages as follows:

1. **Phase I: Foundation Building**
   - The goal is to build the supporting processes (Governance, Risk & Compliance) and strong capital, supplemented with quality human resources, work culture, and reliable information system through synergy of the RDB Group as the basis for the growth in phase two.

2. **Phase II: Growth Acceleration**
   - The goal is to grow rapidly in order to achieve the third position based on total assets by strengthening core business processes, entering the commercial credit segment, strengthening syndication loans, and intensifying synergy in RDG Group and between RDB as well as strengthening of the “ONE-RDB” corporate culture.

3. **Phase III: Market Leadership**
   - The goal is to build the position as market leader with targeted asset size of number 1 or number 2 as well as respective core and supporting capabilities through the RDB Group transformation into a Holding Corporation. In this phase, RDB shall be the market leader with significant contribution to the regional economies.

In order to assist implementation of the RDB Transformation Program, six RDB Transformation Workstreams have been established, namely: (i) Strategic Group; (ii) Organization and Human Capital; (iii) Products and Services; (iv) strengthening of GCG, Risk, and Compliance; and (v) strengthening of IT and MIS. RDG Transformation Workstreams will develop a guide (blueprint) as well as implementation plans for each field. Developments of Phase I RDB Transformation implementation...
from each workstream at the Project Management Officer (PMO) organization of the RDG Transformation Program at ASBANDA are as follows:

1. Strategic Group Workstream:
   a. has undertaken dissemination of the transformation program to 12 stakeholders;
   b. has developed RDB transformation blueprint and the implementation plan;
   c. has established switching provider for IT integration; and
   d. has undertaken technical coordination with domestic institutions (OJK, Ministry of Home Affaris, Supreme Audit Agency (BPK) and overseas institution (Sparkassen).

2. Organization and Human Capital Workstream:
   a. has undertaken the strengthening of ASBANDA Academy, although it is still limited to cooperation with LSPP for the certification of RDB employees;
   b. has conducted inhouse training for 20 training sessions (210 participants) and public training for 29 training sessions (920 participants); and
   c. has developed draft SOP (Competency Dictionary, Employee Recruitment System, Career Management System, Management of Employee Performance and Potentials).

3. Product and Service Workstream
   a. has developed Simple Savings fund products for a number of RDB;
   b. has issued credit products, namely Micro Business Credit (Kredit Usaha Mikro) using the SBFIC method, Productive Business Credit (Kredit Usaha Produktif/ KUP), Rural Business Credit (Kredit Usaha Rakyat/ KUR);
   c. has held a workshop concerning infrastructure financing;
   d. has undertaken a cooperation agreement with billers through BPDNet;
   e. has developed a quality service, by undertaking cooperation with Marketing Research Indonesia (MRI) to perform mystery shopping RDB services. In 2015, 13 RDB and in 2016, 16 RDB participated in this activity;
   f. has undertaken cooperation for end of year liquidity provision (pooling fund) for maintaining end of year liquidity of RDB; and
   g. has developed draft SOP (credit, pension fund service standard, regional cash, and priorities).

4. Strengthening of GCG, Risk, and Compliance Workstream
   a. has undertaken a study on the management of GCG, risk management and internal control in RDB;
   b. has developed draft SOP (implementation of GCG,

5. IT Strengthening Workstream
   a. has undertaken switching connection BPDNet with RDBs, where 21 RDB have developed connection with switching BPDNet;
   b. has developed Laku Pandai application in BPDNet, where one RDB that is already operational (live) and nine RDB that are under development and licensing process;
   c. has undertaken connection of two RDB with BPDNet switching and has been used by 44 billers, BPJK-TK, telecommunication providers.

6. Sharia Workstream
   a. has undertaken a study on the development of sharia RDB roadmap in cooperation with OJK;
   b. has undertaken the conversion of Bank Aceh into a Sharia Commercial Bank
   c. has established the Sharia Workstream Task Force;
   d. has conducted sharia training and workshops;
   e. has developed the Work Program of the sharia workstream task force.

The success of the Transformation Program depends on four factors, namely: (i) strong commitment and leadership from the management of RDB and ASBANDA; (ii) establishment of an effective project management; (iii) strong support from and effective coordination by stakeholders; as well as (iv) effective communication and change management program.

As the follow up of the launching of RDB Transformation Program, the following activities related to the RDB Transformation Program implementation have been undertaken in 2016:

1. Dissemination of RDB Transformation Program to:
   a. BPD NTB on 22 March 2016;
   b. BPD Jawa Barat and Banten on 29 August 2016;
   c. BPD Kalimantan Selatan on 30 August 2016;
   d. BPD Sumatera Barat on 2 September 2016;
   e. BPD DIY on 15 September 2016;
   f. BPD Kalimantan Barat on 26 September 2016;
   g. BPD Lampung on 6 October 2016; and
   h. BPD Sulawesi Tengah on 7 November 2016.

The objective of this activity is to enhance the understanding and obtain support not only from RDB management and entire shareholders but also stakeholders on the implementation of the RDB Transformation Program, such as members of Regional House of Representatives (DPRD) at the provincial/district levels so that the vision of becoming competitive, strong, and contributive banks for regional developments can be achieved.
2. A meeting with the president directors of all RDB from the whole of Indonesia on 1 April 2016 at the all Indonesia RDB seminar in Pekanbaru for the purpose of evaluating the commitment of RDBs’ board of directors in the implementation of the RDB Transformation Program.

3. The holding of a national seminar in Jakarta on 23 May 2016 which invited all RDB from the whole of Indonesia, in cooperation with the World Bank and Switzerland Economic Cooperation & Development (SECO) by inviting Prof. Neo Boon Siong (an expert in Dynamic Governance and transformasi from Nanyang University of Singapore). The seminar is conducted for the purpose of triggering inspirations and motivations as well as strengthening commitment of the shareholders/management of RDB from all of Indonesia in supporting the implementation of RDB Transformation Program.

4. Coordination meeting of RDB supervisors from all of Indonesia on 17 December 2016 for the purpose of evaluating implementation of the RDB Transformation Program in 2016 by also inviting source persons from other banks that have been successful in implementing Transformation Program and ASBANDA management for presenting development of RDB Transformation Program implementation in 2016 by a Project Officer at ASBANDA.

H. Development of Sharia Banking

1. General Overview of Sharia Banking
   Amidst the global economic condition that is still at the recovery stage, in line with the national banking industry, the condition of sharia banks (SCB, SBU, and SRB) has been well maintained and shown positive development. All sharia banking performance indicators have improved, covering asset, third-party fund, and financing growths. This sufficiently high growth has also been influenced by the conversion of BPD Aceh into Bank Aceh Syariah in September 2016. As such, at the end of 2016, the sharia banking asset share reached 5.33% relative to the previous year of 4.67%. Developments of SCB and SBU are the main contributor in the national sharia banking industry (+97.5% of the national sharia banking assets).
   A number of factors that will support development of sharia banking in the future is capital strengthening, spin-offs of SBU that are targeted to be completed in 2023 in accordance with RPSI 2015-2019, support from parent banks to develop sharia banking subsidiary companies, sharia banking product innovations that have unique characteristics and can only be undertaken by sharia banks, such as among others cash wakaf and swagriya housing financing, as well as participation of sharia banks in sharia financial inclusion program
through Laku Pandai, tabungan Simpel iB, and financing of Kredit Usaha Rakyat (KUR) Syariah as well as a number of government priority programs, such as among others implementation of sustainable finance through pilot projects of organic agriculture financing, namely Indonesian Sharia Finance Access activity for Organic Agriculture that is Harmonious, Natural, and Bearing A Mandate (AKSI PRO SALAM).

2. Implementation of Sharia Banking Development

For the purpose of supporting policy formulation of sharia banking development, the following activities have been undertaken in 2016:

a. Study on Minimum Capital Adequacy Requirement (MCAR) for SRB

For the purpose of supporting economic expansion, particularly in the MSMB segment, in an optimal and sustainable manner, as well as the resilience and competitiveness of the SRB industry, in 2016, OJK has completed the Study on Enhancement of MCAR for SRB. This study has the objective of estimating the amount of minimum core capital required by existing SRB in order to be able to compete and grow sustainably as well as to evaluate standards (components and parameters) of MCAR that are relevant for the strengthening of SRB capital resilience in order to be able to absorb their risks from operational activities.


For the purpose of stepping up sharia banking financing in strategic sectors, particularly organic agriculture sector, as well as to implement the Roadmap for Sustainable Finance 2015-2019, OJK has conducted a review with the theme of “Development of Organic Agriculture with Sharia Financing” that works together with a Team of Consultants from Faculty of Agriculture Technology, University of Gajah Mada. This study has been conducted with the purpose of identifying sharia banking viable and feasible factors for entering the financing of the organic agriculture sector and establishing sharia banking financing model for organic agriculture sector, particularly rice. As a follow up of this study, a guidebook on sharia financing in the organic agriculture sector with the title AKSI PRO SALAM has been launched.

c. Forum for Sharia Economy and Finance Researches/Forum Riset Ekonomi dan Keuangan Syariah (FREKS) XV

For the purpose of promoting the development of researches in sharia banking and finance, particularly among academicians, OJK held FREKS XV activity
on 6-8 September 2016 at Universitas Mataram, Nusa Tenggara Barat, with the theme of “Taking Up the Uniqueness of Sharia Finance in the Era of Financial Services Industry Competition That Grows Increasingly Tight”.

d. Development of 2017 Sharia Banking Outlook Model
Development of the sharia banking outlook model constitutes an activity to develop an estimated model on sharia banking condition and development in the coming year so that it can become a consideration for the development sharia banking that remains in line with the sharia banking master plan and roadmap.

e. National Seminar on OJK’s Sharia Banking Research
For the purpose of enhancing the research results and to obtain responses and opinions from stakeholders, OJK held the Seminar on Results of Sharia Banking Study. This seminar presents three results of iB Research Fellowship Program in 2016, namely:

1) “Family Life Cycle, Customer Needs and Financial Asset Ownership from the Perspective of Sharia Banking Product Development in Indonesia”. This research shows that the life cycle influences financial asset ownership that is based on security and investment, but does not have any influence on transaction based assets.

2) “Switching Behaviour of Sharia Bank Candidate Customers Through Mixed Methods Research”. This research shows that factors that influence the transfer of conventional bank customers to sharia bank customers are level of education, religious affiliation, and religiousness of the customers.

3) “Use of Alternative Data to Enhance the Accuracy of The Credit Scoring Model for SRB Customers”. This research finds out that alternative data that can be used into credit scoring are among others relationship of debtors to SRB, level of religiousness, upto expenditure for mobile phone topping ups.

f. 2016 iB Research Grant Program
For the purpose of supporting development of sharia banking and finance researches, in 2016 OJK held a collaborative research program named iB Research Grant Program 2016. The main goal of this program is to accelerate implementation of research agendas that have not been implemented due to their various problems, as well as to support sharia banking research activities implemented by students and researches external to OJK, which outcome can be beneficial in supporting policy formulatin by OJK
in the field of sharia banking and finance.

g. Review of Standards of Indonesian National Work Competency/Standar Kompetensi Kerja Nasional Indonesia (SKKNI) for SRB
For the purpose of enhancing the quality and competency of sharia banking human resources, particularly at SRB, in accordance with OJK Regulation No. 3/POJK.03/2016 concerning Sharia Rural Financing Banks and OJK Regulation No. 44/POJK.03/2015 concerning Work Competency Certifications for members of Board of Directors and members of Board of Commissioners of RB and SRB. Members of Board of Directors and members of Board of Commissioners of SRB are obliged to obtain work competency certifications issued by Professional Certification Institution (Lembaga Sertifikasi Profesi/ LSP). The competency tests for the purpose of Work Competency Certification should refer to the Standard of Indonesian National Work Competency applicable to SRB.

3. Development of Sharia Banking Products and Education
Various activities have been undertaken, among others:

a. Implementation of Aku Cinta Keuangan Syariah (I Love Sharia Finance) Campaign through iB Vaganza Expo and Sharia Finance Fair, which are cooperation between OJK and the financial industry to various large cities in Indonesia with the objective of introducing and enhancing public understanding concerning sharia banking product and service excellence as well as enhancing the outreach to new customers for Sharia FSS.

b. WGPS Forum, comprising representatives from OJK, National Sharia Board – Indonesian Council of Ulama/ Dewan Syariah Nasional Majelis Ulama Indonesia (DSN MUI), The Supreme Court of the Republic of Indonesia, Dewan Standar Akuntansi Syariah Ikatan Akuntan Indonesia/Sharia Accounting Standard Board – Indonesian Accountants Association, and sharia banking industry, has discussed several products and reached a recommendation on a DSN MUI draft fatwa for developing sharia banking products, covering:
   1) Al-Ijarah Al-Maushufah Fi Al-Dzimmah
   2) Al-Ijarah Al-Maushufah Fi Al-Dzimmah for KPR-Indent product
   3) Novation is subjective based on sharia principles
   4) Subrogation is based on sharia principles
   5) Guarantee for return of capital in Mudharabah, Musyarakah, and Wakalah Bil Istitsmar deeds

c. Training of Trainers (ToT)
For the purpose of enhancing the competency of human resources who are lecturers/academicians in
the field of sharia finance/banking, OJK has held a ToT. It is expected that lecturers/academicians will be able to represent materials on sharia banking in a better way to the students and this will enhance the quality of university graduates as suppliers of human resources for Sharia Banks.

d. Writing Competition and iB Blogger Workshop
iB Blogger Workshop is a vehicle for sharia banking dissemination and education to the Bloggers. The Bloggers are provided with the understanding of OJK policies in developing sharia banking and finance as well as the understanding of sharia banking industry and products. After having received dissemination through the workshop, the participants are encouraged to participate in a writing competititon on sharia banking article in online (blog) media.

e. Sharia Banking Olympiade
For the purpose of promoting student interest in Sharia Banking and introducing OJK, Sharia Banking Olympiade at senior high school/equivalent level has been held.

f. Implementation of Sharia Banking Training/Workshop to teachers, members of Sharia Supervisory Boards/Dewan Pengawas Syariah (DPS), sharia banking marketing and communication employees.

g. Implementation of dissemination and education by working together with printed media, radio media, TV media, Online Media, and others.

I. Development of Rural Bank
Development of the Financial Services Industry, which has rapid impact on changes in competition mapping between financial instittions in Indonesia, including in the micro finance market. The competition condition that is getting tighter demands business actors to be more creative in offering products and services in line with the needs of the consumers. RB, as one of the actors in the micro finance market, should be ready to face this competititon by yet holding to sound bank management principles and compliance to prevailing legislations. This effort should still be realized in order to achieve RB development vision, namely “RB Industry that has high competitiveness in serving the Micro and Small Business/Usaha Mikro dan Kecil (UMK) and local public, as well as contributive to regional economies”.
Furthermore, for the purpose of achieving this RB development vision, the RB development general strategy is translated into three aspects, namely:

1. RB Position Aspect
RB are directed to still be banks who have limited business activitis and operational areas (distribution of office networks, and credit channeling), compared to
Commercial Banks. The business scale of RB is different than CB and therefore are not directed to become CB;

2. RB Market Aspect
RB are encouraged to continue increasing their business capacities by yet focusing on banking product and service provision to UMK, specifically financing to UMK productive businesses and local public, as well as to have a role in the financial inclusion program at the regions; and

3. RB Supervision Aspect
RB supervision policy is directed at enhancement of the risk based supervision method which implementation is in line with the RB capital scale and business complexity. Therefore, implementation of Good Corporate Governance (GCG) principles and risk management for RB have become a necessity and should be implemented immediately.

In 2016, RB development policy has been focused on effort to enhance the resilience and competitiveness of the industry by promoting strong institutions through the issuance of regulation concerning business activities and office network areas based on core capital, business plan, fit and proper test, as well as transformation of BKD and LKM. This institutional strengthening is supported by the effort to enhance human resource quality and competence through cooperation between OJK, RB associations and practitioners, and Republic of Indonesia’s Minister of Manpower in the form of the issuance of SKKNI for RB.

Several policies have been issued by OJK concerning RB development as follows:

1. OJK Regulation No. 20/POJK.03/2014 concerning Rural Credit Banks that became effective on 1 January 2015. This OJK Regulation is intended to govern RB institutions, among others licensing aspect, capital requirement, management, and RB business activities. Specifically in regard capital deposit requirement for RB establishment, this OJK Regulation is intended to oblige the rise in minimum capital deposit for RB establishment to become at minimum:
   a. Rp 14 billion for establishment of RB in zone 1;
   b. Rp 8 billion for establishment of RB in zone 2;
   c. Rp 6 billion for establishment of RB in zone 3; and
   d. Rp 4 billion for establishment of RB in zone 4.

2. OJK Regulation No. 4/POJK.03/2015 concerning Implementation of Governance for Rural Credit Banks that implement governance policy for RB in line with the RB core capital in three categories, namely:
   a. RB with core capital of at least Rp 80 billion should implement governance principle in full, covering fulfilment of minimum number of members of Board of Directors and Board of Commissioners, establishment of audit committee and risk monitoring committee, establishment internal audit work unit,
compliance work unit, and risk management work unit;
b. RB with a core capital of at least Rp 50 billion and less than Rp 80 billion should implement governance principle as RB with core capital of at least Rp 80 billion, however does not have to establish audit committee and risk monitoring committee; and
c. RB with core capital of less than Rp 50 billion should implement a limited governance principle in the form of implementation of the function and does not have to establish a work unit related to implementation of governance.

3. OJK Regulation No. 13/POJK.03/2015 concerning Implementation of Risk Management For Rural Credit Banks. Implementation of RB risk management is adjusted to RB business scale as reflected by the size of RB core capital in three categories, namely:
a. RB with a core capital of at least Rp 50 billion should implement risk management for credit risk, operational risk, compliance risk, liquidity risk, reputation risk, and strategic risk;
b. RB with a core capital of at least Rp 15 billion and less than Rp 50 billion should implement risk management for credit risk, operational risk, compliance risk, and liquidity risk; and
c. RB with a core capital of less than Rp 15 billion should implement risk management for credit risk, operational risk, and compliance risk.

4. OJK Regulation No. 37/POJK.03/2016 concerning Business Plans of Rural Credit Bank and Sharia Rural Financing Bank. RB and SRB are obliged to develop business plans covering short-term plan, medium-term plan, and/or long-term strategic plan realistically each year. A business plan should be developed by Board of Directors and approved by Board of Commissioners, by paying attention to:
a. external and internal factors that can influence business sustainability of RB and SRB;
b. prudential principles; and
c. sound banking principles.

5. OJK Regulation No. 12/POJK.03/2016 dated 17 February 2016 concerning Business Activities and Office Network Areas of Rural Credit Banks Based On Core Capital. RB can only undertake Business Activities and open Office Network with the scope of areas that are in line with Core Capital, namely:
a. BPRKU 1 can only undertake RB Office Network Opening within the same district or city area as the district or city where the RB head office is located. Specifically for BPRKU 1 that meets Core Capital of at least Rp 6 billion, it can undertake RB Office Network Opening in the same district or city that is the same
as district or city of RB Head Office and/or in district or city that borders directly with district or city in which RB head office is located, within the same provincial area;

b. BPRKU 2 can only undertake RB Office Network Opening in the same district or city as the district or city where RB head office is located and/or district or city that borders directly with district or city where RB head office is located, within the same provincial area; and

c. BPRKU 3 can undertake RB Office Network Opening in the province where RB head office is located and in district or city in another province that borders directly with the province where RB head office is located.

J. Integrated Supervision

Law of The Republic of Indonesia Number 21 of 2011 on Financial Services Authority, particularly Article 5, has mandated that OJK holds an integrated regulation and supervision system on all activities outside the FSS. Development of the financial sector demands that OJK undertakes integrated supervision with the objective of enhancing the effectiveness of supervision on FSIs in an integrated manner between financial sub sectors. As such, FSIs that undertake activities in the banking sector, insurance and re-insurance companies, security company and/or financing company, that are incorporated into one financial conglomerate, in addition to being obliged to implement prevailing regulations for each sector should implement regulations for financial conglomerates issued by OJK for the purpose of integrated supervision.

For the purpose of running integrated supervision, OJK uses risk based supervision strategy and methodology which enable supervisors to do early detection of significant risks so that appropriate and timely supervisory measures may be taken. OJK has developed regulations concerning integrated supervision and developed a guide for integrated supervision on financial conglomerates/Know Your Financial Conglomerate (KYFC) as well as Integrated Risk Rating (IRR). IRR is an assessment methodology on financial conglomerates undertaken by integrated supervisors based on analysis on information obtained by individual supervisors and other information, by carefully observing the overall (group-wide) risks.
V. Key Banking Regulations
V.1. Regulations on Bank Institutional Arrangement, Management, and Ownership

1. Establishment of Banks

Banks can only be established and undertake business activities with licenses from OJK.

a. Commercial Banks (CB)
   
   Paid-up capital should be no less than Rp 3 trillion and can only be established and/or owned by:
   
   1) Indonesian citizens and/or Indonesian legal entities; or
   
   2) Indonesian citizens and/or Indonesian legal entities with foreign citizens and/or foreign legal entities in a partnership.

b. Sharia Commercial Banks (SCB)
   
   Paid-up capital should be no less than Rp 1 trillion and can only be established and/or owned by:
   
   1) Indonesian citizens and/or Indonesian legal entities; or
   
   2) Indonesian citizens and/or Indonesian legal entities with foreign citizens and/or foreign legal entities in a partnership.

c. Rural Banks/RB (Bank Perkreditan Rakyat/BPR)
   
   Paid-up capital should be no less than:
   
   1) Zone 1, Rp 14 billion;
   
   2) Zone 2, Rp 8 billion;
   
   3) Zone 3, Rp 6 billion; and
   
   4) Zone 4, Rp 4 billion.

   Can only be established and/or owned by:
   
   1) Indonesian citizens;
   
   2) Indonesian legal entities with all Indonesian citizen owners;
   
   3) Regional Governments; or
   
   4) Two or more of those parties referred to in numbers 1), 2), and 3)

d. Sharia Rural Banks/SRB (Bank Pembiayaan Rakyat Syariah/BPRS)
   
   Minimum paid-up capital is differentiated into four zones as follows:
   
   1) zone 1, Rp 12 billion;
   
   2) zone 2, Rp 7 billion;
   
   3) zone 3, Rp 5 billion; and
   
   4) zone 4, Rp 3.5 billion.

   The zones follow the zone arrangement for conventional RB. SRB can only be established and/or owned by:
   
   1) Indonesian citizens and/or Indonesian legal entities with all Indonesian citizen owners;
   
   2) Regional Governments; or
   
   3) Two or more of those parties referred to in numbers 1) and 2)

e. Opening of Foreign Bank Branch Office
Opening of a Foreign Bank Branch Office can only be undertaken when the bank meets the following requirements:
1) having good rating and reputation;
2) owning total assets that is included among 200 world largest; and
3) placing business fund in rupiah currency or foreign currencies in the value of no less than the equivalent of Rp 3 trillion.

f. Opening of Foreign Bank Representative Office

Opening of a Foreign Bank Representative Office can only be undertaken when the total assets of the bank that is going to open a Representative Office is included among 300 world largest.

A Representative Office is only allowed to conduct activities such as among others:
1) provides explanations to third parties concerning the requirements and procedure for undertaking relationships with the overseas Head Office (HO) / Branch Office (BO);
2) assists overseas HO or BO in monitoring credit collaterals located in Indonesia;
3) acts as the authorized party in contacting agencies/institutions for the interests of its overseas HO or BO;
4) acts as supervisor of projects that are partly or fully financed by its overseas HO or BO;
5) undertakes promotional activities for the purpose of introducing the bank;
6) provides information concerning Indonesian trades, economy, and finance to overseas parties or vice versa; and
7) assists Indonesian exporters to obtain market access overseas through international networks owned by the Representative Office or vice versa.

g. Transformasi Badan Kredit Desa/Village Credit Agency (BKD) that Is Given The Status As RB

Currently there are many BKD with business licenses from the Minister of Finance which are given the status of RB. However, with BKD’s unique operational characteristic that is not the same as RB in general, BKD that are given the status as RB are exempted from each legislation applicable on RB. With the effectiveness of OJK Regulations, BKD that are given the status of RB are not exempted from any regulation generally applicable on RB.

Under this regulation, BKD are obliged to meet regulations applicable on RB, among others those related to the institution, implementation of RB accounting standard, prudential principle, reporting, and financial transparency no later than 31 December 2019. This plan for fulfilling stipulations applicable...
on RB should be incorporated into an action plan and submitted to OJK no later than 31 December 2016. For the purpose of fulfilling stiplations applicable on RB, a number of BKD may undertake merging or amalgamation. Any BKD that cannot fulfil stipulations applicable on RB may choose to change its business activities into Micro Finance Institution/Lembaga Keuangan Mikro (LKM) or its business entity into Village-Owned Business Enterprise (BUMDesa)/Village-Owned Business Unit (unit usaha BUMDesa). OJK has the authority to revoke the business license of BKD that acts as RB, in the cases of:

1) BKD that undertake merging or conversion;
2) any BKD which cannot meet the stipulations applicable on RB or cannot implement the action plan no later than 31 December 2019;
3) any BKD which is not actively in operation (does not submit information on its being active or quarterly financial report during the first one year after the OJK Regulation comes into effect);
4) any BKD that has changed its business activities or its business entity into LKM or BUMDesa; and
5) any BKD that submits a request for revocation of Business License at its own initiative.

h. Transformation of Conventional Micro Finance Institution into Rural Bank and Sharia Micro Finance Institution into Sharia Rural Bank

Based on the mandate of Act Number 1 of 2013 concerning Micro Finance Institution, a LKM may expand the reach of its financial services to the public outside its regency/city by transforming into a bank. A LKM should transform into a RB or a Sharia LKM should transform into a SRB when:

1) conducting business activities outside the regency/city of the domicile of the LKM or SLKM; or
2) The LKM or SLKM already owns:
   a) equity amounting to at least five times of the required minimum paid-up capital for RB or SRB in accordance with the provisions of legislations; and
   b) third-party funds in the form of deposits accumulated in the last one year amounting to at least 25 times of the required minimum paid-up capital for RB or SRB in accordance with the provisions of legislations.

Any LKM/SLKM that has already obtained a business license from OJK and owns core capital of Rp 6 billion may submit a request for transformation at its own initiative to OJK by meeting the set requirements. Further on, OJK may give approval/rejection no later than 40 working days since the request and complete required documents are received.
2. Bank Ownership

Fund sources used for the purpose of ownership of a CB/SCB and RB/SRB are prohibited to originate:

a. from loans or financing facilities in whatever forms from a bank and/or other parties in Indonesia; and/or
b. from and for the purpose of money laundering.
Specifically in the case of RB, fund sources may originate from Regional Revenue and Expenditure Budget/Anggaran Pendapatan dan Belanja Daerah (APBD).

Parties that may become bank owners should meet the following requirements:

a. has good character and morals, which are reflected among others by an attitude of compliance to prevailing regulations, not having been sentenced due to proven case of crime within the last 20 years prior to nomination;
b. has a commitment for complying with prevailing legislations;
c. has a commitment for the development of sound banking operation; and in respect of a sharia bank, has a high commitment for the development of sound and resilient sharia bank;
d. not being listed in the list of parties not recommended to be the main parties, for example List of Failed Persons in Banking Field; and

Changes in bank ownership follows the procedure for changes in bank ownership as stipulated in prevailing legislations.

3. Sole Ownership in Banks in Indonesia

The principle in the sole ownership policy is that each party can only become a Controlling Shareholder in one CB in Indonesia. In the event a party has become the Controlling Shareholder in more than one banks or have purchased shares of another bank that causes the party concerned to become the Controlling Shareholder in more than one bank, the party concerned should meet the regulation concerning Sole Ownership. The fulfilment of the regulation concerning Sole Ownership should be performed through:

a. merger or consolidation of banks under its control;
b. establishment of a parent company in the banking field; or

c. establishment of a holding function.
The sole ownership policy is exempted for:

a. a Controlling Shareholder in two banks, where each
bank respectively conducts business activities under different principle, namely in conventional manner and based on Sharia Principles; and

b. a Controlling Shareholder in two banks, where one of the banks is a joint venture bank.

A Controlling Shareholder, which chooses the merging/consolidation option in order to meet the ownership structure that is in line with this regulation, will receive incentives in the forms of:

a. temporary easing in the fulfilment of Statutory Reserve Requirement/Giro Wajib Minimum (GWM);

b. time extension for settlement of exceedances against the Maximum Legal Lending Limit/Batas Maksimum Pemberian Kredit (BMPK)

c. ease in opening branch offices; and/or
d. temporary easing in the implementation of GCG.

The legal entity form of a parent company in the banking field shall be Limited Liability Company established in Indonesia in line with the provisions of prevailing legislations in Indonesia. The holding function may only be undertaken by a Controlling Shareholder that is a bank of Indonesia legal entity or Republic of Indonesia’s Government Agency.

The parent company in the banking field and the holding function should provide strategic directions and consolidate financial reports of banks that are its subsidiary companies.

In accordance with the regulation concerning Fit and Proper Test, in the case of a Controlling Shareholder that is a legal entity, the definition of Controlling Shareholder applies up to the ultimate owner and controller of that legal entity (ultimate shareholders). Along this line, the definition of having undertaken control, both directly as well as indirectly, shall also refer to the regulation concerning Fit and Proper Test.

4. Share Ownership of Commercial Bank

With the issuance of OJK Regulation Number 56/POJK.03/2016, ownership of Central Government of banks can be performed directly as well as through legal entities that are directly controlled by the Central Government. An adjustment has been made in anticipation of and to align with the plan to form a holding company for BUMN banks with PT Danareksa as the holding company, so that the limitation on Central Government ownership in banks does not change.

For the purpose of administering ownership structure, OJK has decided the maximum limit on share ownership at banks based on categories of shareholders and relationships between shareholders as follows:

a. a bank financial institution and non-bank financial institution legal entity may own 40% of bank capital;

b. a non-financial institution legal entity may own 30%
of bank capital; and

c. an individual shareholder may own 20\% of bank capital.

Maximum limit for individual share ownership in a SCB is 25\% of bank capital.

Maximum limit for share ownership does not apply on Central Government and institution that has the function of handling and/or rescuing banks. Relationships between bank shareholders are based on:

a. the existence of ownership relationship;

b. the existence of family relationship up to the second degree; and/or

c. the existence of cooperation or similar action in order to achieve joint objective in controlling the bank (acting in concert) with or without a written agreement so that jointly all parties have the right option or other rights for owning bank shares.

In the case the candidate Controlling Shareholder is a Foreign Citizen and/or a legal entity domiciling overseas, the candidate Controlling shareholder should meet the following requirements:

a. has a commitment to support the development of Indonesia's economy through the bank owned;

b. has obtained a recommendation from the original country's supervisory authority, for a financial institution legal entity; and

c. has a rating of no less than:

1) 1 level (notch) above the lowest investment rating, for a bank financial institution legal entity;

2) 2 levels (notches) above the lowest investment rating, for a non-bank financial institution legal entity; or

3) 3 levels (notches) above the lowest investment rating, for a non-financial institution legal entity.

A bank financial institution legal entity may own bank shares of more than 40\% of bank capital as long as it has the approval of OJK and meets the set requirements.

An individual and/or legal entity may purchase the shares of a CB directly as well as through the bourse. Number of share ownership by a Foreign Citizen/foreign legal entity shall be no more than 99\% of the concerned bank's total shares.

Any shareholder, which owns bank shares more than the maximum limit of ownership, should make an adjustment to the maximum limit of share ownership based on the results of soundness level assessment and/or GCG assessment for the assessment position of end of December 2013. Shareholders of any bank with the assessment ratings for Soundness Level and/or GCG of 3, 4 or 5 for the assessment position of December 2013, should make an adjustment to the maximum limit of share ownership no later than 5 years since 1 January 2014.
Shareholders of any bank with the assessment ratings for Soundness Level and GCG of 1 or 2 for assessment position of December 2013 may still keep the shares amounting to the share percentage it owns. There is an obligation to make adjustment to ownership limit if the bank suffers a lowering in Soundness and/or GCG level to ratings 3, 4, or 5 during three consecutive assessment periods or at the shareholder own initiative to sell the shares it owns.

Implementation of the maximum limit of bank share ownership applicable for Regional Governments and parent companies is stipulated as follows:

a. maximum limit of share ownership for Regional Governments which are going to establish or acquire a bank is 30% for each Regional Government; and

b. a parent company in the banking field that is established to meet the requirement concerning sole ownership is exempted from maximum limit of share ownership. However, if later on the parent company is going to acquire another bank, the maximum limit of share ownership applicable shall be the highest ownership limit of the shareholder category of the parent company in the banking field.

Special Requirement on CB Share Ownership:

a. Bank Share Ownership of More Than 40%
   1) The requirement for being able to own bank shares of more than 40% is among others having bank Soundness level assessment with composite rating of 1 or 2 or equivalent for bank financial institution that domiciles overseas, meeting the Minimum Capital Adequacy Requirement in accordance with the risk profile, and core capital (tier 1) of no less than 6%.
   2) Assessment position used for the above three requirements is assessment position of no less than the last one year.

b. Requirement on Investment Rating
   1) 1 level (notch) above the lowest investment rating, for a bank financial institution legal entity;
   2) 2 levels (notches) above the lowest investment rating, for a non-bank financial institution legal entity; or
   3) 3 levels (notches) above the lowest investment rating, for a non-financial institution legal entity.

5. Management and Human Resources

a. Management of Commercial Bank
   Members of Board of Commissioners and members of Board of Directors should meet the requirements of integrity, competency, and financial reputation. The requirement and procedure for assessing fulfilment of those requirements are stipulated in regulations concerning Fit and Proper Test and GCG.
   1) Board of Commissioners
a) Number of members of board commissioners of a CB shall be no less than three persons and no more than the number of members of board of directors. At least one members of board of commissioners should domicile in Indonesia.

b) Board of commissioners is led by president commissioner;

c) Board of commissioners comprises of commissioners and independent commissioners;

d) No less than 50% of members of board of commissioners are independent commissioners;

e) Each proposal for replacement and/or appointment of members of board of commissioners in the Shareholder General Meeting (SGM) should observe recommendation of the Remuneration and Nomination Committee.

f) Members of board of commissioners should meet the requirement of having passed the Fit and Proper Test in accordance with prevailing regulation;

g) A member of board of commissioners can only hold concurrent position as: member of board of commissioners, member of board of directors, or executive officer in a non-financial institution/company or a member of board of commissioners, member of board of directors, or executive officer that executes the oversight function in a non-bank subsidiary company controlled by the bank;

i) A member of board of commissioners is not considered to hold a concurrent position when a non-independent member of board of commissioners performs the functional task of the shareholder of a bank in the form of a legal entity within its business group; and/or a member of board of commissioners holding a position in a non-profit organization or institution, as long as the person concerned does not ignore the tasks and responsibilities as member of the bank’s board of commissioners;

j) Majority members of the board of commissioners are prohibited from having family relationships up to the second degree with other members of the board of commissioners and/or members of board of directors;

k) Members of board of commissioners should
execute their tasks and responsibilities independently and are prohibited from being involved in decision making on bank operational activities;

l) Members of board of commissioners should establish at least: Audit Committee; Risk Monitoring Committee; Remuneration and Nomination Committee;

n) Meetings of board of commissioners should be held periodically, no less than four times in a year, attended by all members of the board of commissioners physically at least two times in a year. In the event any member of the board of commissioners cannot attend the meetings physically, the person concerned may attend the meeting through teleconference technology.

p) Any former member of board of directors or executive officer of the bank or parties who have relationships with the bank, whose capacity to act independently can be influenced, cannot become an independent commissioner in the bank concerned, before undergoing the cooling off period of one year. This stipulation is not applicable on former member of board of directors or executive office who has performed the oversight function.

2) Board of Directors

a) Members of a CB board of directors should be no less than three persons. All members of board of directors should domicile in Indonesia;

b) Board of directors as led by president director;

c) Each proposal for replacement and/or appointment of member of board of directors by board of commissioners in the SGM should observe recommendation of the Remuneration and Nomination Committee;

e) Majority of members of board of directors should have experience in bank operation of at least five years in the operational field as a bank executive officer, except a CB which conducts business activities based on Sharia Principles;

f) Bank president director should come from a party independent of the Controlling Shareholder;

g) Majority members of board of directors are prohibited from having family relationships up to the second degree with the other members of board of directors and/or members of board of commissioners;
h) Any member of board of directors is prohibited from holding a concurrent position as member of board of commissioners, member of board of directors or executive officer in another bank, company and/or institution;

i) A member of board of directors is not considered to hold a concurrent position when the director concerned is responsible for the supervision of the bank's participation in a subsidiary company, performs the functional task of member of board of commissioners in a non-bank subsidiary company controlled by the bank, as long as the holding of concurrent position does not cause the person concerned to ignore the performance of tasks and responsibilities as member of bank board of directors;

j) Any member of board of directors, both individually as well as jointly, is prohibited from owning shares exceeding 25% of paid-up capital in another company;

k) Any member of board of directors is prohibited from giving a general power of attorney to another party that causes a transfer of tasks and functions of the director.

l) Board of directors is fully responsible for the implementation of bank management;

m) Board of directors should manage the bank in accordance with their authorities and responsibilities as set in the articles of association and provisions of prevailing legislations;

n) Board of directors is responsible for the accountability of its task implementation to the shareholders in the SGM;

o) Board of directors should disclose to the employees bank policies that are strategic in the field of personnel;

p) All decisions made by board of directors that are in line with the work guidelines and rules are binding and become the responsibility of all members of board of directors; and

q) Any former member of board of directors or executive officer of the bank or parties who have relationship with the bank, whose capacity to act independently can be influenced, cannot become an independent party as a member of the Audit Committee or Risk Monitoring Committee in the bank concerned, before undergoing the cooling off period of six months. This stipulation is not applicable on former member of board
of directors or executive office who has performed the oversight function. Bank should implement risk management in relation to bank management, executive officers, opening, status change, address transfer and/or closing of bank offices, which will include at least:

a) active supervision by board of commissioners and board of directors;
b) adequacy of policies, procedures, and limit setting;
c) adequacy of the risk identification, measuring, monitoring, and control as well as risk management information system; and
d) Overall internal control system.

Approval to the plan for opening, status change, address transfer and/or closing offices in the next one year is given on the consideration of among others a review submitted by the bank, which contains at least:

a) alignment with business strategy and impact on financial projection;
b) mechanism for bank office supervision and performance assessment;
c) overall (bank wide) analysis covering among others economic condition, risk analysis, and financial analysis; and
d) plan on operational preparations, covering among others human resources, IT, and other supporting facilities.

b. Sharia Commercial Bank Management

1) Sharia Commercial Bank Board of Commissioners

Members of board of commissioners and board of directors should meet the requirements of integrity, competency, and financial reputation. The requirement and procedure for assessing the fulfilment of those requirements are stipulated in regulation concerning Fit and Proper Test. Board of commissioners undertakes oversight on implementation of the tasks and responsibilities of the board of directors, as well as provides advices to board of directors which are implemented by using as references among others the stipulation concerning GCG implementation applicable for banks.

Board of commissioners have the following details:

a) number of members of board commissioners shall be no less than three persons and no more than the number of members of board of directors.
b) at least one member of board of commissioners domiciles in Indonesia.
c) board of commissioners is led by president commissioner;
d) no less than 50% of members of board of commissioners are independent commissioners;

e) each proposal for appointment and/or replacement of members of board of commissioners in the SGM should observe recommendation of the Remuneration and Nomination Committee.

f) a member of board of commissioners can only hold concurrent position as: member of board of commissioners, member of board of directors, or executive officer in a non-financial institution/company; or a member of board of commissioners or member of board of directors who executes the oversight function in a non-bank financial institution subsidiary company owned by the bank; a member of board of commissioners, member of board of directors, or executive officer in a company which is a shareholder of the bank; or an officer at no more than three non-profit institutions.

g) majority members of the board of commissioners are prohibited from having family relationships up to the second degree with other members of the board of commissioners and/or members of board of directors;

h) board of commissioners should monitor and evaluate implementation of the SCB strategic policies; and

i) for the purpose of implementing the tasks and responsibilities, Board of Commissioners should establish at least: (i) Risk Monitoring Committee; (ii) Remuneration and Nomination Committee; and (iii) Audit Committee.

2) Sharia Commercial Bank Board of Directors

a) Members of board of directors should be no less than three persons;

b) All members of board of directors should domicile in Indonesia;

c) Board of directors is led by president director;

d) Each proposal for appointment and/or replacement of member of board of directors in the SGM should observe recommendation of the Remuneration and Nomination Committee;

e) Majority of members of board of directors should have experience of at least four years as an Executive Officer in the banking industry, of which minimum one year at least as an Executive Officer in a SCB and/
or SBU. For a SCB that is established through the conversion of business activities from a CB, this requirement is only obligatory on one candidate member of board of directors and should be met by majority of the board of directors no later than two years after the license for business activity conversion has been given;

f) The president director should come from a party independent of the Controlling Shareholder;

g) Any member of board of directors are prohibited from holding concurrent position as members of board of commissioners, member of board of directors, or executive office in another bank, company, and/or institution, except when: (i) the director is responsible for the supervision of participation in bank’s subsidiary company, is performing the functional task as member of board of commissioners in a non-bank subsidiary company controlled by the bank; and/or (ii) a director occupying positions in two non-profit institutions;

h) Any member of board of directors, both individually as well as jointly, is prohibited from owning shares exceeding 25% of the paid-up capital in another company;

i) Board of directors is fully responsible for implementation of the SCB management based on prudential principle and Sharia Principles;

j) Majority of members of board of directors is prohibited from having family relationships up to the second degree with the other members of board of directors and/or members of board of commissioners;

k) Any member of board of directors is prohibited from giving a general power of attorney to another party that causes a transfer of tasks and functions of the director;

l) Board of directors is responsible for the accountability of its task implementation to the shareholders in the SGM;

c. Rural Bank Management
RB management comprises board of directors and board of commissioners. Members of board of directors and members of board of commissioners should meet the requirements of competency, integrity, and financial reputation.

1) RB Board of Directors
   a) Members of board of directors shall be no less than two persons;
   b) Members of board of directors should
have formal education of no lower than D-3 or Bachelors Degree or has completed at least 110 credits in a S-1 (bachelors degree) program;

c) No less than 50% of members of board of directors should have experience as officers in the field of bank operation of no less than two years, or have undergone internship session of no less than three month at RB;

d) Members of board of directors should have passing certificates from Certification Institutions;

e) Members of board of directors are prohibited from having family relationships from other members of board of director and/or members of board of commissioners in relationships such as parent, child, parent in laws, son/daughter in laws, husband, wife, sibling or sister/brother in law;

f) Any member of board of directors is prohibited from holding concurrent position as member of board of directors or executive officer in a banking institution, company or another institution; and

g) Any member of board of directors is prohibited from giving a general power of attorney that causes a transfer of tasks and authorities without limit.

2) RB Board of Commissioners

a) Members of board of commissioners should be no less than two persons;

b) No less than 50% of members of board of commissioners should have the knowledge and/or experience in the banking field;

c) Any members of board of commissioners may only hold concurrent position as commissioners in no more than two other RB or SRB;

d) Members of RB board of commissioners are prohibited from holding positions as members of board of directors at RB, SRB, and/or CB;

e) Members of board of commissioners should hold periodic meetings of board of commissioners, no less than four times in a year; and

f) When required by OJK, members of board of commissioners should present results of oversight over the RB.
d. Sharia Rural Bank Management
SRB management comprises board of directors and board of commissioners. Members of board of directors and members of board of commissioners should meet the requirements of: (i) competency; (ii) integrity; and (iii) financial reputation.

1) SRB Board of Commissioners
   a) Board of commissioners is led by president commissioner;
   b) Members of board of commissioners should be no less than two persons and no more than the number of members of board of directors;
   c) In the event the number of members of board of directors is more than two persons, the number of members of board of commissioners should be no more than three persons.
   d) At least one member of board of commissioners should domicile close to the location of the SRB; and
   e) Any member of board of commissioners may only hold concurrent position at no more than two other companies as: (i) members of board of commissioners in other RB or SRB; or (ii) members of board of commissioners, members of board of directors, and/or executive officers at other non-bank institutions/companies; (iii) a combination of letter (i) and letter (ii).

2) SRB Board of Directors
   a) Board of directors shall be led by president director;
   b) Members of board of directors shall be no less than two persons;
   c) No less than 50% of members of board of directors, including the president director, should have operational experience at least: (i) two years as officers in the field of funding and/or financing in sharia banking; (ii) two years as officers in the field of funding and/or credit in conventional banking and have knowledge in sharia banking field; or (iii) three years as members of board of directors or equivalent to directors at SLKMs;
   d) Members of board of directors should have formal education of no lower than Diploma III or Bachelor's Degree;
   e) Members of board of directors should have passing certificates from certification
institutions no later than two years after effective dates of the appointments;

f) President director and other members of board of directors should act independently in performing their tasks;

g) Members of board of directors are responsible for implementing the management of SRB as an intermediation institution by fulfilling the prudential principle and Sharia Principles;

h) The president director should be a party independent of the Controlling Shareholder;

i) All members of board of directors should domicile close to the location of the Head Office of SRB;

j) Members of board of directors are prohibited from having family relationships with: (i) other members of board of director in relationships such as parent, child, parent in laws, parent of son/daughter in law, son/daughter in law, husband, wife, sibling or sister/brother in law, and/or (ii) members of board of commissioners in relationships such as parent, child, parent in law, parent of son/daughter in law, son/daughter in law, husband, wife, or sibling;

k) Any member of board of directors is prohibited from holding concurrent position as member of board of directors, member of board of commissioners, members of Sharia Supervisory Board or executive officer in a financial institution, business entity or another institution except as the management of non-profit organizations/institutions as long as implementation of the tasks as director of SRB is not disrupted and it should be reported to OJK; and

l) Any member of board of directors is prohibited from giving a general power of attorney that causes a transfer of tasks, authorities and responsibilities to another party.

e. Sharia Supervisory Board

In addition to bank management comprising board of commissioners and board of directors, the organization structure of SCB, SBU, and SRB also comprises a Sharia Supervisory Board (SSB) which tasks and responsibilities are among others:

1) assessing and ensuring the fulfilment of Sharia Principles in operational guide and
products issued by bank;
2) supervising the development process of bank new products;
3) requesting fatwa from National Sharia Board/Dewan Sharia Nasional (DSN) for bank new products that do not yet have fatwa;
4) performing periodic review concerning the fulfillment of Sharia Principles on the mechanisms for fund accumulation, fund channeling, and provision of bank services; and
5) requesting data and information related to sharia aspect from bank work units in the implementation of their tasks.
In the case of a SRB, the implementation of SSB’s tasks and responsibilities covers number 2) up to number 5).
Sharia principles in activities related to fund accumulation, financing, and other SRB services are business activities that do not have the elements of: riba (usury), maisir (gambling), gharar, haram (illicit) and zalim (unjust).
Number of members of SSB in a SCB shall be no less than two persons or no more than 50% of members of board of directors. Meanwhile, number of members of SSB in a CCB that has SBU or in a SRB shall be no less than two persons or no more than three persons. SSB shall be led by a chairman who is one of the members of SSB and any member of SSB may only hold concurrent position as members of SSB at no more than four other sharia financial institutions.

f. Development of Banking Human Resources
CB/SCB and RB/SRB should provide education funds for the enhancement of human resource knowledge and skills in the banking field. In the case of a CB/SCB, education funds should be no less than 5% of total expenditure budget for human resources. Meanwhile, for a RB/SRB, education funds should be no less than 5% of the realized human resource expenditure in the previous year. If there is an outstanding balance in education funds, the remaining funds should be added to the following year’s education and training funds. Implementation of education and training can be undertaken by way of:
1) own implementation by the bank;
2) participating in education programs undertaken by other banks;
3) joining with other banks in holding education programs; or
4) sending human resources to participate in education programs held by banking education institutions.
The education plan referred above should receive approval from Board of Commissioners or Supervisory Board of CB/SCB/RB/SRB and should be reported to OJK in Bank Business Plan/Annual Work Plan.

**g. Competency Certification For Members of Board of Directors and Members of Board of Commissioners of Rural Banks and Sharia Rural Banks**

For the purpose of maintaining sustainability of competency quality of members of board of directors and members of board of commissioners of RB and SRB, RB and SRB should be obliged to periodically enroll each member of board of directors and member of board of commissioners in work competency maintenance certification program.

Any RB or SRB should have members of board of directors and members of board of commissioners who all have Work Competency Certificates issued by Professional Certification Institutions. Levels of Work Competency Certifications for RB and SRB members of board of directors and members of board of commissioners are as follows:

1. Work Competency Certificate level 1 should be owned by members of board of directors of any RB and SRB with a total assets of less than Rp 300 billion;
2. Work Competency Certificate level 2 should be owned by members of board of directors of any RB and SRB with a total assets of at least Rp 300 billion; and
3. Work Competency Certificate for members of board of commissioners is only of one level and does not take into account the total asset of the RB and SRB.

The organizers of Work Competency Certification should be Professional Certification Institutions listed at OJK.

**6. Fit and Proper Test for Main Parties of Financial Service Institutions**

For the purpose of supporting the realization of prime licensing, OJK considers it necessary to enhance the regulation concerning fit and proper test so that OJK can provide licensing services for ownership and management of FSI in a more rapid, appropriate, easy, and transparent manner. In addition there is also a need for aligning regulations concerning fit and proper test applicable on FSI in the banking, capital market, and NBFI sectors. The referred alignment is required for preventing the occurrence of regulatory arbitrage and inconsistency in the implementation of the fit and proper test in FSI.
regulated and supervised by OJK. Candidate Controlling Shareholders, candidate members of board of directors, and candidate members of board of commissioners should obtain approvals from OJK before performing actions, tasks, and functions although they have received approvals from and have been appointed by the SGM. The criteria used in the fit and proper test for bank Main Parties are:

1) integrity and financial feasibility for candidate Controlling Shareholder; and
2) integrity, financial reputation, and competency for candidate members of board of directors and candidate members of board of commissioners.

Table 5.1: Objects and Criteria of Fit and Proper Test

<table>
<thead>
<tr>
<th>Object of Fit and Proper Test</th>
<th>Criteria of Fit and Proper Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candidate Controlling Shareholder</td>
<td>Integrity and financial feasibility</td>
</tr>
<tr>
<td>Candidate members of board of commissioners and candidate members of board of directors</td>
<td>Integrity, competency, and financial reputation</td>
</tr>
</tbody>
</table>

OJK may discontinue the fit and proper test on bank candidates of bank main parties when the candidates concerned are undergoing legal processes and there are indications of problems in integrity, financial feasibility, financial reputation, and/or competency in a FSI. Results of assessments by OJK will be determined no later than 30 working days after all request documents have been received in complete condition.

7. Bank Merger, Consolidation, and Acquisition

a. CB/SCB

A merger, consolidation, and acquisition may be undertaken at the concerned bank’s own initiative, at OJK’s request, and/or at the initiative of a special agency and should obtain a permit from OJK. A merger or consolidation may be undertaken between a commercial bank and a sharia bank when the bank resulting from the merger or consolidation becomes a bank based on Sharia Principles or a conventional bank that owns a Branch Office based on Sharia Principles. A CB acquisition may be undertaken by an individual or a legal entity, through purchase of both part of as well as all of bank shares, directly as well as through the bourse, which causes a transfer of bank control to the party that undertakes the acquisition. Share purchase that is considered to cause a transfer in bank control is in which share ownership becomes:

1) 25% or more of bank paid-up capital; or
2) less than 25% of bank paid-up capital but it, both directly as well as indirectly, determines bank's management and/or policies.

b. RB/SRB
A merger, consolidation, and acquisition of a RB/SRB may be undertaken at the concerned RB/SRB's own initiative or at OJK's request, and should obtain a permit from OJK. A merger or consolidation may only be undertaken between RB or SRB.
A merger or consolidation between a RB and a SRB may only be undertaken when the RB resulting from the merger or consolidation becomes a SRB. A merger or consolidation of RB/SRB may be undertaken:

1) between RB/SRB domiciling in the same provincial area; or

2) between RB/SRB within different provinces as long as the offices of RB/SRB resulting from the merger/consolidation will be located in the same provincial areas.

Acquisition of a RB/SRB may be undertaken by an individual or a legal entity through share take over which results in the transfer of the RB/SRB control. Share purchase that is considered to cause a transfer in RB/SRB control is in which share ownership becomes:

1) 25% or more of RB/SRB paid-up capital; or

2) less than 25% of RB/SRB paid-up capital but it, both directly as well as indirectly, determines bank's management and/or policies.

8. Incentives In Bank Consolidation
OJK gives incentives to banks which undertake merger or consolidation. The forms of the said incentives are:

a. ease in provision of the license to become a foreign currency bank;

b. temporary easing in the fulfilment of GWM;

c. time extension for settlement of exceedances against the Legal Lending Limit resulting from the merger or consolidation;

d. ease in the provision of licenses for opening bank branch offices;

e. reimbursement of part of consultant fee for the implementation of due diligence; and/or

f. temporary easing in the implementation of several stipulations in the regulation that governs GCG for CB/SCB.

Banks that plan a merger or consolidation should submit a request for planned utilization of incentives that should be submitted by one of the banks that participate in the merger or consolidation and signed by the president directors of all banks that participate in the merger or consolidation.
9. Opening of Bank Office

Bank should state plans for opening, status change, transfer of address and/or closing of bank offices one year in advance in Bank Business Plan. Submission of the plans together with the reviews should be in line with the regulation concerning CB. OJK has the authority to instruct any bank to postpone the plans for opening, status change and/or transfer of address of bank offices if in accordance with OJK’s assessment there are among others a decline in soundness level, bank financial condition, and/or an increase in bank risk profile. Banks are obliged to state clearly the name and type of bank office at each bank office.

a. Commercial Banks

A bank should conduct business activities and expand office networks in accordance with the bank’s basic capacity, which is the core capital. By operating in accordance with its capacity, it is believed that a bank can have a better resilience and be more efficient because its activities are focussed on products and activities in which the bank excels. Along the same line, the locations where bank offices are located have different coefficients. To provide ease in the calculation of core capital allocation, the area of Indonesia is divided into six zones, starting from zone I, which is a crowded zone with high coefficient, up to zone VI, which is a zone where there is still low number of banks and has a low coefficient.

<table>
<thead>
<tr>
<th>Zone I</th>
<th>Zone II</th>
<th>Zone III</th>
<th>Zone IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficient = 5</td>
<td>Coefficient = 4</td>
<td>Coefficient = 3</td>
<td>Coefficient = 2</td>
</tr>
<tr>
<td>DKI Jakarta</td>
<td>Jawa Barat</td>
<td>Kalimantan Timur</td>
<td>Riau</td>
</tr>
<tr>
<td>Liar Negeri</td>
<td>Jawa Tengah</td>
<td>Kepulauan Riau</td>
<td>Sumatera Selatan</td>
</tr>
<tr>
<td>DI Yogyakarta</td>
<td>Jawa Timur</td>
<td>Sumatera Utara</td>
<td>Kalimantan Timur</td>
</tr>
<tr>
<td>Bali</td>
<td></td>
<td></td>
<td>Kalimantan Selatan</td>
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<tr>
<td></td>
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<td></td>
<td>Sulawesi Utara</td>
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<tr>
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<td>Sulawesi Selatan</td>
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<td></td>
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<td>Papua</td>
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</table>

<table>
<thead>
<tr>
<th>Zone V</th>
<th>Zone VI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficient = 1</td>
<td>Coefficient = 0.5</td>
</tr>
<tr>
<td>DK Arh</td>
<td>NTB</td>
</tr>
<tr>
<td>Jambi</td>
<td>NTB</td>
</tr>
<tr>
<td>Sumatra Barat</td>
<td>Sulawesi Tengah</td>
</tr>
<tr>
<td>Bangka Belitung</td>
<td>Gorontalo</td>
</tr>
<tr>
<td>Bengkulu</td>
<td>Sulawesi Barat</td>
</tr>
<tr>
<td>Lampung</td>
<td>Maluku Utara</td>
</tr>
<tr>
<td>Kalimantan Barat</td>
<td>Maluku</td>
</tr>
<tr>
<td>Sulawesi Tenggara</td>
<td>Papua Barat</td>
</tr>
<tr>
<td>Kalimantan Utara</td>
<td></td>
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</tbody>
</table>

Table 5.2. Division of zones and determination of coefficients

If a bank plans to open a new office network, the existing bank office networks should first be taken into account against bank core capital, then the remaining amount will determine the number and type of banks and locations of new offices that can be opened.

b. Domestic Commercial Bank Branch Offices

1) branch office opening should get a permit from OJK;
2) a bank director or officer in the board of directors submits a request for opening of a branch office to OJK supplemented with supporting documents in line with the regulation concerning CB;
3) approval or rejection on bank request shall be given no later than 20 working days after the request documents are received in complete condition; and
4) implementation of branch office opening should be done no later than 30 working days after the date of OJK’s permit is issued.

c. Commercial Bank Overseas Branch Offices
1) Opening of overseas branch office, representative office and other types of offices, both of operational nature as well as non operational nature, should obtain a permit from OJK. The permit should be executed within one year since the permit from OJK is issued and can be extended for no longer than one year based on a reason that can be justified;
2) opening an overseas office should also obtain a permit from the local country’s authority;
3) the permit can be awarded by OJK when the bank has become a foreign currency bank for no less than 24 months; has stated the plan for opening the branch office in Bank Business Plan; has met the requirements of soundness level, adequate capital, and risk profile; and has clear address or domicile for the operational office;
4) approval or rejection on bank request should be given no later than 20 working days after the request documents have been received in complete condition; and
5) opening of CB branch office can only be undertaken by BUKU 3 and BUKU 4 banks with the following requirements:
   a) any BUKU 3 bank may undertake office network opening overseas but limited to the Asia region; and
   b) any BUKU 4 bank may undertake office network opening in any area overseas.

d. Rural Bank Branch Office
1) Rural Bank Based On Business Activity 1/Bank Perkreditan Rakyat Kegiatan Usaha (BPRKU 1) may only undertake RB Office Network Opening in the same regency or city area as the regency or city area where the RB head office is located. Specifically for BPRKU 1 that has met Core Capital of no less than Rp 6 billion, it can undertake RB Office Network Opening in the same regency or city area where the RB head office is located and/or in regency or city that directly borders with
the regency or city where the RB head office is located, within the same provincial area;

2) Rural Bank Based On Business Activity 2 (BPRKU 2) may only undertake RB Office Network Opening in the same regency or city area as the regency or city area where the RB head office is located and/or in regency or city that directly borders with the regency or city where the RB head office is located, within the same provincial area; and

3) Rural Bank Based On Business Activity 3 (BPRKU 3) may undertake RB Office Network Opening in the same province where the RB head office is located and in regency or city in another province that borders directly with the province where the RB head office is located.

e. Sharia Commercial Bank Office and Sharia Business Unit
The plan for opening, status change, transfer of address and/or closing of bank offices as well as the plan for opening, transferring and/or discontinuing activities should be stated in the Bank Business Plan together with the reviews. SCB and SBU may open regional offices and functional offices.

f. Overseas Sharia Commercial Bank Branch Office
1) Opening of Branch Office, representative office, and other types of offices overseas may only be undertaken with a permit from OJK;

2) Opening an office overseas should also obtain a permit from the local country’s authority;

3) The permit can be awarded by OJK when the bank has become a foreign currency bank for no less than 24 months; has stated the plan for opening the branch office in Bank Business Plan; has met the requirements of soundness level, adequate capital, and risk profile; and has clear address or domicile for the office; and

4) The approval or rejection on bank request should be given no later than 30 working days after the request documents have been received in complete condition; and

g. Opening of Sharia Services
1) Sharia Commercial Bank in Conventional Commercial Bank
Bank Sharia Services are activities of fund accumulation and/or provision of other bank services based on Sharia Principles, not including fund channeling activities, undertaken in CCB office network for and on behalf of SCB. Consultation activities are undertaken between SCB and CCB for the purpose of risk analysis on candidate customers for financing and projects to be financed by SCB.
SCB may undertake cooperation with CCB by opening Bank Sharia Services and/or using consultation activities available in CCB by meeting among others the following requirements:

a) a CCB has an ownership relationship with a bank in which the CCB is the Controlling Shareholder of the SCB and the Controlling Shareholder of the CCB is also the Controlling Shareholder of SCB; and

b) a CCB, which does not own a SBU, has obtained a permit from OJK to undertake agency activities and/or cooperation in accordance with the stipulation that regulates CB business activities.

2) Sharia Rural Bank Branch Office

Opening of a branch office may only be undertaken with a permit from OJK. Opening of a branch office should at least meet the following requirements:

a) located in the same Provincial area as the Head Office;

b) has stated the plan in SRB annual work plan;

c) is supported by adequate IT; and

d) makes additional paid-up capital of no less than 75% of the required minimum capital for SRB in accordance with the location of the branch office to be opened.

Specifically for SRB which head offices are located within the areas of DKI Jakarta as well as Regency/City Bogor, Depok, Tangerang, and Bekasi, in addition to being allowed to open branch offices in the same Provincial area as the Head Offices, they are also allowed to open branch offices in the areas of DKI Jakarta as well as Regency/City Bogor, Depok, Tangerang, and Bekasi.

3) Sharia Business Unit

a) any CB that undertakes business activities based on Sharia Principles should open a SBU;

b) Opening of a SBU may only be undertaken with a permit from OJK in the form of a business license. The working capital of a SBU is set and maintained at no less than Rp 100 billion;

c) A SBU may be separated from the CB by:
(1) establishing a new SCB; or
(2) transferring the rights and responsibilities of the SBU to an existing SCB by meeting the provisions of prevailing regulations.

d) Additional requirements for opening a SBU:
(1) analysis on the CB’s capital capacity; and
(2) analysis on fulfilment of the legal aspect in the separation of the SBU into a SCB.

h. Development of Sharia Banking Office Networks For The Purpose of Stimulating National Economy for Banks

For the purpose of responding to a condition of slowing economic growth, there is a need for a temporary policy that promotes the growth of sharia banking by yet observing prudential principle and sharia principles.

This regulation stipulates among others policy on the development of sharia banking office networks for the purpose of giving a stimulus to the national economy for:

1) any CCB that supports the development of sharia banking network, in the forms of:
   a) reduction in core capital allocation in the calculation of office network opening; and
   b) an ease in the balanced distribution of office networks.

2) any SCB, in the forms of:
   a) ease in the requirements for opening Bank Sharia Services in relation to the work area of the Branch Office, which is the parent of the Bank Sharia Services;
   b) expansion of the scope of mobile cash activity services; and/or
   c) lowering of investment cost in the calculation of Core Capital allocation for Office Network Opening.

3) any SBU, in the forms of:
   a) expansion of types of CCB offices that may undertake Sharia Service activities;
   b) ease in the requirements for opening Sharia Services in relation to the work area of the Branch Office, which is the parent of the Sharia Services;
   c) expansion of the scope of mobile cash activity services; and/or
   d) lowering of investment cost in the calculation of core capital allocation for office network opening.

10. Changes in Bank Name and/or Logo

Any change in bank name and/or logo should be undertaken by meeting the provisions of prevailing legislations, including regulations issued by Ministry of Trade as well as Ministry of Law and Human Rights. In the event the related institution has issued a document giving approval to the change of bank name and/or logo, the said document should be submitted to OJK along with the request for a change in bank name.
11. Closing of Bank Branch Offices

The closing of any of bank domestic branch office should obtain a permit from OJK, in the forms of permit in principle and approval for closure. A request for permit in principle should be accompanied by measures for settling all of the obligations of the branch office to customers and other parties. The request for approval for closure should be submitted no later than six months after having obtained the permit in principle and should be accompanied by documents proving that all bank’s obligations to customers and other parties have been settled as well as a letter from bank’s Director stating that steps for settling all branch office’s obligations to the customers and other parties have been completed and that if there are claims in the future, these will be the bank’s responsibility. Branch office closing that has received approval for closure should be executed no later than 30 working days after the date of OJK’s approval, and announced in a newspaper that has wide circulation in the domicile of the bank office no later than 10 working days after the date of approval for closure from OJK.

The closing of any SBU shall be performed in two stages, namely:

a. approval for the preparation of business license revocation, for the purpose of settling the SBU’s obligations and claims; and

b. decision on business license revocation, after all the SBU’s obligations and claims have been settled.

12. Bank Liquidation

Bank liquidation is an act to rescue all of bank’s rights and obligations as the result of business license revocation and dissolution of the bank legal entity. After October 2005, supervision and execution of the liquidation of banks which business licenses are revoked are performed by Indonesia Deposit Insurance Corporation/Lembaga Penjamin Simpanan (LPS).

13. Revocation of Business License At The Request of Shareholders (Self Liquidation)

A bank that may request for its business license to be revoked at the request of the shareholders shall be a bank that is not placed Under Special Supervision by OJK as stipulated in OJK’s regulation concerning follow up and determination of bank status.

Revocation of business license at the request of bank’s shareholders can only be performed by OJK if the bank has settled its obligations to all customers and other creditors.

Revocation of business license at the request of bank’s shareholders shall be performed in two stages, namely
approval for preparation of business license revocation and decision for business license revocation.
Bank's board of director should submit a request for approval for preparation of business license revocation to OJK and should supplement it with related documents in line with the prevailing regulation.
After that, OJK will issue a letter of approval for preparation of bank's business license revocation and oblige bank to discontinue all bank's business activities, announce the plan for dissolution of bank legal entity, and plan for settling bank's obligations in two daily newspapers with wide circulation no later than 10 working days since the date of the letter of approval for preparation of bank’s business license revocation, immediately settle all bank's obligations and appoint a Public Accounting Firm to undertake verification on the settlement of bank’s obligations.
When all bank’s obligations have been settled, bank’s board of directors submits a request for bank’s business license revocation together with related reports (in accordance with regulations) to OJK. When approved, OJK will issue a Decision Letter on revocation of bank's business license and request bank to execute dissolution of the legal entity in accordance with the provisions of prevailing legislations.
Since the date of business license revocation is issued, if in the future there are yet obligations that have not been settled, these shall be the responsibility of bank's shareholders.

14. Business License Revocation as Follow Up Of The Condition Of Not Being Able to Be Rehabilitated
On any bank that is determined by OJK as a bank That Cannot Be Rehabilitated/Tidak Dapat Disehatkan (TDS), OJK will submit the information to the LPS and request LPS to decide to rescue or not to rescue the bank. If LPS decides not to rescue the bank, OJK will follow up this matter with Business License Revocation/Cabut Ijin Usaha (CIU).

15. Change in Conventional Bank Business Activities To Sharia Bank
A Conventional Bank may undertake a change in business activities into a Sharia Bank, as long as it receives a permit from OJK.
Main points of the arrangement are:
1. A change in a Conventional Bank’s business activities into a Sharia Bank may be done:
   1) a CCB into a SCB; or
   2) a RB into a SRB.
2. A CCB that is going to be a SCB or a RB that is going to be a SRB should meet the regulation concerning
SCB capital or regulation concerning SRB capital;
c. A CCB that is going to be a SCB or a RB that is going to be a SRB should establish a Sharia Supervisory Board (SSB);
d. the request for the permit to change business activities should be submitted by a Conventional Bank along with among others:
1) missions and vision of the change of business activities into a Sharia Bank
2) draft amendment of the articles of associations;
3) name and identity data of candidate Controlling Shareholder, candidate members of board of directors, candidate members of board of commissioners, and candidate members of SSB
4) Sharia Bank Business Plan;
5) feasibility study concerning market opportunities and economic potentials; and
6) plan for settlement of customers’ rights and obligations.
e. Any CCB/RB that has received the permit to change on business activities into a SCB/SRB should state clearly:
1) the word “Sharia” in name writing; and
2) iB logo on Sharia Bank forms, agreements, products, offices and office networks.

V.2. Regulations Concerning Bank Business Activities, Supporting Activities, and Services
1. Bank Business Activities
   a. Conventional Commercial Bank business activities that may be conducted for each BUKU are set as follows:
      1) BUKU 1 may only conduct:
         a) business activities in Rupiah, covering:
            (1) fund accumulation activities that are the basic products or activities;
            (2) fund channeling activities that are the basic products or activities;
            (3) trade finance activities;
            (4) activities with limited scope for agency and cooperation;
            (5) activities concerning the payment system and electronic banking with limited scope;
            (6) activities of temporary capital participations for the purpose of rescuing credits; and
            (7) other services;
         b) activities as foreign currency trader; and
         c) other activities categorized as basic products or services in Rupiah that are commonly conducted by Banks and are not in violation with the provisions of legislations.
2) BUKU 2 may conduct:
   a) Business Activities in Rupiah and foreign currencies:
      (1) fund accumulation activities as may be conducted by BUKU 1;
      (2) fund channeling activities as may be conducted by BUKU 1 but with wider scope;
      (3) trade finance activities;
      (4) limited treasury activities; and
      (5) other services;
   b) Business Activities as for BUKU 1 with wider scope for:
      (1) agency and cooperation; and
      (2) activities related to payment system and electronic banking;
   c) capital participation activities in financial institutions in Indonesia;
   d) temporary capital participation activities for the purpose of rescuing credits; and
   e) other activities that are common to be undertaken by banks as long as they do not violate the provisions of legislations;
3) BUKU 2 may conduct all business activities as referred to in number 2), both in Rupiah and foreign currencies, as well as capital participations in financial institutions in Indonesia and/or overseas, but limited to the Asian region; and
4) BUKU 4 may conduct all Business Activities as referred to in number 2), both in Rupiah and foreign currencies, as well as capital participations in financial institutions in Indonesia and/or all areas overseas in amounts larger than those allowed for BUKU 3.

b. Sharia Commercial Bank and Sharia Business Unit
Business Activities that may be conducted by each BUKU are set as follows:
1) BUKU 1 may only conduct:
   a) Business Activities in Rupiah, covering:
      (1) fund accumulation activities that are the basic products or activities;
      (2) fund channeling activities that are the basic products or activities;
      (3) trade finance activities;
      (4) activities with limited scope for agency and cooperation;
      (5) activities concerning the payment system and electronic banking with limited scope;
      (6) activities of temporary capital participations for the purpose of rescuing credits;
      (7) other services;
b) activities as foreign currency trader; and
c) other activities that are categorized as basic products or activities in Rupiah that are common to be undertaken by Banks and are not in violations with the provisions of legislations.

2) BUKU 2 may conduct:
   a) Business Activities in Rupiah and foreign currencies:
      (1) fund accumulation activities as may be conducted by BUKU 1;
      (2) fund channeling activities as may be conducted by BUKU 1 with a wider scope;
      (3) trade finance activities;
      (4) limited treasury activities; and
      (5) other services;
   b) Business Activities as referred to under BUKU 1 with a wider scope for:
      (1) agency and cooperation; and
      (2) activities related to payment system and electronic banking;
   c) capital participation activities at financial institutions in Indonesia;
   d) activities of temporary capital participations for the purpose of rescuing credits; and
   e) other activities that are common to be undertaken by banks as long as they are not in conflict with the provisions of legislations;

3) BUKU 3 may conduct all business activities as referred to in number 2), both in Rupiah as well as in foreign currencies, as well as capital participations in financial institutions in Indonesia and/or overseas, but limited to the Asian region; and

4) BUKU 4 may conduct all Business Activities as referred to in number 2), both in Rupiah as well as foreign currencies, as well as capital participations in financial institutions in Indonesia and/or all areas overseas in amounts larger than those allowed for BUKU 3.

c. Rural Bank Business Activities should be in line with BPRKU categories as follows:
   1) BPRKU 1:
      a) fund accumulation in the forms of:
         (1) deposits in the forms of term deposits, savings deposits, and/or other equivalent forms; and
         (2) loans received;
      b) funds channeling;
      c) funds placements in the forms of:
         (1) demand deposits (giro), term deposits, certificates of deposit, and/or savings deposits for commercial banks and
sharia commercial banks;
(2) term deposits, and/or savings deposits at RB and sharia rural banks; and
(3) Certificates of Bank Indonesia;
d) other activities for supporting RB business activities, in the forms of:
(1) non-office based financial service agency activities for the purpose of financial inclusion (Laku Pandai);
(2) salary payment services for RB customers;
(3) cooperation activities for the purpose of fund transfers that are limited to receipts of money transfers from overseas;
(4) marketing activities of Electronic Money from other issuers;
(5) fund transfers, both for own interest as well as the interests of customers, through RB accounts in commercial banks;
(6) cooperation activities with insurance companies for referring insurance products to customers that are linked to RB products;
(7) receiving fund deposits for the purpose of payment services for claims such as electricity bills, telephone bills, water bills, and taxes; and
(8) activities as ATM Card issuer, for any BPRKU 1 that has a minimum core capital of Rp 6 billion.

2) BPRKU 2:
   a) Business Activities that may be conducted by BPRKU 1;
   b) foreign currency exchange business activity; and
   c) other activities to support RB business activities in the forms of:
      (1) activities as Debit Card issuer; and
      (2) activities as Electronic Money issuer.

3) BPRKU 3:
   a) Business Activities that may be conducted by BPRKU 2; and
   b) other activities to support RB business activities in the forms of:
      (1) provision of Electronic Banking services; and
      (2) activities as the operator of non-office based financial services for the purpose of financial inclusion (Laku Pandai).

2. Foreign Currency Trader for Banks
   Business Activities in foreign currencies may only be conducted by a bank, included in the categories of BUKU 2, BUKU 3 and BUKU 4, that has received approval from OJK. Any bank that is categorized under BUKU 1 may
only conduct activities as Foreign Currency Trader as stipulated in a separate regulation. Requirements for CB in conducting business activities in foreign currencies:

a. bank soundness level is of composite rating one or two during the last 18 months;

b. has a core capital of no less than Rp 1 trillion; and

c. meets the Minimum Capital Adequacy Requirement (MCAR) ratio that is in line with the risk profile for the latest assessment of MCAR in accordance with prevailing regulation.

RB and SRB specifically should meet the following requirements:

1) having soundness level that is categorized as sound during the last 12 months; and

2) meets the requirements of paid-up capital and management in accordance with prevailing regulations.

3. Derivative Transactions

A bank may conduct derivative transactions, both for own interest as well as the interests of customers. In derivative transactions, a bank should conduct mark to market and implement risk management in accordance with prevailing regulations. A bank may only conduct derivative transactions that are the derivatives of exchange rate, interest rate, and/or a combination of exchange rate and interest rate. The said transactions are allowed as long as they are not structured products related to foreign currency against rupiah transactions. Any bank is prohibited from maintaining positions over derivative transactions conducted by parties related to the bank and is prohibited from extending credit facilities and/or overdraft facilities for the purpose of derivative transactions to customers, including fulfilment of margin deposits for the purpose of margin trading transactions. Any bank is also prohibited from conducting foreign currency against rupiah margin trading, either for own interest or for the interests of customers.

4. Deposits

a. Giro (Demand Deposits)

A giro (demand deposits) account is an account which withdrawals may be made using checks, bilyet giro (giro drafts), other payment instruction vehicles or by book transfers. In regard account opening, any bank is prohibited from accepting a customer whose name is listed in the prevailing national black list.

Giro accounts in a sharia bank may be based on wadi‘ah or mudharabah agreement. In regard giro accounts based on wadi‘ah agreements, no bank is allowed to promise yields or bonuses. In regard giro accounts based on mudharabah
agreements, customers should maintain minimum giro balances set by the bank that cannot be withdrawn except at account closing. Provision of profits to mudharabah giro customers shall be based on the lowest balances at the end of the reporting month.

b. Term Deposits
Term deposits are deposits which withdrawals may only be made at certain times based on agreements between depositors and the bank. CB and RB may issue bilyet deposito (deposit drafts) on term deposits. Interests on term deposits are imposed with final income tax.

Terms deposits at sharia banks shall be based on mudharabah agreements, with the conditions among others that the bank is not allowed to reduce customer parts of the profits without the approvals of the customers concerned and cover deposit costs by using bank profit ratio.

c. Certificates of Deposit
Certificates of Deposit are savings in the form of deposits, including those based on sharia principles, which certificates as proofs of deposits are transferable. CB that may issue Certificates of Deposits should meet the following criteria:

Table 5.3. Certificate of Deposit With Agreement

<table>
<thead>
<tr>
<th>Currency</th>
<th>Certificate of Deposit With Agreement</th>
<th>Certificate of Deposit Without Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rupiah</td>
<td>Any bank, without approval</td>
<td>Bank should first obtain approval from OJK at the first time of issuing the Certificates of Deposit without agreements.</td>
</tr>
<tr>
<td>Foreign Currency</td>
<td>Any bank that has already received approval for conducting business activities in foreign currencies (foreign currency bank).</td>
<td>Any bank that has received approval from OJK for conducting business activities in foreign currencies (foreign currency bank) and for issuance of Certificates of Deposit without agreements.</td>
</tr>
</tbody>
</table>

Certificates of Deposit that are issued shall have the following characteristics:
1) can be issued with agreements or without agreements, in accordance with the requirements that can be met by the CB;
2) when issued with agreements, the certificates of deposit should be of the nature of being able to be replaced.
3) In regard Certificates of Deposit without agreements, bank should identify the owners at the recordings at
4) Certificates of Deposit may be issued in Rupiah currency as well as foreign currencies.
5) the nominal amount shall be no less than Rp10 million or its foreign currency equivalent;
6) the tenure shall be minimum one month and maximum 36 months; and
7) in regard a CB, the interests of Certificates of Deposit are fixed and paid at discount.

5. Non-Office Based Financial Services For The Purpose Of Financial Inclusion (Laku Pandai)

Laku Pandai is a program that provides banking services and/or other financial services through cooperation with other parties (bank agents) and is supported by the use of IT facilities. Laku Pandai is necessary considering:

a. there are still many members of the public who do not yet know about and how to use and/or receive banking services and other financial services due to, among others domiciling in locations far from bank offices and/or the existence of costs or requirements that are burdensome;
b. OJK, banking industry, and other financial services industries have the commitment to support the realization of financial inclusion;
c. the Government of Indonesia launched the National Financial Inclusion Strategy program in June 2012, comprising among others branchless banking, and
d. the existing branchless banking needs to be developed to enable banking services and other financial services to reach all layers of the society all over Indonesia.

The objective of Laku Pandai is to support efforts related to economic growth and equitable Development between regions, particularly villages and eastern Indonesia region
by providing access for lower-income communities to be able to conduct financial transactions, particularly banking transactions, from where they live, and providing financial products that are simple, easy to understand, and in line with the needs of the communities which at present have not been able to reach financial services. Products provided by Laku Pandai are:

a. Savings with the characteristics of Basic Saving Account (BSA), which are:
   1) without minimum limits, both in terms of balance as well as cash deposit transactions, however has a maximum balance limit at any time of Rp 20 million and a cumulative limit for account debit transactions, among others cumulative cash withdrawals for each month are limited to Rp 5 million; and
   2) without monthly administration charge and is not charged with costs for account opening and closing nor for credit transactions, such as for cash deposits.

The figure below gives complete illustration of BSA savings:

b. Credits/Financing for Micro Customers

Credits/financing has the objective of financing business activities that are productive and/or other activities that support financial inclusion, such as for agriculture, plantation, establishing a small shop (warung) and financing for higher education.

c. Micro Insurance

This type of insurance product is intended to protect low-income communities with easy premiums, for example, health insurance for dengue fever and typhoid, fire insurance, accident insurance and earthquake insurance. By owning BSA savings, the community can keep their money in the banks without being worried that the balances of their savings will shrink because of account administration
charges. On the contrary, their accounts will still receive interests on savings and are guaranteed by LPS. In addition, the community can also conduct the transactions without having to go to bank offices but they just need to visit the locations of the Laku Pandai agents that are closer to where they live.

The requirements of being able to own a BSA account is being an Indonesian Citizen, not yet owning a savings account, and/or is willing to only have one savings account at that bank. In the event ownership of a BSA account has reached six months or even less than six months as long as it meets certain considerations set by the operating bank, the owner of the BSA savings can submit a request for micro customer credit. The request for credit/financing can be submitted by the BSA customer at the bank office (SubBranch Office), or through an agent who will forward the request to the nearest bank office that supervises the agent.

A bank that operates Laku Pandai is a bank that meets the following requirements:

1. Indonesian legal entity;
2. having risk profile in accordance with requirement;
3. having office networks in Eastern Indonesia Region and/or Nusa Tenggara Timur;
4. having sms banking/mobile banking and internet banking/host to host products and activities; and
5. has obtained approval from OJK.

Meanwhile, an agent is a party that undertakes cooperation with a bank operating Laku Pandai (individual and/or legal entity) that acts as the extended arm of the bank in providing banking services and other financial services in accordance with what has been promised to the community in the context of financial inclusion.

**Table 5.4. Type of Laku Pandai Agent**

<table>
<thead>
<tr>
<th>Individual (Teachers, retirees, traditional chiefs, warung owners or heads/owners of non-legal entity companies such as CV or Firma)</th>
<th>Legal Entity (Limited Liability Companies, Regional Companies or Cooperatives)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Local people b. Having activities in the location as the main sources of income. c. Having capability, credibility, reputation and integrity.</td>
<td>a. Indonesian legal entity that is allowed to conduct activities in the financial field or has a retail outlet. b. Having business activities in the location. c. Having adequate IT. d. Having good reputation, credibility, and performance.</td>
</tr>
<tr>
<td>Having passed the due diligence held by the operating bank.</td>
<td></td>
</tr>
</tbody>
</table>

An agent can serve the customers in accordance with the service scope stated in the cooperation agreement with the bank as depicted below:
6. Credit Restructuring

a. Credit restructuring is an effort to rehabilitate undertaken by Bank in credit activities on a debtor that experiences difficulties in meeting his/her obligations, and is performed through:
   1) lowering of credit interest rate;
   2) extension of credit tenure;
   3) reduction of credit interests in arrears;
   4) reduction in credit principal in arrears;
   5) addition to credit facility; and/or
   6) conversion of credit into Temporary Capital Participation.

b. Bank can only conduct credit restructuring on a debtor that meets the following criteria:
   1) debtor experiences difficulties in repaying credit principal or interests; and
   2) debtor has a good business prospect and is capable of meeting his/her obligation after credit restructuring.

c. Bank is prohibited from conducting credit restructuring with the purpose of only to improve credit quality or avoid the obligation to establish Provision for Asset Write-Off/Penyisihan Penghapusan Aset (PPA).

d. Quality of restructured credit is set as follows:
   1) only as high as quality of the credit before credit restructuring, as long as the debtor has not met the obligations of repaying the principal and/or interests for three consecutive periods in accordance with the agreed timing;
   2) can rise at the highest one level above quality of the credit before restructuring, after the debtor has met the obligations of repaying the principal and/or interests for three consecutive periods as referred to in number 1); and
   3) based on assessment factors on business prospect,
debtor performance, and capability to make payments:
   a) after determination of credit quality as referred to in number 2); or
   b) in the case the debtor does not meet the conditions and/or obligations to make payments contained in the credit restructuring agreement, both during as well as after the three periods of payment obligations in accordance with the agreed timing.

e. Bank should book losses arising from credit restructuring after setting it off with excess in PPA. Income on restructured credit is recognized and recorded in accordance with prevailing Statement of Financial Accounting Standard (SFAS).

7. Custodian with Management (Trust)
   There is a need for strong legal foundation for the banking industry to provide Trust services to Settlor customers, both in the form of corporations as well as individuals, in order to boost the incoming of repatriation funds into the Indonesian Banking Industry. In custodian with management (trust) activities there are three parties that are involved, namely:
   a. Settlor is the party who entrusts properties/funds and gives the authority to manage the funds to the Trustee;
   b. Trustee (in this case the bank) as the party who is given the authority by the Settlor/Entruster to manage the properties/funds for the interest of the party that receives the benefits, namely Beneficiary; and
   c. Beneficiary as the party who receives the benefits from those properties/funds.

   The function of trustee can be conducted by a bank or branch office of a bank domiciling overseas as long as certain criteria are met and a permit from OJK has been obtained in the form approval in principle and confirmation letter.

   A bank that conducts Trust activities should give monthly written report to OJK no later than the 15th of the following month after the end of the reporting month. The report is submitted through a letter signed by head of the Trustee work unit and acknowledged by an officer that supervises the Trustee work unit.

8. Guidelines for Development of Bank Credit Policies
   A bank should have a written guide for credit policies which at least contains and stipulates main points as set in the guidelines for development of bank credit policies as follows:
   a. credit prudential principle;
   b. credit organization and management;
c. credit approval policy;
d. credit documentation and administration; and
e. credit supervision and settlement of problem credits.
Bank should comply with bank credit policies that have been developed consistently.

9. **Standard for Operating Information Technology for Rural Banks and Sharia Rural Banks**
For the purpose of stepping up operational efficiency and service quality for the communities who use banking services, there is a need for efficient IT operations by RB and SRB.

   a. banking core applications and data center for any RB/SRB that has core capital of less than Rp 50 billion, or
   b. banking core applications, data center, and disaster recovery center for any RB/SRB that has core capital of no less than Rp 50 billion.

Any RB and SRB is also obliged to have and place data center and disaster recovery center in an area in Indonesia with different risk characteristic. Banking core applications, which should be owned by any RB/SRB, should among others:

   a. implement provisions of legislations for RB and SRB;
   b. perform accounting recording for transactions between office networks on the same day for RB and SRB that do not provide electronic banking and do not conduct activities as ATM card issuers, or in online and realtime mode for RB and SRB that provide electronic banking and do not conduct activities as ATM card issuers;
   c. produce data and information used to support report development process for internal as well as external needs; and
   d. consolidate functions that exist in the banking core applications to support provision of data and information that are complete, accurate, up-to-date, and intact.

RB and SRB are prohibited from conducting activities as providers of IT services to other parties, except when related to products and services that are provided by RB/SRB.

10. **Stipulations on Sharia Products**

   a. Sharia Bank and Sharia Business Unit Products and Activities
   In order to mitigate various risks related to development and innovations of Sharia Bank and SBU products and/or activities which need to be balanced with licensing mechanism as well as product and activity reporting in line with efforts to develop Sharia Banks and SBU, the development and innovations of Sharia Bank and SBU products and activities should continue to apply sharia principles, prudential principle, and customer protection principle.

   1) In its business activities, any bank may issue new products and/or conduct new activities. The criteria for new products and/or activities are as follows:
a) They have not previously been issued or conducted by the bank concerned; or
b) They have been previously issued or conducted by the bank but development in features or characteristics have been made.

2) Bank should state the plan for issuing new products and/or conducting new activities in Bank Business Plan as well as have written policies and procedures for managing risks inherent in bank new products and/or activities.

3) Bank should obtain approval from OJK to issue new products and/or conduct new activities if the new products and/or activities are not stated in the codification of bank products and activities.

4) Bank may issue new products and/or conduct new activities without approval from OJK in the case the new Products and/or Activities:
   a) have been stated in the codification of bank products and activities;
   b) have been stated in Bank Business Plan;
   c) are in line with BUKU classification (except SRB); and
   d) are supported by adequate operational preparation.

5) Bank should submit a report on realization of the issuance of new products and/or conduct of new activities for products and/or activities that both require and do not require approvals.

6) Discontinuation of products and/or activities maybe made by any bank based on certain considerations or by OJK’s instruction.

7) Request for approval or report on the realization of issuance of new products and/or conduct of new activities, which have been submitted prior to the effectiveness of OJK Regulation Number 24/POJK.03/2015 but has not received approval or rejection, shall refer to OJK Regulation Number 24/POJK.03/2015.

b. Sharia Principles In Sharia Bank Fund Accumulation and Fund Channeling Activities As Well As Services

Bank business activities related to fund accumulation, fund channeling, and services based on Sharia Principles conducted by a bank constitute banking services. In conducting the said banking services, bank should comply with Sharia Principles. The said fulfilment of Sharia Principles shall be performed by meeting main stipulations of the Islamic law, among others the principles of just and balanced (‘adl wa tawazun), benefit (maslahah), universalism (alamiyah) as well as not containing gharar (risk), maysir (gambling), riba (usury), zalim (unjust), dan haram (illicit). Fulfilment of Sharia Principles shall be performed as follows:
1) fund accumulations that use among others Wadi’ah and Mudharabah agreements;
2) fund channeling/financing that use Mudharabah, Musyarakah, Murabahah, Salam, Istishna’, Ijarah, Ijarah Muntahiyah Bittamlak (IMBT) and Qardh agreements; and
4) Services that use among others Kafalah, Hawalah and Sharf agreements.

When there are disputes between a bank and the customers, the settlements can be made among others through musyawarah (discussion), bank mediation, Sharia arbitrage or judiciary institutions.

c. Stipulations for Financing Product for Gold Ownership for Sharia Banks and SBU
To step up bank prudence in channeling Gold Ownership Financing product, a stipulation concerning this product is set to cover among others:
1) Any Sharia Bank/SBU should have adequate written policies and procedures;
2) the collateral for Gold Ownership Financing is the gold being financed by the Sharia Bank/SBU that is bound by lien, kept in the physical at the Sharia Bank/SBU and cannot be exchanged with another collateral;
3) Any Sharia Bank/SBU is prohibited from charging the cost for keeping and maintaining the gold that is used as collaterals for Gold Ownership Financing;
4) Amount of Gold Ownership Financing for each customer is set at no larger than Rp 150 million. A customer is allowed to obtain Gold Ownership Financing and Qardh with gold collateral at the same time, with overall balance of no larger than Rp 250 million, where the total balance for Gold Ownership Financing is no larger than Rp 150 million;
5) advance payment for Gold Ownership Financing is no less than 20% for gold bullion/bar and no less than 30% for gold jewelries; and
6) the tenure of Gold Ownership Financing is no shorter than two years and no longer than five years.

V.3. Stipulation Concerning Prudential Principle
1. Bank Core Capital
   a. Commercial Banks
      In the conduct of business activities and expansion office networks, a bank should do so in line with basic capacity owned by the bank, namely the core capital. By operating in line with its capacity, a bank is believed to be able to have better resilience and to be more efficient because its activities are focussed on products and activities in which the bank excels.
      Based on core capital, bank business activities can be categorized into four, namely BUKU 1, BUKU 2, BUKU 3, and BUKU 4. In line with the size of the core capital,
business activities categorized in BUKU 1 are more about providing basic banking services. Business activities categorized in BUKU 2 are wider than those of BUKU 1 and are the cases up to BUKU 4, which covers business activities that are comprehensive and complex.

**Figure 5.3. Commercial Bank Based On Business Activities**

<table>
<thead>
<tr>
<th>BUKU 1</th>
<th>Business activities are basic</th>
<th>Core capital is minimum Rp100 billion up to below Rp1 trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUKU 2</td>
<td>Business activities are wider and includes limited participations</td>
<td>Core capital is minimum Rp1 trillion up to below Rp5 trillion</td>
</tr>
<tr>
<td>BUKU 3</td>
<td>Business activities are comprehensive and includes participations.</td>
<td>Core capital is minimum Rp5 trillion up to below Rp30 trillion</td>
</tr>
<tr>
<td>BUKU 4</td>
<td>Business activities are comprehensive and participations are wider;</td>
<td>Core capital is minimum Rp30 trillion.</td>
</tr>
</tbody>
</table>

Any bank should also meet targeted size of productive credit in line with the category of its business activities, starting from 55% for BUKU 1 up to 70% for BUKU 4. These percentages are calculated against bank total credit portfolios and already include the obligation to channel MSME credit amounting to 20% of total credit portfolios.

b. **Rural Banks**
   Categorization of RB based on core capital are set at three strata, namely:
   1) BPRKU 1, is a category of any RB with core capital of less than Rp 15 billion;
   2) BPRKU 2, is a category of any RB with core capital of no less than Rp 15 billion up to less than Rp 50 billion; and
   3) BPRKU 3, is a category of any RB with core capital of no less than Rp 50 billion.

Any RB may only conduct business activities and open office networks in area coverage that is in line with its core capital.

2. **Minimum Capital Adequacy Requirement**
   a. **Commercial Banks**
   For the purpose of creating a banking system that is sound and able to develop as well as compete, at national as well as international levels, banks need to step up the capacity to absorb risks arising from crisis condition and/or excessive banking credit growth through a step up in the quality and quantity of bank capital in accordance with the prevailing international standard, namely Basel III. In this regard, the following
stipulation is set for the fulfilment of Minimum Capital Adequacy Requirement (MCAR):
1) 8% of Risk Weighted Asset (RWA) for any Bank with risk profile of Rating 1;
2) 9% up to less than 10% of RWA for any Bank with risk profile of Rating 2;
3) 10% up to less than 11% of RWA for any Bank with risk profile of Rating 3; or
4) 11% up to 14% of RWA for any Bank with risk profile of Rating 4 or Rating 5.

In addition to the stipulation concerning bank minimum capital adequacy requirement above, the following matters are also set:
1) to calculate minimum capital in accordance with risk profile, a bank should have Internal Capacity Adequacy Assessment Process (ICAAP), which covers: (i) active oversight by board of commissioners and board of directors; (ii) assessment of capital adequacy; (iii) monitoring and reporting; and (iv) internal control. OJK reviews ICAAP or as it is called Supervisory Review and Evaluation Process (SREP);
2) a Branch Office of a bank domiciling overseas should meet minimum Capital Equivalency Maintained Assets (CEMA) amounting to 8% of total bank’s obligations each month and no less than Rp 1 trillion. Calculation of minimum CEMA should be performed each month and should be met no later than the 6th of the following month;
3) a bank should provide main core capital (common equity tier 1) of no less than 4.5% of RWA and core capital (tier 1) of no less than 6% of RWA, both individually as well as in consolidation with Subsidiary Companies; and
4) a bank should establish additional capital as a buffer above the minimum capital adequacy requirement in accordance with risk profile, which is set as follows:
a) Capital Conservation Buffer amounting to 2.5% of RWA for any bank categorized in BUKU 3 and BUKU 4, which fulfilment shall be performed in stages;
b) Countercyclical Buffer in the range of 0% up to 2.5% of RWA for all banks; and
c) Capital Surcharge for Domestic Systematically Important Bank (D-SIB) in the range of 1% up to 2.5% of RWA for any bank determined to have systemic impact.

b. Sharia Commercial Banks
For the purpose of creating a sharia banking system that is sound and capable of developing and competing, both at national as well as international levels, banks need to step up the capacity to absorb risks arising from crisis condition and/or excessive banking financing growth through a step up in the quality and quantity of bank capital in accordance with the prevailing international
standard, namely Basel III, and Islamic Financial Services Board (IFSB). Calculation of capital adequacy is one of the basic aspects in the implementation of prudential principle. Capital functions as a buffer for absorbing losses arising from various risks.

The following provisions are set for SCB MCAR:

1) any bank should provide minimum capital in line with the risk profile, which is set no lower than as follows:
   a) 8% of RWA for any bank with risk profile of rating 1;
   b) 9% up to less than 10% of RWA for any bank with risk profile of rating 2;
   c) 10% up to less than 11% of RWA for any bank with risk profile of Rating 3; or
   d) 11% up to 14% of RWA for any Bank with risk profile of Rating 4 or Rating 5.

2) In addition to the requirement to provide minimum capital in line with the risk profile, a bank should establish additional capital as a buffer as follows:
   a) Capital Conservation Buffer amounting to 2.5% of RWA for any bank categorized in BUKU 3 and BUKU 4;
   b) Countercyclical Buffer in the range of 0% up to 2.5% of RWA; and/or
   c) Capital Surcharge for D-SIB in the range of 1% up to 2.5% of RWA.

3) In the case a bank owns and/or exercises control over subsidiary companies, the requirement to provide minimum capital and the requirement to establish additional capital as a buffer shall be applicable on the bank both individually as well as in consolidation with the subsidiary companies.

4) Capital comprises:
   a) Core capital (tier 1) which covers:
      (1) Main core capital (common equity tier 1), which covers:
         (a) paid-up capital;
         (b) reserve for additional capital (disclosed reserve); and
      (2) additional core capital (additional tier 1); and
   b) Supplementary capital (tier 2).

5) Capital components that are taken into account in OJK Regulation Number 21/POJK.03/2014, in addition to already referring to international stipulations and standards, also already accommodate instruments that have taken into consideration their suitability with sharia banking characteristics and fatwa issued by National Sharia Board – Indonesian Council of Ulama (DSN-MUI), which is reflected in the calculation of RWA.

6) RWA used in the calculation of minimum capital and calculation for the establishment of additional capital as a buffer comprises:
   a) RWA for credit risk;
b) RWA for operational risk; and 
c) RBQA for market risk.
7) Each bank should take into account RWA for credit risk and RWA for operational risk. In addition, any bank that meets certain criteria should also take into account RWA for market risk.
8) In meeting the minimum capital adequacy requirement in line with the risk profile, both individually as well as in consolidation with subsidiary companies, a bank is obliged to have ICAAP that is in line with the bank’s business size, characteristics, and complexity.
9) OJK performs SREP and as a result OJK may request a bank to improve its ICAAP.
10) Dates of enforcement:
   a) Minimum capital in line with risk profile, minimum core capital 6%, minimum main core capital 4.5%, starting from 1 January 2015.
   b) Requirement for new capital component, starting from 1 January 2016.
   c) Capital Conservation Buffer amounting to 2.5%, in stages, starting from 1 January 2016 up to 1 January 2019.
   d) Countercyclical Buffer and Capital Surcharge, starting from 1 January 2016.

C. Rural Banks
For the purpose of creating a RB industry that is sound, strong, and productive, it is necessary to make an adjustment to the capital structure so that it is in line with banking best practices. The provisions concerning RB MCAR are set as follows:
1) Any RB should provide minimum capital that is calculated by using the lowest MCAR ratio of 12% of RWA
2) RB capital comprises:
   a) Core capital (tier 1), which covers:
      (1) Main core capital;
      (2) Additional core capital; and
   b) Supplementary capital (tier 2)
3) Supplementary capital can only be taken into account no higher than 100% of core capital
4) A RB should provide core capital of no less than 8% of RWA
5) Additional and/or amendment of the provisions concerning:
   a) capital deposit fund;
   b) contributed capital;
   c) contributed capital in the form of other assets;
   d) borrowed capital to be additional core capital component;
   e) core capital reducing factors;
   f) additional capital deposits in the form of fixed assets;
   g) supplementary capital; and
   h) RWA
6) RB minimum core capital is set at Rp 6 billion
7) Stages for fulfilment
   a) A RB with a core capital less than Rp 3 billion should meet minimum core capital of Rp 3 billion no later than 31 December 2019. Furthermore, the RB should meet minimum core capital of Rp 6 billion no later than 31 December 2024.
   b) A RB with a core capital of at least Rp 3 billion but less than Rp 6 billion should meet minimum core capital of Rp 6 billion no later than 31 December 2019.

8) Any RB is prohibited from distributing profits when:
   a) the said distribution will cause a lowering of core capital to less than Rp 6 billion; or
   b) the RB has not met minimum core capital of Rp 6 billion.

9) Any RB which has obtained a business license with paid-up capital of less than Rp 6 billion should meet minimum core capital amount no later than five years after obtaining the business license from OJK.

d. Sharia Rural Banks
   For the purpose of creating a SRB industry that is sound, strong, and productive, it is necessary to make an adjustment to the capital structure so that it is in line with banking best practices. The adjustment to SRB capital structure is intended to step up SRB's capacity to provide funds for the real sector, particularly for micro and small scale businesses.
   1) Any SRB should provide minimum capital that is calculated by using the lowest MCAR ratio of 12% of RWA since 1 January 2020;
   2) Capital comprises:
      a) Core capital (tier 1), which covers:
         (1) Main core capital, comprising paid-up capital and reserve for additional capital;
         (2) Additional core capital; and
      b) Supplementary capital (tier 2)
         Supplementary capital can only be taken into account no higher than 100% of core capital.
   3) A SRB should provide core capital of no less than 8% of RWA since 1 January 2020; and
   4) SRB minimum core capital is set at Rp 6 billion with several requirements.

e. Integrated Minimum Capital Adequacy Requirement For Financial Conglomerates
   Financial Conglomerates should provide minimum capital and implement integrated capital management in a comprehensive and effective manner. Provision of integrated minimum capital should be performed by calculating integrated MCAR ratio which is set at no lower than 100% of Total Minimum Capital of the Financial Conglomerate (aggregate regulatory capital requirement).
   The Main Entity should develop Integrated Capital Adequacy Report each semester for the positions of
the end of the months of June and December which should be prepared for the first time for the position of December 2015.

f. Determination of Systemically Important Bank and Capital Surcharge

OJK determines banks that have systemic impact/ Systemically Important Bank (SIB) and Capital Surcharge for any bank that has systemic impact. In determining banks that have systemic impact, OJK uses three indicators, namely bank size, interconnectedness with the financial system, complexity of business activities, including substitutability indicator on the role of a bank in activities of the payment system, and custodianship.

Based on determination of banks that have systemic impact, OJK determines the Capital Surcharge by classifying banks with systemic impact into five buckets, as follows

1) Bucket 1, the Capital Surcharge is set at 1% of RWA;
2) Bucket 2, the Capital Surcharge is set at 1.5% of RWA;
3) Bucket 3, the Capital Surcharge is set at 2% of RWA;
4) Bucket 4, the Capital Surcharge is set at 2.5% of RWA;
and
5) Bucket 5, the Capital Surcharge is set at 3.5% of RWA.

Fulfilment of Capital Surcharge should be performed in stages starting from 1 January 2016 up to 1 January 2018.

3. Stipulation Concerning Maximum Legal Lending Limit

a. Commercial Banks

1) For parties that are not related to the bank
   Fund provision to one borrower that is not a related party is set at no higher than 20% of bank capital. Meanwhile, fund provision to one group of borrowers that is not a related party is set at no higher than 25% of bank capital;

2) For parties that are related to the bank
   All fund provision portfolios to related parties of the bank are set at no higher than 10% of bank capital;

3) A fund provision by a bank is categorized as having exceeded the Legal Lending Limit (BMPK) when it is caused by the following:
   a) a lowering of bank capital;
   b) a change in exchange rate;
   c) a change in fair value; and
   d) a business merger, a change in ownership structure, and/or a change in management structure that causes a change in related parties and/or borrower groups, and a change in regulations.

4) On exceedances of BMPK and violations of BMPK, a bank should submit an action plan to OJK and shall be imposed with a sanction on bank soundness level.

b. Rural Banks

1) BMPK for credit is calculated based on credit debit
2) For parties that are not related with the RB
Fund provisions to parties not related to the RB are set at no higher than 20% of RB capital. Meanwhile, fund provisions to a group of borrowers that is not a related party is set at no higher than 30% of RB capital. Fund provisions with the core-plasma partnership pattern or the pattern of Development of Bank Relationship with Self-Help Community Groups with requirements in accordance with stipulations are not included in the category of fund provisions to unrelated groups of borrowers;

3) For parties that are related to the RB, fund provisions to related parties are set at no higher than 10% of RB capital and those fund provisions should have the approvals of one director and one member of board of commissioners;

4) Placements at other RB, interbank fund placements at other RB that are not related parties are set at no higher than 20% of RB capital;

5) Fund provisions in the forms of credit fund provisions by a RB shall be considered exceeding the BMPK when they are caused by the following:
   a) Lowering of RB capital
   b) a business merger, a business amalgamation, a change in ownership structure, and/or a change in management that causes a change in related parties and/or borrower groups; and
   c) a change in regulations.

6) On exceedances of BMPK and violations of BMPK, a RB should submit an action plan to OJK and shall be imposed with a sanction on RB soundness level as stipulated in prevailing regulation.

c. Sharia Rural Banks

1) Maximum Limit of Fund Channelling/Batas Maksimum Penyaluran Dana (BMPD) is a maximum percentage of realized fund channelling against SRB capital, which covers SRB financing and fund placements at other banks. Exceedances against BMPD is the positive difference between percentage of fund channelling at realization against SRB capital with the allowed BMPD.

2) Calculation of BMPD for Financing shall be differentiated between agreements used, as follows:
   a) In regard murabahah, istishna’ and multijasa financing, it is calculated based on the balance of principal price;
   b) In regard salam financing, it is calculated based on acquisition price;
   c) In regard mudharabah, musyarakah, and qardh financing, it is calculated based on debit balance;
d) In regard *ijarah* or *IMBT* financing, it is calculated based on the balance of acquisition price of *ijarah* or *IMBT* assets deducted by asset accumulated depreciation or amortization.

3) Calculation of other BMPD:
   a) In regard interbank fund placements in the form of savings, it is calculated based on the highest balance in the reporting month;
   b) In regard interbank fund placements in the form of deposits, it is calculated based on the nominal amounts as stated in all deposit drafts at the same SRB;
   c) In regard BMPD for fund channelling to individuals and/or all related parties, it is calculated 10% from RB capital;
   d) In regard BMPD for fund channelling to individual customers who receive facilities and are not related parties, it is calculated 20% of RB capital;

4) In regard BMPD for fund channelling in the form of financing to one group of customers who receive facilities and are not related parties, it is calculated 30% of RB capital, with financing to respective customer who receives such facility not exceeding 20% of RB capital. Included in the definition of one group of customers who receive facilities are non-bank customers who receive facilities which have relationships in terms of management, ownership or finance with the bank as customers who receive facilities.

4. **Asset Quality**

   a. **Commercial Bank Asset Quality**

      Any bank, as a financial institution that performs the intermediation function, is required to present financial reports that are accurate, comprehensive, and reflect bank’s whole performance. One of the requirements related to the presentation of financial reports that are accurate and comprehensive is that the said financial reports should be presented in accordance with prevailing Financial Accounting Standards (FAS), particularly in the establishment of Reserve for Loss From Value Impairment/Cadangan Kerugian Penurunan Nilai (CKPN).

      In addition, for the purpose of maintaining business sustainability, banks should continue to maintain credit risk exposure at an adequate level, among others by maintaining asset quality and continuing to calculate PPA that will influence bank capital ratio. Calculation of PPA should be performed as follows:

      1) reserve should be calculated with impairment concept in the form of CKPN and should maintain the concept of PPA for prudential purposes;
      2) General and specific PPA should be calculated on
earning assets, which should not be charged to profit and loss (P & L), instead it should only influence the calculation of MCAR Results of the calculation of PPA for earning assets will influence the calculation of MCAR after being deducted from CKPN established; and

3) special PPA should be calculated on non-earning assets, which should not be charged to P & L, instead it should only influence the calculation of MCAR. Influence of PPA for non-earning assets in the calculation of MCAR does not take into consideration CKPN established, considering this is a disincentive in the case of banks that have non-earning assets.

b. Rural Bank Earning Asset Quality

RB have an important role in supporting the development of MSMBs. A RB should always observe sound credit principles in relation to credit channelling to MSMBs by yet observing the prudential principle. A RB should determine the same Earning Asset Quality on several accounts of Earning Assets that are used for financing one debtor at the same RB. The stipulation concerning Earning Asset Quality has been enhanced and aligned with FAS for Entities Without Public Accountability for Rural Banks and RB Accounting Guidelines.

Any RB should determine the same Earning Asset Quality on several earning asset accounts that are used for financing one Debtor at the same RB. In the case there are differences in the Earning Asset Quality on several earning asset accounts for one Debtor at the same RB, the RB should determine the quality of each earning asset following the lowest earning asset quality. Stipulations concerning credit restructuring are as follows:

1) a bank should charge losses arising from credit restructuring, after taking into account against excess Provision for Earning Asset Write-Off/ Penyisihan Penghapusan Aktiva Produktif (PPAP) due to credit quality improvement after restructuring; and

2) excess earning asset PPAP due to quality improvement of restructured credit, after being taken into account against losses that arise from the said credit restructuring, may only be recognized as income if there have been receipts of three repayments on the restructured credit principal.

A RB should implement restructured credit accounting treatment, including but not limited to, recognition of losses that arise from credit restructuring, in accordance with FAS and the prevailing Accounting Guidelines for RB.

Stipulations related to Foreclosed Collaterals are as follows:

1) foreclosed collaterals should be accompanied by statement of collateral hand-overs or authorization letter to sell from the debtor, and a statement of having been fully repaid from the RB to the debtor;

2) the RB should make efforts to settle the foreclosed
collaterals within a period of no longer than 1 year since the take over;
3) if within a period of 1 year, the RB cannot settle the Foreclosed Assets, values of the Foreclosed Assets recorded in RB balance sheet should be taken into account as RB core capital reducing factor in the calculation of MCAR;
4) in the event the Foreclosed Assets experience a decline in value due to revaluation, the RB should recognize the value decline as loss; and
5) in the event the Foreclosed Assets experience an increase in value due to revaluation, the RB may not recognize the rise in value as income.

c. Sharia Commercial Bank and Sharia Business Unit Asset Quality

Any sharia bank, as a financial institution that performs the intermediation function, is required to present financial reports that are accurate, comprehensive, and reflect bank’s whole performance. One of the requirements related to the presentation of financial reports that are accurate and comprehensive is that the said financial reports should be presented in accordance with prevailing FAS.

1) Any bank should conduct fund placements and/or provisions based on prudential principle and Sharia Principles.

For the purpose of implementing prudential principle, the Board of Directors should assess, monitor and take required measures so that asset quality remains good. Maintaining asset quality to remain good is performed by among others implementing effective credit risk management, including through the development of policies and guides in accordance with prevailing regulations.

2) Any bank should conduct assessment of the quality of Earning Assets and Non-Earning Assets. Earning Assets are bank fund placements, both in Rupiah as well as foreign currencies, to obtain revenue in the forms of financing, sharia securities, placements at BI and government, claims on sharia securities purchased for resell (reverse repurchase agreements), acceptance claims, derivative claims, participations, placements at other Banks, off-balance sheet account transactions, and other equivalent forms of fund provisions. Non-Earning Assets are bank’s assets other than Earning Assets that have loss potential, among others in the forms of foreclosed collaterals, abandoned properties, as well as inter-office accounts and suspense accounts.

3) A bank should determine the same quality on several accounts of Earning Assets that are used for financing one debtor at the same bank. Determination of quality also applies on Earning Assets in the forms of fund provisions or claims extended by more than one bank that are implemented based on joint and/or syndicated Financing agreements.

4) Asset quality is classified as follows:
<table>
<thead>
<tr>
<th>No</th>
<th>Type of Asset</th>
<th>Asset Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>C</td>
</tr>
<tr>
<td>1</td>
<td>Financing</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Placements at BI and Government</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Sharia Securities</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Capital Participations</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>Temporary Capital Participations</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>Placements at Other Banks</td>
<td>✓</td>
</tr>
<tr>
<td>7</td>
<td>Acceptance Claims</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>a. Placements Other Banks</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>b. Financing</td>
<td>✓</td>
</tr>
<tr>
<td>8</td>
<td>Off-Balance Sheet Account Transactions</td>
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</tr>
<tr>
<td></td>
<td>a. Placements Other Banks</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>b. Financing</td>
<td>✓</td>
</tr>
<tr>
<td>9</td>
<td>Claims on Sharia Securities purchased under resell agreements (reverse repurchase agreements)</td>
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</tr>
<tr>
<td></td>
<td>a. Placements Other Banks</td>
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</tr>
<tr>
<td></td>
<td>b. Financing</td>
<td>✓</td>
</tr>
<tr>
<td>10</td>
<td>Derivative Transactions</td>
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<td></td>
<td>a. Placements Other Banks</td>
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<tr>
<td></td>
<td>b. Financing</td>
<td>✓</td>
</tr>
<tr>
<td>11</td>
<td>Foreclosed Assets</td>
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</tr>
<tr>
<td>12</td>
<td>Abandoned Properties</td>
<td>✓</td>
</tr>
<tr>
<td>13</td>
<td>Deferred accounts</td>
<td>✓</td>
</tr>
<tr>
<td>14</td>
<td>Inter-office accounts</td>
<td>✓</td>
</tr>
</tbody>
</table>

Notes: C = Current; USM = Special Mention; SS = Sub Standard; D = Doubtful; L = Loss
d. Sharia Rural Bank Earning Asset Quality
   1) SRB fund placements and/or provision should be conducted based on prudential principle and Sharia Principles.
   2) Any SRB should assess, monitor, and take anticipative measures so that asset quality is always in Current condition.
   3) Any SRB should determine the same quality on several Earning Asset accounts used to finance one customer at the same SRB. In the event there are differences in earning asset quality for one customer at the same SRB, the SRB should apply the same quality for each earning asset following the lowest earning asset quality.
   4) Any SRB is prohibited from conducting fund placements in the form of deposits at CCB and/or in the form of savings and deposits at RB.
   5) a SRB may only conduct fund placements in CCB in the forms of giro/savings for the purpose of fund transfers for the interests of the SRB and its customers and these fund placements should be classified as Non-Earning Assets.
   6) Quality of SRB assets are classified as follows:

<table>
<thead>
<tr>
<th>No</th>
<th>Type of Assets</th>
<th>Asset Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financing</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Placements at Other Banks</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Foreclosed Collaterals</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Placements at Conventional Commercial Banks</td>
<td>✓</td>
</tr>
</tbody>
</table>

5. Provision for Asset Write Off
   a. Commercial Banks
      To cover loss risk on fund placements, a bank should establish PPA on Earning Assets and Non-Earning Assets in the forms of:
      1) general provision and special provision for Earning Assets; and
      2) special provision for Non-Earning Assets
      In addition to calculating PPA, a bank should establish Reserve for Loss From Value Impairment (CKPN) in accordance with prevailing FAS. The amount of general provision is set at no less than 1% of Earning Assets that have Current quality, not including Certificates of BI, State Bonds/Surat Utang Negara (SUN) and Earning Assets guaranteed with cash collaterals. The amount of special provision for
any CCB is set at minimum:
1) 5% of assets with the quality of Under Special Mention after being deducted with values of the collaterals;
2) 15% of assets with the quality of Sub-Standard after being deducted with values of the collaterals;
3) 50% of assets of the quality of Doubtful after being deducted with values of the collaterals; and
4) 100% of assets with the quality of Loss after being deducted with values of the collaterals.
In the case the collaterals are used to reduce PPA, assessment of the collaterals should be conducted at least by:
1) An independent appraiser for Earning Assets to debtors or groups of borrowers respectively amounting to > Rp 5 billion;
2) A bank internal appraiser for Earning Assets to debtors or groups of borrowers respectively amounting up to Rp 5 billion.
The said assessment on collaterals should be conducted since the beginning of the provision of Earning Assets. Collaterals that can be taken into account as reducing factor in the calculation of PPA comprises:
1) Securities and shares that are actively traded in the bourse in Indonesia or that have investment ratings and are bound by lien;
2) Lands, buildings and residential houses that are bound with mortgage right;
3) Machineries that are a unity with the lands and are bound with mortgate right;
4) Air planes or sea ships with the size of above 20 cubic meters that are bound with hipotek (mortgages);
5) Motor vehicles and inventories that are bound in fiduciary; and/or
6) Warehouse receipts that are bound with guarantee right on warehouse receipts.
Establishment of provisions applies to outstanding credit drawdown facilities, both committed as well as uncommitted, however, the provision established is only a special provision for outstanding credit draw down facilities that are of non-current quality.
Calculations of general and special PPA on Earning Assets and calculation of special PPA on Non-Earning Assets shall not be charged to profit and loss but will only influence the calculation of MCAR. Calculation of Earning PPA will influence the calculation of MCAR after being deducted from the established CKPN. Meanwhile, the influence of Non-Productive PPA
in the calculation of MCAR ignores the established CKPN, considering this is a disincentive in the case of banks that have non-earning assets.

b. Sharia Commercial Banks and Sharia Business Units

Any bank is obliged to establish PPA on Earning Assets and Non-Earning Assets. PPA comprises general provision and special provision for Earning Assets and special provision for Non-Earning Assets. General PPA for Earning Assets is set to be no less than 1% of total Earning Assets classified as Current, not including Financing facilities that are not yet withdrawn that is part of Off-Balance Sheet Account transaction, Sharia Certificates of BI, Sharia State Securities, and/or other fund placements at BI and/or Government of Indonesia, part of Earning Assets guaranteed with Government of Indonesia guarantees or cash collaterals and/or Ijarah Financing and IMBT Financing. The amount of special provision established is set to be the same as required for CB. The obligation to establish a general PPA is not applicable on Earning Assets for leasing transactions in the form of Ijarah agreements or leasing transactions with a transfer of ownership right in the form of IMBT agreements. Bank should establish depreciation/amortization for leasing transactions. Collaterals that can be taken into account as reducing factor in the establishment of PPA comprise:

1) Sharia securities and shares that are actively traded in the bourse in Indonesia or that have investment ratings and are bound by lien;
2) Lands, buildings and residential houses that are bound with mortgage right;
3) Machineries that are a unity with the lands and are bound with mortgatreight;
4) Air planes or sea ships with the size of above 20 cubic meters that are bound with hipotek (mortgages);
5) Motor vehicles and inventories that are bound in fiduciary; and/or
6) Warehouse receipts that are bound with guarantee right on warehouse receipts.

c. Rural Bank Provision for Earning Asset Provision for Asset Write Off

Exemptions in the establishment of General Provision for Earning Asset Write-Off (PPAP) is for earning assets are in the forms of:

1) RB placements in Certificates of BI; and
2) Credits guaranteed with liquid collaterals such as Certificates of BI, bonds issued by Government of RI, savings and/or deposits blocked at the relevant RB supplemented with letters of
authorization for disbursements and precious metals.

Expansion of the types and binding of collaterals to promote credit channelling to MSMBs and calculation of collateral values that are taken into account as reductions in the establishment of PPAP among others covers:

1) Gold jewelries;
2) Warehouse receipts;
3) Lands and/or buildings with proofs of ownership in the forms of surat girik (letter C) or equivalent documents including agreements of sales & purchases;
4) Business place/los/kios/lapak/right to use/right to cultivate; and
5) Part of funds that are guaranteed by State-Owned Business Enterprises (BUMN) / Regional Government-Owned Business Enterprises (BUMD) that conduct business as credit guarantors.

OJK has the authority to conduct recalculation or to not recognize collateral values that have been taken into account in the establishment of PPAP if the RB does not meet the regulation.

Any RB should establish PPAP comprising general PPAP and special PPAP. General PPAP is set at no less than 5 per mil of Earning Assets that have Current quality, not including RB placements in Certificates of BI and Credits guaranteed by collaterals that are liquid, in the forms of Certificates of BI, bonds issued by Government of RI, savings and/or deposits blocked at the relevant RB supplemented with letters of authorization for disbursements and precious metals.

Special PPAP is set at no less than:

1) 10% of Earning Assets of Sub-Standard quality after deducted with values of the collaterals;
2) 50% of Earning Assets with Doubtful quality after deducted with values of the collaterals;
3) 100% of Earning Assets of Loss quality after deducted with values of the collaterals.

Values of collaterals that can be taken into account as reducing factor in the establishment of PPAP are set at the highest:

1) 100% of collaterals that are liquid, in the forms of Certificates of BI, bonds issued by Government of RI, savings and/or deposits blocked at the RB concerned supplemented with letters of authorization for disbursements and precious metals;
2) 85% of market values for collaterals in the form of gold jewelries;
3) 80% of the values of mortgage right for collaterals in the forms of lands, buildings and/or residential houses that have certificates bound with mortgage rights;
4) 70% of the values of collaterals in the form of warehouse receipts which assessments have been performed less than or up the last 12 months and are in line with the Laws as well as prevailing regulations and procedures;
5) 60% of Tax Object Sale Value/Nilai Jual Obyek Pajak (NJOP) of collaterals in the forms of lands, buildings, and/or residential houses that have certificates bound with mortgage right;
6) 50% of NJOP for collaterals in the forms of lands and/or buildings with proofs of ownership in the form of Surat Girik (Letter C) or equivalent documents, including Agreements of Sales & Purchases drawn by notaries or other authorized officers supplemented with the last one year Tax Payable Notification Letters/Surat Pemberitahuan Pajak Terhutang (SPPT);
7) 50% of market price, leasing price or transfer price for collaterals in the forms of business place/kios/los/lapak/right to use/right to cultivate supplemented by proofs of ownership or permits to use issued by the legal managements or prepared by authorized officers;
8) 50% of market value for collaterals in the forms of motor vehicles, ships or motorized boats supplemented with proofs of ownership and bound in accordance with prevailing regulations;
9) 50% of values of the collaterals in the form of warehouse receipts which assessment have been conducted more than the last 12 months up to 18 months and are in line with the Laws as well as prevailing regulations and procedures;
10) 50% of part of funds guaranteed by BUMN/BUMD that conduct business as credit guarantors;
11) 30% of the market value for collaterals in the forms of motor vehicles, ships, or motorized boats that are supplemented by proofs of ownership and letters of authorization to sell made/legalized by notaries;
12) 30% of values of the collaterals in the form of warehouse receipts which assessment have been conducted more than 18 months previously but have not exceeded 30 months previously and are in line with the Laws as well as prevailing regulations and procedures.
d. Sharia Rural Bank Provision for Asset Write-Off

Any SRB should establish PPA on Earning Assets and Non-Earning Assets. PPA for Earning Assets comprises general provision and special provision, while PPA for Non-Earning Assets is special provision. The amount of general provision at any SRB should be no less than 0.5% of all Earning Assets of Current quality, not including Sharia Certificates of BI. The stipulation concerning the amount of special provision at any SRB is set to be the same as the stipulation concerning the amount of special provision at any RB. The obligation to establish PPAP does not apply on Earning Assets in the forms of *ijarah* or *IMBT*, but a SRB should establish depreciation/amortization for *ijarah* or *IMBT*.

Collaterals that can be taken into account as reductions in the establishment of PPAP comprise:

1. Facilities guaranteed by the Indonesian government or Regional government or BUMN/BUMD;
2. Cash collaterals: foreign currency bank notes, gold, savings and/or deposits blocked with letters of authorization for disbursements;
3. Lands, buildings, residential houses that meet certain requirements;
4. Warehouse receipts;
5. Business places/los/kios managed by managing agencies; and
6. Motor vehicles and sea ships that meet certain requirements.

6. Implementation of Anti Fraud Strategy For Commercial Banks

Any bank should have and implement anti fraud strategy that is adjusted to the internal and external environments, business activity complexity, and potential, type, and risk of fraud as well as be supported by adequate human resources. Anti fraud strategy constitutes part of strategic policies, which implementation is realized in a fraud control system. Banks, which have owned anti fraud strategies but have not met the minimum references, should make adjustments to and enhance their anti fraud strategies and should submit results of monitoring of anti fraud strategy implementation to OJK.

For the purpose of controlling risk of the occurrence of fraud, any bank should implement risk management with strengthening in several aspects, covering at least Active Management Oversight, Organization Structure and Accountability, as well as Control and Monitoring. An anti fraud strategy, which in implementation comprises a Fraud Control System, has four pillars as follows:
a. Prevention: containing instruments for the purpose of reducing the potential of the occurrence of fraud, which at least covers anti fraud awareness, identification of vulnerabilities, and know your employee;

b. Detection: containing instruments for the purpose of identifying and finding events of fraud in bank business activities, which at least covers whistleblowing policy and mechanism, surprise audits, and surveillance system;

c. Investigations, Reporting, and Sanctions: containing instruments for the purpose of seeking information, reporting system, and imposition of sanctions on events of fraud in bank business activities, which at least covers investigation standard, reporting mechanism, and imposition of sanctions; and

d. Monitoring, Evaluation, and Follow Up: containing instruments for the purpose of monitoring and evaluating events of fraud as well as required follow ups based on results of evaluations, which at least covers monitoring and evaluation of events of fraud as well as follow up mechanism.

7. **Guide for Calculation of Risk Weighted Asset for Credit Risk By Using The Standard Approach**

This regulation constitutes an enhancement of the regulation concerning calculation of RWA so that calculation of MCAR more reflects risks that face a bank as well as be in line with internationally applicable standards. Main provisions in this regulation are among others as follows:

a. credit risk covers credit risk due to the failures of debtors, counterparties (counterparty credit risk), and settlements (settlement risk);

b. formula for calculation of RWA is Net Claim x Risk Weight;

c. Risk weight is set based on: (i) debtor or counterparty rating, in accordance with portfolio category; or (ii) certain percentage for certain type of claim;

d. Portfolio category covers: (i) claims to government; (ii) claims to public sector entities; (iii) claims to multilateral development banks and international institutions; (iv) claims to banks; (v) residential house-backed credits; (vi) commercial property-backed credits; (vii) employee or retiree credits; (viii) claims to micro scale businesses, small scale businesses, and retail portfolios; (ix) claims to corporations; (x) claims that have become due; and (xi) other assets;

e. Ratings used are the latest ratings issued by rating institutions acknowledged by OJK. Domestic ratings used for determination of the risk weight of claims
in rupiah and international ratings are used to determine the risk weight of foreign currency claims. Claims in the form of securities use the ratings of the securities, while claims in forms other than securities use the ratings of the debtors; and

f. Credit Risk Mitigation (CRM) Technique that are acknowledged are: (i) CRM Technique – Collateral; (ii) CRM Technique – Warranty; and (iii) CRM Technique – Guarantee or Credit Insurance

8. Prudential Principle In Commercial Bank Capital Participation Activities

A bank may only conduct capital participations in companies that conduct business in the financial field. A SCB may only conduct capital participations in companies that conduct business in the financial field based on Sharia Principles. Meanwhile, a SBU and Branch Office of a bank domiciling overseas may only conduct Temporary Capital Participations. For each capital participation, a bank should obtain the approval of OJK. The total of all capital participation portfolios is set to be no higher than capital participations set in accordance with BUKU categorization, as stipulated in prevailing regulation concerning business activities and office networks based on bank core capital.

Any bank is prohibited from conducting capital participations exceeding fund provision limit referred to in the prevailing regulation concerning Legal Lending Limit.

Any bank that is going to conduct a capital participation should at least meet the following requirements: (a) the plan for capital participation is already stated in the Bank Business Plan; (b) has a MCAR ratio in line with the risk profile as stipulated in the prevailing regulation concerning Bank MCAR; (c) has Soundness Level of the composite ratings 1 or 2 for 3 consecutive assessment periods or 4 consecutive assessment periods if the candidate Investee is a new company and/or a company domiciling overseas; (d) it will not disrupt bank’s business sustainability and will not raise bank's risk profile significantly; (e) has written policies and procedures prepared by bank board of directors and approved by bank board of commissioners; and (f) has an adequate internal control system for capital participation activities.

In the event there is no regulation that governs MCAR in accordance with the risk profile for SCB, the ratio of MCAR is set at no smaller than 10%.

a. Capital Participation Divestment

The obligation for divesting a capital participation applies when: (1) Capital Participation causes or is projected to cause a lowering of bank capital and/
or a rise in bank risk profile significantly; or (2) at the recommendation of the authority supervising a Subsidiary Company and/or instruction from OJK. Divestment of a capital participation at own initiative may be conducted with the requirements:
1) the divestment is intended as an adjustment to bank’s business strategy;
2) capital participation has been going on for 5 years;
3) is stated in Bank Business Plan;
4) the divestment is no smaller than 50% of the shares owned;
5) the divestment is conducted through an arm’s length transaction;
6) the divestment is not to obtain profits (capital gain); and
7) has received approval from OJK.
b. Capital participation by Bank’s Subsidiary Company
In the case of a capital participation conducted by a Bank’s Subsidiary Company, the following should be ensured: (1) capital participation may only be conducted in a Company That Conducts Business in the Financial Field and/or in a company that supports financial services and in the form of shares; (2) the Subsidiary Company should apply adequate prudential principle and risk management; and (3) comply with regulations issued by the authority that supervises the Subsidiary Company.
c. Accounting Treatments, Management, Quality, and Transparency in Capital Participations and Temporary Capital Participations
1) The accounting treatments shall refer to the prevailing FAS.
2) The quality should refer to the prevailing regulation concerning assessment of bank asset quality.
3) Bank should disclose the activity in the Annual Report by referring to prevailing regulation concerning transparency and publication of bank reports.
4) Bank should implement risk management by referring to the prevailing regulation concerning implementation of risk management for CB or implementation of risk management for SCB and SBU.
d. Other Matters
Based on certain considerations, OJK may instruct a bank to conduct divestment of a capital participation or reject the request for a capital participation or divestment at bank’s own initiative.
9. **Prudential Principle For Commercial Banks That Outsource Part of The Implementation of Works To Other Parties**

In outsourcing part of the implementation of works by a bank to other parties, the bank should implement prudential principle and risk management, as well as be responsible for the works outsourced to Service Provider Companies (SPC).

Outsourcing may only be conducted for support works, both in bank business activities as well as bank business support activities. The criteria of support works should at least covers being of low risk, not requiring high competency qualifications in the banking field, and not directly related to the decision making process that influences bank operations.

A bank may only undertake an outsourcing agreement with a SPC after the SPC meets at least the following requirements:

a. being an Indonesian legal entity in the form of Limited Liability Company or Cooperative;

b. having valid business license from an authorized institution in line with its business line;

c. having good financial performance and reputation as well as adequate experience;

b. having human resources for supporting the implementation of works outsourced; and

d. having facilities and infrastructure required for the outsourcing.

A number of works that do not fall in the scope of Outsourcing are among others:

a. transfer of works to bank Head Office or regional office domiciling overseas, parent company, and other entities within bank business group located domestically or overseas, as long as the transfer of works still comply with other prevailing regulations that govern specific activities/works, including the implementation of outsourcing, as well as observe the suitability and reasonableness of the said transfer of works.

b. transfer of consultancy service works or special expertise works, for example legal consultant services, notary services, independent appraiser services, and public accountant services; and

c. transfer of goods and buildings maintenance service works, such as maintenance of air conditioners, fotocopiers, computers and printers as well as maintenance services of bank office buildings.

Prudential principle applicable in the transfer of credit collection work is among others:

a. credit collection scope in this regulation is general credit collection, including collection of credit
without collaterals and credit card debts;
b. credits which collection can be transferred to other parties are credits of Loss quality in accordance with the prevailing regulation concerning assessment of CB asset quality;
c. cooperation agreements between bank and SPC should be undertaken in the form of agreements for the provision of manpower services; and
d. bank should have a policy for collection ethics in accordance with prevailing regulation.

Meanwhile, prudential principle applicable in transfer of cash management works is among others as follows:
a. bank may only undertake outsourcing agreements with SPC that meet the requirements of prevailing regulation; and
b. outsourcing conducted by bank can be discontinued if that outsourcing has the potential of endangering bank’s business sustainability.

10. Prudential Principle In Asset Securitization Activities For Commercial Banks
Financial assets that are transferred for the purpose of Asset Securitization should be financial assets that comprise of credits, claims arising from securities, claims arising in the future (future receivables) and other equivalent financial assets. Asset securitization should meet the criteria: having cash flows, owned and under the control of Original Creditors; and can be freely transferred to issuers. In Asset Securitization, a bank may function as: Original Creditor, Provider of Supporting Credits, Provider of Liquidity Facilities, Provider of Services, Custodian Bank, or Investor.

11. Prudential Principle In The Conduct of Structured Product Activities for Commercial Banks
Structured Products are bank products that are combinations of two or more financial instruments that are non-derivative and derivative financial instruments or derivative and derivative financial instruments and at least have the following characteristics:
a. the cash values or flows arising from the products are linked to one or a combination of basic variables, such as interest rate, exchange rate, commodities and/or equities; and
b. The pattern of changes on the cash values or flows of the products is not regular compared to the pattern of changes of the basic variables as referred to in letter a. As such, the changes of those cash values or flows do not reflect overall changes in the basic variables linearly (asymmetric payoff), which are marked among others by the existence of Optionality (caps, floors,
collars, step up/step down and/or call/put features); Leverage; Barriers (knock in/knock out); and/or Binary (digital ranges).

Definition of the above-mentioned derivatives covers embedded derivatives.

Structured product activities are activities and/or processes that are conducted in relation to the planning, development, issuances, marketing, offerings, sales, operational implementation, and/or discontinuation of activities related to structured products.

Banks may only conduct structured product activities after having obtained approval in principle and statement of effectiveness for the issuance of each type of structured product from OJK.

Any foreign currency CB may only conduct structured product transactions that are linked to basic variables in the form of exchange rate and/or interest rate. Any non-foreign currency CB may only conduct structured product transactions that are linked to basic variable in the form of interest rate. Bank should state the plan for structured products activities in Bank Business Plan. Bank should implement effective risk management in conducting structured product activities. Any bank is prohibited from using the words “deposit”, “term deposit”, “protected”, “giro”, “savings”, and/or other words that may give the perception to the customers that the bank provides protection on the return of structured product principals in full, in the event the structured products issued by the bank are not supplemented with full protection on the principals in original currencies at the time they become due.


A bank may only conduct agency activities for foreign financial products after having obtained approval in principle from OJK. To become an agent of foreign share investment instruments, in addition to meeting the requirement of approval in principle from OJK, the bank should also meet the requirement as an agent of foreign share investment instruments in accordance with the stipulation set by OJK. Any bank is prohibited from acting as a sub agent in conducting agency activities for foreign financial products. Foreign financial products for which banks in Indonesia may act as agents should at least meet the following requirements:

a. have been registered and/or met the stipulations of the authorized authorities in the original countries of the issuers; and

b. have been reported by bank to OJK.
In addition to meeting the requirements mentioned above, foreign financial products in the form of investment instruments other than shares, for which banks may act as selling agents, should be in the form of Structured Products and meet the following requirements:

a. Issued by overseas banks that have branch offices in Indonesia;
b. Are linked to basic variables such as exchange rate and/or interest rate; and
c. Are not a combination of various instruments with foreign currency against rupiah derivative transactions for the purpose of yield enhancement that are of speculative nature.

Foreign financial products are not included in Government guarantee program because they are not in the form of savings in banks.

13. Implementation of Good Corporate Governance

a. Commercial Banks

Assessment of bank GCG implementation shall be conducted at individual level as well as in consolidation level. The ratings of GCG factor are set in five ratings, namely Rating 1, Rating 2, Rating 3, Rating 4, and Rating 5. Smaller GCG factor rating reflects better GCG implementation, and any bank that receives GCG Ratings 3, 4 or 5 should submit action plans.

A bank conducts assessment of GCG by developing analysis of the adequacy and effectiveness of GCG principle implementation performed in a comprehensive and structured manner on three aspects of governance, namely governance structure, governance process and governance outcome.

The following explanation is given in relation to Independent Commissioners and Non-Independent Commissioners:

1. A Non-Independent Commissioner may transfer into an Independent Commissioner with the conditions:
   a) has met the requirements as Independent Commissioner;
   b) should undergo a cooling off period of no less than six months; and
   c) should obtain approval from OJK.

2. A stipulation to clarify the requirements for the transfer from Non-Independent Commissioner to an Independent Commissioner as well as gives an opportunity to a Non-Independent Commissioner to become Independent
Commissioner by still observing certain conditions to maintain the independency.

3. An Independent Commissioner who has held office for two consecutive periods may be reappointed as an Independent Commissioner for the next period as long as the Board of Commissioner Meeting assesses that the person concerned can still act independently as well as the person concerned states in the SGM his/her independence.

This stipulation is intended to enable the maintainance of the independence of an Independent Commissioner although the person concerned has held office for quite a long time.

4. Confirmation that the Independent Commissioner has attended the Board of Commissioner Meetings physically for no less than two times in a year.

Any bank is oblige to submit and publicize report on implementation of GCG no later than four months after the end of the accounting year, so that it is in line with the publication deadline for the annual report in line with the regulation concerning transparency and publication of bank reports. Distribution of report on implementation of GCG in hardcopies to several parties such as Indonesian Consumer Institution, Indonesian Banking Development Institution, and Rating Institutions are not obligatory, considering the report is already available online at bank’s website and so that it is in line with the regulation concerning transparency and publication of bank reports.

There is an amendment to the obligation to conduct self-assessment of GCG implementation, which should be conducted no less than two times in a year, so that it is in line with the regulation concerning assessment of commercial bank soundness level.

b. Sharia Commercial Banks and Sharia Business Units

Implementation of GCG for SCB should be realized at least in the implementation of the tasks and responsibilities of board of commissioners and board of directors; completeness and implementation of the tasks of committees and function that performs the SCB internal control; implementation of the tasks and responsibilities of sharia supervisory board; implementations of the compliance, internal audit and external audit functions, maximum limit in fund channeling; and transparency in SCB financial and non-financial conditions.

Implementation of GCG for SBU should be
realized at least in: implementation of the tasks and responsibilities of SBU director; implementation of the tasks and responsibilities of sharia supervisory board; fund channeling to core financing customers and fund deposits by core depositors; and transparency in SBU financial and non-financial conditions.

c. Rural Banks

With the expansion of RB services along with increase in business volume, any RB risks also increase and as such prompt the need for implementation of GCG by RB.

1) any RB should implement GCG implementation factor in each of its business activities and should be realized in the following forms:

a) implementation of the tasks and responsibilities of board of directors;
b) implementation of the tasks and responsibilities of board of commissioners;
c) completeness and implementation of the tasks or functions of committees;
d) handling of conflicts of interest;
e) implementation of the compliance, internal audit, and external audit functions;
f) implementation of risk management, including internal control system;
g) maximum limit of credit extensions;
h) RB business plan; and
i) transparency of financial and non-financial conditions.

2) OJK shall perform assessment on implementation of GCG by RB;

3) Number of directors:

a) any RB with core capital of no less than Rp 50 billion should have no less than three members of board of directors; and
b) any RB with core capital of less than Rp 50 billion should have no less than two members of board of directors.

4) Board of Directors of a RB with core capital of no less than Rp 50 billion should establish:

a) Internal Audit Work Unit/Satuan Kerja Audit Intern (SKAI)
b) Risk management work unit and risk management committee; and
c) Compliance work unit.

5) Board of Directors of a RB with core capital of less than Rp 50 billion should appoint executive officers who perform:

a) Internal audit function
b) Risk management function; and
c) Compliance function

6) Number of members of board of commissioners:

a) any RB with core capital of more than Rp 50
billion should have members of board of commissioners of at least three persons and no more than the number of members of board of directors; and
b) any RB with core capital of less than Rp 50 billion should have members of board of commissioners of at least two persons and no more than the number of members of board of directors.

7) Number of independent commissioners:
   a) any RB with core capital of more than Rp 80 billion should have independent commissioners of at least 50% of the number of members of board of commissioners; and
   b) any RB with core capital of less than Rp 80 billion should have no less than one independent commissioner.

8) Ex-members of RB board of directors or executive officers or parties that have relationships with the RB, which capacity to act independently can be influenced, cannot become independent commissioners at the concerned RB before undergoing a cooling off period of one year.

9) Board of commissioners at an RB with core capital of no less than Rp 80 billion should establish at least:
   a) Audit committee; and
   b) Risk monitoring committee

10) Implementation of the compliance function in RB organization structure is divided into:
   a) a RB with core capital of more than Rp 50 billion should establish compliance work unit that is independent of the operational work units; and
   b) a RB with core capital of less than Rp 50 billion should appoint an executive officer who is independent of the operational work units for implementing the compliance function.

11) Implementation of the internal audit function for the organization structure of:
   a) any RB with core capital of more than Rp 50 billion should establish the SKAI; and
   b) any RB with core capital of less than Rp 50 billion should appoint one executive officer who is responsible for the implementation of the internal audit function.

12) Reports related to RB implementation of GCG are:
   a) report on main points of the implementation of the tasks of member of board of director in charge of the compliance function;
   b) special report on board of directors’ policies/decisions that deviate from stipulations;
c) report on appointments and dismissals of head of SKAI or executive officer in charge of implementation of the internal audit function;

d) report on the implementation and main findings of internal audit, including information on audit results that are confidential;

e) special report on each internal audit finding that is projected to be able to disrupt the RB’s business sustainability;

f) report on results of reviews by an external party for any RB with core capital of more than Rp 50 billion; and

g) report on implementation of GCG.

d. Implementation of Integrated GCG for Financial Conglomerates

Any Financial Conglomerate needs to implement good, overall GCG so that the Financial Conglomerate can enhance performance, protect stakeholders’ interest, and step up compliance to the provisions of prevailing legislations as well as generally applicable ethical values.

In the implementation of GCG there is a need for a guide for Integrated GCG which will be the reference for all FSI within the Financial Conglomerate so that GCG implementation quality within the Financial Conglomerate can be enhanced.

Main provisions

1) any Financial Conglomerate should implement Integrated GCG which implementation is performed by the Main Entity;

2) For this purpose, the Main Entity should have at least: (i) Main Entity board of commissioners; (ii) Main Entity board of directors; (iii) integrated GCG committee; (iv) integrated compliance work unit; (v) integrated internal audit work unit; and (vi) guide for integrated GCG.

3) The Main Entity board of directors has the tasks and responsibilities of among others ensuring implementation of integrated GCG within the Financial Conglomerate and developing a guide for integrated GCG.

4) The Main Entity Board of Commissioners has the tasks and responsibilities of among others performing oversight over GCG implementation at each FSI so that it is in line with the guide for integrated GCG.

5) Implementation of the tasks and responsibilities of the Main Entity board of directors and/or board of commissioners do not take into account the holding of concurrent positions (ex-officio).

6) The integrated GCG Committee has the tasks and responsibilities of among others performing evaluation of the Integrated GCG implementation
through at least assessment on the adequacy of internal control and implementation of the compliance function in an integrated manner.

7) Membership of the Integrated GCG Committee at least comprises:
   a) an independent commissioner, who acts as chairman in one of the committees at the Main Entity, as chairman as well as member;
   b) independent commissioners representing and are appointed from FSI within the Financial Conglomerate, as members;
   c) an independent party as member; and
   d) members of Sharia Supervisory Board from FSI within the Financial Conglomerate, as members.

Memberships of independent commissioners, independent parties, and members of Sharia Supervisory Board in the Integrated GCG Committee in the Financial Conglomerate are not considered as holding concurrent positions.

8) Integrated Compliance Work Unit has the tasks of at least monitoring and evaluating implementation of the compliance function at each FSI within the Financial Conglomerate.

9) Integrated Internal Audit Work Unit has the tasks of at least monitoring implementation of internal audit at each FSI within the Financial Conglomerate.

10) Guide for Integrated GCG should contain at least:
    a) requirements to become candidate members of board of directors, candidate members of board of commissioners, and members of Sharia Supervisory Board;
    b) structure of board of directors, board of commissioners; and Sharia Supervisory Board;
    c) independent actions of board of commissioners;
    d) implementation of FSI management function by board of directors;
    e) implementation of the oversight function of board of commissioners and Sharia Supervisory Board;
    f) implementation of the compliance function, internal audit function, and external audit implementation;
    g) implementation of risk management function;
    h) remuneration policy; and
    i) handling of conflicts of interest.

11) A Financial Conglomerate, which Main Entity is a Branch Office of an entity domiciling overseas, should meet the regulation concerning
integrated GCG.

12) The Main Entity should develop report on assessment of integrated GCG implementation each semester for the positions of end of June and December, and should be submitted no later than the 15th of the second month after the end of the relevant reporting month.

13) The Main Entity should develop an annual report on integrated GCG implementation which should be submitted no later than five months since the end of the accounting year.

14) Obligation to submit the report on assessment of integrated GCG implementation for the first time should be performed for report position as follows:

   a) June 2015, for any Main Entity that is categorized as BUKU 4;
   b) December 2015, for any Main Entity that is a non-BUKU 4 bank and non bank.

15) Imposition of sanctions shall start from:

   a) 1 January 2017, for any Main Entity that is categorized as BUKU 4;
   b) 1 January 2018, for any Main Entity that is non-BUKU 4 bank and non bank.

e. Implementation of GCG in Provision of Remunerations for Commercial Banks

In order to strengthen bank GCG, remunerations for members of board of directors, members of board of commissioners, and other parties that are considered to have significant influence on bank risk profile need to be linked to the risks taken. Unsound remuneration practices are considered to be one of the factors that contributed to the world economic crisis in 2007. This caused leaders of the G-20 member countries to declare the need for a reformation in remuneration practices in the financial sector in order to strengthen bank capital and liquidity.

Indonesia, as one of G-20 members, has the commitment to adopt the Principles for Sound Compensation Practices, which have the objective of among others to prevent excessive risk taking behavior by decision makers in a bank in order to run after short term targets by ignoring risks that will arise in the future. In addition, this matter has been included in Basel II implementation, particularly Pillar 3 (market discipline), in which any bank is demanded to disclose information concerning remunerations in a more transparent manner to the public and market actors.

Main provisions:

1) Bank should implement GCG in the provision of remunerations to members of board of directors,
members of board of commissioners, and bank employees.
Implementation of the said GCG shall cover at least:
a) the tasks and responsibilities of board of directors and board of commissioners;
b) the tasks and responsibilities of the Remuneration Committee;
c) implementation of prudential principle in the provision of remunerations;
d) disclosure of remunerations;
2) Implementation of prudential principle in the provision of Remunerations:
a) Fixed Remunerations;
   (1) Remunerations that are not linked to performances and risks, such as among others basic salaries, facilities, housing allowance, health allowance, education allowance, holiday allowance, and pensions.
   (2) Should at least observe business scale, business complexity, peer group, inflation rate, financial condition and capacity, as well as should not be in conflict with prevailing legislations.
b) Variable Remunerations;
   (1) Remunerations are linked to performances and risks, among others in the forms of bonus or other equivalent forms.
   (2) In addition to observing requirements for Fixed Remunerations, should also promote prudent risk taking.
   (3) Are given in the forms of cash and/or shares or share-based instruments issued by the bank.
   (4) Go Public Banks should award remunerations in the forms of cash and shares/share-based instruments issued by the concerned Bank.
   (5) In the event the Bank experiences losses, the Bank is allowed not to distribute variable remunerations or may distribute them in relatively small values.
c) Material Risk Takers (MRT)
   (1) a Bank should determine parties who are MRT, which meet the following criteria:
      (a) members of board of directors and/or other employees, who due to their tasks and responsibilities, make decisions which have significant impacts on bank risk profile; and
(b) members of board of directors, members of board of commissioners and/or Employees who receive variable remunerations in large values.

(2) any Bank should postpone variable remuneration payments to parties who are classified as MRT in certain percentages, sizes of the percentages are in line with the levels of the positions. The postponement period should be minimum three years and may be adjusted to be longer in line with the time horizon of risks.

(3) a Bank may postpone payments of deferred Variable Remunerations (malus) or drawback variable remunerations that have been paid to parties who become MRT under certain conditions.

3) Enforcement of the stipulation:
   a) 1 January 2016 for Foreign Banks, BUKU 3, and BUKU 4 banks;
   b) 1 January 2017 for BUKU 1 and BUKU 2 banks which are not Foreign Banks.

4) Imposition of sanctions
   a) 1 January 2019, for Foreign Banks, BUKU 3 and BUKU 4 banks; and
   b) 1 January 2020, for BUKU 1 and BUKU 2 banks which are not Foreign Banks.

f. Commercial Bank Internal Audit Work Unit

Any CB should establish an SKAI as part of the implementation of Bank Internal Audit Function Implementation Standards. The SKAI is the work unit that is directly responsible to the President Director. The SKAI has the tasks and responsibilities to:

1) assist the tasks of the president director and board of commissioners in performing oversight by operationalizing them into planning, implementation as well as monitoring of audit results;

2) perform analyses and assessments in the fields of finance, accounting, operation, and other activities through direct audit and indirect supervision;

3) identify all possibilities for improving and enhancing efficiency in the uses of human resources and funds; and

4) provide objective recommendations for improvements and information on activities audited at all levels of management.

Board of directors should nurture and realize the compliance culture at all levels of the organization and bank business activities and should ensure implementation of the bank compliance function. Bank compliance function includes measures to:

a. realize implementation of the compliance culture at all levels of the organization and bank business activities;
b. manage compliance risk that faces the bank;
c. ensure that policies, stipulations, systems and procedures developed by, as well as business activities performed by the bank are already in line with prevailing regulations and legislations, including Sharia Principles for SCB and SBU; and
d. ensure bank's compliance to commitments made by the bank to OJK and/or other authorized supervisory authorities.

Bank should have a director who supervises the compliance function and establish the compliance work unit. The director supervising the compliance function and the compliance work unit at a SCB and/or CCB that has a SBU should coordinate with the Sharia Supervisory Board in relation to implementation of compliance to Sharia Principles. The director supervising the compliance function should meet the independence requirement. The president director and/or vice president director are prohibited from holding concurrent position as the director that supervises the compliance function. The director supervising the compliance function is prohibited from supervising business and operational functions; risk management that makes decisions on bank business activities; treasury; finance and accounting; logistics and procurements of goods/services; IT, and internal audit.

15. Implementation of Risk Management For Commercial Banks, Rural Banks, and Financial Conglomerates

a. Conventional Commercial Banks

A CCB should implement effective risk management, both at bank individual level as well as bank in consolidation with subsidiary companies. This risk management implementation should cover at least:

1) active oversight by board of commissioners and board of directors;
2) adequate policies, procedures, and limit setting;
3) adequate risk identification, measuring, monitoring, and control processes as well as risk management information system; and
4) overall internal control system.
A CCB should implement risk management for eight types of risks, namely: credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk, and compliance risk.

In performing risk profile analysis, bank should refer to the prevailing regulation concerning assessment of the soundness level of CB and bank should submit the Risk Profile Reports at individual level as well as at consolidation level quarterly, namely for the positions of the months of March, June, and September.

In addition to the Risk Profile Reports, a bank should submit several reports related to Risk Management implementation as follows:

1) Report on New Products and Activities;
2) other reports at the occurrences of conditions that have the potential to cause significant losses to bank financial condition;
3) other reports related to Risk Management implementation, such as among others Risk Management report for liquidity risk;
4) other reports related to issuance of certain products or execution of certain activities, such as among others report on activities related to mutual funds; and
5) report on implementation of marketing cooperation with insurance companies (Bancassurance).

In the implementation of risk management process and system, bank should establish:

1) Risk Management Committee, which at least comprises majority of the directors and related executive officers; and
2) Risk Management Work Unit, which is independent and directly responsible to the president director or a director who is specifically tasked.

Bank should also have written policies and procedures for managing risks inherent in bank’s new products and activities.

b. Sharia Commercial Banks and Sharia Business Units

1) a Bank should implement effective Risk Management;
2) implementation of Risk Management for SCB should be performed at individual level as well as in consolidation with subsidiary companies;
3) Risk Management for SBU should be implemented on all SBU business activities, which is a unity with the Risk Management implementation at the CCB;
4) implementation of Risk Management should cover at least:
   a) active oversight by board of directors, board of commissioners and sharia supervisory board;
b) adequate Risk Management policies and procedures as well as Risk limit setting;
c) adequate Risk identification, measuring, monitoring, and control processes as well as Risk Management information system; and
d) overall internal control system.

5) Bank should implement Risk Management on the following types of Risks:
a) credit risk;
b) market risk;
c) liquidity risk;
d) operational risk;
e) legal risk;
f) reputation risk;
g) strategic risk;
h) compliance risk;
i) rate of return risk; and
j) investment risk (equity investment risk).

c. Rural Banks

The more complex RB products and activities are the higher the risks that face RB. This condition requires risk management implementation by RB.

1) any RB should implement Risk Management which includes at least:
   a) oversight by board of directors and board of commissioners
   b) adequate policies, procedures, and limits, namely:
      (1) risk management policies;
      (2) risk management procedures; and
      (3) risk limit setting.
   c) Adequacy of processes and systems, namely:
      (1) risk identification, measuring, monitoring, and control processes; and
      (2) risk management information system.
   d) Overall internal control system.

2) Types of risks that should be managed by RB include:
   a) credit risk
   b) operational risk
   c) compliance risk
   d) liquidity risk
   e) reputation risk; and
   f) strategic risk

3) Risk management implementation is divided based on RB core capital, namely:
   a) any RB with core capital of more than Rp 50 billion should implement risk management for all risks;
   b) any RB with core capital of more than Rp 15 billion but less than Rp 50 billion should implement risk management for four types
of risks, namely credit risk, operational risk, compliance risk, liquidity risk; and

c) any RB with core capital of less than Rp 15 billion should implement risk management for three types of risk, namely credit risk, operational risk, and compliance risk.

4) The organization structure in risk management implementation is divided based on core capital as follows:

a) any RB with core capital of more than Rp 80 billion should establish:
   (1) risk management committee; and
   (2) risk management work unit

b) any RB with core capital of more than Rp 50 billion but less than Rp 80 billion should establish risk management work unit;

c) any RB with core capital of less than Rp 50 billion should appoint one executive officer to be in charge of risk management implementation

5) For the purpose of managing risks inherent in issuances of new products and/or conducts of new activities, a RB should have written policies and procedures. Criteria of new products and activities are:

a) has not been issued or conducted previously by the RB; or

b) has been issued or conducted previously by the RB but development has changed or enhanced all risks or certain risks of the RB.

6) Reports related to risk management implementation are:

a) report on action plan for risk management implementation;

b) risk profile report;

c) report on new products and activities; and

d) other risk profile reports

OJK will perform assessment on risk management implementation at RB and OJK may make adjustment to the Risk Management implementation assessment.

d. Financial Conglomerates

Financial industry is an industry that has high business complexity and competition level and as such is exposed to high risks and should operate prudentially and efficiently. In facing such condition, any FSI should pay attention to all risks, which directly as well as indirectly may influence the FSI’s business sustainability, originating from subsidiary companies, related companies (sister companies), and other entities that belong in one Financial Conglomerate. For the purpose of more overall risk management, any Financial Conglomerate should implement
integrated risk management. Through integrated risk management implementation, the Financial Conglomerate will get benefits, such as better risk management, determination of risk appetite and risk tolerance that are in line with the Financial Conglomerate's business complexity and characteristic, which in turn will produce synergy as well as enhance the Financial Conglomerate's business capacity and capital. In addition, implementation of Integrated Risk Management at the Financial Conglomerate is expected to be one of the vehicles for contributing to the realization of financial system stability, which grows sustainably and therefore be able to enhance national competitiveness.

Main provisions:

1) Any Financial Conglomerate should implement Integrated Risk Management in a comprehensive and effective manner as stipulated in OJK Regulation Number 17/POJK.03/2014.

2) A Financial Conglomerate's structure comprises: (a) Main Entity; (b) subsidiary companies and/or (c) related companies along with their subsidiary companies.

3) Types of FSI in a Financial Conglomerate include: (a) banks; (b) insurance and re-insurance companies; (c) security companies; and/or (d) financing companies.

4) A Financial Conglomerate should have a Main Entity, namely a FSI which integrates Risk Management implementation at the Financial Conglomerate.

5) In the event the Financial Conglomerate's structure comprises of parent FSI and subsidiary FSI, the Main Entity is the parent FSI.

6) In the event the Financial Conglomerate's structure does not only comprise Parent FSI and Subsidiary FSI (there are related companies), the Controlling Shareholder of the Financial Conglomerate should appoint the Main Entity. The party appointed as the Main Entity is the FSI that has the largest total assets and/or owns good Risk Management implementation quality.

7) Implementation of Integrated Risk Management covers at least:
   a) active oversight by board of directors and board of commissioners of the Main Entity;
   b) adequate integrated risk management policies, procedures, and limit setting;
   c) adequate integrated risk identification, measuring, monitoring, and control processes as well as integrated risk management information system;
d) overall internal control system on integrated risk management implementation.

8) Types of risks that should be managed in integrated risk management cover: (a) credit risk; (b) market risk; (c) liquidity risk; (d) operational risk; (e) legal risk; (f) reputation risk; (g) strategic risk; (h) compliance risk; (i) intra-group transaction risk and (j) insurance risk. A Financial Conglomerate that does not own an insurance and/or re-insurance company has no obligation to manage insurance risk.

9) The Main Entity should appoint the Main Entity director, who supervises the risk management function, to become the director who supervises the integrated risk management function.

10) For the purpose of implementing integrated risk management in a comprehensive and effective manner, the Main Entity should establish: (a) Integrated Risk Management Committee/Komite Manajemen Risiko Terintegrasi (KMRT); and (b) Integrated Risk Management Work Unit/ Satuan Kerja Manajemen Risiko Terintegrasi (SKMRT).

11) The Main Entity should submit the following reports:
   a) report on FSI that is appointed to be the Main Entity and FSI that are the members of the Financial Conglomerate to OJK no later than 31 March 2015.
   b) reports in the event there is:
      (1) a new financial conglomerate together with the appointment of the Main Entity;
      (2) a change in Main Entity;
      (3) a change in members of the financial conglomerate; and/or
      (4) a dissolution of the financial conglomerate.
      no later than 20 working days after the referred conditions occur.
   c) integrated risk profile report periodically for the positions of end of June and December, submitted no later than the 15th of the second month after the end of the relevant reporting month.

12) The obligation to submit integrated risk profile report for the first time should be met for the following report positions:
   a) June 2015, for lead entities that are categorized as BUKU 4;
   b) December 2015, for lead entities that are non-BUKU 4 bank and non bank.

13) There are two types of sanctions in this OJK Regulation, namely administrative sanction and sanction of payment penalty specific for late reporting.
14) Imposition of administrative sanction, will specifically be effective starting:
   a) January 2017, for lead entities that are categorized as BUKU 4;
   b) January 2018, for lead entities that are non-BUKU 4 bank and non bank.

16. Implementation of Risk Management In The Use of Information Technology By Commercial Banks
For the purpose of minimizing the occurrence of risk related to the use of Information Technology and protecting the interests of a Bank and its customers, the Bank should implement Information Technology risk management effectively and GCG. This implementation should be made among others by aligning Information Technology Strategic Plan with Bank’s business strategy. Effective risk management that the Bank should implement shall cover at least:
   a. active oversight by board of directors and board of commissioners;
   b. adequate policies, standards, and procedures for the use of IT;
   c. adequate risk identification, measuring, monitoring, and control processes as well as risk control in the use of IT; and
   d. internal control system on the use of IT.
   Policies, standards, and procedures for the use of IT should at least include aspects of:
   a. management;
   b. development and procurement;
   c. IT operation;
   d. communication network;
   e. information security;
   f. Disaster Recovery Plan;
   g. Electronic Banking services;
   h. use of IT service providers; and
   i. provision of IT services by Bank.
   Further on, in the implementation of risk management in the use of IT, a bank should make adjustments to its business objectives, policies, size, and complexity. This way, the bank is expected to be able to manage risks it faces in an effective way in all operational activities supported by the utilization of IT.

17. Consolidated Risk Management Implementation For Bank That Exercises Control Over Subsidiary Companies
With the consideration that risk exposures of a bank may arise directly from its business activities as well as indirectly from the business activities of subsidiary companies, each bank should implement
risk management in consolidation with subsidiary companies and ensure that prudential principle applied in bank business activities is also applied in the subsidiary companies. This requirement is not applicable on subsidiary companies that are owned for the purpose of credit restructuring. Based on this stipulation, various prudent stipulations, among others: RWA, MCAR, assessment by Public Accounting Firm, establishment of PPA, as well as calculation of Legal Lending Limit should be calculated/fulfilled by the bank individually as well as in consolidation to include subsidiary companies. The same is the case with assessment of soundness level, assessment of risk profile, determination of bank status (as the follow up of supervision) should also be conducted individually as well as in consolidation. This prudential stipulation does not need to be implemented for any bank that owns a subsidiary company that conducts insurance activities, however, the bank is still obliged to assess and submit the report on risk management implementation that is prepared separately.

18. Implementation of Risk Management in Internet Banking

Any bank that operates internet banking should implement risk management in internet banking activities effectively, which includes:

a. active oversight by board of commissioners and board of director;

b. security control; and

c. risk management, specially for legal risk and reputation risk.

In order to enhance the effectiveness of risk management implementation, the bank should periodically perform evaluation and audit on internet banking activities.

19. Risk Management Implementation at Banks That Extend Residential House Ownership Credits/Kredit Kepemilikan Rumah (KPR) and Motor Vehicle Credits/Kredit Kendaraan Bermotor (KKB)

Any bank needs to step up prudence in the channeling of KPR, KPR ib (Sharia KPR), KKB and KKB ib (Sharia KKB) because excessively high growths of these credits have the potential of triggering the rise in property asset prices that do not reflect the actual prices (bubble prices), and as such can increase credit risk for the bank with large exposure of property credit. In this regard, conventional as well as sharia banks should be able to maintain productive economy and be able to face challenges in the financial sector in the future. There is a need for a policy that can strengthen the financial sector’s resilience in order to minimize potential sources of vulnerability, including excessive growths of these credits.
KPR iB and KKB iB should continue to observe the characteristics of sharia banking products, including fatwa issued by DSN-MUI. This policy is implemented through the determination of the sizes of LTV for KPR, FTV for KPR iB and Down Payment for KKB iB and KKR iB.

To avoid the possibility of regulatory arbitrage, the stipulations concerning LTV and Down Payment also apply to SCB and SBU with a different treatment for Musyarakah Mutanaqisah (MMQ) and IMBT financing products.

Scope of the regulating of KPR iB includes financing extended to individual customers and does not apply on corporate customers. This stipulation only applies to KPR iB for residential houses/apartments/flats (rumah susun) of above 70m2. The participation (sharing) of SCB or SBU in the financing of residential house ownership is applied on KPR iB with the MMQ scheme is set at no higher than 80% of the residential house acquisition prices. Deposit money as Down Payment in relation to KPR iB with IMBT scheme is set at no lower than 20% of acquisition prices of the residential houses leased to the customers. The deposits will be calculated as advance payments on the purchases of the residential houses by the customers when the IMBT become due.

In details, the stipulation on advance payment of credit or Down Payment in KKB / KKB iB is set as follows:

a. No lower than 25% for purchases of two-wheel motor vehicles;

b. No lower than 30% for purchases of three-wheel or more motor vehicles for non-productive purposes;

and

c. No lower than 20% for purchases of three-wheel or more motor vehicles for productive purposes, if one of the following conditions is met:

1) is a vehicle that has a license for transporting people or goods issued by an authorized party; or

2) is requested by an individual or a legal entity that has a certain business license issued by an authorized party and will be used for supporting operational activities of a business owned.

OJK has widened the scope of the stipulation to include:

a. Property ownership credit, comprising tread house (rumah tapak) ownership credit, flat ownership credit, office cum house ownership credit as well as shop cum house ownership credit; and

b. Property-backed consumption credit with the following parameters:
Note: *) Specifically for financing with *murabahah* dan *istishna’* agreements

### Table 5.7. Parameters of Property-Backed Consumption Credit

<table>
<thead>
<tr>
<th>CREDIT/FINANCING (*) &amp; TYPE OF COLLATERAL</th>
<th>CREDIT FACILITY I</th>
<th>CREDIT FACILITY II</th>
<th>CREDIT FACILITY &gt; II</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPR Type &gt; 70</td>
<td>70%</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td>KPRS Type &gt; 70</td>
<td>70%</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td>KPR Type 22 – 70</td>
<td>-</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>KPRS Type 22 – 70</td>
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<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>KPRS Type s.d. 21</td>
<td>-</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>KPRuko / KPRukan</td>
<td>-</td>
<td>70%</td>
<td>60%</td>
</tr>
</tbody>
</table>

### Table 20.1. Parameters of Property-Backed Consumption Credit

<table>
<thead>
<tr>
<th>FINANCING &amp; TYPE OF COLLATERAL (MMQ &amp; IMBT)</th>
<th>CREDIT FACILITY I</th>
<th>CREDIT FACILITY II</th>
<th>CREDIT FACILITY &gt; II</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPR Type &gt; 70</td>
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<td>KPRuko / KPRukan</td>
<td>-</td>
<td>80%</td>
<td>70%</td>
</tr>
</tbody>
</table>

20. Risk Management Certification for Commercial Bank Managers and Officers

In implementing risk management in an effective and planned way, a bank should fill out the positions of bank managers and officers with human resources who have competency and expertise in the risk management field as proven by the risk management certificates issued by the Professional Certification Institutions. Ownership of risk management certificates by bank managers and officers is one of the aspects of competency factor assessment in the Fit and Proper Test. A bank should prepare a plan for and implement human resource development program for the purpose of enhancing competency and expertise in the risk management field. The said human resource development program should be incorporated into Bank Business Plan. Risk management certificates are set at 5 levels based on bank organization level and structure, namely level 1 up to level 5. Risk management...
certification can only be organized by professional certification institutions already acknowledged by OJK. Risk management certificates issued by international institutions or other institutions located overseas may be considered to be recognized as being equal with risk management certificates issued by Professional Certification Institutions if the institutions that issue the certificates are internationally recognized and accepted and the certificates are issued within the last four years.

21. Implementation of Anti Money Laundering and Prevention Of The Funding of Terrorism Program

A bank should have a Guidelines for Implementation of Anti Money Laundering (AML) and Prevention of The Funding of Terrorism (PFT) Program that is developed by referring to the Guidelines of Implementation Standard for AML and PFT Program which has to be adjusted to the bank’s organization structure, business complexity as well as types of products and services. This program constitutes part of the bank’s overall risk management implementation. Implementation of AML and PFT program shall cover at least:

a. active oversight by board of directors and board of commissioners;
b. policies and procedures;
c. internal control;
d. management information system; and
e. human resources and training.

In implementing the AML and PFT program, a bank should have written policies and procedures that cover at least:

a. request for information and documents;
b. Beneficial Owner;
c. verification of documents;
d. simpler Customer Due Diligence (CDD);
e. termination of relationships and rejection of transactions;
f. stipulation concerning high risk areas and PEP;
g. implementation of CDD by third parties;
h. updating and monitoring;
i. Cross Border Correspondent Banking;
j. fund transfers; and
k. document administration.

A bank should perform CDD procedure when:

a. conducting business relationships with candidate Customers;
b. conducting business relationships with Walk in Customers (WIC);
c. the bank doubts the validity of information provided by the Customers, authorized persons and/or Beneficial Owners; or
d. there is the existence of an unnatural financial
transaction related to money laundering and/or the funding of terrorism.

To prevent the use of banks as the media or objects for money laundering or the funding of terrorism that involve bank internal parties, a bank should perform the screening procedure when accepting new employees. This is due to a possibility that the use of bank services as the media for money laundering and the funding of terrorism also involves bank own employee(s). Therefore, to prevent or detect the occurrence of a suspicion of money laundering crime conducted through a banking institution, it is necessary to apply Know Your Employee (KYE), which is among others through the screening procedure and monitoring of employee profiles.

In implementing AML and PFT program, a CB should submit to OJK the following:

a. Guidelines for Implementation of AML and PFT Program and an action plan for implementation of the said program no later than 12 months since the effectiveness of the related regulation; and

b. Report on data updating activity at each year end.

Results of the assessment of AML and PFT program implementation is taken into account in bank soundness level assessment through the management factor. In the case the assessment result is score 5, in addition to being taken into account in the soundness level assessment, it is also linked to the imposition of administrative sanctions in the forms of lowering of the soundness level and termination of the management through the Fit and Proper Test mechanism.

22. Utilization of Foreign Workers and Transfer of Knowledge Program in Banking Sector

A bank may utilize Foreign Workers (FW) in conducting its business activities by meeting the prevailing regulation. Utilization of FW by a bank should take into consideration the availability of Indonesian workers. A bank may only utilize FW for the following positions or equivalent positions:

a. members of board of commissioners or board of directors;

b. executive officers; and/or

c. experts/consultants.

A bank is prohibited from utilizing FW in the fields of personnel and compliance works. A bank should request OJK’s approval before appointing FW to occupy positions as Commissioners, Directors and/or Executive Officers; should submit a plan for FW utilization, which should be stated in Bank Business Plan, to OJK; should guarantee the occurrence of a transfer of knowledge in the utilization of FW.
Obligation for the transfer of knowledge should be executed through:

a. Appointment of two understudies for each FW;
b. Education and job training for the understudies should be in line with the qualifications required for the positions held by the FW; and

Implementation of training or teaching by FW should be for certain time periods, particularly that for bank employees, school/university students, and/or general public.

23. Implementation of Risk Management at Banks That Conduct Activities of Marketing Cooperation With Insurance Companies / Bancassurance

Bancassurance is a cooperation activity between a bank and an insurance company for the purpose of marketing insurance products through the bank. This cooperation activity is classified into three business models, as follows: (i) Reference; (ii) Distribution Cooperation; and (iii) Product Integration.

Any bank that conducts bancassurance should comply with prevailing regulations in the fields of banking and insurance, among others regulations concerning risk management, bank secrecy, product information transparency, and regulations issued by insurance supervisory authority, particularly those related to bancassurance.

In conducting bancassurance, any bank is prohibited to bear or share the risks arising from the insurance products offered. All risks from the insurance products should be born by the the insurance companies which are the bank’s partners.

24. Implementation of Risk Management On Bank Activities Related To Mutual Funds

Banks’ increasing involvement in Mutual Fund-related activities brings benefits as well as potentially poses various risks for banks. In this regard, any bank needs to step up effective risk management implementation by applying prudential principle and protecting customers’ interests. A bank’s activities that are related to Mutual Funds include the bank acting as investor, selling agent of Mutual Fund securities, and Custodian Bank.

For the purpose of supporting effective risk management implementation, the following are the main things a bank should do:

a. Ensure that the Investment Manager, who is a partner in activities related to Mutual Funds, has been registered and obtained a license from the capital market authority in accordance with prevailing regulation;
b. Ensure that the relevant Mutual Funds has obtain statement of effectiveness by the capital market authority in accordance with prevailing regulation;
c. Identify, measure, monitor, and control risks arising from activities related to Mutual Funds.
For the purpose of applying the prudential principle, any bank is prohibited from conducting actions, both directly as well as indirectly, which will cause the Mutual Funds to have the characteristics of bank products, for example, savings or deposits.

25. Implementing Risk Management At Commercial Banks That Provide Prime Customer Service
Prime Customer Service (PCS) is part of a bank’s business activities in providing services related to products and/or activities with certain privileges for Prime Customers. Prime Customers are individuals who meet certain criteria or requirements set by the bank in order to obtain services/use facilities provided by the bank with certain privileges compared to other customers in general.
A bank that conducts PCS should have written policies, which cover at least the following:
a. Requirements to be a Prime Customer, which set certain criteria/requirements that have to be met by customers;
b. Scope of bank products and/or activities, by observing regulations and other related legislations;
c. Scope of privileges for PCS, by yet observing compliance with regulations and other related legislations; and
d. Name of the Service (brand name) and Categorization of Prime Customers by setting clearly the differences in service privileges for each category of Prime Customers.
In conducting PCS, a bank should implement Risk Management on certain aspects as follows:
a. Aspect of privileged service support, which covers at least Risk Management implementation on (i) human resources; (ii) PCS operation; (iii) offers of products and/or activities; (iv) IT;
b. Aspect of transparency as well as customer education and protection. In this aspect, the bank should implement at least the following: (i) providing explanation on PCS specifications; (ii) ensuring clarity in relationships between the bank and Prime Customers; (iii) ensuring clarity in the authorities of the transaction actors; (iv) submitting information periodically.
Bank should administer data, documents or agreements related to Prime Customer activities in PCS.

a. Commercial Banks

Prudential regulation for the purpose of national economic stimulus for Commercial Banks is a temporary policy that provides easing with a validity period of two years in:

1) Calculation of RWA for Credit Risk by using the standard approach for:
   a) residential house-backed credit;
   b) credit to MSMBs guaranteed by guarantee institutions or credit insurances with the status of BUMD;

2) Assessment and Determination of Asset Quality for:
   a) Credits and other fund provisions in small amounts; and
   b) Restructured credits;

3) Requirements for Capital Participations.

b. Sharia Commercial Banks and Sharia Business Units

1) Policy that supports economic growth stimulus for SCB is applied on:
   a) Calculation of RWA for Credit Risk by using the standard approach for:
      (1) Residential house-backed financing; and
      (2) Financing to MSMBs guaranteed by guarantee institutions or credit insurances with the status of BUMD;
   b) Assessment and determination of asset quality for:
      (1) Financing and other fund provisions in small amounts; and
      (2) Restructured financing;
   c) Capital Participations.

2) Policy to support economic growth stimulus for SBU is applied on the assessment and determination of asset quality for:
   a) Financing and other fund provisions in small amounts; and
   b) Restructured financing;

3) Determination of the qualities of Financing and other fund provisions may only be made based on the timeliness of repayments of principals and/or margins/shared yields/ujrah, for:
   a) Financing and other fund provisions extended by each Bank to one customer or one project in the amount of less than or equal to Rp 5 billion;
   b) Financing and other fund provisions extended by each Bank to MSMB customers in the amount of:
(1) More than Rp 5 billion up to Rp 20 billion for Banks that meet certain criteria;
(2) More than Rp 5 billion up to Rp 10 billion for Banks that meet certain criteria;

4) The quality of Financing after restructuring is set as follows:
   a) The highest is Sub-Standard for Financing that is categorized as Doubtful or Loss prior to restructuring;
   b) The same or unchanged for Financing that is categorized as Current, Under Special Mention or Sub-Standard prior to restructuring.

5) The quality of Financing after restructuring can be Current when there are no arrears for the last three consecutive periods in repayments of principals and/or margins/shared yields/ujrah in accordance with the Financing Restructuring agreements.

6) Capital Participations for the purpose of:
   a) Establishment of a company that will take over the assets of problem Financing from a SCB that will conduct participation with the SCB's ownership of no higher than 20% of the company's capital and the SCB does not hold control; or
   b) Additional participation to rescue a subsidiary company, which is a bank that conducts business activities based on sharia principles, may be undertaken if the SCB has the soundness level Composite Rating prior to undertaking the participation of no lower than 3 (CR-3) and has a prospect of a rise to a better Composite Rating. In addition, other requirements for the purpose of capital participation shall refer to prevailing regulation concerning prudential principle in Capital Participation activities.

7) This OJK Regulation is in force for two years starting from 24 August 2015.

27. Requirement To Meet Liquidity Coverage Ratio For Commercial Banks

Any bank, which is categorized as BUKU 4, BUKU 3, Foreign Bank Branch Office (FBBO), or foreign bank that is not FBBO, is obliged to meet Liquidity Coverage Ratio (LCR) of 100%, individually as well as in consolidation. LCR has the purpose of maintaining bank's short-term liquidity resilience by ensuring that the bank has high quality liquid assets to meet its liquidity needs for the next 30 (thirty) days under stress test scenarios. LCR constitutes a comparison between High Quality Liquid
Assets (HQLA) and net cash outflow. The obligation to fulfil LCR should be met in stages starting from 31 December 2015 up to 31 December 2018. The bank should perform calculation and reporting of LCR, both at individual level as well as consolidation level, daily, monthly, and quarterly. The first monthly LCR reporting shall be made for the position of December 2015 for banks that are categorized as BUKU 4 and FBBO, and for the position of June 2016 for banks that are categorized as BUKU 3 and non-FBBO foreign banks. Quarterly LCR reporting shall be made for the first time for the position of March 2016 for banks that are categorized as BUKU 4 and FBBO and for the position of September 2016 for banks that are categorized as BUKU 3 and non-FBBO foreign banks.

V.4. Regulations Concerning Reports and Accounting Standards

1. Transparency of Bank Financial Condition

OJK Regulation Number 32/POJK.03/2016 concerning Amendment To OJK Regulation Number 6/POJK.03/2015 concerning Transparency and Publication of Bank Reports is issued with the purpose of enhancing information disclosure as stipulated in Pillar 3 of Basel II and Basel III. Further provision concerning formats of the Publicized Reports is stipulated in OJK Circular Letter Number 43/SEOJK.03/2016 concerning Transparency and Publication of Conventional Commercial Bank Reports.

Enhancement of the regulation concerning Transparency and Publication of Bank Reports contains among others additional scope for disclosure reporting on calculation of Liquidity Coverage Ratio, Counterparty Credit Risk, Interest Rate Risk in the Banking Book (IRRBB), as well as Material Information and/or Facts; a change in the frequency for quantitative information disclosure on risk exposure from annual to bi-annual; as well as adjustment to capital components in the Report on Calculation of MCAR

a. Commercial Banks

For the purpose of creating market discipline and in line with development of international standards, it is necessary to make an effort to step up transparency of bank financial condition and performance through the publication of bank reports to provide ease for assessment by the public and market actors.

In addition, to step up transparency, any bank is required to provide quantitative and qualitative information in a timely, accurate, relevant and
adequate manner to provide ease for information users in assessing bank financial condition, performance, risk profile, and risk management implementation, as well as business activities, including determination of interest rate. For the purpose of financial condition transparency, a bank is obliged to prepare and present financial reports, comprising:

1) Annual Report;
2) Quarterly Condensed Financial Statement;
3) Monthly Condensed Financial Statement;
4) Consolidated Financial Report; and
5) Other Publicized Reports.

b. Rural Banks and Sharia Rural Banks

For the purpose of the transparency of RB and SRB financial condition, any RB or SRB should prepare and present financial reports comprising:

1) Annual Report;
2) Condensed Financial Statement;

Annual Report shall contain at least:

1) General information: information on management, ownership, development of RB business, management strategies and policies, management report;
3) Public Accountant Opinion on RB Annual Financial Report audited by the Public Accountant;
4) All other aspects of transparency and information;
5) All aspects of disclosure as obliged by FAS applicable on RB.

For any RB with total assets ≥ Rp 10 billion, the Annual Financial Report should be audited by a Public Accountant and developed in accordance with FAS for Entities Without Public Accountability and RB Accounting Guidelines. For any SRB with total assets of above Rp 10 billion, the Annual Financial Report should be audited by a Public Accountant.


RB and SRB should announce the Condensed Financial Statement quarterly for reporting positions of end of March, June, September, and December.
Announcement of the referred condensed financial statement may be done through a local daily newspaper or stuck to the bulletin board or other media that will enable the public to read it easily in all RB/SRB offices.

For any RB with total assets of Rp 10 billion and above, the condensed financial statement for the position of end of December should specifically be announced in a local daily newspaper and stuck to the bulletin board or other media that will enable the public to read it easily in all RB/SRB offices.

The Quarterly Condensed Financial Statement should be presented in comparison with the previous year’s Quarterly Condensed Financial Statement.
<table>
<thead>
<tr>
<th>No</th>
<th>Type of Report</th>
<th>Report Announcement Media / Submission</th>
<th>Deadline For Report Announcement / Submission</th>
<th>Late Announcement / Submission</th>
<th>No Announcement / Submission</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Monthly Publicized Report</td>
<td>Online through the OJK reporting system or LKPBU (Commercial Bank Head Office Reporting) system</td>
<td>In accordance with OJK reporting system or LKPBU system</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Publicized in Bank Website</td>
<td>End of the following month after the position of the reporting month end</td>
<td></td>
<td>After the deadline for announcement.</td>
</tr>
<tr>
<td>2.</td>
<td>Quarterly Publicized Report</td>
<td>Online through the OJK reporting system or LKPBU system</td>
<td>In accordance with OJK reporting system or LKPBU system</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Publicized in Bank Website</td>
<td>- For reports for the positions of end of March, June, and September: the 15th of the second month after the end of the reporting month. - For reports of for the position of end of December: End of March of the following year after the end of the reporting month.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Publicized in a newspaper</td>
<td></td>
<td>After the deadline for announcement up to no later than: - For reports for the positions of end of March, June, and September: the 15th of the second month after the end of the reporting month; - For reports of for the position of end of December: the 15th of April of the following year after the end of the</td>
<td>After the deadline for late announcement.</td>
</tr>
<tr>
<td>3.</td>
<td>Certain Quarterly Reports</td>
<td>To Bank Supervisors</td>
<td>Same as for the announcement of Quarterly Publicized Report</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Proof of announcement in newspaper</td>
<td>To Bank Supervisors</td>
<td>No later than two working days after the announcement in newspaper.</td>
<td></td>
<td>After the deadline for submission.</td>
</tr>
<tr>
<td>5.</td>
<td>Quarterly disclosure of risk exposure in the event there is information that is prone to rapid change.</td>
<td>Bank Website</td>
<td>Same as for the announcement of Quarterly Publicized Report</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Jenis laporan</td>
<td>Media Pengumuman/ Penyampaian Laporan</td>
<td>Batas waktu Pengumuman/ Penyampaian</td>
<td>Terlambat mengumumkan/ Menyampaikan</td>
<td>Tidak mengumumkan / menyampaikan</td>
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<tr>
<td>6</td>
<td>Annual Publicized Report</td>
<td>Bank Website To Bank Supervisors</td>
<td>No later than four months after the end of the Accounting Year</td>
<td>After the end of the deadline for announcement up to no later than one month after the deadline for announcement / submission.</td>
<td>After the deadline for late announcement / submission.</td>
</tr>
<tr>
<td>7</td>
<td>Certain Annual Report</td>
<td>To Bank Supervisors</td>
<td>No later than four months after the end of the Accounting Year of the Parent Entity or Subsidiary Entity or head office overseas.</td>
<td>After the deadline for announcement up to no later than one month after the deadline for announcement / submission.</td>
<td>After the deadline for late announcement / submission.</td>
</tr>
<tr>
<td>8</td>
<td>Report on Prime Lending Rate</td>
<td>Announcement in newspaper</td>
<td>No later than 7 (seven) working days after the end of March, June, September, and December.</td>
<td>After the deadline for announcement up to no later than one month after the deadline for announcement.</td>
<td>After the deadline for late announcement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank Website</td>
<td>Anytime</td>
<td>Announcement on Bulletin Board at Bank Offices</td>
<td>Anytime</td>
</tr>
<tr>
<td>9</td>
<td>Report on Material Information and/or Facts</td>
<td>Bank Website To Executive Head of Bank Supervisors with a copy to Bank Supervisors</td>
<td>Immediately within no later than two working days after the existence of material information and/or facts, except when stipulated otherwise in legislations.</td>
<td>After the deadline for announcement.</td>
<td>After the deadline for submission.</td>
</tr>
</tbody>
</table>

Notes: In regard reports which submission is not through the online reporting system, in the event the deadline for submission falls on a Saturday, Sunday, or other holidays, the deadline for report submission shall be the next working day.

2. Information Transparency on Bank Products and Use of Customer Personal Data
Any bank should apply information transparency on Bank Products and use of Customer Personal Data that is set in written policies and procedures. The bank
should provide complete and clear written information in Indonesian concerning the characteristics (including the risks) of each Bank’s Product. In the event a bank is going to give and/or disseminate Customer Personal Data, the bank should obtain written approvals from the customers.

3. **Indonesian Banking Accounting Guidelines for Commercial Banks**

Indonesian Banking Accounting Guidelines (IBAG) 2008 edition is the reference for the preparation and presentation of bank financial reports, which refers to Statement of Financial Accounting Standard (SFAS) Number 50 concerning Financial Instruments: Presentation and Disclosure and SFAS Number 55 concerning Financial Instruments: Recognition and Measuring of 2008. Considering IBAG is the implementation instruction of SFAS specifically for the banking industry, in regard matters that are not stipulated in IBAG and that there are changes in SFAS since 2008 up to the present, the preparation and presentation of financial reports shall still refer to prevailing SFAS.

In connection with the enactments of SFAS Number 50 concerning Financial Instruments: Presentation and Disclosure and SFAS Number 55 concerning Financial Instruments: Recognition and Measuring, Bank Indonesia (BI) has made adjustments to Indonesian Banking Accounting Guidelines (IBAG) 2001 and it becomes IBAG 2008. IBAG 2008 is the reference for the preparation and presentation of bank financial reports. Considering IBAG is the implementation instruction of SFAS, matters that are not stipulated in IBAG shall still refer to prevailing SFAS.

4. **Indonesian Sharia Banking Accounting Guidelines for Sharia Banks and SBU**

In 2013, revision of the 2003 Indonesian Sharia Banking Accounting Guidelines (ISBAG) was issued as the result of cooperation between BI and the Ikatan Akuntan Indonesia/IAI (Indonesian Accountant Association), which is only applicable for SCB and SBU. ISBAG constitutes guidelines for the preparation and presentation of sharia bank financial reports and is the implementation instruction that contains further translations of a number of SFAS relevant to the sharia banking industry, such as SFAS specifically for sharia transactions, SFAS Numbers 50, 55, 60, and 48, as well as addresses the issuance of DSN Fatwa Number 84/DSN-MUI/XII/2012 dated 21 December 2012 concerning Method for Recognition of Murabahah Income at Sharia Financial Institutions (SFIs). This revised ISBAG is expected to enhance the transparency of financial
condition and financial reports of SCB and SBU to be more relevant, comprehensive, reliable, and comparable and more in line with the latest condition and development. Meanwhile, matters that are not stipulated in the 2013 ISBAG shall still refer to prevailing SFAS as well as their implementation guidelines as long as they are not in conflict with the Sharia Principles.

Several main provisions in 2013 ISBAG are as follows: (i) recognition of income by using the annuity method or proportionality method can only be used for recognition of financing income based on selling-buying. In the event the annuity method is used, recording of the murabahah transactions should use SFAS 55, 50, 60 and other relevant SFAS. Meanwhile, in the event the proportionality method is used, recording of the murabahah transactions should use SFAS Number 102. Either method should be used in all types of murabahah financing portfolios as well as be disclosed in accounting policies and used consistently; (ii) the obligation to establish CKPN on financial assets and non-financial assets shall be in accordance with prevailing FAS.

5. **Determination on The Use of Financial Accounting Standards for RB**

For the purpose of stepping up the transparency of RB financial condition and preparation of financial reports that are relevant, comprehensive, reliable, and comparable, any RB should prepare and present financial reports based on FAS that are relevant for RB. Considering the complexity of SFAS 50 and 55 as well as the possibility of difficulty in implementation at Small, Medium-Scale Enterprises (SMEs), in May 2009, the Ikatan Akuntan Indonesia (IAI) issued FAS for Entities Without Public Accountability for SMEs. Furthermore, taking into consideration the characteristics of RB that have limited business activities in accordance with the Act on Banking as well as based on IAI, the following considerations are decided:

a. Implementation of SFAS 50/55 Financial Instruments, which replaces SFAS 31, is considered not suitable with the operational characteristics of RB and will require high cost compared to the benefits obtained;

b. Financial Accounting Standard Board – IAI states that FAS for Entities Without Public Accountability may be made applicable for entities that have significant public accountability as long as the authorized authority regulates the use the said FAS for Entities Without Public Accountability.
## 6. Periodic Reports of Commercial Banks and Other Reports

### Table 5.9. Bank Reports

<table>
<thead>
<tr>
<th>Type of Report</th>
<th>Commercial Bank</th>
<th>Rural Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Periodic Reports</strong></td>
<td></td>
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</tr>
</tbody>
</table>
| a. Daily | • Reports on Transactions in Interbank Money Market, Sharia Interbank Money Market, Securities in secondary market, and foreign currency transactions  
• Report on Net Foreign Currency Positions  
• Report on certain balance sheet accounts  
• Report on certain balance sheet accounts  
• Report on interest rate and yield rate of mudharabah investment deposit | |
| b. Weekly | • Report on Derivative Transactions  
• Report on Third Party Funds  
• Report on Government-Owned Third Party Funds  
• Report on daily balance sheet accounts  
• Report on cash flow projection | |
• Monthly Condensed Financial Statement  
• Report on Foreign Currency Flows  
• Report on Fund Provisions  
• Report on Credit/Financing Restructurings.  
• Report on Debtors (Debtor Information System)  
• Report on Legal Lending Limit  
• Report on Maturity Profile  
• Report on Market Risk  
• Report on Depositors and Core Debtors  
• Report on MCAR by taking into account market risk  
• Report on mudharabah investments (for Sharia Banks)  
• Report on structured product transactions | • Monthly Report  
• Report on Legal Lending Limit |
<table>
<thead>
<tr>
<th>Type of Report</th>
<th>Commercial Bank</th>
<th>Rural Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Report on RWA for credit risk with standard method</td>
<td>• Report on Debtors (Debtor Information System)</td>
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<td></td>
<td>• Report on calculation of Prime Lending Rate</td>
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<td></td>
<td>• Report on Monthly Operation Of Activities Of Payment Instruments Using Cards and Electronic Money</td>
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<td></td>
<td>• Letters of Credit with Domestic Documentation</td>
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<td></td>
<td>• Report on Custodian Activities</td>
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<tr>
<td></td>
<td>• Remittances of Indonesian Migrant Workers overseas and Foreign Workers in Indonesia</td>
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<td></td>
<td>• Government Account Movements</td>
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<td></td>
<td>• Report on Bank Activities as Selling Agent of Non-Bank Products in the form of overseas financial products</td>
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<tr>
<td></td>
<td>• Report on Banking Transactions through e-banking delivery channel</td>
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<td></td>
<td>• Report of Executive Officers</td>
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<td></td>
<td>• Report on Office Networks</td>
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</tr>
<tr>
<td>d. Quarterly</td>
<td>• Quarterly Condensed Financial Statement</td>
<td>• Condensed Financial Statement</td>
</tr>
<tr>
<td></td>
<td>• Report on Business Plan Realization</td>
<td>• Report on Handling and Settlements of Customer Complaints</td>
</tr>
<tr>
<td></td>
<td>• Report on Handling and Settlements of Customer Complaints</td>
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<tr>
<td></td>
<td>• Report on Risk Profile</td>
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<td></td>
<td>• Report on Consolidated Risk Profile</td>
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<td></td>
<td>• Financial Reports of Subsidiary Companies</td>
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<tr>
<td></td>
<td>• Report on Interbank Transactions with Parties That Have Special Relationships</td>
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<td></td>
<td>• Distribution of Profit Sharing for Customers</td>
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<td></td>
<td>• Report on RWA for credit risk with the standard method for Bank at consolidation level</td>
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<tr>
<td>Type of Report</td>
<td>Commercial Bank</td>
<td>Rural Bank</td>
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<tr>
<td></td>
<td>• Report on implementation of activities as Selling Agent of Mutual Fund Securities / Non-Bank Products</td>
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<td></td>
<td>• Report on Operation Of Activities Of Payment Instruments Using Cards and Electronic Money</td>
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<tr>
<td>e. Semesterly</td>
<td>• Report on Board of Commissioners’ Oversight over Implementation of Bank Work Plan</td>
<td>• Report on Work Plan Implementation</td>
</tr>
<tr>
<td></td>
<td>• Report on Implementation and Main Findings of Internal Audit</td>
<td></td>
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<tr>
<td></td>
<td>• Report on Implementation of Compliance Director’s Tasks</td>
<td></td>
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<tr>
<td></td>
<td>• Report on Sources and Uses of Qardh funds, Report on Sources and Uses of Zakat, Infaq, Shadaqah (ZIS) funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Self-assessment of Bank Soundness Level</td>
<td></td>
</tr>
<tr>
<td>f. Anually</td>
<td>• Business Plan</td>
<td>• RB Work Plan</td>
</tr>
<tr>
<td></td>
<td>• Annual Financial Report</td>
<td>• Annual Financial Report</td>
</tr>
<tr>
<td></td>
<td>• Annual Report</td>
<td>• Report on Business Group Structure</td>
</tr>
<tr>
<td></td>
<td>• Report on Plan for Overseas Borrowings Received</td>
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<td></td>
<td>• Report on Information System Technology</td>
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<td></td>
<td>• Report on Implementation of GCG</td>
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<tr>
<td></td>
<td>• Report on Business Group Structure</td>
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<td></td>
<td>• Report on Outsourcing Plan</td>
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<td></td>
<td>• Report on Problem Outsourcing</td>
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<td></td>
<td>• Report on Plan for Customer Data Updating</td>
<td></td>
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<tr>
<td></td>
<td>• Report on Realization of Customer Data Updating</td>
<td></td>
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<tr>
<td></td>
<td>• Report on Banking Personnel SCB and CCB that Have SBUs are obliged to submit:</td>
<td></td>
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<tr>
<td></td>
<td>• Report on Sources and Uses of ZIS</td>
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<tr>
<td></td>
<td>• Report on Sources and Uses of Qardh Funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Report on Changes in Related Investment Funds</td>
<td></td>
</tr>
<tr>
<td>Type of Report</td>
<td>Commercial Bank</td>
<td>Rural Bank</td>
</tr>
<tr>
<td>----------------</td>
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</tr>
<tr>
<td>g. Every Three Year</td>
<td>• Report on External Party Review of Internal Audit Performance</td>
<td></td>
</tr>
</tbody>
</table>

2. Other Reports

- • Report concerning Bank institutional arrangement
- • Report concerning the management of the Bank
- • Report concerning Bank operation
- • Special report concerning Bank development and oversight
- • Report on suspicious financial transactions and Report on cash financial transactions to PPATK (Center for Financial Transaction Reporting and Analyses)
- • Report concerning Bank new products and activities

- • Report concerning Bank institutional arrangement
- • Report concerning the management of the Bank
- • Report concerning Bank operation
- • Special report concerning Bank development and oversight
- • Report on suspicious financial transactions to PPATK

V.5. Stipulations concerning Bank Supervision

1. Bank Business Plan

a. Commercial Banks

A Bank should develop a realistic Business Plan each year by taking notice of:
1) External and internal factors that can influence bank’s business sustainability;
2) Prudential principle;
3) Implementation of risk management; and
4) Sound banking principles.

In regard any CB that has a SBU, in addition to the Business Plan described above, it should also contain special Business Plan for the SBU, which is a unity with the General Bank Business Plan.

The Business Plan shall include at least:
1) Executive summary
2) Management policies and strategies;
3) Implementation of risk management and bank’s present performance;
4) Projection of financial report along with assumptions used;
5) Projection of ratios and other certain accounts;
6) Funding plan;
7) Fund placement plan;
8) Capital plan;
9) Plan for developments of organization and human resources;
10) Plan for issuances of new products and / or
implementations of new activities;
11) Plan for development and/or changes in office networks; and
12) Other information.

Bank may only make changes to the Business Plan when:
1) there are external and internal factors that significantly influence bank operation;
2) there are factors that significantly influence bank performance, based on OJK's consideration; and / or
3) changes to the Business Plan may only be made once, no later than end of June in the current year.

b. Rural Banks and Sharia Rural Banks

Any RB and SRB should develop a business plan that includes short-term plan, medium-term plan, and/or long-term strategic plan realistically each year. The business plan should be developed by the board of directors and approved by the board of commissioners, by taking notice of:
1) external and internal factors that can influence RB's and SRB's business sustainability;
2) prudential principle;
3) sound banking principles.

In addition to observing the above-mentioned factors, a SRB should develop the Business Plan by observing the sharia principles.

The scope of RB and SRB business plan shall include at least:
1) Executive summary
2) Business strategies and policies
3) Projection of financial report
4) Targeted ratios and financial accounts
5) Fund accumulation plan
6) Fund channeling plan
7) Capital plan
8) Plan on developments of the organization, IT, and human resources
9) Plan for implementation of new business activities or plan for issuances of new products and implementations of new activities
10) Plan for development and/or changes in office networks
11) Other information

The periods for projections and plan of several scope of substances covered in business plan preparation are differentiated based on core capital, namely RB and SRB with core capital respectively less than Rp 50 billion and RB and SRB with core capital respectively of no less than Rp 50 billion.

OJK has the authority to request any RB and SRB to make adjustments to the Business Plan. Meanwhile, under certain considerations, a RB and SRB may make changes to the business plan once. The board of directors should develop the report on business plan implementation, while the Board of Commissioners
should develop the report on business plan oversight bi-annually. Any RB or SRB shall be imposed with the sanctions of written reminder and payment penalty when it is late in submitting or when it does not submit the business plan. It will be imposed with the sanction of penalty payment when it submits a revised business plan that is incomplete or is not supplemented with documents and information in accordance with the scope and it will be imposed with administrative sanctions in the forms of written reminder, lowering of RB/SRB soundness level, and/or temporary suspension of a part of RB/SRB business activities when it does not meet other set regulations.

2. Assessment of Bank Soundness Level
   a. Commercial Banks
      Any bank should maintain and/or step up bank soundness level by implementing prudential principle and risk management in the conduct of business activities. Bank should perform assessment of soundness level by using the RBBR (Risk-Based Bank Rating) approach, both at individual level as well as consolidation level. Bank should perform self assessment on bank soundness level at no less than each semester for the positions of end of June and end of December. Bank should update bank soundness level self assessment at any time required.
      Factors of bank soundness level assessment include:
      1) Risk profile
      2) Good Corporate Governance (GCG);
      3) Profitability (earnings); and
      4) Capital.
      Bank soundness level Composite Rating (CR) shall be determined based on a comprehensive and structured analysis on the rating of each factor by observing the materiality and significance of each factor, as well as by taking into account bank's capacity in facing significant changes in external condition. The categories of CR are as follows:

Table 5.10. Categories of Commercial Bank Composite Ratings

<table>
<thead>
<tr>
<th>PK</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR-1</td>
<td>Bank's condition is in general extremely sound and as such is assessed to be extremely capable of facing significant negative influences from changes in business condition and other external factors.</td>
</tr>
<tr>
<td>CR-2</td>
<td>Bank's condition is in general sound and as such is assessed to be capable of facing significant negative influences from changes in business condition and other external factors.</td>
</tr>
<tr>
<td>CR-3</td>
<td>Bank's condition is in general adequately sound and as such is assessed to be adequately capable of facing significant negative influences from changes in business condition and other external factors.</td>
</tr>
</tbody>
</table>
b. Rural Banks
The soundness level of a RB is basically assessed with qualitative approach on various aspects that influence the condition and development of an RB, which include aspects of Capital, Earning Asset Quality, Management, Earnings, and Liquidity (CAMEL). Matters related to the above-mentioned assessment are:
1) Results of assessment are set in four predicates, namely: Sound, Adequately Sound, Less Sound, Unsound;
2) The weight of each CAMEL factor is:

<table>
<thead>
<tr>
<th>No.</th>
<th>CAMEL Factor</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Capital</td>
<td>30%</td>
</tr>
<tr>
<td>2.</td>
<td>Earning Asset Quality</td>
<td>30%</td>
</tr>
<tr>
<td>3.</td>
<td>Management</td>
<td>20%</td>
</tr>
<tr>
<td>4.</td>
<td>Profitability</td>
<td>10%</td>
</tr>
<tr>
<td>5.</td>
<td>Liquidity</td>
<td>10%</td>
</tr>
</tbody>
</table>

3) Implementation of regulations, which sanctions are linked to RB soundness level assessment, include violations and/or exceedances of the provisions of Legal Lending Limit, Anti Money Laundering (AML) and Prevention of the Funding of Terrorism (PFT), and violations of the regulation concerning transparency of bank product information and use of customer personal data; and
4) Factors that can lower bank soundness level to become Unsound are internal disputes, interventions of parties outside bank management, window dressing, bank inside bank practices, other banking practices that can endanger bank’s business sustainability.

3. Determination of Bank Supervision Status and Follow Up
a. Determination of bank supervision status comprises:
1) Normal supervision;
2) Intensive supervision; and
3) Special supervision.
### Table 5.12. Determination of Bank Supervision Status

<table>
<thead>
<tr>
<th>Intensive Supervision</th>
<th>Special Supervision</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criteria</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Bank is determined to be Bank Under Intensive Supervision (BUIS) when the bank is assessed to have potential difficulties that might endanger its business sustainability, which means when it meets one or more of the following criteria:  
  a. MCAR ≥ 8%, but less than the ratio of MCAR in accordance with the bank's risk profile that must be met by the bank;  
  b. Ratio of core capital (tier 1) is less than a certain percentage set by OJK;  
  c. Rasio of Statutory Reserves in rupiah is ≥ 5%, but less than the ratio set for rupiah Statutory Reserve that must be met by the Bank, and based on OJK's assessment the bank has fundamental liquidity problem;  
  d. Ratio of net problem credits (non performing loans) is more than 5% of total credit;  
  e. Bank soundness level is at composite ratings 4 or 5;  
  f. Bank soundness level is at composite rating 3 and GCG at rating 4; | OJK shall determine a Bank to be Bank Under Special Supervision (BUSS) if a BUIS or bank under normal supervision is considered to be experiencing difficulties that might endanger its business sustainability, which means when it meets one or more of the following criteria:  
  a. MCAR ratio is < 8%  
  b. Rasio of Statutory Reserves in rupiah is less than 5% and based on OJK's assessment:  
    1) the Bank experiences fundamental liquidity problems; or  
    2) the Bank experiences deteriorating development within a short time. |
| **Period**             |                     |
| OJK shall determine BUIS status no longer than one year since the date of OJK's notification letter.  
  OJK may extend the intensive supervision period no more than 1 time and no longer than 1 year only for any BUIS that meets the criteria of:  
  a. Net problem credits (non performing loans) is more than 5% of the total credit and the settlements are complex;  
  b. Bank soundness level is at composite ratings 4 or 5; and/or  
  c. Bank soundness level is at composite rating 3 and GCG at rating 4.  
  Specifically for criteria b and c, the period extension for BUIS shall also be supplemented with a step up in supervisory measures.  
  The bank is instructed to conduct mandatory supervisory action, among others:  
  a. Write-off non performing loans and take into account bank losses against bank capital;  
  b. Limit payments of remunerations or other equivalent forms to the members of board of commissioners and/or board of directors of the bank, or compensations to related parties; | OJK shall determine BUSS status no longer than 3 months since the date of OJK's notification letter. |
Supervisory Measures

c. Do not make payments on subordinated loans;
d. Do not perform or delay capital distribution;
e. Strengthen bank capital, including through capital deposits;
f. Do not perform certain transactions with related parties and/or other parties determined by OJK;
g. Limit the execution of planned issuance of new products and/or planned implementation of new activities;
h. Do not undertake or limit asset growth, participations, and/or new provisions of funds;
i. Sell part of or the entire assets and/or obligations of the bank to other parties;
j. Do not undertake expansion of office networks;
k. Do not conduct certain business activities;
l. Close bank office networks;
m. Do not conduct interbank transactions;
n. Perform merger or consolidation with another bank;
o. Replace board of commissioners and/or board of directors of the bank;
p. Handover management of the entire or part of bank activities to other parties; and/or
q. Sell the bank to a buyer prepared to take over the entire obligations of the bank.

A BUIS is obliged to:
1) Submit an action plan in accordance with problems being faced;
2) Submit realization of the action plans;
3) Submit a complete list of related parties; and/or
4) Perform other actions and/or report certain matters set by OJK;

a. A BUSS should increase capital to meet MCAR and/or obligation to meet Statutory Reserves in accordance with prevailing regulations.
b. In addition to supervisory actions during the time of being a BUIS, in regard special supervision, OJK has the authority to:
   1) Prohibit the bank from selling or decreasing total assets without OJK's approval with the exception of BI Certificates, Sharia BI Certificates, giro accounts at BI, interbank claims, State Securities (SBN) and/or Sharia State Securities (SBSN);
2) Prohibit the bank from changing ownership for:
   a) Shareholders that own bank shares of 10% or more; and/or
   b) Controlling Shareholder including parties performing control over the bank in the bank's business group structure, unless it has obtained the approval of OJK; and/or
   c) Instruct the bank to report every change in share ownership of less than 10%.

In regard a bank determined as a BUIS due to a problem concerning capital, the bank and/or the bank shareholders are also required to submit a capital restoration plan in order to resolve the bank's capital problem.

OJK freezes certain business activities of a BUSS no longer than 1 month during the special supervision period in the event:
a. OJK considers that condition of the bank is deteriorating; and/or
b. Violations against banking regulations have been committed by the board of directors, board of commissioners and/or Controlling Shareholder.


**Supervisory Measures**

A bank shall be determined to be no longer under intensive supervision status if condition of the bank has improved and the bank no longer meets the criteria of having potential difficulties that might endanger business sustainability.

OJK will notify in writing any bank which is no longer under intensive supervision.

OJK shall announce in 2 daily newspapers that have wide circulations and in OJK’s homepage any BUSS which certain business activities have been frozen along with the reasons and improvement measures that must be done and/or prohibitions instructed by OJK. Conversely, for the purpose of balanced information to the public, when condition of the bank has improved and it is no longer categorized as bank under special supervision, OJK will also announce it.

Any bank, which certain business activities are frozen, must notify all their office networks regarding those certain business activities which are frozen.

b. **Banks Which Cannot Be Rehabilitated**

A BUSS will be determined to be a bank that cannot be rehabilitated when:

1) The special supervision period has not been exceeded but bank condition has deteriorated until:
   a) MCAR ratio is \(<4\%\) and is assessed to be unable to rise to \(8\%\); and/or
   b) The Rupiah Statutory Reserves ratio is \(<0\%\) and is assessed to be unable to be settled in accordance with prevailing regulation; or

2) The special supervision period has been exceeded and:
   a) Bank MCAR ratio is \(<8\%\); and/or
   b) The Rupiah Statutory Reserves ratio is \(<5\%\)

c. **Banks With Systemic Impact**

In the event a BUSS is suspected to have systemic impact, OJK will provide information to the institution that has the function to set policies in the context of crisis prevention and handling based on the provisions of legislations.

In the event a BUSS, which is suspected to have systemic impact, meets the criteria as a bank that cannot be rehabilitated, OJK will request the said institution to decide:

1) whether the concerned bank has systemic impact or does not have systemic impact; and
2) the authorized party to sign and set measures
for handling the bank that is determined to have systemic impact.

d. Banks That Do Not Have Systemic Impact
   In the event a BUSS does not have systemic impact and meets the criteria as a bank that cannot be rehabilitated, OJK will notify and request a decision from LPS to perform or not perform the rescuing of the concerned bank.
   In the event LPS decides not to rescue the concerned bank, OJK shall revoke the concerned bank’s business license after having received a decision from LPS. Further settlement on a bank which business license has been revoked will be performed by LPS in accordance with the provisions of prevailing legislations.

e. Banks Under The Handling or Rescuing by LPS
   Any bank under the handling or rescuing of LPS is exempted from being determined as a BUIS or BUSS. However, the bank concerned still have the obligation to perform supervisory measures set by OJK and in the event the bank concerned meets the criteria of a bank that cannot be rehabilitated, OJK will determine the bank concerned to be a bank that cannot be rehabilitated.

4. Follow Up On The Handling Of RB and SRB Of The Status of Under Special Supervision
a. RB Under Special Supervision
   OJK will determine a RB to be of the status under special supervision if it meets one or more of the following criteria:
   1) MCAR ratio < 4%; and/or
   2) Average Cash Ratio (CR) during the last six months is < 3%
   OJK will notify determination of any RB to be under special supervision status to the RB concerned. In addition, OJK will also notify LPS concerning the RB that has been determined to be under special supervision status along with an explanation of the concerned RB’s condition.
   For the purpose of special supervision, OJK may instruct the RB and/or the RB’s shareholders to take measures such as among others:
   1) add capital;
   2) write off non performing credits and take into account RB’s loss against its capital;
   3) replace members of board of directors and/or board of commissioners of the RB;
   4) undertake merger or consolidation with another RB;
   5) sell the RB to a buyer who is willing to take over all of the RB’s obligations;
6) hand over the management of the entire or part of the RB’s activities to other parties;
7) sell part or the entire assets and/or obligations of the RB to other parties; and/or
8) suspend certain business activities for a period set by the OJK

Any RB of under special supervision status, which has MCAR ratio of $\leq 0\%$ and/or average CR during the last six months of $\leq 1\%$ is prohibited from conducting fund accumulation and channeling activities. In the event at the time of determination to be under special supervision the RB has met the criteria of MCAR and CR referred above, the prohibition concerning fund accumulation and channeling shall be effective starting from the time the RB is determined to be under special supervision.

Period of the special supervision is set to be no longer than 180 days since the determination of the RB to be of under special supervision by the OJK. This period may be extended once for a period of no longer than 180 days since the end of the period of under special supervision when the RB meets set conditions.

During the period of special supervision status, OJK may at any time give notification to LPS and request LPS to make a decision whether to rescue or not to rescue the RB, in the event the RB, which is determined to be of under special supervision status, meets the following criteria:
1) The RB has MCAR ratio of $\leq 0\%$ and/or average CR during the last six months of $1\%$; and
2) based on OJK’s assessment, the RB is not capable of raising its MCAR ratio to at least $4\%$ and average CR during the last six months to at least $3\%$.

At the end of the period of special supervision OJK will give notification to LPS and request LPS to make a decision to rescue or not to rescue the RB that meets the criteria of:
1) MCAR ratio of less than $4\%$; and/or
2) average CR during the last six months of less than $3\%$.

In the event LPS decides not to rescue the RB, OJK will revoke the concerned RB’s business license after having received notification from LPS.

b. SRB Under Special Supervision

OJK will determine a SRB to be under special supervision status if it meets one or more of the following criteria:
1) MCAR ratio < 4%; and/or
2) average CR during the last six months of < 3%.
OJK will give notification to LPS concerning the SRB that is determined to be under special supervision along with an explanation on the concerned SRB’s condition.

Any under special supervision SRB that has:
1) MCAR ratio of < 0%; and/or
2) average CR during the last six months of ≤ 1%;
is prohibited from conducting fund accumulation and channeling activities. This prohibition is in force since the date of the prohibition determination until the SRB comes out of special supervision status.

Period of the special supervision is set to be no longer than 180 days since the determination of the SRB to be of under special supervision by BI. This period may be extended once for a period of no longer than 180 days since the end of the period of under special supervision set by OJK.

During the period of special supervision, OJK may at any time give notification to LPS and request LPS to make a decision whether to rescue or not to rescue the SRB, in the event the under special supervision SRB meets the following criteria:
1) The SRB has MCAR ratio of < 0% and/or average CR during the last six months of ≤ 1%; and
2) based on OJK’s assessment, the SRB is not capable of raising its MCAR ratio to at least 4% and average CR during the last six months to at least 3%.

At the end of the period of special supervision, OJK will give notification to LPS and request LPS to make a decision to rescue or not to rescue the SRB that meets the criteria of special supervision.

In the event LPS decides not to rescue the SRB, OJK will revoke the concerned SRB’s business license after having received notification from LPS.

V.6. Regulations Concerning Consumer Education and Protection

1. Financial Literacy and Inclusion

Along with enthusiasm of the government to increase Financial Literacy and Inclusion, which is incorporated into Government Regulation Number 82 of 2016 concerning National Strategy for Financial Inclusion, OJK has issued a regulation that obliges banks to perform Financial Literacy and Inclusion activities. This regulation is expected to enhance the Indonesian public’s knowledge, understanding, and access to financial institutions, products, and services. Each bank that has Customers has the obligation submit a report
on the plan for education and implementation of education each year.

2. Settlement of Consumer Complaints
A bank is obliged to settle each complaint lodged by Consumers and/or Consumer representatives. The bank should have and implement a mechanism for Consumer complaint servicing and settlement, which covers:

a. Procedure for complaint servicing and settlement, which at least covers the following:
   1) implementation of the principles of accessibility, independence, fairness, efficiency, and effectiveness;
   2) implementation of the receipt of Consumer complaints through various ways, among others face-to-face meetings, e-mails, and letters, however, not including complaints submitted through notifications in the mass media;
   3) the bank should immediately follow up and settle complaints no later than twenty working days;
   4) under certain conditions, the bank may extend the period up to no longer than the next twenty working days;
   5) the certain conditions referred to in point d) are:
      a) bank office that receives the complaint is not the same bank office where the problem complained occurs and there is a communication problem between the two bank offices;
      b) the financial transaction complained by the Consumer requires special investigation on bank’s documents; and/or
      c) there are other matters outside the bank’s control, such as the existence of involvement of a third party outside the bank in the financial transaction conducted by the Consumer.
   6) procedure for communicating with the Consumers, which covers at least:
      a) procedure for complaint servicing and settlement in a format that is easily understood and accessed by the Consumers; and
      b) an offer for settlement, in the event, based on results of the analysis and evaluation
performed by the bank, the complaint is caused by an error on the part of the bank.

7) keeping confidential information concerning Consumers who have lodged complaints to any party, except:
   (1) to OJK;
   (2) for the purpose of settling the complaints;
   (3) when obliged by the provisions of legislations; and/or
   (4) at the approval of the Consumer.

b. The bank should provide complaint servicing and settlement with the following requirements:
   1) apply treatments that are balanced and objective on each complaint;
   2) provide adequate opportunities to Consumers for giving explanations on the substances of the complaints; and
   3) provide opportunities to other parties, who have interests on the complaints, for giving explanations in the settlement of the complaints (if any);

c. The bank is prohibited from charging costs on complaint servicing and settlement.

d. The bank should administer complaint servicing and settlement. The administration should contain information concerning at least:
   a) consumer identity;
   b) substances of the complaint; and
   c) actions taken to settle the complaint.

e. The bank should provide information on the statuses of Consumer complaints through various communication facilities provided by FSI, such as among others through websites, letters, e-mails, or telephones.

f. The bank and Consumers can monitor progress of the Handling statuses of Complaints lodged by the Consumers to OJK through the Financial Services Sector – Integrated Consumer Service System.

g. OJK may request or access progress of the Handlings of Complaints lodged by the Consumers to the FSI.

3. Marketing of Products and/or Services

In connection with the effort to give the opportunity for banks to market products and/or services in a fair, efficient, and transparent manner that may reduce the potential for losses to the Consumers due to misunderstanding/vagueness/errors on information provided, OJK regulates the marketing of bank products/services. Several matters stipulated are:

a. ensure that the Consumers have good intentions;

b. main points of the stipulation concerning information on products and/or services;
c. stipulation concerning information contained in advertisements in the media;
d. bank information service;
e. preparation of summary information on products and/or services;
f. third parties that act on behalf of the bank;

4. **Standard Agreements**
   
   In the context of stepping up banks's awareness of the importance of Consumer protection in ownerships of products and/or utilizations of services that have agreements between the Consumers and banks, OJK stipulates a clause on standard agreements and formats of standard agreements.
   
   The referred agreements between Consumers and banks are in general developed in the form of Standard Agreements set unilaterally by the banks, which contain standard clauses concerning the contents, formats, as well as method of developing, and are used for offering products and/or services to Consumers at large.

5. **Confidentiality of Consumer Personal Data and/or Information**
   
   One of the objectives of Consumer protection in the Financial Services Sector is to step up banks' awareness of the confidentiality of Consumer personal data and/or information. As such, OJK regulates that banks are prohibited in any way to give the personal data and/or information of their Consumers to third parties, except when the Consumers give written approvals and/or when obliged by the provisions of legislations.

V.7. **Other Regulations**

1. **Rating Institutions and Ratings Acknowledged By OJK**
   
   Rating institutions acknowledged by OJK are rating institutions that meet assessment aspects as follows: (i) assessment criteria; and (ii) publication media and scope of disclosure.

   Assessment criteria that has to be met covers the criteria of independence, objectivity, public disclosures, rating transparency, resources, and credibility of the rating institution. Meanwhile, publication media and scope of disclosure regulate the obligation of the rating institutions to have websites and to disclose all information that should be publicized. On the list of acknowledged rating institutions and ratings, OJK performs updating based on results of assessment and monitoring on the fulfilment of the set assessment aspects.

   Rating institutions can be taken out from the list of
rating institutions and ratings acknowledged by OJK based on:
a. results of OJK’s assessment, in the event a rating institution is no longer meeting the set assessment aspects or commits other violations; and/or
b. at the request of the rating institution. The removal of a rating institution at its own request can be done by meeting certain procedure and the rating institution has settled all its obligations.

The list of rating institutions and ratings acknowledged by OJK is publicized through OJK’s website. A bank is still obliged to perform assessment and is fully responsible for the use of the rating results of any rating institution acknowledged by OJK.

2. Certification Institutions For Rural Banks/Sharia Rural Banks
a. The objectives of the establishment of Certification Institutions are:
   1) to ensure quality of the certification system;
   2) to ensure implementation of the certification system; and
   3) to enhance the quality and professional capacity of RB/SRB human resources.
b. Requirements that have to be met by Certification Institutions are:
   1) have vision and missions for enhancing and developing RB human resources to support the realization of RB/SRB industries that are sound, strong and efficient;
   2) have organs comprising at least: Certification Board, National Curriculum Committee, and Management;
   3) have and implement tasks based on competency and commitment for arranging, determining, and developing certification system.

3. Bank Secrecy
Bank secrecy refers to everything that is connected with explanations on depositors and their deposits. Explanations on customers other than depositors and their deposits do not constitute explanations that banks should keep confidential. This regulation is applicable also in regard affiliated parties.
The regulation on bank secrecy does not apply:
a. in regard tax purposes;
b. in regard settlement of bank receivables that have been handed over to Agency for the Management of State Receivables and Auctions/Badan Urusan Piutang dan Lelang Negara (BUPLN) atau Committee for the Management of State Receivables/Panitia Urusan Piutang Negara (PUPN);
c. in regard the interest of justice in criminal cases;
d. in regard the interest of justice in civil cases between a bank and its customers;
e. in regard information exchanges between banks;
f. at the written requests, consents or authorizations of the depositors;
g. at the request of legal heir of a deceased depositor; and
h. in regard investigations related to money laundering.

Implementation of the provisions in letters a, b, and c should first obtain written instructions or permissions to disclose bank secrecy from the leadership of OJK, while implementation of the provisions in letters d, e, f, g, and h does not require such instructions or permissions.

4. Submission of Customer Information related to Taxes

For the purpose of supporting the effort to prevent tax avoidance, tax evasion, and for stepping up the compliance of Indonesian Citizens domiciling in other countries to the fulfillment of Indonesian tax regulations and vice versa, cooperation and coordination is required between the Indonesian Government and the governments of other countries or jurisdictions.

The form of coordination undertaken to support this effort is an activity of the exchanges of financial information of tax payers with other countries through a mechanism of international agreement, both bilateral as well as multilateral.

One of the parties that has an important role in the submission of such information are FSI, which are the places for deposits or investments and financial services for the customers who are tax payers of Partner Countries or Partner Jurisdictions.

There are three types of these exchanges of information, namely:

a. information exchange based on request, in which there is a prior request on certain tax payers;
b. spontaneous information exchange, in which one of the countries has the initiative to report certain tax payers; and

c. automatic information exchange, in which submission of the financial information of tax payers is not based on requests or initiatives but rather based on the fulfillment of tax payer criteria stated in agreements between countries performed through an agreed system, submitted periodically and continuously.
Automatic information exchange may be conducted when there are voluntary statements from customers, who are the tax payers of Partner Countries or Partner Juridictions. An agreement between countries for the purpose of conducting automatic information exchanges covers among others: procedure for conducting due diligence, types of information exchanged, reporting periods (periodic), and timing for report submission. The government has enacted a Minister of Finance Regulation Number 125/PMK.010/2015 dated 7 July 2015, which enables FSI to submit financial information of customers, who are tax payers of Partner Countries or Partner Juridictions, to the tax authority in Indonesia and tax authorities in Partner Countries based on voluntary written consents from the customers, who are tax payers of Partner Countries or Partner Juridictions, to the FSI.

FSI, which meet the criteria of having the obligation to submit foreign customer information (in accordance with automatic information exchange agreements), should:

a. perform identification of customers or candidate customers to ensure that the customers or candidate customers concerned meet the criteria of foreign customers or foreign candidate customers;

b. request required information and/or documents for the purpose of verifying whether the customers or candidate customers meet the criteria of foreign customers or foreign candidate customers;

c. request the foreign customers or foreign candidate customers to submit statements of consents, instructions or provide written and voluntary authorizations to the FSI for providing information of the foreign customers and/or foreign candidate customers to the Indonesian tax authority to be forwarded to the tax authorities of the Partner Countries or Partner Juridictions; and

d. perform screening of foreign customers, who own account balances or values of at least the same as set in the automatic information exchange agreements.

Information on foreign customers submitted shall cover at least customer information and financial information of customers who have account balances or values in accordance with the automatic information exchange agreements.
5. **Authority On Criminal Investigations In Financial Services Sector**

Based on OJK Regulation Number 22/POJK.01/2015 concerning Criminal Investigations in Financial Services Sector, a few points are explained as follows:

a. OJK has the authority to conduct Criminal Investigations in FSS;

b. the authority on criminal investigations in FSS is executed by OJK's Investigators;

c. OJK's investigators comprise:
   1. Investigating Officers of the Republic of Indonesia's Police assigned to OJK; and/or
   2. Civil Servant Officers assigned to OJK and are given special authority as Investigators.

d. OJK's investigators have the authority to conduct investigations in accordance with the provisions concerning Investigation stipulated in Law of The Republic of Indonesia Number 21 of 2011 on Financial Services Authority and Investigation in accordance with the provisions stipulated in Act Number 8 of 1981 concerning Criminal Law and other Acts that give authorities to RI's Police Investigators; and

e. any party may submit a report and/or information concerning suspicion of Crime in Financial Services Sector by submitting it in writing and/or directly come to the OJK.
CHAPTER 6

LIST OF REGULATIONS
## VI. LIST OF REGULATIONS

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. New Regulations In 2016</strong></td>
<td></td>
</tr>
<tr>
<td>2 Sharia Rural Banks</td>
<td>OJK Regulation No. 3/POJK.03/2016 dated 27 January 2016 concerning Sharia Rural Banks</td>
</tr>
<tr>
<td>3 Assessment of Commercial Bank Soundness Level</td>
<td>OJK Regulation No. 4/POJK.03/2016 dated 27 January 2016 concerning Assessment of Commercial Bank Soundness Level</td>
</tr>
<tr>
<td>4 Bank Business Plan</td>
<td>OJK Regulation No. 5/POJK.03/2016 dated 27 January 2016 concerning Bank Business Plan</td>
</tr>
<tr>
<td>5 Business Activities and Office Networks Based On Bank Core Capital</td>
<td>OJK Regulation No. 6/POJK.03/2016 dated 27 January 2016 concerning Business Activities and Office Networks Based On Bank Core Capital</td>
</tr>
<tr>
<td>8 Prudential Principle For Commercial Banks That Outsource Part Of The Implementation of Works To Other Parties</td>
<td>OJK Regulation No. 9/POJK.03/2016 dated 27 January 2016 concerning Prudential Principle For Commercial Banks That Outsource Part Of The Implementation of Works To Other Parties</td>
</tr>
<tr>
<td>9 Fulfilment Of RB Regulations and Transformation of BKD That Are Given RB Status</td>
<td>OJK Regulation No. 10/POJK.03/2016 dated 2 February 2016 concerning Fulfilment of RB Regulations and Transformation of BKD That Are Given RB Status</td>
</tr>
<tr>
<td>10 Commercial Bank Minimum Capital Adequacy Requirement</td>
<td>OJK Regulation No. 11/POJK.03/2016 dated 29 January 2016 concerning Commercial Bank Minimum Capital Adequacy Requirement</td>
</tr>
<tr>
<td>11 RB Business Activities and Office Network Areas Based On Core Capital</td>
<td>OJK Regulation No. 12/POJK.03/2016 dated 17 February 2016 concerning RB Business Activities and Office Network Areas Based On Core Capital</td>
</tr>
<tr>
<td>12 Implementation of Risk Management For Commercial Banks</td>
<td>OJK Regulation No. 18/POJK.03/2016 dated 22 March 2016 concerning Implementation of Risk Management For Commercial Banks</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Amendment to OJK Regulation No. 27/POJK.03/2016 concerning Bank Business Activity In The Form Of Custodianship With Management (Trust)</td>
<td>OJK Regulation No. 25/POJK.03/2016 dated 15 July 2016 concerning Amendment to OJK Regulation No. 27/POJK.03/2016 concerning Bank Business Activity In The Form Of Custodianship With Management (Trust)</td>
</tr>
<tr>
<td>Fit and Proper Test For Main Parties In Financial Service Institutions</td>
<td>OJK Regulation No. 27/POJK.03/2016 dated 27 July 2016 concerning Fit and Proper Test For Main Parties In Financial Service Institutions</td>
</tr>
<tr>
<td>Amendment To OJK Regulation No. 6/POJK.03/2015 concerning Transparency and Publication of Bank Reports</td>
<td>OJK Regulation No. 32/POJK.03/2016 dated 12 August 2016 concerning Amendment To OJK Regulation No. 6/POJK.03/2015 concerning Transparency and Publication of Bank Reports</td>
</tr>
<tr>
<td>Amendment To OJK Regulation No. 11/POJK.03/2016 concerning Commercial Bank Minimum Capital Adequacy Requirement</td>
<td>OJK Regulation No. 34/POJK.03/2016 dated 26 September 2016 concerning Amendment To OJK Regulation No. 11/POJK.03/2016 concerning Commercial Bank Minimum Capital Adequacy Requirement</td>
</tr>
<tr>
<td>Rural Bank and Sharia Rural Bank Business Plan</td>
<td>OJK Regulation No. 37/POJK.03/2016 dated 30 November 2016 concerning Rural Bank and Sharia Rural Bank Business Plan</td>
</tr>
<tr>
<td>Implementation of Risk Management In The Use Of Information Technology By Commercial Banks</td>
<td>OJK Regulation No. 38/POJK.03/2016 dated 7 December 2016 concerning Implementation of Risk Management In The Use Of Information Technology By Commercial Banks</td>
</tr>
<tr>
<td>Implementation of Good Corporate Governance For Commercial Banks</td>
<td>OJK Regulation No. 55/POJK.03/2016 dated 9 December 2016 concerning Implementation of Good Corporate Governance For Commercial Banks</td>
</tr>
<tr>
<td>Commercial Bank Share Ownership</td>
<td>OJK Regulation No. 56/POJK.03/2016 dated 9 December 2016 concerning Commercial Bank Share Ownership</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>-------</td>
<td>-------------------</td>
</tr>
<tr>
<td>23</td>
<td>Change in Conventional Bank Business Activities Into Sharia Bank</td>
</tr>
<tr>
<td>24</td>
<td>Implementation of Risk Management For Sharia Commercial Banks and Sharia Business Units</td>
</tr>
<tr>
<td>26</td>
<td>Standard for Operating Information Technology for Rural Banks and Sharia Rural Banks</td>
</tr>
</tbody>
</table>

B. Banking Regulations That Are Still In Force

B.1. Regulations Concerning Institutional Arrangement

<p>| 1     | Commercial Bank Establishment | BI Regulation No. 11/1/PBI/2009 dated 27 January 2009 concerning Commercial Banks |
|       | Commercial Bank Branch Office Opening | BI Regulation No. 14/8/PBI/2012 dated 13 July 2012 concerning Commercial Bank Share Ownership |
|       | Commercial Bank Branch Office Closing | BI Regulation No. 14/26/PBI/2012 dated 27 December 2012 concerning Business Activities and Office Networks Based on Bank Core Capital, which has been converted to OJK Regulation No. 6/POJK.03/2016 concerning Business Activities and Office Networks Based On Bank Core Capital |
|       | Sharia Business Unit Opening  | BI Regulation No. 11/10/PBI/2009 dated 19 March 2009 concerning Sharia Business Units |
|       |                                 | BI Regulation No. 15/14/PBI/2013 dated 24 December 2013 concerning Amendment to BI Regulation No. 11/10/PBI/2009 concerning Sharia Business Units. It amends BI Regulation No. 11/10/PBI/2009 |</p>
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Sharia Commercial Bank Establishment</td>
</tr>
<tr>
<td></td>
<td>Sharia Commercial Bank Ownership</td>
</tr>
<tr>
<td></td>
<td>Sharia Commercial Bank Management</td>
</tr>
<tr>
<td></td>
<td>Sharia Commercial Bank Branch Office Opening</td>
</tr>
<tr>
<td></td>
<td>Commercial Bank Branch Office Closing</td>
</tr>
<tr>
<td></td>
<td>Rural Bank Establishment</td>
</tr>
<tr>
<td></td>
<td>– BI Regulation No. 8/26/PBI/2006 dated 8 November 2006 concerning Rural Banks</td>
</tr>
<tr>
<td></td>
<td>– OJK Regulation No. 20/POJK.03/2014 dated 21 November 2014 concerning Rural Banks</td>
</tr>
<tr>
<td></td>
<td>– OJK Regulation No. 44/POJK.03/2015 dated 29 December 2015 concerning Competency Certification For Members of Board of Directors and Members of Board of Commissioners of Rural Banks and Sharia Rural Banks</td>
</tr>
<tr>
<td></td>
<td>RB Ownership</td>
</tr>
<tr>
<td></td>
<td>RB Management and Human Resources</td>
</tr>
<tr>
<td></td>
<td>RB Branch Office Opening</td>
</tr>
<tr>
<td></td>
<td>RB Branch Office Closing</td>
</tr>
<tr>
<td></td>
<td>Sharia Rural Bank (SRB) Establishment</td>
</tr>
<tr>
<td></td>
<td>– BI Regulation No. 11/23/PBI/2009 dated 1 July 2009 concerning Sharia Rural Banks</td>
</tr>
<tr>
<td></td>
<td>– OJK Regulation No. 44/POJK.03/2015 dated 29 December 2015 concerning Competency Certification For Members of Board of Directors and Members of Board of Commissioners of Rural Banks and Sharia Rural Banks</td>
</tr>
<tr>
<td></td>
<td>SRB Ownership</td>
</tr>
<tr>
<td></td>
<td>SRB Management and Human Resources</td>
</tr>
<tr>
<td></td>
<td>SRB Branch Office Opening</td>
</tr>
<tr>
<td></td>
<td>SRB Branch Office Closing</td>
</tr>
<tr>
<td>5</td>
<td>Sole Ownership In Banks In Indonesian</td>
</tr>
<tr>
<td></td>
<td>– BI Regulation No. 14/24/PBI/2012 dated 26 December 2012 concerning Sole Ownership In Banks In Indonesia.</td>
</tr>
<tr>
<td>6</td>
<td>Commercial Bank Share Ownership</td>
</tr>
<tr>
<td></td>
<td>– BI Director Decree No. 32/50/KEP/DIR dated 14 May 1999 concerning Requirements and Procedure For Purchasing Commercial Bank Shares</td>
</tr>
<tr>
<td></td>
<td>– BI Regulation No. 14/8/PBI/2012 dated 13 July 2012 concerning Commercial Bank Share Ownership</td>
</tr>
<tr>
<td></td>
<td>– BI Circular Letter No. 15/4/DPNP dated 6 March 2013 concerning Commercial Bank Share Ownership</td>
</tr>
<tr>
<td></td>
<td>– OJK Regulation No. 56/POJK.03/2016 dated 9 December 2016 concerning Commercial Bank Share Ownership</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>-------</td>
<td>------------------</td>
</tr>
<tr>
<td>7</td>
<td>Fit and Proper Test For Main Parties In Financial Service Institutions</td>
</tr>
<tr>
<td></td>
<td>- BI Regulation No. 12/23/PBI/2010 dated 29 December 2010 concerning Fit and Proper Test</td>
</tr>
<tr>
<td></td>
<td>- BI Regulation No. 6/23/PBI/2004 dated 9 August 2004 concerning Rural Bank Fit and Proper Test</td>
</tr>
<tr>
<td></td>
<td>- BI Circular Letter No. 13/8/DPNP dated 28 March 2011 concerning Fit and Proper Test</td>
</tr>
<tr>
<td></td>
<td>- BI Regulation No. 14/6/PBI/2012 dated 18 June 2012 concerning Sharia Bank and Sharia Business Unit Fit and Proper Test</td>
</tr>
<tr>
<td></td>
<td>- BI Regulation No. 14/9/PBI/2012 dated 26 July 2012 concerning Rural Bank Fit and Proper Test</td>
</tr>
<tr>
<td></td>
<td>- BI Circular Letter No. 14/25/DPbS concerning Sharia Bank and Sharia Business Unit Fit and Proper Test</td>
</tr>
<tr>
<td></td>
<td>- BI Circular Letter No. 14/36/DKBU dated 21 December 2012 concerning Rural Bank Fit and Proper Test</td>
</tr>
<tr>
<td></td>
<td>- BI Circular Letter No. 15/45/DPNP dated 18 November 2013 concerning Amendment to BI Circular Letter No. 14/36/DKBU</td>
</tr>
<tr>
<td></td>
<td>- OJK Regulation No. 27/POJK.03/2016 dated 27 July 2016 concerning Fit and Proper Test For Main Parties In Financial Service Institutions</td>
</tr>
<tr>
<td>8</td>
<td>Commercial Bank and Rural Bank Merger, Consolidation, and Acquisition</td>
</tr>
<tr>
<td></td>
<td>- BI Director Decree No. 32/51/KEP/DIR dated 14 May 1999 concerning Requirements and Procedures for Commercial Bank Merger, Consolidation, and Acquisition</td>
</tr>
<tr>
<td></td>
<td>- BI Director Decree No. 32/52/KEP/DIR dated 14 May 1999 concerning Requirements and Procedures for Rural Bank Merger, Consolidation, and Acquisition</td>
</tr>
<tr>
<td>9</td>
<td>Change of Commercial Bank Business License to Rural Bank Business License In The Context Of Consolidation</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>10 Incentives In The Context Of Bank Consolidation</strong></td>
<td>- BI Regulation No. 8/17/PBI/2006 concerning Incentives In The Context Of Bank Consolidation</td>
</tr>
<tr>
<td></td>
<td>- BI Regulation No. 9/12/PBI/2007 dated 21 September 2007 concerning Amendment To BI Regulation No. 8/17/PBI/2006 concerning Incentives In The Context Of Bank Consolidation</td>
</tr>
<tr>
<td></td>
<td>- BI Circular Letter No. 9/20/DPNP dated 24 September 2007 concerning Incentives In The Context Of Bank Consolidation</td>
</tr>
<tr>
<td><strong>11 Foreign Bank Branch Office and Foreign Bank Representative Office Opening</strong></td>
<td>- BI Director Decree No. 32/37/KEP/DIR dated 12 May 1999 concerning Requirements and Procedures For Opening Of Branch Office, SubBranch Office, and Representative Office of Banks Domiciled Overseas</td>
</tr>
<tr>
<td><strong>12 Change in Bank Name and/or Logo</strong></td>
<td>- BI Regulation No. 11/3/PBI/2009 dated 29 January 2009 concerning Sharia Commercial Banks</td>
</tr>
<tr>
<td></td>
<td>- BI Regulation No. 11/1/PBI/2009 dated 27 January 2009 concerning Commercial Banks</td>
</tr>
<tr>
<td><strong>13 Commercial Bank Liquidation</strong></td>
<td>- BI Director Decree No. 32/53/KEP/DIR concerning Procedures For Commercial Bank Revocation of Business License, Dissolution, and Liquidation</td>
</tr>
<tr>
<td></td>
<td>- Government Regulation No. 25 of 1999 dated 3 May 1999 concerning Bank Business License Revocation, Dissolution, and Liquidation</td>
</tr>
<tr>
<td></td>
<td>- Act No. 24 of 2004 concerning LPS (Indonesia Deposit Insurance Corporation)</td>
</tr>
<tr>
<td></td>
<td>- BI Regulation No. 11/1/PBI/2009 dated 27 January 2009 concerning Commercial Banks</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>-------</td>
<td>------------------</td>
</tr>
<tr>
<td>14</td>
<td>RB liquidation and business license revocation</td>
</tr>
<tr>
<td></td>
<td>BI Director Decree No. 32/54/KEP/DIR dated 14 May 1999 concerning Procedures for RB Business License Revocation, Dissolution, and Liquidation</td>
</tr>
<tr>
<td></td>
<td>BI Regulation No. 11/20/PBI/2009 dated 4 June 2009 concerning Handling Follow Up On Rural Bank Under Special Supervision</td>
</tr>
<tr>
<td>15</td>
<td>Change In Conventional Bank Business Activities To Sharia Bank</td>
</tr>
<tr>
<td></td>
<td>BI Regulation No. 11/15/PBI/2009 dated 29 April 2009 concerning Change In Conventional Business Activities To Sharia Bank</td>
</tr>
<tr>
<td></td>
<td>OJK Regulation No. 64/POJK.03/2016 concerning Change In Conventional Bank Business Activities To Sharia Bank</td>
</tr>
</tbody>
</table>

### B.2. Regulations Concerning Bank Business Activities, Support Activities, and Services

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business Activities and Office Networks Based On Commercial Bank Core Capital</td>
</tr>
<tr>
<td></td>
<td>BI Regulation No. 14/26/PBI/2012 dated 27 December 2012 concerning Business Activities and Office Networks Based On Bank Core Capital</td>
</tr>
<tr>
<td></td>
<td>OJK Regulation No. 6/POJK.03/2016 dated 27 January 2016 concerning Business Activities and Office Networks Based On Bank Core Capital</td>
</tr>
<tr>
<td>2</td>
<td>RB Business Activities and Office Network Areas Based On Core Capital</td>
</tr>
<tr>
<td></td>
<td>OJK Regulation No. 12/POJK.03/2016 dated 17 February 2016 concerning RB Business Activities and Office Network Areas Based On Core Capital</td>
</tr>
<tr>
<td>3</td>
<td>Foreign Currency Trader Activities for Banks</td>
</tr>
<tr>
<td></td>
<td>BI Regulation No. 12/22/PBI/2010 dated 22 December 2010 concerning Foreign Currency Trader</td>
</tr>
<tr>
<td></td>
<td>BI Circular Letter No. 15/27/DPNP dated 19 July 2013 concerning Requirements for Commercial Banks To Conduct Business Activities In Foreign Currencies. It revokes BI Circular Letter No. 28/4/UPPB</td>
</tr>
<tr>
<td>6</td>
<td>Foreign Currency Against Rupiah Transactions</td>
</tr>
<tr>
<td></td>
<td>BI Regulation No. 16/17/PBI/2014 dated 17 September 2014 concerning Foreign Currency Against Rupiah Transactions</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
– BI Regulation No. 9/2/PBI/2007 dated 5 March 2007 concerning Commercial Bank Daily Reports  
| 8 Deposits                                 | – Act No. 10 of 1998 concerning Banking  
– OJK Regulation No. 10/POJK.03/2015 concerning Issuance of Certificates of Deposit By Banks |
| 9 Non-Office Based Financial Services In The Context Of Financial Inclusion (Laku Pandai) | OJK Regulation No. 19/POJK.03/2014 concerning Non-Office Based Financial Services In The Context Of Financial Inclusion (Laku Pandai) |
| 10 Credit Restructuring                    | – BI Regulation No. 14/15/PBI/2012 concerning Commercial Bank Asset Quality  
| 11 Bank Business Activity In The Form Of Custodianship With Management (Trust) | – OJK Regulation No. 27/POJK.03/2015 dated 11 December 2015 concerning Bank Business Activity In The Form Of Custodianship With Management (Trust)  
– OJK Regulation No. 25/POJK.03/2016 dated 15 July 2016 concerning Amendment to OJK Regulation No. 27/POJK.03/2015 concerning Bank Business Activity In The Form Of Custodianship With Management (Trust) |
<p>| 12 Guidelines For Development of Bank Credit Policies | BI Director Decree No. 27/162/KEP/DIR dated 31 March 1995 concerning Obligation To Develop and Implement Bank Credit Policies For Commercial Banks |
| 13 Standard for Operating Information Technology for Rural Banks and Sharia Rural Banks | OJK Regulation No. 75/POJK.03/2016 dated 28 December 2016 concerning Standard for Operating Information Technology for Rural Banks and Sharia Rural Banks |</p>
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
</table>
| 14 Sharia Bank and Sharia Business Unit Products and Activities | − Act No. 21 of 2008 concerning Sharia Banking  
− BI Regulation No. 10/17/PBI/2008 dated 25 September 2008 concerning Sharia Bank and Sharia Business Unit Products  
− OJK Regulation No. 24/POJK.03/2015 dated 8 December 2015 concerning Sharia Bank and Sharia Business Unit Products and Activities  
− OJK Circular Letter No. 36/SEOJK.03/2015 dated 21 December 2015 concerning Sharia Commercial Bank and Sharia Business Unit Products and Activities  
− OJK Circular Letter No. 37/SEOJK.03/2015 dated 21 December 2015 concerning Sharia Rural Bank Products and Activities |
| 15 Sharia Principles In Sharia Bank Fund Accumulation and Fund Channeling Activities, as well as Provision of Services | − Act No. 21 of 2008 concerning Sharia Banking  
− BI Regulation No. 9/19/PBI/2007 dated 17 December 2007 concerning Implementation of Sharia Principles In Sharia Bank Fund Accumulation and Fund Channeling Activities, As Well As Provision of Services  
− BI Regulation No. 10/16/PBI/2008 dated 25 September 2008 concerning Amendment To BI Regulation No. 9/19/PBI/2007 concerning Implementation of Sharia Principles In Sharia Bank Fund Accumulation and Fund Channeling Activities, As Well As Provision of Services |
| B.3. Regulations Concerning Prudential Principle | |
| 1 Commercial Bank Core Capital | − BI Regulation No. 7/15/PBI/2005 concerning Commercial Bank Core Capital Minimum Amount  
− BI Regulation No. 9/16/PBI/2007 dated 3 December 2007 concerning Amendment To BI Regulation No. 7/15/PBI/2005 concerning Commercial Bank Core Capital Minimum Amount  
− BI Regulation No. 14/26/PBI/2012 dated 27 December 2012 concerning Business Activities and Office Networks Based On Bank Core Capital  
− BI Circular Letter No. 15/6/DPNP dated 8 March 2013 concerning Commercial Bank Business Activities Based On Core Capital. It revokes BI Circular Letter No. 11/35/DPNP  
− BI Circular Letter No. 15/7/DPNP dated 8 March 2013 concerning Commercial Bank Office Network Opening Based On Core Capital |
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>BI Circular Letter No. 15/8/DPbS dated 27 March 2013 concerning SCB and SBU Office Network Opening Based On Core Capital</strong></td>
</tr>
<tr>
<td></td>
<td><strong>OJK Regulation No. 6/POJK.03/2016 dated 27 January 2016 concerning Business Activities and Office Networks Based On Bank Core Capital</strong></td>
</tr>
<tr>
<td>2</td>
<td>RB Core Capital</td>
</tr>
<tr>
<td></td>
<td><strong>BI Director Decree No. 26/20/KEP/DIR dated 29 May 1993 concerning Minimum Capital Adequacy Requirement is revoked and declared to be no longer applicable for RBs</strong></td>
</tr>
<tr>
<td></td>
<td><strong>BI Regulation No. 8/18/PBI/2006 dated 5 October 2006 concerning Rural Bank Minimum Capital Adequacy Requirement</strong></td>
</tr>
<tr>
<td></td>
<td><strong>OJK Regulation No. 5/POJK.03/2015 concerning Rural Bank Minimum Capital Adequacy Requirement and Fulfillment of Minimum Core Capital</strong></td>
</tr>
<tr>
<td>3</td>
<td>Conventional Commercial Bank Minimum Capital Adequacy Requirement (MCAR)</td>
</tr>
<tr>
<td></td>
<td><strong>BI Circular Letter No. 9/31/DPNP dated 12 December 2007 concerning Guidelines For The Use of Internal Model In The Calculation Of Commercial Bank Minimum Capital Adequacy Requirement By Taking Into Account Market Risk</strong></td>
</tr>
<tr>
<td></td>
<td><strong>BI Circular Letter No. 9/33/DPNP dated 18 December 2007 concerning Guidelines For The Use of Internal Model In The Calculation Of Commercial Bank Minimum Capital Adequacy Requirement By Taking Into Account Market Risk</strong></td>
</tr>
<tr>
<td></td>
<td><strong>BI Regulation No. 10/15/PBI/2008 dated 24 September 2008 concerning Commercial Bank Minimum Capital Adequacy Requirement</strong></td>
</tr>
<tr>
<td></td>
<td><strong>BI Regulation No. 14/18/PBI/2012 dated 28 November 2012 concerning Minimum Capital Adequacy Requirement</strong></td>
</tr>
<tr>
<td></td>
<td><strong>BI Regulation No. 15/12/PBI/2013 dated 12 December 2013 concerning Commercial Bank Minimum Capital Adequacy Requirement. It revokes Article 7 paragraph (1) of BI Regulation</strong></td>
</tr>
<tr>
<td>Topic</td>
<td>Regulation Number</td>
</tr>
<tr>
<td>-------</td>
<td>-------------------</td>
</tr>
<tr>
<td><strong>Determination of Systemically Important Bank and Capital Surcharge</strong>&lt;br&gt;8</td>
<td>OJK Regulation No. 46/POJK.03/2015 concerning Determination of Systemically Important Banks and Capital Surcharge</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>10 Rural Bank Legal Lending Limit</td>
<td>BI Regulation No. 11/13/PBI/2009 dated 17 April 2009 concerning RB Legal Lending Limit</td>
</tr>
<tr>
<td>11 Sharia Rural Bank Maximum Limit For Fund Channeling</td>
<td>BI Regulation No. 13/5/PBI/2011 dated 24 January 2011 concerning Sharia Rural Bank Maximum Limit For Fund Channeling</td>
</tr>
</tbody>
</table>
| 12 Commercial Bank Asset Quality                                    | − BI Regulation No. 14/15/PBI/2012 Assessment of Commercial Bank Asset Quality  
| 13 RB Earning Asset Quality                                         | − BI Regulation No. 8/19/PBI/2006 dated 5 October 2006 concerning Rural Bank Earning Asset Quality and Establishment of Provision for Earning Asset Write-Off  
                          − BI Regulation No. 13/26/PBI/2011 dated 28 December 2011 concerning Amendment To BI Regulation No. 8/19/PBI/2006 concerning Rural Bank Earning Asset Quality and Establishment of Provision for Earning Asset Write-Off |
| 14 Sharia Commercial Bank and Sharia Business Unit Asset Quality     | OJK Regulation No. 16/POJK.03/2014 dated 18 November 2014 concerning Assessment of Sharia Commercial Bank and Sharia Business Unit Asset Quality |
| 15 SRB Asset Quality                                                 | BI Regulation No. 13/14/PBI/2011 dated 24 March 2011 concerning Asset Quality Assessment For Sharia Rural Banks                                         |
| 16 Commercial Bank Provision for Earning Asset Write-Off            | − BI Regulation No. 14/15/PBI/2012 concerning Assessment of Commercial Bank Asset Quality  
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 Conventional RB Provision For Earning Asset Write-Off</td>
<td>BI Regulation No. 8/19/PBI/2006 dated 5 October 2006 concerning Rural Bank Earning Asset Quality and Establishment of Provision for Earning Asset Write-Off</td>
</tr>
<tr>
<td></td>
<td>BI Regulation No. 13/26/PBI/2011 dated 28 December 2011 concerning Amendment To BI Regulation No. 8/19/PBI/2006 concerning Rural Bank Earning Asset Quality and Establishment of Provision for Earning Asset Write-Off</td>
</tr>
<tr>
<td>18 Sharia Commercial Bank and Sharia Business Unit Provision for Asset Write-Off</td>
<td>OJK Regulation No. 16/POJK.03/2014 dated 18 November 2014 concerning Assessment of Sharia Commercial Bank and Sharia Business Unit Asset Quality</td>
</tr>
<tr>
<td>19 SRB Provision for Asset Write-Off</td>
<td>BI Regulation No. 13/14/PBI/2011 dated 24 March 2011 concerning Asset Quality Assessment For Sharia Rural Banks</td>
</tr>
<tr>
<td></td>
<td>BI Circular Letter No. 14/20/DPNP dated 27 June 2012 concerning Prudential Principle For Commercial Banks That Outsource Part Of The Implementation of Works To Other Parties</td>
</tr>
<tr>
<td></td>
<td>OJK Regulation No. 9/POJK.03/2016 dated 27 January 2016 concerning Prudential Principle For Commercial Banks That Outsource Part Of The Implementation of Works To Other Parties</td>
</tr>
<tr>
<td>24 Prudential Principle In Asset Securitization Activities</td>
<td>BI Regulation No. 7/4/PBI/2005 dated 20 January 2005 concerning Prudential Principle In Asset Securitization Activities For Commercial Banks</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
  – OJK Regulation No. 7/POJK.03/2016 dated 27 January 2016 concerning Prudential Principle In The Conduct Of Structured Product Activities For Commercial Banks |
  – BI Regulation No. 8/14/PBI/2006 dated 5 October 2006 concerning Amendment To BI Regulation No. 8/4/PBI/2006 dated 30 January 2006 concerning Implementation of Good Corporate Governance For Commercial Banks  
  – BI Circular Letter No. 15/15/DPNP dated 29 April 2013 concerning Implementation of Good Corporate Governance for Commercial Banks.  
  – OJK Regulation No. 45/POJK.03/2015 dated 28 December 2015 concerning Implementatin of Good Corporate Governance in The Provision Of Remunerations for Commercial Banks  
  – OJK Regulation No. 55/POJK.03/2016 dated 9 December 2016 concerning Implementation of Good Corporate Governance For Commercial Banks |
<p>| <strong>28</strong> Implementation of GCG For Sharia Commercial Banks and Sharia Business Units | BI Regulation No. 11/33/PBI/2009 dated 7 December 2009 concerning Implementation of Good Corporate Governance For Sharia Commercial Banks and Sharia Business units |
| <strong>29</strong> Implementation of Integrated Good Corporate Governance for Rural Banks | OJK Regulation No. 4/POJK.03/2015 concerning Implementation of Integrated Good Corporate Governance for Rural Banks |</p>
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- BI Circular Letter No. 5/21/DPNP dated 29 September 2003 concerning Implementation of Risk Management For Commercial Banks</td>
</tr>
<tr>
<td></td>
<td>- OJK Regulation No. 18/POJK.03/2016 dated 22 March 2016 concerning Implementation of Risk Management For Commercial Banks</td>
</tr>
<tr>
<td></td>
<td>- OJK Regulation No. 65/POJK.03/2016 dated 28 December 2016 concerning Implementation of Risk Management For Sharia Commercial Banks and Sharia Business Units</td>
</tr>
<tr>
<td>34 Implementation of Risk Management For Rural Banks</td>
<td>OJK Regulation No. 13/POJK.03/2015 concerning Implementation of Risk Management For Rural Banks</td>
</tr>
<tr>
<td>36 Implementation of Risk Management in The Use of Information Technology</td>
<td>- BI Circular Letter No. 6/18/DPNP dated 20 April 2004 concerning Implementation of Risk Management in Service Provision Activities Through Internet (Internet Banking)</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Exercises Control Over Subsidiary Companies</td>
<td></td>
</tr>
<tr>
<td>Implementation of Risk Management at Banks That Extend Credits or</td>
<td>BI Circular Letter No. 15/40/DKMP dated 24 September 2013 concerning Implementation of Risk Management at Banks That Extend Credits or Financing For Property Ownership, Property-Backed Consumption Credits or Financing, and Motor Vehicle Credits or Financing. It revokes BI Circular Letter Numbers 14/10/DPNP and No.14/33/DPbS.</td>
</tr>
<tr>
<td>Financing For Property Ownership, Property-Backed Consumption</td>
<td></td>
</tr>
<tr>
<td>Credits or Financing, and Motor Vehicle Credits or Financing</td>
<td></td>
</tr>
<tr>
<td>Risk Management Certification For Commercial Bank Managers and</td>
<td>BI Regulation No. 11/19/PBI/2009 dated 4 June 2009 concerning Risk Management Certification For Commercial Bank Managers and Officers</td>
</tr>
<tr>
<td>Officers</td>
<td>BI Regulation No. 12/7/PBI/2010 dated 19 April 2010 concerning Amendment to BI Regulation No. 11/19/PBI/2009 dated 4 June 2009 concerning Risk Management Certification For Commercial Bank Managers and Officers</td>
</tr>
<tr>
<td>Funding of Terrorism Program for Commercial Banks</td>
<td>BI Circular Letter No.15/21/DPNP dated 14 June 2013 concerning Implementation of Anti Money Laundering and Prevention of The Funding of Terrorism Program for Commercial Banks. It revokes BI Circular Letter No.11/31/DPNP</td>
</tr>
<tr>
<td>Implementation of Anti Money Laundering and Prevention of The</td>
<td>BI Regulation No. 12/20/PBI/2010 dated 4 October 2010 concerning Implementation of Anti Money Laundering (AML) and Prevention Of The Funding of Terrorism (PFT) Program for RBs and SRBs</td>
</tr>
<tr>
<td>Funding of Terrorism Program for RBs and SRBs</td>
<td></td>
</tr>
<tr>
<td>Utilization of Foreign Workers and Transfer of Knowledge Program in</td>
<td>BI Regulation No. 9/7/PBI/2007 dated 6 June 2007 concerning Utilization of Foreign Workers and Transfer of Knowledge Program in Banking Sector</td>
</tr>
<tr>
<td>Banking Sector</td>
<td></td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| 43 Implementation of Risk Management At Banks That Conduct Activities of Marketing Cooperation With Insurance Companies (Bancassurance) | BI Circular Letter No. 6/43/DPNP dated 7 October 2004 concerning Implementation of Risk Management At Banks That Conduct Marketing Cooperation With Insurance Companies (Bancassurance)  
BI Circular Letter No. 12/35/DPNP dated 23 December 2010 concerning Implementation of Risk Management At Banks That Conduct Activities of Marketing Cooperation With Insurance Companies (Bancassurance) |
| 44 Implementation of Risk Management On Bank Activities Related To Mutual Funds | BI Circular Letter No. 7/19/DPNP dated 14 June 2005 concerning Implementation of Risk Management at Banks That Conduct Activities Related To Mutual Funds  
BI Circular Letter No. 11/36/DPNP dated 31 December 2009 concerning Amendment to BI Circular Letter No. 7/19/DPNP dated 14 June 2005 concerning Implementation of Risk Management at Banks That Conduct Activities Related To Mutual Funds |
OJK Regulation No. 57/POJK.03/2016 dated 9 December 2016 concerning Implementation of Risk Management At Commercial Banks That Provide Prime Customer Service |
OJK Regulation No. 12/POJK.03/2015 concerning Prudential Stipulation In The Context Of National Economic Stimulus for Sharia Commercial Banks and Sharia Business Units |
| 47 Requirement To Meet Liquidity Coverage Ratio For Commercial Banks | OJK Regulation No. 42/POJK.03/2015 dated 23 December 2015 concerning Requirement To Meet Liquidity Coverage Ratio For Commercial Banks |

B.4. Regulations Concerning Reports and Accounting Standards

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
</table>
| 1 Transparency of Bank Financial Condition | BI Regulation No. 3/22/PBI/2001 dated 13 December 2001 concerning Transparency of Bank Financial Condition  
BI Regulation No. 7/50/PBI/2005 dated 29 November 2005 concerning Amendment To BI |
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency of SRB Financial Condition</td>
<td>BI Regulation No. 7/47/PBI/2005 dated 14 November 2005 concerning Transparency of Sharia Rural Bank Financial Condition</td>
</tr>
<tr>
<td>Indonesian Sharia Banking Accounting Guidelines (ISBAG) for Sharia Banks and Sharia Business Units</td>
<td>BI Circular Letter No. 15/26/DPBs dated 10 July 2013 concerning Implementation of Indonesian Sharia Banking Accounting Guidelines. It revokes BI Circular Letter No. 5/26/BPS</td>
</tr>
<tr>
<td>TOPIC</td>
<td>REGULATION NUMBER</td>
</tr>
<tr>
<td>-------</td>
<td>------------------</td>
</tr>
</tbody>
</table>
- BI Circular Letter No. 13/15/DPbS dated 30 May 2011 concerning Sharia Rural Bank Monthly Reports  
- BI Regulation No. 13/19/PBI/2011 dated 22 September 2011 concerning Amendment to BI Regulation No. 8/12/PBI/2006 concerning Commercial Bank Periodic Reports  
- BI Circular Letter No. 14/8/DPNP dated 6 March 2012 concerning Second Amendment to BI Circular Letter No. 8/15/DPNP dated 12 July 2006 concerning Commercial Bank Periodic Reports  
- BI Regulation No. 14/12/PBI/2012 dated 15 October 2012 concerning Commercial Bank Head Office Reports  
- BI Circular Letter No. 14/31/DPNP dated 31 October 2012 concerning Commercial Bank Head Office Reports  
- BI Circular Letter No. 15/14/DPNP dated 24 April 2013 concerning Third Amendment to BI Circular Letter No. 8/15/DPNP dated 12 July 2006 concerning Commercial Bank Periodic Report. It revokes Forms 9a and 14 of BI Circular Letter No. 8/19/DPNP  
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
</table>
                           - BI Circular Letter No. 13/15/DPbS dated 30 May 2011 concerning Sharia Rural Bank Monthly Reports  
                           - BI Circular Letter No. 15/39/DPNP dated 17 September 2013 concerning Amendment to BI Circular Letter No. 15/20/DKBU dated 22 May 2013 concerning Rural Bank Monthly Reports. It revokes provisions in Numbers VII and VIII A of BI Circular Letter No. 15/20/DKBU  
                           - BI Circular Letter No. 15/43/DPNP dated 21 October 2013 concerning Amendment to BI Circular Letter No. 15/29/DKBU dated 31 July 2013 concerning Rural Bank Annual Reports and Condensed Financial Statement |

**B.5. Regulations Concerning Bank Supervision**

1. **Bank Business Plan**
   - BI Regulation No. 12/21/PBI/2010 dated 19 October 2010 concerning Bank Business Plan  
   - OJK Regulation No. 5/POJK.03/2016 dated 27 January 2016 concerning Bank Business Plan

2. **Rural Bank and Sharia Rural Bank Business Plan**
   - OJK Regulation No. 37/POJK.03/2016 dated 30 November 2016 concerning Rural Bank and Sharia Rural Bank Business Plan

3. **Assessment of Commercial Bank Soundness Level**
   - BI Regulation No. 13/1/PBI/2011 dated 5 January 2011 concerning Assessment of Commercial Bank Soundness Level  
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
</table>
### B.6. Regulations Concerning Consumer Education and Protection

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial Literacy and Inclusion</td>
<td>OJK Regulation No. 76/POJK.07/2016 dated 28 December 2016 concerning Enhancement of Financial Literacy and Inclusion in The Financial Services Sector for Consumers and/or Public</td>
</tr>
<tr>
<td>5. Confidentiality of Consumer Personal Data and/or Information</td>
<td>OJK Circular Letter No. 14/SEOJK.07/2014 dated 20 August 2014 concerning Confidentiality of Consumer Personal Data and/or Information</td>
</tr>
</tbody>
</table>

### B.7. Other Regulations

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>REGULATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rating Institutions and Ratings Acknowledged by BI</td>
<td>BI Circular Letter No. 13/31/DPNP dated 22 December 2012 concerning Rating Institutions and Ratings Acknowledged by BI</td>
</tr>
<tr>
<td>2. Certification Institutions for RB</td>
<td>BI Circular Letter No. 6/34/DPBPR concerning Certification Institutions for RB</td>
</tr>
<tr>
<td></td>
<td>BI Regulation No. 2/19/PBI/2000 dated 7 September 2000 concerning Requirements and Procedure for Giving Written Orders or Permits For Disclosing Bank Secrecy</td>
</tr>
<tr>
<td>4. Authority On Criminal Investigations in Financial Services Sector</td>
<td>OJK Regulation No. 22/POJK.01/2015 dated 28 December 2015 concerning Criminal Investigations in Financial Services Sector</td>
</tr>
</tbody>
</table>
OTHER MATTERS
### Other Matters
#### 1. Popular Terminologies In Banking Industry

<table>
<thead>
<tr>
<th>TERMINOLOGY</th>
<th>EXPLANATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral</td>
<td>A guarantee handed over by a debtor to a bank for the purpose of credit or financing facility extension.</td>
</tr>
<tr>
<td>Automated Teller Machine (ATM)</td>
<td>Machines operated with a computer system that are activated by the use of bank coded magnetic cards. Through the use of the machines, customers can save money, withdraw cash, transfer funds between accounts, and other routine transactions.</td>
</tr>
<tr>
<td>Bilyet</td>
<td>Forms, notes and other written evidences that can prove the validity of transactions, which contain explanations or instructions to pay.</td>
</tr>
<tr>
<td>Custodian Bank</td>
<td>A bank that acts as custodian. A custodian is a party that provides safe keeping services of securities and other properties related to securities as well as other services, including receiving dividends, interests, and other rights as well as settling security transactions and representing account holders which are its customers.</td>
</tr>
<tr>
<td>Systemic Bank</td>
<td>A bank which, due to the sizes of its assets, capital, and obligations; width of networks or complexity of transactions in banking services; as well as linkages with other financial sectors, may cause failures on the part of some or all other banks or the financial services sector, both operationally and financially, if the bank experiences a disruption or failure.</td>
</tr>
<tr>
<td>Commercial Bank</td>
<td>A bank that conducts business activities in the conventional manner and/or based on sharia principles and in conducting its activities provides services in payment flows.</td>
</tr>
<tr>
<td>Bancassurance</td>
<td>Cooperation activities between a bank and an insurance company for the purpose of marketing insurance products thorough the bank.</td>
</tr>
<tr>
<td>Beneficiary</td>
<td>A party that receives benefits from properties/funds</td>
</tr>
<tr>
<td>BI-Scriptless Securities Settlement System (BI-SSSS)</td>
<td>A facility for transacting with BI, including its administration and the administration of securities electronically, in which the participants, operators, and BI-RTGS system are directly connected with it.</td>
</tr>
<tr>
<td>Capital Conservation Buffer</td>
<td>An additional capital that functions as a buffer at the occurrence of losses during crisis period.</td>
</tr>
<tr>
<td>Check (Cheque)</td>
<td>A written instruction from a customer to a bank for the withdrawal of a certain amount of funds to be paid to the customer or the bearer.</td>
</tr>
<tr>
<td>Countercyclical Buffer</td>
<td>An additional capital that functions as an anticipative measure against losses in the event of excessive banking credit growth which has the potential of disrupting the financial system stability.</td>
</tr>
<tr>
<td>TERMINOLOGY</td>
<td>EXPLANATION</td>
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</tr>
<tr>
<td>Capital Surcharge for Domestic Systemically Important Bank (D-SIB)</td>
<td>An additional capital which functions to reduce negative impact on the financial system stability and the economy in the event of a failure on the part of a bank that has systemic impact thorough a step up in the bank capacity to absorb losses.</td>
</tr>
<tr>
<td>Customer Due Dilligence (CDD)</td>
<td>Activities in the forms of identification, verification, and monitoring conducted by a bank to ensure that customers' transactions are in line with the customers' profiles. CDD is required to be performed when: (i) conducting business relationship with a candidate customer; (ii) conducting business relationship with a Walk In Customer (WIC); (iii) a bank is doubtful about the validity of information provided by a customer, an authorized party, and/or beneficial owner; or (iv) there is an unusual financial transaction that is related to money laundering and/or the funding of terrorism.</td>
</tr>
<tr>
<td>National Black List</td>
<td>A list of sets of Individual Bank Black List in banks in Indonesian which data originates from the National Black List Management Office (KPDHN) available for banks' access.</td>
</tr>
<tr>
<td>List of Persons Who Do Not Pass</td>
<td>A list administered by OJK containing parties who receive the predicate of not passing the fit and proper test who are shareholders, controlling shareholder, members of board of commissioners, members of board of director, and executive officers.</td>
</tr>
<tr>
<td>Term Deposit</td>
<td>A deposit which withdrawal may only be made at a certain time based on the agreement between the depositor and bank (time deposit).</td>
</tr>
<tr>
<td>Financial Education</td>
<td>A series of processes or activities for enhancing Financial Literacy.</td>
</tr>
<tr>
<td>Enhanced Due Dilligence (EDD)</td>
<td>A deeper CDD action performed by a bank when conducting a relationship with a customer that is categorized as high risk, including Politically Exposed Person, against the possibility of money laundering and the funding of terrorism.</td>
</tr>
<tr>
<td>Intraday Liquidity Facility</td>
<td>Provisions of funds by BI to banks, in their position as participants of the BI Real Time Gross Settlement (BI-RTGS) system and participants of the BI National Clearing System (SKNBI), which are conducted through security repurchase agreements that have to be settled on the same day as the day of use.</td>
</tr>
<tr>
<td>Sharia Intraday Liquidity Facility</td>
<td>Provision of funding facility by BI to banks, in their position as participants of the BI-RTGS system and the SKNBI, which are conducted through security repurchase agreements that have to be settled on the same day as the day of use.</td>
</tr>
<tr>
<td>TERMINOLOGY</td>
<td>EXPLANATION</td>
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<td>-------------------------------------------------</td>
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</tr>
<tr>
<td>Emergency Financing Facility</td>
<td>A financing facility from BI, which is decided by KKSK (Committee for Financial System Stability) and guaranteed by the Government, to a bank experiencing liquidity problem, which has systemic impact and crisis potential but still meets solvency level.</td>
</tr>
<tr>
<td>Financing To Value (FTV)</td>
<td>Ratio between the value of Financing extended by a bank against the value of the collateral in the form of Property at the time of the extension of the Financing based on the latest evaluation result.</td>
</tr>
<tr>
<td>Giro Wajib Minimum / GWM (Statutory Reserve)</td>
<td>Minimum funds that should be maintained by a bank which amount is set by Bank Indonesia in a certain percentage of Third Party Funds.</td>
</tr>
<tr>
<td>High Quality Liquid Assets (HQLA)</td>
<td>High Quality Liquid Assets comprise cash and/or financial assets that can easily be converted into cash with a little or without a decrease in value for the purpose of meeting a bank's liquidity needs for the period of next 30 (thirty) days under stress scenarios.</td>
</tr>
<tr>
<td>Financial Inclusion</td>
<td>Availability of access at various institutions to financial products and services in accordance with the needs and capacities of the public for the purpose of enhancing public welfare.</td>
</tr>
<tr>
<td>Integrated Risk Rating (IRR)</td>
<td>An evaluation methodology on a financial conglomerate performed by integrated supervisors based on analyses of information obtained from individual supervisors and other information, by carefully observing the overall risks (group-wide).</td>
</tr>
<tr>
<td>Bank Guarantee</td>
<td>A written statement of capability provided by a bank to a party receiving the guarantee that the bank will pay a certain amount of money to the party at a certain time if the party, for whom the bank makes the guarantee, does not fulfil an obligation.</td>
</tr>
<tr>
<td>Debit Card</td>
<td>A card issued by a bank that can be used to pay for transactions and/or withdraw funds charged to the account of the concerned cardholder using PIN (Personal Identification Number).</td>
</tr>
<tr>
<td>Credit Card</td>
<td>Cards issued by a bank or credit card provider company giving the right to individual persons that meet certain requirements, whose names are specified on the cards, to use the cards as a payment instrument on credit basis for acquiring goods or services or for withdrawing cash within the credit limits set by the bank or credit card provider company.</td>
</tr>
<tr>
<td>Clearing</td>
<td>An exchange of drafts and/or Electronic Financial Data between clearing participants, both on behalf of the participants as well as on behalf of the participants' customers, which calculation results should be settled at a certain time.</td>
</tr>
<tr>
<td>TERMINOLOGY</td>
<td>EXPLANATION</td>
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</tr>
<tr>
<td>Know Your Financial Conglomerate (KYFC)</td>
<td>It is also called as Understanding The Conglomerate, which means a comprehensive understanding of the condition of the Financial Conglomerate in order to provide information and materials for analyses by Integrated Supervisors in the conduct of risk profile assessment and condition level of the Financial Conglomerate.</td>
</tr>
<tr>
<td>Financial Conglomerate</td>
<td>FSIs that belong within one group interlinked by ownership and/or control.</td>
</tr>
<tr>
<td>Consumers</td>
<td>Parties that place their funds and/or utilize services provided at a FSI, comprising among others customers at a Bank, investors at the Capital Market, policy holders at an insurance company, and participants in a Pension Fund, based on the legislations in the Financial Services Sector.</td>
</tr>
<tr>
<td>Safe Deposit Box</td>
<td>A rental service of deposit boxes for valuable properties or securities designed specifically from steel and placed in a vault that is strong, burglar proof, and fireproof, to ensure the security of the goods kept and to provide a sense of security to the users.</td>
</tr>
<tr>
<td>Non-Office Based Financial Services for the purpose of Financial Inclusion (Laku Pandai)</td>
<td>Activities in the provision of banking services and/or other financial services conducted not through office networks but through cooperation with other parties and require the support of information technology facilities.</td>
</tr>
<tr>
<td>Alternative Dispute Resolution Bodies</td>
<td>Independent bodies that provide out-of-court dispute settlement services</td>
</tr>
<tr>
<td>Indonesia Deposit Insurance Corporation/Lembaga Penjamin Simpanan (LPS)</td>
<td>A legal entity that operates guarantee activities on customers’ deposits.</td>
</tr>
<tr>
<td>Liquidity Coverage Ratio (LCR)</td>
<td>The comparison between High Quality Liquid Assets (HQLA) and net cash outflow during the next 30 (thirty) days under stress scenarios.</td>
</tr>
<tr>
<td>Financial Literacy</td>
<td>Knowledge, skills, and believe that influence attitude and behavior for enhancing decision making and financial management quality for the purpose of achieving welfare.</td>
</tr>
<tr>
<td>Market Conduct</td>
<td>The behavior of a FSI in designing, preparing, and conveying information, making offers, making agreements, on products and/or services as well as dispute settlements and complaint handling.</td>
</tr>
<tr>
<td>Net Stable Funding Ratio (NSFR)</td>
<td>Amount of available stable funding/ASF compared to amount of required stable funding/RSF. This standard is intended to reduce funding risk for a longer period of</td>
</tr>
<tr>
<td>TERMINOLOGY</td>
<td>EXPLANATION</td>
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</tr>
<tr>
<td>time by requiring a bank to fund its</td>
<td>adequate stable fund sources for the purpose of mitigating risk of funding pressure in the future.</td>
</tr>
<tr>
<td>activities with adequate stable fund</td>
<td></td>
</tr>
<tr>
<td>sources for the purpose of mitigating</td>
<td></td>
</tr>
<tr>
<td>risk of funding pressure in the future.</td>
<td></td>
</tr>
<tr>
<td>Financial Service Institutions</td>
<td>Financial Service Institutions comprise Commercial Banks, Rural Banks, Security Companies, Investment Advisors, Custodian Banks, Pension Funds, Insurance Companies, Re-insurance Companies, Financing Institutions, Pawn Companies, and Guarantee Companies, which conduct business activities both in the conventional manner as well as based on sharia principles.</td>
</tr>
<tr>
<td>Controlling Shareholder</td>
<td>A Controlling Shareholder can be a legal entity, an individual person, and/or a business group that owns shares or share equivalence in an FSI and has the capacity to exercise control over the FSI.</td>
</tr>
<tr>
<td>Compliance Based Supervision (CBS)</td>
<td>Monitoring of a bank’s compliance to regulations related to bank operation and management in the past with the objective of ensuring that the bank has operated and been managed properly and correctly based on prudential principle.</td>
</tr>
<tr>
<td>Risk Based Supervision (RBS)</td>
<td>Bank supervision that uses strategies and methodologies that are based on risks that enables bank supervisors to make early detection of significant risks and take appropriate and timely supervisory measures</td>
</tr>
<tr>
<td>Complaint</td>
<td>An expressions of consumer dissatisfaction due to a financial loss and/or potential loss for the Consumer, which is suspected to have been caused by an error or negligence on the part of the Financial Service Institution.</td>
</tr>
<tr>
<td>OJK Investigators</td>
<td>Investigating Officers of the Republic of Indonesia’s Police and/or Civil Servant Officers given special authority as Investigators assigned at OJK to conduct Criminal Investigations in the Financial Services Sector as referred to in Law of the Republic of Indonesia number 21 of 2011 on Financial Services Authority.</td>
</tr>
<tr>
<td>Investigation</td>
<td>A series of actions by OJK Investigators in subjects and according to ways stipulated in the Act to seek and gather proofs and with those proofs shed light on the crimes that have occurred in the financial services sector and use those proofs to find the suspects.</td>
</tr>
<tr>
<td>Standard Agreements</td>
<td>Written agreements set unilaterally by an FSI and contain standard clauses concerning the contents, formats, as well as method for preparing, and are used for making offers of products and/services to Consumers in large.</td>
</tr>
</tbody>
</table>
| Consumer Protection                  | Protection for the Consumers with the coverage of the FSI behavior. }
<table>
<thead>
<tr>
<th>TERMINOLOGY</th>
<th>EXPLANATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Parties of FSI</td>
<td>Parties that own, manage, exercise oversight, and/or have significant influence over the FSI.</td>
</tr>
<tr>
<td><strong>PIN (Personal Identification Number)</strong></td>
<td>A secret number given to a card holder (credit card, ATM card, debit card, etc.) which code may be given by the bank or financing company or self determined by the card holder.</td>
</tr>
<tr>
<td><strong>Politically Exposed Person (PEP)</strong></td>
<td>A person who is entrusted with public authority, such as among others State Organizers as referred to in the legislation that regulates State Organizers, and/or a person recorded as a member of a political party who has influence over the political party's policies and operation, who can be an Indonesian citizen or a foreign citizen.</td>
</tr>
<tr>
<td><strong>Net Foreign Currency Position</strong></td>
<td>A number that constitutes the sum of the absolute value for the amount of the net difference of assets and liabilities in the balance sheet for each foreign currency added by the net difference of claims and obligations, which are both commitments as well as contingencies in the off-balance sheet accounts, for each foreign currency where all are stated in rupiah.</td>
</tr>
<tr>
<td><strong>Sharia Principles</strong></td>
<td>Islamic law principles in banking activities based on fatwa issued by the institution that has the authority to set fatwa in the sharia field.</td>
</tr>
<tr>
<td><strong>Recovery Plan</strong></td>
<td>A Recovery Plan is a plan for resolving financial problems that may occur in a bank.</td>
</tr>
<tr>
<td><strong>Bank business plan</strong></td>
<td>A written document that describes bank’s short-term (one year) and medium-term (three years) business activity plan, including a plan for stepping up business performance as well as strategies for realizing the bank business plan in accordance with the set targets and time, by yet observing fulfilment of the prudential regulations and implementation of risk management.</td>
</tr>
<tr>
<td><strong>Certificate of Bank Indonesia (SBI)</strong></td>
<td>Securities denominated in rupiah issued by BI as short-term debt acknowledgements and constitute one of the devices of Open Market Operation.</td>
</tr>
<tr>
<td><strong>BI Certificate of Deposit (SDBI)</strong></td>
<td>Securities denominated in rupiah issued by BI as short-term debt acknowledgements, which can be traded only between banks and constitute one of the devices of Open Market Operation.</td>
</tr>
<tr>
<td><strong>Sharia Certificate of Bank Indonesia (SBIS)</strong></td>
<td>Short-term securities based on Sharia Principles, which are demoniated in rupiah and issued by BI.</td>
</tr>
<tr>
<td><strong>Certificate of Interbank Commodity Trade based on Sharia Principles (SiKA)</strong></td>
<td>Certificates issued based on Sharia Principles by a SCB or a SBU in Sharia Interbank Money Market transactions that are proofs of selling-buying with deferred payments on commodity trading at the bourse.</td>
</tr>
<tr>
<td><strong>State Security (SUN)</strong></td>
<td>Securities in the form of letters of indebtedness denominated in rupiah as well as foreign currencies, which interest and principal payments are guaranteed by the Unitary State of the Republic of Indonesia, in accordance with the validity periods.</td>
</tr>
<tr>
<td>TERMINOLOGY</td>
<td>EXPLANATION</td>
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<td>-------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>State Sharia Securities (SBSN)</td>
<td>State securities, which are issued based on sharia principles and denominated in rupiah as proofs of parts of participations in SBSN's assets.</td>
</tr>
<tr>
<td>Dispute</td>
<td>A dispute between a Consumer and a FSI on a fund placement activity by the Consumer in the FSI and/or utilization of service and/or a product of the FSI after undergoing a process of Complaint settlement by the FSI.</td>
</tr>
<tr>
<td>Settlor</td>
<td>A party who owns properties/funds and gives the authority for fund management to the Trustee</td>
</tr>
<tr>
<td>Debtor Information System (SID)</td>
<td>A system that provides debtor information resulting from the processing of reports from debtors, both individuals as well as legal entities, which is developed among others for supporting bank supervision tasks as well as supporting the operational activities of Non-Bank Financial Industry, particularly in relation to risk management implementation.</td>
</tr>
<tr>
<td>Bank Information System (SIP)</td>
<td>An information system used by bank supervisors in conducting analyses on bank condition, assessment of Bank Soundness Level by using the risk approach/Risk Based Bank Rating (RBBR), accelerates access to information on bank financial conditions, steps up the security and integrity of banking data and information.</td>
</tr>
<tr>
<td>Bank Indonesia National Clearing System (SKNBI)</td>
<td>The BI clearing system that covers debit clearings and credit clearings which final settlements are performed at national level.</td>
</tr>
<tr>
<td>Integrated Licensing and Registration System (Sistem Perizinan dan Registrasi Terintegrasi/SPRINT)</td>
<td>An application used for submitting various types of licensing processes at OJK from all actors of the financial services industry under the authority of OJK.</td>
</tr>
<tr>
<td>National Strategy for Financial Inclusion (SNKI)</td>
<td>National strategy incorporated in a document containing the vision, mission, targets, and policies on financial inclusion for the purpose of boosting economic growth, accelerating alleviation of poverty, narrowing the gaps between individuals and between regions for the purpose of creating the welfare of Indonesian public.</td>
</tr>
<tr>
<td>Crimes in Financial Services Sector</td>
<td>Any criminal offence/event as stipulated in the Acts that regulate the OJK, Banking, Sharia Banking, Capital Market, Pension Funds, Micro Finance Institutions, Insurance, Indonesian Export Financing Institutions, Social Security Organizing Agencies, Bank Indonesia as long as it is related with an intervention in the implementation of OJK's task in the regulating and supervising of banks, as well as the Act concerning Other Financial Services Institutions, as referred to in Law of the Republic of Indonesia number 21 of 2011 on Financial Services Authority</td>
</tr>
<tr>
<td>TERMINOLOGY</td>
<td>EXPLANATION</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Remittance</td>
<td>Services to send money from one account owner to the other account owner or the same account owner, from one city to another city or to the same city, in rupiah currency or foreign currencies.</td>
</tr>
<tr>
<td>Trustee</td>
<td>A bank as the party given the authority by the Settlor to manage properties/funds for the interest of the party who receives the benefits, namely the Beneficiary.</td>
</tr>
<tr>
<td>Walk In Customer (WIC)</td>
<td>Users of bank services who do not have accounts at the concerned bank, not including parties who receive orders from or are tasked by by bank customers to conduct transactions for the interest of the customers.</td>
</tr>
</tbody>
</table>
## 2. Types of agreements in sharia banking business activities

<table>
<thead>
<tr>
<th>AGREEMENT</th>
<th>EXPLANATION</th>
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</thead>
<tbody>
<tr>
<td><strong>Mudharabah</strong></td>
<td>A cooperation contract for a business between the first party (malik, shahibul mal, or a Sharia bank) that provides the entire capital and the second party (amil, mudharib, or Customer) that acts as the fund manager by sharing the business profits according to the deals set in the Contract, while the losses will be fully borne by the Sharia Bank, unless the second party commits a willful misconduct, negligence or violation against the agreement.</td>
</tr>
<tr>
<td><strong>Musyarakah</strong></td>
<td>A cooperation contract between two parties or more for a particular business where each party provides a portion of funds under the condition that the profits will be shared according to the agreement, while the losses will be borne in accordance with the portion of funds of the respective party.</td>
</tr>
<tr>
<td><strong>Murabahah</strong></td>
<td>A financing agreement for an item by stating the purchase price to the buyer and the buyer pays the item at a higher price as the agreed profit.</td>
</tr>
<tr>
<td><strong>Salam</strong></td>
<td>A financing agreement on an item by way of ordering and paying the price in advance under certain agreed conditions.</td>
</tr>
<tr>
<td><strong>Istishna’</strong></td>
<td>A financing agreement on goods by way ordering the manufacture of certain goods with certain criteria and conditions agreed between the party who places the order or buyer (mustashni’) and the seller or the party who manufactures the goods (shani’).</td>
</tr>
<tr>
<td><strong>Ijarah</strong></td>
<td>A fund provision agreement for the purpose of transferring the right to use or benefits of a certain good or service based on lease transaction, without being followed by a transfer of ownership of the good.</td>
</tr>
<tr>
<td><strong>Ijarah Muntahiyah Bit Tamlik (IMBT)</strong></td>
<td>A fund provision agreement for the purpose of transfeing the right to use or benefits of a certain good or service based on lease transaction, with the option of goods ownership transfer.</td>
</tr>
<tr>
<td><strong>Qardh</strong></td>
<td>A fund loan agreement to a Customer under the condition that the Customer is obliged to return the funds received at the agreed time.</td>
</tr>
<tr>
<td><strong>Wadi’ah</strong></td>
<td>An agreement for the custody of goods or money between the party who owns the goods or money and the entrusted party with the purpose of safe keeping, security, as well as keeping the goods or money intact.</td>
</tr>
</tbody>
</table>
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