INDONESIA FINANCIAL SERVICE AUTHORITY

VOLUME 2
MEI 2015
ISSN : 1858 - 4233

2015 INDONESIAN BANKING BOOKLET

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INDONESIAN BANKING BOOKLET 2015

INDONESIA FINANCIAL SERVICE AUTHORITY

Bank Licensing and Banking Information Departemen

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FOREWORD

This Indonesian Banking Booklet (BPI) 2015 constitutes media publications presenting brief information concerning Indonesian banking. It is expected that the readers of this booklet are able to obtain brief information on the direction of banking policies of 2015 and banking regulations issued by Financial Services Authority (*OJK)* Information presented on this Booklet among others are concerning duties and authorities, regulation and supervision of financial services activities in the banking sector, information on cooperation and coordination in the context of duties implementation of *OJK* and Bank Indonesia (BI), and also *OJK* policy direction and new regulations, among others: (a) application of integrated governance for financial conglomerates; (b) application of integrated risk management for financial conglomerates; (c) financial services without offices (virtual offices) in the context of inclusive finance (*Laku Pandai*); (d) Rural Banks (BPR); (e) capital adequacy ratio (CAR) of sharia banking; and (f) asset quality of sharia banks and sharia business units.

Banking regulations issued by the previous banking authority (BI) are still applicable provided that they are not in conflict and have not been replaced with new regulations issued by *OJK*. BPI can be downloaded through *OJK* website (www.*ojk*.go.id) and BI website (www.bi.go.id).

Regardless of the limited information available in this Indonesian Banking Booklet, we still expect that the information presented provides optimal benefits to the readers.

Jakarta, May 2015
Financial Services Authority
Bank Licensing and Banking Information Department

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OJK
OTORITAS
JASA
KEUANGAN

BAB 1

FINANCIAL SERVICES AUTHORITY

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I. FINANCIAL SERVICES AUTHORITY

Financial Services Authority (*OJK*) is an independent institution and free from interferences by other parties, which has functions, duties and authorities of regulating, supervising, auditing and Investigating in the banking sector as referred to in the Republic of Indonesia (RI) Law No. 21 concerning *OJK*.

A. *OJK* Vision and Mission

- **Vision**

  The Financial Services Authority (*OJK*) has a vision to become a trustworthy monitoring institution that oversees financial services industry, in order to protect the interests of consumers and public, and to be able to bring about the financial services industry into becoming a pillar of national economy with global competitiveness as well as capability to promote public prosperity.

- **Mission**

  1. To realize the convening of all activities in financial sector so that they are managed regularly, fairly, transparently, and accountably.
  2. To realize a sustainable and stable financial system.
  3. To protect the interests of consumers and public.

B. *OJK* Purpose

The Financial Services Authority (*OJK*) is established in a bid to ensure that the overall activities within the financial services sector are:

1. Implemented in an organized, fair, transparent and accountable manner;
2. Able to realize the financial system that grows in a sustainable and stable manner; and
3. Capable of protecting the interests of consumers and the society.

C. *OJK* Strategic Values

1. Integrity

   Integrity means to take measures objectively, fairly, and consistently according to code of conduct and organizational policy, which is carried out by paying high respect over honesty and commitment.

2. Professionalism
   Work responsibly based upon high competence so as to achieve the best work performance
3. Synergy
   Synergy means a productive and quality collaboration with all internal and external stakeholders.
4. Inclusive
   Inclusive means openness and acceptance on a diversity of stakeholders, as well as efforts in expanding opportunities for public to access financial industry.
5. Visionary
   Visionary means having broad knowledge and capability to look forward and think out of the box.

D. *OJK* Function and Duties

The main function of *OJK* is to promote and organize a system of regulations and supervisions that is integrated into the overall activities in the financial services sector. *OJK* performs its regulatory and supervisory duties over financial services activities in banking, capital markets, and non-bank financial industries sectors.

E. *OJK* Organization

OJK is led by a Board of Commissioners (BOC) consisting of 9 members appointed by a Presidential Decree and is collective and collegial with the following composition:

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 (BI), who is concurrently a member of the Board of Governors of BI; and

9. Ex-officio member from the Ministry of Finance, who is an Echelon I level official at the Ministry of Finance.

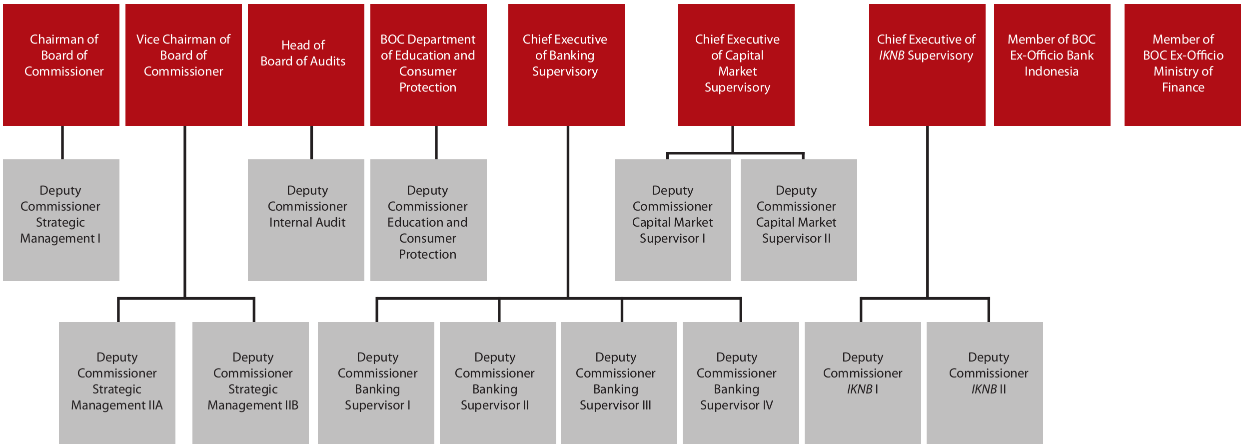
F. Coordination Mechanism between *BI* and *OJK*

Cooperation and coordination within the frame of duty implementation of *BI* and *OJK* to realize a stable and sustainable financial system with collaborative basic principles to enhance efficiency and effectiveness, to avoid duplication, to complete regulation in the financial sector and to ensure the smooth implementation of *BI* and *OJK* duties. The scope of cooperation and coordination to support the implementation of duties and authorities of *BI* and *OJK* in line with the Law concerning *BI* and *OJK*, includes:

1. The exchange of information on Financial Services Agencies and the management of reporting system and financing companies by *BI* and *OJK*;
2. *OJK* utilization of properties and documents owned and/or used by *BI*; and
3. The management of *BI* officials and employees transferred to or employed in *OJK*.

It has been agreed in 2014 that the coordination and cooperation between *BI* and *OJK* included: (i) Exchange of Information on the Results of Financial Services Agencies Supervision and Macro Surveillance; (ii) Bank Audits Implementation; (iii) Payment System; (iv) Joint Research and/or Study Development; (v) Exchange of Information on Indonesia's Stance on International Forums issues; (vi) Exchange of Information on Socialization and Education to Public; (vii) Management of *OJK*'s Account in *BI*; and (viii) Coordination of Domestic *BI* Representative Offices and *OJK* Regional Offices/Offices.

Figure 1.1: *OJK* Organizational Structure



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BAB 2

BANKING

II. BANKING

Banking is everything pertaining to banks, covering the institution, business activities, as well as the nature and process in implementing their business activities.

Indonesian Banking, in running its function is based on the economic democracy and applies prudential principle. The primary function of Indonesian banking is as the collector and distributor of public funds, and aims to support the implementation of national building in order to enhance the equalization of the development and its results, economic growth and national stability, towards the improvement of the people's standard of living.

Banking has a strategic position, namely, supporting the smooth operations of the payment system, implementing monetary policy and achieving financial system stability, hence, it requires a banking system that is sound, transparent and accountable.

A. Definition

1. Banks are business entities that collect public funds in the form of deposits and distribute them to the society in the form of loans/credits and other forms in order to improve the living standard of the people;
2. Conventional banks are banks that run their business operations conventionally and based on their types consist of Conventional Commercial Banks (CB) and Rural Banks (*BPR*);
3. Sharia Banks are banks that operate their business activities based on Sharia Principles and according to their types consist of Sharia Commercial Banks (*BUS)* and Sharia Rural Banks (*BPRS*);
4. Sharia Principles are Islamic legal principles in banking activities based *fatwa* (legal decision) issued by an institution that has the authority in the determination of fatwa in the field of sharia.

B. Bank Business Activities

1. Business Activities of Conventional CB
   a) Collecting funds from the society in the form of deposits of demand deposits, time deposits, certificates of deposits, savings, and/or other forms equivalent;
   b) Extending credits (Lending);

c) Issuing promissory notes;
d) Purchasing, selling or guaranteeing at own risk or at the interests of and for the benefits and behest of their customers:
    1) Drafts/Bills of Exchange including drafts accepted by banks which validity period shall be no longer than the norm in the trading of the referred drafts;
    2) Promissory notes and other commercial papers which validity period shall be no longer that the norm in the trading of the notes;
    3) State Treasury Bills and government securities;
    4) Certificates of Bank Indonesia (*SBI*);
    5) Bonds;
    6) Commercial papers with a maturity date of up to 1 year; and
    7) Other commercial papers with a maturity date of up to 1 year.
e) Transferring money both for own benefits and for the benefits of customers;
f) Placing funds in, borrowing funds from, or lending funds to other banks, whether using notes, telecommunication facilities, sight drafts, checks or other facilities;
g) Receiving payment from claims on securities and making settlements with or between third parties;
h) Providing safe deposits boxes for valuable things and commercial papers;
i) Undertaking custodial activities for the benefits of other parties based on a contract;
j) Undertaking funds placement from customers to other customers in the form of securities/ commercial papers not recorded in the stock exchange market;
k) Conducting activities of factoring, credit card iness and trust service;
l) Providing financing and/or other performing other activities based on Sharia Principles, in accordance with the applicable regulations;
m) Performing other activities normally conducted by banks provided that the activities are not in contravention with the Law concerning Banking and the applicable legislation;

n) Performing activities in foreign exchange in compliance with the applicable regulations;
o) Performing activities in equity participation in other banks or companies in financial sector such as leasing, venture capital, securities companies, insurance, and clearing institutions of settlement and deposits, in compliance with the applicable regulations;
p) Conducting Temporary Capital Investment (PMS) to resolve bad debts or bad financing based on Sharia Principles, with the condition to withdraw their participations, in compliance with the applicable regulations;
q) Acting as the founders and administrators of pension funds in compliance with the provisions stipulated in the applicable laws and regulations on pension funds; and
r) Undertaking bank business activities in the form of Custodian with Management/Trust.

2. Business Activities of *BUS* and Sharia Business Units (*UUS*)
   a) Collecting funds in the form of Deposits of Demand Deposits, Savings, or other forms equivalents based on *wadi'ah* agreement or other agreements not in contravention with the Sharia Principle;
   b) Collecting funds in the form of investments of Time Deposits, Savings, or other forms equivalents based on *mudharabah* agreement or other agreements not in contravention with the Sharia Principles;
   c) Channeling profit sharing financing based on *mudharabah* agreement, *musyarakah* agreement, or other agreements not in contravention with the Sharia Principles;
   d) Channeling financing based on *murabahah* agreement, *salam*, akad *istishna'* agreement, or other agreements not in contravention with the Sharia Principles;
   e) Channeling financing based on *qardh* agreement, or other agreements not in contravention with the Sharia Principles;
   f) Channeling financing for leasing of moveable or moveable goods to customers based on *ijarah* agreement, and/or lease purchasein the form

of *Ijarah Muntahiya bit Tamlik (IMBT)* or other agreements not in contravention with the Sharia Principles;

g) Conducting debt taking-over based on *hawalah* agreement or other agreements not in contravention with the Sharia Principles;

h) Conducting business in debit cards and/or other financing cards based on Sharia Principles;

i) Purchasing, selling, or guaranteeing at own risks third party securities issued based on the real transactions on the basis of Sharia Principles, among others, such as *ijarah*, *musyarakah*, *mudharabah*, *murabahah*, *kafalah*, or *hawalah* agreements;

j) Purchasing securities based on Sharia Principles issued by the government and/or *BI*;

k) Receiving payment from the bills of securities and conducting settlements with third parties or between third parties based on Sharia Principles;

l) Providing safe deposit boxes for valuable things and commercial papers based on Sharia Principles;

m) Transfering money both for own benefits and for customers benefits based on Sharia Principles;

n) Providing facilities of letter of credits or bank guarantees based on Sharia Principles;

o) Conducting other activities normally conducted in the field of banking and in the field of social provided that they are not in contravention with the Sharia Principles and in compliance with the laws and regulations;

p) Conducting foreign exchange activities based on Sharia Principles;

q) Conducting *PMS* activities to resolve bad financing based on Sharia Principles, with condition to withdraw the participations;

r) Undertaking activities in capital market provided that it is not in contravention with the Sharia Principle and the provisions stipulated in the laws and regulation in the field of capital market;

s) Performing bank activities or providing products based on Sharia Principles using electronic facilities;

t) Issuing, offering and trading short term securities based on Sharia Principles both directly and indirectly through the money market; and

u) Providing products or performing other business activities of *BUS* based on Sharia Principles;

3. Below activities can only be conducted by *BUS*
    a) Purchasing, selling, or guaranteeing at own risk, any third party securities issued on the basis of real transactions based on Sharia Principles, among others, *ijarah, musyarakah, mudharabah, murabahah, kafalah, or hawalah* agreements;
    b) Undertaking custodial activities for the benefits of other parties on the basis of an agreement based on Sharia Principles;
    c) Undertaking the function of trustees based on *wakalah* agreement;
    d) Conducting equity participation/investment activities in *BUS* or financial agencies conducting business activities based on Sharia Principles;
    e) Acting as founders and trustees of pension funds based on Sharia Principles; and
    f) Issuing, offering, and trading long-term securities based on Sharia Principles, both directly and indirectly through capital market.
4. Business Activities of Conventional *BPR*
    a) Collecting funds from the society in the form of deposits of time deposits, savings, and/or other forms equivalents;
    b) Extending credits (Lending); and
    c) Placing their funds in the form of *SBI*, time deposits, certificates of deposits and/or savings in other banks.
5. Business Activities of *BPRS*
    a) Collecting funds from the society in the form of:
        1) Deposits in the form of savings or equivalents based on *wadi'ah* agreement or other agreements not in contravention with Sharia Principles; and
        2) Investments in the form of deposits or savings or other forms equivalents based on *mudharabah* agreement ot other agreements not in contravention with Sharia Principles;
    b) Channeling funds to the society in the form of:
        1) Profit sharing financing based on *mudharabah* or *musyarakah* agreement;

2) Financing for buying-selling transactions based on *murabahah*, *salam*, or *istishna* agreements;
3) Financing based on *qardh* agreement;
4) Financing leasing of movable or immovable properties to customers based on *ijarah* agreement or lease-purchase in the form of *IMBT*; and
5) Taking-over debts based on *hawalah* agreement;

c) Placing funds in other sharia banks in the form of deposits based on *wadi'ah* agreement or investment based on *mudharabah* agreement and/or other agreements not in contravention with the Sharia Principles;
d) Transferring money, both for own benefits and for customers benefits through *BPRS* accounts in Conventional CB, *BUS* and *UUS*; and
e) Providing products or conducting other activities of Sharia Banks in accordance with the Sharia Principles based on the approval of *OJK*.

6. Business Support Activities
Activities of business support are other activities conducted by banks beyond the business activities of banks. The said business support activities are among others related to the human resources (HR), risk management, compliance, internal audit, accounting and finance, Information Technology (IT), logistics and security.

C. Prohibition of Bank Business Activities

1. Prohibition of Business Activities of Conventional CB
   a) Conducting capital participation, except for conducting activities as referred in item 2 letter o and p on the description of business activities of Conventional CB;
   b) Conducting insurance business;
   c) Conducting other business other than business activities as referred to item 2 above.
2. Prohibition of Business Activities of *BUS* and *UUS*
   a) Conducting business activities in contravention with Sharia Principles;
   b) Conducting stock trading activities directly in the

capital market;

c) Conducting capital participation, except for:
   1) Conducting equity participation activities in *BUS* or Financial Agencies conducting business activities based on Sharia Principles, and conducting Temporary Equity Participation (*PMS*) to resolve financing failures based on Sharia Principles, with condition to withdraw their participations (particularly for *BUS*);
   2) Conducting investment in Temporary Equity Participation to resolve financing failures based on Sharia Principles, with condition to withdraw their participations (particularly for *UUS*);
d) Undertaking insurance business activities, except as the marketing agents of sharia insurance products.

3. Prohibition of Business Activities of *BPR*
   a) Accepting deposits in the form of demand deposits and participating in payment traffic;
   b) Conducting foreign currency business activities except as foreign exchange traders (*PVA*) with the permission of *OJK*;
   c) Conducting capital investment/equity participation;
   d) Conducting insurance business operations;
   e) Conducting other business operations other than activities as referred to in item 2 above.
4. Prohibition of *BPRS* Business Activities
   a) Conducting business activities in contravention with Sharia Principles;
   b) Accepting deposits in the form of demand deposits and participating in payment traffic;
   c) Conducting foreign currency business activities except as *PVA* with the permission of *OJK*;
   d) Conducting insurance business operations, except as marketing agents of sharia insurance products;
   e) Conducting capital investment/equity participation, except in agencies which formed to overcome liquidity problems of *BPR*; and
   f) Conducting other business operations other than *BPRS* activities as referred to in item 2 above.


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BAB 3

BANK REGULATION AND SUPERVISION

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III. BANK REGULATION AND SUPERVISION

OJK grants and revokes license for institution and certain banking activities, establishes regulations, performs banking supervision and imposes sanctions on banks.

A. The Purpose of Bank Regulation and Supervision

Bank regulation and supervision is directed to optimize the banking function in Indonesia in order to create a healthy banking system, whether comprehensively or individually, and to guard the people's interest for national economy.

B. Bank Regulation and Supervision Authority

1. The right to license is the power to determine licensing procedure and establishment of a bank, including to give and to revoke bank business license, license to open, close or move bank's offices, to give approval on ownership and management of a bank, to give license to bank to do certain business activities;
2. The right to regulate is the power to determine regulations related to business aspect and banking activities in creating healthy bank to meet people's requirements;
3. The right to control is:
    a. On-site supervision; including general and specific investigation to get a description of the financial condition of a bank and to monitor compliancy level towards the applicable laws, and to find out malpractices that might threaten the continuity of bank businesses;
    b. Off-site supervision is carried out using monitoring devices such as banks periodic reports, reports on evaluation result and other information.
4. The right to impose sanction is the power to impose sanctions in accordance with law and regulation towards banks when they are not able to meet certain requirements. This action contains element of training for bank to operate according to sound banking principle;

5. The right to investigate; according to the Law, *OJK* has the authority to conduct investigation in financial service sector including banking sector. Such investigation is carried out by the State Police of the RI and Civil Servant Officers in *OJK* environment. The result of investigation would be given to the public prosecutors.

C. Bank Supervision System

In carrying out bank supervision function, currently *OJK* implements its supervision system using 2 approaches:

1. Compliance Based Supervision (CBS) is supervision on banks compliance with regulations related to the past operation and management in order to make sure that bank has been well operated and managed according to prudential principle. Supervision on compliance aspect is an integral part of the implementation of risk-based banking supervision;
2. Risk-Based Supervision (RBS) is bank supervision using risk-based strategy and method that enables bank supervisors to have an early detection of a significant risk and to take appropriate supervision action and timely.

Risk-based Supervision/Evaluation is carried out for the following risks:

Figure 3.1: Supervision Cycle Based on Risk

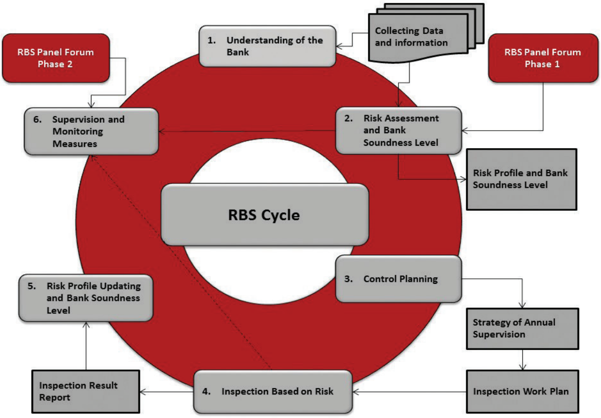


Table 3.1: Types of Bank Risks

Types of Bank Risks	
Credit Risk	Risk resulted from failure by counterparty in fulfilling its obligations.
Market Risk	Risk resulted from the shifting of market variables (adverse movement) from the bank's portfolio that might hurt the bank. Market variables include among others interest rate and exchange rate.
Liquidity Risk	Risk emerges because the bank is unable to fulfill its due obligations.
Operational Risk	Risk caused by among others the insufficiency and dysfunction of internal process, human errors, systemic failure or external problems that affect bank's operation.
Legal Risk	Risk caused by weakness in juridical aspect. Weakness in juridical aspect is caused by among others lawsuit, non-existence of supporting laws, or weakness in binding agreement such as unfulfilled terms of agreement and flawed mortgage agreement.
Reputation Risk	Risk caused by negative publication related to bank's businesses or negative perception towards the bank.
Strategy Risk	Risk resulted from among others the unsuitable bank strategy implementation, incorrect decision-making, or unresponsiveness to external changes.
Compliance Risk	Risk caused by incompliancy of the applicable law and regulation.

D. Banking Information System to Support Bank Supervisory Duties

1. Banking Information System
   Banking Information System (*SIP*) is an information system used by bank supervisors in analyzing the bank's condition and in evaluating Bank's Soundness Rating (*TKS*) using Risk-Based Bank Rating (RBBR), improving security and integrity of banking data and information. *SIP* shall be developed in order to support bank supervisors through quality information based on the following principles:
   a. *SIP* is directed as a business tool and at the same time as a media to deliver information quickly up to a strategic level;
   b. *SIP* provides macro information, individual bank, or other information related to banking businesses;
   c. *SIP* integrates data scattered in different systems.
2. Information System of *BPR* Management Supervision
   In order to implement *BPR* supervisory function, *OJK* has implemented information system as follows:
   a. On-line reporting system that enables *BPR* to deliver on-line periodic report to *OJK* through BI to improve the effectiveness and efficiency of such report. At the moment *BPR* should deliver 4 types of periodic on-line reports, namely Monthly Report, Credit Distribution Maximum Limit (*BMPK*), Debtor Information System (*SID*) Report and *BPR* Publication Financial Report;
   b. Data processing system that has been developed to omit repetitive data input in order to minimize human error and data inconsistency. *BPR* periodic report data received by *OJK* through reporting system shall then be processed for the interest of supervision and statistic as supporting material to *BPR* industry development policy.

   Further, as an effort to improve *BPR* supervision quality, the information system development shall be directed to a more focused supervision, whether off-site or on-site, towards conditions faced by *BPR*. Early Warning System (EWS) implementation shall be carried out to support off-site monitoring on

BPR condition, and to complete the *TKS* evaluation carried out periodically. The above EWS analysis is intended to determine focus and coverage of an evaluation that is expected to improve the effectiveness and efficiency of on-site supervision. Furthermore, the development of *BPR* Enterprise Data Warehouse (EDW) is expected to become one of the facilities that effectively monitor and deliver information and condition comprehensively as a material to determine policy to be taken in relation to *BPR* industry supervision and development.

3. *SID*

   SID is a system that provides debtor information, whether individual or business entity, developed to support banking supervision task and operational activities of Non-Bank Financial Industry (*IKNB*), particularly related to risk management. Information gathered in *SID* includes debtor primary data, management and owner of business entity, information on the facility of funding received by debtor (credit, managed credit, securities, irrevocable L/C, bank guarantee, participation, and/or other billings), mortgage, guarantor, and debtor financial report.

E. Banking Investigation

Bank has vulnerability to any distortion of banking regulation or fraud that in the end will interrupt its operation and cause reputation risk. Fraud might be committed by member of Commissioner Board, Director, Shareholder, bank employee, other party affiliated with the bank, and other parties.

In line with the main function that should be carried out by *OJK* in managing and supervising bank, *OJK* might find distortion of banking regulation from the result of bank supervision and/or receive information about it from other party. This finding can be acted upon by conducting a joined investigation with bank supervisory work unit, *OJK* Regional Office or *OJK* Office.

In case the above matter needs further examination and investigation it will be conducted towards banking regulation distortion with indication of banking criminal action (*tipibank*), which is committed by a party affiliated with the bank and/or other party that makes banks as a target or an instrument for a crime.

Pursuant to the Law mandating *OJK* the authority to conduct investigation in the financial service sector, in the case that the alleged violation has met the elements of tipibank, the result of the investigation will be delegated to the relevant work unit so that investigations and subsequent legal proceddings can be conducted by the competent auhority.

F. Consumer Education and Protection

Article 4 Law Number 21 Year 2011 concerning *OJK* stated that one of *OJK*'s duties is to provide protection to the consumers and/or communities.

Consumer Educational and Protection function is an important pillar in financial service sector. In its implementation, the concept of consumer education and protection in financial service sector shall be categorized into two:

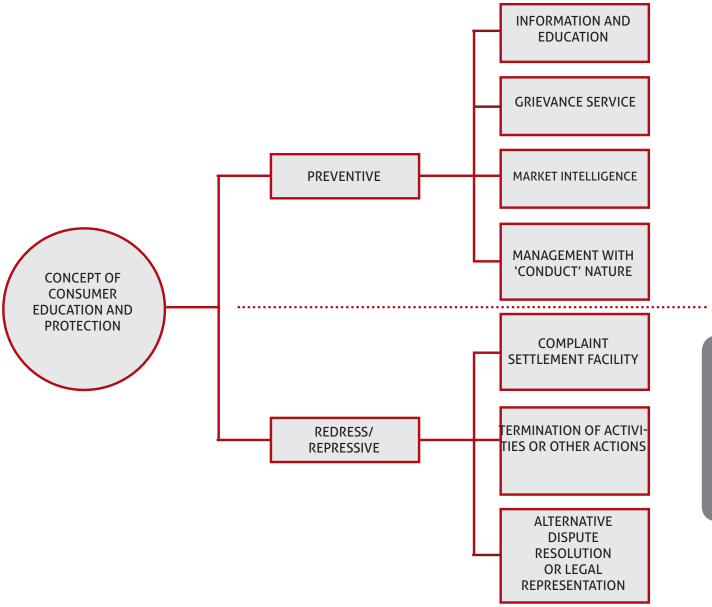
1. Preventive Actions

   Preventive actions shall be carried out in the form of management and implementation in consumer education and protection sector. Education is carried out through various media and means. Education is preventive in nature and necessary as early steps to provide an understanding to consumers. Education provided by *OJK* is also a form of consumer services. In this preventive action, *OJK* shall guarantee that any product and service provided by financial service institution have met consumer protection principle.

2. Repressive Actions

   Repressive actions shall be carried out in the form of complaints, facilitation of dispute settlement, termination of activities and other actions, and legal representation to protect consumers. *OJK* shall conduct preventive and repressive actions directed to financial inclusion and financial system stability. The implementation of *OJK* function in consumer education and protection is expected to develop people's confidence in using financial product and service, also to create a fair and well-regulated market. Consumer's trust and confidence towards a well-functioning financial market is a requirement in maintaining a long-term stability, growth, efficiency and innovation.

Figure 3.2: Concept of Consumer Education and Protection



3. *OJK* Integrated Consumer Service

The development of Integrated Consumer Service is one of the implementations of Law mandate of *OJK*, in its efforts to provide education and protection to consumers and the communities against infringement of Law and regulations in financial sector under *OJK*'s authority.

There are several ways to access this service, as follows:

Telephone : (local code area) 1500-655
E-mail : konsumen@ojk.goid
Facsimile : (021) 386-6032
Website : http://sikapiuangmu.ojk.go.id

OJK Consumer Service is free of charge. There are 3 types of Consumer Service. First, *OJK* Consumer Service is a place to acquire information. Second, is a place for consumer to convey information, and third, a place to submit their complaints related to product and/or service made and offered by financial service institution under *OJK*'s authority. In regards to complaints, there are several documentations required:

1. Evidence of complaints to related Financial Service Agency (*LJK*) and/or the respond;
2. Complete identity
3. Description of complaint; and
4. Supporting documents (if any)

Integrated Financial Consumer Service was implemented using the following systems:

1. Can be tracked
   Using a system that can be tracked, consumers can follow the development of complaint resolution process that they have conveyed to *OJK*.
2. Traceable
   Using traceable system, *LJK* can follow the resolution process of the complaint or dispute that cannot be settled between *LJK* and its consumers, which resolution/ settlement is petitioned by the consumer to *OJK*.

Tips for Consumer Protection

1. To investigate before hand, the *LJK* that offered a product or service.
2. To examine if the offered product or service have obtained a permit from or registered in *OJK*.
3. To carefully read all information or agreement related to product or service offered by *LJK* and demand explanation if necessary, to understand clearly before buying or signing a contract/agreement.
4. *LJK* should provide a copy of contract/agreement to consumer
5. Be cautious of any interesting offer or advertisement that promises higher rate than normal, and report the related *LJK* if any problem arises in relation to the product and service used by consumer.

Tips for a Safe Investment

1. Know the future financial needs.
2. People should understand any financial product offered to them.
3. Understand the risk of the financial product offered.
4. Avoid any investment offer with abnormal rate of return, because aside from high risk, it is not guaranteed by the government.
5. If in doubt, please do not hesitate to ask.

Characteristics of Investment to be Cautious About

1. Offering high rate of return
2. Free risk investment guarantee
3. Providing huge bonus and cash back for consumer who can get another consumer
4. Abuse testimony from the head of community to give an endorsement effect and trust
5. Promising return of invested assets and guaranteeing the security of invested assets (easy, flexible and safe)
6. Buy back guarantee without write-downs
7. Always remember that Trading Business License is not a license for funding and managing investment.


OJK
OTORITAS
JASA
KEUANGAN

BAB 4

BANKING DEVELOPMENT AND POLICY DIRECTION

IV. BANKING DEVELOPMENT AND POLICY DIRECTION

A. Banking Development in 2014

OJK realized that the function mandated by the Law should not be just an integrated supervision, but must increasingly be strengthened so that the financial service sector can have more significant role in realizing a sustainable economic growth. Therefore, *OJK* will strive to continue and intensify the function of managing and supervising that has been well carried out by *BI* and the Ministry of Finance previously.

In the beginning of 2014, *OJK* has issued an Indonesian Corporate Governance Roadmap. This Roadmap was issued to be the primary reference in the banking practices and regulations in relation to corporate governance in Indonesia, which refers to the assessment result of corporate governance in Indonesia and the international standard.

OJK has also laid the foundation for the development of integrated supervisory system since 2013. This year, *OJK* has carried out a series of agendas such as the implementation of Know Your Financial Conglomerates (KYFC) guidance for supervisors and in 2015 will continue with the implementation of risk-based financial conglomeration supervision.

As a new institution, *OJK* believes it is deemed necessary to coordinate with other financial service supervisory authorities in other countries, and to actively participate in international organizations. *OJK* has become a member of Basel Committee on Banking Supervision (BCBS) and Working Group on Bank Supervision in the Executive Meeting of East Asia Pacific Central Banks (EMEAP) organization. *OJK* has also become a full member of Islamic Financial Services Board (IFSB), and has signed a Multilateral Memorandum of Understanding (MMoU) International Organization of Securities Commissions (IOSCO) on cooperation and information exchange. A number of memoranda of understanding have also been signed by *OJK* with the authority of several countries, such as Australia, Japan, South Korea, China and Vietnam.

Aside from the above, the growth of financial conglomeration has added to the complexity of transaction and interaction among financial service institutions in the financial system. On one side, the financial conglomeration has the potential to increase individual risk exposure to financial service institution as well as systemic risk to financial system stability. From the supervision aspect, the above development became a challenge for the implementation of an integrated supervision system.

Meanwhile, the efforts to educate and protect the financial service consumers continue to be enhanced in order to develop a society that possesses high financial literacy, and to have legal certainty and comfort in making financial transaction.

The global economic crisis comes from an aggressive risk-taking behavior giving a very important lesson learned for the regulator in securing regulation aspects. Enforcing regulation basically is intended to improve market structure to become stronger, efficient and more transparent, to benefit sustainable economy. The ever-changing external and internal conditions allowed a customized supervision approach in order to form a new balance. The shifting of regulation and supervision should be responded appropriately and rapidly by the financial service industry players, among others in the form of adjustments in the operations of financial service institutions.

Strengthening the structure and enhancing the role of the financial service sector cannot be conducted partially, hence, currently *OJK* is preparing a blue print for the development of financial service sector aiming to achieve 3 (three) main targets:

1. To optimize the role of financial service sector in supporting the development of national economy growth;
2. To maintain the financial system stability as the foundation of sustainable development; and
3. To realize the public financial independence and to encourage the efforts in enhancing an even distribution of development.

The above targets shall be achieved by emphasizing the following 4 development strategies:

1. Strengthening the aspects of regulation and

supervision in overall with emphasize on risk-based approaches and increment of institution capacity and industrial competitiveness to support financial system stability.

2. Strengthening and development of market and financial service industry in the context of deepening the market and expanding the access to financial products and services through the expansion of distribution channels and synergy among the sectors in the financial service industry.
3. More optimized ecosystem development to encourage financing in strategic economy sector and to increase the quality, efficiency and attractiveness of sharia (Islamic based) financial market.
4. Strengthening of literacy level and perfecting the infrastructure support for consumers protection, transparency and good governance.

The above aspects in blueprint has become the basis for the direction of financial service sector development in the future, and at the same time answered the needs to strengthen national financial service sector.

B. Medium-Term Banking Development

Anticipating mid-term and long-term challenges in bank supervision, among others covers: (i) the phenomena of financial service conglomeration growth and development; (ii) the effective date of ASEAN Economic Community (MEA); (iii) the uncertainties of global economy; (iv) the rising of environmental issues and global economic gap; (v) the change of national leaders, and (vi) coincided with the end of implementation period for Indonesian Banking Architecture (API) in 2013, hence, the evaluation of API implementation as well as the process of preparation of development direction for the next 5-10 years was carried out in 2014. The formulation process of banking development direction shall not be exclusive anymore, but it shall be comprehensive and integrated with the arrangement of development direction for capital market and *IKNB*.

The followings are several things that become *OJK* focus in the mid-term development of banking industry that is expected to be able to respond to internal and external changes in banking industry environment:

1. To continue the rapid growth of banking reflected in the assets, financing, public fund collecting with due regard to banking portfolio shifting directed to fulfill the funding of priority economic sectors and to give a strong multiplier effect. In regard to the above matters, banks need to make a funding structure change that currently is still dominated by the expensive short-term funding. This will affect banks financing portfolio which also tends to finance short-term sectors with high return, such as trading and consumer credit service, and the increase of financing portfolio for MSME also dominated in the same sector. Other economic sectors such as agriculture, maritime, energy, infrastructure and primary product processing industry have yet to receive adequate attention;
2. To improve banking ability in outreaching the communities which so far had no or less financial access through inclusive financial initiative and *Laku Pandai* (branchless banking);
3. To strengthen banking risk management and implementation of Good Corporate Governance (CGC) to support portfolio shifting process and expansion of service, as well as to improve bank resilience to critical conditions. This is important to secure the risk management, including capital adequacy that should be supported by risk-based supervision, which has been proven to improve the resiliency of banking industry in facing the turmoil, domestically or as the impact of global financial crisis. The strengthening of resiliency is reflected in the implementation of Basel III gradually as the continuation of Basel II implementation. Whereas, accelerated efforts to implement risk management in bank operational and risk-based supervision are carried out for sharia banking and *BPR*;

4. To improve the role of banks in the funding of environmentally friendly business sectors as a part of the implementation of Sustainable Finance Roadmap (RKB);
5. To accelerate the arrangement of national banking industry structure directed to form strong and sound national banks to serve not just domestic needs but also is able to compete in ASEAN level. The number of banks at the moment is dominated by small capital banks, less than Rp5 trillion of Commercial Banks Based on Business Activities (*BUKU*) category of 1 and 2. This condition is less ideal especially to support the economic growth, which requires adequate capitals support from banks. The said small capital banks will also face challenges due to the increasing competition from ASEAN regional banks as a consequence of the MEA. Meanwhile, each bank is also encouraged to build competitive advantaged, to improve its service quality and operational efficiency;
6. The strengthening of *BPD (*Regional Development Bank) roles in supporting regional economy through *BPD* Regional Champion (BRC) gradually has shown its results, especially in the increase of bank capital and productive financing portion. At the moment, the strengthening of human resources (HR), good governance and risk management remain still a challenge in *BPD* development, especially in minimizing risk increment due to the shifting of consumer financing to productive financing. Aside from the above, the communication with Regional Governments (*Pemda*) or Regional House of Representatives (*DPRD*) and Ministry of Domestic Affairs should be improved in order to obtain more support and to synchronize the direction of *BPD* development with the regional development;
7. To strengthen *BPR* position in providing financial service to small and micro enterprises, also to evenly distribute financial services to underbank regions outside Java and Bali;

8. To improve sharia banks roles by developing quality product and service, that is innovative, distinctive and better than the conventional banking products; and to expand the network to meet public needs of sharia financial service. Several *UUS* that made a spin-off to become *BUS* are still in the adaptation stage, therefore has not shown better performances if compared with their performances as *UUS*. The support of parent CB is extremely needed, especially in utilizing service network, information technology, human resources strengthening and the commitment to continue increasing capital in the future. Meanwhile, *BPRS* should be continuously encouraged to serve rural communities and MSME outside Java. Innovation, development of products and services needed by the communities and socialization to the communities have become challenges in the development of sharia banking. The above efforts are expected to improve the growth of sharia banking currently suffering from deceleration.

C. Basel Framework

Roadmap Sustainable Finance

The issue of Sustainable Finance is not a new thing. It has become a global commitment as stated in the Millennium Development Goals (MDGs) and in particular with regard to environment, it shall refer to the Kyoto Protocol. Countries that have ratified the above global commitment gradually started to integrate them to their medium-term and long-term development programs. Several countries such as Germany, USA, China and Japan had proven successful in reaching significant economic growth, followed by improvement of social welfare and the quality of environment by implementing sustainable development by synchronizing the 3P interests: economic aspect (profit), social aspect (people) and environmental aspect (planet). To answer the above issue, especially in the provision of funding for sustainable development and climate change, on December 5, 2014, *OJK* and the Ministry for Environment and Forestry (KLHK) launched an RKB that contained a description on work plan for Sustainable Finance development for financial services industry under the supervision of *OJK*, such as banking, capital market and *IKNB*. The launching of the above roadmap has become one of the efforts in implementing the Memorandum of Understanding between *OJK* and the Ministry of Living Environment (today has changed to KLHK) that was carried out on May 26, 2014.

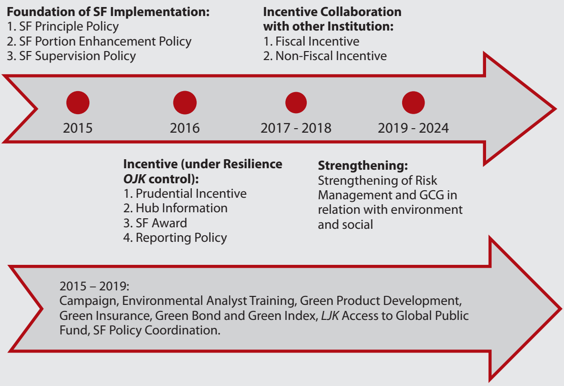
The RKB launching received appreciation both nationally and globally. *OJK* was the first financial services authority to launch a roadmap containing a comprehensive coverage as it governs the entire *LJK*, whether banking, capital market or *IKNB*. Other countries that have Sustainable Finance regulation among others are China, Bangladesh, Brazil, Nigeria, Peru and Mongolia.

RKB's objective is to describe the Sustainable Finance condition to be achieved by Indonesia in medium-term (2015 – 2019) and long-term (2015 – 2024) for the financial services industry under *OJK*'s supervision, and to determine and formulate the milestone for improvements in regard to the Sustainable Finance. RKB is not only a guidance for *OJK* and financial service players such as banking, capital market and *IKNB*, but also expected to be the guidance for Sustainable Finance stakeholders including the government, educational institutions, business players and international institutions.

The roles of Sustainable Finance were expected to not only increase the financing portion but also to improve resiliency and competitiveness of financial service institutions. The above matters were based on the principle that Sustainable Finance was a challenge and new opportunity that should be taken by *LJK* to grow and develop more steadily.

Sustainable Finance in Indonesia was defined as a comprehensive support from IJK for a sustainable growth resulted from the harmony among economic, social and environmental interests. Sustainable Finance consists of the followings: (1) To achieve industrial, social and economic excellence in order to reduce threat of global warming and to prevent other environmental and social problems; (2) Having a goal to enable target shifting towards a competitive low-carbon economy; (3) Strategically promote environmentally friendly investment in various business/economic sectors and (4) To support Indonesian development principles as stated in the Medium-Term Development Planning (RPJM), which consists of 4P (pro-growth, pro-jobs, pro-poor and pro-environment). The Sustainable Finance program principles are as follows: 1) Risk management principle that integrates the aspects of environmental and social protection in *LJK* risk management; (2) priority economy sector development principle that is sustainable and inclusive, by improving financing activities, mainly in agricultural sector (including agriculture, farming and maritime), infrastructure, industry, energy and MSME; (3) principle in environmental and social, and reporting management by implementing transparent environmental and social management practices in operational activities of *LJK* and its clients; and (4) principle to increase collaborative capacity and partnership by developing human resources capacity, information technology and operational process of each *LJK* in relation to the implementation of Sustainable Finance principles.

Figure 4.1: Sustainable Finance (SF) Roadmap 2015 – 2019



Roadmap strategic target consists of: (1) increase of supply for environmentally friendly financing to form *LJK* competitiveness in Sustainable Finance sector; (2) to create demand for environmentally friendly financial product and (3) increase of supervision and coordination in implementing Sustainable Finance. As an early step in 2014, a series of program to improve *LJK* human resources competency were carried out in environmental and social risk management sectors, and in introduction to environmentally friendly businesses for as many as 6 groups of around 200 participants, clean energy green lending model and a series of Sustainable Finance seminars and workshops.

ASEAN Banking Integration Framework (ABIF)

ABIF is an ASEAN initiative aims to create integration mechanism and accelerate banking integration through market access and operational flexibility in ASEAN member countries by still observing the fulfillment of prudential requirement applicable in each ASEAN country. On December 31, 2014, Indonesia had given approval to the ABIF Guidelines. The above document shall become the guidelines for ASEAN countries in implementing principles approved by ABIF in conducting bilateral agreements in relation to the banks that will be present in ASEAN banking market.

The integration principles that must be referred to as stated in the ABIF Guidelines are: (i) oriented to the efforts to encourage the integration of deeper financial market by providing benefit to all ASEAN countries; (ii) comprehensive in regard to prudential principle of financial stability infrastructure, improvement of financial capacity and safety network; (iii) progressive, based on readiness and development level of financial sector of each ASEAN country; (iv) inclusive, by improving capacity building to support the readiness of ASEAN countries in financial integration and transparency in reciprocal arrangement among participating countries and (v) based on reciprocal principle, where market access and operational flexibility should benefit each other and acceptable to the participating countries.

There are two phases that should be passed, multilateral and bilateral. The multilateral phase is a phase where the criteria and characteristic of the best ASEAN origin bank is determined. Meanwhile, the bilateral phase is the negotiation phase among the participating countries in relation to the nomination and recognition as the best ASEAN origin banks to the host country, the concession form in relation to market access and operational activity flexibility that will be acquired by the said banks.

Banking integration process in ABIF uses Qualified ASEAN Banks (QAB) as the ASEAN origin banks that are qualified under certain general conditions agreed by ASEAN. Simply said, the QAB candidates are the best banks owned by ASEAN countries to participate in banking integration in ABIF.

The conditions to become QAB candidate are as follows:

- Having a good track record, among others shown by large market share;
- Having adequate and financially sound capital;
- Having good governance; and
- Supported by home country authority to become QAB.

It is undisputable that the implementation of ABIF will increase the presence of foreign banks, especially banks from ASEAN in Indonesia.

However, through ABIF Guidelines, the above potential is manageable within a proportional limit through principles referred to: (i) ABIF emphasizes on reciprocal principle implementation, in which the agreement should benefit the participating countries; (ii) in its implementation, the reciprocal principle shall be strengthened with the spirit of reducing the gap for countries that already have cross border relation, and (iii) ASEAN banks that have already been present in other ASEAN countries should be calculated as QAB, therefore do not necessarily add to the number of foreign banks. It is briefly said that Indonesia would only

receive QAB from certain countries in ABIF by considering the benefit to be received by Indonesia (i.e. possibility of Indonesian QAB to open in the related countries) is bigger and profitable to Indonesia.
On the other hand, ABIF also provides opportunity and potential for Indonesian banking and business players to make expansion to ASEAN market. With the emphasis on reciprocal principle and the agreement of mechanism to reduce gap in market access and operational flexibility in ASEAN banking integration process, more opportunities will be available for Indonesia to get a larger market access and business activities in ASEAN regions. In accordance with the ABIF principle, Indonesian QAB would be treated the same as the local banks in the related country. However, Indonesian banking should also anticipate ABIF by strengthening capital, improving human resources and efficiency in order to compete in regional and global level.

1. Implementation of Basel Capital Frame
   Indonesia as a member of G-20 Forum and other international forums, such as Financial Stability Board (FSB), Basel Committee on Banking Supervision (BCBS) is committed to adopt the recommendations made by the above forums. In line with that, and with the shifting of supervision function from *BI* to *OJK*, in order to carry out its tasks in the future *OJK* should adopt the above various recommendations. In the process of adopting said recommendations, *OJK* will adjust them with the condition and development of domestic banking.
2. The Evolution of Basel Capital Frame
   Capital is one of the main focuses of bank supervisory authority in implementing prudential principle. BCBS has issued a concept of capital frame which becomes the international standard, as follows:
   a. In 1988, issued a capital concept and Risk Weighted Assets (RWA) calculation for credit risk;
   b. In 1996, perfected capital component by

adding Tier 3 and Market Risk RWA calculation;

c. In 2006, issued International Convergence on Capital Measurement and Capital Standard (A Revised Framework) or known as Basel II;

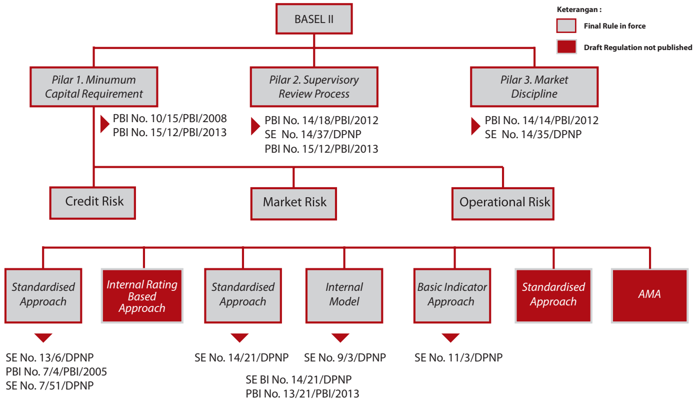
d. In 2009, issued Basel 2.5 recommendation, which covered Market Risk RWA calculation using internal model, capital charge imposition for securitization transaction, concentration risk, reputation risk and stress testing valuation on the entire exposure noted based on the fair value and securitization disclosure;

e. In 2010, responding to global financial crisis, BCBS issued a recommendation of bank security improvement both in micro and macro level, or known as Basel III.

3. Implementation of Basel II Frame in Indonesia

a. Basel II Frame (Pillar 1, Pillar 2 and Pillar 3) in Indonesia has been implemented completely since December 2012. Several regulations related to the implementation of Basel II among others are illustrated as follows:

Figure 4.2: Implementation of Basel II Framework



b. Basel 2.5 Frame

In implementing Basel 2.5 in Indonesia and as a form of commitment in adopting international standard, Indonesia issued Consultative Paper (CP) Basel 2.5, which covered a review of various regulations related to market risk and securitization and pillar 2 and 3 aspects for Basel 2.5. The above substance would be perfected in line with various responds and inputs from various stakeholders.

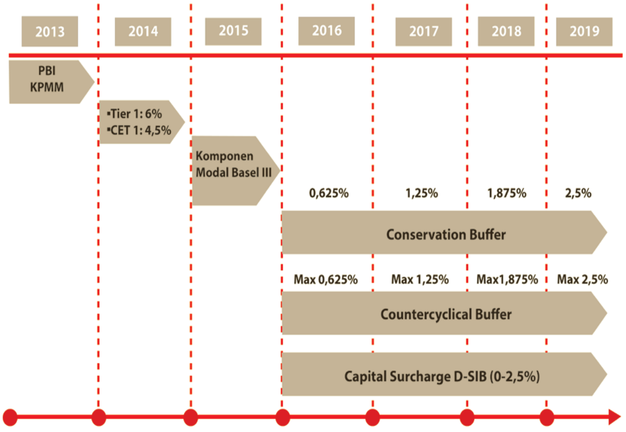
c. Basel III Frame

1) Capital Frame

PBI No. 15/12/PBI/2013 was issued On December 12, 2013, concerning CAR for *CB* that regulates the followings: (i) improvement of capital quality through changes of components and conditions on capital instrument in accordance to Basel III frame; (ii) obligation to provide capital ratio that consisted of core capital ratio for 6% of RWA at the lowest and primary core capital ratio for 4.5% of RWA, and (iii) obligation to form additional capital as a buffer on top of minimum capital in accordance to risk profile.

The implementation of Basel III regulation above has been gradually carried out since 2014 and will be completed in 2019, with the following implementation phases:

Figure 4.3: Basel III Implementation Stage



2) Liquidity Frame

Other than capital frame, Basel II also introduced 2 (two) other standards applicable internationally to measure minimum level of certain liquidity that should be maintained by banks as anticipation in facing crisis, such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR is a liquidity measurement intended to improve bank's short-term liquidity security by maintaining an adequate amount of high quality liquid asset (HQLA) to cover the amount of clean cash flow for the next 30 days; while NSFR is liquidity measurement intended to improve bank's long-term liquidity security by requiring bank to finance its activities with stable funding amounting to more than what it needs during stress period in a year. In order to implement LCR in Indonesia, *OJK* has issued CP in September 2014 to ask for responses from the Industry; and LCR regulations are expected to be issued in 2015 for implementation in 2016. Before effectively implemented in 2016, various banks shall be required to carry out LCR calculation trial, which started for the period of December 2014 and LCR disclosure trial to be started in the first quarter of 2015, coincides with the publication of financial report. LCR ratio fulfillment will be carried out gradually in line with BCBS timeline, from January 1, 2015 with minimum ratio of 60% up to January 1, 2019 with 100% ratio (with10% increment each year). Meanwhile in relation to NSFR according to BCBS timeline, the NSFR implementation shall start on January 1, 2018. In line with the above matter, before NSFR is effectively implemented in Indonesia, *OJK* will issue CP demanding responds to various related parties.

3) Leverage Frame

As an effort to limit the formation of excessive leverage in banking system, BCBS also introduced additional ratio, which is a leverage ratio as a non-risk based approach that will complete capital ratio according to the applicable risk profile. The goal of leverage ratio is to act as a backstop of capital ratio in accordance to risk profile to prevent the formation of excessive leverage, and to prevent from deleveraging process that might endanger the entire financial and economic system. The minimum leverage ratio that should be met was 3%, calculated by dividing core capital (Tier 1) with the bank's total exposure (without weighted risk).

In implementing leverage ratio, *OJK* had issued CP Leverage Ratio in October 2014 asking inputs from various relevant parties. The implementation of leverage ratio in Indonesia will be effectively implemented on January 1, 2018. This will be in line with BCBS timeline that requires Leverage Ratio as a part of Pillar 1 since January 1, 2018.

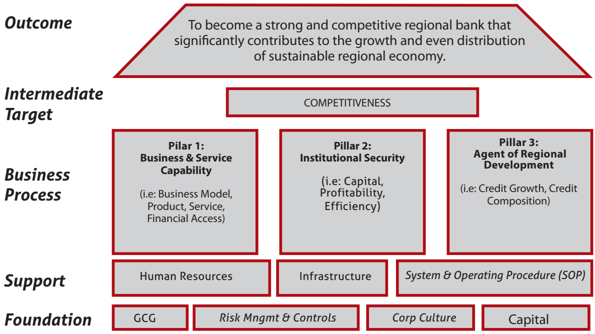
Aside from the above, in line with BCBS requirement that obligated Leverage Ratio to be disclosed to public effectively in January 2015, before Leverage ratio is effectively implemented, banks shall be required to conduct trial calculations starting from December 2014 and leverage ratio disclosure starting from the first quarter of 2015, coincides with the publication of financial report.

D. Regional Development Banks as the Regional Champion

BPD is a CB, in which the entire or part of the shares is owned by the regional governments. Aside from operating as CB, *BPD* also carries out a special task to support regional economic development (agent of regional development). In the era of regional autonomy, *BPD* is demanded to improve its role not limited to be the source of regional income in the form of yearly distributed dividend, but also as a partner to regional government in carrying out development in the regions, among other in distributing credit program or providing financing scheme adjusted to the direction of regional development and public needs in regions. To support the above achievements, in 2010 a *BPD* Regional Champion (BRC) 2010 – 2014 program was issued, which was an industrial initiative (26 *BPD* and Associations) and received supports from bank supervisory authority (at that moment was *BI* and continued by *OJK* in 2014). BRC is focused on the *BPD* capital security and improvement of productive business financing portion. Although not all BRC parameter could be met by each *BPD*, there is improvement of capital and productive business financing portion. Therefore, in 2014 a perfection and development program of BRC was arranged comprehensively and evenly by emphasizing on the structural transformation in the form of improvement in professionalism, good governance implementation, and maturity in corporation culture and risk management. The target of *BPD* Transformation Program (BRC II) in the next 5 years is: "To become a strong and competitive regional bank that significantly contributes to the growth and even distribution of sustainable regional economy".

The BRC II program would emphasize on business process that leads up to improvement of *BPD* ability in three things: (1) to provide business, product and service model that is competitive, and wide access for regional communities to finance; (2) to strengthen institutional security that covers capital, profitability and efficiency, and (3) to act as an agent of regional development, which reflected in, among others, the credit growth, the financed sector which is in line with the direction of regional economic development. To support the process of *BPD* transformation, there should be an availability of human resources, quality and adequate infrastructure and SOP (Standard Operating Procedure), and also enhancement of efficiency through efforts in unifying platforms in the entire *BPD* on information technology aspect, human resources, product and service, and risk management. The success of BRC II transformation program depends not only on the *BPD* persistence but also on the amount of support and coordination among the regional government (provincial and district/city), central

Figure 4.4: Transformation Program Frame towards *BPD* Regional Champion



government and *OJK* and the role of association.

E. Sharia Banking Development

1. General Review on Sharia Banking

The economic condition that is not as good as the previous year has caused a little uncertainty in doing business that affected the growth of sharia banking, because the sharia banking industry is real sector driven where the decrease in real sector performance will directly affect the performance and growth of sharia banking, including the asset growth and sharia banking financing. Furthermore, the internal consolidation process in big sharia banks had participated in affecting the development of sharia banking, aside from the obstacles in sharia banking internal factors, such as human resources capacity, office network and other infrastructure. Up to now the sharia banking was still dominated (±98%) by *BUS* and *UUS*, with share of ±49%.

2. Sharia Banking Policy Implementation

   In the year 2014, implementation of policies related to sharia banking regulations was by the issuance of the following: (i) *POJK* Number 8/POJK.03/2014 and *SE OJK* Number 10/SE OJK.03/2014 dated June 11, 2014 regarding Evaluation of *BUS* and *UUS* Soundness Level, (ii) *POJK* Number 16/POJK.03/2014 dated November 18, 2014 concerning Evaluation of *BUS* and *UUS* Asset Quality, (iii) *POJK* Number 21/POJK.03/2014 dated November 18, 2014 concerning Obligation to Provide *BUS* Minimum Capital.

   Meanwhile, in accordance with the mandate given to *OJK* stated in the Law, sharia banking supervision activities shall be carried out continuously by off-site and on-site supervision mechanism. Based on *POJK* Number 8/POJK.03/2014 and *SE OJK* Number 10/SEOJK.03/2014 dated June 11, 2014 regarding Evaluation of *BUS* and *UUS* Soundness Level, the evaluation method was changed into using RBBR method. The evaluation aspects cover Risk Profile, GCG Implementation, Profitability and Capital. Based on the assessment on supervision results, the risk profile of sharia banking industry in general was moderate with tendency of Non-Performing Financing (NPF). In this case, banks shall be asked to continuously improve the quality of risk management and internal control system and to emphasize on the prudential principle or sharia principles in implementing bank operational activities, constantly maintain the liquidity condition and to improve capital security. The focus of on-site supervision generally covered the aspects of operational risk, credit risk, compliance risk, including compliance with Sharia Principles implementation and good governance. The focus of investigation shall be directed to among others the legal risk and reputation risk, monitoring on the development of financing quality and improvement measures other than monitoring the achievement of realization of Bank Business Plan (*RBB*) by observing the business model bank, sustainability and prudential principle. In relation to the supervision development, implementation of Monetary and Financial System Stability Report (*LSMK*) has been and is carried out monthly by *BUS* and *UUS* completely, since the data reporting of May 2014 issued in June 2014, which was the main source of Sharia Banking System Information (*SIP*) supporting *BUS* and *UUS* education and supervision activities, including Sharia *TKS RBBR* Evaluation. Bank reporting format that earlier was done through bank monthly report (*LBUS*) has been developed into the first application on *LSMK* and the pilot project of national banking reporting using eXtensible Business Reporting Language (XBRL) format, changing the form-based approach into data-centric approach. Hence, *BUS* and *UUS* are not required to convey information using forms, but to send data instead. In order to have *LSMK* implementation done well and to maintain the accuracy and quality of *BUS* and *UUS LSMK* data, an evaluation has been carried out, where most of the results were consistent with *LBUS* 2003 data and has been presented to sharia banking industry by end of 2014. Further, a draft of information need has also been prepared for the development of *LSMK-BPRS* report, guidelines for *RBB* report to *BPRS*, and evaluation of EWS-*BPRS* improvement.

In supporting the drafting of sharia banking development policy, two researches had been completed in 2014, i.e. interconnection of sharia financial system and microbanking model to expand sharia-banking outreach. The first research resulted in an initial map of interconnection between banks and institutions and sharia financial instrument. By using balance-sheet analysis approach, estimated in aggregate that the interconnection between sharia banks and sharia *IKNB* (outside cooperatives), and furthermore between sharia banks and sharia capital market, remains relatively limited; therefore the shock potentials in sharia financial system derived more from the real sector compared to from the financial market or interconnection in the system (outside interbank). It is recommended to develop equity-based products that can involve *IKNB* and sharia capital market; and to do further research about systemic risk assessment of interconnection activity in sharia financial system. The second research resulted in model of sharia banking micro enterprise financing with two patterns: direct expansion pattern (DEP) and linkage that involved the government, institution supporting sharia micro financial institution (LKM) and social communities that owned community development program. Aside from the above, the research recommended several requirements to be met in order to support the expansion of sharia micro financing, among others are the commitment from the bank management, value proportion of the right product, active participation of the governments through micro enterprises development program, and collaboration between sharia banks and the umbrella body/underwriter, institution supporting sharia LKM, and communities/ social institution for business empowerment (microbankable).

Meanwhile, in relation to sharia banking product development, a *Musyarakah* Product Standard Review (including *Musyarakah Mutanaqishah*) had been carried out. The compilation of review results came from various sources, among others data sent by sharia banks related to SOP for *Musyarakah* and *Musyarakah Mutanaqishah*, sharia regulations and standards issued by various institutions such as National Sharia Board

– Indonesian Islamic Clergy Assembly (*DSN – MUI*), Sharia Economic Law Compilation (*KHES*) by the Supreme Court, AAOIFI Bahrain and Bank Negara Malaysia, and also quantitative and qualitative analysis required.

In regards to domestic and international collaboration related to sharia banks, a Sharia Financial Service Development Committee (KPJKS) was formed as a development step from Sharia Banking Committee (KPS), which was under *BI* earlier; KPJKS meeting had been held twice in 2014 that resulted in several strategic recommendation related to Sharia Financial Development. Furthermore, KPJKS members had participated in sharia banking development activities, such as education and discussion on the outlook of sharia banking in 2015. To support sharia banking development collaboration, an MOU between *OJK* and *DSN – MUI* had been signed in 2014.

3. Direction of Sharia Banking Development 2015

   Addressing the economic and financial development and the direction of the policy in 2015, several conditions are expected to give positive influence towards sharia banking development, among others are the commencement and continuation of implementation of various systematic efforts to develop sharia finance, such as Master Plan of Sharia Financial Service (among others roadmap/ master plan of sharia banking) by *OJK*, Task Force of sharia financial market deepening and Islamic social sector by *BI*, Indonesian Sharia Financial Architecture coordinated by *BAPPENAS* in collaboration with Islamic Development Bank (IDB), and also the increasingly intensified idea of big sharia banks especially owned by the government/state-owned enterprises (*BUMN*).

   Furthermore, the direction of sharia banking development policy has been developed with consideration to the economic development, government policies, input from the industry/

stakeholders and focus of sharia financial development by *OJK* wide, focusing on the following:

a) Product development, business activities and more integrated and synergized institution;
b) Development of financing and services that support the priority economic sectors, financial inclusion and productive financing;
c) Strengthening of collaboration among authorities in supporting sharia banking development;
d) Strengthening in harmonizing arrangements and policies balancing between banks, and between financial services with due regard to sharia characteristics; and
e) More structured, integrated and synergized sharia banking promotion and education.

F. Rural Banks Development

The rapid development of financial service industry has affected the competition map of Indonesian financial institutions, including in the micro financial market. The highly competitive condition demands business players to be more creative in offering products and services to meet consumers needs. *BPR* as one of the players in micro financial market should be ready to face the above competition by still taking into consideration the principles of sound bank management and compliance with the applicable laws and regulations. The referred efforts should be maintained to achieve the vision of *BPR* Development: "*BPR* Industry that is competitive in rendering services to Micro and Small Enterprises (MSE) and local communities, while contributing to the development of regional economic growth."

Further in the efforts to achieve the above vision, the general strategy of *BPR* development are elaborated in 3 aspects:

1. Aspect of *BPR* Position

   BPR is directed to remain a limited bank, in comparison with CB in regard to business activity coverage (products and activities), operational areas (distribution of office network and credit distribution). In this case, no matter how big the scale of *BPR* business is, it shall remain different from *CB* and is not directed to become a CB;

2. Aspect of *BPR* Market
   BPR is encouraged to improve its business capacity and to focus on providing products and services to MSE, especially in financing productive MSE and local communities, and to participate in regional Financial Inclusion program; and
3. Aspect of Supervision towards *BPR*
   BPR supervision policy is directed to the refinement of supervision method based on risk, which implementation shall be adjusted to the capital scale and business complexity of the concerned *BPR*. Therefore, the implementation good governance principles, CGC and risk management for *BPR* becomes a necessity and is to be implemented immediately.

The change in supervision policy would be followed by changes in the paradigm of regulations for *BPR*, among others regulations related to business coverage, opening of office network and credit distribution area. *BPR* that owned a larger capital capacity can do their business in a much larger area and at the same time shall be subjected to a more complete regulation.

In 2015, the policy on *BPR* development will be focused on the efforts to consolidate industrial security and good governance improvement in order to increase competitiveness through capital strengthening policy, implementation of GCG principle and Risk Management.

1. *BPR* Capital Strengthening Policy
   As it is known, *POJK* Number 20/POJK.03/2014 concerning Rural Banks had been issued on November 19, 2014 and would be effective on January 1, 2015. The above *POJK* is intended to regulate *BPR* institutions, among others to regulate the aspects of permit, capital requirements, management, and business activities. Specifically in relation to the terms of paid-up capital requirement for *BPR* establishment, *POJK* referred

to has required *BPR* to increase the capital amount to a minimum of:

a. Rp. 14 billions for *BPR* establishment in zone 1;
b. Rp. 8 billions for *BPR* establishment in zone 2;
c. Rp. 6 billions for *BPR* establishment in zone 3;
d. Rp. 4 billions for *BPR* establishment in zone 4.

The above paid-up capital requirement shall not be obligatory for *BPR* that has been in operation at the time the *POJK* has been enacted, normally known as existing *BPR*. Regarding the aforementioned matter, an assessment had been carried out to draft a capital security policy for existing *BPR* in order to improve resiliency and competitiveness of *BPR* in the future.

The implementation of the above policy was carried out by determining two core capital thresholds, which were Rp3 billion and Rp6 billion to be achieved by *BPR* during a certain time period with the following descriptions:

a. The core capital threshold of Rp3 billion should be met by *BPR* with core capital less than Rp3 billion by the time the policy is applicable; the deadline for meeting the requirements shall be 5 years from year 2014.
b. The core capital threshold of Rp6 billion shall have to be met by *BPR* with core capital of more than Rp3 billion by the time the policy is applicable; the deadline for meeting the requirements shall be 5 years from year 2014.

2. Policy on the Implementation of GCG Principle for *BPR*

Although there are no specific regulations regarding *BPR* GCG, the spirit of GCG principle has been included in various regulations applicable for *BPR*. Among others are regulations prohibiting concurrent positions/functions for Directors and Commissioners, provision on Legal Lending Limit (LLL), requirement to pass the Fit and Proper Test (FPT) for prospective candidates of Director and Commissioner and other *BPR* regulations containing the principles of GCG.

In order to improve the effectiveness of the existing regulations, currently a related *POJK* is being drafted to cover the followings:

a. *BPR* GCG implementation included the following principles: transparency, accountability, responsibility, independency, and fairness.

b. Generally, the implementation of GCG for *BPR* would be adjusted to *BPR* core capital, which is divided into 3 categories: Large *BPR*, Medium *BPR* and Small *BPR*:

   1) Large *BPR* should fully implement GCG principle covering the required minimum number of Director and Commissioner; forming audit and risk supervisory committee; forming internal audit work unit, compliance work unit and risk management work unit;

   2) Medium *BPR* should implement GCG principle as Large *BPR*, however not required to form an audit and risk supervisory committee; and

   3) Small *BPR* should implement GCG limitedly in the form of implementing function and not obligated to form any work units related to GCG principle implementation.

3. *BPR* Risk Management Implementation Policy

With the growing *BPR* business scale, the bigger potential of loss risk shall have to be faced by *BPR* management. Therefore, in order to anticipate future potential loss, Risk Management needs to be implemented, namely a series of methodologies and procedures used to identify, measure, monitor and control any risks arising from *BPR* business activities.

In order to draft Risk Management policy for *BPR*, a preliminary assessment had been carried out with a recommendation in the form of general framework of Risk Management implementation for *BPR*, including Risk Management for Information Technology in *BPR*, as follows:

a. *BPR* Risk Management Concept covered among others the types of relevant risk, implementation of risk types and risk management process (identification, evaluation, supervision and risk control) in accordance to the characteristics of *BPR* businesses.

b. Technically, *BPR* Risk Management implementation would be adjusted in accordance with *BPR* business scale reflected in magnitude of the core capital, categorized into 3: Large, Medium and Small *BPR*:
    1) Large *BPR* should fully implement Risk Management by applying the entire relevant risks, forming Risk Management work unit and Risk Management committee;
    2) Medium *BPR* should implement Risk Management as Large *BPR*, however not obligated to form Risk Management committee; and
    3) Small *BPR* should implement Risk Management limitedly, namely applying part of relevant risks, appointing officials to carry out Risk Management function and is not obligated to form a Risk Management committee.

    BPR Risk Management also covered IT aspect, considering the use of IT in *BPR* businesses has become more important and could affect *BPR* risk profile. IT aspect becomes very important as it is related to the continuity of bank operations.

G. Integrated Supervision

According to Article 5 Law Number 21 Year 2011, *OJK* received a mandate to carry out an integrated management and supervision towards the entire financial service sector. Therefore, *OJK* had developed a framework of integrated risk-based supervision.

The growth of financial sector demanded *OJK* to supervise in order to improve the effectiveness in monitoring financial service institutions integrated among the financial sub sectors. The implementation of integrated supervision is expected to decrease the systemic risk potency in financial service group, to reduce potency of moral hazard, optimize consumers protection and to realize financial system stability.

In 2014 *OJK* has drafted a regulation related to integrated supervision and development of integrated supervision guidelines towards financial conglomeration (KYFC) and Integrated Risk Rating (IRR). IRR is an evaluation method for financial conglomeration, carried out through integrated supervision based on analysis and information from Individual Supervisor and other information, in careful consideration to group-wide risks.

OJK has also formed an Integrated Supervisory Committee through Commissioner Board Decree, consisting of Executive Head and Deputy Commissioner related to Banking Supervision, *IKNB* and Capital Market. The coverage of Integrated Supervisory Committee's function among others is to advise the direction of integrated risk-based supervision policy towards financial conglomeration, determining results and plans for supervisory action of integrated risk-based supervision towards financial conglomeration.

Figure 4.5: Coverage of Integrated Supervision

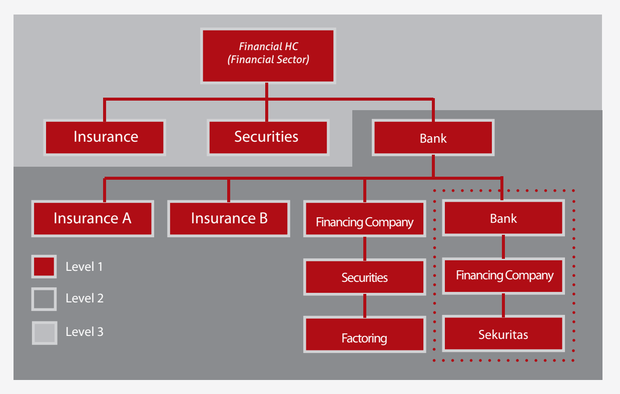
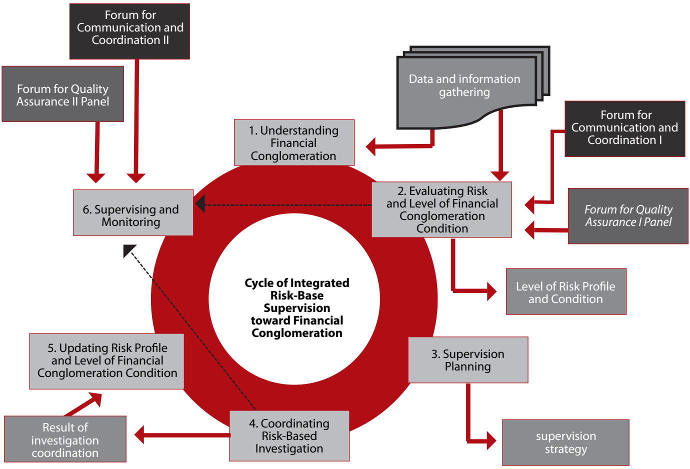


Figure 4.6: Cycle of Integrated Supervision



Conglomeration Supervision

Financial Conglomeration is an *LJK* within one group or unit related by ownership and/or control. Integrated risk-based supervision towards financial conglomeration is supervision towards Financial Conglomeration using risk-based strategy and method that allows Supervisor to prematurely detect significant risk and to take action accordingly at the right time.

Comprehension of Conglomeration is a comprehensive understanding and early identification about the condition of financial conglomeration that covers among others the structure of financial conglomeration, organization and business lines of each financial service institution in one financial conglomeration, management structure, internal control, group-wide GCG implementation and group-wide risk management implementation. The goals of conglomeration supervision are:

- To give general description of financial conglomeration under supervision;
- To identify business structure, main business activities, supporting business activities and supporting business activities that influence financial conglomeration; and

- Primary foundation to evaluate risk profile and level of financial conglomeration condition.

KYFC components consist of: (i) Structural description of Financial Conglomeration that includes General Information, Structure of Ownership, Business Group Structure, Structure of Management and Office Network, (ii) Major Business and *LJK* contribution to Financial Conglomeration and (iii) Supporting Infrastructure.

Supervision information includes the Business Strategy/Plan, CGC Implementation, Risk Management Implementation, Inter-group and related parties Transaction Exposure, Financial Performance (Profitability, Capital) and other information (i.e.: Home-Host Supervision results).

Laku Pandai

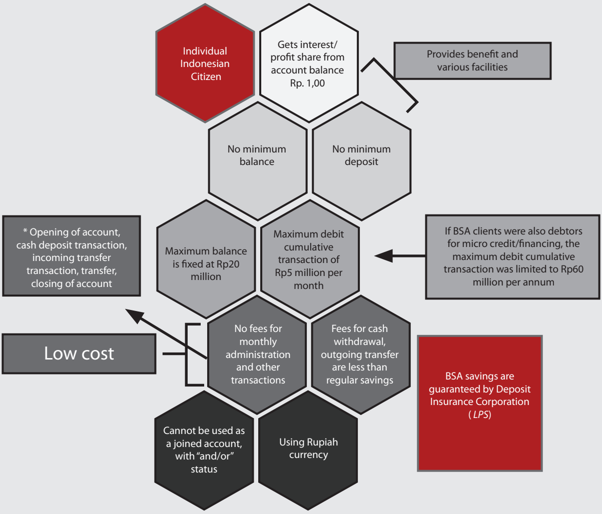
Laku Pandai is a program providing banking service and/or other financial services through collaboration with other party (bank agent), supported by IT facility usage. *Laku Pandai* is required considering the followings:

a. There are still many people who do not know, use and/or have access to banking services and other financial services, among others due to remote location, away from banks and/or due to costs or other burdening requirements;
b. *OJK*, banking industry and other financial services have committed to support the realization of financial inclusion;
c. Indonesian Government had launched a National Financial Inclusion Strategy (*SNKI*) program in June 2012, such as branchless banking; and
d. The existing branchless banking should develop in order to allow banking service and other financial services outreaching the entire Indonesian citizens.

The goals of *Laku Pandai* are to support the economic growth and evenly distribute inter-regional development, especially in villages and eastern part of Indonesia, by providing access to small communities to be able to do financial transactions, mainly banking, wherever they are; and to provide simple financial products that are easily understood and suitable for the needs of the communities. The products available from *Laku Pandai* at the moment are as follows:

a. Savings with characteristics of Basic Saving Account (BSA):
   1) No minimum limit for the balance or cash transaction, however with maximum limit of Rp20 million for account balance, while for cumulative account debit, namely cumulative cash withdrawal for Rp5 million per month;
   2) No monthly administration fee and no charge for opening and closing of account, and also for credit transactions such as cash deposit.
   3) The complete characteristics of BSA Savings are described as follows:

Figure 4.7: Characteristics of BSA Savings



b. Credit/Financing to Micro Clients
   Credit/financing is intended to finance productive business activities and/or other activities that support financial inclusion such as agriculture, plantation, opening stalls and educational loans.

c. Micro Insurance
   Insurance product intended to protect low-income communities with low premium; for example health insurance for dengue fever and typhoid, insurance against fire, accident and earth quake.

By opening a BSA account, people will be able to save their money in the bank without worrying that the balance will be credited for administration fees and will still get interest payment, also guaranteed by Deposit Insurance Corporation (*LPS)*. Furthermore, people will also able to make transactions without going to the bank location by visiting *Laku Pandai* agent in their area instead.

The requirements to open a BSA account: Indonesian citizens and have not opened an account and/or willing to have only 1 (one) account with the related bank.

In the case it has reached 6 months after opening an account, or less than 6 months provided that they meet the requirements, owners of BSA accounts can apply for micro credit. The application for credit/financing should be forwarded by BSA clients in the banks offices (supporting branches/*KCP*), or through an agent who will help forwarding it to the nearest bank supervising the agent.

Laku Pandai organizing banks are banks that meet the following requirements:

a. Indonesian legal entity;
b. Have met the required risk profile;
c. Have office networks in Eastern Indonesia and/or East Nusa Tenggara;
d. banking/mobile banking and internet banking/host to host; and
e. Have a license from *OJK*.

Meanwhile, an agent is a party that collaborates with *Laku Pandai* organizing banks (individual and/or legal entity) that becomes the extension of the bank in providing banking services and other financial services, in accordance with what has been promised to the communities in a financial inclusion.

An agent can serve the clients according to his/her agreement with the bank; such as illustrated in the following table:

Table 4.1: Types of *Laku Pandai* Agents

Individual (Teacher, pensioner, traditional village chief, owner of stall or leader of a company with no legal entity such as CV or Firm) Have products and activities such as SMS	**Legal Entity** (Limited Liability Company, Regional Company or Cooperative)
a. Local resident b. Does businesses in the related location as the source of main income c. Possesses capability, credibility, reputation and integrity.	a. Indonesian legal entity with permit to do business in financial sector and owns retail outlet. b. Do business activities in location c. Have adequate IT d. Have reputation, credibility and good performance
Passes due diligence test by organizing bank	

Figure 4.8: Service Coverage and Classification of *Laku Pandai* Agent

a. Transactions related to savings with BSA characteristics, including opening of account, deposit and cash withdrawal, transfer, payment of bills, fund transfer, balance checking, and/or closing of account;

b. Transactions related to credit or financing for micro clients, including receiving application documents, distribution of liquid fund, billing or receiving payment of installment and/or payment of loan principal;

c. Transactions related to savings other than savings with BSA characteristics, including deposit and withdrawal, transfer, payment, and/or fund transfer with maximum of Rp. 5,000,000 per day per client;

d. Transactions related to other financial services in accordance to the applicable regulations.

Agent Classification	Service Coverage
A	a
B	a, b
C	a, c
D	a, b, c
E	a, c, d
F	a, b, d
G	a, b, c, d

Classification for Novice Agents

Transfer of other classification according to Bank's policy

Banking E-Licensing

One of *OJK* strategic plans in 2015 is to provide a prime licensing service for stakeholders who desire to have a fast and high quality licensing process. In order to support a prime licensing process, an on-line banking licensing (e-licensing) service would be developed. The development of such application was expected to provide benefits for internal and external users (stakeholders), among others as follows:

1. To facilitate licensing process and reduce the frequency of correspondence to meet the requirements;
2. To help an internal party in monitoring each licensing phase;
3. To realize transparency in licensing process for external party; and
4. To facilitate delivering information update related to banking license.

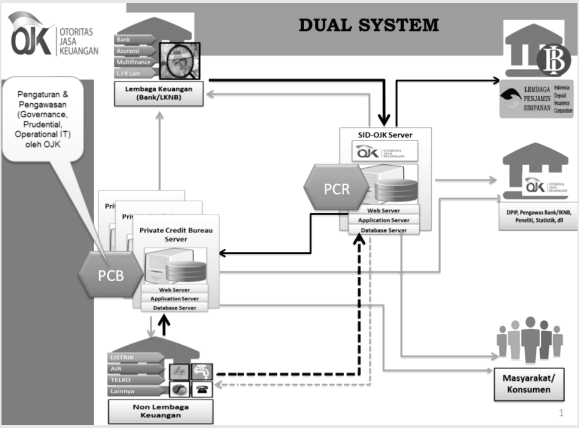
***SID OJK* Grand Design**

<u>Development of *OJK SID*</u>

With the enactment of Law Number 21 Year 2011 concerning *OJK*, effectively on December 31, 2013 all regulations and supervision towards *SID* and the implementation of information exchange system among financial institutions became the responsibility and authority of *OJK*. In order to carry out *OJK* responsibilities, and considering the growth of business requirements, technological development, and change of regulations, *OJK* feels the need to form a reliable and integrated *SID* in accordance with the international best practice.

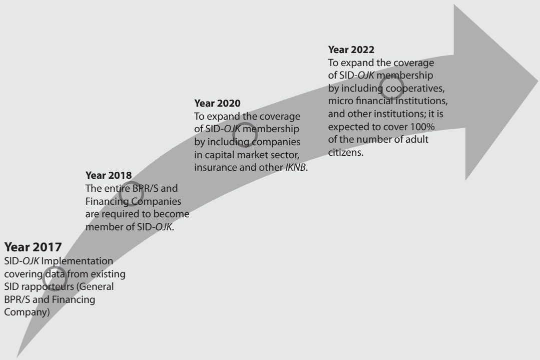
OJK will implement a dual system concept, and therefore Indonesia will have a Public Credit Registry (PCR) in the future, managed by private companies. This concept will synergize *OJK*'s power as the authority to collect data from financial service institutions using private company in innovating various products and information services needed by *LJK*. *SID OJK* shall be implemented in 2017.

Figure 4.9: Framework of *SID OJK* Dual System



At this moment, *SID* reporting parties consist of CB (obligatory for all CB), *BPR/BPRS* (obligatory for *BPR/BPRS* with a total asset above Rp10 billion for 6 consecutive months), Financing Company (voluntary based). However, in order that a reliable *SID* with global standard meets financial service industry's requirements and to support the realization of sound credit system, *SID OJK* shall expand the number of reporting parties and data coverage by including the entire *LJK* that consisted of CB, *BPR/BPRS*, and *IKNB*. Roadmap of *SID-OJK* data collecting is as follows:

Figure 4.10: Roadmap SID *OJK* Data Collection

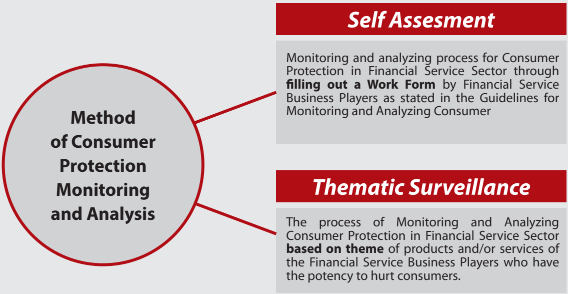


Market Conduct

Market Conduct is an element of financial regulation and supervision that is focused on the behavior of financial institutions, which is the mitigation effort in distortion practice and abuse of authority through transparency of information and service to consumers (World Bank, 2013). Market Conduct is the behavior of Financial Service Business Players (*PUJK*) in designing, arranging and delivering information, offering, making agreement on product and/or service; solving disputes and handling complaints (description *POJK* Number 1/POJK.07/2013 concerning Protection to Financial Service Sector Consumers).

- In financial service sector context, market conduct is the behavior of market players in financial service sector (*PUJK* and consumers).
- Market Conduct supervision is a form of supervision towards the behavior of market players (consumers and business players).

Figure 4.11: Method of Consumer Protection Monitoring and Analysis




OJK
OTORITAS
JASA
KEUANGAN

BAB 5

KEY BANKING REGULATIONS

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V. KEY BANKING REGULATIONS

A. New Regulations of *OJK* Products

A.1. Soundness Rating of Sharia Commercial Banks and Sharia Business Units

Pursuant to *POJK* No.8/POJK.03/2014 date 11-06-2014 concerning the Soundness Rating of Sharia Commercial Banks (*BUS*) and Sharia Business Units (*UUS*):

***BUS* and *UUS* Soundness Rating (*TKS*) Assessment**

1. Banks must conduct *TKS* assessment using both individual and consolidated risk approach (RBBR). *TKS* assessment of Banks using risk-based approach is a comprehensive and structured assessement toward the result of integrated risk profiles and performance covering the application of a good corporate governance, profitability, and capital;
2. *BUS* is obligated to conduct *TKS* assessment of Banks both individually and consolidated, while *UUS* is only obligated to assess *TKS* of Banks individually. Consolidated rating assessment of Banks is conducted to Banks performing control to their Subsidiaries;
3. The period of assessment shall be conducted at least every semester (for end of June and December positions), whereas update shall be done at any time deemed necessary;
4. Bank *TKS* assessment factors for *BUS* are Risk Profile, Good Corporate Governance, Profitability (earnings) and Capital, while *TKS* assessment factor for *UUS* is only the Risk Profile;
5. Composite ratings shall be determined based on comprehensive and structured analysis to the rating of each factor by taking into account the materiality and significance of the respective factor. Meanwhile, the category of Composite Rating is the Composite Rating (*PK*) 1 to Composite Rating (*PK*) 5, where the smaller Composite Rating reflects the more sound condition of Banks.
6. In the event there are differences between the Bank *TKS* rating conducted by *OJK* and by self assessment, *OJK* must conduct prudential meeting with the concerned bank.

Table 5.1: Soundness Rating of Sharia Banks-Sharia Business Units

Rating	Description
***PK* 1**	Reflecting Banks generally in **an excellent condition**, so that they are considered **highly capable** to deal with significant negative influences of any changes in the business condition and other external factors. In the event there are weaknesses, those weaknesses in general are **not significant**
***PK* 2**	Reflecting Banks generally in **a sound condition**, that they are considered **capable** to deal with significant negative influences of any changes in the business condition and other external factors. In the event there are weaknesses, those weaknesses in general are **less significant**.
***PK* 3**	Reflecting Banks generally in **a fairly sound condition**, that they are considered **fairly capable** to deal with significant negative influences of any changes in the business condition and other external factors. In the event there are weaknesses, those weaknesses in general are **fairly significant** and if they cannot be overcome well by the management they can disrupt the continuity of Bank operations.
***PK* 4**	Reflecting Banks generally in **a poor condition**, that they are considered **less capable** to deal with significant negative influences of any changes in the business condition and other external factors. There are **significant weaknesses** in general which cannot be overcome well by the management and hence disrupt the continuity of Bank operations.
***PK* 5**	Reflecting Banks generally in **an unsound condition**, that they are considered **not capable** to deal with significant negative influences of any changes in the business condition and other external factors. There are **very significant weaknesses** in general that to overcome them, it requires the support of funds from the shareholders or other source of funds from other parties to strengthen the financial condition of Banks.

7. In the event that after conducting the prudential meeting there is still differences in the result of the Bank *TKS* assessment, the assessment result conducted by *OJK* should be applicable.
8. Directors, BOC, and/or Controlling Shareholders (*PSP*) are obligated to submit an action plan to *OJK* in the case the result of Bank *TKS* assessment conducted by *OJK* and/or self assessment by Banks contained the following:
   a. Rating Factor of Bank *TKS* determined at Rating

4 or 5;

b. *PK* of Bank *TKS* determined at *PK* 4 or *PK* 5; and/or

c. *PK* of Bank *TKS* determined at *PK* 3, however, there are significant problems to be resolved in order not to disrupt the continuity of the Bank operations.

9. Submission time of Bank *TKS* self assessment:
   a. for individual assessment of Bank *TKS*, no later than July 31 for Bank *TKS* at end of June position, and January 31 for Bank *TKS* at end of December position; and
   b. for consolidated assessment of Bank *TKS*, no later than August 15 for Bank *TKS* at end of June position, and February 15 for Bank *TKS* at end of December position.

***BPRS TKS* Assessment**

1. *BPRS* must conduct business activities based on prudential principles and sharia principles in order to maintain or enhance the *TKS* of *BPRS*.
2. Assessment of *BPRS TKS* covers assessment of the following factors: capital, asset quality, profitability, liquidity and management. Assessment of the component factors shall be conducted in a quantitative and qualitative manner, while assessment of the management factor conducted qualitatively.
3. Assessment of capital factor includes the assessment of following components:
   a. Adequacy, projection and capital ability in anticipating risks; and
   b. Function of intermediation for investment funds by profit sharing method.
4. Assessment of the asset quality factor includes assessment of the following components:
   a. Quality of Earning Assets (*Aktiva Produktif-AP*) and concentration of risk exposures; and
   b. Adequacy of policies and procedures, documentation system and performance of the handling performance of the non-performing AP.
5. Assessment of the profitability factor includes assessment of the following components:

   a. AP ability in generating profits; and
   b. Level of operational efficiency.
6. Assessment of the liquidity factor includes assessment of the following components:
   a. Ability to meet short term liabilities and maturity mismatch potential; and
   b. Adequacy of liquidity management policy.
7. Assessment of the management factor includes assessment of the following components:
   a. Quality of general management, including the implementation of commitment fulfillment to BI and other parties;
   b. Application of risk management especially the understanding of management on *BPRS* risks; and
   c. *BPRS* compliance with sharia principles and social function implementation.
8. Assessment on the components of capital factor, asset quality factor, profitability factor and liquidity factor shall be conducted quantitatively.
9. Based on the rating result of capital factor, asset quality factor, profitability factor and liquidity factor, the rating of financial factor shall be determined.
10. Based on the rating assessment results of the financial factor and assessment of the management factor, *PK* shall be determined which constitutes the final rating of the bank *TKS* assessment result. *PK* shall be determined as follows:

Table 5.2: Soundness Rating of Sharia Rural Banks

Rating	Description
***PK* 1**	Reflecting that banks have an **excellent sound condition** resulted from **a very good** business management.
***PK* 2**	Reflecting that banks have **a sound condition** resulted from **a good** business management.
***PK* 3**	Reflecting that banks have **a fairly sound condition** resulted from **a fairly good** business management.
***PK* 4**	Reflecting that banks have **a poor condition** resulted from **a poor** business management.
***PK* 5**	Reflecting that banks have **an unsound condition** resulted from **a bad** business management.

A.2. Asset Quality of Sharia Commercial Banks and Sharia Business Units

Pursuant to *POJK* No.16/POJK.03/2014 concerning Asset Quality of Sharia Commercial Banks (*BUS*) and Sharia Business Units (*UUS*)

Asset Quality *of BUS-UUS*

Sharia banking as financial agencies running the function of intermediation is required to present financial statements that are accurate, comprehensive and reflecting the performance of banks as a whole. One of the requirements for presenting financial statements that are accurate and comprehensive, the statements must be presented in accordance with the applicable Financial Accounting Standars.

1. Banks are obliged to place and/or provide funds based on prudential principle and Sharia Principles. In order to implement the prudential principle, Directors are obliged to assess, monitor and take required measures so that the quality of assets remain in good order. Maintaining the quality of assets is done among others by implementing credit risk management effectively, including through development of policies and guidelines as referred to in the applicable regulations.
2. Banks are obligated to conduct quality assessment of Earning Assets and Non-earning Assets. Earning Assets are Banks investment both in rupiah and foreign currencies to earn income in the form of financing, sharia securities, capital placement in BI and the government, receivables of sharia securities under reverse repurchase agreement, acceptance receivables, derivative receivables, participation, placement in other Banks, off balance sheets and equivalent forms of other funds provision. Non-earning Assets are assets of Banks other than Earning Assets that have potential loss, among others in the form of foreclosed properties, abandoned properties, and inter-office accounts as well as suspense accounts.
3. Banks are obligated to set the quality of several Earning-Assets accounts used to finance 1 (one)

customer on 1 (one) Bank, with the same quality. The determination on quality is also applicable to Earning Assets in the form of provision of funds or billings provided by more than 1 (one) Banks conducted based on joint financing agreement and/or syndication.

4. Quality of assets is classified as follows:

Table 5.3: Asset Quality of Sharia Banks-Sharia Business Units

No.	Asset Type	Asset Quality				
		L	DPK	KL	D	M
1	Financing	√	√	√	√	√
2	Placement in BI and Government	√	-	-	-	-
3	Sharia Securities	√	-	√	-	√
4	Equity Participation	√	-	√	√	√
5	Temporary Equity Participation	√	-	√	√	√
6	Placement in Other Banks	√	-	√	√	√
7	Acceptance Receivables					
	a. Placement in other banks	√	-	√	-	√
	b. Financing	√	√	√	√	√
8	Off Balance Sheet Transaction					
	a. Placement in Other Banks	√	-	√	-	√
	b. Financing	√	√	√	√	√
9	Claims on Sharia Securities with reverse repurchase agreement					
	a. Placement in Other Banks	√	-	√	-	√
	b. Financing	√	√	√	√	√
10	Derivative Transaction					
	a. Placement in Other Banks	√	-	√	-	√
	b. Financing	√	√	√	√	√
11	Foreclosed Assets	√	-	-	-	√
12	Abandoned Properties	√	-	√	√	√
13	Suspense Account	√	-	-	-	√
14	Interoffice Account	√	-	-	-	√

L= current, DPK= under special supervision, KL= sub-standard, D= doubtful, M=loss

Asset Quality of *BPRS*

1. Investment and/or funds provision of *BPRS* must be implemented based on prudential principle and Sharia Principles.
2. *BPRS* are obligated to assess, monitor and take anticipated measures so that the quality of assets remains in a current state.
3. *BPRS* are obligated to determine the same quality to several Earning-Assets accounts used to finance 1 (one) customer in the same *BPRS*. In the event there is a different Earning Assets quality for 1 (one) customer in the same *BPRS*, then the concerned *BPRS* shall classify an equal quality for each Earning Asset following the lowest Earning Asset quality.
4. *BPRS* are prohibited to place funds in the form of deposits with Conventional CB and in the form of savings and deposits with *BPR*
5. *BPRS* may only conduct funds placement with Conventional CB in the form of demand deposits/ savings for the benefits of funds transfer for *BPRS* and *BPRS* customers and should be classified as Non-earning Assets.
6. Quality of *BPRS* assets is classified as follows:

Table 5.4: Assets Quality of Sharia Rural Banks

No.	Assets Type	Assets Quality			
		L	KL	D	M
1	Financing	√	√	√	√
2	Placement in Other Banks	√	√	-	-
3	Foreclosed Assets	√	-	-	√
4	Placement in Conventional Commercial Banks	√	√	-	√

L= current, KL= sub-standard, D= doubtful, M=loss

A.3. Application of Integrated Risk Management for a Financial Conglomeration

Pursuant to *POJK* No.17/POJK.03/2014 dated 21-11-2014 concerning Application of Integrated Risk Management for a Financial Conglomeration

Background

Financial industry is an industry that has business complexities and high competitiveness, thus exposed to high risks and should operates with caution and efficiently. To face that condition, Financial Services

Agencies are required to consider all risks that directly or indirectly can influence their business continuity, both coming from the subsidiaries, sister companies, and other entities which are members of a Financial Conglomeration.

In order to manage risks more comprehensively, a Financial Conglomeration must apply risk management in an integrated manner. Through the application of integrated risk management, the Financial Conglomeration will gain benefits, among others better risk management, application of risk appetite and risk tolerance which is in accordance with the business complexities and characteristics of the Financial Conglomeration, that in turn will generate synergy and enhance the business capacity and capital of the Financial Conglomeration. Besides, the application of Integrated Risk Management in a Financial Conglomeration is expected to be one of the facilities contributing to the realization of a sustainable financial system stability that is able to enhance the national competitiveness.

Key Regulations

1. A Financial Conglomeration must apply Integrated Risk Management comprehensively and effectively as governed in this regulation of *OJK*.
2. A Financial Conglomeration has a structure comprising of: (a) a Main Entity; (b) subsidiaries and/or (c) related companies and their subsidiaries.
3. Types of Financial Services Agencies in a Financial Conglomeration includes: (a) banks; (b) insurance and reinsurance companies; (c) securities companies and/or (d) financing companies.
4. A Financial Conglomeration must have a Main Entity, namely the Financial Services Agency which integrates the application of Risk Management in the Financial Conglomeration.
5. In the event the structure of the Financial Conglomeration consisted of a Parent and subsidiaries of Financial Services Agencies, the Main Entity is the Financial Service Agency Parent Company.

6. In the event the structure of the Financial Conglomeration not only consisted of a Parent and subsidiaries of Financial Services Agencies (there are related companies), *PSP* of Financial Conglomeration must appoint a Main Entity. The party appointed as the Main Entity is the Financial Services Agency that owns the largest total assets and/or has a good application quality of Risk Management.
7. The application of Integrated Risk Management covers at least:
   a. Supervisory Directors and BOC of the Main Entity;
   b. Adequacy of policies, procedures and determination on the limit of Integrated Risk Management;
   c. Adequacy of the processes of identification, measurement, monitoring, integrated risk control and information system of Integrated Risk Management;
   d. A comprehensive internal control system toward the application of Integrated Risk Management.
8. Risks that should be managed in the Integrated Risk Management include: (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. Risk of Insurance is not a mandatory to be managed by Financial Conglomeration that does not have insurance and/or reinsurance companies.
9. The Main Entity should appoint the Director of the Main Entity supervising the function of Risk Management to be the Director in charge of the function of Integrated Risk Management.
10. In the context of a comprehensive and effective Integrated Risk Management application, the Main Entity must form: (a) Integrated Risk Management Committee and (b) Integrated Risk Management Work Unit.
11. The Main Entity must submit reports as follows:
    a. Reports on the Financial Services Agency

which becomes the Main Entity and the Agencies that become members of the Financial Conglomeration to *OJK*. Those reports are to be submitted no later than March 31, 2015.

b. Reports, in the case of:
   1) New financial conglomeration and appointment of the Main Entity;
   2) Change of the Main Entity;
   3) Change of members of the Financial Conglomeration; and/or
   4) Dissolution of the Financial Conglomeration

   Should be submitted no later than 20 (twenty) working days as of the occurrence of the condition referred to.

c. Reports on integrated risk profile periodically for the position of end of June and end of December should be submitted on the fifteenth of the second month after the end of the reporting month.

12. The obligation of submitting integrated Risk Profile reports for the first time should be conducted for the position of reports as follows:
    a. June 2015, for Main Entities which are *CB BUKU* 4;
    b. December 2015, non *BUKU* 4 banks and non banks.
13. Sanctions in this *POJK* consisted of 2 types, namely administrative sanction and financial penalty, particularly in relation to the delay in reporting.
14. Specifically imposition of administrative sanction shall be applicable as of:
    a. January 2017, for Main Entities which are CB *BUKU* 4;
    b. January 2018, for Main Entities which are non *BUKU* 4 banks and non banks.

A.4. Application of Integrated Governance for a Financial Conglomeration

Pursuant to *POJK* No.18/POJK.03/2014 dated 21-11-2014 concerning application of Integated Governance for a Financial Conglomeration

Background

A Financial Conglomeration is required to apply good governance as a whole, so that the Financial Conglomeration can enhance performance, protect the interest of the stakeholders, and improve compliance to the applicable legislation as well as the generally accepted ethical values.

In the application of good governance, it requires the availability of Integrated Governance guidance which constitutes a reference for all financial services institutions in the Financial Conglomeration so that it can improve the quality of governance application in the Financial Conglomeration.

Key Regulations

1. A Financial Conglomeration must apply Integrated Governance which implementation shall be conducted by the Main Entity.
2. Therefore, the Main Entity should have at least: (i) BOC of Main Entity; (ii) Directors of Main Entity; (iii) Integrated Governance Committee; (iv) Integrated Compliance Work Unit; (v) Integrated Internal Audit Work Unit; and (vi) Integrated Governance Guidelines.
3. Directors of Main Entity have duties and responsibilities, among others, to ensure the implementation of Integrated Governance in the Financial Conglomeration.
4. BOC of Main Entity has duties and responsibilities, among others, supervise the application of Governance in each Financial Services Agency so as in compliance with the Integrated Governance Guidelines.
5. Implementation of duties and responsibilities of the Main Entity's Directors and/or the Main Entity's BOC shall not be considered as a concurrent position (ex officio).
6. Integrated Governance Committee has duties and responsibilities, among others, to evaluate the implementation of Integrated Governance at least through the assessment of internal control adequacy and the implementation of integrated compliance function.

7. The composition of Integrated Governance Committee membership, at least consists of:
   a. An Independent Commissioner to serve as the Chairman in one of the committees in the Main Entity, as the Chairman and concurrently a member;
   b. An Independent Commissioner represented and appointed from the Financial Services Agency, as a member;
   c. An independent party, as a member; and
   d. A member of *DPS* from the Financial Services Agency in the Financial Conglomeration, as a member.

   The membership of Independent Commissioners, independent parties and members of *DPS* in the Integrated Governance Committee in the Financial Conglomeration are not considered as concurrent positions.
8. Integrated Compliance Work Units have duties no less than to monitor and to evaluate the implementation of compliance function in each Financial Services Agency within the Financial Conglomeration.
9. Integrated Internal Audit Work Units have duties no less than to monitor the implementation of internal audits in each Financial Services Agency within the Financial Conglomeration.
10. Integrated Governance Guidelines contain at least:
    a. Requirements of prospective members of Directors, prospective members of BOC and Sharia Supervisory Board;
    b. Structure of Directors, BOC and Sharia Supervisory Board;
    c. Independency of BOC actions;
    d. Implementation of the function of Financial Authority Agency management by the Directors;
    e. Implementation of the supervisory function by the BOC and Sharia Supervisory Board;
    f. Implementation of the compliance function, internal audit function, and implementation of external audit;

g. Implementation of the risk management function;
h. Remuneration policy;
i. Management of conflict of interests.

11. A Finacial Conglomeration which Main Entity is a Branch Office of an overseas entity shall comply with the provisions of Integrated Governance.
12. Main Entities shall prepare reports of assessment of Integrated Governance implementation each semester for the position of end of June and December, and they shall be submitted no later than the fifteenth of the second month after the end of the reporting month.
13. Main Entities shall prepare annual reports of Integrated Governance implementation submitted no later than 5 (five) months after the end of the fiscal year.
14. The obligation of submitting reports of the assessment of Integrated Governance implementation for the first time shall be conducted for the report of position as follows:
    a. June 2015, for Main Entities which constitute CB *BUKU* 4;
    b. December 2015, for Main Entities which constitutes banks other than CB *BUKU* 4 and non banks.
15. Imposition of sanctions shall be applicable as of:
    a. January 1, 2017, for Main Entities which are CB *BUKU* 4;
    b. January 1, 2018, for Main Entities which are non *BUKU* 4 banks and non banks.

A.5. Branchless Banking Financial Services in the Context of Inclusive Finance (*Laku Pandai*)

Pursuant to *POJK* No.19/POJK.03/2014 concerning Branchless Banking Financial Services in the Context of Inclusive Finance (*Laku Pandai*)

1. Branchless Banking Products
    a. Savings (Basic Saving Account – BSA)
    b. Loans/Microfinance
    c. Micro Insurance
2. What type of media transactions can be used by Agents and Customers?

   a. Banks are free to determine if the transactions in the agent uses cellphones, laptops, tabs, internet banking or host to host.
   b. Banks are free to determine if the proofs of customer transactions use saving books, cellphones or only transaction proofs.
3. Who can be the customers of BSA?
   a. Indonesian Citizens
   b. Having no savings yet and/or only willing to have 1 (one) savings in the bank in question.
4. Who can be Branchless Banking agents?
   Individuals or legal entities can cooperate with any bank to become Branchless Banking agents; See Table 4.1: Types of Branchless Banking Agent.
5. Where is the location of Branchless Banking agents?
   a. Throughout Indonesia including in the state capital, provincial capitals, regency capitals and city capitals up to December 31, 2016.
   b. Can be in state capital, provincial capitals, regency capitals and city capitals with certain requirements after December 31, 2016.
6. What are the criteria of Banks that can become BRANCHLESS BANKING organizers?
   a. Incorporated in Indonesia.
   b. Having risk profiles as required.
   c. Having office networks in East Indonesia Region and East Nusa Tenggara except for *BPD* and banks that have head offices outside Jakarta.
   d. Having products and activities of sms banking/mobile banking and internet banking/host to host.

A.6. Rural Banks

Pursuant to *POJK* No.20/POJK.03/2014 dated 21–11-2014 concerning *BPR*

Background

The mission of *BPR* existence as one of the banks mandated in the Law concerning Banking is to serve micro, small and community enterprises in rural areas. The mandate continues to be inherent to *BPR* up to today as a bank that focuses on providing financing and services to micro-small scale enterprises dominating the portion of business units in Indonesia and the communities in the remote areas. In order to enhance *BPR* contribution to the financing of micro-small business sector which currently only reaches 4.2% of the total MSME loans of the national banking, it requires strengthening efforts of institutional *BPR* so that the role and existence of *BPR* can be increasingly felt by public, and have high competitiveness.

To support the strengthening efforts of institutional *BPR*, a Draft of *OJK* Regulation (RP*OJK*) concerning *BPR*, a refinement of PBI No.8/26/PBI/2006 applicable since 2006 has been prepared.

Key Regulations

In general, there are 7 (seven) matters that become the magnitude of *POJK* amendment concerning *BPR* compared to PBI concerning *BPR*, including:

1. *BPR* Establishment Licensing

   In order to boost the strengthening of *BPR* so as to operate optimally since the early establishment of *BPR*, simultaneously to support the financial inclusion policy in encouraging the establishment of *BPR* in rural areas and east regions of Indonesia, the minimum paid-up capital requirement for the establishement of new *BPR* has been set up. Other than the adjustment to the paid-up capital requirement, the grouping of regions (zoning) has also been determined based on regional potentials and level of competitiveness in each regency/city in Indonesia. Requirement for paid-up capital in the context of *BPR* establishment has been grouped into 4 zones, respectively, as follows:

   a. Zone 1 in the amount of Rp 14 billion, consisted of 13 regencies or cities;
   b. Zone 2 in the amount of Rp 8 billion, consisted of 94 regencies or cities;
   c. Zone 3 in the amount of Rp 6 billion, consisted of 51 regencies or cities;
   d. Zone 4 in the amount of Rp 4 billion, consisted of 339 regencies or cities.

   Although based on calculation of paid-up capital adequacy it requires a minimum capital of Rp 6 billion to start a *BPR* business, and yet in order to promote the interests of investorts establishing *BPR* in remote areas, it was determined that the requirement for paid-up capital of *BPR* establishment in zone 4 shall be Rp 4 billion. This zone constitutes regencies and cities in developing regions outside Java Island and Bali as well as regencies and cities in east regions of Indonesia (Sulawesi, Ambon and Papua), so that banking services of *BPR* can be enjoyed by the communities throughout Indonesia. Strengthening of *BPR* capital can promote the enhancement of services quality, the expansion of services coverage and the decrease of *BPR* lending rate. Details on regencies/cities included in each zone shall be further regulated in an *OJK* Circular.

In order to enhance the quality of services to public in the process of *BPR* establishment licensing, the period of approval or rejection of principle approval and business license which previously was for 60 working days has been changed to 40 working days. Besides, to improve effectiveness and efficiency, the process of *BPR* establishment licensing shall be handled by Work Units specifically deal with every stage of *BPR* establishment, so as to support the efforts of acceleration and transparency of licensing process. The improvement of licensing mechanism is expected to facilitate prospective investors which will establish *BPR* in order to extend banking services to the whole society.

2. Efforts of Capital Strengthening for Existing *BPR*

   To guarantee the commitment of the Shareholders in dealing with the *BPR* financial difficulties, it is regulated that the obligation for each *BPR* having at least 1 (one) shareholder with the percentage of shares ownership of no less than 25% in accordance with the criteria on *PSP* stipulated in the regulation concerning fit and proper test of *BPR*.

   Meanwhile, to boost the capital strengthening of the existing *BPR*, there is facilitation for sharehoders to increase the paid-up capital to strengthen the capital of *BPR*. The facilitation is stipulated in the regulation which allows the increase of paid-up capital derived from the dividends of the concerned *BPR* to be transferred to Deposit Funds Capital without going to escrow account in the form of deposit in other bank first.

In order to increase the paid-up capital, there are selections for the shareholders of the (existing) *BPR* to be able to place the increase of paid-up capital in the form of deposits in CB and/or the concerned *BPR*.

In this regulation, it is also opened a space for *BPR* to make purchases of fixed assets and infrastructure supporting operational activities for which accounts are no longer constrained by a certain percentage of the paid-up capital.

3. Requirements for Directors and BOC of *BPR*, and Prohibition on Concurrent Position.

   In order to enhance the quality of human resources of *BPR* Management, in this regulation of institutional *BPR* it shall be added by competency requirements that must be owned by Directors and BOC of *BPR* in order to be able to manage *BPR* better and more prudent. The competency requirements are in the form of sufficient knowledge in the field of banking and relevant with their positions; and also experiences in the field of banking and/or non-bank financial services institutions. Specifically for Directors, they also must have ability to conduct strategic management for the development of a sound *BPR*.

   To enhance the quality and supervision ability of *BPR* by the BOC, each member of the BOC are obliged to have valid certificates of graduation from the Professional Certification Agency. Three years time up to December 31, 2017 has been given to meet the regulation.

   Besides, to guarantee the implementation of well preserved governance, there is a strict prohibition for Directors and BOC to have concurrent position and to restrict family affiliation between members of Board of Directors (BOD) and BOC of *BPR* in order to keep the independency toward the public interest and to avoid the occurrence of conflict of interest toward personal interest or certain group (family) interest that might be detrimental to the public served by *BPR*.

To enhance the focus of duty implementation for Directors and BOC, there is a new regulation governing the domiciles of all members of BOD in the same city/regency or different city/regency in the same province or city/regency in other provincy directly adjacent to the provincy of *BPR* Head Office (HO) location. Meanwhile, for the BOC, it governs the domiciles in the same province or in the city/regency in other province directly adjacent to the province of *BPR* HO location.

4. Opening of *BPR* Office Networks

   For the development of *BPR* feasible office networks, there is no restrictions on the number of Branch Offices that can be opened by *BPR* within 1 year provided that it meets the requirements related to the request of office network opening by *BPR*, covering the fulfillment of *BPR* soundness rating, including the achievement of efficiency ratio, the completeness of adequate IT, fulfillment of core capital adequacy and non-existence of violations against regulations concerning *BPR*.

   Types of *BPR* office networks include Branch Offices, Cash Units and Cash Service Activities (consisting of Mobile Cash, Payment Point, and Electronic Banking Devices in the form of Automated Teller Machine/ATM, Automated Deposit Machine/ADM and Electronic Data Capture/EDC).

   In the event *BPR* plans to conduct service activities using ATM cards and/or debet cards, *BPR* must apply for a license as an ATM card issuer and/or debit card issuer to BI after obtaining approval from *OJK* by fulfilling certain requirements.

   In relation to the policy in several Regional Governments concerning regional divisions, it is regulated that in the event of a regional division causing a Branch Office and HO located in a different province, *BPR* must close or move the *BPR* Branch Office; or move the *BPR* HO to the same provincial region.

5. Revocation of Business License on the Request of the Shareholders

   Revocation of business license on the request of owner (self liquidation) constitutes alternative of exit policy mechanism for *BPR* other than the mechanism of business license revocation through *LPS*.

   BPR Shareholders may request for revocation of *BPR* business license provided that the referred *BPR* is not being placed as a Bank under Special Surveillance by *OJK*.

   Besides, *OJK* shall perform *BPR* business license revocation on request of *BPR* Shareholders if *BPR* has completed all of its oblication to customers and other creditors.

6. Imposition of Sanctions upon the Violations of Regulation Against the regulation violations stipulated in this *POJK*, can be imposed sanctions in the form of:

   a. To *BPR*:
      1) Written warnings
      2) Financial penalties
      3) Decrease one level of *BPR TKS* until its level reaches not sound
      4) Temporary suspension a part of the *BPR* operational activities, and/or
      5) Prohibition of opening office networks and *PVA* activities

   b. To Shareholders, in the form of delays the right to receive dividents.

7. Transitional Period

   Toward the application of several oblications, it is stipulated a transition period up to December 31, 2017 to meet the obligations governed in this *POJK*.

A.7. Minimum Capital Adequacy Requirement for Sharia Commercial Banks

Pursuant to *POJK* No.21/POJK.03/2014 dated 18-11-2014 concerning Minimum Capital Adequacy

Requirement of Sharia Commercial Banks

Minimum Capital Adequacy Requirement (*CAR*) of BUS

In order to create a sharia banking system that is sound and capable to develop and compete nationally and internationally, banks need to enhance their capabilities to absorb risks due to crisis condition and/or excessive growth of banking financing through the enhancement of quality and quantity of bank capitals in accordance with the applicable international standards, namely Basel III and IFSB. The calculation of capital adequacy is one of the basic aspects in the implementation of prudential principle. Capital functions as a buffer to absorb losses resulted from various risks. The arrangement of CAR is as follows:

1. Banks are required to provide minimum capital in accordance with risk profile determined at a minimum as follows:
    a. 8% of RWA for Banks with risk profile rating of 1;
    b. 9% up to 10% of RWA for Banks with risk profile rating of 2;
    c. 10% up to less than 11% of RWA for Banks with risk profile rating of 3; or
    d. 11% up to 14% of RWA for Banks with risk profile rating of 4 or 5.
2. Other than the obligation of minimum capital provision in accordance with the risk profiles, banks are required to form capital increases as buffers, i.e.:
    a. Capital Conservation Buffer of 2.5% from RWA for banks classified as BUKU 3 and 4
    b. Countercyclical Buffer in the range of 0% - 2.5% of RWA; and/or
    c. Capital Surcharge for Domestic Systemically Important Bank (D-SIB) in the range of 1% - 2.5% of RWA.
3. In the event banks have and/or conduct control toward subsidiaries, the obligations of minimum capital provision and additional capital formation as buffers are applicable for banks both individually and in consolidationwith the

subsidiaries.

4. Capital consists of:
   a. Core Capital (Tier 1) covering:
      1) Common Equity Tier 1 including:
         a) Paid-up capital;
         b) Disclosed reserve; and
      2) Additional core capital (additional Tier 1); and
   b. Supplementary capital (Tier 2).
5. Components of capital taken into account in this setting, other than already referred to regulations and international standards, they also have accommodated instruments that have considered compliance with the characteristics of sharia banking and *fatwa* of *DSN-MUI* reflected in RWA calculation.
6. RWA used in the calculations of minimum capital and additional capital formation as buffers, consists of:
   a. RWA for Credit Risk;
   b. RWA for Operational Risk; and
   c. RWA for Market Risk;
7. Each bank is required to calculate RWA for Credit Risk and RWA for Operational Risk. Besides, banks that meet certain criteria are also required to calculate RWA for Market Risk.
8. In fulfilling CAR requirement according to both individual and consolidated risk profiles with the subsidiaries, banks are required to have Internal Capital Adequacy Assessment Process (ICAAP) according to the size, characteristics, and complexities of the bank business.
9. *OJK* shall conduct Supervisory Review and Evaluation Process (SREP), where *OJK*, depending to the result, may ask banks to improve their ICAAP.
10. Enforcement Period:
    a. Minimum capital according to the risk profiles, capital core (Tier 1) at a minimum of 6%, and main core capital (Common Equity Tier 1) of 4.5% minimum as of January 1, 2015.
    b. Requirements of new capital components as of January 1, 2016.

c. Capital Conservation Buffer of 2.5% gradually as of January 1, 2016 – January 1, 2019.
d. Countercyclical Buffer and Capital Surcharge as of January 1, 2016.

BPRS CAR

1. *BPRS* is required to provide minimum capital of 8% of RWA.
2. The capital comprises of core capital and supplementary capital. The supplementary capital that can be taken into account is a maximum of 100% from the core capital. *BPRS* RWA only covers credit risk RWA. The RWA shall be calculated based on the risk weight of the respective asset item of the balance and off balance sheets, as follows:
   a. Balance sheet assets weighted in accordance with the level of fund provision risk inherent on each asset item;
   b. Certain items in the list of commitments and contingencies (off balance sheet account) which are weighted and in accordance with the level of fund provision risk inherent on each asset item after prior calculation by weight conversion factor.

B. Existing BI Regulations

B.1 Regulations on Institution, Management, and Ownership of Banks

1. Bank Establishment

Banks may only be established and run business activities with *OJK* permits.

a. Conventional CB

Having paid-up capital of 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 partnership.

b. BUS

Having paid-up capital of 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 partnership.

c. *BPR*

Having paid-up capital of no less than:

1) Rp 5 billion for *BPR* established in DKI Jakarta region;
2) Rp 2 billion for *BPR* established in provincial capitals in Java and Bali islands and also the regions of Regencies/Cities of Bogor, Depok, Tangerang and Bekasi:
3) Rp 1 billion for *BPR* established in provincial capitals outside the Java and Bali islands as well as in the regions of Java and Bali islands beyond the regions referred to in the letter a and b;
4) Rp 500 million for *BPR* established in other regions as referred to in the letter a, b, and c, and can only be established and/or owned by:
   a) Indonesian citizens;
   b) Indonesian legal citizens in which the entire owners are Indonesian citizens;
   c) Regional Governments; or
   d) Having two parties or more as referred to in the letter a), b) and c).

d. *BPRS*

Having paid-up capital no less than:

1) Rp 2 billion for *BPRS* established in the regions of DKI Jakarta Raya and Regencies/Cities of Tangerang, Bogor, Depok and Bekasi;
2) Rp1 billion for *BPRS* established in the regions of provincial capitals outside the regions as referred to in the letter a;
3) Rp 500 million for *BPRS* established outside the regions referred in the letter a and b, and can be established and/or owned by:
   a) Indonesian citizens;
   b) Indonesian legal citizens where all the

owners are Indonesian citizens;

c) Regional Governments; or
d) Having two parties or more as referred to in the letter a), b) and c).

e. Opening of Foreign Bank Branch Offices

Opening a branch office of can be conducted if the foreign bank that will open the branch office:

1) has a good ranking and reputation;
2) has total assets among the world top 200;
3) invests business funds in rupiah currency or foreign currency with a value of at least equal to Rp 3 trillion.

f. Opening of Foreign Bank Representative Offices

Opening a Representative Office of Foreign Bank can be conducted if the bank that will open a Representative Office owns total assets among the world top 300.

Representative Offices may only perform activities among others:

1) Providing information to third parties concerning the requirements and procedures in conducting relations with the Head Office/ Branch Offices abroad;
2) Assisting HO and Branch Offices abroad in supervising credit collaterals in Indonesia;
3) Acting as a proxy in contacting agencies/ institutions for the HO or Branch Offices of their banks abroad;
4) Acting as supervisors to projects which part of or entirely financed by the HO or Branch Offices abroad;
5) Conducting promotion activities in order to introduce their banks;
6) Providing information on Indonesian trade, economic and finance to foreign parties or vice versa;
7) Assisting Indonesian exporters to get access to markets abroad through international networks owned by the Representative Office or vice versa.

2. Bank Ownership

Sources of funds used for Conventional CB/*BUS* and

BPR/BPRS ownerships are prohibited to be derived:

a. from loans or financing facilities in whichever form from banks and/or other parties in Indonesia; and/or
b. from and for the purpose of money laundering;

In particular for *BPR*, the source of funds can be derived from the Regional Budget.

Parties that become bank owners must meet the following requirements:

a. Have good characters and morals, among others shown by the attituted of compliance with the applicable regulations, including has never been convicted of a particular crime within the last 20 years prior to being nominated;
b. Have commitments to comply with the laws and regulations applicable to Conventional CB; and sharia banking regulations applicable to *BUS;*
c. Have commitment to the development of a sound bank operations (for Conventional CB); and have high commitment to the development of a sound and resilient sharia banks;
d. Are not included in the List of Disqualified FPT (for Conventional CB); and
e. Have commitment not to conduct and/ or repeat acts and/or certain actions, for prospective members of BOC or prospective members of Directors who has failed in FPT and have undergone sanctions set by *OJK*.

Change of bank owners is subject to the procedures of change of bank ownership stipulates in the applicable legislation.

3. Sole Proprietorship in Banking in Indonesia

Key policies of sole proprietorship are that every party may only be a *PSP* in 1 (one) business unit in Indonesia. In the event a party has already become a *PSP* in more than 1 bank or purchased shares from other bank resulted in the said person become a *PSP* in more than 1 bank, the person in question must comply with the regulation of Sole Propietorship. Meeting the requirements of a Sole Propietorship can be done through the following:

a. Merger or consolidation of banks under its control;
b. Form a main entity/parent company in the field of banking; or
c. Form a holding function.

The policy of sole proprietorship is exempted for:

a. *PSP* on 2 banks, where each bank undertakes business activities with different principle, namely, conventionally and based on Sharia Principles; and
b. *PSP* on 2 banks, where one of them is a joint venture bank.

For *PSP* that choose the option of merger/consolidation to comply with the structure of ownership of this regulation, it will be granted incentives in the form of:

a. Temporary leniency in fulfilling the Statury Reserves (*GWM*);
b. Extension of settlement period for exceeding the Maximum Lending Limit (*BMPK*);
c. Facilitation in opening branch offices; and/or
d. Temporary leniency in application GCG.

The form of a parent company legal entity is a Limited Liability Company (PT) incorporated in Indonesia and in compliance with the applicable laws and regulation in Indonesia.

The holding function may only be undertaken by *PSP* of banks incorporated in Indonesia or Government Agencies of the RI.

Parent Companies in the field of banking and holding functions must provide strategic directions and condolidate the financial statements of their subsidiary banks.

In compliance with the FPT regulation, for a legal entity *PSP*, the understanding of *PSP* is up to the owner and the ultimate shareholders of the legal entity. In line with that, the understanding on conducting controlling both directly and indirectly shall also refer to the requirements of FPT.

4. Shares Ownership in Conventional Commercial Banks

In order to administer the structure of ownership, *OJK* has established a maximum limit of shares ownership in banks based on categories of the shareholders and the relationship between the shareholders, as follows:

a. Legal entities of bank financial institutions and non-bank financial institutions at 40% of bank capital;
b. Legal entities of non-bank financial institutions at 30% of bank capital; and
c. Individual shareholders at 20% of bank capital;
d. Maximum limit of shares ownership by individuals in *BUS* is 25% of bank capital.

The maximum limit of shares ownership is not applicable for the Central Government and institution which have the function of handling and/or rescuing banks. The relationship between bank shareholders shall be based on:

a. Ownership affiliations;
b. Family affiliations up to the second degree; and/or
c. Cooperation or acting in concert to achieve common goals in controlling the bank with or without a written agreement so that the parties collectively will have option rights or other rights to own the bank shares.

Prospective *PSP* of foreign citizens and/or legal entities domiciled in overseas must meet the following requirements:

a. Having commitment to support the development of Indonesia's economy through banks owned;
b. Obtaining recommendations from the supervisory authoriy from the country of origin, for financial institution legal entities; and
c. Having a grade/ranking of no less than:
    1) 1 notch above the lowest investment grade, for bank financial institution legal entities;
    2) 2 notch above the lowest investment grade, for non-bank financial institution legal entities;
    3) 3 notch above the lowest investment grade, for non-financial institution legal entities.

Bank financial institution legal entities may have bank shares more than 40% of bank capital provided that it has *OJK*'s approval and shall meet the set requirements.

Individuals and/or legal entities can buy CB shares direcly and through the stock exchange. Total shares ownership by foreign citizens/foreign legal entities shall be no more than 99% of the total shares of the concerned bank.

Shareholders who own bank shares more than the maximum limit shall adjust their ownership to the maximum limit of shares ownership based on the results of *TKS* and/or GCG assessment for the assessment position of end of December 2013. Shareholders in banks with *TKS* and/or GCG assessment of *PK* 3, 4 or 5 at the assessment position of December 2013, shall adjust their maximum limit of shares ownership no longer than 5 years as of January 1, 2014.

Shareholders of banks that have *TKS* and GCG assessment of *PK* 1 or 2 at the assessment position of December 2013 can still have shares in the percentage of shares already owned. The obligation to adjust with the ownership limit in the event of experiencing a decrease of *TKS* and/or GCG rating to *PK* 3, 4 or 5 during the three periods of assessment consecutively or the shareholders on their own initiatives sell their shares.

The application of maximum limit of shares ownership for *Pemda* and parent company shall be regulated as follows:

a. Maximum limit of shares ownership for *Pemda* that will establish or acquire banks is 30% for each *Pemda*.
b. Maximum limit of shares ownership for parent companies in the field of banking formed to comply with the regulation on sole proprietorship shall be exempted from the maximum limit of shares ownership. However, if in the future the concerned parent company will acquire other banks, the maximum limit of shares ownership shall be the limit of the highest ownership from the shareholders category of the parent company in the field of banking.

Specific Requirements for Shares Ownership of CB

a. Shares Ownership of Banks More Than 40%

- The requirements to own shares of banks more than 40% among others are obtaining bank *TKS* assessment with a *PK* 1 or 2, or equivalent for bank financial institution domiciled in a foreign country, meeting CAR in accordance with the risk profiles, and core capital (tier 1) of no less than 6%.
- Position of assessment used for the three requirements is the position of at least the last 1 year.

b. Requirements for Investment Rating
The requirements for investment rating of the prospective *PSP* in the form of legal entities domiciled in a foreign country is the position of investment rating no less than 1 year prior the *PSP* concerned becoming a bank *PSP*.

5. Management of Banks

a. Management of CB
Members of BOC and members of BOD must meet the requirements of integrity, competency, and financial reputation. Requirements and assessment procedures for meeting the requirements shall be governed in FPT and GCG.

1) BOC
- Total members of the BOC of CB shall be no less than 3 persons and no more than equal to the total members of the BOD. At least 1 member of the BOC shall domicile in Indonesia.
- The BOC is led by a President Commissioner or Chairman of the BOC.
- The BOC consists of Commissioners and Independent Commissioners.
- At least 50% of the total members of the BOC are Independent Commissioners.
- Every proposal for replacing and/or appointing a member of BOC to GMS must take into account recommendations of the Remuneration and Nomination Committee.
- Members of the BOC must meet the requirement of passing the FPT according to the applicable regulation.

- Members of the BOC can only have concurrent position as: a member of the BOC, Directors, or Exutive Officer in 1 institution/company of non-financial institutions; or a member of the BOC, Directors, or Exutive Officer performing the supervisory function in 1 non-bank subsidiary controlled by the bank.
- Members of the BOC are not considered having concurrent position if the non-independent member of the BOC performs the functional duty of an incorporated bank shareholder in its business group; and/or a member of the BOC who has a position in a non-profit organization or institution, provided that the concerned person does not neglect the implementation of duties and responsibilities as a member of the bank's BOC.
- Majority members of the BOC are prohibited to have family affiliation up to the second degree with their fellow members of the BOC and/or Directors.
- Members of the BOC are required to carry out duties and responsibilities independently and are prohibited to get involved in any decision making of the bank operational activities.
- The BOC shall be required to form at least: Audit Committee; Risk Monitoring Committee; Remuneration and Nomination Committee.
- Meetings of the BOC shall be held regularly, at least 4 times a year, attended by all members of the BOC physically no less than two times a year. In the event the members of the BOC are not able to attend the meetings physically, he/she can attend the meeting through teleconference technology.
- Former Members of the BOD or Executive Officers of the bank or the parties having affiliations with the bank that can influence

their ability to act independently may not be Independent Commissioners in the concerned bank, prior to having a cooling off period for 1 year. This regulation shall not be applicable to former Directors or Executive Officers performing the supervisory function.

2) BOD
   - Directors of Conventional CB shall be no less than 3 persons. All members of the BOD must domicile in Indonesia.
   - The BOD shall be led by a President Director or Managing Director.
   - Every proposal for replacing and/or appointing a member of BOC to GMS must consider recommendations of the Remuneration and Nomination Committee.
   - Majority members of the BOD are required to have experiences in bank operations at least 5 years in the field of operations as the bank Executive Officer, except for CB conducting business activities based on Sharia Principles.
   - Managing Director of bank must come from the party independent to *PSP*.
   - Majority members of the BOD are prohibited to have mutual family affiliation up to the second degree with their fellow members of BOD and/or members of the BOC.
   - Members of the BOD are prohibited to have concurrent position as a member of the BOC, BOD or Executive Officer in other bank, company and/or institution.
   - Members of the BOD are considered not having concurrent position if the directors responsible for the supervision of participation in the bank subsidiary running the functional duty as members of BOC in a non-bank subsidiary controlled by the bank, provided that the referred concurrent position does not

lead to neglection of the implementation of duties and responsibilies of the person in question as a member of the bank's BOD.

- Members of the BOD both individually and collectively are prohibited to have shares more than 25% from the paid-up capital in another company.
- Members of the BOD are prohibited to give general authorization to other parties resulted to the transfer of duties and functions of the BOD.
- The BOD shall be fully responsible for the implementation of bank management.
- The BOD is required to manage the bank according to the authorities and responsibilities as regulated in the articles of association and the applicable laws and regulations.
- The BOD is obliged to account for the implementation of duties to the shareholders through GMS.
- The BOD is obliged to disclose the bank strategic policy in the field of personnel to the employees.
- All decisions of the BOD taken in accordance with the guidelines and code of conducts shall be binding and become the responsibilities of all member of the BOD.
- Former Members of the BOD or Executive Officers of the bank or the parties having affiliations with the bank that can influence their ability to act independently, may not become independent parties as members of Audit Committee and Risk Monitoring Committee in the concerned bank, prior to having a cooling off period for 6 months. This regulation shall not be applicable to former Directors or Executive Officers performing the supervisory function.

Banks are required to apply risk management related to bank management, Executive

Officers, opening, change of status, change of address and/or closing of bank offices, at least covering:

1) Active supervision of the BOC and Directors;
2) Adequate policies, procedures, and limit settings;
3) Adequate processes of identification, measurement, monitoring and risk control as well as risk management information system; and
4) Comprehensive internal control system.

One of the considerations in granting approval for plans of opening, change of status, change of address and/or closing of offices for the next one year shall be based on studies submitted by bank that includes at least:

1) Alignment with the business strategy and impact to the financial projection;
2) Mechanism of supervision and evaluation of the bank office performances;
3) Comprehensive analysis (bank wide) covering, among others, economic condition, risk analysis, and financial analysis; and
4) Operational preparation plans, among others, human resources, IT, and other supporting facilities.

b. Management of BUS

Members of the BOC and member of the BOD must meet the requirements of integrity, competency, and financial reputation. The requirements and procedures of assessment for the referred compliances shall be regulated in the provision concerning FPT. The BOC performs supervision in the implementation of duties and responsibilities of the Directors, and also provides advices to the BOD by referring to, among others, regulation on the implementation of GCG applicable to banks.

1) BOC of BUS
   - Total number of the BOC' members shall be no less than 3 and no more than the total number of the BOD members;

- At least 1 member of the BOC shall domicile in Indonesia;
- The BOC shall be led by a President Commissioner or Chairman of the BOC;
- At least 50% of the total number of the BOC members are Independent Commissioners;
- Proposal for appointing and/or replacing BOC members to GMS shall be conducted by considering the recommendations of the Remuneration and Nomination Committee;
- Members of the BOC can only have concurrent position as members of BOC, BOD, or Executive Officers in 1 institution/company of non-financial institutions; members of the BOC or BOD carrying out supervisory function in 1 subsidiary of non-bank financial institution owned by bank; members of the BOC, BOD, or Executive Officers in 1 company that also bank shareholders; or officers in no more than 3 non-profit institutions.
- Majority members of the BOC are prohibited to have mutual family affiliation up to the second degree with their fellow members of BOC and/or members of the BOD.
- BOC is required to monitor and evaluate the implementation of *BUS* strategic policies; and
- In order to implement its duties and responsibilities, the BOC shall form at least: (i) Risk Monitoring Committee; (ii) Remuneration and Nomination Committee; (iii) Audit Committee.

2) BOD of BUS
   - Total members of the BOD shall be no less than 3;
   - All member of the BOD shall domicile in Indonesia;
   - The BOD shall be led by a President

Director or Managing Director;

- Proposal for appointing and/or replacing BOD members to GMS shall be conducted by considering the recommendations of the Remuneration and Nomination Committee;
- Majority members of the BOD are required to have a minimum of no less than 4 years experiences as Executive Officers in banking industry, in which a minimum of no less than 1 year as Executive Officers in *BUS* and/or *UUS*. For *BUS* established through the process of change of business activities from Conventional CB, for the first time such requirement applies only for 1 prospective member of the BOD, while for the majority members of the BOD no later than 2 years after the permit for change of business activities has been granted;
- The President Director or Managing Director must come from the party independent to *PSP*;
- Members of the BOD are prohibited to have concurrent position as member of the BOC, members of the BOD or Executive Officers in other bank, company and/or institution, except if: (i) Directors responsible to the supervision of participation in the bank's subsidiary, performing functional duty as members of the BOC in non-bank subsidiary controlled by the bank, and/or (ii) members of the BOD in 2 non-profit institutions;
- Members of the BOD, both individually and collectively are prohibited to own shares more than 25% from the paid-up capital in other companies;
- BOD is fully responsible for the implementation of *BUS* management based on prudential principle and Sharia Principles;

- Majority member of the BOD are prohibited to have mutual family affiliation up to the second degree with fellow members of the BOD and/or members of the BOC;
- Member of the BOD are prohibited to give general power to other parties leading to the transfer of duties and functions of BOD; and
- BOD is required to account for its implementation of duties to the shareholders through GMS.

c. Management of *BPR*

The management of *BPR* consists of the BOD and BOC. Members of the BOD and BOC are required to meet the requirements: (i) competency; (ii) integrity; and (iii) financial reputation.

1) BOC of *BPR*
    - Total members of the BOC shall be no less than 2 persons;
    - At least 50% of the members of the BOC are required to have knowledge and or experience in the field of banking;
    - Members of the BOC can only have concurrent position as Commissioners in no more than 2 other *BPR* or *BPRS*;
    - Members of the BOC of *BPR* are prohibited to serve as members of BOD in *BPR*, *BPRS* and/or *BU*;
    - Members of the BOC are required to have meetings of the BOC regularly, at least 4 times a year; and
    - In case required by *OJK*, members of the BOC shall present their supervision results toward the *BPR*.
2) BOD of *BPR*
    - Members of the BOD shall be no less than 2 persons;
    - Members of the BOD should have a formal education at least equal to D-3 level or has completed no less than 110 credits in a bachelor degree (S-1) program;
    - At least 50% of the members of the BOD

are required to have experiences as officers in the field of operational banking of no less than 2 years, or has participated an internship of no less than 3 months in *BPR* and own graduation certificates from the Certification Institutions at the time they are being proposed as members of the BOD;

- Members of the BOD are required to have graduation certificates from the Certification Institution;
- Members of the BOD are prohibited to have family affiliation with other members of the BOD and/or members of the BOC in a relationship as parent, son/daughter, parent-in-laws, son-/daughter-in-law law, husband, wife, siblings or brother-/sister-in-law;
- Members of the BOD are prohibited to have concurrent position as members of BOD or Executive Officers in banking institutions, other companies or institutions; and
- Members of the BOD are prohibited to give general power resulting to the transfer of duties and authorities indefinitely.

d. Management of *BPRS*

The management of *BPRS* consists of BOD and BOC. Members of the BOD and BOC are required to meet the requirements: (i) competency; (ii) integrity; and (iii) financial reputation.

1) BOC of *BPRS*
   - BOC shall be led by a President Commissioner or Chairman of the Commissioners;
   - Total members of the BOC shall be no less than 2 persons and no more than 3 persons;
   - At least 1 member of the BOC shall domicile close by the location of the *BPRS*; and
   - Members of the BOC may only have concurrent position as: (i) members of

the BOC no more than in 2 other *BPRS* or *BPR*, or (ii) members of the BOC, BOD or Executive Officers in 2 other non-bank institutions/companies.

2) BOD of *BPRS*
   - BOC shall be led by a President Director or Managing Director;
   - Total members of the BOC shall be no less than 2 persons;
   - At least 50% of the members of the BOD including the Managing Director must have operational experiences of no less than: (i) 2 years as officers in the filed of funding or financing in sharia banking; (ii) 2 years as officers in the field of funding and/or credit in conventional banking and have knowledge in the field of sharia banking, or (iii) 3 years as members of BOD or equivalent in Sharia Micro Financial Institutions;
   - Members of the BOD shall at least have formal education at a minimum equal to Diploma III;
   - Members of the BOD must have graduation certificates from the Certification Institution no later than 2 years after the effective date of appointment;
   - The managing director and other members of the BOD are required to act independently in performing their duties;
   - BOD is responsible to carry out the management of *BPRS* as an intermediation in compliance with prudential principle and Sharia Principles;
   - The Managing Director must come from the party independent to *PSP*;
   - All members of the BOD must domicile close to the location of *BPRS* HO;
   - Members of the BOD are prohibited to have family affiliation with: (i) Other members of the BOD in a relationship as parent, son/daughter, parent-in laws, in-laws, son-/daughter-in-law, husband, wife,

siblings or brother-/sister-in-law, and/or (ii) Members of the BOC in a relationship as parent, son/daughter, parent-in laws, in- laws, son-/daughter-in-law, husband, wife, or siblings;

- Members of the BOD are prohibited to have concurrent position as members of the BOD, members of the BOC, members of the *DPS* or Executive Officers in other Financial Institutions, business entities or institutions; and
- Members of the BOD are prohibited to give general power resulting in transfer of duties, authorities and responsibilities to other parties.

e. *DPS*

Other than the bank management which consists of the BOC and BOD, in the organization of BUS, *UUS*, and *BPRS*, there is also a *DPS* which has duties and responsibilities, among others:

1) Assessing and ensuring fulfillment of Sharia Principles on operational guidelines and products released by the bank;
2) Supervising the process of new product development of the bank;
3) Asking for *fatwa* (decision) to the National Sharia Board (DSN) for new products of the bank that still have no fatwa;
4) Conducting review regularly on the fulfillment of Sharia Principles to the mechanism of funds collection and distribution as well as bank services; and
5) Asking for data and information related to the sharia aspects from the bank work units in implementing their duties.

Sharia Principles in the activities of funds collection, financing and other *BPRS* services activities are business activities that do not contain elements of: usury (*riba),* gambling *(maisir*)*, gharar,* illicit (*haram*) and unjust (*zalim*). Total members of *DPS* in *BUS* shall be no less than 2 persons or no more than 50% of the total members of the BOD. Meanwhile, the total members of *DPS* in CB that have *UUS* or in *BPRS* shall be no less than 2 persons or no more than 3 persons. *DPS* is led by a chairman from one of the members of the *DPS*, and members of the *DPS* may only have concurrent position as members of *DPS* in no more than 4 other sharia financial institutions.

f. Implementation of Duties of *BPRS DPS*

The supervision of Sharia Principles application by *DPS* includes: (i) supervision toward *BPRS* new products and activities, and (ii) supervision toward the activities of funds collection, financing and other services of *BPRS*. The supervision measures conducted by *DPS* in the referred *BPRS*, among others: (i) asking for explanations from *BPRS* authorized officers concerning the purpose, characteristics, and fatwa and/or agreement used as the basis in the plans of releasing new products and activities; (ii) reviewing features, mechanism, requirements, regulations, system and procedure of new products and activities that will be released; (iii) giving opinion related to sharia principle for new product and activities (iv) conducting audits in *BPRS* offices at least once a month; (v) requesting reports to *BPRS* Directors on the products and activities of funds collection, financing and other activities of *BPRS* services conducted by the *BPRS*; (vi) conducting audits by sampling at least to 3 customers for each product and/or agreement of funds collection, financing and other service activities including the handling of restructuring of financing conducted by *BPRS*; (vii) providing opinions related to the aspect of fullfiling Sharia Principles on the activities of funds collection, financing and other activities of *BPRS* services conducted by the *BPRS*; and also calculation and recording of financial transactions; and (viii) preparing reports on the supervision results of the Sharia Principles application on the *BPRS* business activities to be submitted to *OJK* bi-annually.

6. Foreign Workers Utilization and Transfer of

Knowledge Program in Banking Sector

Bank may utilize Foreign Workers (*TKA*) in running their business operations by complying with the applicable regulations. The utilization of *TKA* by banks must consider the availability of Indonesian workers. Banks may only utilize *TKA* for the following positions or equivalent:

a. Commissioners and Directors;
b. Executive Officers; and/or
c. Experts/Consultants.

Banks are prohibited to utilize *TKA* in the field of personnel and compliance duties. Banks are required to seek approval from *OJK* prior to appointing *TKA* to fill in the positions of Commissioners, Directors and/or Executive Officers, are required to submit plans to *OJK* on *TKA* utilization which must be specified in the *RBB*, and are required to ensure the transfer of knowledge in the utilization of *TKA*. The obligation of transfer of knowledge shall be conducted through:

a. The appointment of 2 Indonesian assistants for 1 *TKA*;
b. Education and job training for the concerned assistants in accordance with the qualification of positions occupied by the *TKA*; and
c. Implementation of training or teaching by the *TKA* in a certain period especially to bank employees, students (secondary/higher education) and/or public.

7. **Fit and Proper Test in Conventional Commercial Banks and Rural Banks**

FPT shall be conducted by *OJK* to:

a. Prospective candidates of *PSP*, candidates of BOC members and candidates of BOD members;
b. *PSP*, members of BOC, members of BOD and Executive Officers; and
c. Parties that are no longer held the position or served as the parties referred to in the letter b, yet the concerned parties are allegedly involved or responsible for the conducts or actions currently in FPT process in the bank or foreign bank representative office.

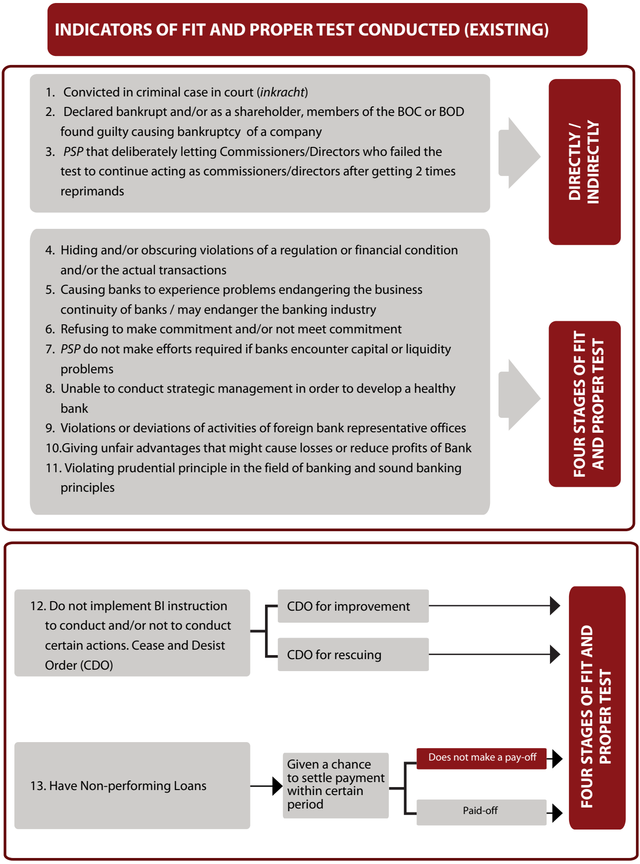
FPT shall be conducted at any time if based on the results of supervision, audit or information from other sources there are indications of integrity, competency, and/or financial feasibility/reputation problems.

The parties currently undergoing legal process and or FPT process in a bank may not be proposed to be the prospective candidates of *PSP*, candidates of BOC members and candidates of BOD members.

Table 5.5: Objects and Factors of Fit and Proper Test

Object of Fit and Proper Test	Factor of Fit and Proper Test

Figure 5.1: Indicators of Fit & Proper Test Conducted (Existing)



Prospective *PSP*	Integrity and Financial Feasibility
Prospective Members of BOC & Prospective Members of BOD	Integrity, competency, and financial reputation

FPT in order to conduct re-assessment to a *PSP*, member of BOC, member of BOD and an Executive Officer shall be conducted in the event there is any indication of problems in integrity, financial feasibility, financial reputation and/or competency consisting of: FPT shall be conducted based on evidences, data and information obtained from the results of off-site supervision and/or on-site supervision and other information. The FPT shall be conducted with the following measures:

a. Clarification of evidences, data and information to the parties taken the tests;
b. Determination and submission of the FPT interim results to the parties taken the tests;
c. Responses from the parties taken the tests of the FPT interim results; and
d. Determination and notification of the FPT final results to the parties taken the tests.

The referred sactions of prohibition are also applicable to the parties that at the time of assessment determined failed the concerned persons have already become *PSP*, members of BOC, members of BOD, and/or Executive Officers in other banks.

In the event banks are under the handling or rescuing by *LPS*, then the FPT shall be only conducted to the candidates of BOC members and/or BOD members based on the agreement proposed by *LPS*.

8. Fit and Proper Test for Sharia Banks and Sharia Business Units

OJK shall conduct FPT to:

a. Prospective candidates of *PSP*, candidates of BOC members, candidates of BOD members, candidates of *UUS* Director, and candidates of Head of Foreign Bank Representative Office;
b. *PSP*, BOC members, BOD members and

Executive Officers of *BUS*, *UUS* Director and Executive Officers of *UUS*, and also Head of Foreign Bank Representative Office;

c. The parties that had not held the position or served as the parties referred to in the letter b, which is indicted and responsible for the conducts or actions currently in the process of FPT in BUS, *UUS* or Foreign Bank Representative Office.

Based on administrative review and interview result, *OJK* shall determine the final result of FPT with the predicate of Pass or Not Pass.

The parties that have not passed the FPT but have been approved and appointed as Members of the BOC and Members of the BOD of Sharia Banks pursuant to the GMS decision, then the concerned persons are prohibited to act as Members of BOC and Members of BOD in the concerned Sharia Banks. Further, the Sharia Banks in question is required to follow-up the consequences of disqualified from FPT in no longer than 3 months as of the date of notification from *OJK*. Besides, the Sharia Banks must also report the follow-up within 7 working days at the latest.

The parties that have been determined not passing the test (disqualified) can still resume their positions as *PSP*, Members of BOC, Members of BOD, *UUS* Director and Head of Foreign Bank Representative Ofice in the event they have undergone administrative sanctions/paid penalties, the sanction period has been passed, as well as taken FPT beforehand.

In the event Sharia Banks are under the handling and resqueing status by *LPS*, FPT can only be conducted to the candidates of BOC members and candidates of BOD members. In the case of CB that have *UUS* with the status of under *LPS* handing and resqueing, the FPT will only be conducted toward the candidate of *UUS* Director.

9. Merger, Consolidation and Acquisition of Banks

a. CB/*BUS*

Merger, Consolidation, Acquisition can be made at the initiative of the bank concerned, at the request of *OJK* and initiative of particular bodies and must get a permit from *OJK*.

Merger or Consolidation can be made between a conventional bank and a sharia banks if the bank resulted from the merger or consolidation becomes a bank based on Sharia Principles, or a conventional bank but has branch offices based on Sharia Principles.

Acquisition of CB can be done by individuals or legal entities, both through the purchase of parts of or the entire shares of banks directly or through the stock exchange resulting in the shift of control to the acquiring parties. The purchase of shares is considered resulting in the shift of control, if the shareholding becomes:

1) 25% or more of the paid-up capital of banks; or
2) Less than 25% of the paid-up capital of banks, although it directly or indirectly determines the bank management and/or policy.

b. *BPR/BPRS*

Merger, Consolidation and Acquisition of *BPR/BPRS* can be conducted at the initiative of the concerned *BP R/BPRS* or at the request of *OJK*, and it must obtain permission from *OJK*. Merger or Consolidation can only be done between *BPR* and *BPRS*. Merger or Consolidation between *BPR* and *BPRS* can only be done if the *BPR* from the Merger or Consolidation proceeds to *BPRS*. The Merger or Consolidation of *BPR*/*BPRS* can be done:

1) Between *BPR*/*BPRS* domiciled in the same provincial regions; or
2) Between *BPR*/*BPRS* in different provincial regions provided that offices of the *BPR*/*BPRS* resulted from the merger/consolidation are located in the same provincial region.

Acquisition of *BPR*/*BPRS* can be done by individuals or legal entities through takingover of shares resulting in the shift of control of *BPR*/*BPRS*. The purchased shares considered resulting in the shift of control of *BPR*/*BPRS* namely if the shareholding becomes:

1) 25% or more of the paid-up capital of *BPR/BPRS*; or
2) Less than 25% of the paid-up capital of *BPR/BPRS*, although directly or indirectly determine the bank management and/or policy.

10. Opening of Bank Offices

Banks are required to include plans for opening, change of status, change of address and/or closing of bank offices for one year in the future in *RBB*. The submission of plans shall be accompanied by a study in accordance with the regulation concerning CB.

OJK has the authority to instruct banks to postpone their plans for opening, changing status, and/or changing address of an office, if, according to *OJK* assessment, among others, there is a decrease in the bank *TKS* and financial conditions, and/or increase in the bank risk profile. Banks must state clearly the name and type of bank offices in each bank office.

a. Domestic Branch Offices (*KC*) of *CB*

Opening a *KC* requires *OJK* approval;

- Directors or the officials of banks shall submit requests for approval of opening a *KC* to *OJK* accompanied by supporting documents in accordance with the regulation concerning CB;
- Approval or rejection for the bank application shall be given no later than 20 working days after the receipt of the complete application documents; and
- Opening a *KC* should be carried out no longer than 30 working days since the issuance date of the *OJK* approval.

b. Overseas KC of CB

- Opening a *KC*, representative office and other types of office whether operational or non operational offices in foreign countries requires *OJK* permission. Such permit must be carried out within one year since the issuance of the license by *OJK*, and it can be extended for a maximum of one year based on reasons that can be accounted for;

- Opening an office overseas also requires a permit from the local authorities;
- Permit can be granted by *OJK* if the bank has become a foreign exchange bank at least for 24 months; has include the plan of opening a *KC* in the *RBB*; meets the requirements for *TKS*, capital adequacy, and risk profiles; and has a clear address or operational office domicily; and
- Approval or rejection for the bank application shall be given no later than 20 working days after the receipt of the complete application documents.

c. *BPR* Branch Offices
- *BPR* can only open Branch Offices (*KC*) in the same provincial region with the Head Office (HO);
- Opening a *KC* can only be done with *OJK*'s approval;
- Areas of DKI Jakarta and Regency or City of Bogor, Depok, Tangerang, Bekasi and Karawang is determined as one provincial region for the need of opening Branch Offices and this provision is also applicable for the opening of *BPR KC* in the referred region as the result of merger or consolidation;
- During the last 12 months has a sound *TKS*;
- During the last 3 months has a CAR of at least 10%; and
- Has an adequacte IT.

d. *BUS* and *UUS* Offices

The plans for opening, change of status, change of address, and/or closing of bank offices and plans of opening, moving, and/or terminating activities must be stated in the *RBB* accompanied by "Study". *BUS* and *UUS* can open Regional Offices and Functional Offices.

e. Overseas *BUS KC*
- Opening a *KC* , representative office and other types of offices in a foreign country can only be done with the approval of *OJK*;

- Opening an office overseas also requires a permit from the local authority;
- Approval can be granted by *OJK* if the bank has become a foreign exchange bank at least 24 months; has included the plan for opening a *KC* in the *RBB*; meets the requirements for *TKS*, capital adequacy and risk profiles; and has a clear address or operational office domicily; and
- Approval or rejection for the bank application shall be given no later than 30 working days after the receipt of the complete application documents.

f. Opening Sharia Services

1) *BUS* in Conventional CB

BUS Sharia Services (LSB) are activities of funds collection and/or other provision of banking services based on Sharia Principles, excluding the activities of funds distribution, conducted in the Conventional CB office networks for and on behalf of BUS. Meanwhile, Consultation Activities shall be conducted between *BUS* and Conventional CB in order to analize the risks of the prospective customers for financing and projects that will be funded by BUS.

BUS may cooperate with Conventional CB in opening LSB and/or uses Consultation Activities that is available in Conventional CB, by meeting requirements among others as follows:

a) Conventional CB which has ownership affiliation with the bank, namely Conventional CB is the bank *PSP* and Conventional CB *PSP* is also the bank *PSP*; and

b) Conventional CB does not have *UUS*, and Conventional CB has the permission from *OJK* to carry out the agency activities and/or cooperation in accordance with the regulation that governs Conventional CB business operations.

2) *BPRS KC*

   Opening a *KC* may only be carried out with *OJK*'s approval. The opening of the *KC* must meet at minimum the following requirements:

   a) Located in the same provincial region with the HO;
   b) Has been included in the annual work plan of *BPRS*;
   c) Supported by adequate information system technology; and
   d) Increase the paid-up capital at least 75% from the minimum capital requirement of *BPRS* according to the location of *KC* opening.

   Specifically for *BPRS* with the head office in the areas of DKI Jakarta and Regency or City of Bogor, Depok, Tangerang, and Bekasi, other than may open *KC* in the same Province with HO, it can also open *KC* in the areas of DKI Jakarta and Regency or City of Bogor, Depok, Tangerang, and Bekasi.

3) *UUS*

   a) Conventional CB which conducts business activities based on Sharia Principles must open *UUS*;
   b) Opening *UUS* may only be conducted with the approval of *OJK* in the form of a business license. Working capital of *UUS* is determined and maintained for no less than Rp 100 billion;
   c) *UUS* can be segregated from Conventional CB by way of:
      - Establishing a new *BUS;* or
      - Transfer the rights and obligations of the *UUS* to the existing *BUS* by meeting the prevailing terms and conditions.
   d) Additional requirements for opening a *UUS*:
      - Analysis of the capital ability of Conventional CB; and
      - Analysis of the legal aspect fulfillment on the segregation of *UUS* to become a BUS.

11. Change of Name and Logo of Banks

A change of a bank's name should be carried out in compliance with the applicable legislation, including regulation issued by the Ministry of Industry, and Ministry of Law and Human Rights. In the event that the relevant agencies have released the approval documents on the change of the bank's name, the referred documents shall be submitted to *OJK* along with the request for the change of the bank's name.

12. Change of Business Activities of Conventional Banks into Sharia Banks

Conventional Banks may change their business activities into Sharia Banks, while Sharia Banks are prohibited to change their business activities into Conventional Banks. The change of the business activities of Conventional Banks into Sharia Banks may only be conducted with the approval of *OJK*. The said change of business activities can be conducted as follows:

a. Conventional CB into *BUS*,
b. *BPR* into *BPRS*.

The plan for the change of business activities of Conventional Banks into Sharia Banks must be specified in the *RBB* of the Conventional Banks. The Conventional Banks that will change their business activities into Sharia Banks must:

a. Adjust the articles of association;
b. Meet the capital requirement;
c. Adjust the requirements for the BOD and Commissioners;
d. Form a *DPS*; and
e. Present early financial statements as Sharia Banks.

Conventional CB that will change their business activities into *BUS* must:

a. Have CAR no less than 8%; and
b. Have core capital no less than Rp 100 billion.

BPR that will change their business activities into *BPRS* must meet the capital requirement. Conventional Conventional CB/*BPR* that will change their business activities into *BUS*/*BPRS* must form a *DPS*. Conventional

CB*/BPR* that already obtained approval for changing their business activities into *BUS*/*BPRS* must specify clearly:

a. The word "Sharia" in the writing of the name; and
b. iB logo on forms, slips, products, offices and office networks of the Sharia Banks.

13. Closure of Bank Branch Offices

Closure of a bank *KC* in the country must obtain *OJK*'s approval in the form of a principle permit and closure approval. The request for principle permit must be followed by measures of settling all the *KC* obligations to the customers and other parties. Requests for approval of closure must be submitted no later than 6 months after receiving the principle permit, and must be accompanied by documents proofing that all the bank obligations to the customers and other parties have been settled; and a the letter of statement from the bank's BOD saying that the settlement measures of all *KC* obligations to the customers and the other parties have been completed, and in the event there are claims in the future it shall be the responsibility of the bank. The implementation of closing a *KC* that has received approval for closure, must be conducted no later than 30 working days after the date of *OJK*'s approval, which then shall be published in a newspaper with wide circulation in the domicily of the bank's office no later than 10 working days after the date of closure's approval from *OJK*.

14. Closure of Sharia Business Units

Closure of a *UUS* from the earlier of just 1 stage currently becomes 2 stages, namely:

a. Approval for the preparation of business license revocation, in the context of settlement of the *UUS* obligations and claims;
b. Decision of business license revocation, after the *UUS* entire obligations and claims are resolved.

15. Requirements for Non-foreign Exchange Commercial Banks to Become Foreign Exchange Commercial Banks

The requirements for becoming Foreign Exchange Commercial Banks:

a. Having a minimum Capital Adequancy Ratio (CAR) of 8% in the latest month;
b. Having a consecutively sound condition of *TKS* in the last 24 months;
c. Total paid-up capital no less than Rp 150 billion;
d. Banks have made preparations to implement activities as Foreign Exchange CB including: organization, HR, operational guidelines of foreign exchange activities and also admistration system and its supervision.

16. Change of Comerical Banks Business License into Rural Bank*s* Business License in the Context of Consolidation

Change of a CB business license into a *BPR* business license may only be made with the approval of *OJK*. The change of license referred to can be done voluntarily or mandatorily. Voluntary change of license shall be conducted if there is a request from the CB shareholders with a core capital below Rp 100 billion or CB shareholders which are still obligated to limit the business activities.

17. Determination of Status and Follow-up of Bank Supervision

a. Status determination of bank supervision consists of:
   1) Normal Supervision;
   2) Intensive Supervision; and
   3) Special Supervision.

Table 5.6: Determination of Bank Supervision Status

Intensive Supervision	Special Supervision
Criteria	
Bank Under Intensive Supervision (*Bank Dalam Pengawasan Intensif-BDPI*), if it assessed to have potential difficulties that might jeopardize the business continuity, meeting one or more criteria as follows: a. CAR ≥ 8%, but less than the ratio of capital adequacy in accordance with the bank profile risks that must be met by the bank; b. Ratio of capital core (Tier 1) less than a certain percentage set by *OJK*; c. Rasio of Statutory Reserves (*GWM*) in rupiah ≥ 5%, but less than the ratio determined for *GWM* rupiah that must be met by the Bank, and according to *OJK*'s assessment the bank has underlying liquidity problems; d. Ratio of NPL (non performing loans) in net above 5% from the total credit; e. The soundness (*TKS*) of Bank at *PK* 4 or 5; f. Bank *TKS* at *PK* 3 and GCG at *PK* 4;	*OJK* shall determine Bank Under Special Supervision if the BDPI or bank under normal supervision is considered experiencing difficulties that might jeopardize its business activities, i.e. if it meets one or more criteria as follows: a. CAR < 8%; b. *GWM* ratio in rupiah less than 5% and based on *OJK*'s assessment: • the Bank experiences underlying liquidity problems; or • the Bank experiences deteriorating development within a short time.
Period	
OJK shall determine BDPI 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 BDPI that meets the criteria: a. Non Performing Loan (NPL) in net above 5% from the total credit and its settlements is complex in nature; b. Bank *TKS* at *PK* 4 or 5; and/or c. Bank *TKS* at *PK* 3 and GCG at *PK* 4. Specifically for b and c criteria, the period extension of BDPI also accompanied with the increase of supervision actions.	*OJK* shall determine Bank Under Special Supervision status no longer than 3 months since the date of *OJK*'s notification letter.

Supervisory Measures	
Instruct the bank to conduct mandatory supervisory action, among others: a. Write-off non performing loans and calculate bank losses with bank capital; b. Limit payment of remuneration or other equivalent forms to the members of BOC and/or BOD of the bank, or compensation to related parties; c. Pay no subordinated loans; d. Conduct no capital distribution or just delay it; e. Strengthen bank capital including through capital paid-up; f. Perform no particular transactions with related parties and/or other parties determined by *OJK*; g. Limit the implementation of plans to release new products and/or activities; h. Conduct no or limit assets growth, participation and/or provision of new funds; i. Sell a part of or the entire assets and/or obligations of the bank to other parties; j. Conduct no expansion of office networks; k. Conduct no particular business activities; l. Close bank office networks; m. Make no inter-bank transactions;	1. Bank Under Special Supervision shall be required to increase capital to meet the CAR and/ or obligation to meet *GWM* in accordance with the applicable regulation. 2. Aside of supervisory actions at the time of BDPI, in the context of spcial supervision, *OJK* has the authority to: a. Prohibit banks to sell or decrease total assets without *OJK*'s approval with the exception for *SBI*, *SSBI*, demand deposit in BI, inter-bank billings, *SBN* and/or SBSN; b. Prohibit banks to change the shareholding for: 1) Shareholders that have bank shares of 10% or more; and/ or 2) *PSP* including parties performing control to banks in the structure of bank business group, unless it has the approval of *OJK*; and/or c. Instruct banks to report every change of bank shareholding less than 10%.

Supervisory Measures	
n. Perform merger or consolidation with other banks; or Replace BOC and/or BOD; p. Handover management of the entire or a part of bank activities to other parties; and/or q. Sell the bank to a buyer prepared to taking over the entire bank obligations.	
DPI is obliged to: a. Submit action plans in accordance with problems faced; b. Submit realization of the action plans;	OJK freezes certain business activities of Bank Under Special Supervision no longer than 1 month during the

c. Submit a complete list of related parties; and/or d. Perform other actions and/or report certain matters determined by *OJK*;	special supervision period in the event; a. OJK considers that the bank condition deteriorating; and/or b. Violation of banking regulations conducted by BOD, BOC and/or PSP.
Supervisory Measures	
In the event a bank determined as BDPI due to a capital problem, the bank and/or the bank shareholders is also required to submit a capital restoration plan in order to resolve the bank capital problem.	
Supervisory Measures	
Banks determined no longer under intensive supervision status if the banks condition is improved and no longer having potential problems that might jeopardize the business continuity.	OJK shall announce in 2 daily newspapers which have wide circulation and in OJK homepage any OJK freezes certain business activities of Bank Under Special Supervision no longer than 1 month during the special supervision period in the event; which certain business activities has been freezed including the reasons and improvement actions that must be done and/or prohibition instructed by OJK. Conversely, in order to balance the information to public, in the event the bank condition is improving and not categorized as bank under special supervision, OJK will also announce it.
Supervisory Measures	
OJK shall notify in writing to banks which are no longer under intensive supervision.	Banks which certain business activities are frozen must notify all their office networks regarding the frozen status of certain business activities.

b. Banks which TKS Condition cannot be improved

Bank Under Special Supervision shall be determined as banks which unsound condition cannot be improved if:

1) The special supervision period has not been passed, but the bank condition is deteriorating so that:

a) CAR ≤ 4% and considered cannot be increased to 8%, and/or
b) *GWM* ratio in rupiah ≤ 0% and considered cannot be settled according to the applicable regulation; or

2) The period of special supervision has been passed and:
   a) CAR < 8% and/or
   b) *GWM* Ratio in rupiah < 5%

c. Banks with Systemic Impact

In the event Bank Under Special Supervision suspected to have systemic impact, *OJK* will provide information to the institution that has function to determine the policy for preventing and dealing with crisis based on the laws and regulations.

In the event BPDK suspected to have systemic impact meets the criteria of banks which unsound condition cannot be improved, *OJK* shall ask the institution to decide:

1) Whether the concerned bank has a systemic impact or not; and
2) The authorities to handle and establish countermeasures toward the bank determined to have systemic impact.

d. Banks with No Systemic Impact

In the event Bank Under Special Supervision has no systemic impact and meets the criteria as bank which unsound condition cannot be recovered, *OJK* will notify and ask for the *LPS* decision whether or not to rescue the concerned bank.

In the event *LPS* decided not to rescue the bank referred to, *OJK* shall revoke the business license of the concerned bank after receiving notification regarding the *LPS* decision. Further settlement to the bank which business license is revoked shall be conducted by *LPS* in accordance with the applicable laws and regulations.

e. Banks under the Handling or Rescuing of *LPS*

Banks under the handling or rescuing of *LPS* shall be exempted from the determination as BDPI or Bank Under Special Supervision. However, the bank referred to still has an obligation to conduct supervisory actions set by *OJK*, and in the event the referred bank meets the criteria of bank with unsound condition that cannot be improved, *OJK* will declare the referred bank as a bank that cannot be restructured.

18. Follow-up Handling towards Rural Banks under Special Supervision Status

OJK shall declare *BPR* under special supervision status if it meets 1 (one) or more criteria as follows:

a. CAR < 4%;
b. Cash Ratio (CR) average during the last 6 months < 3%

OJK shall notify the determination on the special supervision status to the *BPR* in question. Other than that, *OJK* also will notify *LPS* regarding the *BPR* which has been declared under special supervision status along with the explanation on the condition of the concerned *BPR*.

In the context of special supervision, *OJK* can instruct *BPR* and/or shareholders of the *BPR* to conduct, among others:

a. Increasing the capital;
b. Writing-off the non performing loans and take into account the *BPR* losses against its capital;
c. Replacing members of the BOD and/or BOC of the *BPR*;
d. Performing merger or consolidation with other *BPR*;
e. Selling *BPR* to buyers willing to take over all obligations of the *BPR*;
f. Handingover the management of all or a part of the *BPR* activities to other parties;
g. Selling a part of or the entire assets and/or obligations of the *BPR* to other parties; and/or
h. Terminating certain business activities within the time specified by *OJK*.

BPR under special supervision status that has CAR ≤ 0% and/or CR average ≤ 1% in the last 6 months is prohibited to collect and channel funds. If at the time of under special supervision status determination, the referred *BPR* meets the criteria of CAR and CR as referred to, the prohibition of collecting and chanelling funds shall be applicable as of the date the *BPR* declared as under special supervision status .

The period of special supervision is determined no longer than 180 days since the date the *BPR* determined under the special supervision status by *OJK*. The said period can be extended one time with a period no longer than 180 days since the special supervision period ended in the case the said *BPR* meets the set criteria.

OJK shall determine the *BPR* out from the special supervision status if it meets the following criteria of:

a. CAR of no less than 4%, and
b. CR average during the last 6 months of no less than 3%.

During the period of special supervision, *OJK* at any time can notify *LPS* and ask *LPS* to make decision whether or not to rescue the *BPR*, in the case the *BPR* under special supervision status meets the following criteria:

a. having a CAR ≤ 0% and/or a CR average in the last 6 months of 1%; and
b. Based on *OJK* assessment, the concerned *BPR* will not be able to increase its CAR to at least 4% and CR average in the last 6 months to at least 3%.

At the time the special supervision period ends, *OJK* shall notify *LPS* and ask *LPS* to make decision whether or not to rescue the *BPR* that meets the criteria of:

a. CAR less than 4%, and/or
b. CR average during the last 6 months less than 3%.

In the event *LPS* decides not to restructure the said *BPR*, *OJK* shall revoke the business license of the concerned *BPR* after receiving notification from *LPS*.

19. Follow-up Handling towards Sharia Rural Banks under Special Supervision Status

OJK shall declare *BPRS* under special supervision if it meets 1 or more criteria as follows:

a. CAR less than 4%, and/or
b. CR average during the last 6 months less than 3%.

OJK shall notify *LPS* concerning the *BPRS* declared as under special supervision status accompanied with explanations regarding the condition of the concerned *BPRS*.

The *BPRS* under special supervision status that has:

a. CAR equal to or less than 0%, and/or
b. CR average during the last 6 months equal to or less than 1%.

Prohibited to perform activities of collecting and channeling funds. The referred prohibition is applicable from the date of the ban until the said *BPRS* is out from the under special supervision status. The period of special supervision is determined no longer than 180 days from the date the *BPRS* declared under special supervision status by *OJK* and can be extended 1 time for a period of no longer than 180 days since the date the *BPRS* declared under special supervision status from *OJK*.

During the period of supervision, *OJK* at any time can notify *LPS* and request *LPS* to make decision whether or not to restructure the *BPRS*, in the event the *BPRS* under special supervision status meets the following criteria:

a. Having a CAR equal to or less than ≤ 0% and/or a CR average in the last 6 months equal to or less than 1%; and
b. Based on *OJK* assessment, the concerned *BPR* will not be able to increase its CAR to at least 4% and CR average in the last 6 months to at least 3%.

At the time the special supervision period ends, *OJK* shall notify *LPS* and request *LPS* to make decision whether or not to restructure *BPRS* that meets the special supervision criteria.

In the event *LPS* decides not to conduct restructuring to the *BPRS*, *OJK* shall revoke the business license of the concerned *BPRS* after receiving *LPS* notification.

20. Bank Liquidation

Bank liquidation is an action to rescue all rights and obligations of banks due to revocation of their business licenses and dissolution of bank legal entities. Supervision and implementation of liquidation of banks which business licenses revoked after October 2005 shall be conducted by *LPS*.

21. Business License Revocation on Request of the Shareholders (Self Liquidation)

Banks which revocation of business licenses can be done at the request of their own shareholders are banks not placed under special supervision status by *OJK* as stipulated in *OJK*'s regulation concerning follow-up and determination of bank status.

Revocation of business licenses at the request of the shareholders can only be conducted by *OJK* if the banks have settled their obligations to all customers and other creditors.

Revocation of business licenses at the request of the bank shareholders shall be conducted in 2 stages, namely, approval for the preparation of business license revocation and decision on business license revocation.

The bank BOD shall submit a request for approval of the business license revocation preparatory to *OJK*. The application should be supported by relevant documents in accordance with the prevailing regulations. Further, *OJK* will issue a letter of approval for the preparatory of bank business license revocation and will require the bank to cease all bank business activities; to announce the dissolution plan of the bank legal entity and the settlement plan of the bank obligations in two daily newspapers that have wide circulation no later than 10 working days as of the date of the approval letter for the bank business license revocation preparatory; immediately settle all the bank obligations; and appoint a Public Accountant Office to conduct verification on the settlement of the bank obligations.

In the event all obligations of the concerned bank have been settled, the bank BOD will submit an application for the revocation of the bank business license along with the related reports (according to the regulation) to *OJK*. If the application is approved, *OJK* shall issue a Decision Letter regarding the revocation of the bank business license and requests the bank to conduct dissolution of its legal entity in compliance with the applicable legislation.

Effective the date of issuance of the business license revocation, in the case there are still obligations that have not been settled, the referred obligations shall become the responsibilities of the bank shareholders.

B.2. Regulation on Business Activities and Several Products of Banks

1. Foreign Exchange Traders for Banks

Business activities in foreign exchange can only be conducted by banks included in the classification of *BUKU* 2, *BUKU* 3 and *BUKU* 4 that have obtained the approval of *OJK*. Banks included in *BUKU* 1 can only conducted operations as *PVA* governs in a separate regulation.

Requirements for CB to conduct business activities in foreign exchange are:

a. Having bank *TKS* with *PK* 1 or 2 during the last 18 months;
b. Having core capital no less than Rp 1 trillion; and
c. Meeting CAR in accordance with the risk profiles for the last CAR assessment in accordance with the applicable regulation.

Specifically for *BPR* and *BPRS* they have to meet the following requirements:

a. Having a sound *TKS* in the last 12 months; and
b. Meeting the requirement for paid-up capital and management in accordance with the applicable regulation.

2. Foreign Exchange Transactions against Rupiah

Improvement of regulation on foreign exchange transactions against rupiah made between banks and domestic customers, banks and foreign parties, and banks and BI. In conducting improvements, strategic and comprehensive approaches are taken by taking into account the efforts to support economic activities in the real sector and to minimize transactions of foreign exchange against rupiah which are speculative in nature.

In relation to the arrangement of foreign exchange transactions between banks and customers (domestic and foreign parties), BI will issue several regulations constituting a summary and an elaboration of several regulations on foreign exchange previously issued, adjusted to provide flexibility and clearer reference to the market players in conducting foreign exchange transactions. The improvements include among others, relaxation and affirmation on underlying, affirmation of netting implementation for settlement of transactions, and also prohibition of lending or financing in foreign currencies and/ or Rupiah for the interest of derivative transactions.

3. **Derivative Transactions**

   Banks may conduct derivative transactons both for own interest and for the interest of customers. In derivative transactions, banks are required to perform mark to market and apply risk management in accordance with the applicable regulations. Banks may only conduct derivative transactions which are derivatives of an exchange rate, interest rate and/or a combination of exchance rate and interest rate. The transactions referred to are allowed, provided that they are not structured products related to foreign exchange transactions against rupiah. Banks are prohibited to maintain position on derivative transactions conducted by parties related to banks and also are prohibited to provide credit facilities and or overdrafts for the needs of derivative transactions to customers including fulfillment of deposit margin in the context of margin trading. Banks are also prohibited to conduct foreign exchange margin trading agains rupiah both for own interest and for customers interests.

4. **Commercial Papers**

   Commercial Papers (CP) that can be issued and traded through banking are only CP issued by non-bank Indonesian companies with a maximum period of 270 days and have obtained investment quality rating from the domestic Securities Rating Agency (currently Pefindo), namely CP with the ability to pay back adequately at a minimum. Banks that act as issuance regulators, issuing agents, paying agents, securities traders or financiers in CP activities are banks which *TKS* and capital in the last 12 months classified as in sound condition.

Banks are prohibited:

a. to act as issuance regulators, issuing agents, paying agents or financiers of the CP issuance from:
   - Companies which are members of the concerned bank group; and
   - Companies which have loans classified as Doubtful and Non Performing.

b. to become Guarantors of CP issuance.

5. Deposits

a. Demand Deposit

   Demand deposits are checking accounts where the money withdrawals are made by cheques, transfer forms, or other facilities of payment order or transfers. In regard to opening an account, banks are prohibited to accept customers whose names are listed in the valid national black list.

   Checking accounts in sharia banks can be based on *wadi'ah* or *mudharabah* agreement. For checking accounts based on *wadi'ah* agreement, banks are prohibited to promise a return or bonus. For checking accounts based on *mudharabah* agreement, customers are required to maintain the minimum balance of their checking accounts set by the banks and cannot be withdrawn except in order to close the accounts. The profits for *mudharabah* demand deposits customers shall be based on the lowest balance at the end of the reporting month.

b. Time Deposits

   Time deposits are deposits which withdrawals can only be made at a certain time based on the agreement between the depositing Customers and banks. CB and *BPR* can issue certificates on time deposits. Final income tax shall be imposed on the interests of time deposits.

   Time deposits in sharia banks shall be based on *mudharabah* agreement with provisions among others that banks are prohibited to deduct the customers profit portions without the approvals of the concerned customers and charge the deposit fees with the ratio of the banks profits.

c. Certificates of Deposits

Certificates of Deposits are deposits in the form of deposits where the certificates proofs of deposits are transferable. Any *CB* may issue Certificates of Deposits with terms among others:

1) Can only be issued in bearer, in Rupiah;
2) Has a nominal value of no less than Rp 1 million;
3) Has a period of no later than 30 days and no longer than 24 months; and
4) Banks must impose income tax (PPh) against the interest received by customers.

d. Savings

Savings are deposits which withdrawals can be made based on certain agreed terms, although not by cheques, transfer forms and or other instruments equivalent. Terms for holding savings among others:

a) Banks may only hold savings in rupiah;
b) Decision of the interest rate shall be at the discretion of the respective bank; and
c) Upon the interests of savings received, it should be deducted by income tax (PPh).

Savings in sharia banks can be based on *wadi'ah* or *mudharabah*. In *wadi'ah* savings, banks are prohibited to promise any return or bonus to customers. In *mudharabah* savings, customers are required to invest a certain minimum fund where the amount is determined by banks and cannot be withdrawn by customers unless for closing the accounts.

6. Fiduciary Arrangement (Trust)

Trust is a business activity of banks in the form of Fiduciary Arrangement. In this activity there are 3 parties involved, i.e.: (i) Settlor is the person who owns the property/fund and gives the authority to manage the fund to Trustee; (ii) Trustee (in this case the bank) is the party given the authorities by the Settlor to manage the property/fund for the interest of the Beneficiary, and (iii) Beneficiary is the person who receives the benefits of the Trust activities.

Trust activities include among others: (i) paying agents; (ii) funds investment agents both conventionally and/or based on Sharia Principles; (iii) borrowing agents; and/or (iv) financing agents based on Sharia Principles.

Principles that must be met in the Trust activities are as follows:

a. Trust activities are conducted by a work unit separated from the other bank activities;
b. Assets entrusted by Settlors to be managed by Trustees are limited to financial assets;
c. Assets entrusted by Settlors to be managed by Trustees shall be recorded and reported separately from the Bank assets;
d. If the bank conducted Trust activities is liquidated, all assets of Trust shall not be included in the bankruptcy estates (*boedel pailit*) and returned to the Settlor or transferred to the replacement Trustee appointed by the Settlor;
e. Trust activities shall be set forth in a written agreement in Indonesian Language;
f. Trustees shall keep the confidentiality of data and information related to the activities of Trust as stipulated in the Trust agreement, except for the need of reporting to BI; and
g. Banks conducting Trust activities are subject to the rules and also laws and regulations applicable, including among others regulations on Anti Money Laundering and Prevention of Terrorism Funding.

Trustees can be conducted by banks or *KC* of banks domiciled in a foreign country with the following requirements:

a. Banks: incorporated in Indonesia; having core capital of no less than Rp 5 trillion and CAR of no less than 13% during the last 18 months consecutively; having *TKS* of *PK* 2 at the lowest during the last two periods of assessment (12 months) consecutively and *PK* 3 minimum during the 1 period prior it; stating the plan of Trust activities in *RBB*; having capacity to conduct Trus activity based on *OJK* assessment results.

b. *KC* from the banks domiciled abroad: incorporated in Indonesia no later than 3 years since the regulation comes into force; having capacity to perform Trust activities based on the result of *OJK*; stating the plan of Trust activities in *RBB*; having minimum CEMA with calculation according to the applicable regulation and an amount of no less than Rp 5 trillion as well as CAR of no less than 13% during the last 18 months consecutively; having a *TKS* at least *PK* 2 at the lowest during the last two periods of assessment (12 months) consecutively and *PK* 3 minimum during the 1 period prior it.

Banks that perform Trust activities are required to submit monthly reports to BI with copies to *OJK*, covering reports at least as follows:

a. General information on HR of the Trustee work unit;
b. General information on the Trust agreement and the Settlor;
c. Information on the Trust activity;
d. Information on the asset position and Trust obligations;
e. Record of the face value shall be presented in the currency of origin and the conversion value in Rupiah; and
f. Procedure for recording the Trust activities shall refer to the applicable Statements of Financial Accounting Standards.

7. Regulation on Products of Sharia Banks and Sharia Business Units

BUS and *UUS* are required to report the plans for launcing of new products to *OJK*. The products referred to are as set in the Codification Book of Sharia Banking Product. In the event banks will launch new products not included in the Codification Book of Sharia Banking Product, banks are required to obtain approvals from *OJK*. Report on the plan for launching a new product must be submitted at least 15 days prior to the launching of the new product. *OJK* will grant approvals or rejections for new product applications at least 15 days since all requirements have been met and reporting documents received in complete. Banks are required to report the realization on the launching of the new product at least 10 days after the launcing of the new product referred to.

In order to accommodate the market needs by still taking into account the Sharia Principles and prudentiality, a regulation in the form of a cirdular that governs the regulation concerning *Qardh* product with Gold collateral (Gold Pawn) and regulation that governs financing products of gold ownership for *BUS* and *UUS*.

8. **Sharia Principles in the Activities of Collecting and Chanelling Funds and Providing Sharia Banks Services**

   Business activities of colleting funds, channeling funds and providing bank services based on Sharia Principles conducted by banks constitute banking services. In performing banking services referred to, banks are required to comply with Sharia Principles. The fulfillment of the referred Sharia Principles shall be conducted by complying with the basic provisions of Islamic law, among ohers, principle of fairness and balance (*'adl wa tawazun*), benefit (*maslahah*), universalism (*alamiyah*) and containing no *gharar*, gambling, usury, unjust, and unlawful objects.

   Compliance with the Sharia Principles shall be performed as follows:

   a. Collecting funds, namely by using among others *Wadi'ah* and *Mudharabah* agreements;
   b. Channelling funds/financing, namely by using agreements, among others, *Mudharabah, Musyarakah, Murabahah, Salam, Istishna', Ijarah, IMBT* and *Qardh*; and
   c. Providing services using among others the agreements of *Kafalah, Hawalah* and *Sharf*.

   In the event of disputes between banks and customers, other methods of settlements that can be conducted among others are through deliberations, banking mediations, Sharia arbitrations or judiciaries.

9. **Regulation on Financing Product of Gold Ownership for Sharia Banks and Sharia Business Units**

   To enhance prudentiality of banks chanelling the product of Gold Ownership Financing, a regulation related to the referred product has been issued covering among others:

   a. *BUS/UUS* are obliged to have a written policy and procedure sufficiently;

   b. Gold Ownership Financing collaterals are gold financed by *BUS/UUS* yang bound by fiduciary, stored physically in *BUS /UUS* and are not interchangeable with other collaterals;

   c. BUS/*UUS* are prohibited to charge storage and maintenance costs over the gold used as Gold Ownership Financing collateral;

   d. Total amount of Gold Ownership Financing of each customer is a maximum of Rp150 million. It is possible for Customers to obtain Gold Ownership Financing and *Qardh* with Gold Collateral at the same time, with a maximum overall balance amount of Rp250 million and a balance amount for Gold Ownership Financing no larger than Rp150 million;

   e. The downpayment for Gold Ownership Financing shall be at least 20% for gold bullion/ bar and at least 30% gold jewelry; and

   f. Period of Gold Ownership Financing shall be at minimum 2 years and at maximum 5 years.

B.3. Regulation on Prudential

1. **Core Capital of Commercial Banks**

   The complexity of banks business activities that continues to increase potentially leads to higher risks faced by banks. This increase of risk needs to be followed by capital increase required by the banks to bear potential losses that might arise. Therefore, banks must have a minimum core capital required to support their business operations. Core Capital includes paid-up capital and additional capital reserves of no less than Rp100 billion.

2. Minimum Capital Adequacy Requirement

a. Conventional CB

In order to create a sound banking system and be able to develop and compete nationally and internationally, banks need to enhance their ability to absorb risks causing by crisis condition and/or excessive banking credit growth through the enhancement of quality and quantity of bank capital in accordance with the applicable international standard, i.e. Basel III. In relation to that, the fulfillment of CAR obligation shall be set as follows:

1) Banks are required to provide minimum capital in accordance with the risk profiles set as follows:
   a) 8% from RWA for banks with risk profile rating 1;
   b) 9% to <10% from RWA for banks with risk profile rating 2;
   c) 10% to <11% from RWA for banks with risk profile rating 3; and
   d) 11% to 14% from RWA for banks with risk profile rating 4 or 5.

   Determination on risk profile rating refers to the applicable regulation on the *TKS* rating of CB;
2) To calculate minimum capital according to the risk profile, banks must have ICAAP that covers: (i) active supervision of BOC and BOD; (ii) assessment of capital adequacy; (iii) monitoring and reporting; (iv) internal control. *OJK* will conduct reassessment to ICAAP or referred to as SREP;
3) *KC* of banks domiciled in foreign country are required to meet minimum CEMA at 8% from the total liabilities of banks every month and shall be no less than Rp1 trillion. The calculation CEMA at least should be conducted every month and must be met no later than the 6th date of the following month;
4) Banks are required to provide main core capital (Common Equity Tier 1) at least 4.5%

from RWA and core capital (Tier 1) at least 6% from RWA both individually or consolidated with their Subsidiaries; and

5) Banks are required to form additional capital as a buffer above the minimum capital adequacy requirement according to the set risk profiles as follows:
    a) Capital Conservation Buffer at 2.5% from RWA for banks classified in BUKU 3 and BUKU 4 which fulfillement conducted gradually;
    b) Countercyclical Buffer in the range of 0% to 2.5% from RWA for all banks; and
    c) Capital Surcharge for D-SIB in the range of 1% to 2.5% from RWA for banks determined to have systemic impact.

b. *BPR*

BPR are required to provide minimum capital of 8% from RWA. The capital consists of core capital and supplementary capital that can only be accounted for at the highest 100% from the core capital. RWA consists of *BPR* balance sheet assets that have been given weight according to the risk level inherent in each asset item.

c. *BUS* and *BPRS*

BUS and *BPRS* are required to provide minimum capital of 8% from RWA. *UUS* are required to provide minimum capital from RWA from business activities based on Sharia Principles. In the event the minimum capital of *UUS* <8% from RWA, then the conventional *CB* HO of *UUS* must increase the minimum capital so as to reach 8% from RWA. The RWA for *BUS* consists of credit risk and market risk RWA, while *BPRS* RWA is only for credit risk. RWA shall be calculated based on risk weight of each balance sheet asset item and off balance sheet items, as follows:

1) Balance sheet assets that have been given weight according to the risk level of funds provision and bills inherent in each asset item;
2) Certain items in the list of commitments

and contingency liabilities (off balance sheet account) that have been given weight and according to the risk level funds provision inherent in each item after being taken into account first with the conversion factor weight.

3. **Net Open Position**

   Net Open Position (NOP) in overall is the sum of absolute values for the total of net difference between assets and liabilities in the balance sheets for each foreign currency added by the net difference between assets and liabilities both as commitments and contingencies in the off balance sheet account for each foreign currency all of which stated in rupiah.

   Foreign Exchange *CB* are required to manage and maintain NOP at the end of each working day in overall no higher than 20% from the capital. Besides, banks must also manage and maintain NOP at no higher than 20% from the capital every 30 minutes since the opening of the bank treasure system until the closing of the bank treasury system.

   Maintaining NOP at the end of each working day shall be calculated on a consolidated basis, namely:

   a. For banks incorporated in Indonesia include all branch offices in the country and overseas;
   b. For *KC* of foreign banks include all branch offices in Indonesia.

   Violations to NOP regulation shall be imposed with administrative sanctions among others in the form of written warnings, downgrade rating of the management factor assessment and increase rating of the risk profile for Compliance Risk on the *TKS* assessment, and FPT toward the management and/or executive officers in charge.

4. **Regulation on Legal Lending Limit**

   a. CB

      1) For non-related parties of banks: Funds provision to one borrower of non-related parties the limit is determined at a maximum of 20% from the bank capital. Meanwhile, for one group of borrowers of non-related parties, the limit is not to exceed 25% from

the bank capital;

2) For related parties of banks: All portfolios of Funds Provision to the bank related parties shall be a maximum of 10% from the bank capital;
3) Funds provision by banks shall be categorized as exceeding the LLL if caused by the following:
   - impairment of the bank capital;
   - change of exchange rate;
   - change of fair value;
   - business consolidation, changes in ownership structure and or changes in management structure causing changes in related parties and or group of borrowers; and
   - change of regulations.
4) Banks are required to submit an action plan to *OJK* concerning exceeds and violations of LLL, whereas banks shall be imposed sanction of the *TKS* rating.

b. *BPR*
   1) LLL for loans shall be calculated based on debit- credit tray. LLL for Interbank Funds Placement in other *BPR* shall be calculated based on the nominal of the Interbank Funds Placement;
   2) For non-related parties of *BPR*: Provision of funds to non-related parties of *BPR* is determined at a maximum of 20% from the *BPR* capital. Meanwhile, to non-related parties of one group of borrowers the limit is set not to exceed 30% from *BPR* capital. Excluding in the non-related borrowers is the provision of funds with a core-plasm partnership pattern with a condition according to the regulation;
   3) For related parties of *BPR*: the provision of funds to the related parties is set at a maximum of 10% from *BPR* capital and the said funds provision must obtain the approval of one director and one

commissioner;

4) Placement to other *BPR*: Interbank Funds Placement to other *BPR* which is a Non-related Party is determined at a maxikum of 20% from the *BPR* capital;
5) Provision of funds in the form of credit of Funds Provision by *BPR* is categorized as Exceeding LLL if causes by the following:
    a) Impairment of *BPR* capital;
    b) Business consolidation, merger, change of ownership structure and/or management causing change of related parties and/or group of borrowers;
    c) Change of regulations.
6) *BPR* conducting violations or exceeding the LLL must submit an action plan to *OJK* and shall be imposed sanctions related to the *BPR TKS* assessment as stipulated in the applicable regulation.

c. *BPRS*
1) Maximum Limit of Fund Distribution (*BMPD*) is the maximum percentage of funds distribution realization against the capital of *BPRS* including financing and placement of *BPRS* funds in other banks. Violations of *BMPD*, namely the percentage excess of the funds distribution at the time of realization against the capital of *BPRS* with the allowed *BMPD*.
2) Calculation of *BMPD* for Financing shall be conducted based the types of agreement used, namely:
    a) *Murabahah*, *istishna'* and multiservice financing shall be calculated based on the balance of the basic price;
    b) *Salam* financing shall be calculated based on acquisition costs;
    c) *Mudharabah*, *musyarakah* and *qardh* financing shall be calculated based the debit tray balance; and
    d) *Ijarah* financing or *IMBT* shall be calculated based on asset acquisition

cost balance of *ijarah* or *IMBT* deducted by the depreciation accumulation or amortization of assets.

3) Other Calculation of *BMPD*:
   a) Interbank Funds Placement in the form of savings shall be conducted based on the highest balance of the report month;
   b) Interbank Funds Placement in the form of deposits shall be conducted based on the total nominal as specified in all deposit slips in the same;
   c) *BMPD* for Funds Distribution to each and/or all Related Parties, at 10% of the *BPRS* Capital;
   d) *BMPD* for Funds Distribution to the respective Non-related Party Facility Recipient Customers at 20% of the *BPRS* Capital;
   e) BMPD for Funds Distribution in the form of Financing to one group of Non-related Party Facility Recipient Customers at 30% of the *BPRS* Capital, with financing to each of the Facility Recipient Customer not to exceed 20% from the *BPRS* Capital. Including in the understanding of one group of Facility Recipient Customers are non-bank Facility Recipient Customers that have management, ownership or financial affiliation with banks as Facility Recipient Customers.

5. Asset Quality

a. Asset Quality of Conventional CB

Banking as the financial institution performing the function of intermediation is required to present financial statements that are accurate, comprehensive and reflecting banks performance as a whole. One of the conditions in order to present accurate and comprehensive financial statements are that the financial statements refered to should be presented in accordance with the applicable Financial

Accounting Standard (*SAK*) particularly in the forming of Allowance for Impairment Losses (*CKPN*).

In addition to that, in order to maintain their business continuity, banks still need to manage the credit risk exposure at the sufficient level among others by maintaining the quality of assets and continue to carry out the calculation of allowance for uncollectible accounts of assets that will affect the capital ratio of the bank. The calculation of Allowance for Assets Disposal (*PPA*) shall be conducted as follows:

1) The provision of allowance shall be conducted in accordance with the concept of impairment in the form of *CKPN* and still maintains the *PPA* concept as prudential purposes.
2) Calculation of earning assets includes the general and specific *PPA*, i.e. not charged to Profit/Loss but only affects the calculation of CAR. The result of *PPA* productive calculation will affect the CAR calculation after deducted by the formed *CKPN*.
3) For non earning assets, the calculation still include the specific *PPA*, namely not charged to Profit/Loss, but only affect the CAR calculation. The affect of non-earning assets *PPA* in the calculation of CAR does not consider the formed *CKPN* considering that this is disincentive as the bank has non-earning assets.

b. Earning Assets (*AP*) Quality of *BPR*

BPR have important roles in supporting the development of MSME. *BPR* must constanly observe the sound credit principles in order to channel credit/loans to MSME by still taking into account the prudential principles. *BPR* are required to determine the same *AP* Quality to several *AP* accounts used to finance 1 debtor in the same *BPR*. Regulation on Earning Assets Quality is refined and harmonized with *SAK* for Entities without Public Accountability for *BPR* and Accounting Guidelines for *BPR*.

BPR is obliged to determine the same Earning Assets Quality to several *AP* accounts used to finance one debtor in the same *BPR*. In the event there are different Earning Assets Quality for 1 Debtor in the same *BPR*, the concerned *BPR* shall be required to determine the quality of each *AP* according to the lowest Eaning Assets Quality.

Regulation related to debt restructuring, i.e.:

1) Banks are required to charge losses arising from debt restructuring, after deducted by the excess of Allowance for possible losses on Earning Assets (*PPAP*) due to the improvement of the credit quality after restructuring;
2) The *PPAP* excess due to credit quality improvement after restructuring, after deducted by losses arising from the referred debt restructuring can only be recognized as revenues if there have been three principal installments received upon the restructured loans.

BPR are required to apply debt restructuring accounting treatment, including but not limited to the acknowledgement of losses arising in the context of debt restructuring, according to *SAK* and Accunting Guideline applicable for *BPR*.

Regulations related to Repossed Assets (*AYDA*), i.e.:

1) Repossesing of collaterals must be accompanied by a statement letter of collateral handover or a power of attorney to sell from the debtor, and a certificate of debt settlement from the *BPR* to the debtor.
2) *BPR* is required to seek settlements for *AYDA* within a period of no later than one year after the takeover.
3) In the event within 1 year period *BPR* is not able to settle the *AYDA*, the values of *AYDA* recorded in the balance sheet of *BPR* must be calculated as a deduction factor of *BPR* core capital in the calculation of CAR.

4) In the event the *AYDA* experiences value impairment due to the reassessment, *BPR* in question must recognize the value impairment as a loss, and
5) In the event the *AYDA* experiences value improvement due to reassessment, the said *BPR* may not recognize the improvement as revenues.

c. Asset Quality for *BUS* and *UUS*

Investment and/or funds provision of banks should be conducted based on prudential principle and in compliance with Sharia Principles. Bank management is required to assess, monitor and take anticipating measures in order that the assets quality is constantly in a current condition. Quality assessments are conducted to *AP* and Non Earning Assets *(ANP)*. Banks are required to determine the same quality to several *AP* accounts used to finance 1 debtor, in the same bank. The determination of the same quality is also applicable to *AP* in the form of funds provision or receivables provided by more than 1 bank implemented based on joint financing agreement and/or syndication.

Anticipation is required so that the quality of assets is always in current condition. Quality assessments shall be conducted to *AP* and *ANP*. Banks must determine the same quality to several *AP* accounts used to finance 1 customer, in the same 1 bank. The determination of the same quality is also applicable to *AP* in the form of funds provision or receivables provided by more than 1 bank implemented based on joint financing agreement and/or syndication.

Table 5.7: Assets Quality for Sharia Banks - *Sharia Business Units*

No.	Assets Type	Assets Quality				
		L	*DPK*	*KL*	*D*	*M*
1.	Financing	√	√	√	√	√
2.	Sharia Securities	√	-	√	-	√
3.	Bank Indonesia Certificates Sharia	√	-	-	-	-

4.	Placement in Other Banks	√	-	√	-	√
5.	Equity Participation (<20%-*cost method*)	√	-	√	√	√
6.	Equity Participation (>20% - *equity method)*	√	-	-	-	
7.	Temporary Equity Participation	√	-	√	√	√
8.	Off Balance Sheet Transactions: I. Inter Bank Placement II. Financing to Customers	 √ √	 √ √	 √ √	 √ √	 √ √
9.	*AYDA*	√	-	-	√	√
10.	Abandoned Properties	√	-	√	√	√
11.	Interoffice Account (RAK) & Suspense Account	√	-	-	-	√

L= current, DPK= under special supervision, KL= sub-standard, D= doubtful, M=loss

d. Assets Quality of *BPRS*

BPRS are prohibited to conduct funds placement in the form of deposit in Conventional CB and/or in the form of savings and deposits in *BPR*. *BPRS* can only conduct funds placement in Conventional CB in the form of demand deposits/savings for the need of funds transfer for *BPRS* and *BPRS* customers and shall be categorized as non earning assets.

Table 5.8: Assets Quality for Sharia Rural Banks

No.	Assets Type	Assets Quality			
		L	KL	D	M
1.	Financing	√	√	√	√
2.	Placement in Other Banks	√	√	-	√
3.	*AYDA*	√	-	-	√
4.	Placement in Conventional Commercial Banks	√	√	-	√

6. Allowance for Uncollectible Accounts

a. Conventional CB

To cover the risk of investment losses, banks are required to form *PPA* to *AP* and *ANP* in the form of:

1) General reserves and special reserves for *AP*; and
2) Special reserves for *ANP*.

Other than calculating the *AP*, banks are required to form *CKPN* in accordance with the applicable *SAK*. The amount of the general reserves is determined no less than 1% from the *AP* that have current quality excluding *SBI*, *SUN* and *AP* guaranteed by cash collateral. The amount of the special reserves for Conventional CB is determined at minimum:

1) 5% from Assets of under Special Attention quality after deducted by the collateral value;
2) 15% from Assets of Less Current quality after deducted by the collateral value;
3) 50% from the Assets with Doubtful quality after deducted by the collateral value; and
4) 100% from Assets of non-performing quality after deducted by the collateral value.

In the event the collateral will be used as *PPA* deduction, the collateral appraisal shall be conducted at least by:

1) Independent Appraisers for *AP* to debtors or groups of borrowers with a total amount of > Rp5 billion;
2) Bank internal appraisers for *AP* to debtors or groups of borrowers with a total amount of up to Rp5 billion.

Appraisal against the referred collateral must be conducted since the beginning of *AP* provision. Collaterals that can be included as a deduction factor in the *PPA* calculation include:

1) Commercial papers/Securities and shares actively traded in the Indonesian Stock Exchange market or having investment grade and tied to lien;
2) Land, building and residential housing bound with mortgages;
3) Machineries constitute a unity with the land and bound with mortgages;
4) Aeroplanes or sea vessels/ships with the size above 20 m^3 bound with mortgages;
5) Motor vehicles and inventories bound with fiduciaries; and/or

6) Warehouse receipts bound with guarantee rights of warehouse receipts.

Establishment of reserves (allowances) applies for leniency in credit withdrawals both committed and uncommitted, however the formed allowance is only special reserves, namely leniency in credit withdrawals of non-current quality.

Calculation for general and special *PPA* of *AP* and calculation for special *PPA* of *ANP* shall be charged to the profit and loss but only will influence CAR calculation. The result of calculation for *PPA* of *AP* will influence CAR calculation after deducted from the formed *CKPN*. Meanwhile, the influence of *PPA* of *ANP* in the calculation of CAR shall not include the established *CKPN*, considering this matter is disincentive as banks have non-earning assets.

b. BUS

Banks are required to form *PPA* of *AP* and *ANP*. *PPA* constitutes general and special reserves/ allowances of *AP* and special reserves of *ANP*. *PPA* of *AP* general reserves is set at no less than 1% from the entire *AP* classified as current, not including Sharia *SBI* and securities and/or receivables issued by the government based on Sharia Principles, and part of *AP* secured by government guarantee and cash collaterals. The amount of special reserves formed is determined the same as required for *BU*. The obligation to form *PPA* is not applicable to *AP* for lease transactions in the form of *Ijarah* agreement, or lease transactions with the transfer of property rights in *IMBT* agreements. Banks are required to establish depreciation/ amortization for lease transactions.

Collaterals that can be counted as deduction factors in the establishment of *PPA* include:

1) Cash collaterals in the form of demand deposits, savings, marginal deposits and/or blocked gold accompanied with a power of attorney to disburse;
2) Guarantees of the Government of Indonesia

in accordance with the applicable laws and regulations;
3) Securities and/or bills issued by the government;
4) Sharia securities that have investment grades and actively traded in capital markets;
5) Land and/or non-residential building and machineries which considered as a unity with the land and tied with mortgages;
6) Aeroplanes and sea vessel/ships with the size above 20 m^3;
7) Motor vehicles and inventories bound with fiduciaries; and/or
8) Warehouse receipts bound with guarantee rights of warehouse receipts.

c. Allowance of Uncollectible Accounts for *AP* of *BPR*

Exception for the establishment of General Allowance for Uncollective Accounts of *AP* in the form of:
1) *BPR* placement on *SBI*; and
2) Loans guaranted by liquid collaterals such as *SBI*, debt securities issued by the Government of RI, savings and/or deposits blocked by the concerned *BPR* accompanied with a power of attorney to disburse and gold.

Expansion of the types and binding of collaterals to encourage lending to MSME and calculation of collaterals values counted as the deduction factor in the establishment of *PPAP* covers among others:
1) Gold jewelry;
2) Warehouse receipts;
3) Land and/or building with ownership titles in the form of Letter C (*surat girik*) or equivalent including deed of sale;
4) Business places/counters/kiosk/stalls/right to use/right to work on; and
5) Portion of funds guaranteed by *BUMN*/ regional owned enterprise (*BUMD*) conducted business as credit guarantors.

OJK has the right to recalculate or not to recognize the collateral values calculated in the establishment of *PPAP* if the *BPR* in question is not in compliance with the regulation.

BPR is required to establish *PPAP* in the form of general *PPAP* and special *PPAP*. The general *PPAP* is determined at no less than 5‰ from *AP* that have current quality, not including *BPR* placement on *SBI* and Loans secured by liquid collaterals in the form of *SBI*, debt securities issued by the Government of RI, savings and/or deposits blocked by the concerned *BPR* accompanied with a power of attorney to disburse and gold.

Special *PPAP* is set at least:

1) 10% from *AP* with Less Current quality after deducted by the collateral value.
2) 50% from *AP* with Doubtful quality after deducted by the collateral value; and
3) 100% from *AP* with Non Performing quality after deducted by the collateral value.

Collateral values that can be counted as a deduction factor in the establishment of *PPAP* is determined at no higher than:

1) 100% from the liquid collaterals such as *SBI*, debt securities issued by the Government of RI, savings and/or deposits blocked by the concerned *BPR* accompanied with a power of attorney to disburse and gold;
2) 85% from the market value for collaterals in the form of gold jewelry;
3) 80% from the value of morgages for collaterals in the form of land, building and/or houses which have certificates tied to mortgages;
4) 70% from the value of collaterals in the form of warehouse receipts which appraisals conducted less than or up to 12 months and in line with the applicable Laws, regulations and procedures;
5) 60% from the tax object selling value (*NJOP*) for collaterals in the form of land, building and/or houses which have certificates not bound with morgages;

6) 50% from *NJOP* for collaterals in the form of land and/or building with ownership titles in the form of Letter C (*surat girik*) or equivalent including deed of sale made by a notary or other authorized officials supported by Income Tax Payable of the past year;
7) 50% from the market value, lease price or transfer price for collaterals in the form of business places/kiosks/counters/stalls/ right to use/ right to work on supported by proofs of ownership or a permission letter to use issued by the legitimate manager or made by the authority;
8) 50% from the market value for collaterals in the form of motor vehicles, vessels/ ships or motorboats supported by proofs of ownership and which is bound in accordance with the applicable regulation;
9) 50% from the collaterals in the form warehouse receipts which appraisals conducted more than 12 months up to 18 months and in line with the applicable Laws, regulations and procedures;
10) 50% for part of funds guaranteed by *BUMN*/ *BUMD* conducting business as the credit guarantors;
11) 30% from the market value for motor vehicles, ships/vessels or motorboats supported by proofs of ownership and and accompanied by a power of attorney to sell, made/officiated by a notary;
12) 30% from the collateral value of warehouse receipts which appraisals conducted more than 18 months but has not passed the 30 months and in line with the applicable Laws, regulations, and procedures.

d. *PPA* of *BPRS* are required to established *PPA* of *AP* and *ANP*, namely *PPA* of general and special reserves for AP, and *PPA* of special reserves for *ANP*. The amount of general in *BPRS* is determined at no less than 5‰ from the total *AP* that have current quality, not including

Bank Indonesia Certificates Sharia (*SBIS)*. Provision on the amount of special reserves on *BPRS* is determined equal to the provision on special reserves on *BPR*. The obligation to establish *PPAP* is not applicable for *AP* in the form berupa *ijarah* or *IMBT*, although *BPRS* are required to establish depreciation/amortization for *ijarah* or *IMBT*.

Collaterals that can be counted as a deduction in the establishment of *PPA* consist of:

1) Facilities guaranteed by *BUMN*/*BUMD*;
2) Cash collaterals: foreign banknotes, gold, savings and/or deposits blocked by a power of attorney to disburse;
3) Land, building and houses meeting certain conditions;
4) Warehouse receipts;
5) Business places/counters/kiosks managed by governing body;
6) Motor vehicles and sea ships meeting certain conditions.

7. Debt Restructuring

a. Debt restructuring is an improvement effort conducted by banks in lending activities to debtors having difficultis to meet their obligation, conducted among others through:
   - Decrease in lending rates;
   - Extension in lending period;
   - Reduction in interest arrears;
   - Reduction in principal arrears;
   - Addition credit facilities; and/or
   - Credit conversion to PMS.

b. Banks can only perform Debt Restructuring to debtors that meet criteria as follows:
   1) Debtors experiencing difficulties in paying the loan principals and/or interests; and
   2) Debtors have good business prospects and are able to meet obligations after the debt has been restructured.

c. Banks are prohibited to perform Debt Restructuring with the intention only to improve their credit qualities or to avoid *PPA* establishment.

d. The quality of the restructured loans is determined as follows:
   1) Maximum the same as the quality of loans prior to debt restructuring, provided that the debtors have not met their obligations to pay the principal and/or interest installments in 3 consequtive periods according to the agreed schedule;
   2) May increase the quality at least 1 level from the previous loan quality prior to restructuring, after debtors settled the payment of principal and/or interest installments in consequtive 3 periods as referred to in item 1); and
   3) Based on assessment factors toward the business prospect, debtors performance and ability to pay:
      - After the determination on the loan quality as referred to in item 2); or
      - In the event debtors do not meet the conditions and/or payment obligations in the Debt Restructuring agreements, both during and after 3 periods of payment obligations according to the agreed schedule.

e Banks are required to charge losses arising from debt restructuring, after deduction of the *PPA* excess. Recognition of revenue on the debt restructuring shall be recognized and recorded in accordance with the applicable Guidelines for Financial Accounting Standard (*PSAK*) regulation.

8. Financing Restructuring for Sharia Banks and Sharia Business Units

Banks can perform financing restructuring by applying prudential principle. Banks must maintain and take measures so that the quality of financing after restructuring is in a current condition. Banks are prohibited to perform financing restructuring with the intention to:

a. Decrease the classification of financing quality;
b. Establish larger *PPA*; or
c. Derecognition of profit margin or *ujrah* in actual.

Financing restructuring can only be done on the ground of written requests from customers.

Financing restructuring can only be conducted for customers that meet the criteria as follows:

a. Customers experience impairment of paying ability; and
b. There are clear installment payment sources from customers and able to meet the payment obligation after restructuring.

Financing restructuring must be supported by analysis and adequate evidences and also documented well. Banks are required to have written policy and SOP concerning the financing restructuring.

9. Statutory Reserves

a. Conventional CB

Banks are obligated to meet the *GWM* in Rupiah, while Foreign Exchange Banks, other than required to meet *GWM* in Rupiah. are also obligated to meet *GWM* in foreign currencies. *GWM* in Rupiah consists of Primary *GWM*, Secondary *GWM*, and LDR *GWM*.

Fulfilling *GWM* in Rupiah is determined as follows:

1) Primary *GWM* in Rupiah of 8% from Third Party Funds (*DPK*) in Rupiah;
2) Secondary *GWM* in Rupiah of 4% from *DPK* in Rupiah;

   Components taken into account in the fulfillment of *GWM* secondary in Rupiah are as follows:
   - *SBI* for the entire period;
   - BI Certificates of Deposit (*SDBI*) for the entire period;
   - Government securities (*SBN*) covered; and/or
   - Excess Reserve.
3) LDR *GWM* in Rupiah equal to the calculation between Below Disincentive Parameter or Above Disincentive Parameter and the difference between Bank LDR and Target LDR by taking into consideration the difference between bank CAR and Incentive

CAR.

- LDR Target limit is 78%-92%;
- CAR Insentif remains 14%;
- Below Disincentive Parameter remains 0.1; and
- Above Disincentive Parameter remains 0.2.

GWM in foreign currencies is set at 8% from *DPK* in foreign currencies.

BI can provide leniency on the settlement of Primary *GWM* in Rupiah for banks performing merger or consolidation. Besides, BI may give leniency on compliance with the provision of LDR *GWM* for banks currently subjected to business activity restrictions by *OJK* related to lending and fund collection based on *OJK* request.

b. *BUS* and *UUS*

Banks are required to maintain *GWM* in Rupiah, whereas Foreign Exchange Banks other than required to meet *GWM* in Rupiah, they also required to meet *GWM* in foreign currencies. *GWM* in Rupiah is set at 5% from *DPK* in Rupiah and *GWM* in foreign currency is applied at 1% from *DPK* in foreign currencies. Other than meeting the said provision, banks which have financing ratio in Rupiah against *DPK* in Rupiah less than 80%, and banks:

1) Having Rupiah *DPK* ≥ Rp1 trillion up to Rp10 trillion are required to maintain additional Rupiah *GWM* of 1% from the Rupiah *DPK*;
2) Having Rupiah *DPK* ≥ Rp10 trillion up to Rp50 trillion are required to maintain additional Rupiah *GWM* of 2% from Rupiah *DPK*;
3) Having Rupiah *DPK* ≥ Rp50 trillion are required to maintain additional Rupiah *GWM* of 3% from Rupiah *DPK*;

For banks having Financing ratio in Rupiah against *DPK* in Rupiah of 80% or more; and/or having Rupiah *DPK* up to Rp1 trillion will not be imposed with the obligation of additional *GWM*. BI can give leniency on meeting Primary

GWM in Rupiah to banks conducting merger or consolidation upon the request of banks to BI accompanied by *OJK* approval on the provision of merger or consolidation incentives. Banks violate the obligation of meeting *GWM* in foreign currencies paid in rupiah by using middle rate of BI transation rate on the day of the violation occurences.

10. Transparency of Bank Financial Condition

a. CB

In order to create market discipline and in line with the development of international standard, it requires efforts of transparency enhancement of financial condition and bank performance through the publication of bank reports to facilitate the assessment by public and market players.

Other than that, to enhance transparencies, banks need to provide quantitative and qualitative information which is timely, accurate, relevant, and adequate to facilitate users of information in assessing the financial condition, performance, risk profile, and application of bank risk management, as well as business activities including determination on interest rate.

In the context of financial condition transparencies, banks are obligated to prepare and present financial reports, consisting of:

1) Annual Report;
2) Quarterly Publication of Financial Report;
3) Monthly Publication of Financial Report;
4) Consolidated Financial Statements; and
5) Other Publication Reports.

b. *BPR* and *BPRS*

In the context of financial condition transparencies, *BPR* and *BPRS* are required to prepare and present financial reports consisting of:

1) Annual Report;
2) Financial Report Publication.

The Annual Report at least contains:

1) General information: information on

management, ownership, *BPR* business development, management strategies and policies, management report;
2) Annual Financial Statements consist of: balance sheets, profit/loss statement, statement of changes in equity, cash flow report, etc.;
3) Opinion from Public Accountants on *BPR* Annual Financial Statements audited by Public Accountants;
4) All aspects of transparencies and other information;
5) All aspects of disclosure as required in *SAK* applicable to *BPR*.

For *BPR* that have total assets of ≥ Rp10 billion, the Annual Financial Statements should be audited by Public Accountants and compiled in accordance with Standard of Financial Accounting for Entity without Public Accountability (*SAK-ETAP*) and Accounting Guidelines for *BPR* (PA *BPR*). For *BPRS* that have total assets above Rp10 billion, their Annual Financial Statement must be audited by Public Accountants.

Publication of Financial Statements at least contains: Balance Sheet, Profit/Loss Statement, Commitment and Contingency Report, Quality of Earning Assets, Financial Ratios and Structure of Management.

BPR and *BPRS* must announce their Publication of Financial Statements quarterly for the positions of end of March, June, September and December. The announcement of publication of financial reports referred to can be done in a local daily newspaper or tacked on the bulletin board or other media that can easily be read by public throughout the offices of *BPR*/*BPRS*.

For *BPR* with total assets above Rp10 billion, especially for financial reports publication for the position of end of December must be publish in local daily newspaper and tacked in the bulletin board or other media that can easily be read by public throughout the offices of *BPR*;

The Quarterly Publication Financial Report must be presented in the form of comparison with the Quarterly Publication Financial Report of the previous year.

11. **Transparency of Information on Bank Products and Utilization of Customer Personal Data**

    Banks are required to apply transparency of information on Bank Products and utilization of Customer Personal Data stipulated in a written policy and procedure. Banks are required to provide written information in clear and complete Indonesian Language concerning the characteristics (including risks) of each Bank Product. In the event Banks will provide and or broadcast Customer Personal Data, Banks must ask for a written approval from the customers.

12. **Prudential Principle in the Investment Activities of Commercial Banks**

    Banks can only conduct investment/equity participation in companies engaging in financial sector. *BUS* can only conduct equity participation in companies engaging in financial sector based on Sharia Principles, while *UUS* and *KC* of banks domiciled in a foreign country can only conduct Temporary Equity Participation (*PMS*) activities. Banks must obtain *OJK*'s approval for every capital investment.

    Total of the entire portfolios of equity participation is determined at maximum equal to the capital investment according to the grouping of banks based on business activities (*BUKU*), as regulated in the applicable regulation concerning business activities and office networks based on the bank core capital.

    Banks are prohibited to conduct capital investment in excess of the limit of funds provision as referred to in the applicable regulation on *BMPK*.

    Banks that will conduct capital investment at least must meet the following requirements: (a) having the plan for capital investment specified in *RBB*; (b) having a CAR in accordance with the risk profiles as regulated in the applicable provisions on Bank CAR; (c) having *TKS* with PK 1 or 2 during 3 periods of assessment consecutively or 4 periods of assessment consecutively if the prospective Investee constitutes a new company and/or an overseas company; (d) not disrupting Bank business continuity and not increasing bank risk profiles significantly; (e) having a written policy and procedure prepared by the Bank BOD and approved by the Bank BOC, and (f) having an adequate internal control system for the investment activity.

In the event there is no regulation that governs CAR in accordance with the risk profiles for BUS, CAR Ratio is set at no less than 10%.

a. Divestment of Equity Participation

   Obligation to divest equity participation shall be conducted, in the event: (1) Equity Participation causes or expected to cause decrease of the bank capital and/or increase of the bank risk profiles significantly; or (2) on recommendations of the Subsidiary authorities and/or on instruction of *OJK*. Divestment of equity at self initiative can be conducted with the following condition:

   1) Divestment is intended to adjust with the bank business strategy;
   2) Equity participation has been conducted for 5 years;
   3) Specified in *RBB*;
   4) Divestment shall be no less than 50% from the shares owned;
   5) Divestment conducted by a reasonable transaction (arm's length transaction);
   6) Divestment shall not be for capital gain; and
   7) Has obtained *OJK* approval.

b. Equity Participation by Bank Subsidiaries

   In Equity Participation by Bank Subsidiaries, it should be ensured that: (1) equity participation only be conducted in Companies Engaging in the Sector of Finance and/or in supporting companies of financial services and in the form of shares; (2) the Subsidiaries apply the adequate prudential principle and risk management; and (3) observing the regulations issued by the Subsidiary authorities.

c. Accounting Treatment, Management, Quality and Transparency on Equity Participation and *PMS*
   - The accounting treatment shall refer to the applicable *SAK*.
   - The quality shall refer to the applicable regulation on the assessement of assets quality of banks.
   - Banks must disclose their activities in the Annual Report by referring to the applicable regulation on transparency and publication of bank reports.
   - Banks are required to apply risk management by referring to the applicable regulation concerning application of risk management for *CB* or application of management risk for *BUS* dan *UUS*.

d. Others

   OJK based on certain considerations may instruct banks to conduct divestment of Equity Participation or reject the request for Equity Participation or divesment at own initiative.

13. Prudential Principle in the Activities of Asset Securitization for Commercial Banks

Financial assets transferred for Assets Securitization must be in the form financial assets consisting of loans, receivables arising from commercial papers, future receivables, and other financial assets equal to. Assets Securitization must meet the following criteria: meeting cash flows, owned and under the control of the originator; and can be handedover freely to the issuer. In the Assets Securitization, banks can function as: the Originator, Credit Enhancer, Liquidity Facility Provider, Service Provider, Custodian Bank, Financier.

14. Prudential Principle in Implementing Structured Product Activities of Commercial Banks

Structured Product is a product of banks which is a combination of 2 or more financial instruments in the form of non-derivative and derivative financial instruments or derivative and derivative financial instruments and at a minimum has the following characteristics:

a. Value or cash flow arising from the products shall be associated with one or combination of basic variables such as interest rate, exchange rate, commodity and/or equity; and
b. Pattern of change on the value or cash flow of product is irregular if compared to the pattern of change of basic variables as referred to in the letter a, so as resulting to the change value or cash flow does not reflect the whole changes of the basic variables linearly (asymmetric payoff), which among others marked by the presence of: Optionality (caps, floors, callars, step up/step down and/or call/put features); Leverage; Barriers (knock in/knock out); and/or Binary (digital ranges).

The understanding of derivatives in this arrangement covers embedded derivatives.

Structured product activities are activities and/or processes conducted in connection with planning, development, issuing, marketing, offering, selling, operational implementation, and/or terminating activities related to the structured product.

Banks can only conduct structured product activities after obtaining principle approval and effective statement for issuing every type of structured product from *OJK*.

Foreign Exchange CB can only conduct structured product transations associated with the basic variables in the form of exchange rate and/or interest rate. Non Foreign Exchange CB can only conduct structured product transactions related to basic variables of interest rate. Banks must specify the plan for structured product activities in *RBB*. Banks must apply risk management effectively in conducting structured product activities. Banks are prohibited to use the words “deposits”, “time deposits”, “protected”, “demand deposits”, “savings”, and/or other words that might give perception to customers that the bank provides protection of structured product payback in full, in the event the structured product issued by the bank does not accompanied with full protection on the principal in the currency origin at maturity date.

15. **Prudential Principle in Implementing Agency Activities of Foreign Financial Products by Commercial Banks**

    Banks can only perform activities for foreign financial product agencies after receiving a principle approval from *OJK*. To become agents for a foreign stock investment instrument, other than meeting requirements of principle approvals from *OJK*, banks have to meet there requirement for agents of stock foreign investment instrument in accordance with the provision stipulated by *OJK*. Banks are prohibited act as sub-agents in performing the activities of foreign financial product agencies. Foreign financial products that can be mediated by banks in Indonesia at least have to meet the following requirements:

    a. Already listed and/or complied with the regulation of the authorities in the country of origin of the issuers; and
    b. Have been reported to *OJK* by banks.

    Other than meeting the abovementioned requirements, foreign financial products of investment instrument other than stocks which sales can be represented by banks must be in the form of Structured Products and should meet the following requirements:

    a. Issued by banks abroad that have branch offices in Indonesia;
    b. Associated with basic variables in the form exchange rate and/or interest rate; and
    c. Not a combination of various instruments with derivative transactions of foreign currencies against rupiah for speculative yield enhancement.

    Foreign financial products are excluded from the government guarantee scheme as they are a form of savings in the bank.

16. **Prudential Principle for Commercial Banks Outsourcing Part of the Job Implementation to Other Parties**

    In handing over part of the bank jobs implementation to other sources, or Outsourcing, banks must apply prudential principle and risk management, as well as be responsible for the jobs outsourced to Service Provider Company.

Outsourcing can only be done for supporting jobs, both in the business activities and in the supporting business activities of banks. Criteria of supporting jobs at least includes low risk, not requiring high competence qualification in the field of banking and not directly related to the process of decision-making that might affect the operational of banks.

Banks can only make outsourcing agreements with Service Provider Company that at least meets the following requirements:

a. An Indonesian legal entity in the form of a PT (Limited Liability Company) or a Cooperative;
b. Has a valid business license from the authority according to the line of business;
c. Has a good financial performance and reputation as well as adequate experiences;
d. Has personnel that supports the outsourced job implementation; and
e. Has facilities and infrastructures required in the outsourcing.

Several jobs not included in the Outsourcing coverage, among others are:

a. Handing-over jobs to the Head Office or regional offices of banks domiciled abroad, parent company, and other entities within one business group of banks in the country and outside the country, provided that the jobs handover is still subject to other applicable regulations that govern specific activities/jobs, including implementation of the outsourcing with due regard to the suitability and fairness of the outsourced jobs:
b. Outsourcing of consultancy or specific expertise services, such as, legal consultant, notarial, independent appraisal and public accountant services; and
c. Outsourcing of maintenance services for properties and buildings, e.g. maintenance of air conditioner (AC) units, photocopy machines, computers and printers as well as building maintenance services of bank offices.

Prudential principles in the outsourcing of loan/debt collection, among others:

a. Coverage of debts collectors in this regulation is collecting debts in general, including from credit without collaterals and credit cards;
b. Loans/debts which collections can be outsourced to other parties are Non-Performing Loans in accordance with the applicable regulation concerning quality assessment of *CB* assets;
c. Cooperation agreement between Banks and Service Provider Company must be made in the form of agreement on providing labor services; and
d. Banks are required to have a policy on collection ethics policy according to the applicable regulation.

Meanwhile, prudential principle in the outsourcing of cash management, among other is as follows:

a. Banks can only make outsourcing agreements with Service Provider Company that meet requirements in accordance with the applicable regulation; and
b. Outsourcing made by banks can be discontinued if the outsourcing has a potential to harm the business continuity of the banks.

17. Application of Anti-Fraud Strategy for Commercial Banks

Banks must have and apply anti-fraud strategy adapted to the internal and external environment, complexity of business activities, potentials, types, and risk of fraud supported by adequate human resources. The anti-fraud strategy constitutes part of the strategic policies which application is manifested in the fraud control system. For banks that already have anti-fraud strategy but have not met the minimum references, they have to adapt and refine their anti-fraud strategy and submit the monitoring of anti-fraud strategy implementation to *OJK*.

In order to control the risk of fraud occurrences, banks need to apply risk management with strengthening on several aspects that at least covers Management

Active Supervision, Organizational Structure and Accountability, and also Control and Monitoring. Anti-fraud strategy which in its implementation is in the form of fraud control system has 4 pillars, as follows:

a. Prevention: contains instruments for reducing the potential of fraud occurrences, which at least include anti fraud awareness, identification of insecurities, and know your employee;
b. Detection: contains instruments in order to identify and find fraud occurences in the business activities of banks that at least cover policy and mechanism of whistleblowing, surprise audits and surveillance system;
c. Investigation, Reporting and Saction: contains instruments in order to dig information, reporting system, and imposition of sanctions to fraud occurences in the business activities of banks that at least include the standard of investigation, reporting mechanism, and imposition of sanctions; and
d. Monitoring, Evaluation and Follow-up: contains instruments in order to monitor and evaluate fraud occurrences as well as the required follow-ups, based on evaluation results that at least cover the monitoring and evaluation of the fraud occurrences and also the follow-up mechanism.

18. Guidelines for Calculating Risk Weighted Assets for Credit Risk Using Standard Approach

This provision constitutes the refinement of the regulation related to the calculation of risk-weighted assets (RWA) in order that the calculation of CAR further reflecting risks faced by banks and in line with the standards applicable internationally.

Key regulations in this provision among others are as follows:

a. Credit risk covers credit risk due to failure of debtors, failure of counterparty (counterparty credit risk), failure in settlement (settlement risk);
b. Formula of RWA calculation is Net Claims x Risk Weight;

c. Risk Weight is determined based on: (i) rating of debtors or counterparties according to the portfolios; or (ii) certain percentage for certain type of claims;

d. The category of portfolios includes: (i) Claims to the Government; (ii) Claims to Public Sector Entities; (iii) Claims to Multilateral Development

Figure 5.2: Commercial Banks Based on Business Activities (*BUKU*)

BUKU 1	• *Basic banking services* • *Minimum core capital Rp100 Billion up to < Rp1 Trillion*
BUKU 2	• *Broader business activities and limited capital investment* • *Minimimum core capital Rp1 Trillion up to < Rp5 Trillion*
BUKU 3	• *Full Business activities and capital investment* • *Minimimum core capital Rp5 Trillion up to < Rp30 Trillion*
BUKU 4	• *Full business activities and broader capital investment* • *Minimum Core Capital Rp30 Trillion*

Banks and International Institutions; (iv) Claims to Bank; (v) Loans with Residential Houses as collaterals; (vi) Loans with Commercial Properties as collaterals; (vii) Loans for Employees or Retirees; (viii) Claims to Micro and Small Enterpreises, and Retail Portfolio; (ix) Claims to Corporates; (x) Claims that Already Due; and (xi) Other Assets;

e. Rating used is the latest rating issued by the rating agency acknowledged by *OJK*. Domestic rating used for determining risk weight of claims in rupiah and international rating used for determining risk weight of claims in foreign currencies. Claims in the form of SSB (Commercial Papers) use SSB rating, while claims in the form of other than SSB use debtor rating; and

f. Technique of Credit Risk Mitigation recognized is: (i) Collateral; (ii) Guarantee; (iii) Credit Insurance or Guarantee.

19. Business Activities and Office Networks for Commercial Banks Based of Core Capital

Banks in conducting business activites and expanding their office networks must be in accordance with the basic capacities owned by banks, namely the core capital. By operating in accordance with their capacities, banks are expected

Figure 5.3: Zone Division and Coefficient Determination

Zona I *Koefisien* = 5	Zona II *Koefisien* = 4	Zona III *Koefisien* = 3	Zona IV *Koefisien* = 2
DKI Jakarta Foreign Country	West Java Central Java DI Yogyakarta East Java Bali	East Kalimantan Riau Islands North Sumatra	Riau South Sumatra Central Kalimantan South Kalimantan North Sulawesi South Sulawesi Papua

Zona V *Koefisien* = 1	Zona VI *Koefisien* = 0.5
DI Aceh Jambi West Sumatra Bangka Belitung Bengkulu Lampung West Kalimantan Southeast Sulawesi	NTB NTT Central Sulawesi Gorontalo West Sulawesi North Maluku Maluku West Papua

Zone division and coefficient magnitude will be determined priodically according to regional economic development and coverage of access to banking service provision to the community

to have better resilience and will be more efficient as their capacities focus on products and activities of their superiority.

Based on their core capital, business activities of banks are grouped into four, i.e., *BUKU* 1, *BUKU* 2, *BUKU* 3 or *BUKU* 4. In line with the magnitude of the core capital, business activities contained in *BUKU* 1 are more to basic banking services. Business activities in *BUKU* 2 are broader than *BUKU* 1 and so on up to *BUKU* 4 that covers full and complex business activities.

Banks also have to meet the magnitude of productive credit target in accordance with their business group activities, from the 55% for *BUKU* 1 up to 70% for *BUKU* 4. The percentage is calculated from the total credit portfolio of banks and in which includes the obligation of loan distribution to MSME of 20% from the total credit portfolio.

Table 5.9: Investment Costs Opening Office Networks of Banks

Office Types	*BUKU* 1 and *BUKU* 2	*BUKU* 3 and *BUKU* 4
Branch Office	Rp8,000,000,000.00	Rp10,000,000,000.00
Operational Regional Office	Rp8,000,000,000.00	Rp10,000,000,000.00
Sub-branch Office	Rp3,000,000,000.00	Rp4,000,000,000.00
Functional Office Conducting Operational Activities	Rp3,000,000,000.00	Rp4,000,000,000.00
Cash Office	Rp1,000,000,000.00	Rp2,000,000,000.00
Other Operational Office Overseas or Representative Office if conducting operational activities	Rp1,000,000,000.00	Rp2,000,000,000.00

Similarly, location of the bank offices has a different coeficient. To facilitate the calculation of core capital allocation, Indonesian territory is divided into six zones, from zone I, a dense zone with a high coefficient up to zone VI which is a zone where the number of banks is still small and has the lowest coefficient.

If banks will open new office networks, the existing bank office networks should be computed first with the bank core capital, and the rest of the areas will determine how many, what type of office, and where the new bank office will be located.

20. Business Activities and Office Networks of Sharia Banks and Sharia Business Units Based on Core Capital

a. The opening of *BUS* and *UUS* office networks needs to be supported by adequate financial capability, among others reflected by the availability of core capital allocation in accordance with the location and type of bank offices (Theoretical Capital), with due regard to the development of sharia banking in the future. Besides, for balancing the expansion of the office networks, banks are encouraged to conduct expansion to areas underserved by banking services to support the efforts of national building development;

b. Delivery channel and sharia services are not considered as opening bank office networks;

c. *OJK* classify all provincial regions in Indonesia into 6 zones, i.e. from Zone 1 to Zone 6, based on bank density analysis and equitable development in each zone;
d. *OJK* determine the investment cost for opening office networks based on type of bank office for each *BUKU*. Cost of investment for *BUKU* 3 and 4 is larger than *BUKU* 1 and 2. The classification of *BUKU* for *UUS* shall be based on core capital of its parent CB;
e. Banks shall take into account the core capital allocation in accordance with the location and type of office for the existing offices and the plan for opening new office networks. What it is meant by existing bank offices are offices that have been established less than or equal to 2 years. Calculation of core capital allocation for *UUS* shall use core capital of their CB parents;
f. Banks that will submit plans for opening office networks must specify calculation of core capital allocation September;
g. *OJK* will assess the core capital position of banks at the time the banks submit the request for opening office networks;
h. Banks that meet *TKS* requirement and have core capital allocation availability according to location and type of office may open office networks with the number according to the availability of core capital allocation;
i. Banks as referred to in the letter f can obtain incentive for opening additional office networks if the concerned bank channeling financing to MSME no less than 20% and/or SME no less than 10% from the total financing portfolios. Assessment on the achievement of financing channeling to MSME or SME for *UUS* computed using the sum of financing channeling and loans to MSME or SME conducted by *UUS* and its CB parent in consolidation;
j. Banks that meet the *TKS* requirement but do not have core capital allocation availability

according to the location and type of offices can open office networks if distribute financing to MSME no less than 20% or SME no less than 10% from the total financing portfolio, and conduct capital accumulation;

k. *OJK* also considers the achievement of banks level of efficiency which among others is measured through the ratio of Operational Cost to Operation Revenue (*BOPO*) and the ratio of Net Operating Margin (NOM) to determine the number of bank office networks opening. Specifically for *UUS*, the assessment for the achievement of the efficiency level (BOPO ratio and NOM) is calculated using the achievement of efficiency ratio of *UUS* and its CB parent in consolidation;

l. Calculation of financing distribution achievement to MSME and/or SME used in the plan of office networks opening in *RBB* using MSME and/or SME data at the end of September position;

m. *OJK* will assess the efficiency level of Bank achievement and also financing distribution achievement to MSME and/or SME, both when assessing the plan for opening office networks opening in *RBB* and at the time the concerned bank submit the proposal for opening office networks;

n. In order to increase the equalization of bank office networks by *BUKU* 3 or *BUKU* 4 the following shall be regulated:
   1) Opening 3 *KC* in Zone 1 or 2, must be followed by the opening of 1 *KC* (conventional or sharia) in Zone 5 or 6; and/or
   2) Opening 3 *KCP* (sub-branch office) in Zone 1 or 2, must be followed by the opening of 1 *KCP* (conventional or sharia) or 1 *KC* (conventional or sharia) in Zone 5 or 6.

o. The obligation to open *KC* or *KCP* in Zone 5 or 6 as referred to in the letter n for CB that have *UUS* with the following provisions:
   1) In the event the opening of 3 *KC* or *KCP* in Zone 1 or 2 constitutes conventional offices,

the obligation as referred to the letter i and ii must be followed by the opening of 1 *KC* or *KCP* in the form of conventional or sharia *KC* or *KCP*;

2) In the event the opening of 3 *KC* or *KCP* in Zone 1 or 2 constitutes of sharia offices, the obligation as referred to in the letter i and ii must be followed by the opening of 1 sharia *KC* or *KCP*.

p. The calculation of 3 *KC* or 3 *KCP* in Zone 1 or 2 is computed cumulatively since the enactment of this regulation. Banks that have not realized the obligation of opening *KC* and/or *KCP* in Zone 5 or 6 may not open *KC* or *KCP* in Zone 1, 2, 3 and 4;

q. Obligation to balance the opening of office networks is not applicable for banks owned by *Pemda* and to open *KC* or *KCP* in Zone 1 or 2 which are provincial regions of the Head Office domicily. The provincial regions of the bank head office domicilies include the provinces resulted from the expansion of territories, provided that the Provincial Government resulted from territorial expansion have not owned a majority share in banks with head offices in the new province resulted from the expansion; and

r. Banks that own office networks in the country and overseas before this regulation came into force still can run the operations of the office networks.

B.4. Regulation Banks Soundness Rating on the Assessment of Bank

- Conventional CB

  Banks are required to maintain and/or improve their *TKS* by applying prudential principle and risk management in implementing their business activities. Banks are required to conduct assessment of *TKS* using RBBR risk approach both individually and in consolidation. Banks are required to conduct self assessment of the bank *TKS* at least every semester for the position of end of June and end of December. Banks are required to update the *TKS* self assessment at any time required.

Assessement factors of bank *TKS* include:

1. Risk profile
2. Good Corporate Governance (GCG);
3. Profitability (earnings); and
4. Capital.

PK of bank *TKS* shall be determined based on comprehensive and structured analysis toward the rating of each factor by observing the materiality and significance of each factor, and by considering banks ability in dealing with significant change of external condition. The *PK* categories are as follows:

Table 5.10: Composite Level Category of Conventional Commercial Banks

PK	Criteria
PK-1	Banks in general are in an **excellent condition** so as considered **highly capable** to face significant negative influences of changes in the business condition and other external factors.
PK-2	Banks in general is in a **sound condition**, so as **considered capable** to deal with significant negative influences of changes in the business condition and other external factors.
PK-3	Banks generally in a **fairly sound condition**, so as **considered fairly capable** to deal with significant negative influences of changes in the business condition and other external factors.
PK-4	Banks generally in a **poor condition**, so as **considered less capable** to deal with significant negative influences of changes in the business condition and other external factors.
PK-5	Banks generally in an **unsound condition**, so as **considered not capable** to deal with significant negative influences of changes in the business condition and other external factors.

- BUS-*UUS*

  Assessment of *BUS TKS* includes the assessment toward the following factors: capital, assets quality, management, profitability, liquidity and sensitivity to market risk.

1. Assessment of component rating or financial ratio forming the factors of capital, assets quality, profitability, liquidity and sensitivity to market risk shall be calculated quantitatively;
2. Assessment of component rating forming management factor shall be performed through analysis by considering supporting indicators and judgement elements; and
3. Based on the results of financial factor rating assessment and management factor rating assessment, *PK* is determined as follows:

Table 5.11: Composite Level of Sharia Banks-Sharia Business Units

PK	Description
PK-1	Reflecting that banks and *UUS* are classified as **very good and able** to overcome negative influence of economic condition and financial industry.
PK-2	Reflecting that banks and *UUS* are classified as **good and able** to overcome negative influence of economic condition and financial industry, but banks and *UUS* still have minor weaknesses that can be overcome immediately by routine actions.
PK-3	Reflecting that banks and *UUS* are classified as **fairly good**, but there are several weaknesses that can cause the composite level deteriorated if banks and *UUS* do not immediately conduct corrective actions.
PK-4	Reflecting that banks and *UUS* are classified as **not good and sensitive** to negative influences of economic condition and financial industry or banks and *UUS* have serious financial weaknesses or combination from the condition of several unsatisfactory factors, that if it is not addressed effectively, it will potentially lead to difficulties that might endanger the business continuity.
PK-5	Reflecting that banks and *UUS* are **very sensitive** to the negative influence of the economic condition, financial industry, and experiencing difficulties that might endanger the business continuity.

- *BPR*

  Basically *BPR TKS* is assessed by qualitative approach upon various aspects which have influence to the condition and development of a bank, covering the aspects of: Capital, Assets/*AP* Quality, Management, Earning/ Profitability and Liquidity (CAMEL). Matters related to the said assessment among others are:

1. Assessment results shall be determined in four predicates: Sound, Fairly Sound, Less Sound, and Unsound;
2. The weight of each CAMEL factor is:

Table 5.12: Weight of CAMEL Factor

No.	CAMEL Factor	Weight
1.	Capital	30%
2.	Assets Quality of *AP*	30%
3.	Management	20%
4.	Profitability	10%
5.	Liquidity	10%

3. Implementation of the regulation which sanctions are associated with *BPR TKS* assessment includes violations and or overruns of the provisions on LLL, Anti Money Laundering (*APU*) and Prevention of Terrorism Funding (*PPT*), and also violations of regulation on transparency of bank product information and utilization of customer personal data; and
4. Factors that can abort *TKS* assessment of banks from Sound to Unsound, i.e. internal conflicts, intervention of parties outside the bank management, window dressing, bank practice within the bank, other banking practices that might endanger business continuity of banks.

- *BPRS*

  Assessment of *BPRS TKS* covers the assessment to factors as follows: capital, asset quality, profitability, liquidity and management. Assessment to components of the factors is conducted quantitatively and qualitatively, while the assessment to management factor is conducted qualitatively. Qualitative assessment is performed by considering supporting indicators and/or relevant comparison. Based on the results of rating assessment of financial factor and management factor, *PK* is determined which is the final rating of Bank *TKS*. *PK* is determined as follows:

Table 5.13: Composite Level of Sharia Rural Banks

PK	Description
PK-1	Reflecting that banks have an **excellent** *TKS* condition as the result of **excellent** business management.
PK-2	Reflecting that banks have a **good** *TKS* condition as the result of **good** business management.
PK-3	Reflecting that banks have a **fairly good** *TKS* condition as the result of **fairly good** business management
PK-4	Reflecting that banks have a **fairly bad** *TKS* condition as the result of **less good** business management.
PK-5	Reflecting that banks have a **bad** *TKS* condition as the result of **bad** business management.

B.5. Regulation on Self Regulatory Banking

1. Guidelines on the Development of Bank Credit Policy

Banks are obligated to have written guidelines of credit policy that at least contains and regulate key matters as established in the Guidelines of Bank Credit Policy Development (*PPKB*) as follows:

a. Prudential principle in extending credit (lending);
b. Organization and management of credit;
c. Policy on credit approval;
d. Documentation and administration of credit;
e. Supervision of credit and settlement of non-performing loans (NPL).

Banks must comply with bank credit policy developed consistently.

2. Implementation of Good Corporate Governance

a. Conventional CB

Assessment of GCG implementation of banks is conducted individually or in consolidation. Rating of GCG factor is determined in 5 Ranks, namely Rank 1, Rank 2, Rank 3, Rank 4 and Rank 5. The smaller GCG factors rank order reflects a better GCG implementation, whereas for banks that receive GCG Rank 3, 4 or 5 they are required to submit action plans.

Banks conduct GCG assessment by developing adequacy analysis and effectiveness of GCG principle implementation performed comprehensively and structured upon the three aspects of governance, i.e. governances structure, governance process dan governance outcome.

b. BUS-*UUS*

Implementation of GCG for *BUS* at least must be realized in the implementation of BOC and BOD duties and responsibilities; completeness and duties implementation of committees and internal control function performed by *BUS;* implementation of duties and responsibilities of *DPS*; applications of compliance function, internal audit and external audit; maximum limit of funds distribution; and transparency of *BUS* financial and non-financial conditions.

GCG implementation for *UUS* at least must be realized in: implementation of duties and responsibilities of *UUS* Director; implementation of duties and responsibilities of Sharia Supervisory Board; funds distribution to core financing customers and funds deposit by core depositors; and transparency of *UUS* financial and non-financial condition.

3. Commercial Banks Internal Audit Work Unit

CB are required to form Internal Audit Work Unit (*SKAI*) as part of the implementation of Standards of Bank Internal Audit Function Implementation. *SKAI* is a work unit responsible directly to the Managing Director. *SKAI* has duties and responsibles for:

a. Assisting Managing Director and BOC in conducting supervision by way of elaborating operationally the planning, implementation, or monitoring of audit results;
b. Making analysis and assessment in the field

of finance, accounting, operation and other activities through direct examination and indirect supervision;

c. Identifying all possibilities to improve and enhance the efficiency in utilizing resources and funds; and
d. Providing improvement recommendation and objective information concerning the examined activities at all levels of management.

4. Implementation of Commercial Banks Compliance Function

BOD is required to grow and realize the implementation of a compliance culture at all levels of organization and bank business activities and to ensure the implementation of compliance function by banks. Compliance function of banks includes actions for:

a. Realizing the implementation of a compliance culture at all levels of organization and business activities of banks;
b. Managing compliance risk faced by banks;
c. Ensuring that policies, regulations, system, procedures, and business activities performed by banks already in compliance with the applicable laws and regulations, including Sharia Principles for *BUS* and *UUS*; and
d. Ensuring that banks compliance to commitments made by banks to *OJK* and/or other authorized supervisory authorities.

Banks must have a Director who is in charge of the Compliance Function and forms a compliance work unit. The Director in charge of the compliance function and compliance work unit in *BUS* and/or Conventional CB having *UUS* must coordinate with the related *DPS* related to the implementation of Compliance Function toward the Sharia Principles.

The Director in charge for the compliance function must meet the indepency requirement; The Managing Director and/or Deputy Managing Director are prohibited to have concurrent position as Director in charge of compliance function. The Director in charge of compliance function is prohibited to supervise business and operational functions; risk management that makes decisions for business activities of Banks;

treasury; finance and accounting; logistic and procurement of goods/services, IT and internal audit.

5. **Bank Business Plans**

a. CB

Banks must prepare a Business Plan realistically every year by observing:

1) External and internal factors that can influence the business continuity of banks;
2) Prudential principle;
3) Application of risk management; and
4) Sound banking principles.

For *CB* that have *UUS*, other than the Business Plans mentioned above, they also have to specify a special Business Plan for the *UUS* which is a unity with the General *RBB*.

Business Plans at least shall include:

1) Executive Summary;
2) Policy and management strategy;
3) Application of risk management and current bank performance;
4) Projection of financial statements together with the assumptions used;
5) Projections of ratios and other certain items;
6) Funding plan;
7) Fund investment plan;
8) Capital plan;
9) HR and organizational development plans;
10) Plans for launching new products and/or implementing activities;
11) Plans for development and/or change of office networks; and
12) Other information.

Banks can only make changes to their Business Plans, if:

1) There are internal and external factors that significantly influence Bank operations; and/or
2) There are factors that significantly influence the concerned bank performance, based on *OJK* consideration.

Change of Business Plans can only be conducted 1 time, and no later than by the end of June of the current year.

b. *BPR*

BPR must prepare activities and budget plans during 1 year, realistically that at least contains:
- Funds collection plans;
- Funds distribution plans detailing credit/ loans for working capital, investment and consumption;
- Projections on balance sheets and profit/loss statements detailed in 2 semesters;
- HR development plans;
- Efforts conducted to improve/enhance banks performance, i.e. efforts to settle non-performing loans, resolve losses, and meet capital shortages and others.

c. Work plans shall be prepared by BOD or equivalent and approved by the BOC;

d. BOD must implement the work plans, while the BOC conduct the supervision to the implementation of the work plans by the referred Directors; and

e. The work plans shall be submitted to *OJK* no later than end of January of the business year in question. Reports on the implementation of the work plans shall be submitted bi-annually and no later than by end of August for end of June report and by end of February for end of December report.

6. Application of Risk Management in the Utilization of Information Technology by Commercial Banks

Banks are required to apply risk management effectively in the utilization of IT. The application of risk management at least includes:

a. Active supervision of the BOC and BOD;

b. Adequacy of policies and procedures of IT utilization;

c. Adequacy of identification, measurement, monitoring, and risk management of IT utilization processes;

d. Internal control system in the utilization of IT.

Banks must have Information Technology Steering Committe. The referred Committee shall be responsible for providing recommendations to the BOD, at least related to:

a. IT Strategic Plans in line with the bank business activity strategic plans;

b. Conformity of the approved IT projects with IT Strategic Plans;
c. Conformity between the implementation of IT projects and the agreed project plans;
d. Conformity of IT with the need of management information system and the need of banks business activities;
e. Effectiveness of the measures to minimize risk on bank investment in the IT sector so that the investment provides contribution to the achievement of bank business purposes;
f. Monitoring of IT performance and its enhancemene effort;
g. Efforts of settling various problems related to IT that cannot be settled by the user's work unit and organized effectively, efficiently and timely.

7. Application of Risk Management for Commercial Banks

Banks are required to apply risk management effectively both for bank as individual and in consolidation with the Subsidiaries. The implementation of risk management at least includes:

a. Active supervision of the BOC and BOD;
b. Adequacy of policies, procedures and determination of limits;
c. Adequacy of the proceses of identification, measurement, risk control and monitoring as well as risk of management information system;
d. Comprehensive internal control system.

CB are required to apply risk management for 8 risks, namely: credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk and compliance risk.

In conducting assessment to the risk profiles, banks must refer to the applicable regulation concerning CB *TKS* assessment, and banks are required to submit Risk Profiles Reports both individually and in consolidation by quarter, i.e. for the positions of March, June and September.

Other than Risk Profiles, banks are required to submit several reports in the context of Risk Management application as follows:

a. Reports on New Products and Activities;
b. Other reports in the event there are conditions that potentially lead to significant losses to the financial condition of banks;
c. Other reports related to the application of Risk Management, among others report on Risk Management for Liquidity Report.

Other reports related to the launching of products or implementation of certain activities, among others report on implementation of activities related to multi funds, report on the implementation of marketing cooperation with insurance companies (Bancassurance).

In applying process and system of risks management and risk management system, banks are required to form:

a. Risk Management Committee which at least comprised of the majority of the BOD and relevant executive officers;
b. Risk Management work unit, which is independent and responsible directly to the Managing Director or to the specially assigned.

Banks are also required to have a written policy and procedure to manage risk inherent in the new products and activities of banks.

8. Application of Consolidated Risk Management for Banks Conducting Control to Subsidiaries

Considering that risk exposure of banks can arise both directly from their business activities, and indirectly from the business activities of the subsidiaries, each bank is required to apply risk management in consolidation with the subsidiaries, and to ensure that prudential principle is also implemented to the subsidiaries. This obligation is not applicable to subsidiaries owned in the context of debt restructuring. Based on this regulation, various provisions on prudentiality among others are: RWA, CAR, earning assets quality assessment, forming of *PPA* and calculation of LLL must be calculated or be met by banks as individual and as consolidated covering the subsidiaries as well. Similary, in the *TKS* assessment, risk profile assessment, application of bank status (as the follow-up of supervision) must also be conducted as individual and consolidated. For banks that have subsidiaries conducting insurance activities, the prudential provision shall not be applied, although banks are still required to assess and submit reports on risk management application conducted separately.

9. **Application of Risk Management in Internet Banking**

   Banks organizing internet banks are required to apply risk management in the activities of internet banking effectively that includes:

   a. Active supervision of BOC and BOD;
   b. Security control system;
   c. Risk management, in particular legal risk and reputation risk.

   In order to improve the effectiveness of risk management application, banks are required to conduct evaluation and audit regularly toward internet banking activities.

10. **Application of Risk Management to Banks Conducting Activities on Marketing Cooperation with Insurance Companies/Bancassurance**

    Bancassurance is cooperation activities between banks with insurance companies in order to market insurance products through banks. This cooperation of activities shall be classified in 3 business models as follows: (i) Reference; (ii) Distribution Cooperation, and (iii) Product Integration.

    Banks conducting bancassurance must comply with the relevant regulations applicable in the field of banking and insurance, among others regulation related to risk management, bank confidentiality, transparency of product information, and provision on insurance supervisor authority especially related to bancassurance.

    In conducting bancassurance, banks are prohibited to bear or jointly bear the risk arising from insurance products offered. All risks from the insurance products should be borne by the insurance company of the bank's partner.

11. **Application of Risk Management in Bank Activities Related to Multi Funds**

    With an increasingly bank involvement in activities related to Multi Funds, other than providing benefits it also potentially causes various risks for the banks. In relation to that, banks need to enhance the application of risk management effectively by performing prudential principle and protecting the customers interests. Bank activities related to Multi Funds include banks as investors, banks as Multi Funds securities sales agents and banks as custodian Banks. In order to support the implementation of an effective risk management, main matters that must be conducted by are:

    a. To ensure that Investment Managers who are partners in activities related to Multi Funds listed and obtained licenses from the capital market authority in accordance with the applicable regulations;
    b. To ensure that the Multi Funds in question already obtained effective statement from the capital market authority in accordance with the applicable regulations;
    c. To identify, measure, monitor and control risks arising from the activities related to Multi Funds.

    In order to implement prudential principle, banks are prohibited to conduct actions both directly and indirectly that might result the Multi Funds having characteristics of bank products such as savings or deposits.

12. **Risk Management Certification for the Management and Officers of Commercial Banks**

    In implementing an effective and planned risk management, banks are obligated to fill in the positions of bank management and officers with human resources which have competence and expertise in the field of risk management proven by risk management certificates issued by Professional Certification Agency. Ownership of risk management certificates for bank management and officers constitutes one of the assessment aspects of competency factors in

FPT. Banks must develop plans and implement HR development programs in the context of competence and expertise enchancement in risk management. The referred HR development shall be stated in *RBB*. Risk management certificates are set at 5 levels based on ranks and organizational structure of banks, namely level 1 to level 5. Certification of risk management can only organized by professional certification agencies recognized by the authority. Risk management certificates issued by international agencies might be considered and recognized as equal to the risk management certificates issued by the Professional Certification Agency if the institutions issuing the certificates already recognized and accepted internationally and the certificates issuance released within the last 4 years.

13. **Application of Risk Management in Commercial Banks Performing Priority Customer Services**

    Priority Customer Services (*LNP)* constitutes part of business activities of banks in providing services related to products and/or activities with certain privileges for the Priority Customers. Priority Customers are individuals who meet certain criteria or requirements set by banks to obtain services/to utilize bank facilities with certain privileges compared to other customers in general. Banks performing LNP are required to have a written policy that at least covers the following:

    a. Requirements for Priority Customers, by determining certain criteria/requirements that must be met by customers;
    b. Scope of products and/or activities of banks, by observing other relevant rules, laws and regulations;
    c. Coverage of LNP privileges, by still paying attention to the other relevant rules, laws and regulations; and
    d. Brand name and classification of Priority Customers, by clearly setting the different service privileges for each group of Priority Customers.

    In performing LNP, banks must apply Risk Management to certain aspects as follows:

a. Aspect of service privileged support that at least covers the application of Risk Management for: (i) HR; (ii) LNP operational; (iii) product and/or activity offerings; (iv) IT;
b. Aspect of transparency, customer education and protection. In this aspect, banks must implement at least the followings: (i) explain the specification of LNP; (ii) ensure the clarity of relationship between the bank and Priority Customers; (iii) ensure the clarity of transactors authority; (iv) convey information regularly. Banks are required to administer data, documents or slips related to the activities of Priority Customers in LNP.

14. Application of Risk Management in Banks Performing Lending Activities for Ownership of Housing and Motor Vehicles

Banks need to enhance prudentiality in the distribution of Ownership of Housing **(***KPR)*, *KPR* iB (Sharia *KPR*), Ownership of Motor Vehicles (*KKB)* and *KKB* iB (Sharia *KKB*) as the credit growth has high potential to boost the increase of property asset price that does not reflect the real price (bubble price) so that it can increase the credit risk for banks with high exposures of property credit. Therefore, in order that conventional or sharia banking is still able to maintain productive economy and to face future challenges in the financial sector, it requires a policy that can strengthen the resilience of the financial sector to minimize the sources of insecurity that might arise, including the excessive credit growth mentioned above. For *KPR* iB, *KKB* iB, they are still taking into consideration the characteristics of sharia banking products including fatwa (decisions) issued by the DSN-MUI. The policy shall be implemented through the determination of magnitude for LTV for *KPR*, FTV for *KPR* iB and Down Payment (DP) for *KKB* and *KKB* iB. To prevent the possibilities of regulatory arbitrage, the provisions on LTV and DP are also applied to *BUS* and *UUS* with different special treatments for financing products of *Musyarakah Mutanaqisah* (MMQ) and

IMBT.

The scope of *KPR* iB includes financing given to individual customers and is not applicable to company customers. This provision is only applicable for *KPR* iB in the form of residential houses/apartments/flats with sizes above 70m^2. The sharing of *BUS* or *UUS* for financing housing ownership shall also be applied to *KPR* iB with MMQ scheme, set at a maximum of 80% from the housing acquisition price. Deposits as DP for *KPR* iB with *IMBT* scheme is determined at a minimum of 20% from the housing acquisition price leased to customers. The referred deposits will be taken into account as DP for housing purchase by customers at the maturity date of *IMBT*.

In details, the arrangement of credit advances or DP on *KKB*/*KKB* iB shall be determined as follows:

a. minimum of 25% for the purchase of two-wheel motor vehicles;
b. minimum of 30% for the purchase of three-wheel (or more) motor vehicles for non-produtive needs;
c. minimum of 20% for the purchase of three-wheel (or more) motor vehicles for productive needs, if meeting one of the following conditions:
   - Vehicles that have permits for transporting people or goods issued by the authorities; or
   - Proposed by individuals or legal entities that have particular business licenses issued by the authorities and used to support the operational activities of the business owned.

OJK has conducted extension for the regulation coverage that includes:

a. Credit property ownership consisted of credit ownership of tread houses, multi-story houses, office houses (*Ruko*) and shop houses (*Rukan*); and
b. Consumer Credit with property collaterals, with the following parameters:

Table 5.14: Parameter of Consumer Credit with Property Collaterals

FINANCING CREDIT*/ COLLATERAL TYPE	CREDIT FACILITY I	CREDIT FACILITY II	CREDIT FACILITY > II
KPR Type > 70	70%	60%	50%
KPRS Type > 70	70%	60%	50%

KPR Type 22 – 70	-	70%	60%
KPRS Type 22 – 70	80%	70%	60%
KPRS Type up to 21	-	70%	60%
KP of *Ruko* / *KP* of *Rukan*	-	70%	60%

Note: *) special financing with *murabahah* and *istishna'* agreements

FINANCING & COLLATERAL TYPE (*MMQ* & *IMBT*)	CREDIT FACILITY I	CREDIT FACILITY II	CREDIT FACILITY > II
KPR Type > 70	80%	70%	60%
KPRS Type > 70	80%	70%	60%
KPR Type 22 – 70	-	80%	70%
KPRS Type 22 – 70	90%	80%	70%
KPRS Type up to 21	-	80%	70%
KP *Ruko* / KP *Rukan*	-	80%	70%

Note: *) special financing with *murabahah* and *istishna'* agreements

15. Application of Risk Management in Sharia Banks

Business activities of banks are always faced with risks closely related to their functions financial intermediation institutions. The development of internal and external environment of sharia banking that grows rapidly, resulting to an increasingly complex risk of sharia banking business activities. Banks are required to be able to adapt to the environment through the application of risk management which is in accordance with Sharia Principles. Risk management principles applied to sharia banking in Indonesia are directed in line with the standard regulations issued by the Islamic Financial Services Board (IFSB).

The application of risk management in sharia banking is adjusted with the business size and complexity and also the ability of banks. *OJK* determines this risk management regulation as a minimum standard that must be met by *BUS* and *UUS* so that sharia banking can develop it in accordance with the needs and challenges faced, but is still be conducted in healthy, *istiqomah* and according to the Sharia Principles.

16. Application of Anti Money Laundering and Prevention of Terrorism Funding Program

Banks must own Guidelines for Application of *APU* and *PPT* Program developed by referring to Standard Guidelines for Application of *APU* and *PPT* Program which must be adapted with the organizational structure, business complexity and types of products and services of bank services. The program constitutes a part of bank risk management application as a whole. The application of *APU* and *PPT* program at least includes:

a. Active supervision of the BOD and BOC;
b. Policy and procedure;
c. Internal control;
d. Information management system; and
e. HR and training.

In applying *APU* and *PPT* program, banks are obliged to have a written policy and procedure that at least covers:

a. Request for information and documents;
b. Beneficial Owner;
c. Document Verification;
d. Simpler Customer Due Dilligence (CDD);
e. Closing relationship and transaction rejection;
f. Provisions on high risk areas and PEP;
g. Implementation of CDD by third party;
h. Updating and monitoring;
i. Cross Border Correspon Banking;
j. Funds transfer; and
k. Administration of documents.

Banks are required to conduct CDD procedure at the time of:

a. Conducting business relationship with prospective Customers;
b. Conducting business relationship with Walk in Customers (WIC);
c. Banks doubt the veracity of the information provided by Customers, endorsees and/or Beneficial Owners; or
d. There are unusual financial transactions related to money laundering and/or terrorism funding.

In order to prevent the utilization of banks as media or purposes of money laundering or terrorism funding involving internal parties of banks, banks are required to conduct screening procedures for hiring new employees. This is in consideration that the utilization of banking services as media of money laundering and terrorism funding possibly involves employees of the bank itself. Therefore, to prevent or detect the occurrence of alleged crimes of money laundering conducted through banking institutions, banks need to apply Know Your Employee (KYE) which among others are through a screening procedure and monitoring of the employees profiles.

In applying *APU* and *PPT* program, CB must submit the following to *OJK*:

a. Implementation Guidelines of *APU* and *PPT* Program as well as an action plan to the implementation of the guidelines no later than 12 months since the enactment of the related regulations; and
b. Reports on data update activities by end of year.

Assessment results of the implementation of *APU* and *PPT* program shall be counted in the banks *TKS* assessments through the management factor. In the event the assessment resulted to rating 5, then in addition to be counted in the soundness level it will also be linked to the imposition of administrative sanctions in the form of *TKS* decrease and termination of the management through FPT mechanism.

17. Settlement of Customers Complaints

Banks are obliged to settle every complaints submitted by customers and or their representatives. Banks must have a unit or function formed specifically in every office of banks to handle and settle customers complaints. To settle complaints, banks are obliged to specify in the written policy and procedure that includes:

a. Complaints reception;
b. Handling and settlement of complaints; and
c. Monitoring and handling as well as settling complaints.

Settlements of complaints must be conducted no later than 20 working days after the date of complaints reception. In the event of certain conditions, banks can extend the period no longer than 20 working days.

In the event the complaints are conveyed verbally, then the complaints must be settled within 2 working days.

B.6. Provision on Financing/Funding Facilities to Banks

1. Short Term Funding Facilities for Coventional

Commercial Banks

Banks experiencing difficulties in short-term funding can obtain Short-term Funding Facilities (*FPJP*) by meeting the set requirements. What it is meant by difficulties in short-term funding are conditions experienced by banks caused by mismatch where fund inflow is smaller than fund outflow in rupiah so that banks cannot met *GWM* requirement. Banks that can submit *FPJP* applications must have CAR no less 8% and meet capital in accordance with the risk profile of banks based on *OJK* calculation, must meet certain capital requirement and have high quality collaterals which adequate values. *FPJP* shall be given in the amount of *FPJP* ceiling, computed based on the estimated amount of liquidity needs until the banks meet their *GWM*.

Assests that can be used as *FPJP* collaterals are: *SBI/ SBIS*, *SBN*, Corporate Bonds and Credit Assets. BI shall conduct execution of *FPJP* collaterals at the maturity date of *FPJP* and there is no extension of *FPJP* or the *FPJP* agreement expires and the balance of the rupiah checking account of the concerned bank in BI is not sufficient to settle the interests cost and/or the principal value of the *FPJP*. *FPJP* period:

a. Each *FPJP* shall be no longer than 14 calendar days; and
b. Period of *FPJP* may be extended up to 90 calendar days.

BI will end the *FPJP* agreement in the event the collateral value decreases at the time of *FPJP* disbursement termination so that the ceiling of the remaining value is smaller than the collateral decrease value; decrease in *FPJP* collateral value occurs with conditions as follows:

a. Banks cannot handover the collateral to add and/ or replace the *FPJP* collateral after the period is over; and
b. Banks still have remaining ceiling value amount, which is smaller than the decrease of its collateral value amount or banks have already used up the entire ceiling of *FPJP*.

2. **Short Term Funding Facilities for Rural Banks**

BPR experience difficulties in short term funding can submit an application for *FPJP*, provided that it meets the following criteria:

a. Having *TKS* rating during the last 6 months at least a fairly sound condition;
b. Having average Cash Ratio during the last 6 months at least 4.05%;
c. Having CAR no less than 8%; and
d. Having negative daily cashflow durig the last 14 calendar days.

The *FPJP* ceiling provided shall be no more than the amount the *BPR* short-funding needs to achieve Cash Need Ratio of 10%. *FPJP* must be guaranteed by *BPR* with high quality collaterals of adequate values. The high quality collaterals referred to are *SBI* and/or credit assets. *BPR* that need *FPJP* shall submit applications in writing to BI. The period of each *FPJP* is 30 calendar days and can be extended consecutively with the overall period no longer than 90 calendar days.

3. Sharia Shor Term Funding Facilities for Sharia Commercial Banks

Sharia banks that experience Short-term Funding difficulties may submit application for Sharia Short-Term Funding Facilities *(FPJPS)* to BI, with conditions: having high quality collaterals with adequate collateral values, having CAR at least 8% and having capital in accordance with risk profiles of banks. *FPJPS* shall be given no longer than 14 calendar days and can be extended consecutively with the overall period no longer than 90 calendar days. *FPJPS* shall be given in the amount of *FPJPS* ceiling calculated based on the estimated amount of the liquidity need until banks meet the *GWM*.

The referred collateral can be in the form:

a. Commercial papers that include (i) *SBIS*; (ii) State Sharia Securities (*SBSN*); and (iii) Securities issued by other Legal Entities with certain requirements determined by BI (Sharia Corporate Bonds/ Corporate Sukuk).
b. Financing assets that can be used as collaterals only if banks do not have adequate commercial papers or banks do not have commercial papers that can be used as collaterals. The referred financing assets can only be used as collaterals if meeting the

following requirements: (i) the quality of assets are current during the last 12 months consecutively; (ii) non-consumer financing with the exception of financing housing ownership; (iii) the financing is guarantted by land collateral and/or building with a value no less than 140% of the financing ceiling; (iv) does not constitute financing to bank related parties; (v) the financing has never been restructured; (vi) the remaining maturity period of the financing at least 12 months from the time the *FPJPS* was agreed; (vii) the debit tray (outstanding) of the financing is not to exceed the maximum limit of fund distribution at the time of disbursement and not to exceed the financing ceiling; (viii) having a financing agreement and a legally binding collateral, and (ix) haircut financing assets that can be used as a *FPJPS* collateral at least 200% from the ceiling of *FPJPS*.

With regard to the use of *FPJPS*, BI shall gain return with profit sharing ratio from the realization rate of return prior to distribution of the bank recipient of *FPJPS*.

4. **Sharia Short term Funding Facilities for Sharia Rural Banks**

   BPRS that experience short-term funding difficulties may submit application for *FPJPS* provided that it meets the following criteria:

   a. Having *TKS* rating at least *PK* 3 during the last 2 periods;
   b. Having management factor rating of C level at least during the last 2 periods; and
   c. Having negative daily cashflow during the last 14 calendar days.

   FPJPS celing shall be provided no more that the short-term funding need of the *BPRS* to achieve Cash Need Ratio of 10%. *FPJPS* shall be given based on *mudharabah* agreement and must be guaranteed with high quality collateral of adequate value.

5. **Intraday Liquidity Facilities for Conventional Commercial Banks**

   Intraday Liquidity Facilities (*FLI*) is a funding provision by BI to banks with status as participants of BI Real Time

Gross Settlement (BI-RTGS) system and participants of BI National Clearing System (*SKNBI*), conducted by way of repurchase agreements (repo) of commercial papers that must be settled at the same day with the day of utilization. Banks can acquire *FLI*, both in the form of *FLI*-RTGS and *FLI*-Clearing, after signing the *FLI* Utilization Agreement and submitting supporting documents required by CB.

Banks can use *FLI*, if meet the following requirements:

a. Having securities that can be offered to BI as a repurchased agreement in the form of *SBI*, *SDBI*, and/or *SBN* listed in the trade account in BI-Scripless Securities Setlement System (BI-SSSS). The referred securities must meet requirements as follows:
    1) *SBI* has as a remaining period no less than 2 working days at the maturity date of *FLI*;
    2) *SDBI* has a remaining period no less than 2 working days at the maturity date of *FLI*;
    3) *SBN* has a remaining period no less than 3 working days at the maturity date of *FLI*.
b. Currently not under a suspension status as BI-RTGS participant and/or clearing participant of banks; and
c. Having an active status as BI-SSSS participant.

6. Intraday Liquidity Facilities for Commercial Banks Based on Sharia Principles

Sharia Intraday Liquidity Facilities (*FLIS*) is funding facilities provided by BI to banks in their position as participants of BI-RTGS system and *SKNBI*, conducted by way of securities repurchase agreement (repo) that must be settled at the same day of the day of utilization.

Banks may use *FLIS* both *FLIS*–RTGS and *FLIS*-Clearing if meet the following conditions:

a. Having securities that can be offered to *BI* for repurchase in the form of *SBIS*, *SBSN* and/or other Sharia securities determined by BI;
b. Having active status as participants of BI-SSSS; and
c. Having active status as participants of BI-RTGS and/or not under sanction of termination as participants of *SKNBI*.

7. **Emergency Financing Facilities for Commercial Banks**

Emergency Financing Facilities (*FPD*) are financing facilities from BI decided by the KSSK (Financial System Stability Committee, guaranteed by the Government to banks experiencing liquidity problems that have systemic impact and crisis potential but still meet the level of solvency. In the event banks are not able to acquire funds to resolve the liquidity problems, banks may submit an application for obtaining *FPD* from BI by meeting the following requirements including:

a. Banks experience liquidity difficulties that have systemic impact;
b. Postive bank CAR; and
c. Banks have assets that can be used as collaterals.

FPD can only be given to banks incorporated in Indonesia. Banks receiving *FPD* are required to submit an action plan and daily liquidity reports to BI. Banks of *FPD* recipients shall be placed in Banks under *DPK* status. The status of banks under Special Supervision shall be ended if the *FPD* bank recipients have settled the obligation of *FPD* repayment and met the requirements as stipulated in the applicable BI Regulation.

B.7. Regulations Related to Micro, Small and Medium Enterprise

1. **Lending/Financing by Conventional Commercial Banks/ Sharia Commercial Banks for Micro, Small and Medium Enterprise Development**

CB are required to distribute their funds in the form of lending or financing to MSME with segment to total lending or financing at minimum 20% gradually. In lending/financing to MSME, banks must refer to BI regulations governing:

a. *RBB*;
b Periodic Reports of Commercial Banks;
c. Commercial Banks Quarterly and Monthly Publication Financial Reports and special reports;
d. *SID*;
e. Transparency of bank products information and utilization of customers personal data.

Achievement of lending/financing target to MSME above can be met by CB both directly and/or indirectly to MSME through cooperation of executing pattern, chanelling pattern, and cooperation financing with certain financial institutions, i.e. *BPR*, *BPRS*, and/or other Non-Bank Financial Agencies (Saving and Loan Cooperative, *Baitul Maal Wa Tamwil (*BMT*)* and other institutions equivalent).

Particularly for bank branch offices domiciled in foreign countries and Mix Banks can count the lending or financing to non-oil-and-gas exports as MSME lending or financing, and cannot extend MSME credit through the cooperation of channeling pattern and joint financing (syndication).

Specifically for executing pattern, in order to ensure channeling funds to MSME, CB/*BUS* need to report the realization of funds channeling of executing pattern quarterly to BI no later than 10 working days after the quarter in question.

Other than that, BI can provide technical assistance in the form of research, training, provision of information and facilitation. Meanwhile, the recipients of the technical assistance are: BU, *BPR*/*BPRS*, MSME Financing Agencies, Service Provider Agencies and MSME. The technical assistances provided by BI mentioned above are among others to improve competencies for banking HR in executing financing to MSME and in order to improve capacity building of MSME so that they are able to meet requirements from banking.

2. **Business Plans**

   Banks are required to develop and submit plans for Lending or Financing to MSME by observing the achievement stages of lending/financing ratio to MSME to the total Lending or Financing, i.e.:

   a. Year 2013 and 2014, according to ability of banks;
   b. Year 2015, a minimum of 5%;
   c. Year 2016, a minimum of 10%;
   d. Year 2017, a minimum of 15%;
   e. Year 2018 onwards, a minimum of 20%.

   Development of plans for MSME Lending or Financing shall be classified in accordance with the business field, utilization type and province.

3. **Legal Lending Limit**

   Lending to customers through financing institutions with channeling method shall be exempted from the understanding of group of borrowers provided that it meets the requirements. Besides, extending credit with core-plasm partnership pattern, where core companies guarantee credits to plasm, is also exempted from the definition of group of borrowers provided that it meets the requirements.

4. **Risk Weighted Assets by Risk for Claims to Micro and Small Enterprises and Retail Portfolio**
   According to the regulation on calculation guidelines of Risk-weighted Assets (RWA) by Risk for credit risk using standard approach, the risk weight for claims to micro and small enterprises and also retail portfolio that meets certain criteria is determined at 75%.
5. **Assessment of Asset Quality**
   Determination of quality shall only be based on the timely payment of principal and/or interest loans and other fund provision given by each bank to 1 debtor or 1 project with amount less than or equal to Rp 1 billion, other credit/fund provision provided by each bank to MSME debtor with certain requirement, and other credit/fund provision to debtors with business activities locations in certain areas with amount less than or equal to Rp 1 billion. Besides, in the event the collaterals will be used as a deduction factor of *PPA*, the assessment of collaterals for *AP* to debtors or groups of borrowers with an amount up to Rp 5 billion, it should be sufficiently done by internal assessors of banks.

B.8. Other Regulations

1. **Deposit Facility**
   Deposit facility transactions are conducted by way of placing rupiah future funds by Banks in BI. Transactions of deposit facility are performed without the issuance of Securities. BI shall conduct settlement of deposit facility on the date of the transaction (same day settlement).
2. **Bank Indonesia Sharia Deposit Facility in Rupiah**
   Bank Indonesia Sharia Deposit Facility in rupiah hereinafter referred to as FA*SBI*S is a facility of deposits provided by BI for banks to place their funds in BI in the context of sharia standing facilities. FA*SBI*S uses

wadiah (deposit) agreement. The period of FA*SBI*S shall be no longer than 14 calendar days calculated from the date of transaction finalization up to the maturity date. FA*SBI*S may not be traded, may not be used as collaterals and may not be liquidated prior to the maturity date.

3. **Bank Foreign Loans**

   Banks may receive Bank Foreign Loans (*PLN*) both for short term and long term, and in receiving the referred *PLN*, banks must apply prudential principle. Banks that will enter the market to obtain a Long Term *PLN* must first obtain BI approval and such a plan must be specified in *RBB*. Banks must restrict the daily balance position of Short Term *PLN* no higher than 30% from the Bank Capital.

   The referred restriction shall be exempted for: (i) Short Term *PLN* from *PSP* in order to resolve bank bliquidity problems; (ii) Short Term *PLN* from *PSP* in the context of channeling credit to the real sector; (iii) Business Funds of foreign bank branch offices in Indonesia up to a maximum of 100% from the declared Business Funds; (iv) Demand Deposits, Savings, Deposits of foreign country representatives and international institutions including their staff members; (v) Demand Deposits of Non-Citizens used for investment activities in Indonesia; and (vi) Demand Deposits of Non-Citizens that accommodates funds from divestment on direct participations, purchase of shares, purchase of Indonesian corporate bonds and/ or purchase of *SBN*.

4. **Inter bank Money Market Based on Sharia Principles**

   Instruments used by market players in the transactions of Inter-bank Money Market Based on Sharia Principles (*PUAS*) so far are Inter-bank *Mudharabah* Investment Certificates (*SIMA*). In order to encourage the development of *PUAS*, BI has conducted refinement of regulations related to *PUAS* and *SIMA*, among others including improvement of *PUAS* participants, namely adding Foreign Banks, the role of money market brokers in *PUAS* transactions, mechanism of transfer of ownership of *PUAS* instruments prior to maturity date and imposition of sanctions. Meanwhile, the regulation related to *SIMA* adds a term of specifying information on asset type that becomes the basic for *SIMA* issuance at the time of issuing *SIMA*. The provision related to *SIMA* makes it possible for banks to select which asset to be used as underlying when issuing *SIMA*, so as to make it easier for banks to determine profit sharing ratio of the determined asset (not financing pooling).

Besides, BI has issued regulation concerning Certificates of Inter-bank Commodity Trade Based on Sharia Principles (*SiKA*). *SiKA* is a certificate issued based on Sharia Principles by *BUS* or *UUS* in a *PUAS* transaction as a proof of transaction with deferred payment on commodity trading in the stock exchange. This *SiKA* shall be issued with *murabahah* agreement.

5. **Certification Body for Rural Banks/Sharia Rural Banks**
   a. The objective and the establishment of a Certification Body are to:
      1) Guarantee the quality of the certification system;
      2) Guarantee the implementation of certification system; and
      3) Improve the quality and professionalism ability of *BPR*/*BPRS* Human Resources.
   b. Requirements that must be met by the Certification Body are:
      1) Having vision and mission to enhance and develop *BPR* HR that supports the creation of a sound, strong and efficient *BPR*/*BPRS* industry;
      2) Having organs that at least consist of: Certification Board, National Curriculum Committee, and Management;
      3) Having and implementing duties based on competence and commitment to arrange, determine and develop a certification system.
6. **National Clearing System**

   Clearing is a change of slips and/or Electronic Financial Data between the clearing participants both on behalf of participants and on behalf of the participants customers which calculation results are finalized at a certain time. *SKNBI* is BI clearing system comprises of debit and credit clearings which final settlements conducted nationally. Final resolution on the implementation of debit and credit clearing is done by National Clearing Operator based on net multilateral calculation and conducted based on the principle of renewal of debts (novation) by observing the adequacy of funds from the Participants, and shall be final an irrevocable. The final resolution shall also be conducted based on principle of the same date settlement. The nominal value of the debit notes issued by banks for clearing through debit clearing in *SKNBI* shall be no larger than Rp10 million per debit note. The nominal value limit of credit transfer that can be cleared through credit clearing shall be below Rp100 million per transaction.

7. **Real Time Gross Settlement**
   In order to support the achievement of a payment system which is efficient, fast, safe and reliable to support the stability of financial system, BI has implemented a BI-RTGS system constituting an electronic funds transfer between participants in rupiah currency which settlements conducted in real time per transaction individually.
8. **Scripless Securities Settlement System**
   BI-Scripless Securities Settlement System (BI-SSSS) is a transaction facility with BI, including its administration and the securities administration, electronically and is directly linked between participants, organizers and BI-RTGS system. The commercial papers administered in BI-SSSS are securities issued by BI, government and/or other institutions. BI acts as the organizer and functions as the Central Registry in the organization of BI-SSSS. Settlements of securities transactions through BI-SSSS are conducted by way of securities settlement conducted simultaneously with funds settlements or without funds settlements.
9. **Bank Indonesia Certificates**
   Bank Indonesia Certificates (*SBI*) constitutes securities in rupiah currency issued by BI as acknowledgment of short term debts and is one of the instruments in Open Market Operations.

SBI is issued without slips (scripless) and its trade is conducted with a discount system. *SBI* can be owned by banks and other parties determined by BI and are negotiable.

SBI can be bought in the initial public offering and traded in the secondary market with conditional sales (repurchase agreement/repo) or outright purchase/sale.

10. Certificate of Deposits of Bank Indonesia

Certificate of Deposits of Bank Indonesia (*SDBI*) constitutes securities in rupiah currency issued by BI as acknowledgment of short term debts that can be traded only among banks and is one of the instruments in Open Market Operations. *SDBI* is issued without slips (scripless). *SDBI* is issued and traded with a discount system, can only be owned by Banks and negotiable only between banks. *SDBI* is transferable through trading in secondary market among others through outright trading, grant, repurchase agreement, or used as collaterals.

11. Bank Indonesia Certificates Sharia

SBIS constitutes short term securities in rupiah based on Sharia Principles issued by BI. *SBIS* is issued as one of the instruments of Open Market Operations in the context of monetary control conducted based on Sharia Principles. *SBIS* is issued based on *Ju'alah* agreement.

BI determines and provides return on *SBIS* that is issued and paid at maturity date. The parties that can own *SBIS* are *BUS* and *UUS*.

12. Government Securities

Government Securities (*SBN*) consists of:

a. Government Debt Securities (*SUN*), namely securities in the form of debt securities whether in rupiah currency or foreign currency which interest and principal payment are guaranteed by NKRI in accordance with the validity period.

b. Government Sharia Securities (*SBSN*), namely government securities issued based on sharia principles, in rupiah currency, as a proof of a portion of participation to *SBSN* assets.

   In order to help the Government in managing

SBN, BI shall act as the auction agent in the issuance of *SBN* in the initial public offering and administer *SBN*. BI conducts *SBN* auction based on the announcement of the Minister of Finance. BI shall administer SBU using BI-SSSS or other facilities determined by BI. *SBN* admistered by BI has forms and types as regulated in Law that governs *SUN* and Law that governs SBSN.

13. Bank Secrecy

Bank secrecy is everything related to information about depositors and their deposits. Information on customers other than depositors and their deposits is not considered information that should be treated as confidential by banks. The said regulation also applies to the affiliated parties. The regulation on bank secrecy is not applicable for:

a. Tax interests;
b. Settlement of bank receivables that has been handed over to the Agency for the Management of State Loans and Auctions/Committee for the Management of State Loans;
c. The interest of justice in criminal case;
d. The interest of justice in civil case between a bank and its customers;
e. Information exchange between banks;
f. Depositor's request, consent or authority made in writing;
g. Request from the legal heirs of deceased depositors; and
h. Investigation related to money laundering.

Implementation of provision in the letters a, b and c shall require prior written instruction or permission to disclose bank secrecy from the leadership of *OJK*, while for the implementation of provision in the letter d, e, f, g and h, such instruction or permission is not required.

14. Development of Banking Human Resources

CB/*BUS* and *BPR*/*BPRS* are required to provide educational funds to enhance knowledge and skills of personnel in the banking sector. For CB/BUS, the amount of education funds should be at least 5% from the expenditure budget for HR, whereas for *BPR*/*BPRS* is determined at least 5% from the realization of

HR costs of the previous year. In the event the funds for education have not been used up, the remaining funds must be added to the funds of education and training of the following year. The implementation of education and training can be done by way:

a. Self organized (in-house) by banks;
b. Participate in education organized by other banks;
c. Join other banks in organizing education; or
d. Send personnel to join education organized by banking education institution.

The plans for education referred to should obtain approval from the BOC or Supervisory Board of CB/BUS/*BPR*/*BPRS* and should be reported to *OJK* in the *RBB*/Annual Work Plan.

15. Incentives in the Context of Banking Consolidation

OJK provides incentives to banks performing merger or consolidation. The forms of the incentives referred to are:

a. Facilitation in the provision of licenses for becoming foreign exchance banks;
b. Temporary leniency in the fulfillment of *GWM* Rupiah obligation;
c. Extension period in the settlement of LLL excess arising due to merger or consolidation;
d. Facilitation in the provision of permits for opening bank branch offices;
e. Reimbursement of part of consultant cost in the implementation of due diligence; and/or
f. Temporary leniency in the implementation of several provisions in the regulation that governs GCG for CB/BUS.

Banks planning merger or consolidation should submit their request for planning to utilize the incentives submitted by one of the bank participants of merger or consolidation and signed by the Managing Director of the all banks participated in merger or consolidation.

16. Accounting Guidelines of Indonesian Banking for Conventional Commercial Banks

With regard to the enactment of Guidelines for Financial Accounting Standard (*PSAK*) No. 50 concerning Financial Instrument: Presentation and Disclosure, and *PSAK* No. 55 concerning Financial Instrument: Recognition and Measurement, BI has made adjustment to the

Accounting Guidelines of Indonesian Banking (*PAPI*) 2001 to become PAPI 2008. PAPI 2008 constitutes a reference in the development and presentation of bank financial statements. Considering the nature of PAPI constitutes implementation guidelines from *PSAK*, hence, matters not governed in PAPI still have to refer to the prevailing *PSAK*.

17. Indonesian Sharia Banking Accounting Guidelines for Sharia Banks and Sharia Business Units

In year 2013 a revision of Indonesian Sharia Banking Accounting Guidelines (PAPSI) of year 2003 has been issued by BI in cooperation with the Indonesian Accountant Association (*IAI*) and is only applicable for *BUS* and *UUS*, where PAPSI constitutes the reference in the development and presentation of sharia banks financial statements, and also constitutes the implementation guidelines containing further elaboration from several *PSAK* that are relevant to the sharia banking industry such as special *PSAK* for sharia transactions, *PSAK* No. 50, PSAK No. 55, and PSAK No. 60, and also PSAK No. 48 and addressing the issuance of DSN Fatwa Number: 84/DSN-MUI/XII/2012 dated December 21, 2012 concerning *Murabahah* Revenue Recognition Method in Sharia Financial Institutions (*LKS*). This revision of PAPSI is expected to enhance the transparency of financial condition and to make financial statements of *BUS* and *UUS* more relevant, comprehensive, reliable and comparable to a more suitable condition and current development. Meanwhile, for matters not regulated in PAPSI 2013 still refer to the applicable *PSAK* together with its implementation guidelines, provided that they are not in conflicts with the Sharia Principles.

Several key rules in PAPSI 2013 among others: (i) revenue recognition using annuity method or proportional method can only be used for revenue recognition of financing on the basis of buying and selling, where in terms of using annuity method, the recording of *murabahah* transaction must use PSAK 55, PSAK 50, PSAK 60, and other relevant *PSAK*, whereas in terms of using proportional method, the recording of *murabahah* transactions must use PSAK 102, and the use of one of the methods referred to must be used for all types of *murabahah* financing portfolios and disclosed in the accounting policy and also conducted consistently; (ii) the obligation of forming *CKPN* on financial and non-financial assets according to the generally *SAK*.

18. Determination on the Utilization of Financial Accounting Standard for Rural Banks

In order to enhance the transparency of financial condition of *BPR* and to develop financial statements that is relevant, comprehensive, reliable and comparable, *BPR* must develop and present financial statements basen on relevant *SAK* for *BPR*. Considering the complexity of PSAK 50 and 55 and the possibility of application problems on SME, in May 2009, the Indonesian *IAI* issued *SAK-ETAP* intended for SME. Further, considering the characteristics of *BPR* that have limited business activities according to Law on Banking and based on consultancy with *IAI* on the basis of the following considerations:

a. The application of PSAK 50/55 of Financial Instrument replacing PSAK 31 is considered incompatible with the operational characteristics of *BPR* and requires high cost compared to the benefits gained;
b. Financial Accounting Standard Board *IAI* states that *SAK-ETAP* can be applied for entities having significant public accountability, provided that the competent authority regulates the use of the referred *SAK-ETAP*.

19. Transparency of Prime Lending Rate Information

The objective of the regulation concerning transparency of this Prime Lending Rate information (*SBDK*) is for enhancing the transparency on the characteristics of banking products including their benefits, costs and risks to provide clarity to the customers, and improving good governance and promoting a healthy competition in banking industry through the creation of a better market discipline.

The *SBDK* calculation is the result of 3 components calculation, namely: (1) Fund Basic Price for Loans arising from the activities of funds collection; (2) Overhead costs spent by banks in the form of non-interest operating expenses spent for the activities of funds collection and lending including tax expenses that must be paid, and (3) Profit margin set by banks in lending activities. In the

SBDK calculation, banks have not taken into account the risk premium component of the Bank individual customer. *SBDK* is the lowest interest rate used as the basis for banks in determining lending interest rate charged to the bank customers. *SBDK* calculation in rupiah that must be reported to *OJK* and published, computed for 4 types of Lending, namely: (1) Corporate Loans; (2) Retail Loans; (3) Micro Loans; and (4) Consumer Loans (*KPR* and Non *KPR*) – Non-*KPR* Loans do not include funds channeling through credit cards and Non-collateral Loans (*KTA*). The classification of lending types is based on the criteria set by internal banks and only applicable for loans in rupiah currency.

20. Rating Agency and Ratings Recognized by Bank Indonesia

Rating agencies recognized by BI are the rating agencies that meet the assessment aspects as follows: (i) assessment criteria, and (ii) media publications and disclosure coverages.

The assessment criteria that must be met include the criteria of independency, objectivity, public disclosures, transparency of rating, resources and credibility of the rating agencies. Meanwhile, the media publications and disclosure coverages shall regulate the obligation of the rating agencies to have website and disclose all information that have to be published. Toward the list of rating agencies and the recognized ratings, BI shall conduct updates to the referred list based on the result of assessment and monitoring toward the fulfillment of the determined assessment aspects.

Rating agencies can be removed from the list of rating agencies and ratings recognized by BI based on: (i) result of BI assessment, if the concerned rating agency does not meet the set assessment aspects anymore or conduct violations; and/or (ii) at request of the rating agency. Removal of the rating agency at its own request can be conducted by meeting certain procedures and that the rating agency has settled all its obligations.

The list of rating agencies and ratings recognized by BI is published through BI website BI (*www.bi.go.id*). Banks are still required to conduct assessment and responsible fully for the use of rating result by the rating agency recognized by BI.

B.9. Bank Reports

Table 5.15: Bank Reports

Type of Report	Commercial Banks	*BPR*
1. Periodic Reports		
a. Daily Report	• PUAB, *PUAS*, Securities in secondary market, and foretign exchange transactions reports • Net Open Position Reports • Certain Balance Sheet Items Reports • Cash Flow Projection Reports • Interest rate and margin of mudharabah investment time deposit Reports	
b. Weekly Period	• Derivative Transaction Reports • Third Party Fund Reports • Government Owned Third Party Fund Reports • Weekly items in Balance Sheet Reports • Cash Flow Projection reports	
c. Monthly Period	• Commercial Banks Monthly Report (LBU) / Sharia Banks Monthly Report (*LBUS*) • Financial Statements Montly Publication • Foreign Exchange Flows Reports • Funds Provision Reports • Debt Restructuring/ Financing Reports • Debtors Reports (*SID*) • LLL Reports (*BMPK*) • Maturity Profile Reports • Market Risk Reports • Depositors and Core Debtors Reports • Reports on CAR that includes market risk • Reports on Mudharabah Investment (for Sharia Banks) • Reports on structured products transaction • Reports on RWA for	
	• credit risk using standard method • *SBDK* calculation reports	• Monthly Reports LLL Reports • Reports on Debtors (*SID*)

Type of Report	Commercial Banks	*BPR*
	• Reports on Implementation of Payment Instrument Activities Using Card (*APMK*) and Monthly Electronic Money • Letter of Credit with Domestic Documentation (*SKBDN*) • Reports on Custodian Activities • Remittance of Indonesian Migrant Workers (*TKI*) overseas and Foreign Workers (*TKA*) in Indonesia • Government Accounts Mutation • Reports on Bank Activities as an Agent for non-bank Products of Foreign Financial Products • Reports on Banking Transactions through e-banking delivery channel • Reports on Executive Officers • Repots on Office Networks	
d. Quarterly Period	• Reports on Financial Publication • Reports on Business Plan Realization • Reports on management and settlement of customers complaints • Reports on Risk Profiles • Reports on Consolidated Risk Profiles • Reports on Financial Statements of Subsidiaries • Reports on Transactions between Banks and Parties with special relationship • Distribution of profit sharing for Customers	• Reports on Financial Publication • Reports on the Handling and Settlement of Complaints

Type of Report	Commercial Banks	*BPR*
	• Reports on RWA for credit using consolidated bank standard method Reports pertaining to the implementation of activities as Mutual Funds Sales Agents/Non-Bank Products • Reports of Payment Instrument Activities Using Card (*APMK*) and electronic money	
d. Semi-annualy Period	• Reports on the Supervision of BOC related to Bank Work Plan Implementation • Reports on Implementation and Key Results of Internal Audits • Reports on Implementation of Compliance Director Duties • Reports on Sources and Usages of Qardh Funds, Zakat, Infaq, Shodaqah (*ZIS*) funds. • Self assessment on Bank *TKS* Rating	• Reports on Work Plan Implementation
e. Annually Period	• Reports on Business Plans • Annual Financial Statements • Annual Reports • Foreign Loan Plan Reports • Reports on Information System Technology • Reports on Good Corporate Governance / GCG Implementation • Reports on Business Group Structure • Report on Outsourcing Plans • Reports on Non-performing Outsourcing	

	• Reports on Customers Data Update Plans • Reports on Customers Data Update Realization • Reports on Banking Employment *BUS* and Conventional CB that have *UUS* are obligated to submit thefollowing: • Reports on ZIS Sources and Usages • Reports on Qardh Fund Sources and Usages • Reports on Changes in Committed Investment Funds	• *BPR* Business Plans • Annual Financial Statements • Reports on Business Group Structure
f. Three-Year Period	• Reports on External Parties Reassessment of Internal Audit Performances	
Type of Report	**Commercial Banks**	***BPR***
2. Other Reports		
	• Reports pertaining to Bank institution • Reports pertaining to Bank Management • Reports pertaining to Bank operations • Special reports pertaining to Bank development and supervision • Reports on suspicious financial transactions and reports to PPATK on cash transactions • Report pertaining to new products and activities of Banks	• Reports pertaining to Bank institution • Reports pertaining to Bank Management • Reports pertaining to Bank operations • Special reports pertaining to Bank development and supervision • Reports on suspicious financial transactions to PPATK


OJK
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BAB 6

LIST OF REGULATION

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VI. LIST OF REGULATIONS

Table 6.1: List of Regulations

		Topic	Regulation Number
A	*OJK* New Regulation		
	1.	- Soundness Rating of Sharia Commercial Banks and Sharia Business Units	- POJK No.8/*POJK*.03/2014 dated 11-06-2014 concerning Soundness Rating of Sharia Commercial Banks and Sharia Business Units
	2.	- Asset Quality Assessment of Sharia Commercial Banks and Sharia Business Units	- POJK No.16/*POJK*.03/2014 dated 18-11-2014 concerning Asset Quality Assessment of Sharia Commercial Banks and Sharia Business Units
	3.	- Application of Integrated Risk Management for Financial Conglomeration	- POJK No.17/*POJK*.03/2014 dated 21-11-2014 concerning Application of Integrated Risk Management for Financial Conglomeration
	4.	- Application of Integrated Governance for Financial Conglomeration	- POJK No.18/*POJK*.03/2014 dated 21-11-2014 concerning Application of Integrated Governance for Financial Conglomeration
	5.	- Branchless Banking in the Context of Inclusive Finance	- POJK No.19/*POJK*.03/2014 concerning Branchless Banking in the Context of Inclusive Finance
	6.	- Rural Banks	- POJK No.20/*POJK*.03/2014 dated 21-11-2014 concerning Rural Banks
	7.	- Minimum Capital Adequacy Requirement of Sharia Commercial Banks	- POJK No.21/*POJK*.03/2014 dated 18-11-2014 concerning Minimum Capital Adequacy Requirement of Sharia Commercial Banks
B	Institutional, Management and Bank Ownership Regulations		
	1.	- Establishment of Conventional Commercial Banks - Ownership of Conventional Commercial Banks - Management of Conventional Commercial Banks - Opening Branch Offices of Conventional Commercial Banks	- PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Conventional Commercial Banks - PBI No.13/27/PBI/2011 dated 28 December 2011 on the Amendment to PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Conventional Commercial Banks - SE BI No. 14/4/DPNP dated 25 January 2012 concerning Conventional Commercial Banks

		Topic	Regulation Number
		- Closing Branch Offices of Conventional Commercial Banks - Business License Revocation at the Request of Shareholders (Self Liquidation) of Conventional Comercial Banks	- PBI No.14/8/PBI/2012 dated 13 July 2012 concerning Shares Ownership of Conventional Commercial Banks - PBI No.14/26/PBI/2012 dated 27 December 2012 concerning Business Activities and Office Networks Based on Bank Core Capital
	2.	- Establishment of Sharia Commercial Banks - Ownership of Sharia Commercial Banks - Management of Sharia Commercial Banks - Opening Branch Offices of Sharia Commercial Banks - Closing Branch Offices of Sharia Commercial Banks	- PBI No.11/3/PBI/2009 dated 29 January 2009 concerning Sharia Commercial Banks - PBI No.15/13/PBI/2013 dated 24 December 2013 concerning Amendment to PBI No.11/3/PBI/2009 dated 29 January 2009 concerning Sharia Commercial Banks. Amending PBI No.11/3/PBI/2009; Revoking the provision of PBI Article 26 paragraph (1) No. 14/6/PBI/2012
	3.	- Establishment of Conventional Rural Banks - Ownership of Conventional Rular Banks - Management of Conventional Rural Banks - Opening Branch Offices of Rural Banks - Closing Branch Offices of Rural Banks	- PBI No.8/26/PBI/2006 dated 8 November 2006 concerning Rural Banks - POJK No.20/POJK.03/2014 dated 21-11-2014 concerning Rural Banks
	4.	- Establishment of Sharia Rural Banks - Ownership of Sharia Rural Banks - Management of Sharia Rural Banks - Opening Branch Offices of Sharia Rural Banks - Closing Branch Offices of Sharia Rural Banks	- PBI No.11/23/PBI/2009 dated 1 July 2009 concerning Sharia Rural Banks
	5.	- Sole Proprietorship in Indonesian Banking	- PBI No.14/24/PBI/2012 dated 26 December 2012 concerning Sole Proprietorship in Indonesian Banking - SE BI No. 15/2/DPNP dated 4 February 2013 concerning Sole Proprietorship in Indonesian Banking; Revoking SE BI No. 9/32/DPNP dated 12 December 2007

		Topic	Regulation Number
	6.	- Opening Branch Offices of Foreign Banks - Opening Representative Offices of Foreign Banks	- SK DIR No.32/37/KEP/DIR dated 12 May 1999 concerning Requirements and Procedures for Opening Branch Offices, Sub Branch Offices and Banks domiciled in Foreign Countries. - PBI No.8/4/PBI/2006 dated 30 January 2006 concerning Implementation of Good Corporate Governance for Conventional Commercial Banks.
	7.	- Opening Sharia Business Units	- PBI No.11/10/PBI/2009 dated 19 March 2009 concerning Sharia Business Units. - PBI No.15/14/PBI/2013 dated 24 December 2013 concerning Amendment to PBI No.11/10/PBI/2009 on Sharia Business Units; Revoking PBI No.11/10/PBI/2009.
	8.	- Sharia Supervisory Board	- PBI No.11/3/PBI/2009 dated 29 January 2009 concerning Sharia Commercial Banks. - PBI No.11/23/PBI/2009 dated 1 July 2009 concerning Sharia Rural Banks. - No.11/10/PBI/2009 concerning Sharia Business Units - SE BI No.15/22/DPbS dated 27 June 2013 regarding Guidelines for the Implementation of Duties and Responsibilities of Sharia Supervisory Board of BPRS; Revoking SE BI No.8/19/DPbS dated 24 August 2006. - PBI No.15/14/PBI/2013 dated 24 December 2013 concerning Amendment to PBI No.11/10/PBI/2009 on Sharia Business Units. Amending PBI No.11/10/PBI/2009.
	9.	- Sharia Banking Committee	- PBI No.10/32/PBI/2008 dated 20 November 2008 concerning Sharia Banking Committee
	10.	- Utilization of Foreign Workers and Transfer of Knowledge Program in Banking Sector	- PBI No.9/8/PBI/2007 dated 6 June 2007 concerning Utilization of Foreign Workers and Transfer of Knowledge Program in Banking Sector

		Topic	Regulation Number
	11.	- Fit and Proper Test of Conventional Commercial Banks and Rural Banks	- PBI No.12/23/PBI/2010 dated 29 December 2010 concerning Fit and Proper Test - PBI No.6/23/PBI/2004 dated 9 August 2004 concerning Fit and Proper Test of Rural Banks - SE BI No.13/8/DPNP dated 28 March 2011 concerning Fit and Proper Test - SE BI No.13/26/DPNP dated 30 November 2011 regarding Amendment to SE BI No.13/8/DPNP dated 28 March 2011 concerning Fit and Proper Test - PBI No.14/6/PBI/2012 dated 18 June 2012 concerning Fit and Proper Test of Sharia Banks and Sharia Business Units - PBI No.14/9/PBI/2012 dated 26 July 2012 concerning Fit and Proper Test of Rural Banks - SE BI No.14/25/DPbS regarding Fit and Proper Test of Sharia Banks and Sharia Business Units - SE BI No.14/36/DKBU dated 21 December 2012 concerning Fit and Proper Test of Rural Banks - PBI No.15/13/PBI/2013 dated 24 December 2013 concerning Amendment to PBI No.11/3/PBI/2009 concerning Sharia Commercial Banks. Amending to PBI No.11/3/PBI/2009; Revoking Provision of Article 26 paragraph (1) of PBI No.14/6/PBI/2012 - SE BI No.15/45/DPNP dated 18 November 2013 regarding Amendment to SE BI No.14/36/DKBU.
	12.	- Purchase of Commercial Banks Shares	- SK DIR No.32/50/KEP/DIR dated 14 May 1999 concerning Requirements and Procedures for Purchasing Shares of Commercial Banks. - PBI No.14/8/PBI/2012 dated 13 July 2012 concerning Shares Ownership of Commercial Banks - SE BI No.15/4/DPNP dated 6 March 2013 concerning Shares Ownership of Commercial Banks

		Topic	Regulation Number
	13.	- Incentive in the Context of Banking Consolidation	- PBI No.8/17/PBI/2006 concerning Incentive in the Context of Banking Consolidation - PBI No.9/12/PBI/2007 dated 21 September 2007 on the Amendment to PBI No.8/17/PBI/2006 concerning Incentive in the Context of Banking Consolidation - SE BI No.9/20/DPNP dated 24 September 2007 concerning Incentive in the Context of Banking Consolidation.
	14.	- Merger, Consolidation and Acquisition of Commercial Banks	- SK DIR No.32/51/KEP/DIR dated 14 May 1999 concerning Requirements and Procedures for Merger, Consolidation and Acquisition of Commercial Banks
	15.	- Merger, Consolidation and Acquisition of Rural Banks	- SK DIR No.32/52/KEP/DIR dated 14 May 1999 concerning Requirements and Procedures for Merger, Consolidation and Acquisition of Rural Banks
	16.	- Change of Bank Name & Logo	- PBI No.11/3/PBI/2009 dated 29 January 2009 concerning Sharia Commercial Banks - PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Commercial Banks - PBI No.13/27/PBI/2011 dated 28 December 2011 concerning Amendment to PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Commercial Banks. - SE BI No.14/4/DPNP dated 25 January 2012 concerning Commercial Banks.
	17.	- Change of Conventional Banks Business Activities of into Sharia Banks	- PBI No.11/15/PBI/2009 dated 29 April 2009 concerning the Change of Conventional Bank Business Activities into Sharia Banks
	18.	- Requirements of Non-foreign Exchange Conventional Commercial Banks to Become Foreign Exchange Conventional Commercial Banks	- SK DIR No.28/64/KEP/DIR dated 7 September 1995 concerning Requirements for Non-foreign Exchange Commercial Banks to Become Foreign Exchange Commercial Banks

		Topic	Regulation Number
	19.	- Change of Business License of Commercial Banks into Rural Banks Business License for Consolidation	- PBI No.10/9/PBI/2008 dated 22 February 2008 concerning Change of Business License of Commercial Banks into Rural Banks Business License for Consolidation
	20.	- Status Determination and Follow-up of Bank Supervision	- SE BI No.15/2/DPNP dated 4 February 2013 concerning Sole Proprietorship in Indonesian Banking; Revoking SE BI No.9/32/DPNP dated 12 December 2007 - PBI No.15/2/PBI/2013 dated 20 May 2013 concerning Status Determination and Follow-up of Bank Supervision
	21.	- Follow-up Handling of Rural Banks under special supervision status	- PBI No.11/20/PBI/2009 dated 4 June 2009 concerning Follow-up Handling of Rural Banks under Special Supervision Status
	22.	- Follow-up Handling of Sharia Rural Banks under special supervision status	- PBI No.13/6/PBI/2011 dated 24 January 2011 concerning Follow-up Handling of Sharia Rural Banks under Special Supervision Status
	23.	- Liquidation of Commercial Banks	- Law No. 24 Year 2004 concerning *LPS*
	24.	- Liquidation of Rural Banks	- SK DIR No.32/53/KEP/DIR dated 14 May 1999 concerning Procedures for Business License Revocation, Dissolution and Liquidation of Rural Banks
	25.	- Business License Revocation of Branch Offices of Bank Domiciled Overseas	- SK DIR No.32/53/KEP/DIR concerning Procedures for Business License Revocation, Dissolution and Liquidation of Commercial Banks. - PP No. 25 year 1999 dated 3 May 1999 concerning Business License Revocation, Dissolution and Liquidation of Banks. - PBI No.11/1/PBI/2009 dated 27 January 2009 concerning Commercial Banks

		Topic	Regulation Number
C.	**Regulations on Business Activities and Several Bank Products**		
	1.	- Branchless Bank Services in the Context of Inclusive Finance	- POJK No.19/POJK.03/2014 concerning Branchless Banking in the Context of Inclusive Finance
	2.	- Foreign Exchange Traders for Banks	- PBI No.12/22/PBI/2010 dated 22 December 2010 concerning Foreign Exchange Traders - SE BI No.15/27/DPNP dated 19 July 2013 concerning Requirements for Commercial Banks to Conduct Business Activities in Foreign Exchange. Revoking SE BI No.28/4/UPPB
	3.	- Purchase of Foreign Currencies against Rupiah to Banks	- PBI No.16/16/PBI/2014 dated 17 September 2014 concerning Transactions of Foreign Exchange against Rupiah between Banks and Domestic Parties. Revoking PBI No.10/28/PBI/2008, PBI No.10/37/PBI/2008 and PBI No.11/14/PBI/2009. - PBI No.16/17/PBI/2014 dated 17 September 2014 concerning Transactions of Foreign Exchange against Rupiah between Banks and Foreign Parties. Revoking PBI No.7/14/PBI/2005, PBI No.14/10/PBI/2012 and PBI No.16/9/PBI/2014.
	4.	- Derivative Transactions	- PBI No.7/31/PBI/2005 dated 13 September 2005 concerning Derivative Transactions. - PBI No.9/2/PBI/2007 dated 5 March 2007 concerning Daily Reports of Commercial Banks. - PBI No.10/38/PBI/2008 dated 16 December 2008 concerning Amendment to PBI No.7/31/PBI/2005 dated 13 September 2005 concerning Derivative Transactions.
	5.	- Commercial Paper	- SK DIR No.28/52/KEP/DIR dated 11 August concerning Requirements for Issuing and Trading of Commercial Papers through Commercial Banks in Indonesia

		Topic	Regulation Number
	6.	- Deposits - Demand Deposits - Time Deposits - Certificates of Deposits - Savings	- Law No. 10 Year 1998 concerning Banking
	7.	- Products of Sharia Banks and Sharia Business Units	- Law No. 21 Year 2008 concerning Sharia Banking. - PBI No.10/17/PBI/2008 dated 25 September 2008 concerning Products of Sharia Banks and Sharia Business Unit - SE BI No.14/7/DPbS dated 29 February 2012 concerning Qardh Products with Gold Collaterals for Sharia Banks and Sharia Business Units - SE BI No.14/16/DPbS dated 31 May 2012 concerning Products of Gold Ownership Financing for Sharia Banks and Sharia Business Units.
	8.	- Sharia Principles in the Activities of Funds Collection And Service Channeling of Sharia Banks	- Law No. 21 Year 2008 concerning Sharia Banking. - PBI No.9/19/PBI/2007 dated 17 December 2007 concerning Implementation of Sharia Principles in the Activities of Funds Collection and Fund Distribution and Service Provision of Sharia Banks - PBI No.10/16/PBI/2008 dated 25 September 2008 concerning Amendment to PBI No.9/19/PBI/2007 concerning Implementation of Sharia Principles in the Activities of Funds Collection and Fund Distribution and Service Provision of Sharia Banks.
	9.	- Bank Activities in Capital Market	- SE BI No.14/13/DPNP dated 9 April 2012 concerning Revocation of SE BI No.23/15/BPPP dated 28 February 1991 concerning Bank Activities in Capital Market.
	10.	- Bank Business Activities in the Form of Deposits with Management (Trust)	- PBI No.14/17/PBI/2012 dated 23 November 2012 concerning Bank Business Activities in the Form of

		Topic	Regulation Number
			Deposits with Management (Trust). - SE BI No.15/10/DPNP dated 28 March 2013 regarding Reports on the Activities of Deposits with Management of Commercial Banks Submitted to Bank Indonesia
	11.	- Application of Policy on Financing Products of Housing Ownership and Motor Vehicles for Sharia Banks and Sharia Business Units	- SE BI No.15/40/DKMP dated 24 September 2013 regarding Application of Risk Management in Banks Conducting Lending or Financing of Property Ownership, Loans for Consumer Financing with Property Collaterals and Loans or Financing for Motor Vehicles. Revoking SE BI No.14/10/DPNP and No. 14/33/DPbS.
D.	**Prudential Principle**		
	1.	- Core Capital of Conventional Commercial Banks	- PBI No.7/15/PBI/2005 concerning Amount of Minimum Core Capital of Commercial Banks. - PBI No.9/16/PBI/2007 dated 3 December 2007 concerning Amendment to PBI No.7/15/PBI/2005 concerning Amount of Minimum Core Capital of Commercial Banks. - PBI No.14/26/PBI/2012 dated 27 December 2012 concerning Business Activities and Office Networks Based on Bank Core Capital. - SE BI No.15/6/DPNP dated 8 March 2013 concerning Commercial Bank Business Activities Based on Core Capital; Revoking SE BI No. 11/35/DPNP. - SE BI No.15/7/DPNP dated 8 March 2013 concerning Opening Office Networks of Commercial Banks with Core Capital.

		Topic	Regulation Number
			- SE BI No.15/8/DPbS dated 27 March 2013 concerning Opening Office Networks of Sharia Banks and Sharia Business Units with Core Capital
	2.	- Minimum Capital Adequacy Requirement of Conventional Commercial Banks	- SE BI No.9/31/DPNP dated 12 December 2007 concerning Guidelines for Utilizing Internal Model in the Calculation of Capital Adequacy Requirement of Commercial Banks by Taking into Account the Market Risk. - SE BI No.9/33/DPNP dated 18 December 2007 concerning Guidelines for Utilizing Internal Model in the Calculation of Capital Adequacy Requirement of Commercial Banks by Taking into Account the Market Risk. - PBI No.10/15/PBI/2008 dated 24 September 2008 concerning the Utilization of Capital Adequacy Requirement in Commercial Banks. - SE BI No.14/37/DPNP dated 27 December 2012 concerning the Utilization of Capital Adequacy Requirement according to the Risk Profiles and the Fulfillment of Capital Equivalency Maintained Assets (CEMA). - PBI No.14/18/PBI/2012 dated 28 November 2012 concerning Capital Adequacy Requirement. - PBI No.15/12/PBI/2013 dated 12 December 2013 concerning Capital Adequacy Requirement of Commercial Banks. Revoking Article 7 paragraph (1) PBI 14/18/PBI/2012; Revoking PBI 14/18/PBI/2012 as of 1 January 2015.
	3.	- Minimum Capital Adequacy Requirement for Sharia Banks and Sharia Business Units	- PBI No.7/13/PBI/2005 concerning Minimum Capital Adequacy Requirement for Commercial Banks Based on Sharia Principles.

		Topic	Regulation Number
			- PBI No.8/7/PBI/2006 dated 27 February 2006 concerning Amendment to PBI No.7/13/PBI/2005 concerning Minimum Capital Adequacy Requirement for Commercial Banks Based on Sharia Principles - **POJK No.21/POJK.03/2014 dated 18-11-2014 concerning Minimum Capital Adequacy Requirement for Sharia Commercial Banks**
	4.	- Minimum Capital Adequacy Requirement for Rural Banks	- PBI No.8/18/PBI/2006 dated 5 October 2006 concerning Minimum Capital Adequacy Requirement Capital Adequacy Requirement for Rural Banks.
	5.	- Minimum Capital Adequacy Requirement for Sharia Rural Banks	- PBI No.8/22/PBI/2006 dated 5 October 2006 concerning Minimum Capital Adequacy Requirement Capital Adequacy Requirement for Sharia Rural Banks Based on Sharia Principles
	6.	- Net Open Position	- PBI No.5/13/PBI/2003 dated 17 July 2003 concerning Net Open Position of Commercial Banks - PBI No.6/20/PBI/2004 dated 15 July 2004 concerning the Amendment to PBI No.5/13/PBI/2003 dated 17 July 2003 concerning Net Open Position of Commercial Banks. - PBI No.7/37/PBI/2005 dated 30 September 2005 concerning the Second Amendment to PBI No.5/13/PBI/2003 dated 17 July 2003 concerning Net Open Position of Commercial Banks. - PBI No.12/10/PBI/2010 dated 1 July 2010 concerning the Third Amendment to PBI No.5/13/PBI/2003 dated 17 July 2003 concerning Net Open Position of Commercial Banks.

		Topic	Regulation Number
	7.	- Legal Lending Limit for Conventional Commercial Banks - Legal Lending Limit for Rural Banks - Legal Lending Limit for Sharia Rural Banks	- PBI No.7/3/PBI/2005 dated 20 January 2005 concerning Legal Lending Limit for Commercial Banks. - PBI No.8/13/PBI/2006 dated 5 October 2006 concerning the Amendment to PBI No.7/3/PBI/2005 dated 20 January 2005 concerning Legal Lending Limit for Commercial Banks. - PBI No.11/13/PBI/2009 dated 17 April 2009 concerning Legal Lending Limit for Rural Banks - PBI No.13/5/PBI/2011 dated 24 January 2011 concerning Legal Lending Limit for Sharia Rural Banks
	8.	- Asset Quality of Conventional Commercial Banks - Allowance for Uncollectible Accounts of Earning Assets of Conventional Commercial Banks - Debt Restructuring	- PBI No.14/15/PBI/2012 concerning Asset Quality Assessment of Commercial Banks. - SE BI No.15 /28/DPNP dated 31 July 2013 concerning Asset Quality Assessment of Commercial Banks. Revoking SE BI No.7/3/ DPNP dated 31 January 2005 and SE BI No.8/2/ DPNP dated 30 January 2006.
	9.	- Asset Quality of Rural Banks - Allowance for Uncollectible Accounts of Earning Assets of Rural Banks	- PBI No.8/19/PBI/2006 dated 5 October 2006 concerning Earning Asset Quality and Formation of Allowance for Uncollectible Accounts of Earning Assets of Rural Banks. - PBI No.13/26/PBI/2011 dated 28 December 2011 concerning Amendment to PBI No.8/19/PBI/2006 dated 5 October 2006 concerning Earning Asset Quality and Formation of Allowance for Uncollectible Accounts of Earning Assets of Rural Banks.
	10.	- Asset Quality of Sharia Banks and Sharia Business Units - Allowance for Uncollectible Accounts of Sharia Banks and Sharia Business Units	- PBI No.13/13/PBI/2011 dated 24 March 2011 concerning Asset Quality Assessment of Sharia Commercial Banks and Sharia Business Units.

		Topic	Regulation Number
			- **POJK No.16/POJK.03/2014 dated 18-11-2014 concerning Asset Quality Assessment of Sharia Commercial Banks and Sharia Business Units.**
	11.	- Asset Quality of Sharia Rural Banks - Allowance for Uncollectible Accounts of Sharia Rural Banks	- PBI No.13/14/PBI/2011 dated 24 March 2011 concerning Asset Quality Assessment of (Sharia Rural Banks).
	12.	- Financing Restructuring for Sharia Banks and Sharia Business Units	- PBI No.10/18/PBI/2008 dated 25 September 2008 concerning Financing Restructuring for Sharia Commercial Banks and Sharia Business Units - PBI No.13/9/PBI/2011 dated 8 February 2011 concerning Amendment to PBI No.10/18/PBI/2008 dated 25 September 2008 concerning Financing Restructuring for Sharia Commercial Banks and Sharia Business Units
	13.	- Statutory Reserves for Conventional Commercial Banks	- PBI No.10/19/PBI/2008 dated 14 October 2008 concerning Statutory Reserves of Commercial Banks in Bank Indonesia in Rupiah and Foreign Currencies. - PBI No.10/25/PBI/2008 dated 23 October 2008 concerning Amendment to PBI No.10/19/PBI/2008 dated 14 October 2008 concerning Statutory Reserves of Commercial Banks in Bank Indonesia in Rupiah and Foreign Currencies. - PBI No.15/15/PBI/2013 dated 24 December 2013 concerning Statutory Reserves of Commercial Banks in Bank Indonesia in Rupiah and Foreign Currencies. Revoking PBI No.12/19/PBI/2010; PBI No.13/10/PBI/2011 and PBI No.15/7/PBI/2013. - SE BI No.15 /41/DKMP dated 1 October 2013 regarding Calculation of Secondary Statutory Reserves and Statutory Reserves Based

		Topic	Regulation Number
			- on Loan to Deposit Ratio in Rupiah. Revoking SE BI No. 11/29/DPNP.
	14.	- Statutory Reserves for Sharia Commercial Banks	- PBI No.15/16/PBI/2013 dated 24 December 2013 concerning Statutory Reserves in Rupiah and Foreign Currencies for Sharia Commercial Banks and Sharia Business Units. Revoking PBI No.6/21/PBI/2004, PBI No.8/23/PBI/2006 and PBI No.10/23/PBI/2008.
	15.	- Transparency of Bank Financial Condition	- PBI No.3/22/PBI/2001 dated 13 December 2001 concerning Transparency of Bank Financial Condition. - PBI No.7/50/PBI/2005 dated 29 November 2005 concerning Amendment to PBI No.3/22/PBI/2001 dated 13 December 2001 concerning Transparency of Bank Financial Condition. - PBI No.14/14/PBI/2012 dated 18 October 2012 concerning Transparency and Publication of Bank Reports amending PBI No.3/22/PBI/2001 dated 13 December 2001 concerning Transparency of Bank Financial Condition.
	16.	- Transparency of Rural Banks Financial Condition	- PBI No.15/3/PBI/2013 dated 21 May 2013 concerning Transparency of Financial Condition of Rural Banks. Revoking PBI No.8/20/PBI/2006 dated 5 October 2006.
	17.	- Transparency of Sharia Rural Banks Financial Condition	- PBI No.7/47/PBI/2005 dated 14 November 2005 concerning Transparency of Financial Condition of Sharia Rural Banks.
	18.	- Transparency on Information of Bank Products & Utilization of Customer Personal Data	- PBI No.7/6/PBI/2005 dated 20 January 2005 concerning Transparency of Information of Bank Products and Utilization of Customer Personal Data. - SE BI No.7/25/DPNP dated 18 July 2005 concerning Transparency of Information of Bank Products and Utilization of Customer Personal Data.

		Topic	Regulation Number
	19.	- Prudential Principle in the Activities of Equity Participation of Conventional Commercial Banks	- PBI No.15/11/PBI/2013 dated 22 September 2013 concerning Prudential Principle in Equity Participation Activities. Revoking PBI No.5/10/PBI/2003.
	20.	- Prudential Principle in the Activities of Asset Securitization	- PBI No.7/4/PBI/2005 dated 20 January 2005 concerning Prudential Principle in Asset Securitization Activities for Commercial Banks.
	21.	- Prudential Principle in Conducting Structured Products Activities for Conventional Commercial Banks	- PBI No.11/26/PBI/2009 dated 1 July 2009 concerning Prudential Principle in conducting Structured Product Activities for Commercial Banks.
	22.	- Prudential Principle in Conducting Agency Activities of Foreign Financial Products of Conventional Commercial Banks	- PBI No.12/9/PBI/2010 dated 29 June 2010 concerning Prudential Principle in conducting Activities of Foreign Financial Product Agency by Commercial Banks.
	23.	- Prudential Principle for Conventional Commercial Banks Outsourcing Part of their Job Implementation to other Parties	- PBI No.13/25/PBI/2011 dated 9 December 2011 concerning Prudential Principle for Commercial Banks Outsourcing Part of the Jobs Implementation to Other Parties. - SE BI No.14 /20/DPNP dated 27 June 2012 concerning Prudential Principle for Commercial Banks Outsourcing Part of the Jobs Implementation to Other Parties.
	24.	- Application of Anti- Fraud Strategy for Conventional Commercial Banks	- SE BI No.13 /28/DPNP dated 9 December 2011 concerning Application of Anti-Fraud Strategy for Commercial Banks.
	25.	- Guidelines of Risk Weighted Assets Calculation for Credit Risk Using Standard Approach	- SE BI No.13/6/DPNP dated 18 February 2011 concerning Guidelines for Calculation of Risk Weighted Assets for Credit Risk Using Standard Approach.

		Topic	Regulation Number
E.	**Regulations on Bank Soundness Rating**		
	1.	- Soundness Rating of Conventional Commercial Banks	- PBI No.13/1/PBI/2011 dated 5 January 2011 concerning Soundness Rating of Commercial Banks. - SE BI No.13/24/DPNP dated 25 October 2011 concerning Soundness Rating of Commercial Banks. - SE BI No.15/15/DPNP dated 29 April 2013 concerning Implementation of Good Corporate Governance for Commercial Banks. Revoking SE BI No.9/12/DPNP dated 30 May 2007 and Attachment of SE BI No.13/24/DPNP.
	2.	- Soundness Rating of Sharia Commercial Banks	- PBI No.9/1/PBI/2007 dated 24 January 2007 concerning Soundness Rating System of Commercial Banks Based on Sharia Principle. - **POJK No.8/*POJK*.03/2014 dated 11-06-2014 concerning Soundness Rating Sharia Commercial Banks and Sharia Business Units.**
	3.	- Soundness Rating of Rural Banks	- SK DIR No.30/12/KEP/DIR dated 30 April 1997 concerning Procedures for Assessing Soundness Rating of Rural Banks. - PBI No.9/17/PBI/2007 dated 4 December 2007 concerning Soundness Rating System of Rural Banks based on Sharia Principles. - SE BI No.30/3/UPPB dated 30 April 1997 concerning Procedures for Assessing Soundness Rating of Rural Banks.
	4.	- Soundness Rating of Sharia Rural Banks	- PBI No.9/17/PBI/2007 dated 4 December 2007 concerning Soundness Rating System of BPR based on Sharia Principles.

		Topic	Regulation Number
F.	**Regulations on Self-Regulatory Banking**		
	1.	- Guidelines for the Development of Bank Credit Policy	- SK DIR No.27/162/KEP/DIR dated 31 March 1995 concerning Obligation for Developing and Implementing Policy of BPR for Commercial Banks.
	2.	- Implementation of Good Corporate Governance for Conventional Commercial Banks	- PBI No.8/4/PBI/2006 dated 30 January 2006 concerning Implementation of Good Corporate Governance for Commercial Banks. - PBI No.8/14/PBI/2006 dated 5 October 2006 concerning Amendment to PBI No.8/4/PBI/2006 dated 30 January 2006 concerning Implementation of Good Corporate Governance for Commercial Banks. - SE BI No.15/15/DPNP dated 29 April 2013 concerning Implementation of Good Corporate Governance for Commercial Banks. Revoking SE BI No.9/12/DPNP dated 30 May 2007 and Attachment of SE BI No.13/24/DPNP dated 25 October 2011.
	3.	- Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units	- PBI No.11/33/PBI/2009 dated 7 December 2009 concerning Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units.
	4.	- Application of Integrated Governance for Financial Conglomeration	- **POJK No.18/*POJK*.03/2014 dated 21-11-2014 concerning Application of Integrated Governance for Financial Conglomeration.**
	5.	- Internal Audit Work Unit SKAI of Conventional COmmercial Banks	- PBI No.1/6/PBI/1999 dated 20 September 1999 concerning Assignment of Compliance Director and Application of Standard Implementation of Internal Audit Function of Commercial Banks. - PBI No.13/2/PBI/2011 dated 12 January 2011 concerning Implementation of Compliance Function of Commercial Banks.

		Topic	Regulation Number
	6.	- Implementation of Compliance Function of Conventional Commercial Banks	- PBI No.13/2/PBI/2011 dated 12 January 2011 concerning Implementation of Compliance Function of Commercial Banks
	7.	- Bank Business Plans	- PBI No.12/21/PBI/2010 dated 19 October 2010 concerning Bank Business Plans.
	8.	- Application of Risk Management in the Utilization of Information Technology by Conventional Commercial Banks	- PBI No.9/15/PBI/2007 dated 30 November 2007 concerning Application of Risk Management in the Utilization of Information Technology by Commercial Banks.
	9.	- Application of Risk Management for Conventional Commercial Banks	- PBI No.5/8/PBI/2003 dated 19 May 2003 concerning Application of Risk Management for Commercial Banks. - PBI No.11/25/PBI/2009 dated 1 July 2009 concerning Amendment to PBI No.5/8/PBI/2003 dated 19 May 2003 concerning Application of Risk Management for Commercial Banks. - SE BI No.5/21/DPNP dated 29 September 2003 concerning
			Application of Risk Management for Commercial Banks. - SE BI No.13 /23/DPNP dated 25 October 2011 concerning Amendment to SE BI No.5/21/DPNP dated 29 September 2003 concerning Application of Risk Management for Commercial Banks. - PBI No.13/23/PBI/2011 dated 2 November 2011 concerning Application of Risk Management for Sharia Commercial Banks and Sharia Business Units.
	10.	- Application of Consolidated Risk Management for Banks Conducting Control to the Subsidiaries	- PBI No.8/6PBI/2006 dated 30 January 2006 concerning Application of Consolidated Risk Management for Banks Conducting Control to the Subsidiaries.

		Topic	Regulation Number
	11.	- **Application of Integrated Risk Management for Financial Conglomeration**	- **POJK No.17/*POJK*.03/2014 dated 21-11-2014 concerning Application of Integrated Risk Management for Financial Conglomeration.**
	12.	- Application of Risk Management in Internet Banking	- SE BI No.6/18/DPNP dated 20 April 2004 concerning Application of Risk Management in Service Provision Activities through Internet Banking. - PBI No.9/15/PBI/2007 dated 30 November 2007 concerning Application of Risk Management in the Utilization of Information Technology by Commercial Banks.
	13.	- Application of Risk Management in Banks Conducting Joint Marketing Activities with Insurance Companies/ Bancassurance	- SE BI No.6/43/DPNP dated 7 October 2004 concerning Application of Risk Management in Banks Conducting Joint Marketing Activities with Insurance Companies (Bancassurance) - SE BI No.12/35/DPNP dated 23 December 2010 concerning Application of Risk Management in Banks Conducting Joint Marketing Activities with Insurance Companies (Bancassurance)
	14.	- Application of Risk Management in Banks Conducting Activities related to Multi Funds	- SE BI No.7/19/DPNP dated 14 June 2005 concerning Application of Risk Management in Banks Conducting Activities related to Multi Funds. - SE BI No.11/36/DPNP dated 31 December 2009 concerning Amendment to SE BI No.7/19/DPNP dated 14 June 2005 concerning Application of Risk Management in Banks Conducting Activities related to Multi Funds.
	15.	- Certification of Risk Management for the Management and Officers of Commercial Banks	- PBI No.11/19/PBI/2009 dated 4 June 2009 concerning Certification of Risk Management for the Management and Officers of Commercial Banks.

		Topic	Regulation Number
			- PBI No.12/7/PBI/2010 dated 19 April 2010 concerning Amendment to PBI No.11/19/PBI/2009 dated 4 June 2009 concerning Certification of Risk Management for the Management and Officers of Commercial Banks.
	16.	- Application of Risk Management in Commercial Banks Conducting Priority Customer Service	- SE BI No.13/29/DPNP dated 9 December 2011 concerning Application of Risk Management in Commercial Banks Conducting Priority Customer Service.
	17.	- Application of Risk Management in Banks Conducting Lending Activities (Loans) for Housing Ownership and Motor Vehicles	- SE BI No.15/40/DKMP dated 24 September 2013 concerning Application of Risk Management in Banks Conducting Lending or Financing of Property Ownership, Loans for Consumer Financing with Property Collaterals and Loans or Financing for Motor Vehicles. Revoking SE BI No.14/10/DPNP and No. 14/33/DPbS.
	18.	- Application of Risk Management in Sharia Banks	- PBI No.13/23/PBI/2011 dated 2 November 2011 concerning Application of Risk Management for Sharia Commercial Banks and Sharia Business Units.
	19.	- Application of Anti-Money Laundering and Prevention of Terrorism Funding Program for Commercial Banks	- PBI No.14/27/PBI/2012 dated 28 December 2012 concerning Application of Anti-Money Laundering and Prevention of Terrorism Funding Program for Commercial Banks. - SE BI No.15/21/DPNP dated 14 June 2013 concerning Application of Anti-Money Laundering and Prevention of Terrorism Funding Program for Commercial Banks. Revoking SE BI No.11/31/DPNP.
	20.	- Application of Anti-Money Laundering and Prevention of Terrorism Funding Program for	- PBI No.12/20/PBI/2010 dated 4 October 2010 concerning Application of Anti-Money Laundering and Prevention of Terrorism

		Topic	Regulation Number
		Rural Banks and Sharia Rural Banks	Funding Program for Rural Banks and Sharia Rural Banks.
	21.	- Settlements of Customers Complaints	- PBI No.7/7/PBI/2005 dated 20 January 2005 concerning Settlements of Customers Complaints. - SE BI No.7/24/DPNP dated 18 July 2005 concerning Settlements of Customers Complaints. - PBI No.10/10/PBI/2008 dated 28 February 2008 concerning Amendment to PBI No.7/7/PBI/2005 dated 20 January 2005 concerning Settlements of Customers Complaints. - SE BI No.10/13/DPNP dated 6 March 2008 concerning Amendment to SE BI No.7/24/DPNP dated 18 July 2005 concerning Settlements of Customers Complaints.
	22.	- Guidelines for Policy and Procedure of Credit for Rural Banks	- SE BI No.14/26/DKBU concerning Guidelines for Policy and Procedures of Credits for Rural Banks.
G.	**Regulations on Financing**		
	1.	- Short-term Funding Facilities for Commercial Banks	- PBI No.14/16/PBI/2012 dated 23 November 2012 concerning Short-term Funding Facilities for Commercial Banks. - SE BI No.15/11/DPNP dated 8 April 2013 concerning Short-term Funding Facilities for Banks. Revoking SE BI No.10/39/DPM.
	2.	- Short-term Funding Facilities for Rural Banks	- PBI No.10/35/PBI/2008 dated 5 December 2008 concerning Short-term Funding Facilities for Rural Banks.
	3.	- Short-term Funding Facilities for Sharia Commercial Banks	- PBI No.11/24/PBI/2009 dated 1 July 2009 concerning Short-term Funding Facilities for Sharia Commercial Banks.

		Topic	Regulation Number
	4.	- Short-term Funding Facilities for Sharia Rural Banks	- PBI No.11/29/PBI/2009 dated 7 July 2009 concerning Short-term Funding Facilities for Sharia Rural Banks.
	5.	- Intraday Liquidity Facilities	- PBI No.10/29/PBI/2008 dated 14 November 2008 concerning Intraday Liquidity Facilities for Commercial Banks. - PBI No.12/13/PBI/2010 dated 4 August 2010 concerning Amendment to PBI No.10/29/PBI/2008 dated 14 November 2008 concerning Intraday Liquidity Facilities for Commercial Banks.
	6.	- Intraday Liquidity Facilities for Conventional Commercial Banks based on Sharia Principles	- PBI No.11/30/PBI/2009 dated 7 July 2009 concerning Intraday Liquidity Facilities based on Sharia Principles
	7.	- Emergency Financing Facilities for Conventional Commercial Banks	- PBI No.10/31/PBI/2008 dated 18 September 2008 concerning Emergency Financing Facilities.
	8.	- Transfer of Bank Indonesia Liquidity Credit Management Within the Framework of Credit Program	- PBI No.14/19/PBI/2012 dated 30 November 2012 concerning Amendment to PBI No.5/20/PBI/2003 on Transfer of Bank Indonesia Liquidity Credit Management Within the Framework of Credit Program
	9.	- Lending or Financing and Technical Assistance for the Development of Micro, Small and Medium Enterprises	- PBI No.14/22/PBI/2012 dated 21 December 2012 concerning Lending or Financing and Technical Assistance for the Development of Micro, Small and Medium Enterprises - SE BI No.15/35/DPAU dated 29 August 2013 concerning Lending or Financing and Technical Assistance by Commercial Banks for the Development of Micro, Small and Medium Enterprises

		Topic	Regulation Number
H.	**Regulations Related to Micro, Small and Medium Enterprise**		
	1.	- Technical Assistance	- PBI No.7/39/PBI/2005 dated 18 October 2005 concerning Provision of Technical Assistance in Developing Micro, Small and Medium Enterprises.
	2.	- Business Plans	- PBI No.6/25/PBI/2004 dated 22 October 2004 and SE BI No.6/44/DPNP dated 22 October 2004 concerning Business Plans of Commercial Banks.
	3.	- Legal Lending Limit	- PBI No.7/3/PBI/2005 dated 20 January 2005 concerning Legal Lending Limit. - PBI No.8/13/PBI/2006 dated 5 October 2006 concerning Amendment to PBI No.7/3/PBI/2005 dated 20 January 2005 concerning Legal Lending Limit of Commercial Banks.
	4.	- Risk-weighted Assets for Micro, Small and Medium Enterprises.	- SE BI No.11/3/DPNP dated 27 January 2009 concerning Risk-Weighted Assets for Operational Risk by Using Basic Indicator Approach. - SE BI No.13/6/DPNP dated 18 February 2011 concerning Guidelines for Calculation of Risk-weighted Assets for Credit Risk with Standard Approach.
	5.	- Assets Quality Rating	- PBI No.11/2/PBI/2009 dated 29 January 2009 concerning the Third Amendment to PBI No.7/2/PBI/2005 concerning Assets Quality Rating for Commercial Banks. - PBI No.13/13/PBI/2011 dated 24 March 2011 concerning Assets Quality Rating for Sharia Commercial Banks. - PBI No.13/14/PBI/2011 dated 24 March 2011 concerning Assets Quality Rating for Sharia Rural Banks.

		Topic	Regulation Number
I.	**Other Regulations**		
	1.	- BI Deposits Facilities in Rupiah	- SE BI No.6/5/DPM dated 16 February 2004 concerning BI Deposits Facilities in Rupiah. - SE BI No.7/4/DPM dated 1 February 2005 concerning Amendment to SE BI No.6/5/DPM dated 16 February 2004 concerning BI Deposits Facilities in Rupiah.
	2.	- Bank Foreign Loans	- PBI No.7/1/PBI/2005 dated 10 January 2005 concerning Bank Foreign Loans. - PBI No.10/20/PBI/2008 dated 14 October 2008 concerning Amendment to PBI No.7/1/PBI/2005 dated 10 January 2005 concerning Bank Foreign Loans. - PBI No.13/7/PBI/2011 dated 28 January 2011 concerning the Second Amendment to PBI No.7/1/PBI/2005 dated 10 January 2005 concerning Bank Foreign Loans. - PBI No.15/6/PBI/2013 dated 30 August 2013 concerning the Third Amendment to PBI No.7/1/PBI/2005 dated 10 January 2005 concerning Bank Foreign Loans. - Amending the Provision in Article 3B of the PBI No.7/1/PBI/2005.
			- PBI No.16/7/PBI/2014 dated 7 April 2014 concerning the Fourth Amendment to PBI No.7/1/PBI/2005 dated 10 January 2005 concerning Bank Foreign Loans. Amending the Provision in Article 3B of the PBI No.7/1/PBI/2005.
	3.	- Interbank Money Market Based on Sharia Principles	- PBI No.9/5/PBI/2007 dated 30 March 2007 concerning Interbank Money Market Based on Sharia Principles. - PBI No.14/1/PBI/2012 dated 4 January 2012 concerning Amendment to PBI No.9/5/PBI/2007 dated 30 March 2007 concerning Interbank Money Market Based on Sharia Principles.

		Topic	Regulation Number
	4.	- Certification Agencies for Rural Banks/Sharia Rural Banks	- SE BI No.6/34/DPBPR concerning Certification Agencies for Rural Banks.
	5.	- Restrictions of Rupiah Transactions and Loans Provision in Foreign Currency by Banks	- PBI No.7/14/PBI/2005 dated 14 June 2005 concerning Restrictions of Rupiah Transactions and Loans Provision in Foreign Currency by Banks.
	6.	- National Clearing System	- PBI No.7/18/PBI/2005 dated 22 July 2005 concerning National Clearing System of Bank Indonesia. - PBI No.12/5/PBI/2010 dated 12 March 2010 concerning Amendment to PBI No.7/18/PBI/2005 dated 22 July 2005 concerning National Clearing System of Bank Indonesia.
	7.	- Real Time Gross Settlement	- PBI No.10/6/PBI/2008 dated 18 February 2008 concerning Real Time Gross Settlement of Bank Indonesia.
	8.	- Certificates of BI	- PBI No.12/11/PBI/2010 dated 2 July 2010 concerning Monetary Operations. - PBI No.14/5/PBI/2012 dated 8 June 2012 concerning Amendment to PBI No.12/11/PBI/2010 dated 2 July 2010 concerning Monetary Operations.
			- PBI No.15/15/PBI/2013 dated 27 August 2013 concerning the Second Amendment to PBI No.12/11/PBI/2010 dated 2 July 2010 concerning Monetary Operations.
	9.	- Certificates of Sharia BI	- PBI No.16/12/PBI/2014 dated 24 July 2014 concerning Sharia Monetary Operation.
	10.	- Government Securities	- PBI No.10/13/PBI/2008 dated 21 August 2008 concerning Auction and Administration of Government Securities. - PBI No.15/9/PBI/2013 dated 30 October 2013 concerning Amendment to PBI No.10/13/PBI/2008 dated 21 August 2008 concerning Auction and Administration of Government Securities.

		Topic	Regulation Number
			- SE BI No.11/32/DPM dated 7 December 2009 concerning the Procedure of Government Securities Auctions and the Administration of Government Securities.
	11.	- Bank Secrecy	- Law No. 10 Year 1998. - PBI No.2/19/PBI/2000 dated 7 September 2000 concerning Requirements and Procedures for Providing Instructions or Written Permission to Disclose Bank Secrecy.
	12.	- Human Resources Development of Banking	- PBI No.5/14/PBI/2003 dated 23 July 2003 concerning Requirements for Provision of Education and Training Funds for the Development of Human Resources.
	13.	- Banking Mediation	- PBI No.8/5/PBI/2006 concerning Banking Mediation. - PBI No.10/1/PBI/2008 dated 30 January 2008 concerning Amendment to PBI No.8/5/PBI/2006 concerning Banking Mediation. - SE BI No.8/14/DPNP dated 1 June 2006 concerning Banking Mediation.
	14.	- Debtors Information System	- PBI No.9/14/PBI/2007 dated 30 November 2007 concerning Debtors Information System. - SE BI No.10/47/DPNP dated 23 December 2008 concerning Debtors Information System. - PBI No.15/1/PBI/2013 dated 18 February 2013 concerning Credit Information Management Agency. - SE BI No.15/49/DPKL dated 5 December 2013 concerning Credit Information Management Agency.
	15.	- Guidelines for Accounting of Indonesian Banking for Conventional Commercial Banks	- SE BI No.11/4/DPNP dated 27 January 2009 concerning Implementation of Guidelines for Accounting of Indonesian Banking. - SE BI No.11/33/DPNP dated 8 December 2009 concerning Amendment to SE BI No.11/4/DPNP dated 27 January 2009 concerning Implementation of Guidelines for Accounting of Indonesian Banking.

		Topic	Regulation Number
	16.	- Guidelines for Accounting of Sharia Banking for Sharia Commercial Banks and Sharia Business Units	- SE BI No.15/26/DPbS dated 10 July 2013 concerning Implementation of Guidelines for Accounting of Indonesian Sharia Banking. Revoking SE BI No.5/26/BPS.
	17.	- Determination on the Utilization of Financial Accounting Standards for Rural Banks	- SE BI No.11/37/DKBU dated 31 December 2009 concerning Determination on the Utilization of Financial Accounting Standards for Rural Banks.
	18.	- Information Transparency for Prime Lending Rate	- SE BI No.13/5/DPNP dated 8 February 2011 concerning Information Transparency for Prime Lending Rate. - SE BI No.15/1/DPNP dated 15 January 2013 concerning Information Transparency for Prime Lending Rate.
	19.	- Rating Agency and Ratings Recognized by BI	- SE BI No.13/31/DPNP dated 22 December 2012 concerning Rating Agency and Ratings Recognized by Bank Indonesia.
	20.	- Special Treatment of Bank Credit to Certain Areas in Indonesia Affected by Natural Disaster	- PBI No.8/15/PBI/2006 dated 5 October 2006 concerning Special Treatment of Bank Credit to Certain Areas in Indonesia Affected by Natural Disaster.
J.	**Bank Reports**		
	1.	- Commercial Banks Reports	- 17 March 2011 concerning Amendment to PBI No.5/26/PBI/2003 regarding Monthly Reports of Sharia Commercial Banks. - SE BI No.13/15/DPbS dated 30 May 2011 concerning Monthly Reports of Sharia Rural Banks. - SE BI No.13/30/DPNP dated 16 December 2011 concerning the Third Amendment to SE No.3/30/DPNP dated 14 December 2011 concerning Commercial Banks Quarterly and Monthly Publication Financial Reports and Certain Reports Submitted to Bank Indonesia.

		Topic	Regulation Number
			- PBI No.13/12/2011 dated PBI No.13/19/PBI/2011 dated 22 September 2011 concerning Amendment to PBI No.8/12/PBI/2006 concerning Periodic Reports of Commercial Banks. - PBI No.13/8/PBI/2011 dated 4 February 2011 concerning Daily Reports of Commercial Banks. - SE BI No.14/8/DPNP dated 6 March 2012 concerning the Second Amendment to SE BI No.8/15/DPNP dated 12 July 2006 regarding Periodic Reports of Commercial Banks. - PBI No.14/12/PBI/2012 dated 15 October 2012 concerning Reports of Commercial Banks Head Offices. - SE BI No.14/31/DPNP dated 31 October 2012 concerning Reports of Commercial Banks Head Offices. SE BI No.14/35/DPNP dated 10 December 2012 concerning Annual Reports of Commercial Banks and Certain Annual Reports Submitted to Bank Indonesia. - SE BI No.15/14/DPNP dated 24 April 2013 concerning the Third Amendment to SE BI No.8/15/DPNP dated 12 July 2006 regarding Periodic Reports of Commercial Banks. Revoking Form 9a and 14 from SE BI No.8/19/DPNP. - SE BI No.15/48/DSta dated 2 December 2013 concerning the Second Amendment to SE BI No.13/3/DPM dated 14 February 2011 regarding Daily Reports of Commercial Banks. - SE BI No.15/52/DSta dated 30 December 2013 concerning the Third Amendment to SE BI No.13/3/DPM dated 14 February 2011 regarding Daily Reports of Commercial Banks.

		Topic	Regulation Number
	2.	- Reports of BPR	- SE BI No.12/15/DKBU dated 11 June 2010 concerning the Second Amendment to SE BI No.8/7/DPBPR dated 23 February 2006 concerning Monthly Reports of Rural Banks. - SE BI No.15/28/DPbS dated 30 May 2011 concerning Monthly Reports of Sharia Rural Banks. - SE BI No.15/20/DKBU dated 22 May 2013 concerning Monthly Reports of BPR. Revoking SE BI No.8/7/DPBPR dated 23 February 2006 and SE BI No.12/15/DKBU dated 11 June 2010; Provision of item VII and VIIIA revised by SE BI No.15/39/DPNP dated 17 September 2013. - SE BI No.15/29/DKBU dated 31 July 2013 concerning Annual Reports and Financial Statements of BPR. Revoking SE BI No.8/30/DPBPR; Provision of Item III revised by SE BI No.15/43/DPNP dated 21 October 2013. - SE BI No.15/39/DPNP dated 17 September 2013 concerning Amendment to SE BI No.15/20/DKBU dated 22 May 2013 regarding Monthly Reports of BPR. Amending provisions in item VII and VIIIA from SE BI No.15/29/DKBU. - SE BI No.15/43/DPNP dated 21 October 2013 concerning Amendment to SE BI No.15/29/DKBU dated 31 July 2013 concerning Annual Reports and Publication Financial Reports of Rural Banks.


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BAB 7

OTHERS

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VII. OTHERS
A. Banking Popular Terminology

Table 7.1: Banking Popular Terminology

Terminology	Description
Collateral	Collaterals provided/submitted by debtors to banks in the context of provisions of credit facilities or financing.
Automated Teller Machine (ATM)	Machines activated by a computer system using the bank coded magnetic cards. Through the machines customers can deposit money for savings, take cash, make inter-accounts fund transfer, and other routine transactions
Bilyet	Forms, notes and other written evidences that can prove the transactions containing information or instruction to pay.
Check (Cheque)	Written orders from customers to banks for withdrawing a certain amount of their funds on their behalf or bearers.
National Black List	A compilation list constitutes of Bank Individual Black List in Bank Indonesia which data is derived from the National Black List Management Office or access by banks.
Bank Guarantee	Lease Contracts/Agreements between the owners of leased objects including ownership of the payment Guarantees given to the recipients of the guarantees if the insured parties do not meet their obligations.
Debit Card	Cards issued by banks that can be used to pay a transaction and/or withdraw an amount of fund charged to the account of the concerned cardholder using PIN (Personal Identification Number).
Credit Card	Cards issued by banks or credit card provider companies giving the right to individuals that meet certain requirements, whose names are specified in the cards, to use them as a credit payment instrument for acquiring goods or services, or for withdrawing cash within the credit limit as set by banks or companies of the credit card providers.
Safe Deposit Box	Service of rental deposit boxes for valuable assets or commercial papers designed specifically from steel and placed in a vault that is solid/strong, burglarproof and fireproof vault, to assure the security of the properties kept and to give a sense of secured for the users.

Terminology	Description
Deposit Insurance Agency	A legal entity that provide services in guaranteeing deposits of the bank customers.
PIN (Personal Identification Number)	Confidential numbers given to cardholders of (credit cards, ATM cards, debit cards etc.) in which the code number can be given by banks or financing companies or self-determined by the cardholders.
Transfer (Remittance)	Services to send money from one account owner to the other account owner or the same account owner, from one city to other city or to the same city, in rupiah currency or foreign currencies.
Not-pass List	A list administered by *OJK* containing parties that did not pass the fit and proper test given to shareholders, controlling shareholders, members of the BOC, members of the board of directors, and executive officers.
Customer Due Diligence (CDD)	Activities of identifying, verifying, and monitoring conducted by Banks to ensure that the transaction is in accordance with the concerned Customer profile. The obligation of performing CDD shall be done at the time: a. Making business relation with prospective customers; b. Making business relations with WIC (Walk-in Customers); c. Banks are having doubts to the accuracy of information given by Customers, Endorsees and/ or Beneficial Owners; or d. There are unusual financial transactions related to money laundering and/or terrorism funding.
Enhanced Due Diligence (EDD)	A more depth action of CDD conducted by banks when having business relations customers classified as high risks including Politically Exposed Person toward the possibility of money laundering and terrorism funding.
Politically Exposed Person (PEP)	Persons trusted with public authorities among others Government Officials as referred to in the legislation that governs the State Administrators and/or persons listed as members of political parties who have influence to the policy and operational of political parties, both Indonesian citizens and foreign citizens.
Walk In Customer (WIC)	Users of bank services who do not have accounts in the bank in question, not included in the parties that getting orders or assignments from bank customers to make transactions on the interest of the customers.

B. Bank Roles in the Prevention and Eradication of Money Laundering Crimes based on Law of the Republic of Indonesia No. 8 Year 2010

Table 7.2: Bank Roles in the Prevention and Eradication of Money Laundering Crimes

1.	**Money Laundering:** Money laundering is an act of placing, transferring, shifting, spending, granting, depositing, taking out to foreign countries, altering the form, exchanging it with other currencies or commercial papers or other actions to the assets known or suspected to be the proceeds of criminal offenses with the intention to hide, disguise the source of the assets, so that they resemble legit assets.
2.	**Money Laundering Criminal Offense:** Each person placing, transferring, shifting, spending, granting, depositing, taking out to foreign countries, altering the form, exchanging with other currencies or commercial papers or other actions to the assets so that they resemble legit assets known or suspected as proceeds of crimes with the intention to hide or disguise the source of the assets. Individuals who conduct money laundering criminal offenses can be charged with imprisonment of 20 years maximum and penalty Rp10 billion maximum.
3.	**Suspicious Financial Transaction:** a. Financial transactions deviating from the profiles, characteristics, or pattern of transactions of the concerned service users; b. Financial transactions by service users suspected to be conducted with the intention to avoid reporting the concerned transactions that is required from the reporting parties pursuant to the Law RI No. 8 Year 2010; c. Financial transactions made or cancelled by using the assets allegedly derived from the proceeds of criminal offenses; or d. Financial transactions requested by the Central of Reporting and Analysis of Financial Transactions.
4.	**Proceeds of Criminal Offenses:** Proceeds of Criminal Offenses are assets acquired from criminal offenses: corruption; briberies; narcotics; psychotropic; labor smuggling; migrant smuggling; in the field of banking; in capital market; in insurance; customs; human trafficking; illegal weapon trafficking; kidnapping; terrorism; theft; embezzlement; scamming; counterfeiting money; gambling; prostitution; in the field of tax; forestry; environment; marine and fishery; or other criminal offenses punishable by imprisonment of 4 years or more conducted in the Unitary

	State of the RI or outside the territory of the NKRI and the criminal offenses also constitute crimes in the Indonesian Law.
5.	**The Reporting Parties include:** a. Financial Service Providers: banks, financing companies, insurance companies and insurance brokerage companies, financial institution of pension funds, stock exchange companies, investment managers, custodians, trustees, postal service as demand deposits service providers, foreign exchange traders, operators of card payment, e-money and/or e-wallet operators, cooperatives conducting lending activities, pawnbrokers, commodity futures trading companies, or money-delivery operators. b. Other suppliers/providers of goods and/services: property companies/agencies, motor vehicles dealers, gem/gold jewelers, and art and antique dealers, auctioneers.
6.	**Application of Know Your Consumer Principle:** Reporting parties should apply Know Your Consumer (Service User) Principle set by each Regulatory and Supervisory Agency. The obligation to implement the principle of Know Your Consumers shall be conducted when: a. Performing business relations with the Consumers; b. There are financial transactions with rupiah currency and/or foreign currencies which value no less than or equal to Rp100 million; c. There are Suspicious Financial Transactions (TKM) related to Money Laundering and Terrorism Funding criminal offenses; or d. The reporting parties doubting the accuracy of the information reported by the Consumers (Service Users). The principle of knowing your consumers/service users at least includes: a. Identification of the Consumers b. Verification of the Consumers; and c. Transaction Monitoring of the Consumers. Each person making transactions with the reporting parties is obligated to provide the correct identity and information required by the reporting parties and at least containing personal identity, source of funds, and purpose of transactions by filling out the forms provided by the reporting parties and enclosing the supporting documents.
7.	**Obligation to Report by the Financial Service Providers:** 1. Financial Service Providers (*PJK*) are required to submit reports to PPATK, for the following matters: a. Suspicious financial transactions; b. Financial transactions paid by cash in the amount of no less than Rp500 million or by equivalent foreign currency, made both in one transaction and several transactions in 1 working day; and/or c. Financial transaction by fund transfer from and to foreign countries.

	2. Submission of Suspicious Financial Transaction report shall be conducted no later than 3 working days since the PJK is aware of the presence of Suspicious Transaction Report (STR) elements. 3. The submission of financial transaction report made by cash shall be conducted no later than 14 working days as of the date of transaction. 4. The obligation of reporting by a bank PJK is exempted from the regulation of bank secrecy.
8.	**Implementation of Reporting Obligation:** 1. Implementation of reporting obligation by the reporting party shall be exempted from the regulation on secrecy/ confidentiality applies to the concerned reporting party. 2. Unless there is an element for abusing of authority, the reporting parties, officials, and their employees may not be prosecuted, neither for civil nor criminal lawsuits in the implementation of reporting obligation pursuant to this Law.
9.	**Protection for Reporting Parties and Witnesses:** 1. Officials and employees of PPATK, investigators, public prosecutors, or judges are obliged to keep the confidentiality of the reporting parties and witnesses. 2. Every person who reports the alleged money laundering crimes shall be given special protection by the State against possible threats that might endanger the person, his/her life and/or assets, including his/her family. 3. Every person who testifies in the investigation of money laundering criminal offenses shall be given special protection by the State against possible threats that might endanger the person, his/her life and/or assets, including his/her family. 4. The reporting party and/or the witness may not be prosecuted, neither for civil nor criminal lawsuit, for the report and/or testimony given by the person in question. 5. Witnesses that provide false information under oath will be prosecuted in accordance with the Book of Criminal Justice Act.
10.	Compliance Supervision for the obligation on reporting for the reporting parties shall be conducted by the Regulatory and Supervisory Agency and/or PPATK. In the event the supervision on compliance with the obligation of reporting is not done or there is still no Regulatory and Supervisory Agency, the supervision on compliance with the reporting obligation shall be conducted by PPATK.
11.	In the event the Regulatory and Supervisory Agency finds Suspicious Financial Transactions not reported by the reporting parties to PPATK, the Regulatory and Supervisory Agency shall immediately report the finding to PPATK.

12.	The Regulatory and Supervisory Agency is obliged to inform PPATK on any activity or transaction of the reporting party known or allegedly known made both directly and indirectly with the objective to conduct money laundering crimes.
13.	Financial service providers are obligated to discontinue the business relations with the consumers, if: a. Consumers refuse to comply with the principle of know your consumer; or b. Financial service providers have doubts the correctness of the information submitted by the consumers. Further, the financial service providers must report to PPATK regarding any action of business relation termination as suspicious financial transactions.
14.	Financial service providers can conduct transaction delays no later than 5 working days since the delay of transaction. The delay shall be done in the event the consumers: a. Make transactions allegedly using assets sourced from the proceeds of criminal offenses (as referred above); b. Have accounts to accommodate the wealth/assets sourced from the criminal offenses (as referred above); c. Known or allegedly known using false documents. The implementation of transaction delay shall be recorded in the minutes of meeting of transaction delay. The financial service providers are obligated to report the minutes of meeting of the transaction delay to PPATK by attaching the minutes of meeting of the transaction within a period of no later than 24 hours since the transaction is delayed. Further, PPATK is required to ensure that the implementation of the transaction delay is conducted in compliance with the RI Law No. 8 Year 2010. In the event the delay of transaction has been done until the fifth working days, the financial service providers have to decide whether to carry out the transaction or reject it.

C. Types of Agreements in the Activities of Sharia Banking Business

Table 7.3: Types of Agreements in the Activities of Sharia Banking Business

Agreement	Description
Mudharabah	A business cooperation contract between the first party (malik, shahibul mal, or a Sharia Banks) providing the entire capital and the second party ('amil, mudharib, or Customer) acting as the fund manager by sharing the business profits according to the agreement set forth in the Contract, while the losses will fully be borne by the Sharia Banks, unless the second party commit willful misconduct, negligence or violation to the agreement.
Musyarakah	A cooperation between two parties or more for a particular business where each party providing fund portion under a condition that the profits will be shared according to the agreement, while the losses will be borne by and according to the portion of fund of the respective party.
Murabahah	A financing agreement of an item by stating the purchase price to the buyer and the buyer pays the item at a higher price as the agreed profit.
Salam	A financing agreement of an item by way of ordering and paying the price in advance with certain agreed condition.
Istishna'	A financing agreement of items by way ordering the manufacture of certain goods with certain criteria and condition agreed between the one who makes the order or buyer (*mustashni'*) and the one who manufactures or the seller (*shani'*).
Ijarah	A fund provision agreement in order to transfer the right to use or benefits of goods or services based on lease transactions, without being followed by the transfer of ownership of the goods themselves.
Ijarah Muntahiyah Bit Tamlik (IMBT)	A fund provision agreement in order to transfer the right to use or benefits of goods or services based on lease transactions, with option of transfer of the goods ownership.
Qardh	A fund loan agreement to Customers under the condition that the Customers must return the funds received at the agreed time.
Wadiah	An agreement on goods or money deposits between the party who owns the goods or money and the party entrusted with the intention to keep the safety, security, and the integrity of the goods or money.

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