

Attachment to Bank Indonesia Circular Letter Number 11/33/DPNP dated 8 December 2009

**ADJUSTMENT TO
2008 INDONESIAN BANKING ACCOUNTING GUIDELINE (PAPI)**

CHAPTER III: General Explanation

2. Transitional Provisions

D. Estimate of Collective Value Impairment With Limited Historical Specific Loss Experience

1. Scope

- a. Implementation of this estimate is only applicable in the case of the impairment of financial asset in the form of Credit in:
 - 1) category of Loans and Receivables,
 - 2) category of Hold to Maturity, as well as
 - 3) category of Available For Salewhich is performed collectively (collective impairment).
- b. Implementation of this estimate can only be performed by certain banks that have limited condition as referred to in number 3.

2. Implementation

- a. As stipulated in PSAK 55 (2006 Revision) paragraph 63 and Application Guideline of PSAK 55 (2006 Revision) paragraph 102-105, evaluation of value impairment should be performed based on an estimation process that can produce as best as possible one loss value or range of loss value. The said estimate of collective impairment on a group of financial asset shall be based on historical losses that have been experienced by financial assets that have similar credit risk characteristics to the credit risk characteristics of the said financial asset group.

If a bank have no or insufficient historical specific loss experience, the bank can also use the experience of a peer group on similar financial asset group.

- b. In the event Bank has not been able to perform adequate estimation process and does not have adequate historical loss data to determine the

amount of collective impairment on Credit in accordance with the requirements in PSAK 55 and PAPI, the establishment of Allowance for Impairment Losses (CKPN) can use an estimate based on the stipulations of prevailing Bank Indonesia regulation concerning Assessment of Commercial Bank Earning Asset Quality. Reference to Bank Indonesia stipulations shall be made with the consideration that preparation of those stipulations has been based on an analysis of the banking condition in Indonesia concerning estimate of the amount of required provision that is based on probability of default and historical losses.

- c. Implementation of this estimate can be performed after bank has performed the process as stipulated in PSAK 55 (2006 Revision), namely:
 - 1) Bank should classify Credits that are going to be evaluated collectively; and
 - 2) Bank should periodically evaluate the availability of objective evidence concerning value impairment on the said Credits that is evaluated collectively.
- d. The establishment of CKPN for collective Credits as referred to in number b above shall be performed by referring to the establishment of general reserve and special reserve as stipulated in Bank Indonesia regulation concerning Assessment of Commercial Bank Asset Quality, which are as follows:
 - 1) 1% on Credits that fulfill the Current quality, except for part of Credits that is guaranteed with cash collaterals in accordance with the said Bank Indonesia regulation;
 - 2) 5% on Credits that fulfill the Special Mention quality, after being reduced by the collateral value in accordance with the said Bank Indonesia regulation;
 - 3) 15% on Credits that fulfill the Sub-standard quality, after being reduced by the collateral value in accordance with the said Bank Indonesia regulation;

- 4) 50% on Credits that fulfill the Doubtful quality, after being reduced by the collateral value in accordance with the said Bank Indonesia regulation; and/or
 - 5) 100% on Credits that fulfill the Loss quality, after being reduced by the collateral value in accordance with the said Bank Indonesia regulation.
- e. The calculation of CKPN as referred in letter d above is performed based on book value based on amortized cost.

3. **Limited Condition**

- a. Referring to PSAK 55 (2006 Revision), bank can implement estimate of the collective Credit value impairment as referred to in number 2 letter d above as long as it is in the following conditions:
 - 1) Bank does not have or lacks of data concerning specific and reliable historical loss experience in determining the amount of collective Credit value impairment; and
 - 2) There is no data on historical loss experience from a peer group on similar Credit group as a basis to determine the amount of collective Credit value impairment.
- b. Bank, which does not face conditions as referred to in letter a above, is not allowed to use the estimate of collective Credit value impairment as referred to in number 2 letter d above.
- c. Bank should conduct self-assessment on whether such conditions as referred to in letter a above are in existence or not, which will enable the bank to implement estimate of collective Credit value impairment as referred to in number 2 letter d above.
- d. Bank should prepare and document the following matters:
 - 1) Result of the self-assessment as referred to in letter c in order to implement the estimate of collective Credit value impairment;
 - 2) the action plan that contains steps that shall be performed to obtain data concerning specific loss experience or historical losses of a peer group on collective Credits in accordance with the requirements of PSAK No. 55 (2006 Revision), by observing the time limit as referred to in number 4; and
 - 3) progress of execution of the action plan, at least quarterly.

4. **Period for Implementation of Estimation**

Estimate of Credit collective impairment as referred to in number 2 letter d can be implemented at the latest until 31 December 2011. As of 1 January 2012 bank should measure value impairment and establish CKPN on collective Credits by using data of specific historical loss experience or historical losses from a peer group on collective Credits, while yet observing stipulations in Technical Bulletin No. 4 concerning Transitional Provisions on First Implementation of PSAK 50 (2006 Revision) and PSAK 55 (2006 Revision) issued by the Indonesian Institute of Accountants.

5. **Disclosure**

Bank that implements the estimate of Credit collective impairment as referred to in number 2 above should disclose this matter in the accounting policies at the Notes To The Financial Statement.