

MINIMUM CAPITAL ADEQUACY RATIO OF COMMERCIAL BANK

(Regulation of the Financial Service Authorities Number 11/POJK.03/2016 dated January 29, 2016) [Continued from Business News No. 8898 page 18-48]

II. ARTICLE BY ARTICLE

Article 1

Sufficiently clear

Article 2

Paragraph (1)

Risk profile means the risk profile of bank as governed in the provision on the rating of solvency rate of bank.

Paragraph (2)

KPMM ratio is the ratio of capital of bank to ATMR.

Paragraph (3) up to Paragraph (5)

Sufficiently clear

Article 3

Paragraph (1)

The establishment of additional capital other than the minimum capital as meant in this paragraph functions as buffer in the case of financial and economic crisis being potential to affect the stability of financial system.

Paragraph (2) and Paragraph (3)

Sufficiently clear

Paragraph (4)

The authorized authorities mean Bank Indonesia.

Paragraph (5)

Sufficiently clear

Paragraph (6)

The authorized authorities mean Bank Indonesia.

Paragraph (7)

Sufficiently clear

Paragraph (8)

In the case of branch office of overseas bank, the additional capital as meant in paragraph (3) is fulfilled from part of the operating funds placed in CEMA.

Paragraph (9)

Sufficiently clear

Article 4**Paragraph (1)**

Classification of BUKU refers to the provision ruling business activity and office network on the basis of core capital of bank.

Paragraph (2) and Paragraph (3)

Sufficiently clear

Article 5**Paragraph (1)**

Sufficiently clear

Paragraph (2)

The authorized authorities mean Bank Indonesia.

Article 6**Paragraph (1) up to Paragraph (5)**

Sufficiently clear

Paragraph (6)

The authorized authorities mean Bank Indonesia.

Article 7

Sufficiently clear

Article 8**Paragraph (1)**

Distribution of profit is among others the payment of dividend and bonus to executives.

Paragraph (2) and Paragraph (3)

Sufficiently clear

Paragraph (4)

The limit of the profit distribution is determined by considering factors such as the shortfall of the fulfillment of additional capital, financial condition of bank, projection of the capability of bank to increase capital and business expansion trend of bank.

Article 9

Sufficiently clear

Article 10**Paragraph (1)****Letter a**

The operating funds mean the placement resulting from head office of bank in branch office of overseas

bank after being subtracted by the placement resulting from branch office of overseas bank in:

1. head office;
2. offices of the said bank abroad ; and
3. other office such as sister company of the overseas bank,

Already declared as operating funds (declared operating funds) and yet to be recorded anytime in Indonesia as long as the branch office of the overseas bank operates in Indonesia.

The operating funds exclude component of inter-bank account, which does not constitute net funds such as interest rate liabilities and other liabilities as well as claim on interest and other claims.

The placement covers the placement in the whole financial assets in accordance with the financial accounting standard.

Letter b

Detained profit is net profit balance after being subtracted by tax by the head office thereof, which is decided to detain in branch office in Indonesia .

Last year profit is the whole last year net profit after being subtracted by tax and having utilization not yet stipulated by the head office.

In the case of bank having last year loss balance, the whole loss becomes offsetting account of capital.

Letter c

Current year profit is profit earned in the current book year after being subtracted by the estimated tax.

In the case of bank suffering from loss in the current book year, the whole loss becomes offsetting account of capital.

Letter d

General reserves are reserves established from the provision of profit balance after being subtracted by tax and securing approval from the head office as general reserves.

Letter e

Surplus balance of fixed asset revaluation is a difference of the revaluation of fixed assets belonging to the bank.

The recognition of the surplus of fixed asset revaluation refers to the financial accounting standard with regards to fixed assets.

Letter f

The definition of financial assets classified into the group of available for sales refers to the financial accounting standard with regards to financial instrument.

Letter g

Objective reserves are reserves established from the provision of profit balance after being subtracted by tax for specified purposes and already securing approval from the head office.

The use of objective reserves is prioritized to offset the loss of bank in the case of general reserves being not sufficient to offset the loss of the bank.

Letter h

Sufficiently clear

Paragraph (2)

Sufficiently clear

Paragraph (3)

The stipulation of the declared operating funds refers to the provision on overseas loan.

Article 11**Paragraph (1)****Letter a****Point 1**

The paid-up capital is common stocks in accordance with the provision of legislation and financial accounting standard.

Point 2

Sufficiently clear

Letter b

Components of additional core capital cover:

1. debt instrument having capital characteristic, subordinate, no having period, and the payment of yield unable to accumulate (perpetual non-cumulative subordinated debt);
2. perpetual non-cumulative preference shares with or without call option;
3. hybrid instrument not having period and the payment of yield unable to accumulate (perpetual dan non-cumulative); and
4. agio or disagio resulting from the issuance of instrument categorized as additional core capital.

Paragraph (2) and Paragraph (3)

Sufficiently clear

Article 12

Letter a

Sufficiently clear

Letter b

The core capital instrument is subordinate to among others holders of instrument matching criteria for additional core capital, complementary capital, depositors and creditors.

Letter c

The definition of permanent feature includes among others the absence of expectation that issuer is to re-purchase or other activities potential to grant the expectation.

Letter d dan Letter e

Sufficiently clear

Letter f

The category "protected or guaranteed by bank or subsidiary" includes the protection or guarantee received by other party but executed through bank or subsidiary, such as premium or fee in the framework of the guaranty is paid by bank or subsidiary.

Letter g and Letter h

Sufficiently clear

Article 13**Letter a**

Sufficiently clear

Letter b

The re-purchase of share already recognized as component of the paid-up capital is intended to become share stock in the framework of employee stock option or management stock option program or avoiding take over.

Letter c

The legislation in force is among others Law Number 40 Year 2007 on Limited Liability Company and other capital market legislation.

Letter d and Letter e

Sufficiently clear

Article 14**Paragraph (1)****Letter a****Point 1**

Agio is a positive difference of capital remittance received by bank upon the issuance of shares because the market price of share is higher than the nominal price.

Point 2

Contribution capital is capital obtained again from stock contribution of the said bank, including difference between the recorded value and the selling price in the case of the share being sold.

Point 3

General reserves are reserves established from the provision of profit balance after being subtracted by tax and securing approval from shareholder general meeting or member meeting as general reserves.

Point 4

The after-tax last year profit covers:

- a) last year profit, namely the whole last year net-profit after being subtracted by tax and having utilization not yet stipulated by shareholder general meeting or member meeting; and
- b) retained profit (retained earnings), namely balance of net profit after being subtracted by tax decided to not distribute by shareholder general meeting or member meeting.

Point 5

Current year profit is profit obtained in the current book year after being subtracted by the estimated tax.

Point 6

Positive difference of financial statement elaboration is a difference of exchange rate arising from the elaboration of financial statement of branch office of bank and/or subsidiary abroad as governed in the financial accounting standard.

Point 7

In the case of result of study by the Financial Service Authorities finding that prospective shareholder or the capital remittance funds fails to meet requirement as shareholder or capital, the funds may not be recognized as capital component.

Point 8

Warrant means stock issued by a company, which grants a right to stockholder to order the stock from the company at a specified price and period.

Point 9

Sufficiently clear

Point 10

The definition of financial assets categorized as the group of available for sales refers to the financial accounting standard on financial instrument.

Point 11

Surplus balance of fixed asset revaluation is a difference of the revaluation of fixed assets belonging to bank.

The recognition of surplus balance of fixed asset revaluation follows the financial accounting standard on fixed asset.

Letter b

Point 1

Disagio is a negative difference of the capital remittance received by bank upon the issuance of share because the market price of share is lower than the nominal price.

Point 2

Last year loss is the whole loss booked by bank in last year.

Point 3

Current year loss is the whole loss booked by bank in the current book year.

Point 4

Negative difference of the financial statement elaboration is a difference of the exchange rate arising from the elaboration of financial statement of branch office of bank and/or subsidiary abroad as governed in the financial accounting standard on the elaboration of financial statement in foreign currency.

Point 5

Letter a)

The definition of financial assets categorized as the group of available for sales refers to the financial accounting standard on financial instrument.

Letter b)

The definition of financial assets categorized as the group of available for sales refers to the financial accounting standard on financial instrument.

Point 6

The negative difference between PPA on productive assets and reserves of loss arising from the decreasing value of financial assets on productive assets is a negative difference between the total PPA (general reserves and special reserves on the whole productive assets) which have to be established in accordance with the provision on the evaluation of quality of assets of bank and the total reserves of loss arising from the decreasing value of financial assets (impairment) on the whole productive assets (individually or collectively) in accordance with the financial accounting standard.

Point 7

The negative difference comes because of the amount of the adjustment to result of valuation (mark to market) of financial instrument in Trading Book considering factors, among other less liquid position exceeding the required adjustment amount in accordance with the financial accounting standard on the measuring of financial instrument measured on the basis of the rational value r.

Pursuant to the Indonesia Banking Accounting Guidance, the adjustment to result of the valuation of financial instrument will directly subtract or supplement the recorded value of financial instrument.

Point 8

Non Productive PPA is reserves yet to be established for non productive assets in accordance with the provision ruling the evaluation of quality of assets of bank.

Paragraph (2)**Letter a**

It occurs if bank stipulates to measure the financial liabilities at rational value through profit loss (fair value option) in accordance with the financial accounting standard.

Letter b

Profit on the sales of assets in securitization transaction (gain on sale)" is profit obtained by bank as originator of the sales of assets in the securitization transaction, which results from the capitalization of the future income (expected future margin) or the capitalization of income from the provision of service (servicing income).

Article 15

Paragraph (1)

Letter a and Letter b

Sufficiently clear

Letter c

In the framework of securing supervisor approval, bank may not assume or create market expectation that the supervisor approval is to be granted.

Letter d

Step-up feature is a feature promising the increase in interest rate or yield if the buying option cannot be executed in the stipulated period.

Letter e

The Financial Service Authorities is authorized to stipulate condition wherein bank has business sustainability potential to be affected (point of non-viability) and order the bank to convert the instrument of additional core capital into common stock or conduct write down.

The write down mechanism includes among others the reduction of value of liabilities, the reduction of value of liabilities upon the execution of buying option and the reduction of the yield payment partly or wholly.

The documentation of the issuance is obliged to contain clause certifying that the instrument of additional core capital is convertible into common stock or subject to write down in the case of order from the Financial Service Authorities.

Letter f

The instrument of additional core capital is subordinate to among others depositors, creditors and holders of instrument matching complementary capital criteria.

Letter g

In the case of the yield being not paid, there is no reason for the restriction of the payment of dividend or coupon for other instrument, except common stock.

Letter h

The category protected or guaranteed by bank or subsidiary includes protection or guarantee received by other party but executed through bank or subsidiary, such as premium or fee in the framework of the guaranty is paid by bank or subsidiary.

Letter i

Dividend or yield sensitive to credit risk is the rate of dividend or yield stipulated on the basis of the rating of credit risk of the issuer bank.

Letter j

Even though call option is available, bank is not permitted to prepare specified criteria or condition enabling the execution of call option.

Letter k and Letter l

Sufficiently clear

Letter m

Feature impeding the future capital addition process is among others requirement requiring bank to grant compensation to investor if the bank issues new capital instrument at a lower price.

Letter n

Sufficiently clear

Paragraph (2)**Letter a and Letter b**

Sufficiently clear

Letter c

The same or better quality is capital instrument minimally matching the requirement as the additional core-capital component.

Article 16

Non controller interest means the non controller interest as meant in the financial accounting standard.

Article 17

Paragraph (1)

Letter a

The deferred tax is subtracted 100% (one hundred percent) for the calculation of last year and current-year deferred tax.

The deferred tax constitutes transaction arising from the application of the financial accounting standard on income tax accounting.

In the calculation of individual KPMM, the excluded deferred tax is as much as the positive difference of asset of the deferred tax, subtracted by the deferred tax liabilities.

In the case of negative difference, the excluded deferred tax is nil.

In the calculation of consolidated KPMM, asset of the deferred tax of a company may not be mutually abolishing with deferred tax liabilities of other company in business group of bank.

In relations thereto, the influence of the deferred tax in the calculation of consolidated KPMM has to be included and excluded separately for each entity.

With the exclusion of the impact of deferred tax from the calculation of the main core capital, asset of deferred tax is not included into the calculation of ATMR.

Letter b

The definition of goodwill refers to the financial accounting standard on business combination.

Goodwill is included as offsetting account in the calculation of minimum capital of bank individually or in a consolidated manner.

Letter c

The definition of intangible assets refers to the financial accounting standard on intangible asset.

The whole intangible assets are included as offsetting account of the main core capital.

Example of intangible assets is among others copyright, patent right and other intellectual property right, including software application developed by bank.

Letter d

The included participation value is the book value recorded in the financial position report (balance).

Letter e

The shortfall of capital is only included as offsetting account in the calculation of consolidated KPMM ratio.

The shortfall of capital of insurance firm from minimum RBC is counted in the case of the company being unable to fulfill minimum RBC up to the period stipulated by the Financial Service Authorities.

Letter f

Treatment of securitization exposure as offsetting account of capital or included as ATMR refers to the provision on asset securitization.

Securitization exposure is supporting credit (credit enhancement), liquidity facility (liquidity support) and asset backed securities.

Letter g

Sufficiently clear

Paragraph (2)

Sufficiently clear

Article 18

Sufficiently clear

Article 19**Paragraph (1)****Letter a and Letter b**

Sufficiently clear

Letter c

The Financial Service Authorities is authorized to stipulate condition wherein bank has business sustain-

ability potential to be affected (point of non-viability) and order the bank to convert the instrument of additional core capital into common stock or conduct write down.

The write down mechanism includes among others the reduction of value of liabilities, the reduction of value of liabilities upon the execution of buying option and the reduction of the yield payment partly or wholly.

The documentation of the issuance is obliged to contain clause certifying that the instrument of additional core capital is convertible into common stock or subject to write down in the case of order from the Financial Service Authorities.

Letter d

Complementary capital instrument is subordinate to among others depositor and creditor.

Letter e

Sufficiently clear

Letter f

The category protected or guaranteed by bank or subsidiary includes protection or guarantee received by other party but executed through bank or subsidiary, such as premium or fee in the framework of the guaranty is paid by bank or subsidiary.

Letter g

Dividend or yield sensitive to credit risk is the rate of dividend or yield stipulated on the basis of the rating of credit risk of the issuer bank.

Letter h

Step-up Feature means a feature promising the increase in the interest rate or yield if the call option is not executed in the stipulated period.

Letter i

Even though call option is available, bank is not permitted to prepare specified criteria or condition enabling the execution of call option.

Letter j up to Letter m

Sufficiently clear

Paragraph (2)**Letter a**

Sufficiently clear

Letter b**Point 1**

The same or better quality is capital instrument minimally matching requirement as complementary capital component.

Point 2

Limit of the complementary capital is counted by observing the whole available complementary capital instrument.

Example "Different amount":

The executed complementary capital is Rp500 million but upon the substitution, the core capital of bank changes so that the limit of the complementary core capital becomes Rp400 million at the maximum.

By the condition, bank may substitute complementary capital as much as Rp400 million.

Paragraph (3)

The straight-line method means the calculation of amortization proportionally.

Paragraph (4)

Amortization is counted on the basis of the value of capital instrument already including the reduction of settlement reserves (sinking fund).

Paragraph (5)**Example of amortization illustration:**

a. Bank issues subordinate bond with the period 10 (ten) years and having call option in the fifth year. In the

condition, bank is obliged to calculate the amortization as from the first year.

In the case of bank not executing the call option at the end of the fifth year, the subordinate bond may be included again into the calculation of KPMM by observing the required limit, including the obligation to include amortization as from the sixth year.

- b. Bank issues subordinate bond with the period 10 (ten) years and having call option after elapsing the fifth year. In the condition, the rest of the period of the instrument at the beginning of the issuance is 5 (five) years. Amortization has to be included by bank as from the first year.

After elapsing the fifth year up to maturing, bank is unable to calculate again the subordinate bond as complementary capital even though the bank has not executed call option.

Article 20

Paragraph (1)

Letter a

Example of capital instrument in the form of share or other form that matches the requirement is:

1. preference share (which grants a right to shareholder to receive divided first than shareholder of other classification) cumulatively (cumulative preference share);
2. debt instrument, which has capital characteristic, is subordinate and cumulative and meet the whole requirements so that the instrument may be included into complementary capital component (cumulative subordinated debt); and
3. debt instrument having characteristic such as capital, which is automatically convertible into share without requirement after securing approval from the Financial Service Authorities (mandatory convertible bond).

The condition and value of the conversion must be stipulated upon the issuance with the amount in line with the market condition.

Letter b

Agio is a positive difference of capital remittance received by bank upon the issuance of complementary capital component because the market price of the capital instrument is higher than the nominal value.

Disagio is a negative difference of capital remittance received by bank upon the issuance of complementary capital instrument because the market value of the capital instrument is lower than the nominal value.

Letter c

The establishment of mandatory general reserves of PPA for productive assets refers to the provision ruling the evaluation of quality of bank assets.

Example:

Mandatory general reserves of PPA for productive assets are amounting to Rp15 million and ATMR of Bank for credit risk is Rp1 billion.

General reserves of PPA for productive assets which may be included into complementary capital component are maximally 1.25% of Rp1 billion, namely Rp12.5 million.

In this case, the excess of general reserves amounting to Rp 2.5 million cannot be included into complementary capital component.

Letter d

Objective reserves are reserves established from the provision of profit balance after being subtracted by tax for specified purposes and already securing approval of shareholder general meeting or member meeting.

The use of objective reserves is prioritized to offset the loss of bank in the case of general reserves being not sufficient to offset the loss of bank.

Paragraph (2)

The excess of general reserves of PPA for productive assets in accordance with example in elucidation about paragraph (1) letter c, namely Rp2.5 million, becomes an offsetting account of the calculation of ATMR for credit risk.

Article 21

Sufficiently clear

Article 22

Paragraph (1)

Letter a

The repurchase of instrument of the main core capital, additional core capital or complementary capital already recognized as capital component of bank becomes offsetting account of the respective capital

components.

Example 1:

Included into the repurchase of capital instrument yet to be subtracted from the main core capital is among others the repurchase of capital instrument already issued by bank directly or indirectly.

Example 2:

Included into the repurchase of capital instrument yet to be subtracted from the additional core capital is among other execution of call option.

Letter b

The placement of funds in debt instrument already recognized as other capital component of bank becomes offsetting account of capital for bank placing funds in capital component having the same and/or better quality.

Example 1:

Bank A has complementary capital component amounting to Rp100 billion.

Bank A buys subordinate bond issued by Bank B, which constitutes complementary capital component of Bank B, amounting to Rp20 billion.

In the condition, complementary capital of Bank A is to be subtracted by subordinate bond purchased by Bank A from Bank B, namely:

$$\text{Rp100 billion} - \text{Rp20 billion} = \text{Rp80 billion}$$

The Rp 80 billion amount is subsequently recognized as complementary capital by observing the tolerable limit of complementary capital.

Example 2:

Bank A has complementary capital component amounting to Rp10 billion and the main core capital as much as Rp 100 billion.

Bank A purchases subordinate bond issued by Bank B, which constitutes complementary capital component of Bank B as much as Rp20 billion.

In the condition, complementary capital of Bank B is to be subtracted by subordinate bond bought by Bank A from Bank B, namely:

$$\text{Rp10 billion} - \text{Rp20 billion} = (\text{Rp10 billion})$$

The Rp10 billion amount is subsequently to be subtracted to the main core capital of Bank A.

Example 3:

Bank A only has the main core capital component as much as Rp100 billion and has no other capital component.

Bank A purchases subordinate bond issued by Bank B, which constitutes complementary capital component of Bank B, as much as Rp 20 billion.

In the condition, the main core capital of Bank A is to be subtracted by the subordinate load purchased by Bank A from Bank B, namely:

$\text{Rp100 billion} - \text{Rp20 billion} = \text{Rp80 billion}.$

Paragraph (2)

Sufficiently clear

Article 23

Sufficiently clear

Article 24**Paragraph (1)**

Sufficiently clear

Paragraph (2)

The total liabilities of bank are the total liabilities subtracted by the whole inter-office liabilities (head office and other branch office abroad).

The total liabilities of bank used as the basis for the stipulation of minimum CEMA are counted on the basis of the weekly average liabilities of the bank in the said month.

Example:

The average total liabilities as of the end of First Week, Second Week, Third Week and Fourth Week are respectively Rp10 trillion, Rp15 trillion, Rp10 trillion and Rp20 trillion. In relations thereto, the average total liabilities = $(\text{Rp10 trillion} + \text{Rp15 trillion} + \text{Rp10 trillion} + \text{Rp20 trillion}) \div 4 = \text{Rp13.75 trillion}.$

The calculation of CEMA on the basis of the average total liabilities is $8\% \times \text{Rp13.75 trillion} = \text{Rp1.1 trillion}.$

Therefore, minimum CEMA yet to be preserved is the largest amount between Rp 1 trillion and Rp 1.1 trillion, namely Rp 1.1 trillion.

Paragraph (3)

Sufficiently clear

Article 25

Paragraph (1) up to Paragraph (3)

Sufficiently clear

Paragraph (4)

Example:

Minimum CEMA as of March 20xx amounting to Rp1.1 trillion has to be placed in the financial instrument matching the requirement, in no later than April 6, 20xx.

Article 26

Paragraph (1) up to Paragraph (2)

Sufficiently clear

Paragraph (3)

Letter a

Example of securities issued by the government of the Republic of Indonesia is among others:

1. the State Debenture (SUN) as meant in the state debenture legislation; and
2. the state sharia securities (SBSN) as meant in the state sharia securities legislation.

Securities issued by the government of the Republic of Indonesia and intended to be owned until maturing, namely:

1. securities categorized as group owned until maturing; or
2. securities categorized as group available for sales, which is supported by commitment of bank to:
 - a) having the securities until maturing; and
 - b) using the securities merely for the anticipation of impact of issues on global economy and financial system, which affects branch office in Indonesia and/or stability of financial and banking system in Indonesia, which is written down in a letter of statement.

Letter b**Point 1**

Non equity means securities not included into capital component by the issuer bank.

Point 2

Investment rating is as governed in the provision ruling the rating institute and rating recognized by the Financial Service Authorities.

Point 3

Sufficiently clear

Letter c

Sufficiently clear

Paragraph (4)

Free from claim is among others free from litigation, demand, recognition and control as well as being not guaranteed to other party or confiscated by the authorized party.

Example:

Financial assets used as CEMA cannot be involved in repurchase agreement (repo) to other party. Free from claim is proven by among others letter of statement from branch office of overseas bank.

Paragraph (5)

The recorded value of financial asset is the value of financial asset in the financial position report (balance) after being subtracted by depreciation loss reserves.

Article 27 up to Article 29

Sufficiently clear

Article 30

Treatment of recognition and measuring refers to the financial accountings standard on financial instrument.

Article 31

Sufficiently clear

Article 32

Example 1:

Before merger or consolidation, Bank A and Bank B fail to meet criteria for the calculation of market risk.

In 6 (six) months after the merger or consolidation is declared effective, in the first, three and fourth months, bank resulting from the merger or consolidation meets the criteria for the calculation of market risk.

Therefore, Bank resulting from the merger or consolidation is obliged to include market risk as from the seventh month.

Example 2:

Bank A fails to calculate market risk. Subsequently, Bank A acquires Financial Company X so that Bank A consolidates Company X. In 6 (six) months after the acquisition of Finance X is declared effective, in the second, fourth and six months, the bank in a consolidated manner with Company X meets criteria for the calculation of market risk.

Therefore, Bank in a consolidated manner with Subsidiary X is obliged to calculate market risk as from the seventh month.

Article 33 up to Article 35

Sufficiently clear

Article 36

Paragraph (1)

Letter a

Interest rate loss is risk of loss attributable to the change in the price of financial instrument from the trading book position, which is attributed to the change in interest rate.

Letter b

The exchange rate risk means a risk of loss attributable to the change in the value of trading book and

Banking Book position, which is attributed to the change in exchange rate of foreign currency, including the change in the price of gold.

Paragraph (2)

Equity risk is a risk of loss attributable to the change in the price of financial instrument in the trading book position, which is attributed to the change in the price of share.

Commodity risk is a risk of loss attributable to the change in the price of financial instrument from the trading book and banking book position, which is attributable to the change in the price of commodities.

Article 37

Paragraph (1)

Sufficiently clear

Paragraph (2)

The valuation policy and procedure cover among others the clear stipulation of responsibility of parties involved in the stipulation of valuation, market information source, review of the feasibility of valuation, guidance for the use of data if the actual market price data (unobservable) reflecting the assumption that the data to be used by market in the valuation process, valuation frequency (daily), stipulation of time for day-end valuation (closing price), technical procedures and submission of result of verification periodically or incidentally as well as procedures for the adjustment to the valuation are not available.

Valuation information management and controlling system covers at least the documentation of valuation policy and procedure already stipulated as well as clear reporting line for working unit responsible for the valuation and verification process.

Paragraph (3)

The valuation policy and procedure based on the principle of prudence is among others the valuation by observing the application of risk management aspects and rational valuation procedures.

Article 38

Paragraph (1)

The rational value is the rational value as meant in the financial accounting standard on the measuring

of rational value.

Paragraph (2)

Actively traded financial instrument means the price of the financial instrument is available at anytime, and can be obtained routinely at exchange, dealer, broker or other agent, as well as the price constitutes the price occurring from the actual transaction executed rationally (arm's length basis).

The occurring transaction price or quotation of market price from independent source is among others the price at exchange (exchange prices), the price at dealer screen (screen prices) or the most conservative quotation granted by at least 2 (two) brokers and/or market maker having good reputation, with any of the parties being independent party.

The use of independent source is executed consistently unless otherwise the obtained price reflects the rational value.

Paragraph (3)

Letter a

Bid price is the purchasing price quoted by independent source.

Letter b

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

Paragraph (4)

In valuating the rational value, bank is required to maximize the utilization of actual market price data (observable input) and minimize the utilization of non-actual market price data or data stipulated by using a valuation model/technique (unobservable).

The valuation model or technique is among others:

- a. the use of price arising from the transaction in the last 10 (ten) working days;
- b. the use of market price of other instrument having similar characteristics (minimally the period, interest rate or coupon, rating and category of issuer);
- c. discounted cash flow analysis;
- d. option pricing models; or
- e. valuation model or technique generally used by market price in stipulating the price of instrument.

The application of prudence principles in the use of valuation technique or model observes among others:

- a. separation of task and competence of the parties involved in the development and use of model;
- b. ascertaining the review of accuracy of valuation technique or model by independent function;
- c. procedure and documentation and modification of valuation technique or model;
- d. board of directors of bank has to understand valuation of trading book position and other rational value position counted by using model and understanding the uncertainty;
- e. data used in the calculation of rational value are actual market data and have to be reviewed periodically;
- f. efforts are taken to apply valuation methodology generally effective for specified product;
- g. the developed model has to be use right assumptions, and bank has copy of the would-be applied model to examine result of valuation periodically; and
- h. working unit of risk management has to ascertain the weakness of model used in the valuation of rational value.

Article 39

Paragraph (1)

Verification is executed to ascertain the accuracy of the formulation of profit loss report.

Verification of the valuation process and report is minimally applied to the rationality of market price or information used as input in valuation model or technique.

Paragraph (2)

Sufficiently clear

Paragraph (3)

The adjustment is applied to the value of financial instrument in the financial position report (balance) and profit loss report.

Article 40

The valuation result is adjusted on the basis of daily monitoring or result of verification by parties not involved in the valuation.

For example, valuation not yet reflecting the rational value may occur in the valuation by using valuation model or technique.

Letter a

Significant change in economic condition is among others the significant change in yield curve beyond market expectation r.

Letter b

Sufficiently clear

Letter c

The factor of remaining period up to maturity is counted given that the value of financial instrument approaches the nominal value prior to the maturity.

Letter d

Other condition covers among others:

1. potential loss attributable to the failure of the opposite party to fulfill liabilities (unearned credit spreads);
2. the possibility of the inclusion of cost or penalty arising from the early settlement before maturing (early termination);
3. cash flow mismatch causing the price to be influenced by the calculation of cost for the borrowing and investing of funds (investing and funding costs); and
4. certain condition causing uncertainty in valuation model, such as inability to catch up changes in abnormal condition.

Article 41

Paragraph (1)

The specified factors cover among other the average and volatility of trade volume, the average volatility of the bid or ask spreads as well as the availability of market quotation.

Paragraph (2)

The adjustment won't reduce the value of financial instrument in the financial position report (balance) and does not influence profit loss report.

Article 42

Sufficiently clear

Article 43**Paragraph (1)**

Sufficiently clear

Paragraph (2)**Letter a**

Active supervision by board of directors and board of commissioners covers among others understanding the nature and level of risk encountering the bank, evaluating the quality adequacy of risk management and linking the risk level to the adequacy of capital owned by bank.

Letter b

The valuation of capital adequacy is among others a process linking the risk level to the capital adequacy level of bank by considering business strategy and plan of the bank.

Letter c

Monitoring and reporting is among others the monitoring and reporting system of risk exposure as well as impact of the change in risk profile on the capital need of bank.

Letter d

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

Review is executed by internal party of bank, which has adequate competence and is independent to the stipulation of capital adequacy.

Paragraph (3)

Sufficiently clear

Article 44 and Article 45

Sufficiently clear

Article 46**Letter a and Letter b**

Sufficiently clear

Letter c

The restriction of capital distribution means the restriction or delay in the payment of bonus and/or dividend.

Article 47**Paragraph (1)**

Sufficiently clear

Paragraph (2)

Report on KPMM by including market risk covers, among others report on the position included into market risk and report on the calculation of KPMM ratio.

Paragraph (3)

Sufficiently clear

Article 48**Paragraph (1)**

Risk profile is based on result of self-assessment of bank. Report on the calculation of KPMM in accordance with risk profile covers, among others:

- a. capital management strategy;
- b. material risk identification and measuring; and
- c. capital adequacy evaluation.

Paragraph (2)

The submission and deadline of the submission of result of self-assessment of the solvency rate of bank refers to the provision ruling the rating of bank solvency.

Article 49

Paragraph (1)

Sufficiently clear

Paragraph (2)

Letter a up to Letter c

Sufficiently clear

Letter d

Recorded value means the value of financial asset in the financial position report (balance_ after being subtracted by depreciation loss reserves.

Letter e

Sufficiently clear

Article 50

Paragraph (1)

Sufficiently clear

Paragraph (2)

Holiday means national holiday stipulated by the central government and/or local holiday stipulated by local regional government.

Article 51 and Article 52

Sufficiently clear

Article 53

"Significant quantity" means significant to the total financial assets in the category of available for sales.

Article 54 up to Article 67

Sufficiently clear

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