LEVEL OF FINANCIAL SOLVABILITY OF FINANCING COMPANY

(Circular Letter of Financial Service Authority Number 1/SEOJK.05/2016, dated February 23, 2016)

[Contined from Business News No. 8910-8911 page 32-48]

b. Return on Equity

1) Return on Equity shall be calculated proportionately between net profit and equity.

2) To calcualte net profit or loss using annual calculation. For example, for position in the Report of March method of calculation thereof shall be as follows:

(net profit or loss as per position March/3) x 12.

3) Net profit or loss as per position in the reporting month shall be calculated based on the amount of revenue less the amount of cost after deducting estimated Income Tax.

4) To calculate total ekuity shall use annual average equity. For example, for position on report in March, procedure for calculation thereof shall be as follows:

(total value of equity as per January up to March)/3.

c. Operation Cost on operational revenue

1) Operation Cost on operational revenue shall be calculated based on the proportion between operation cost and oepration revenue of Financing Company.

2) Details of account of revenue cost and operation cost in calculating ratio of operation cost against operational revenue shall refer to Circular Letter of OJK in the monthly report of Financing Company.

3) In maintaining efficient management of Financing Company especially that pertains to financing acquisition, incentive cost that may be provided Financing Company to third party is limited to particular percentage of the revenue to be obtained pertaining to

financement. Revenue to be obtained from financing shall be:

a) revenue in the form of interest before taking into account cost of fund;

b) revenue from insurance;

c) revenue from administration; and

d) revenue from commission.

4) Expenditure of incentive cost to thrid party pertaining to acquisition of financement as per agreement on financing shall be limited to 15% (fifteen percent) of the amount of revenue that pertains to financement, including income tax of third party involved therein.

5) Expenditure of incentive cost to third party pertaining to acquisition of financing in total shall be limited to 20% (twenty percent) of the amount of revenue pertaining to financing, including income tax of third party involved therein.

6) Cost incentives third party relating to the acquisition financing covers all types of payments to third parties or employees of third parties including commission, incentives, travel costs of third parties, promotional costs shared with third parties, for example the cost of purchasing accessories Supplement to the motor vehicle, the promotion cost delivery vehicles, and other expenses related to acquisition financing paid to third parties.

7) Example of limitation of incentive cost based on distribution of financement as per agreement on financing, as governed in figure 5), namely:

a) PT XYZ Finance shall distribute financing of motor vehicle to a Debtor in an agreement on financing in the amount of Rp.100.000.000,00.

b) by such means of distribution of financing, PT XYZ Finance shall obtain revenue as follows:

(1) revenue from interest in the amount of Rp.43.000.000,00;

(2) insurance discount in the amount of Rp.15.000.000,00;

(3) administrative revenue in the amount of Rp.1.000.000,00; and

(4) revenue from commission in the amount of Rp.1.000.000,00.

c) as such, incentive cost to third party pertaining to acquisition of financing that may be provided for distribution of financing to Debtor shall be = (15% x (Rp.43.000.000,00 + Rp.15.000.000,00 + Rp.1.000. 000,00 + Rp.1.000.000,00)) = Rp.9.000.000,00.

d) The total incentive cost is accounted as commission, incentive, income tax of third party, and other expenditure pertaining to acquisition of financing paid to third party.

8) Example of limited incentive cost shall be based on the total amount as governed in figure 6), namely:

a) Based on the Monthly Report for the month of January 2016, Financing Company, the structure of report on profit and loss of PT. XYZ Finance are as detailed below:

(1)revenue from interest Rp.80.000.000,00;

(2) insurance discount Rp.20.000.000,00;

(3) administrative revenue Rp.10.000.000,00; and

(4) revenue from commission Rp.10.000.000,00.

b) As such, the total incentive cost of third party pertaining to acquisition for financing that may be granted shall be = (20% x (Rp,80.000.000.000,00 + Rp,20.000.000.000,00 + Rp,10.000.000.000,00 + Rp,10.000.000.000,00)) = Rp,24.000.000.000,00.

c) The total incentive cost has been accounted for as commission, incentive, income tax of third party, tourism cost for third party, marketing cost, income tax of third party, joint promotion cost with third party, and other expenditure pertaining to financing acquisition paid to third party.

d. Net Interest Margin

1) Net Interest Margin is obtained from the proportion between revenue from net interest against the average receivable financing. Net revenue obtained from result of deduction of revenue from interest by on interest cost.

2) Revenue from interest shall be calculated annually. For example, for position of report in the month of March method of calculation shall be as follows:

(Revenue from Interest as per position in March /3) x 12.

3) Interest charge shall be calculated annually. For example, for position of the report in the month of March method of calculation shall be as follows:

(Interest charge as per position in the month of March /3) x 12.

4) Total financing of receivable shall use the average receivable financing during the course of the year. For example, for position of report for the month of March method of calculation shall be as follows:

(Sum up of Total Receivable Financing for January through March)/3.

3. Rentability shall be evaluated based on the terms and conditions below:

a. evaluation of ratio of Return from Asset shall be as follows:

1) 1 Mark if Financing Company obtains Return from Asset 2% (two percent) or more.

2) 2 Marks if Financing Company obrtains Return from Asset from 1% (one percent) up to less than 2% (two percent).

2) 3 Marks if Financing Company obtains Return from Asset from 0% (zero percent) up to less than 1% (one percent).

4) 4 Marks if Financing Company obtains Return from Asset less than 0% (zero percent).

b. Evaluation factor of Return from Equity shall be as follows:

1) 1 Mark if Financing Company obtains Return from Equity 6% (enam persen) atau lebih.

2) 2 Marks if Financing Company obtains Return from Equity from 3% (three percent) up to less than 6% (six percent).

3) 3 Marks if Financing Company obtains Return from Equity from 0% (zero percent) up to less than 3% (three percent).

4) 4 Marks if Financing Company obtains Return from Equity less than 0% (zero percent).

c. Evaluation of operation cost ratio against operational revenue shall be as follows:

1) 1 Mark if Financing Company obtains ratio of operation cost against operational revenue less than 70% (seventy percent).

2) 2 Marks if Financing Company obtains ratio of operation cost against operational revenue from 70% (seventy percent) up to less than 80% (eighty percent).

3) 3 Marks if Financing Company obtains ratio of operation cost against operational revenue from 80% (eighty percent) up to less than 90% (ninety percent).

4) 4 Marks if Financing Company obtains ratio of operation cost against operational revenue 90% (ninety percent) or more.

d. Evaluation of Net Interest Margin shall be as follows:

1) 1 Mark if Financing Company obtains ratio of Net Interest Margin 6% (six percent) or more.

2) 2 Marks if Financing Company obtains ratio of Net Interest Margin from 4% (four percent) up to less than 6% (six percent).

3) 3 Marks if Financing Company obtains ratio of Net Interest Margin from 2% (two percent) up to less than 4% (four percent).

4) 4 Marks if Financing Company obtains ratio of Net Interest Margin less than 2% (two percent).

e. To determine the composite value of rentability method of proportionate average is used from 4 ratio rentability respectively weighing 25% (twenty-five percent).

VI. PROCEDURE EVALUATION OF LIQUIDITY

1. Evaluation of level of justification between solvent asset and solvent liability is stipulated as:

   a. Current Ratio

   Ratio used to evaluate capability of Financing Company for complying with the obligatory short term. The higher the current ratio the higher the capacity of Financing Company to settle the obligatory short term.

   b. Cash Ratio

   Ratio used to evaluate capacity of Financing Company to pay the obligation in cash and in commercial paper. The higher is the cash ratio the higher is the capacity Financing Company to pay obligation in cash and in commercial paper. Component of the commercial paper belonging to Financing Company such as consisting of cheque, demand account, and promissory note.

2. Calculation of ratio of liquidity shall be determined as follows:

   a. Current Ratio

      1) Current Ratio is calculated based on the value of solvent asset divided by the value of solvent liability.

      2) Solvent asset of Financing Company consists of cash and equivalent to cash, bank, derivative collection, short term investment in commercial paper, receivable financing less than one year, cost paid in advance, other receivables with due date less than one year.

      3) Solvent liability consists of obligation that may be paid immediately, derivative obligation, tax debt, loan that is due in one year, and other obligations that will become due in less than one year.

   b. Cash Ratio

   Cash Ratio is calculated from the cash value in addition to commercial paper divided by solvent liability. Method of calculation of solvent obligation is equivalent to method for calculation of solvent liability in the current ratio.

3. Liquidity is evaluated based on the provisions below.

a. Evaluation of current ratio shall be as cited below:

1) 1 Mark if Financing Company obtains current ratio 150% (one hundred fifty percent) or more.

2) 2 Marks if Financing Company obtains current ratio from 125% (one hundred twenty-five percent) up to less than 150% (one hundred fifty percent).

3) 3 Marks if Financing Company obtains current ratio from 100% (one hundred percent) up to less than 125% (one hundred twenty-five percent).

4) 4 Marks if Financing Company obtains current ratio less than 100% (one hundred percent).

b. Evaluation of cash ratio shall be as follows:

1) 1 Mark if Financing Company obtains cash ratio 3% (three percent) or more.

2) 2 Marcks if Financing Company obtains cash ratio from 2 2% (two comma two percent) up to less than 3% (three percent).

3) 3 Marks if Financing Company obtains cash ratio from 1% (one percent) up to less than 2% (two percent).

4) 4 Marks if Financing Company obtains cash ratio from 0% (zero percent) up to less than 1% (one percent).

c. To determine composite value of liquidity method used shall be average proportion of 2 ratio of liquidity and the weight respectively 50% (fifty percent).

VII. PROCEDURE FOR EVALUATING LEVEL OF FINANCIAL SOLVENCY

Level of Financial Solvency of Financing Company is evaluated in phases as follows:

1. Phase of evaluation and/atau determination of value of each ratio. Each ratio is evaluated in quantity

for financial ratio guided by the provisions as referred to in Roman III, Roman IV, Roman V, and Roman VI.

2. Phase of determination of the value of the respective ratio of capital, quality of receivable financing, rentability, and liquidity, as stipulated in the provisions below:

   a. Evaluation of capital ratio:

      1) 1 Mark if Financing Company obtains capital ratio from 15% (fifteen percent) or more;

      2) 2 Marks if Financing Company obtains capital ratio from 12,5% (twelve comma percent) up to less than 15% (fifteen percent);

      3) 3 Marks if Financing Company obtains capital ratio from 10% (ten percent) up to less than 12,5% (twelve comma five percent); or

      4) 4 Marks if Financing Company obtains capital ratio less than 10% (ten percent).

   b. Evaluation of quality ratio of receivable financing:

      1) 1 Mark if Financing Company obtains the amount of receivable non-performing financing (non performing financing) from 0% (zero percent) up to less than 2% (two percent);

      2) 2 Marks if Financing Company obtains amount of non-performing receivable financing (non performing financing) from 2% (two percent) up to less than 3% (three percent);

      3) 3 Marks if Financing Company obtains amount of non-perfoming receivable financing (non performing financing) from 3% (three percent) up to les than 4% (four percent); or

      4) 4 Marks if Financing Company obtains amount of non-performing receivable (non performing financing) 4% (four percent) or more.

   c. Evaluation of rentability factor:

      1) 1 Mark if Financing Company obtains composite value of rentability ratio from one (1) up to less than 1,75 (one comma seventy-five);

2) 2 Marks if Financing Company obtains composite value of rentability factor from 1,75 (one comma seventy-five) up to less than 2,5 (two comma five);

3) 3 Marks if Financing Company obtains composite value in rentability factgor from 2,5 (two comma five) up to less than 3,25 (three comma twenty-five); or

4) 4 Marks if Financing Company obtains composite value on rentability factor from 3,25 (three comma twenty-five) up to fouve 4

d. Evaluation of Liquidity Factor :

1) 1 Mark if Financing Company obtains composite value on liquidity factor from one (1) up to less than 1,75 (one comma seventy-five);

2) 2 Marks if Financing Company obtains composite value on liquidity factor from 1,75 (one comma seventy-five) up to less than 2,5 (two comma five);

3) 3 Marks if Financing Company obtains composite value on liquidity factor from 2,5 (two comma five) up to less than 3,25 (three comma twenty-five); or

4) 4 Marks if Financing Company obtains composite value on liquidity factor from 3,25 (three comma twenty-five) up to four (4).

3. Based on the respective value of factors capital ratio, quality, receivable financement faktor on capital ratio, quality of receivable financing, rentability, and liquidity as referred to in figure 2, hereinafter value of Financial Solvency through providing weight to the value of ranking factor as on the value of rentability factor as follows :

a. capital ratio, with weight 30% (three percent);

b. asset quality, asset weighing 40% forty percent);

c. rentability with load 20% (twenty percent); and

d. liquity with load 10% (ten).

4. Based on the value of level of Financial Solvency as governed in figure 3, level of Financial Solvency is stipulated with due consideration of the criteria below.
   a. very solvent if Financing Company is valued in level Financial Solvency from one (1) to less than 1,75 (one comma seventy-five);
   b. sovlent if Financing Company is valued in level Financial Solvency less than 1,75 (one comma seventy-five) up to less than 2,5 (two comma five);
   c. less solvent if Financing Company is valued in level Financial Solvency 2,5 (two comma five) up to less than 3,25 (three comma twenty-five); and
   d. insolvent if Financing Company is valued in level Financial Solvency 3,25 (three comma twenty-five) up to four (4).
5. Evaluation of financial ratio by Financing Company shall be documented in the format of work paper as set forth in Attachment-IV that constitutes inseparable part of this OJK Circular Letter.

VIII. VERIFICATION AND VALIDATION BY OJK

1. OJK may verify and validate authenticity and reasonableness of the data constituting the basis for calculating factor of level of Financial Solvency compiled by the Financing Company.
2. In the existence of difference between the level of Financial Solvency as compiled by Financing Company and the level of Financial Solvency resulting from OJK verification and validation, the applicable level of Financial Solvency shall be level of Financial Solvency stipulated by OJK.

IX. TRANSITIONAL PROVISION

The pledge acquired by Financing Company prior to the stipulatiion of this OJK Circular Letter, is exempted from the provisions referred to in Roman IV figre 23, figure 24, figure 25, figure 26, figure 27, and figure 28.

X. CLOSING

The provisions in this OJK Circular Letter takes effect on July 1, 2016.

Stipulated in Jakarta
Dated February 23,2016

HEAD OF SUPERVISORY EXECUTIVES OF INSURANCE ON PENSION FUND, FINANCING INSTITUTION, AND OTHER FINANCIAL SERVICE INSTITUTION

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FIRDAUS DJAELANI

Note from Editor:

Due to technical reason no Attachment is provided herein.

(MA)