

BANK INDONESIA REGULATION
Number: 7/3/PBI/2005
CONCERNING
THE LEGAL LENDING LIMIT FOR COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas concentration of provision of bank funds to a borrower or a group of borrowers is one of the causes of bank failure;
 - b. whereas to avoid bank failure resulting from concentration of provision of funds, banks are required to apply prudential principles in provision of funds, including but not limited to application of portfolio diversification in extension of provision of funds;
 - c. whereas banking innovations have led to the development of provision of funds with increasingly complex risk structure;
 - d. whereas to fulfill their role in the economy, it is necessary for banks to pursue measures that will support economic growth, including financing of the real sector, while continuing to uphold prudential principles;
 - e. now therefore it is deemed necessary to enact renewed provisions concerning the legal lending limit for commercial banks in a Bank Indonesia Regulation;

In view ...

- In view of:
- a. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472), as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);
 - b. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);

HAS DECREED:

To enact: THE BANK INDONESIA REGULATION CONCERNING THE LEGAL LENDING LIMIT FOR COMMERCIAL BANKS.

CHAPTER I
GENERAL PROVISIONS

Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. “Bank” ...

1. “Bank” is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking, as amended by Act Number 10 of 1998, including a branch office of a foreign bank.
2. “Legal Lending Limit”, hereinafter referred to as LLL, is the maximum permitted provision of funds stated as a percentage of Bank capital.
3. “Provision of Funds” is any placement of Bank funds in the form of:
 - a. credit;
 - b. securities;
 - c. placements;
 - d. securities purchased under reverse repurchase agreement;
 - e. acceptances;
 - f. credit derivatives;
 - g. off balance sheet items;
 - h. derivative claims;
 - i. potential future credit exposure;
 - j. equity participation;
 - k. temporary equity participation;
 - l. other provision of funds equivalent to letter a through letter k.
4. “Capital” is:
 - a. tier 1 and tier 2 capital for a Bank having its head office in Indonesia;
or
 - b. net head office funds, for a branch office of a foreign bank.as stipulated in the Bank Indonesia provisions concerning the Bank Capital Adequacy Requirement (KPMM).
5. “Related Party” is any natural person or company/entity exercising control over the bank, whether directly or indirectly, through ownership, management, and/or financial links.

6. "Violation of the LLL" is the excess of the percentage of Provision of Funds to Bank Capital over the permitted LLL percentage at the time of extension of the Provision of Funds.
7. "~~Exceeding~~ Exceedence of the LLL" is the excess of the percentage of Provision of Funds to Bank Capital over the permitted LLL percentage at reporting date and does not include Violation of the LLL as referred to in number 6. Selanjutnya tolong konsisten untuk kata ini.
8. "Credit" is the provision of funds or equivalent claims based on a lending agreement or contract between the Bank and another party requiring the borrowing party to repay the debt at a specified term with interest, including any:
 - a. overdraft, namely negative balance in the demand deposit of a customer that cannot be repaid in full at end-of-day;
 - b. takeover of claims within the framework of factoring;
 - c. negotiation or purchase of credit from other parties.
9. "Securities" are debt instruments, drafts, bonds, credit securities, or any derivative thereof, or other interest, or a liability from an issuer in any form customarily traded on the capital market and money market.
10. "Placement" is placement of Bank funds at another bank in the form of demand deposit, interbank call money, time deposit, certificate of deposit, credit, and other similar fund placement.
11. "Securities Purchased Under Reverse Repurchase Agreement" is any purchase of Securities from another party accompanied by an agreement for resale to the other party at end of period at a price or return agreed in advance (reverse repurchase agreement).
12. "Acceptances" are claims arising from acceptances of bills of exchange.
13. "Derivative Claims" are claims arising from potential gain on an agreement/contract for derivative transactions (positive difference between

contract value and fair market value of the derivative transaction at the report date), including potential gain from mark to market on ongoing spot transactions.

14. “Potential Future Credit Exposure” is the entire potential gain from a derivative transaction agreement/contract over the duration of the contract, determined according to a specified percentage of the notional amount of the derivative transaction agreement/contract.
15. “Equity Participation” is placement of Bank funds in the form of shares in another bank or other company operating in the financial sector as stipulated in the applicable laws and regulations, such as leasing company, venture capital company, securities company, insurance company, and clearing and settlement institution, including placement in convertible bonds with equity options or certain kinds of transactions from which the Bank holds or will hold shares in a bank and/or other company operating in the financial sector.
16. “Temporary Equity Participation” is Equity Participation by a Bank in a debtor company to resolve credit failure (debt-to-equity swap), including placement in convertible bonds with equity options or certain kinds of transactions from which the Bank holds or will hold shares in the debtor company.
17. “Off Balance Sheet Items” are commitment liabilities and contingent liabilities, including but not limited to issuance of guarantees, letters of credit (L/C), standby letters of credit (SBLC), and/or other commitment liabilities and contingent liabilities, except for undisbursed loans.
18. “Borrower” is an individual customer or corporate/legal entity customer that has obtained Provision of Funds from a Bank, including any:
 - a. debtor, for Provision of Funds in the form of Credit;
 - b. issuer of Securities, seller of Securities, investment manager for a collective investment contract, and/or reference entity, for Provision of

Funds in the form of Securities;

- c. protection buyer and/or reference entity for Provision of Funds in the form of credit derivatives;
 - d. applicant, for Provision of Funds in the form of guarantee, letter of credit (L/C), standby letter of credit (SBLC), or other similar instrument;
 - e. investee, for Provision of Funds in the form of Equity Participation;
 - f. Bank or debtor, for Provision of Funds in the form of acceptances;
 - g. counterparty, for Provision of Funds in the form of Placements and derivative transactions;
 - h. any other party required to settle claims owed to the Bank.
1. “Reference Entity” is the indebted party or obligor of underlying reference assets, including:
- a. issuer of Securities stipulated as underlying reference assets;
 - b. obligor for transferred credit or claims stipulated as underlying reference assets.
19. “Board of Commissioners”:
- a. for a company incorporated as a Limited Liability Company, is the Board of Commissioners as referred to in Article 1 paragraph 5 of Act Number 1 of 1995 concerning Limited Liability Companies;
 - b. for a company incorporated as a Regional Government Enterprise, is the Board of Commissioners as referred to in Article 19 of Act Number 5 of 1962 concerning Regional Government Enterprises;
 - c. for a company incorporated as a Cooperative, is the supervisory board as referred to in Article 38 of Act Number 25 of 1992 concerning Cooperatives,
- including any officer appointed to perform a supervisory function.
20. “Board of Directors”:

- a. for a company incorporated as a Limited Liability Company, is the Board of Directors as referred to in Article 1 paragraph 4 of Act Number 1 of 1995 concerning Limited Liability Companies;
 - b. for a company incorporated as a Regional Government Enterprise, is the Board of Directors as referred to in Article 11 of Act Number 5 of 1962 concerning Regional Government Enterprises;
 - c. for a company incorporated as a Cooperative, is the management board as referred to in Article 29 of Act Number 25 of 1992 concerning Cooperatives,
including any officer with powers commensurate to those of the Board of Directors.
21. “Executive Officer” is an officer directly responsible to the Board of Directors or exercising influence on company policy and operations.

Article 2

- (1) Banks are required to apply prudential principles and risk management in the extension of Provision of Funds and especially Provision of Funds to Related Parties and/or large exposures.
- (2) As part of the application of prudential principles and risk management as referred to in paragraph (1), Banks are required to have written policy guidelines and procedures on Provision of Funds to Related Parties and/or large exposures.
- (3) The scope of the policy guidelines and procedures on Provision of Funds to Related Parties and/or large exposures referred to in paragraph (2) shall cover at least the following:
 - a. standards and criteria for selection and evaluation of the creditworthiness of the Borrower and Borrower group;

b. standards ...

- b. standards and criteria for establishment of limits on Provision of Funds;
 - c. management information system for Provision of Funds;
 - d. system for monitoring Provision of Funds; and
 - e. establishment of remedial actions to resolve any concentration of Provision of Funds.
- (4) The written policy guidelines and procedures concerning Provision of Funds referred to in paragraph (3) shall apply at least the same or greater degree of prudence as the policy and procedures for normal operation of risk management.
- (5) The written policy guidelines and procedures concerning Provision of Funds as referred to in paragraph (3) shall be reviewed periodically at least 1 (one) time in 1 (one) year.
- (6) The policy guidelines and procedures concerning Provision of Funds as referred to in paragraph (3) shall constitute an integral part of the policy, procedures, and determination of credit risk as stipulated in the Bank Indonesia provisions concerning Application of Risk Management for Commercial Banks.

Article 3

Banks are prohibited from:

- a. entering into any commitment or agreement or establishing any terms and conditions requiring the Bank to extend Provision of Funds that would result in Violation of the LLL; and
- b. extending Provision of Funds resulting in Violation of the LLL.

CHAPTER II
LLL FOR RELATED PARTIES

Article 4

The prescribed maximum limit of the entire portfolio of Provision of Funds to Related Parties is no more than 10% (ten percent) of Bank Capital.

Article 5

- (1) Banks are prohibited from extending Provision of Funds to Related Parties in contravention of the generally applicable procedures for Provision of Funds.
- (2) Banks are prohibited from extending Provision of Funds to Related Parties without approval of the Board of Commissioners of the Bank.
- (3) Banks are prohibited from purchasing low quality assets from Related Parties.
- (4) If quality of Provision of Funds to any Related Party is downgraded to sub-standard, doubtful, or loss, the Bank is required to pursue corrective measures, including but not limited to:
 - a. repayment of credit within a period of no more than 60 (sixty) days after downgrading of quality of Provision of Funds; and/or
 - b. proceed with debt restructuring with effect from downgrading of quality of Provision of Funds.

Article 6

- (1) Provision of Funds to a Borrower not comprising a Related Party that is channeled and/or used for the interests of a Related Party shall be classified as Provision of Funds to Related Party.

(2) A Borrower ...

- (2) A Borrower not comprising a Related Party receiving Provision of Funds as referred to in paragraph (1) shall be categorized a Related Party.

Article 7

If the Bank is to extend Provision of Funds in the form of Equity Participation that will cause the investee to become a Related Party, the Bank shall ensure that:

- a. the planned Provision of Funds is not in violation of the provisions referred to in Article 4;
- b. any Provision of Funds previously or to be extended to the investee, after addition to the entire portfolio of Provision of Funds to existing Related Parties shall not violate the provisions referred to in Article 4;
- c. the requirements referred to in Article 5 are met.

Article 8

- (1) The scope of Related Party covers the following:
- a. any natural person or company/legal person exercising control over the Bank;
 - b. any company/legal entity in which the Bank exercises control;
 - c. any natural person or company/other legal entity exercising control of a company as referred to in letter b;
 - d. any company in which:
 - 1) a natural person and/or company/legal entity as referred to in letter a exercises control;
 - 2) a natural person and/or company/legal entity as referred to in letter c exercises control;

- e. the Board of Commissioners, Board of Directors, and Executive Officers of the Bank;
- f. any party with family ties to the second degree by horizontal and vertical lines of descent:
 - 1) with any natural person exercising control of the Bank as referred to in letter a;
 - 2) with the Board of Commissioners, Board of Directors, and Executive Officers of the Bank as referred to in letter e.
- g. the Board of Commissioners, Board of Directors, and Executive Officers of a company as referred to in letter a, letter b, letter c, and/or letter d;
- h. any company/legal entity in which members of the Board of Commissioners, members of the Board of Directors, and/or Executive Officers are:
 - 1) members of the Board of Commissioners, members of the Board of Directors, and/or Executive Officers at the Bank;
 - 2) members of the Board of Commissioners, members of the Board of Directors, and Executive Officers of a company/legal entity as referred to in letter a, letter b, letter c, and/or letter d;
- i. any company/legal entity in which:
 - 1) members of the Board of Commissioners, members of the Board of Directors, and Executive Officers of the Bank as referred to in letter e exercise control;
 - 2) members of the Board of Commissioners, members of the Board of Directors, and Executive Officers of parties as referred to in letter a, letter b, letter c, and/or letter d exercise control;

- j. any company/legal entity that shares financial interdependence with the Bank and/or any party as referred to in letter a, letter b, letter c, letter d, letter e, letter f, letter g, letter h, and/or letter i;
 - k. any collective investment contract in which the Bank and/or parties as referred to in letter a, letter b, letter c, letter d, letter e, letter f, letter g, letter h, and/or letter i hold 10% (ten percent) or more of the shares in the investment manager for that collective investment contract;
 - l. any Borrower that is a natural person or non-bank company/legal entity extending a guarantee to any of the parties referred to in letter a through letter k;
 - m. any Borrower extended a guarantee by any of the parties referred to in letter a through letter k;
 - n. any other bank extending a guarantee to any of the parties referred to in letter a through letter k insofar as there is a counter guarantee from the Bank and/or parties as referred to in letter a through letter k to that other bank;
- (2) A party exercising control as referred to in paragraph (1) letter a, letter b, and letter c is a natural person or company/legal entity that directly or indirectly:
- a. holds 10% (ten percent) or more, whether jointly or severally, of the shares of the Bank or company/other legal entity;
 - b. holds options or other rights to ownership of shares, which if exercised would result in that party acquiring ownership and/or control of 10% (ten percent) or more, whether jointly or severally, of the shares of the Bank or company/other legal entity;
 - c. is acting in concert to exercise control over the Bank or company/other legal entity, with or without the written approval of the other

- party, so as to control 10% (ten percent) or more, whether jointly or severally, of the shares of the Bank or company/other legal entity;
- d. is acting in concert to exercise control over the Bank or company/other legal entity, with or without the written approval of the other party, so as to jointly hold options or other rights to acquire shares, which if exercised would cause these parties to acquire joint ownership and/or control 10% of (ten percent) or more of the shares in the Bank or company/other legal entity;
 - e. has powers and/or capability to approve, appoint, and/or dismiss members of the Board of Commissioners and/or Board of Directors of the Bank or company/other legal entity;
 - f. has controlling influence over the operational policies or financial policies of the Bank or company/other legal entity;
 - g. controls 1 (one) or more other company that aggregated together represents ownership and/or joint control of 10% (ten percent) or more of the shares in the Bank or company/other legal entity;
 - h. exercises control over any of the parties exercising control as referred to in letter a and letter g.
- (3) A party shall exercise control as referred to in paragraph (1) letter d and letter i when a natural person or company/legal entity directly or indirectly:
- a. holds 10% (ten percent) or more of the shares in a company/other legal entity and this ownership portion is the largest such portion;
 - b. holds 25% (twenty-five percent) or more, whether jointly or severally, of the shares in a company/other legal entity;
 - c. holds options or other rights to ownership of shares which if exercised would cause that party to acquire ownership and/or control of 10% (ten percent) or more of the shares in a company/other legal entity as referred to in letter a or letter b;

d. is acting ...

- d. is acting in concert to exercise control over a company/other legal entity, with or without the written approval of the other party, so as to jointly own or control 10% (ten percent) or more of the shares of the other company as referred to in letter a or letter b;
- e. is acting in concert to exercise control over a company/other legal entity, with or without the written approval of the other party, so as to jointly hold options or other rights to acquire shares, which if exercised would cause these parties to acquire joint ownership and/or control of the company/other legal entity as referred to in letter a or letter b;
- f. has the power and/or capability to approve, appoint, and/or dismiss members of the Board of Commissioners and/or Board of Directors of a company/other legal entity;
- g. has controlling influence over the operational policies or financial policies of a company/other legal entity;

Article 9

- (1) The understanding of Related Party in the case of a branch office of a foreign bank does not include the head office and other branch offices of that branch office of the foreign bank.
- (2) Related Parties of the head office of the branch office of the foreign bank are included in the understanding of Related Parties of the branch office of the foreign bank.

Article 10

- (1) Banks are required to have and administer a detailed list of Related Parties to the Bank.

(2) The ...

- (2) The detailed list of Related Parties as referred to in paragraph (1) shall be submitted by the Bank to Bank Indonesia:
 - a. in the first instance, no later than 3 (three) months after the enactment of this Bank Indonesia Regulation; and
 - b. 2 (two) times every 1 (one) year in the event of any change for the position of June and position of December respectively, no later than the following month.
- (3) Bank Indonesia may request a Bank at any time to submit the detailed list of Related Parties as referred to in paragraph (1).

CHAPTER III

LLL FOR NON-RELATED PARTIES

Article 11

- (1) The prescribed maximum limit of Provision of Funds to 1 (one) Borrower not comprising a Related Party is no more than 20% (twenty percent) of Bank Capital.
- (2) The prescribed maximum limit of Provision of Funds to 1 (one) Borrower group not comprising a Related Party is no more than 25% (twenty-five percent) of Bank Capital.

Article 12

- (1) A Borrower shall be classified a member of a Borrower group as referred to in Article 11 paragraph (2) if control exists between the Borrower and another Borrower by means of ownership, management, and/or financial ties covering the following:
 - a. the Borrower exercises control over another Borrower;

b. the ...

- b. the same 1 (one) party exercises control over several Borrowers (common ownership);
 - c. financial interdependence exists between the Borrower and another Borrower;
 - d. the Borrower has issued a guarantee to take over and/or settle part or all of the liabilities of another Borrower in the event of default by that other Borrower towards the Bank;
 - e. members of the Board of Directors, members of the Board of Commissioners, and/or Executive Officers of the Borrower are members of the Board of Directors and/or Board of Commissioners of another Borrower.
- (2) Party exercising control as referred to in paragraph (1) letter a and letter b is any party exercising control as referred to in Article 8 paragraph (3).

CHAPTER IV

CALCULATION OF THE LLL

Part One

Credit

Article 13

- (1) Provision of Funds in the form of Credit is stipulated as Provision of Funds to debtors.
- (2) The LLL for Credit shall be calculated on the basis of disbursed loans.
- (3) Debtor for purposes of negotiation of claims within the framework of factoring or purchase of credit without recourse is any party required to settle receivables.

(4) Debtor ...

- (4) Debtor for purposes of negotiation of claims within the framework of factoring or purchase of credit with recourse is any party selling claims/credit.
- (5) Disbursed loans for purposes of negotiation of claims within the framework of factoring or purchase of credit shall be calculated on the basis of purchase price.

Part Two

Securities

Article 14

Provision of Funds by a Bank in the form of Securities shall comply with the requirements stipulated in the applicable Bank Indonesia provisions.

Article 15

- (1) Provision of Funds in the form of Securities is stipulated as Provision of Funds to the issuer of the Securities, unless stipulated otherwise.
- (2) The LLL for purchase of Securities as referred to in paragraph (1) shall be calculated on the basis of purchase price, unless stipulated otherwise.

Article 16

- (1) Provision of Funds in the form of Securities Purchased Under Reverse Repurchase Agreement is stipulated as Provision of Funds to the party selling the Securities.
- (2) The LLL for Securities Purchased Under Reverse Repurchase Agreement as referred to in paragraph (1) shall be calculated on the basis of purchase price.

Article 17

- (1) Provision of Funds in the form of Securities linked to or guaranteed by underlying reference assets is stipulated as follows:
 - a. for Securities in which payment of liabilities is directly related to the underlying reference assets (pass through) and which may not be repurchased by the issuer (non-redemption), is stipulated as Provision of Funds to the Reference Entity;
 - b. for Securities not meeting the criteria referred to in letter a, is stipulated as Provision of Funds to:
 - 1) the issuer; and
 - 2) the Reference Entity.
- (2) The LLL for Securities comprising Provision of Funds to a Reference Entity as referred to in paragraph (1) letter a and letter b number 2) shall be calculated pro rata according to the proportion of underlying reference assets of each Reference Entity.
- (3) The LLL for Securities comprising Provision of Funds to an issuer as referred to in paragraph (1) letter b number 1) shall be calculated on the basis of purchase price.

Part Three

Credit Derivatives

Article 18

Provision of Funds in the form of credit derivatives is stipulated as follows:

- a. for credit derivatives in the form of credit default swaps or other similar instruments is stipulated as Provision of Funds to the Reference Entity.

b. for ...

- b. for credit derivatives in the form of total rate of return swaps or other similar instruments is stipulated as Provision of Funds to the Reference Entity.
- c. for credit derivatives in the form of credit linked notes or other similar instruments is stipulated as Provision of Funds to:
 - 1) the Reference Entity; and
 - 2) the issuer of the credit linked notes.
- d. for credit derivatives other than as referred to in letter a, letter b, and letter c, the LLL shall be determined in accordance with the credit risk pertaining to each credit derivative instrument.

Part Four

Acceptances

Article 19

- (1) Provision of Funds in the form of Acceptances is stipulated as Provision of Funds to:
 - a. the bank if the party required to settle the claim is another bank; and/or
 - b. the applicant if the party required to settle the claim is a debtor.
- (2) The LLL for Acceptances as referred to in paragraph (1) shall be calculated at the value of accepted bills of exchange.

Part Five
Off Balance Sheet Items
Article 20

- (1) Provision of Funds for Off Balance Sheet Items in the form of guarantees, letters of credit (L/C), standby letters of credit (SBLC), or other similar instruments is stipulated as Provision of Funds to the applicant.
- (2) The LLL for Off Balance Sheet Items as referred to in paragraph (1) shall be calculated at outstanding value.
- (3) Any Guarantee for a Borrower or Borrower Group received by the Bank from another bank and/or other party shall not be allowable as deduction from Provision of Funds.

Part Six
Derivative Transactions
Article 21

- (1) Provision of Funds in the form of interest rate or currency-linked derivative transactions is stipulated as Provision of Funds to the counterparty.
- (2) The LLL for derivative transactions as referred to in paragraph (1) shall be calculated on the basis of derivative transaction credit risk.
- (3) Derivative transaction credit risk as referred to in paragraph (2) consists of the Derivative Transaction plus Potential Future Credit Exposure.
- (4) In calculating the value of derivative transaction credit risk as referred to in paragraph (3), the Bank may perform set-off insofar as the following requirements are met:
 - a. consists of similar instruments;
 - b. has similar underlying transactions;
 - c. is denominated in the same currency;

d. is conducted ...

- d. is conducted with the same counterparty;
- e. has the same maturity; and
- f. is governed by a netting agreement by the parties pursuant to the applicable laws and regulations.

Part Seven

Equity Participation

Article 22

- (1) Provision of Funds in the form of Equity Participation is stipulated as Provision of Funds to the company in which the Bank is conducting Equity Participation (investee).
- (2) The LLL for Equity Participation as referred to in paragraph (1) shall be calculated on the basis of cost.

CHAPTER V

EXCEEDING THE LLL

Article 23

- (1) Provision of Funds by a Bank shall be categorized as Exceeding the LLL if caused by any of the following:
 - a. decline in Bank Capital;
 - b. movement in exchange rate;
 - c. change in fair value;
 - d. merger and/or change in management structure resulting in change in Related Parties and/or Borrower group;
 - e. amendments to regulatory provisions.

- (2) Borrowers in the calculation of Exceeding the LLL shall be determined in accordance with the provisions referred to in Article 13 through Article 22.
- (3) Exceeding of LLL shall be calculated on the basis of ~~value recorded~~ carrying value at report date.

CHAPTER VI

RESOLUTION OF VIOLATION AND EXCEEDING THE LLL

Article 24

- (1) The Bank shall prepare and submit an action plan for resolution of any Violation of the LLL and/or Exceeding the LLL.
- (2) An action plan as referred to in paragraph (1) shall state at least the steps to be taken to resolve the Violation of the LLL and/or Exceeding the LLL and the targeted timeframe for resolution.
- (3) Targeted timeframe for resolution as referred to in paragraph (2) is stipulated as follows:
 - a. for Violation of the LLL, no later than 1 (one) month after submission of the action plan to Bank Indonesia.
 - b. for Exceeding the LLL by reason of matters as referred to in Article 23 letter a, letter b, and letter c, is stipulated no later than 9 (nine) months after submission of the action plan to Bank Indonesia.
 - c. for Exceeding the LLL by reason of matters as referred to in Article 23 letter d, is stipulated no later than 12 (twelve) months after submission of the action plan to Bank Indonesia.
 - d. for Exceeding the LLL by reason of matters as referred to in Article 23 letter e, is stipulated no later than 18 (eighteen) months after expiration of the deadline for submission of action plan as referred to in Article 25 paragraph (3).

(4) Bank ...

- (4) Bank Indonesia may request a Bank to make adjustments to a submitted action plan if in the opinion of Bank Indonesia, the measures and/or targeted timeframe for resolution are unachievable and/or fail to comply with the provisions in this Bank Indonesia Regulation.

Article 25

- (1) Action plan for Violation of the LLL as referred to in Article 24 shall be received by Bank Indonesia no later than 1 (one) month after the occurrence of Violation of the LLL.
- (2) Action plan for Exceeding the LLL as referred to in Article 24 resulting from matters as referred to in Article 23 letter a, letter b, letter c, and letter d must be received by Bank Indonesia no later than 1 (one) month after the end of the reporting month.
- (3) Action plan for Exceeding the LLL as referred to in Article 24 resulting from matters as referred to in Article 23 letter e must be received by Bank Indonesia no later than 3 (three) months after enactment of the new provisions.

Article 26

- (1) Banks are required to submit action plan implementation reports prepared separately for Violation of the LLL and Exceeding the LLL.
- (2) Action plan implementation reports as referred to in paragraph (1) shall be submitted to Bank Indonesia no later than 14 (fourteen) working days after realization of the action plan.

CHAPTER VII
EXEMPTIONS

Article 27

- (1) The following are exempted from the LLL provisions:
- a. purchase of Securities issued by the Government of Indonesia and/or Bank Indonesia under the applicable laws and regulations.
 - b. any portion of Provision of Funds guaranteed by the Government of Indonesia under the applicable laws and regulations and meeting the following requirements:
 - 1) the guarantee is unconditional and irrevocable;
 - 2) must be encashable no later than 7 (seven) working days after submission of claim, including for partial encashment;
 - 3) has a tenor at least equal to the maturity of the Provision of Funds; and
 - 4) is not counter guaranteed by the Bank providing the funds or bank other than a prime bank.
 - c. any portion of Provision of Funds guaranteed by:
 - 1) cash collateral in the form of demand deposit, time deposit, savings deposit, guarantee deposit, and/or gold;
 - 2) collateral in the form of Securities issued by the Government of Indonesia and/or Bank Indonesia,insofar as the following requirements are met:
 - a) the collateral is blocked and accompanied by written authorization from the holder of collateral for encashment in favor of the Bank receiving the collateral, including partial encashment for payment of arrears on principal installments or interest;

b. is unconditional ...

- b) is unconditional and irrevocable;
 - c) the term of the blocking referred to in letter a) is at least equal to the maturity of the Provision of Funds;
 - d) is legally enforceable as collateral, free from all other encumbrances, free from disputes, not pledged to any other party, includes a clear pledging objective; and
 - e) for cash collateral as referred to in number 1), is held or administered at the Bank providing the funds or at a prime bank.
- (2) The Bank shall submit claim on any guarantee or collateral received as referred to in paragraph (1) letter b and letter c no later than 7 (seven) working days after event of default.
- (3) A Borrower shall be declared in default as referred to in paragraph (2) if:
- a. there are arrears in principal and/or interest and/or other claims for a duration of 90 (ninety) days;
 - b. no repayment on principal and/or interest and/or other claim is received at the time that the Provision of Funds reaches maturity; or
 - c. other requirements are not met, other than repayment of principal and/or interest, that may lead to event of default.

Article 28

Prime bank as referred to in Article 27 paragraph (1) letter c number 2) letter e) shall meet the following requirements:

- a. holds investment grade rating issued by a rating agency of at least:
 - 1) BBB- based on assessment by Standard & Poors;
 - 2) Baa3 based on assessment by Moody's;
 - 3) BBB- based on assessment by Fitch; or

4) rating ...

- 4) rating equivalent to number 1), number 2), and/or number 3) based on assessment by other leading rating agency recognized by Bank Indonesia,
based on assessment of the long-term outlook for the bank; and
- b. holds total assets placing it among the 200 largest banks in the world, based on information listed in the banker's almanac.

Article 29

Placements shall be exempted from the LLL Provisions insofar as the Placements come within the scope of guarantee and meet the requirements of the Government blanket guarantee scheme and the Bank receiving the Placement meets the requirements of the Government blanket guarantee scheme.

Article 30

- (1) If the Government blanket guarantee scheme does not cover Placements, the Placements shall constitute a Provision of Funds component calculated into the LLL.
- (2) If Placements do not come within the scope of the Government blanket guarantee scheme, the portion of Placements comprising Interbank Placements within Indonesia on the Interbank Money Market for liquidity management purposes with maturity of up to 14 (fourteen) days shall be exempted from the LLL provisions.

Article 31

- (1) Equity Participation in another bank in Indonesia shall be exempted from the LLL provisions insofar as the Bank has consolidated its financial position with the investee bank.
- (2) Exemption for Equity Participation as referred to in paragraph (1) is subject to the following provisions:
 - a. the Equity Participation entered into requires the Bank to consolidate the investee into the financial statement;
 - b. the Bank and the investee are willing to provide a written commitment to Bank Indonesia for supervision of the Bank and the investee to be applied on an individual and consolidated basis; and
 - c. Equity Participation meets the requirements stipulated in the applicable Bank Indonesia provisions.
- (3) Provision of Funds other than Equity Participation as referred to in paragraph (1) to an investee shall constitute a Provision of Funds component calculated into the LLL.

Article 32

Negotiation of export bills of exchange shall be exempted from the LLL calculation as referred to in Article 4 and Article 11 insofar as the following requirements are met:

- a. the export bill of exchange is issued on the basis of a Usance L/C in accordance with the applicable Uniform Customs and Practice for Documentary Credits (UCP); and
- b. is accepted by a prime bank as referred to in Article 28.

Article 33

- (1) Any part of Provision of Funds to a Borrower guaranteed by a prime bank as referred to in Article 28 shall be exempted from the LLL calculation as referred to in Article 4 and Article 11 insofar as the issued guarantee meets the following requirements:
 - a. comprises a standby letter of credit issued under the applicable Uniform Customs and Practice for Documentary Credits (UCP) or International Standby Practices (ISP);
 - b. is unconditional and irrevocable;
 - c. must be encashable no later than 7 (seven) working days after submission of claim, including for partial encashment;
 - d. has a tenor at least equal to the maturity of the Provision of Funds; and
 - e. is not counter guaranteed by the Bank providing the funds or bank other than a prime bank.
- (2) Exemption from the LLL calculation as referred to in paragraph (1) is stipulated at no more than:
 - a. 90% (ninety percent) of Bank Capital for Provision of Funds to Related Parties;
 - b. 80% (eight percent) of Bank Capital for Provision of Funds to any 1 (one) Borrower not a Related Party; and
 - c. 75% (seventy-five percent) of Bank Capital for Provision of Funds to any 1 (one) Borrower group not a Related Party;
- (3) The Bank shall submit claim on any guarantee received as referred to in paragraph (1) no later than 7 (seven) working days after event of default.
- (4) A Borrower shall be declared in default as referred to in paragraph (3) if:
 - d. there are arrears in principal and/or interest and/or other claims for a duration of 90 (ninety) days;

- e. no repayment on principal and/or interest and/or other claim is received at the time that the Provision of Funds reaches maturity; or
- a. other requirements are not met, other than repayment of principal and/or interest, that may lead to event of default.

Article 34

Placements at any prime bank as referred to in Article 28 shall not be calculated into the Legal Lending Limit in each case up to a maximum of Bank Capital.

Article 35

- (1) Any portion of Provision of Funds to a Borrower guaranteed by a multilateral development agency shall be exempted from the LLL calculation as referred to in Article 4 and Article 11 insofar as the guarantee that is provided meets the following requirements:
 - a. Provision of Funds is intended for financing in Indonesia;
 - b. the guarantor is a multilateral development agency recognized by Bank Indonesia; and
 - c. the guarantee that is provided meets the following requirements:
 - 1) is unconditional and irrevocable;
 - 2) must be encashable no later than 7 (seven) working days after submission of claim, including for partial encashment;
 - 3) has a tenor at least equal to the maturity of the Provision of Funds; and
 - 4) is not counter guaranteed by the Bank providing the funds or bank other than a prime bank.

(2) Exemption ...

- (2) Exemption from the LLL calculation as referred to in paragraph (1) is stipulated at no more than:
 - d. 90% (ninety percent) of Bank Capital for Provision of Funds to Related Parties;
 - e. 80% (eight percent) of Bank Capital for Provision of Funds to any 1 (one) Borrower not a Related Party; and
 - a. 75% (seventy-five percent) of Bank Capital for Provision of Funds to any 1 (one) Borrower group not a Related Party;
- (3) The Bank shall submit claim on any guarantee received as referred to in paragraph (1) no later than 7 (seven) working days after event of default.
- (4) A Borrower shall be declared in default as referred to in paragraph (3) if:
 - a. there are arrears in principal and/or interest and/or other claims for a duration of 90 (ninety) days;
 - b. no repayment on principal and/or interest and/or other claim is received at the time that the Provision of Funds reaches maturity; or
 - c. other requirements are not met, other than repayment of principal and/or interest, that may lead to event of default.

Article 36

- (1) Temporary Equity Participation for resolving Credit failure as referred to in the applicable Bank Indonesia provisions shall be exempted from the LLL calculation as referred to in Article 4 and Article 11 and Related Party provisions as referred to in Article 8.
- (2) In the case of any new Provision of Funds extended to an investee company receiving Temporary Equity Participation as referred to in paragraph (1), the new Provision of Funds shall be calculated into the LLL.

Article 37

Exempted from classification as Borrower group as referred to in Article 12 is Credit extended to customers (end-users) through a finance institution using the channeling method insofar as the following requirements are met:

- a. The Bank monitors assessment of creditworthiness conducted by the finance institution in regard to the finance institution customers (end-users);
- b. the Credit is extended without guarantee from the finance company;
- c. the Credit agreement is made between the customers of the finance company (end-users) and the Bank or with a party authorized to act on behalf of and in the name of the Bank; and
- d. payment from the customers of the finance company is in favor of the Bank.

Article 38

Extension of Credit under the smallholder-nucleus scheme in which the nucleus company guarantees Credit to smallholders shall be exempted from the understanding of Borrower group as referred to in Article 12 insofar as:

- a. the Credit is extended under a partnership scheme;
- b. the nucleus company is not a Related Party of the Bank;
- c. the smallholders are not subsidiaries or branches owned, controlled, or affiliated with the nucleus company;
- d. the smallholders produce components needed by the nucleus company as part of the production of the nucleus company; and
- e. the Bank enters into the smallholder Credit agreements directly with the smallholders.

Article 39

Credit to an Executive Officer of a Bank shall be exempted from Credit to Related Parties as referred to in Article 4 and Article 8 insofar as it is extended for the purposes of welfare of the human resources of the Bank on the basis of the policy for working allowances and benefits and is provided on an arm's length basis.

Article 40

- (1) The prescribed maximum limit of Provision of Funds to a State Owned Enterprise (SOE) for development of benefit to the well being of the general population is no more than 30% (thirty percent) of Bank Capital.
- (2) Any ties between a Bank incorporated as an SOE or Regional Government Enterprise and a Borrower incorporated as an SOE and/or Regional Government Enterprise shall be exempted from the understanding of Related Party as referred to in Article 8 insofar as the ties are solely on account of direct ownership by the Government of Indonesia.
- (3) SOEs and/or Regional Government Enterprises shall not be treated as a Borrower group as referred to in Article 12 insofar as the ties are solely on account of direct ownership by the Government of Indonesia.

CHAPTER VIII

REPORTING

Article 41

- (1) Banks are required to submit truthful, periodic reports to Bank Indonesia on the Legal Lending Limit.

(2) The ...

- (2) The procedure for formulation and submission of reports as referred to in paragraph (1), including reporting sanctions, shall refer to the applicable Bank Indonesia provisions concerning Commercial Bank Periodic Reports.
- (3) Banks are required to make adjustments to the formulation of Commercial Bank Periodic Reports for the Legal Lending Limit report in line with this Bank Indonesia Regulation.

CHAPTER IX OTHER PROVISIONS

Article 42

- (1) Bank Indonesia reserves the right to make corrections to the implementation of the LLL provisions by Banks.
- (2) Banks shall perform the corrections determined by Bank Indonesia as referred to in paragraph (1) in the Bank report to Bank Indonesia and in published reports as stipulated in the applicable legal provisions.

Article 43

- (1) The provisions in this Bank Indonesia Regulation shall also apply to Provision of Funds by Banks conducting business based on sharia principles.
- (2) The definition of Provision of Funds as referred to in this Bank Indonesia Regulation, in the case of Banks conducting business based on sharia principles including any sharia division of a conventional Bank, shall be adjusted to the applicable legal provisions for Banks conducting business based on sharia principles.

CHAPTER X

SANCTIONS

Article 44

- (1) Any Bank committing Violation of the LLL and/or Exceeding the LLL shall be liable to sanctions in the assessment of Bank rating as stipulated in the applicable Bank Indonesia provisions.
- (2) Any Bank submitting an action plan for Violation of the LLL after the deadline stipulated in Article 25 paragraph (1) up to 14 (fourteen) working days after the expiration of that deadline shall be liable to sanctions in the form of a financial penalty in the amount of Rp 10,000,000 pakai titik dan tolong konsisten (ten million rupiahs) per working day of delay.
- (3) Any Bank failing to submit an action plan for Violation of the LLL after the deadline stipulated in paragraph (2) shall be liable to sanctions in the form of a financial penalty in the amount of Rp 500,000,000 (five hundred million rupiahs).
- (4) Any Bank submitting an action plan for Exceeding the LLL after the deadline stipulated in Article 25 paragraph (2) or paragraph (3) up to 14 (fourteen) working days after the expiration of that deadline shall be liable to sanctions in the form of a financial penalty in the amount of Rp 1,000,000 (one million rupiahs) per working day of delay.
- (5) Any Bank failing to submit an action plan for Exceeding the LLL after the deadline stipulated in paragraph (4) shall be liable to sanctions in the form of a financial penalty in the amount of Rp 50,000,000 (fifty million rupiahs).
- (6) Any Bank submitting an action plan implementation report after the deadline stipulated in Article 26 paragraph (2) up to 14 (fourteen) working days after the expiration of that deadline shall be liable to sanctions in the

form of a financial penalty in the amount of Rp 1,000,000 (one million rupiahs) per working day of delay.

- (7) Any Bank failing to submit an action plan implementation report after the deadline stipulated in paragraph (6) shall be liable to sanctions in the form of a financial penalty in the amount of Rp 50,000,000 (fifty million rupiahs).
- (8) Any Bank failing to comply with the provisions referred to in Article 2 paragraph (1), paragraph (2), paragraph (3), paragraph (4), and paragraph (5), Article 3, Article 5 paragraph (1), paragraph (2), paragraph (3), and paragraph (4), Article 7, Article 10 paragraph (1) and paragraph (2), and Article 24 paragraph (1) shall be liable to administrative sanctions including but not limited to the following:
 - a. written warning;
 - b. inclusion of management, Bank employees, and shareholders in the list of parties disqualified in the fit and proper test as stipulated in the applicable Bank Indonesia provisions;
 - c. freezing of specified business activities.
- (9) Any Bank failing to resolve Violation of the LLL and/or Exceeding the LLL in accordance with an action plan as referred to in Article 24 and/or failing to pursue and/or take measures for resolution in accordance with the corrections determined by Bank Indonesia as referred to in Article 42 paragraph (2), after receiving 2 (two) warnings from Bank Indonesia with an interval of 1 (one) week between each warning, shall be liable to administrative sanctions as referred to in Article 52 paragraph (2) of Act Number 7 of 1992 as amended by Act Number 10 of 1998, including but not limited to:

- a. inclusion of management, Bank employees, and shareholders in the list of parties disqualified in the fit and proper test as stipulated in the applicable Bank Indonesia provisions;
 - b. freezing of specified business activities, including but not limited to prohibition on expansion of Provision of Funds; and/or
 - c. prohibition on participation in clearing activities.
- (10) In the case of any Bank failing to resolve Violation of the LLL, in addition to imposition of sanctions as referred to in paragraph (9), the Board of Commissioners, Board of Directors, Bank employees, shareholders, and other affiliated parties shall be liable to criminal penalties as stipulated in Article 49 paragraph (2) letter b, Article 50, and Article 50A of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.

Article 45

- (1) Any Bank submitting the detailed list of Related Parties after expiration of the deadline referred to in Article 10 paragraph (2) up to 14 (fourteen) working days after the expiration of that deadline shall be liable to sanctions in the form of a financial penalty in the amount of Rp 1,000,000 (one million rupiahs) per day of delay.
- (2) Any Bank failing to submit a detailed list of Related Parties after expiration of the deadline referred to in paragraph (1) shall be liable to sanctions in the form of a financial penalty in the amount of Rp 100,000,000 (one hundred million rupiahs).

CHAPTER XI
CONCLUDING PROVISIONS

Article 46

The definitions and treatment of the Legal Lending Limit as stipulated in the applicable Bank Indonesia provisions shall be brought into conformity with the provisions of this Bank Indonesia Regulation.

Article 47

The provisions in Article 21 paragraph (3) of this Bank Indonesia Regulation, specifically for additional Potential Future Credit Exposure in the calculation of derivative transaction credit risk, shall come into effect 12 (twelve) months after the enactment of this Bank Indonesia Regulation.

Article 48

Implementation provisions concerning the LLL shall be stipulated further in a Circular Letter of Bank Indonesia.

Article 49

With the enactment of this Bank Indonesia Regulation:

- a. Decree of the Board of Managing Directors of Bank Indonesia Number 31/177/KEP/DIR dated December 31, 1998, concerning the Legal Lending Limit for Commercial Banks;
- b. Bank Indonesia Regulation Number 2/5/PBI/2000 dated February 21, 2000, concerning Provision of Funds by Banks Under Guarantee from Other Banks (State Gazette of the Republic of Indonesia Number 18 of 2000,

Supplement to the State Gazette of the Republic of Indonesia Number 3932); and

- c. Bank Indonesia Regulation Number 2/16/PBI/2000 dated June 12, 2000, concerning Amendment to Decree of the Board of Managing Directors of Bank Indonesia Number 31/177/KEP/DIR dated December 31, 1998, concerning the Legal Lending Limit for Commercial Banks (State Gazette of the Republic of Indonesia Number 90 of 2000, Supplement to the State Gazette of the Republic of Indonesia Number 3973);

are revoked and declared no longer valid.

Article 50

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in: Jakarta

Dated: January 20, 2005

THE GOVERNOR OF BANK INDONESIA

BURHANUDDIN ABDULLAH

ELUCIDATION
TO
BANK INDONESIA REGULATION
Number: 7/3/PBI/2005
CONCERNING
THE LEGAL LENDING LIMIT FOR COMMERCIAL BANKS

GENERAL REVIEW

One of the causes of bank failure is provision of funds not supported by bank capacity for effective management of concentration of provision of funds. In order to reduce the potential for bank failure from concentration of provision of funds, banks are required to apply prudential principles, including but not limited to portfolio diversification of provision of funds. This is applied mainly by limits on provision of funds both to related parties and non-related parties stated as a specified percentage of Bank capital, also known as the legal lending limit (LLL).

In line with the increasing complexity of development in financial products and transactions conducted through banks, the risk exposure of certain kinds of provision of funds, such as derivative transactions, has escalated to new levels. Accompanying this is the increasingly complex structure of ties between natural persons and a company and/or between one company and another. The implication of these developments has also affected the concept and scope of borrowers categorized as related parties and the concept and scope of borrower groups, which is defined on the basis of control exercised directly or indirectly through ownership, management, and/or financial ties.

In view of the significant correlation between bank failure and concentrations of provision of funds, banks are prohibited from extending

provision ...

provision of funds that would result in violation of the legal lending limit (LLL). In addition to compliance with the prohibition and restriction to a specified percentage of capital, banks are also required to apply more prudent credit risk management in respect of related parties and large exposures.

Given that banks are also affected by external factors, provision of funds may be described in operational terms as not violating, but exceeding the legal lending limit for such reasons as decline in bank capital, movement in the exchange rate, and change in market value. Nevertheless, in view of the importance of managing concentrations of provision of funds, banks are required to resolve any violation or ~~exceeding~~ ~~exceedence~~ of the LLL by establishing an action plan and implementing that plan in a consistent and effective manner.

In view of the role of banks as intermediary institutions in the national economy, it is still necessary even in spite of limits on provision of funds to provide encouragement for banks to support economic growth through channeling of funds into the real sector while upholding prudential principles. To this end, easier terms or exemptions are extended to certain provision of funds in regard to the LLL. These include but not limited to provision of funds to state owned enterprises (SOEs) conducting business that affects the well being of the general population including construction of infrastructure, provision of funds guaranteed by prime banks and multilateral development agencies, and provision of funds to customers under the smallholder nucleus partnership scheme. Furthermore, in line with the drive for consolidation in the banking system, equity participation in other banks may be exempted from the LLL.

For the purpose of monitoring provision of funds, banks are also required to submit periodic reports on the LLL and Bank Indonesia is empowered to make corrections to the implementation of legal provisions, request banks to take any necessary corrective actions, and impose effective sanctions on banks violating the substance and spirit of these provisions.

ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

The provisions in this paragraph are intended to ensure that risk management in respect of Related Parties and large exposures is applied on an arm's length basis commensurate to the capital resources of the Bank, and to avoid significant concentration of risk on any specific Borrower or Borrower group.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Letter a

In conducting selection and assessment of creditworthiness, Banks must ensure the availability of adequate information, including but not limited to data and information on shareholders, management, corporate tree, and financial condition of the Borrower and/or Borrower group.

Letter b

Limits on Provision of Funds shall be established no higher than the limits stipulated in this Bank Indonesia Regulation.

Limits on Provision of Funds shall be established on the basis of analysis of the structural impact of Provision of Funds on the balance sheet and risk profile of the Bank.

Analysis of the structural impact of Provision of Funds on the balance sheet and risk profile of the Bank shall take into account the overall size, type, maturity, and diversification of the Provision of Funds portfolio in order to prevent concentration of the Provision of Funds portfolio on any particular Borrower or Borrower group.

Letter c

The management information system must enable the Bank management to identify concentrations of Provision of Funds, particularly those to Related Parties and large exposures, on a timely basis. In addition, the scope of the management information system must include a system for generating reports to Bank management on Provision of Funds in excess of or likely to exceed limits on Provision of Funds.

Letter d

The scope of the system for monitoring Provision of Funds to Related Parties and large exposures covers:

1. compliance with limits;
2. adequacy of collateral in relation to Provision of Funds;
3. identification of quality of Provision of Funds.

Letter e

The scope of remedial actions referred in this letter covers:

1. addition of capital to resolve increased risk exposure;
2. syndication;
3. asset securitization.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Frequency of review may be intensified commensurate to developments in risk concentration of Provision of Funds.

Paragraph (6)

Self-explanatory.

Article 3

Letter a

The scope of the regulatory provisions in this letter cover the form of binding or agreement or terms and conditions stipulated for Provision of Funds recorded on balance sheet and in off balance sheet items.

Letter b

The requirement to satisfy the provisions in this letter shall apply at each instance of extension of Provision of Funds.

Article 4

Self-explanatory.

Article 5

Paragraph (1)

“General procedures for Provision of Funds” are defined as the procedures adopted by the Bank and also applicable for all Borrower customers while nevertheless generating reasonable profit for the Bank.

The understanding of “generally applicable procedures” includes the use of market value in analysis of Provision of Funds.

Paragraph (2)

Self-explanatory.

Paragraph (3)

“Low quality assets” are defined as assets:

1. with non-accrual status, namely assets with arrears in repayment of principal and/or interest exceeding 90 (ninety) days; and/or
2. the terms and conditions of which have been renegotiated by reason of the deteriorating financial condition of the owner of the assets.

Paragraph (4)

Letter a

Repayment may be made, among others, by selling the Credit to another party.

Letter b

Debt Restructuring shall be conducted in accordance with the applicable Bank Indonesia provisions concerning Asset Quality Rating for Commercial Banks.

Article 6

Self-explanatory.

Article 7

Self-explanatory.

Article 8

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Letter f

“Family ties to the second degree along horizontal and vertical lines of descent” are defined as follows:

1. natural parent/step-parent/parent by adoption;
2. natural brother or sister/half-brother or sister/brother or sister by adoption;
3. natural child/step-child/child by adoption;
4. natural grandparent/step-grandparent/grandparent by adoption;
5. natural grandchild/step-grandchild/grandchild by adoption;
6. natural uncle or aunt/step-uncle or step-aunt/uncle/aunt by adoption;
7. spouse;
8. parents-in-law or parents related to each other through marriage of children;

9. son/daughter-in-law, whether spouse of natural child/step-child/child by adoption.
10. grandparent of spouse;
11. spouse of natural grandchild/step-grandchild/grandchild by adoption;
12. brother or sister-in-law, whether natural brother or sister/half-brother or sister/brother or sister by adoption of spouse or spouse of such brother or sister.

Letter g

Self-explanatory.

Letter h

Self-explanatory.

Letter i

Self-explanatory.

Letter j

Financial interdependence is evident from a number of factors, including but not limited to:

1. existence of financial assistance from the Bank and/or other Related Party or financial assistance to the Bank and/or other Related Party subject to terms and conditions of such nature as to cause the party extending the financial assistance to exercise controlling influence over the operational and/or financial policies of the party receiving the financial assistance; and/or
2. existence of material transactions between the Bank and/or other Related Party and a company causing the financial soundness of that company to be directly influenced by the Bank and/or other Related Party.

Letter k ...

Letter k

Self-explanatory.

Letter l and letter m

“Guarantee” is defined as a commitment issued by one party to take over and/or settle the liabilities of an indebted party in full or in part in the event of default by the indebted party.

Letter n

Self-explanatory.

Paragraph (2)

“Indirectly holds shares” is defined as ownership or control of shares either collectively or through another party, including:

1. shares in the Bank or company/other legal entity owned by another party whose voting rights may be exercised or controlled by the party exercising control;
2. shares in the Bank or company/other legal entity owned by a party controlled by the party exercising control;
3. shares in the Bank or company/other legal entity owned by an affiliated party of the party exercising control;
4. shares in the Bank or company/other legal entity owned by a subsidiary of a company/other legal entity controlled by the party exercising control;
5. shares in the Bank or company/other legal entity held by parties acting on behalf of and in the name of the party exercising control (nominee shares), whether based on or not based on a specific agreement;
6. shares in the Bank or company/other legal entity held by other parties for which transfer requires approval from the party exercising control;

7. shares in a company/other legal entity held by the Bank through a company/legal entity controlled by the Bank through a chain of ownership extending to the ultimate subsidiary;
8. shares in the Bank or company/other legal entity other than shares as referred to in number 1. through number 7. that are controlled by the Bank or party exercising control.

Affiliated party of a party exercising control as referred to in number 3. is defined as:

- a. the Board of Commissioners, Board of Directors or equivalent or appointee thereof, officers, or employees of the company exercising control;
- b. executive board, supervisory board, management board, or appointee thereof, for a company legally incorporated as a cooperative;
- c. any party providing services to a company exercising control, including but not limited to public accountant, appraiser, legal consultant, and other consultant proven to be subject to control of the party exercising control;
- d. any party with family ties to the party exercising control to the second degree whether by horizontal and vertical lines of marriage or descent, including parents related to each other through the marriage of their children;
- e. any party that in the opinion of Bank Indonesia participates in an influential capacity in the management of the party exercising control, including but not limited to shareholders and their relatives, relatives of the Board of Commissioners, relatives of the supervisory board, relatives of the Board of Directors, and relatives of the executive board.

Paragraph (3)

“Indirectly holds shares” is defined as ownership or control of shares either collectively or through another party, including:

1. shares in a company/other legal entity held by another party whose voting rights may be exercised or controlled by the party exercising control;
2. shares in a company/other legal entity held by a party controlled by the party exercising control;
3. shares in a company/other legal entity held by an affiliated party of the party exercising control;
4. shares in a company/other legal entity held by a subsidiary of a company/legal entity controlled by the party exercising control;
5. shares in a company/other legal entity held by parties acting on behalf of and in the name of the party exercising control (nominee shares), whether based on or not based on a specific agreement;
6. shares in a company/other legal entity held by other parties for which transfer requires approval from the party exercising control;
7. shares in a company/other legal entity held by a company/legal entity controlled by the party exercising control through a chain of ownership extending to the ultimate subsidiary;
8. shares in a company/other legal entity other than shares as referred to in number 1. through number 7. that are controlled by the party exercising control.

“Affiliated party of a party exercising control” as referred to in number 3 is defined as:

a. the Board ...

- a. the Board of Commissioners, Board of Directors or equivalent, or appointee thereof, officers, or employees of the company exercising control;
- b. executive board, supervisory board, management board, or appointee thereof, for a company legally incorporated as a cooperative;
- c. any party providing services to the company exercising control, including but not limited to public accountant, appraisal company, legal consultant, and other consultant proven to be controlled by the party exercising control;
- d. any party with family ties to the party exercising control to the second degree, whether by horizontal and vertical lines of marriage or descent, including parents related to each other through the marriage of their children;
- e. any party that in the opinion of Bank Indonesia participates in an influential capacity in the management of the party exercising control, including but not limited to shareholders and their relatives, relatives of the Board of Commissioners, relatives of the supervisory board, relatives of the Board of Directors, and relatives of the executive board.

Article 9

Self-explanatory.

Article 10

Paragraph (1)

The detailed list of Related Parties shall state at least details of shareholders, management, business sector, and controlling ties exercised by and among each of the Related Parties. If possible, the detailed list of Related Parties should include a diagram of the corporate tree.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 11

Self-explanatory.

Article 12

Paragraph (1)

Letter a

Self-explanatory.

Letter b

For example:

Company A and company B obtain Provision of Funds from the Bank and Company C owns 25% (twenty-five percent) or more of the shares of each of the two companies. Accordingly, company A and company B shall be grouped together into 1 (one) Borrower group. If company C is a Borrower of the Bank,

company A ...

company A, company B, and company C shall be grouped together into 1 (one) Borrower group.

Letter c

Financial interdependence may be analyzed on the basis of a number of factors as follows:

1. existence of financial assistance from a Borrower to another Borrower subject to terms and conditions of such nature as to cause the party extending the financial assistance to exercise controlling influence over the operational and/or financial policies of the party receiving the financial assistance; and/or
2. existence of material transactions between the Borrower and another Borrower causing the financial soundness of that other Borrower to be directly influenced by the Borrower.

Letter d

“Guarantee” is defined as a commitment issued by one party to take over and/or settle the liabilities of an indebted party in part or in full in the event of default by the indebted party.

Letter e

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 13

Paragraph (1)

Self-explanatory.

Paragraph (2) ...

Paragraph (2)

Self-explanatory.

Paragraph (3)

For example:

The Bank negotiates a claim from PT. Z on PT. X without recourse in the amount of Rp 150,000,000 (one hundred and fifty million rupiahs), and thus for the Bank LLL, the claim is stipulated as Provision of Funds to PT. X.

Paragraph (4)

For example:

The Bank negotiates a claim from PT. Z on PT. X with recourse in the amount of Rp 150,000,000 (one hundred and fifty million rupiahs), and thus for the Bank LLL, the claim is stipulated as Provision of Funds to PT. Z.

Paragraph (5)

Self-explanatory.

Article 14

Self-explanatory.

Article 15

Self-explanatory.

Article 16

Paragraph (1)

For example:

The Bank purchases PT. X securities held by Bank Z under a Reverse Repurchase Agreement.

Under the LLL for Securities Purchased Under Reverse Repurchase Agreement, the Securities are stipulated as Provision of Funds to Bank Z as seller. Bank Z notwithstanding holds Provision of Funds extended for securities to PT. X, the issuer of the securities. Thereafter, if at the maturity date of the repo transaction, Bank Z is unable to settle the repo claim, the Bank shall hold Provision of Funds extended for securities to PT. X.

Paragraph (2)

Self-explanatory.

Article 17

Paragraph (1)

Self-explanatory.

Paragraph (2)

For example:

The Bank invests in a mutual fund issued by PT. A at a purchase price of Rp 150,000,000 (one hundred and fifty million rupiahs), in which the portfolio consists of:

1. PT. X Bonds, 60% (sixty percent);
2. PT. Y Bonds, 40% (forty percent).

The LLL for the mutual fund portfolio comprising Provision of Funds to PT. X and PT. Y shall be calculated pro rata on the basis of the reference assets of PT. X, namely 60% (sixty percent) x Rp 150,000,000 (one hundred and fifty million rupiahs), and PT. Y, namely 40% (forty percent) x Rp 150,000,000 (one hundred and fifty million rupiahs).

Paragraph (3)

For example:

The Bank invests in a mutual fund issued by PT. A at a purchase price of Rp 150,000,000 (one hundred and fifty million rupiahs), in which the portfolio consists of:

- 1) PT. X Bonds 60%, (sixty percent);
- 2) PT. Y Bonds 40%, (forty percent).

The LLL for the mutual fund portfolio comprising Provision of Funds to PT. A is Rp 150,000,000 (one hundred and fifty million rupiahs).

Article 18

Guarantee/protection within the framework of credit derivatives shall not reduce exposure of Provision of Funds for the protection buyer.

Letter a

For example:

Bank A negotiates credit risk (protection seller) of the financial asset portfolio of Bank B in the form of credit default swap. The credit default swap by Bank A to the financial asset portfolio of Bank B is stipulated as Provision of Funds to the Reference Entities of the financial asset portfolio.

Letter b ...

Letter b

For example:

Bank A executes payment to Bank B in a specified amount of interest plus compensation for loss on the credit portfolio held by Bank B is and stipulated as the underlying reference assets. Meanwhile, in respect of the payment from Bank A, Bank B pays out the interest earned on the underlying reference assets to Bank A. The Provision of Funds by Bank A under the total rate of return swap transaction is stipulated as Provision of Funds to the Reference Entities in the credit portfolio held by Bank B.

Letter c

For example:

The issuer of credit linked notes is a protection buyer.

Bank A purchases credit linked notes from Bank B. The underlying reference assets for the credit linked notes consist of financial assets held by Bank B. The purchase of credit linked notes by Bank A shall be calculated into the LLL as Provision of Funds to:

1. Bank B as issuer of the credit linked notes; and
2. The Reference Entities of the underlying reference assets for the credit linked notes.

Letter d

Self-explanatory.

Article 19

Paragraph (1)

Self-explanatory.

Paragraph (2) ...

Paragraph (2)

“Value of accepted bills of exchange” is defined as the gross value of the claim on the applicant or guarantor.

Article 20

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The other bank providing the guarantee shall in any event calculate the guarantee to the guaranteed party as part of Off Balance Sheet Items.

Article 21

Paragraph (1)

“Interest rate or currency-linked derivative transactions” are:

- a. interest rate contracts such as single currency interest rate swaps, forward rate agreements, and other similar instruments;
- b. currency contracts such as cross currency swap, cross currency interest rate swap, forward foreign exchange contracts, and other similar instruments.

Under the applicable legal provisions, the permitted derivative transactions are interest rate or currency-linked transactions. For the time being, derivative transactions linked to shares may only be conducted with approval from Bank Indonesia or for the purposes of

Equity Participation or Temporary Equity Participation as stipulated in the applicable Bank Indonesia provisions.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Letter a

Self-explanatory.

Letter b

“Similar underlying transaction” is defined as including but not limited to interest rate matched with interest rate, and currency rate matched with currency rate.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Letter f

Self-explanatory.

Article 22

Paragraph (1)

Self-explanatory.

Paragraph (2) ...

Paragraph (2)

“Cost” in this paragraph is defined as the purchase price plus other costs expended in the first instance upon entering into the Equity Participation.

Cost of Equity Participation comprising fund placement in the form of convertible bonds with equity options or certain kinds of transactions from which the Bank holds or will hold shares shall be calculated at the value of the shares or equity participation that will be held.

Article 23

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Included in any change in fair value is, among others, any change in value in recording of equity participation under the equity method beyond 1 (one) year or recording of Securities holdings according to mark to market.

Letter d

Self-explanatory.

Letter e

Amendment to regulatory provisions includes any amendment of parties categorized as Related Party or Borrower group.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The ~~value recorded~~ carrying value at report date shall be as stipulated in the applicable Financial Accounting Standards for each instrument. In the specific case of Derivative Transactions, the value recorded at report date shall include the value of Potential Future Credit Exposure.

Article 24

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 25

Paragraph (1)

Self-explanatory.

Paragraph (2)

In the case of Exceeding the LLL by reason of merger, the period referred to in this paragraph is 1 (one) month after the end of the reporting month after approval of the deed of merger by the competent agency.

Paragraph (3) ...

Paragraph (3)

Self-explanatory.

Article 26

Self-explanatory.

Article 27

Paragraph (1)

Letter a

“Government of Indonesia” is defined as the central government and any regional government.

Letter b

Number 1)

“Unconditional” is defined as when:

1. the benefit of the guarantee to the Bank providing funds will not be substantially diminished even in the case of losses caused by factors outside the control of the Bank; and
2. no procedural requirements are stipulated, such as:
 - a. required period for notification of default;
 - b. requirement for the Bank providing funds to prove good faith; and/or
 - c. requirement for encashment of guarantee by prior set-off against the liabilities of the Bank providing funds to the guarantor.

Number 2) ...

Number 2)

Self-explanatory.

Number 3)

Self-explanatory.

Number 4)

Self-explanatory.

Letter c

Number 1)

If cash collateral is in the form of gold, collateral value shall be determined on the basis of market value.

Number 2)

The understanding of Provision of Funds backed by collateral comprising Securities issued by the Government of Indonesia and/or Bank Indonesia includes Securities Purchased Under Reverse Repurchase Agreement.

If cash collateral consists of Government Securities (GS), collateral value shall be determined on the basis of market value of the GS or if market value is not available, on the basis of fair value.

Letter a)

Self-explanatory.

Letter b)

“Unconditional” is defined as when:

1. the benefit of the guarantee to the Bank providing funds will not be substantially diminished even in the case of losses caused by factors outside the control of the Bank; and

2. no procedural requirements are stipulated, such as:
 - a. required period for notification of default;
 - b. requirement for the Bank providing funds to prove good faith; and/or
 - c. requirement for encashment of guarantee by prior set-off against the liabilities of the Bank providing funds to the guarantor.

Letter c)

Self-explanatory.

Letter d)

Self-explanatory.

Letter e)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 28

Self-explanatory.

Article 29

The applicable Government blanket guarantee scheme is the scheme operated by the Blanket Guarantee Implementation Unit or Deposit Insurance Agency as stipulated in the applicable laws and regulations.

Article 30 ...

Article 30

Paragraph (1)

“Government blanket guarantee scheme does not cover Placements” is defined as including any case in which a Placement does not meet requirements for guarantee coverage under the Government blanket guarantee scheme.

The Government blanket guarantee scheme shall refer to the laws and regulations concerning the Deposit Insurance Agency.

Paragraph (2)

Placements with maturity of up to 14 (fourteen) days but not made for liquidity management purposes, for example placements rolled over in significant amounts on a relatively permanent basis, shall be calculated into the LLL.

Article 31

Paragraph (1)

“Other bank in Indonesia” is defined as a commercial bank and rural bank.

“Consolidated” in this paragraph is defined as consolidation of the financial statement and consolidation in implementation of prudential principles, with scope including but not limited to the bank capital adequacy requirement, legal lending limit, and net open position, and supervisory actions and designation of Bank status.

Paragraph (2)

Letter a

The requirement for consolidation is in accordance with the applicable Standards for Financial Accounting.

Letter b

The scope of supervision applied to the Bank and investee shall cover application of prudential principles, namely the bank capital adequacy requirement, legal lending limit, and net open position, and supervisory actions and designation of Bank status.

Letter c

The applicable legal provisions include but are not limited to the Bank Indonesia Regulation concerning Prudential Principles in Equity Participation.

Paragraph (3)

Self-explanatory.

Article 32

Self-explanatory.

Article 33

Paragraph (1)

Letter a

Self-explanatory.

Letter b

“Unconditional” is defined as when:

1. the benefit of the guarantee to the Bank providing funds will not be substantially diminished even in the case of losses caused by factors outside the control of the Bank; and
2. no procedural requirements are stipulated, such as:
 - a. required period for notification of default;
 - b. requirement for the Bank providing funds to prove good faith; and/or
 - c. requirement for encashment of guarantee by prior set-off against the liabilities of the Bank providing funds to the guarantor.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 34

Self-explanatory.

Article 35 ...

Article 35

Paragraph (1)

Letter a

Self-explanatory.

Letter b

“Multilateral development agency” in this letter is defined as the International Bank for Reconstruction and Development (IBRD), Inter-American Development Bank, Asian Development Bank (ADB), International Finance Corporation (IFC), European Investment Bank (EIB), Islamic Development Bank (IDB), Council of Europe Social Development Fund (Council of Europe Resettlement Fund), Nordic Investment Bank, European Bank for Reconstruction and Development (EBRD), European Investment Fund, Inter-American Investment Corporation, Africa Development Bank (AfDB), and any other multilateral development agency recognized by Bank Indonesia.

Letter c

Number 1)

“Unconditional” is defined as when:

1. the benefit of the guarantee to the Bank providing funds will not be substantially diminished (based on the principle of materiality) even in the case of losses caused by factors outside the control of the Bank; and
2. no procedural requirements are stipulated, such as:
 - a. required period for notification of default;
 - b. requirement for the Bank providing funds to prove good faith; and/or

c. requirement ...

- c. requirement for encashment of guarantee by prior set-off against the liabilities of the Bank providing funds to the guarantor.

Number 2)

Self-explanatory.

Number 3)

Self-explanatory.

Number 4)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 36

Paragraph (1)

Self-explanatory.

Paragraph (2)

If Temporary Equity Participation to resolve Credit failure is provided for parties that are not Related Parties, the LLL for the new Provision of Funds is stipulated as LLL for parties that are not Related Parties.

Article 37

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Collateral provided by a customer shall be bound in favor of the Bank in such manner as to enable immediate foreclosure of collateral by the Bank in event of default.

Letter d

Self-explanatory.

Article 38

Letter a.

“Partnership scheme” is defined as a development scheme using a nucleus company to provide assistance and guidance to small-scale companies in the vicinity operating as smallholders in a mutually beneficial, self-contained, and sustainable system of cooperation.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Article 39

“Provided on an arm’s length basis” is defined as including but not limited to:

1. based on capacity for repayment of Credit received;
2. the assessment procedure for extension of the Credit is conducted in compliance with prudential principles equivalent to extension of Credit to parties who are not Executive Officers of the Bank;
3. there is no special treatment among Executive Officers of the Bank in extension of Credit; and
4. the procedure for extension of Credit is stipulated in the generally prevailing personnel regulations.

Article 40

Paragraph (1)

“SOE” in this Article is defined as an enterprise in which capital is wholly or partially is owned by the state through direct equity participation taken from state assets set aside as stipulated in the applicable laws and regulations.

“Provision of Funds to a State Owned Enterprise (SOE) for development of benefit to the well being of the general population” is defined as Provision of Funds for:

1. procurement of foodstuffs;
2. procurement of very low cost housing;
3. procurement/provision/management of oil and natural gas;
4. procurement/provision/management of water;
5. procurement/provision/management of electricity;

6. procurement of supporting infrastructure for land, sea, and air transportation in the form of construction of roads, bridges, railroads, seaports, and airports.

Paragraph (2) and paragraph (3)

Regional Government Enterprise in this paragraph is defined as a business entity with capital owned by a regional government, whether in whole or in part, through direct equity participation financed from regional government assets set aside as stipulated in the applicable laws and regulations.

Article 41

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The matters for adjustment shall include but not be limited to the definitions of Provision of Funds, the LLL for Borrower Groups, and the LLL for Credit guaranteed by multilateral development agencies.

Article 42

Paragraph (1)

“Implementation of the LLL provisions” is defined as including but not limited to calculation of Provision of Funds, calculation of Capital, designation of Borrower groups, and/or designation of Related Parties.

Paragraph (2) ...

Paragraph (2)

Corrections to reports to Bank Indonesia and published reports shall be made no later than the following period after the decision of Bank Indonesia regarding the corrections.

Article 43

Self-explanatory.

Article 44

Self-explanatory.

Article 45

Self-explanatory.

Article 46

Self-explanatory.

Article 47

Self-explanatory.

Article 48

Self-explanatory.

Article 49

Self-explanatory.

Article 50

Self-explanatory.