

BANK INDONESIA REGULATION  
NUMBER: 6/ 19 /PBI/2004  
CONCERNING  
ALLOWANCE FOR EARNING ASSETS LOSSES  
FOR SHARIA RURAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering :
- a. whereas the sustainability of Rural Banks conducting business based on Sharia principles is dependent on readiness against risks of losses from fund investments and placements;
  - b. whereas to cover risk of losses that may arise from fund investments and placements, Rural Banks conducting business based on Sharia principles are required to establish allowance for earning assets losses;
  - c. whereas products for fund investments and placements in the form of earning assets of Rural Banks conducting business based on Sharia principles have specific characteristics;
  - d. now therefore pursuant to the considerations set forth in letters a, b, and c, it is deemed necessary to stipulate provisions concerning allowance for earning assets losses for Rural Banks conducting business based on Sharia principles in a Bank Indonesia Regulation;

- In view of : 1. 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);
2. 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 ALLOWANCE FOR EARNING ASSETS LOSSES FOR SHARIA RURAL BANKS.

CHAPTER I

GENERAL PROVISIONS

Article 1

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

1. “Sharia ...

1. “Sharia Rural Bank,” hereinafter referred to as SRB, is a Rural Bank as defined in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting business based on Sharia principles;
2. “Sharia Bank” is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting business based on Sharia principles including any Commercial Bank conducting conventional business concurrently with business based on Sharia principles;
3. “Earning Assets” are investments or placements of SRB funds in Rupiahs based on Sharia principles in the form of Financing, Receivables, *Ijarah*, Bank Indonesia *Wadiah* Certificates, and Interbank Placements;
4. “Financing based on Sharia principles” is provision of funds and/or claims by an SRB to a Customer on the basis of a *Mudharabah* and/or *Musyarakah* agreement and/or other financing agreement based on the profit sharing principle;
5. “*Mudharabah*” is an agreement between an SRB as provider of funds and a customer as manager of funds for conducting a particular business activity with division of profit between the two parties based on a ratio agreed in advance, while losses are borne by the provider of funds except in the case of losses from deliberate error, negligence, and/or breach of agreement by the manager of funds;
6. “*Musyarakah*” is an agreement between an SRB as provider of funds with other providers of funds to finance a specified business with sharing of profit among the providers of funds at a ratio agreed in advance, while

losses shall be borne by all providers of funds based on the proportion of funds from each party;

7. “Receivables” are claims arising from sale and purchase transactions based on *Murabahah*, *Salam*, or *Istishna* agreements, and/or borrowing transactions based on *Qardh* agreements;
8. “*Murabahah*” is a sale and purchase agreement in the amount of the cost of goods plus a margin of profit agreed by the SRB as seller with the customer as buyer, in which payment is deferred;
9. “*Salam*” is an agreement for sale and purchase of goods with payment of the price in advance by the SRB as buyer to the customer as the seller required to deliver the ordered goods according to a specific time frame, criteria, and conditions, in which the goods will be resold by the SRB to another party;
10. “*Istishna*” is an agreement for sale and purchase of goods according to an agreed time frame, criteria, and conditions, with deferred payment executed by the customer as buyer to the SRB as seller after the ordered goods are received by the customer;
11. “*Qardh*” is an agreement for lending and borrowing of funds between an SRB as lender and a customer as debtor requiring the debtor to repay the loan principal without any fee agreed in advance in a lumpsum payment or installment payments over a specified period;
12. “*Ijarah*” is an agreement for leasing of an item of merchandise (*Ijarah Assets/Ijarah Down Payment*) between an SRB as the lessor and a customer as the lessee for a specified term;
13. “*Ijarah Asset*” is an asset acquired or purchased by an SRB for leasing purposes;

14. “Ijarah ...

14. “*Ijarah* Down Payment” is a leasing down payment paid by an SRB to an owner of goods, and thereafter the goods are leased by the SRB to a customer;
15. “Interbank Placements” are placements of SRB funds in a Sharia Bank or other SRB, including but not limited to placements in the form of *Wadiah* demand deposits and/or savings deposits, *Mudharabah* time deposits and/or savings deposits, extended Financing, and/or other equivalent form of placement;
16. “Bank Indonesia *Wadiah* Certificate” (SWBI) is proof of a *Wadiah* fund placement at Bank Indonesia;
17. “*Wadiah*” is an agreement for fund placement, made between an owner of funds and a party entrusted with the keeping of the funds;
18. “Appraisal” is a written statement by an independent appraiser or internal appraiser of the SRB concerning assessment and opinion of the economic value of collateral in the form of land, buildings, residential property, and motor vehicles, based on analysis of objective and relevant facts according to generally prevailing method and principles established by the Indonesian Professional Society of Appraisers (MAPPI);
19. “Fair Market Value” (Market Approach) is the estimated sum of money that can be obtained from a sale and purchase transaction or from barter of an asset at the appraisal date, after deduction for transaction costs;
20. “Allowance for Earning Assets Losses” is the reserve that must be formed in a specified percentage of disbursement based on classification of Earning Assets Quality as stipulated in the applicable Bank Indonesia Regulation.

## CHAPTER II

### PROCEDURE FOR FORMATION

#### Article 2

- (1) SRBs are required to establish allowance for earning assets losses in the form of general reserves and special reserves to cover risk of losses.
- (2) General reserves for allowance for earning assets losses as referred to in paragraph (1) are stipulated at no less 0.5% (zero point five percent) of all Earning Assets classified as current, not including Bank Indonesia *Wadiah* Certificates.
- (3) Special reserves for Allowance for Earning Assets Losses as referred to in paragraph (1) are stipulated at no less than:
  - a. 10% (ten percent) of Earning Assets classified as Substandard, after deduction for collateral value; and
  - b. 50% (fifty percent) of Earning Assets classified as Doubtful, after deduction for collateral value; and
  - c. 100% (one hundred percent) of Earning Assets classified as Loss, after deduction for collateral value.

#### Article 3

- (1) The requirement to establish Allowance for Earning Assets Losses as referred to in Article 2 shall not apply to Earning Assets in the form of *Ijarah*, but the SRB shall be required to depreciate *Ijarah* assets and/or amortize *Ijarah* down payments.

(2) Depreciation ...

- (2) Depreciation of *Ijarah* assets and/or amortization of *Ijarah* down payments as referred to in paragraph (1) shall be formed pro rata over the duration of the economic life of the *Ijarah* assets and/or term of the lease.

### CHAPTER III

#### APPRAISAL OF COLLATERAL

##### Article 4

Collateral that deductible from formation of Allowance for Earning Assets Losses consists of the following:

- a. *Wadiah* savings deposit, *Mudharabah* savings deposits or time deposits, gold, foreign banknotes, gold currency, and guarantee deposit that is blocked and accompanied by power of attorney for conversion into cash;
- b. Bank Indonesia *Wadiah* Certificates bound under pledge;
- c. Land, buildings, residential property, and motor vehicles bound as collateral.

##### Article 6

Collateral value that is deductible from formation of Allowance for Earning Assets Losses as referred to in Article 2 paragraph (3) is stipulated as follows:

- a. for liquid collateral, namely SWBIs, cash, foreign banknotes, gold, gold currency, *Wadiah* savings deposits, *Mudharabah* savings deposits and/or time deposits that are blocked and accompanied by power of attorney for conversion into cash, at 100% (one hundred percent);

- b. for collateral in the form of land, buildings, and residential property (Land Title or Building Use Right) with insurance coverage, at 70% of insured value;
- c. for collateral in the form of land, buildings, and residential property (Land Title or Building Use Right) without insurance coverage, at 50% of taxable sale value (NOJP);
- d. for collateral in the form of land, buildings, and residential property based on *Girik* temporary title (Letter C) accompanied by Land Tax Assessment (SPPT), value shall be recognized for 6 (six) months at 50% of taxable sale value (NOJP);
- e. for collateral in the form of motor vehicles supported by Motor Vehicle Certificate of Ownership (BPKP), at 50% of fair market value.

#### Article 6

- (1) Appraisal of collateral shall be conducted by an internal appraiser of the SRB on the basis of analysis of objective and relevant facts according to generally prevailing methods and principles as referred to in Article 1 number 18.
- (2) In the event that appraisal of collateral is not conducted as referred to in paragraph (1), the result of the collateral appraisal shall not be deductible from Allowance for Earning Assets Losses.



#### Article 7

Bank Indonesia may recalculate the value of collateral deducted from Allowance for Earning Assets Losses in the event that:

- a. collateral is not supported by adequate documentation and/or binding of collateral is not in compliance with prevailing laws and regulations;
- b. appraisal is not conducted in accordance with the provisions referred to in Article 5 and Article 6.

### CHAPTER IV

#### SANCTIONS

#### Article 8

Any Bank failing to comply with the provisions in Article 2 paragraph (1), Article 3 and Article 6 paragraph (1) shall be liable to administrative sanctions as referred to in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 as follows:

- a. written warning;
- b. downgrading of rating; and/or
- c. replacement of management.

## CHAPTER V

### CONCLUDING PROVISIONS

#### Article 9

With the issuance of this Bank Indonesia Regulation, Decree of the Management of Bank Indonesia Number 26/22/KEP/DIR concerning Earning Assets Quality and Allowance for Earning Assets Losses, and Circular Letter of Bank Indonesia Number 26/4/BPPP concerning Earning Assets Quality and Allowance for Earning Assets Losses, both dated May 29, 1993, as amended by Decree of the Management of Bank Indonesia Number 26/167/KEP/DIR concerning Amendment to Decree of the Management of Bank Indonesia Number 26/22/KEP/DIR dated May 29, 1993, concerning Earning Assets Quality and Allowance for Earning Assets Losses and Circular Letter of Bank Indonesia Number 26/9/BPPP concerning Amendments to Earning Assets Quality and Allowance for Earning Assets Losses, both dated March 29, 1994, are declared no longer valid with respect to SRBs.

-- 11

--

Article 10

This regulation shall come into force on the date of its enactment

Enacted in Jakarta

Dated: July 1, 2004

THE GOVERNOR OF BANK INDONESIA

SYAHRIL SABIRIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 60 OF  
2004

DPbS

ELUCIDATION  
TO  
BANK INDONESIA REGULATION  
NUMBER: 6/ 19/PBI/2004  
CONCERNING  
ALLOWANCE FOR EARNING ASSETS LOSSES  
FOR SHARIA RURAL BANKS

I. GENERAL REVIEW

In the course of their fund investment activities, Sharia Rural Banks (SRBs) carry risk of losses from default of their fund investments. To ensure that SRBs are able and ready to absorb the risk of losses from these fund investments and to maintain sustainability of business operations, SRBs are required to establish allowance for earning assets losses.

In the formation of allowance for earning assets losses, collateral has an important role as a factor mitigating credit risk exposure. To obtain fair value, collateral must be appraised by an internal appraiser at the SRB on a periodical basis.

In view of the specific nature of products offered by SRBs and as part of instituting procedures for formation of allowance for earning assets losses based on prudential principles, it is necessary to enact a Bank Indonesia Regulation concerning Allowance for Earning Assets Losses for SRBs.

II. ARTICLE ....

## II. ARTICLE BY ARTICLE

### Article 1

Self-explanatory.

### Article 2

#### Paragraph (1)

Self-explanatory.

#### Paragraph (2)

Self-explanatory.

#### Paragraph (3)

Self-explanatory.

### Article 3

#### Paragraph (1)

Self-explanatory.

#### Paragraph (2)

Self-explanatory.

### Article 4

Self-explanatory.

### Article 5

#### Letter a

Self-explanatory.

Letter b ...

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Provision of the 6 (six) month period is intended to provide opportunity to the customer to process full ownership title to the land pledged as collateral by allowing the customer to submit evidence of processing of title to the land.

Letter e

Self-explanatory

Article 6

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 7

Self-explanatory.

Article 8

Self-explanatory.

Article 9

Self-explanatory.

Article 10

Self-explanatory.