

BANK INDONESIA REGULATION

NUMBER: 6/18/PBI/2004

CONCERNING

EARNING ASSETS QUALITY

FOR SHARIA RURAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering :
- a. whereas the performance and sustainability of Sharia Rural Banks is influenced by the quality of fund investments or placements;
  - b. whereas to maintain strong performance and business development in consistent compliance with prudential principles and Sharia principles, the management of Rural Banks conducting business based on Sharia principles must safeguard the quality of earning assets;
  - c. whereas the products comprising fund investments or 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 necessary to enact provisions concerning earning assets quality 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 EARNING ASSETS QUALITY FOR SHARIA RURAL BANKS

CHAPTER I  
GENERAL PROVISIONS

Article 1

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

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 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 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 claim 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 asset acquired or purchased by an SRB for leasing purposes;
14. “*Ijarah Down Payment*” is 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 on the basis of Sharia principles, 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. “Revenue Projection” (RP) is the estimated revenue to be provided by a customer to an SRB in respect of extended financing in the amount and at the maturity date agreed by the SRB and the customer;
17. “Realized Revenues” (RR) are revenues provided by a customer to the SRB in respect of extended financing;
18. “Bank Indonesia *Wadiah* Certificate” (SWBI) is proof of a *Wadiah* fund placement at Bank Indonesia;
19. “*Wadiah*” is an agreement for fund placement, made between an owner of funds and a party entrusted with the keeping of the funds;
20. “Restructuring of financing, receivables, and/or *Ijarah*” comprises the measures undertaken by an SRB to assist a customer to meet his/her obligations, including but not limited to the following:

a. rescheduling ...

- a. rescheduling, namely the amendment of the repayment schedule of a customer's obligations or the term thereof;
- b. reconditioning, namely the amendment in all or in part of the terms and conditions of financing, receivables, and/or *Ijarah*, including but not limited to amendment of repayment schedule, term, and/or other terms and conditions insofar as it does not involve any amendment to the maximum balance of the financing, receivable, and/or *Ijarah*;
- c. restructuring, namely the amendment of the terms and conditions of financing, receivables, and/or *Ijarah* in respect to:
  - 1) addition of SRB funds;
  - 2) conversion of financing into receivables and/or vice versa;
  - 3) conversion of financing or receivables into *Ijarah*.

## Article 2

- (1) Placements of SRB funds in Earning Assets must be made on the basis of prudential principles.
- (2) The management of a Sharia Bank must monitor and take anticipatory measures to ensure that Earning Assets Quality is always *Current*.

## CHAPTER II

### RATING PROCEDURE

## Article 3

Earning Assets Quality shall be rated on a monthly basis.

Article 4 ...

#### Article 4

- (1) Quality of Earning Assets in the form of Financing, Receivables, *Ijarah*, and/or Interbank Placements shall be rated by 4 (four) classifications, namely Current, Sub-standard, Doubtful, and Loss.
- (2) Rating of Earning Assets Quality as referred to in paragraph (1) shall be based on promptness of repayment and/or repayment ability of the beneficiary customer in accordance with the appendix to this Bank Indonesia Regulation.

#### Article 5

- (1) Rating of quality of Financing and Interbank Placements shall be conducted on the basis of repayment ability with reference to prompt repayment of principal installments and/or achievement of a ratio of Realized Revenue (RR) to Revenue Projection (RP).
- (2) RP shall be calculated on the basis of analysis of business viability and incoming cash flow of the customer over the duration of the financing term.
- (3) An SRB may amend the RP on the basis of an agreement with the customer insofar as there are changes in macroeconomic and market conditions affecting the business of the customer.
- (4) The SRB must state the RP and any amendment to the RP in the financing agreement between the SRB and the beneficiary customer and these matters must be fully documented.
- (5) An SRB may revise the RP a maximum of:
  - a. 1 (one) time for financing with a term of up to one year;
  - b. 2 (two) ...

- b. 2 (two) times for financing with a term of more than one year.

#### Article 6

- (1) Repayment of Financing principal as referred to in Article 5 paragraph (1) may be made in installments over the duration of Financing or in a lumpsum payment upon expiration of the Financing agreement with a term of up to 1 (one) year).
- (2) If the term of financing is more than 1 (one) year, repayment of Financing principal as referred to in paragraph (1) must be made in installments in accordance with the cash inflow projection of the beneficiary customer's business.
- (3) Repayment of principal as referred to in paragraph (1) must be stated in the financing agreement between the SRB and the beneficiary customer and must be fully documented.

#### Article 7

- (1) Quality of Earning Assets in the form of Receivables shall be rated on the basis of prompt payment of installments on the Receivables.
- (2) Quality of Earning Assets in the form of Receivables as referred to in paragraph (1) shall be based on prompt repayment in the case of Receivables with a term of up to 1 (one) month.
- (3) If the term of the Receivables is more than 1 (one) month, repayment of installments on the Receivables as referred to in paragraph (1) shall be



made regularly in accordance with the cash inflow projection for the customer's business.

- (4) Repayment of installments on Receivables as referred to in paragraph (1) shall be stated in the financing agreement between the SRB and the beneficiary customer and supported by complete documentation specifying at least the installment, margin, and payment schedule.

#### Article 8

Quality of Earning Assets in the form of *Ijarah* shall be rated by promptness of leasing payments.

#### Article 9

The quality of Bank Indonesia *Wadiah* Certificates is stipulated as Current.

#### Article 10

SRB fund placements in Earning Assets shall be fully documented.

#### Article 11

Earning Assets Quality determined by an SRB may be downgraded by Bank Indonesia (professional judgement) in the event of one or more of the following:

- a. there is no knowledge of the whereabouts of the beneficiary customer without justifiable reason;
- b. the business of the customer is bankrupt.

Article 12 ....

Article 12

- (1) An SRB may conduct Restructuring of Financing, Receivables, and/or *Ijarah* insofar as the Customer still has business prospects but has or is predicted to experience difficulties in payment of principal, installments, profit share, or leasing obligations.
- (2) Restructuring as referred to in paragraph (1) shall be conducted on the basis of Sharia principles.
- (3) Classification of quality of restructured Financing, Receivables, and/or *Ijarah* as referred to in paragraph (1) shall be as follows:
  - a. no higher than Sub-standard for Financing, Receivables, and/or *Ijarah* classified before restructuring as Doubtful or Loss;
  - b. quality shall be unchanged for Financing, Receivables, and/or *Ijarah* classified before restructuring as Current or Sub-standard.
- (4) Quality of Financing, Receivables, and /or *Ijarah* as referred to in paragraph (3) may be:
  - a. current if there are no arrears in principal installments and profit share over the last 6 (six) consecutive payment periods;
  - b. downgraded to the same quality as prior to restructuring, if the debtor customer fails to meet the criteria referred to in letter a.

### CHAPTER III

#### SANCTIONS

##### Article 13

Any SRB failing to comply with the provisions in Article 2 paragraph (1) and paragraph (2), Article 3, Article 5 paragraph (4), Article 6 paragraph (2) and paragraph (3), Article 7 paragraph (3) and paragraph (4), and Article 10 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 IV

#### CONCLUDING PROVISIONS

##### Article 14

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.

Article 15

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

Enacted in Jakarta

Dated July 1, 2004

THE GOVERNOR OF BANK INDONESIA

(signed)

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 59 OF  
2004

DPbS

ELUCIDATION  
TO  
BANK INDONESIA REGULATION  
NUMBER: 6/18/PBI/2004  
CONCERNING  
EARNING ASSETS QUALITY  
FOR SHARIA RURAL BANKS

I. GENERAL REVIEW

Sustainability of Sharia Rural Banks is dependent upon performance, of which one of the key indicators is quality of investment or placement of bank funds. Proper quality of fund investments or placements will generate profits and banks conducting business operations based on Sharia principles will thus enjoy strong performance. Conversely, poor quality placements of funds will result in deteriorating performance of a Sharia Rural Bank and may ultimately jeopardize the sustainability of the Sharia Rural Bank.

As part of its cognizance of the importance of quality of fund investments or placements, the management of a Sharia Rural Bank having received a mandate from investors has a responsibility for the management of these funds, commencing with approval and extending through monitoring of the quality of fund investments or placements. Monitoring of fund investments or placements is conducted through continual rating of the quality of the fund investments or placements based on customer repayment ability.

In view of the specific nature of the products and operations of Sharia Rural Banks and as part of instituting procedures for rating of earning assets quality based on prudential principles and complying with Sharia principles, it is necessary to enact a Bank Indonesia Regulation concerning earning assets quality for Sharia Rural Banks.

## II. ARTICLE BY ARTICLE

### Article 1

Self-explanatory.

### Article 2

#### Paragraph (1)

“Prudential principles in fund investment and placements” are defined as investment or placement of SRB funds, among others, on the basis of:

- Analysis of business viability, taking into account at least the 5C factors (Character, Capital, Capacity, Condition of Economy, and Collateral);
- Assessment of repayment ability.

#### Paragraph (2)

“Monitor” is defined as keeping watch for changes in the business performance of the customer from time to time.

“Take anticipatory measures” is defined as taking actions and preventive measures to guard against the possibility of default in fund placements.

Article 3

Self-explanatory.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 5

Paragraph (1)

Achievement of the ratio of Realized Revenues (RR) to Projected Revenues (PR) is calculated as follows:

$$Q = \frac{RR}{RP} \times 100\%$$

In which:

Q = Quality of Financing

RR = Realized Revenues provided by the customer to the SRB

RP = Estimated revenues to be provided by the customer to the SRB

Paragraph (2)

For example, in the case of Financing with a 2-year term with payment of profit share scheduled every 1 month, the RP shall be determined every 1 month as follows:

1. 1<sup>st</sup> month RP = Rp xxx or x%
2. 2<sup>nd</sup> month RP = Rp yyy or y%, etc.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Fully documented is defined as at least the availability of financing documentation from application to analysis, decision, and monitoring of the financing, and other files pertaining to RP and amendments thereto.

Paragraph (5)

Self-explanatory.

Article 6

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.



Article 7

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory

Article 8

Self-explanatory.

Article 9

Self-explanatory

Article 10

“Fully documented” is defined as at least the availability of documentation for investment or placement of funds from application to analysis, decision, and monitoring of investment or placement of funds and amendments thereto.

Article 11

“Bankrupt” is defined as severe financial difficulties sustained by the business of a customer in which the customer is unable to meet obligations or is declared bankrupt.

Article 12 ...

Article 12

Paragraph (1)

Self-explanatory

Paragraph (2)

“Restructuring conducted on the basis of Sharia principles” is defined as restructuring in accordance with the fatwas issued by the Sharia fatwa authority.

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Article 13

Self-explanatory

Article 14

Self-explanatory

Article 15

Self-explanatory

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF  
INDONESIA NUMBER 4393