

BANK INDONESIA REGULATION
NUMBER: 7/15/PBI/2005
CONCERNING
MINIMUM TIER ONE CAPITAL FOR COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering :
- a. whereas to bring about a sound, strong, and efficient banking system for the creation of financial system stability and to promote sustainable national economic growth, support is needed from a strong banking system particularly in regard to capital;
 - b. whereas the strengthening of bank capital is one of envisaged actions for structural reinforcement of the Indonesian banking system in accordance with the goals set forth in the Indonesian Banking Architecture (API);
 - c. whereas strong capital is necessary, among others, to absorb risks, develop infrastructure for bank business expansion, and to prepare for the future application of the Basel Accord II;
 - d. now therefore based on the considerations referred to in letter a, letter b, and letter c, it is necessary to stipulate the minimum tier one capital for Commercial Banks 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 THE MINIMUM TIER ONE CAPITAL FOR COMMERCIAL BANKS.

Article 1

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

1. "Bank" is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, not including branch office of a foreign bank.

2. "Tier 1 ...

2. "Tier 1 Capital" is paid up capital and disclosed reserves as referred to in the Bank Indonesia regulatory provisions concerning the Minimum Capital Adequacy Requirement for Commercial Banks.

Article 2

- (1) Banks are required to comply with Tier 1 Capital of no less than Rp 80,000,000,000.00 (eighty billion rupiahs) on December 31, 2007.
- (2) A Bank having complied with Tier 1 Capital as referred to in paragraph (1) shall subsequently be required to comply with Tier 1 Capital of no less than Rp 100,000,000,000.00 (one hundred billion rupiahs) on December 31, 2010.

Article 3

- (1) In the case of a Bank not in compliance with minimum Tier 1 Capital as referred to in Article 2 at the time of promulgation of these provisions, the Board of Directors of the Bank shall develop a plan for compliance with minimum Tier 1 Capital with approval from the General Meeting of Shareholders.
- (2) The plan for compliance with minimum Tier 1 Capital as referred to in paragraph (1) shall be set forth in an action plan for compliance with minimum Tier 1 Capital and submitted to Bank Indonesia no later than:
 - a. 6 (six) months for a Bank that has not gone public; and
 - b. 8 (eight) months for a Bank that has gone public,after the promulgation of these regulatory provisions.
- (3) The plan for compliance with minimum Tier 1 Capital as referred to in paragraph (1) shall be disclosed in the business plan of the Bank.
- (4) Action plans as referred to in paragraph (2) shall be submitted to Bank Indonesia at the following addresses:

a. the ...

- a. the relevant Directorate of Bank Supervision, Jl. M.H. Thamrin No. 2 Jakarta 10110, for a Bank having its head office in the working area of the Bank Indonesia head office; or
- b. the local Bank Indonesia Regional Office, for a Bank having its head office outside the working area of the Bank Indonesia head office.

Article 4

Any Bank not complying with the minimum Tier 1 Capital as referred to in Article 2 shall be required to limit its business activities as follows:

- a. not conduct business as a foreign exchange Commercial Bank;
- b. limit provision of funds per debtor and/or per debtor group to a ceiling or outstanding credit of no more than Rp 500,000,000.00 (five hundred million rupiahs), not including Bank Indonesia Certificates and provision of funds to the Government and Banks;
- c. limit the maximum deposit funds that may be accumulated by the bank to 10 (ten) times Tier 1 Capital; and
- d. close down the entire Bank office network located outside the provincial territory of the head office of the Bank.

Article 5

The requirement to limit business activity as referred to in Article 4 shall be complied with no later than:

- a. December 31, 2008, for a Bank failing to comply with the provisions referred to in Article 2 paragraph (1);
- b. December 31, 2011, for a Bank failing to comply with the provisions referred to in Article 2 paragraph (2).

Article 6

- (1) Any Bank failing to submit an action plan as referred to in Article 3 paragraph (2) shall be liable to a financial penalty of Rp 1,000,000.00 (one million rupiahs) per day until the Bank complies with this provision, subject to a maximum of Rp 50,000,000.00 (fifty million rupiahs).
- (2) Any Bank failing to comply with the provisions referred to in Article 5 shall be liable to administrative sanctions as referred to in Article 52 paragraph (2) of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, including but not limited to:
 - a. a financial penalty of Rp 5,000,000.00 (five million rupiahs) per day until the Bank complies with these provisions;
 - b. freezing of specified business activities; and/or
 - c. prohibition from participation in clearing.

Article 7

Any Bank subject to the requirement to limit business activities as referred to in Article 4 may only conduct business without such limits insofar as it complies with paid up capital of no less than:

- a. Rp 3,000,000,000,000.00 (three trillion rupiahs) for a Bank conducting conventional business;
- b. Rp 1,000,000,000,000.00 (one trillion rupiahs) for a Bank conducting business based on sharia principles.

Article 8

Further provisions pertaining to this Bank Indonesia Regulation shall be stipulated in a Circular Letter of Bank Indonesia.

- 6 -

Article 9

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

Enacted in Jakarta

Dated July 1, 2005

THE GOVERNOR OF BANK INDONESIA,

BURHANUDDIN ABDULLAH

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER: 7/15/PBI/2005
CONCERNING
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GENERAL REVIEW

A sound, strong, and efficient banking system for the creation of financial system stability requires the support of sound and strong bank capital. This sound and strong bank capital is vital the support of national economic growth within the framework of promoting business activity in the real sector.

At this time, the national banking system is still not fully capable of providing the expected level of support for economic growth. One constraining factor hampering the role of the banking system in promoting economic growth and business activity lies in the continued weakness in the existing capital structure of Banks. At the same time, the increasing diversity and complexity of Bank business may potentially carry greater risks for Banks. The greater risks needs to be matched by higher levels of the capital needed by Banks to absorb possible losses. On the other hand, the need for higher levels of Bank capital is also consistent with the plan for future application of Basel Accord II, which will require levels of Bank capital adequacy commensurate to the level of risks faced.

In this regard, Bank Indonesia deems the increase of Tier 1 capital for the national banking a matter of pressing urgency that cannot be delayed any longer. Accordingly, Banks are now required to possess the minimum stipulated Tier 1 capital to support their business activities.

ARTICLE ...

ARTICLE BY ARTICLE

Article 1

Self-explanatory

Article 2

Self-explanatory

Article 3

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

“Business plan” is business plan as stipulated in the Bank Indonesia Regulation concerning Business Plans for Commercial Banks.

Paragraph (4)

Self-explanatory

Article 4

Letter a

Bank Indonesia will revoke the license of a Commercial Bank to conduct business in foreign exchange in the case of a Bank licensed to conduct business as a foreign exchange Commercial Bank but unable to comply with the minimum Tier 1 Capital requirement in accordance with this Bank Indonesia Regulation.

Such ...

Such Bank shall not be able to apply for license to operate as foreign exchange Commercial Bank even if the capital of the Bank meets the requirements for operation as a foreign exchange Commercial Bank.

Letter b

The provisions under this letter do not diminish the obligation of the Bank to comply with prudential principles in provision of funds, such as the provisions concerning the Legal Lending Limit.

Letter c

“Deposit funds” is defined as deposit funds as stipulated in the Bank Indonesia regulatory provisions concerning the Statutory Reserve Requirement for Commercial Banks.

Letter d

“Office network” is defined as Branch Offices, Sub-Branch Offices, Cash Units, and Outdoor Cash Units.

Article 5

Self-explanatory

Article 6

Self-explanatory

Article 7

Self-explanatory

Article 8

Self-explanatory

Article 9

Self-explanatory