

# REGULATION ON MINIMUM CAPITAL REQUIREMENT FOR COMMERCIAL BANKS REVISED

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In an attempt to increase a bank's ability to absorb risks, the improvement of a bank's capital quality and quantity to be in accordance with international standards is deemed necessary. In order to increase a bank's capital quality, it is also considered necessary for the bank to have additional capital which will have the function as a buffer in the event of a financial and economic crisis which may negatively affect the stability of the financial system. For this purpose, on 12 December 2013, Bank Indonesia issued Regulation No. 15/12/PBI/2013 on Mandatory Minimum Capital Requirements for Commercial Banks to amend the provisions regarding the requirements for commercial banks and the representative offices of foreign commercial banks in holding certain funds depending on the risk profile of each bank. Similar to the previous regulation (i.e. PBI Regulation No. 14/18/PBI/2012) this regulation also requires the minimum capital requirement to be determined based on a percentage of risk weighted assets (aset tertimbang menurut risiko or "**ATMR**"), i.e. (i) 8% of the ATMR for banks with risk profile in level 1; (ii) 9% to less than 10% of the ATMR for banks with risk profile in level 2; (iii) 10% to less than 11% of the ATMR for banks with risk profile in level 3; or (iv) 11% to 14% of the ATMR for banks with risk profile in levels 4 or 5.

Unlike the previous BI regulation, this regulation only requires two types of capital which must be maintained by banks headquartered in Indonesia, namely (i) main capital (modal inti or Tier 1) in the amount of at least 6% of ATMR, which includes Common Equity Tier 1 (or modal inti utama) and Additional Tier 1 (modal inti tambahan); and (ii) supplementary capital (modal pelengkap or Tier 2). Further, it regulates the obligation for banks to provide additional capital as a buffer against economic and financial risks, consisting of (i) Capital Conservation Buffer of 2.5% of the ATMR; (ii) Countercyclical Buffer of 0% - 2.5% of the ATMR (which will be further determined by BI); and/or (iii) Capital Surcharge for Domestic Systematically Important Bank of 1% - 2.5% of the ATMR (or higher, based on the determination by the authorized official).

