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NPLs AND BANKS' BUSINESSES

CREDIT QUALITY

- Commercial Banks (BI Regulation No. 7/2/PBI/2005 on Assessments on Commercial Banks' Assets Quality)
Pass or Good Standing (L),
Special Mention (DPK),
Substandard (KL),
Doubtful (D), and
Default or Loss (M).**

- Rural Banks (SK DIR No.26/22/KEP/DIR tahun 1993 tentang Kualitas Aktiva Produktif)
Pass or Good Standing (L),
Substandard (KL),
Doubtful (D), and
Default or Loss (M).**

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1. Pass or Good Standing

a. Loan and installment with no Mortgage

- No late payment (principal and interest).
- Late in principal payment, but :
 - Less than 1 month, for installment < 1 month
 - Less than 3 month, for installment < 3 month
 - Less than 6 month, for installment \geq 4 month
- Late in interest payment, but:
 - Less than 1 month, for installment \leq 1 month
 - Less than 3 month, for installment > 1 month
 - There are delays, yet not over 15 working days

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1. Pass or Good Standing

Continues

b. Loan with Mortgage

- No late payment for principal, or
- There is late payment for principal, not over 6 months

c. Loan with Checking Account

- Loan is not past due, no late interest payment
- Loan is not past due, late interest payment is not \geq 3 months
- Loan is due, but the due date is extended
- There are delays, yet not over 15 working days

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2. Substandard

a. Loan with installments, excluding Mortgage Installment

- 1) Late payment for principal under the following conditions :
 - a) > 1 month and < 2 month for installment < 1 month
 - b) > 3 month and < 6 month for installment 1, 2 dan 3 monthly
 - c) > 6 month but < 12 month for installment \geq 6 month
- 2) Delays \leq 15 working days, but \leq 30 working days,
- 3) Late interest payment:
 - a) > 1 month but < 3 month for installment < 1 month
 - b) > 3 month but < 6 month for installment > 1 month

b. Loan with Mortgage Installment

Late payment for principal > 6 month, > 9 month.

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2. Substandard

Continues....

c. Loan with no installment.

- Prior to due date,
 - ✓ Late payment > 3 month, but < 6 month, or
 - ✓ There is an increase in credit limit or new credit to repay late interest payment, or
- Loan is due and has not been repaid, but not over 3 months, or
- Delays due to withdrawal, but > 15 working days < 30 working days

d. Recoverable Loan

- Loan can be recovered with collateral value a minimum of 75% of the owed amount, including the interests.
- Loan cannot be recovered with collateral value a minimum of 100% of the owed amount.

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3. Doubtful

- a. Loan can be recovered with collateral value a minimum of 75% of the owed amount, including the interests
- b. Loan cannot be recovered with collateral value a minimum of 100% of the owed amount

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4. Default or Loss

- a. Do not meet the criteria of good standing, substandard and doubtful as explained in 1, 2 and 3.
- b. Meet the criteria of 3, but in 21 months upon being classified into doubtful there has been no repayment or recovery
- c. Settlement of loan has been handed over to District Court or the Nation's Collection Agency or has been submitted to credit insurance company for compensation

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Credit Quality and the impacts

1. Impact to the nation's economy or monetary conditions
2. Impact to the banking industry
3. Impact to banks' operations:
 - Add to the operational costs
 - Reduce profit and the banks' performance
 - Reduce Capital Adequacy Ratio (CAR).

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