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SOUND CREDIT MANAGEMENT

OBJECTIVES OF SOUND CREDIT MANAGEMENT

- To optimize revenue.
- To control and minimizing the risk of non-performing loans.

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PRINCIPLES OF SOUND CREDIT MANAGEMENT

- A written provision in regards with granting good credit.
 - The existence of credit organizations
 - Terms of approval and disbursement of credit
 - Maximum credit limit
 - The criteria of high risk credit
 - Credit analysis as a deterrent of bad debt
- Improvement on human resources
- Credit supervision
- Documentation and sound credit administration.

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CREDIT ORGANS

- A. Board of Commissioners, with its main duties, authorities and responsibilities as follows:
- Approving the loan provisions proposed by the board of directors.
 - Monitoring the application of credit provisions and hold accountable to the board of directors whenever there is a deviation from the provisions of credit.
 - Providing approval of the annual credit distribution submitted by the board of directors.
 - Monitoring the implementation of the credit distribution plan and hold accountable to the board of directors whenever there is a deviation from the annual plan and corrective measures that have been, are and will be taken by the board of directors.
 - Approving credit disbursement advice to debtors associated with certain major banks and creditors or lending in large amounts.
 - Monitoring credit quality developments granted to borrowers in general, debtors associated with banks and credits granted to certain large debtors.

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CREDIT ORGANS

- B. Board of Directors, with its main duties, authorities and responsibilities as follows.:
- Establish a credit policy.
 - Preparing the annual plan for lending.
 - Carry out annual plans and crediting requirements that have been approved by the board of commissioners.
 - Responsible for the implementation of the annual plan and provision of credit to the board of commissioners and to the central bank.
 - Monitoring the implementation of credit terms.
 - Make the necessary corrections to the deviations from the annual credit distribution plan and the credit terms.
 - Monitoring the progress of credit quality as a whole, credit disbursed to debtors with bank link, and loans to certain borrowers.
 - Determine the handling of problem loans and monitor their implementation.

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TERMS OF APPROVAL AND CREDIT DISBURSEMENT

Meet the requirements:

- Lending is based on the results of a professional analysis;
- Not being NPLs;
- The principal terms of credit disbursement established by the bank;
- Free from the influence of any third party with an interest in crediting it;
- The juridical aspect that protects the bank (eg binding on guaranteed property).

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MAXIMUM CREDIT LENDING (BMPK)

A. Basis of BMPK Regulations (Article 11 of Law No. 10/1998 on Amendment to Law No. 7 of 1992 concerning Banking)

BMPK which may be granted by banks to ordinary debtors and debtors associated with the bank as follows:

article 1 :

Bank Indonesia shall stipulate provisions concerning the maximum crediting or financing limit under the Sharia Principle, the granting of collateral, the placement of securities or other similar investments which may be made by the borrowing bank or a group of related borrowers, including to companies in the same group as the bank concerned.

article 2 :

The maximum limit as referred to in paragraph (1) shall not exceed 30% (thirty per one hundred) of bank capital in accordance with provisions stipulated by Bank Indonesia.

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MAXIMUM CREDIT LENDING (BMPK)

Article 3 :

- *Bank Indonesia shall stipulate provisions on the maximum credit or financing limit under the Syariah Principles, the granting of collateral, the placement of securities investments, or other similar matters which may be made by the bank to :*
- *Shareholder owning 10% (ten percent) or more of the paid up capital of the bank;*
- *Member of the Board of Commissioners*
- *Member of the Board of Directors*
- *Families of parties referred to in Letter A, Letter B, and Letter C;*
- *Other officials; and*
- *Companies in which there is interest from the parties referred to in Letter A. Letter B. Letter C. Letter D. and E.*

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MAXIMUM CREDIT LENDING (BMPK)

– article 4 :

The maximum limit as referred to in paragraph (3) shall not exceed 10% (ten percent) of bank capital in accordance with the provisions stipulated by Bank Indonesia.

– article 4a :

In providing credit or financing under the Sharia Principles, banks are prohibited from exceeding the maximum limit of credit or financing under the Sharia Principles as set forth in paragraphs (1), (2), (3) and (4).

– article 5 :

The implementation of the provisions referred to in paragraphs (1) and (3) shall be reported in accordance with the provisions stipulated by Bank Indonesia.

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MAXIMUM CREDIT LENDING (BMPK)

B. Legal Lending Limit (LLL) of Commercial Banks for debtors not associated with the bank

(Bank Indonesia Regulation No.7 / 3 / PBI / 2005 dated January 20, 2005 Chapter III):

Article 11 :

(1) Provision of Funds to 1 (one) Borrower who is not a Related Party shall be a maximum of 20% (twenty percent) of the Bank's Capital.

(2) Provision of Funds to 1 (one) Borrower group which is not a Related Party shall be at the maximum of 25% (twenty five).

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MAXIMUM CREDIT LENDING (BMPK)

Article 12 :

The borrower is classified as a member of the Borrower group as referred to in Article 11 ayat (2) if the Borrower has a controlling relationship with other Borrowers either through ownership, management, or financial relationships, including:

The borrower is the controller of another Borrower;

- a. *1 (one) the same party is the controller of several Borrowers (common ownership);*
- b. *The borrower has financial dependence (financial interdependence) with other Borrowers;*
- c. *The borrower issues a guarantee to take over or pay off some or all of the other Borrower's obligations in the event that the Borrower fails to fulfill its obligations (wanprestasi) to the Bank;*
- d. *The Board of Directors, Commissioners and / or the Borrower's Executive Officer become the Board of Directors and or the Commissioner of another Borrower.*

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MAXIMUM CREDIT LENDING (BMPK)

C. Legal Lending Limit (LLL) of Rural Bank for debtors that is not associated with the bank

(Decree of the Board of Directors of Bank Indonesia No.31 / 61 / KEP / DIR dated July 9, 1998 in Chapter II):

Article 3 :

LLL for a Borrower not associated with the Bank is 20% (twenty percent) of the Bank's Capital

Article 4:

LLL for a Group of Borrowers not associated with the Bank is 20% (twenty percent) of the Bank's Capital

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HIGH RISK CREDIT CRITERIAS

Prospective Debtor :

1. Using credit for speculative purposes, such as buying land in the hope of gaining capital gains in the future;
2. Can not provide basic data and information about the company, its business and its financial condition;
3. Using the credits required to fund a business or project that requires special skills not controlled by the bank;
4. Using the credit requested to pay off the non-performing loans to other banks;

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ANALYS CREDIT AS DETERRENTS NPLS

1. 5C

C haracter
apacity
ollateral
apital
ondition

2. 7P

P ersonality
arty
urpose
respect
ayment
rofitability
rotection

3. 3R

R eturn
epayment
isk bearing ability

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OTHER PRINCIPLES IN CREDIT ANALYSIS

- The principle of matching
- The principle of equality of currency
- Principle of comparison between loans and capital
- Principle of comparison between loans and property

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CREDIT SUPERVISION

Purpose

- *First, to prevent as early as possible the practice of unfair crediting by officials and bank staff.*
- *Second, to keep the credit quality provided does not harm the bank*

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SCOPE OF CREDIT SUPERVISION

1. Supervision of any credit to be granted in accordance with the provisions outlined.
2. Monitoring the development of credit quality through monitoring the development of business activities of the debtor.
3. Supervision of any credit to be granted to debtors associated with certain banks and large debtors.
4. Monitoring the early symptoms of problem loans from debtors whose ability and willingness to pay off credit began to be in doubt.
5. Evaluating the level of collectibility of loans already disbursed in accordance with the criteria determined by the central bank.
6. Guidance on troubled borrowers who still have hope to be saved.
7. Monitor the implementation of credit documentation and administration that has been distributed.
8. Monitor the progress of credit write-offs.

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DOCUMENTATION AND SOUND CREDIT ADMINISTRATION

- Copy of the credit agreement with the agreement or supporting documents, such as a guarantee binding agreement, including a guarantee agreement with third parties such as corporate guarantee, bank guarantee and personal guarantee.
- Copy of syndicated credit agreement, eg syndicated among banks if any
- Copy of power of attorney to sell and or install mortgage or security deposit
- Copy of deed of mortgage of guarantee goods
- Copy of asset pre assurance report along with photo, map, map image and others
- Copy of valid proof of ownership of guarantee goods, such as land certificate, vehicle ownership documents, building permit, and others
- Copy of deed of incorporation, deed of amendment, articles of association
- Copy of curriculum vitae of the owners, commissioners and directors of the debtor company
- Copy of business licensing and Tax Identification Number (TIN)
- Copy of insurance agreement
- Creditworthiness analysis report
- Copy of correspondence with debtors and third parties relating to credit
- Credit monitoring report

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