# QUOTE OF

# RISK MANAGEMENT POLICY

# 1.0 INTRODUCTION

## 1.1 BACKGROUND

The rapid growth of banking industry in Indonesia has triggered greater competition between banks in terms of product inovation, service standard, system technologies and other banking services. These external factors have indirectly pushed OCBC NISP Bank (herein after referred as Bank) to continously improve the organization, launch the innovative products and expand the network coverage as well as the supporting facilities throughout Indonesia, and also to strengthen the Bank's position as a healthy and prudent national commercial bank.

The occured changes have driven the Bank's activities to be more complex, which is automatically followed by the variety of risks that are faced by the Bank. That condition increased the need for implementing risk management and good corporate governance in the Bank's business management. The implementation of risk management in the Bank's business management is expected to give advantages for the Bank in increasing the shareholder value and the ability in identifying as well as in providing preventive actions concerning potential loss in the future.

The guideline for implementing the risk management is outlined in this Risk Management Policy, which is functioned as the basis of the existing risk management related policies and other internal policies which are prepared by working units in the Bank. The implementation of this Risk Management Policy is followed by the integrated developed policies and procedures architecture.

In addition, the Bank also related with sister companies that are joined in a Financial Conglomerate. Bank OCBC NISP, according to the appointment from OCBC Ltd. through OCBC Overseas Investments Pte.Ltd. as the Ultimate Shareholder, is the Main Entity in Financial Conglomerate with members from sister companies namely Great Eastern Life Indonesia and OCBC Sekuritas Indonesia, that shall implement Integrated Risk Management.

## 1.2 PURPOSES

The purposes of this Risk Management Policy are:

1.2.1 Providing the guidance in safeguarding the Bank from risks by determining the objective of risk management policy.

1.2.2 Implementing *Good Corporate Governance* which is related to risk management.

1.2.3 Being the written guidelines as the basis of Bank's activities execution which is based on prudent principles and as the basis of banking healthy practice.

1.2.4 Being the standard and reference to ensure uniformity and consistency in handling every activity of the Bank.

1.2.5 Being the guidelines for authority and responsibility determination in managing risks from every level of the Bank's organization.

1.2.6 Building risk awareness and culture in the Bank's working environment.

## 1.3 LEGAL STANDING

The arrangement of this Risk Management Policy is referred to:

1.3.1 Otoritas Jasa Keuangan Regulation No. 18/POJK.03/2016 dated 16 March 2016 regarding Risk Management Implementation for Commercial Banks.
1.3.2 Otoritas Jasa Keuangan Regulation No. 55/POJK.03/2016 dated 9 December 2016 regarding Good Corporate Governance Implementation for Commercial Banks.
1.3.3 Otoritas Jasa Keuangan Regulation No. 12/POJK.01/2017 dated 16 March 2017 regarding Implementation of Anti Money Laundering and Combating Financial of Terrorism Program in Financial Service Sector.
1.3.4 Otoritas Jasa Keuangan Regulation No. 46/POJK.03/2017 dated 12 July 2017 regarding Implementation of Compliance Function for Commercial Banks.
1.3.5 Otoritas Jasa Keuangan Regulation No. 17/POJK.03/2014 dated 18 November 2014 regarding Integrated Risk Management Implementation for Financial Conglomerates
1.3.6 Otoritas Jasa Keuangan Regulation No. 65/POJK.03/2016 dated 28 Dec 2017 regarding Risk Management Implementation for Sharia Commercial Banks and Sharia Business Units.
1.3.7 Otoritas Jasa Keuangan Circular Letter No. 34/SEOJK.03/2016 dated 1 September 2016 regarding Risk Management Implementation for Commercial Banks.
1.3.8 Otoritas Jasa Keuangan Circular Letter No. 13/SEOJK.03/2017 dated 17 March 2017 regarding Good Corporate Governance Implementation for Commercial Banks.
1.3.9 Otoritas Jasa Keuangan Circular Letter No. 32/SEOJK.03/2017 dated 22 June 2017 regarding Implementation of Anti Money Laundering and Combating Financial of Terrorism in Financial Service Sector.

## 1.4 VISION, MISSION AND CORPORATE CULTURE

**VISION**

To be the Bank of choice with world-class standards recognized for its care and trustworthiness.

**MISSION**

Bank OCBC NISP is to conduct its business and work as an honorable corporate citizen and able to grow together with the society in a sustainable manner by:

- Providing and developing innovative and high quality financial services that exceeding growing people's expectations with optimum results.
- Developing and maintaining cooperation networks based on mutual trust.

- Creating a work environment that ensures the growth of professionalism and organizational renewal with a familial spirit.
- Building public trust through ethical, caring and prudent behaviours.

**CORPORATE CULTURE**
The Bank's values have to be the basis of every Bank's staff's daily activities.
The Bank's Corporate Cultures are:

- OCBC NISP *One*
  We think and act on common goals by placing interest of Bank OCBC NISP above group or individual.
- Professionalism
  We take pride in being professional and accountable for everything we do.
- Integrity
  We consistently act on what we say with integrity.
- Customer Focus
  We focus on customers in everything we do.

## 1.5 RISK CULTURE PRINCIPLE

5 Risk Culture Principle of Bank OCBC NISP

1. We possess the capabilities and be accountable for managing risk.
2. We optimize profit by striking a balance between risk and return.
3. We synergize to achieve an effective and efficient risk management system.
4. We promote lessons learnt to enrich our capabilities in managing risk.
5. Managing risk is the responsibility of everyone in the organization.

## 1.6 COVERAGE

Risk management policy becomes the foundation in the implementation of risk management, business activities & operations of the Bank, as well as for Sharia Unit. This policy needs to be consistently implemented by every staff of the Bank.

## 1.7 CHARACTERISTIC

Risk Management Policy is limited and only for internal purposes of the Bank so it has to be used appropriately in compliance with current regulations. The Risk Management Policy cannot be duplicated in any form and/or used by by others outside the Bank without the approval of the Director or other authorized officer.

## 1.8 POLICY HIERARCHY

Risk Management Policy is the highest level policy among all valid policies and procedures in each working unit of the Bank, whether related to risk management or related to the Bank's business and operational activities. The implementation of policies and procedures which are based on this Risk Management Policy is separately determined in policy architecture which manages the structure and the approval of policies and procedures. The policy architecture includes several levels, which is starting from the highest level policy to framework, major policy, sub policy, and operating procedures/guidelines.

## 2.0 PRUDENT PRINCIPLES

### 2.1 Capital Adequacy

The Bank manages capital adequacy that represents the risk level which is managed by the Bank. The Bank also identifies the capital components by paying attention to the capital's capability in absorbing losses.

### 2.2 Legal and Regulatory Compliance

The Bank develops policies, standard procedures, and product manuals as a guideline for the Bank's business activities and operations. The development of policies, standard procedures, and product manuals is intended for minimizing the risks occured during the Bank's business activities and operations. All the Bank's staffs have to implement the standard policies, procedures and product manuals that have been established as well as to comply with all valid legislation.

When conducting business activities, the Bank needs to understand the business characteristics, including the risks and the laws related with the business itself.

Every action of special condition, as long as it is not against Indonesian's legislation and Bank Indonesia Regulation, has to be done in accordance with the regulation and the authority that have been established and to be based on reasons that can be accounted and documented.

### 2.3 *Early Warning System*

The Bank develops policies and procedures that enable itself to acquire early sign of its asset quality decreases and its risk exposure increases. Thus, the Bank can determine the steps that need to be taken, so that potential risk can be avoided or minimized.

### 2.4 Limit Setting

The Bank sets the limit as the cap in managing risk tolerance.

### 2.5 Know Your Customer (KYC) Principle

The Bank applies the customer profile management and Know Your Customer (KYC) principle. In the implementation of KYC, the Bank fulfills all requirements and guidelines as have been regulated in regulation concerning KYC Principle.

### 2.6 Risk Transfer

The Bank sets the strategy for reducing or minimalizing the occured risks, including transfering the risks through a certain variety of transaction and other risk transfering actions.

### 2.7 Risk Diversification

The Bank conducts business diversification process in order to spread the risks. The Bank also limits its business dependency on one aspect or category that exceeds the established limit.

## 3.0 GENERAL POLICY

### 3.1 Risk Management Principle

In supervising the whole risk management (known as Enterprise Risk Management), the Bank needs to establish risk management principles. These principles will be the guidelines for a comprehensive risk management framework and all key policies. The risk management principle is necessary since the Bank's business growth and activities affect the emergence of various risks that need to be managed by an integrated, consistent, and comprehensive framework.

The establishment of risk management principle also focuses on the implementation of Good Corporate Governance (GCG) principles, Code of Conducts and the development of regulations concerning the implementation of risk management regulated by Bank Indonesia (BI), Otoritas Jasa Keuangan (OJK) and other regulators related with risk management implementation and international best practices through Basel.

The main risk management principle is divided into 7 principles, which are:

#### 3.1.1 Risk appetite set at the top

Risk Appetite (as attached) is over all approved by the Board of Commissioners based on the recommendations from the President Director and the Board Risk Committee.

#### 3.1.2 Effective Risk Framework and Organization.

Risk management framework will be effective if it is supported by adequate resources. The Bank should have an effective, comprehensive, and consistent risk management framework. Management will allocate the resources and provide the necessary support for the risk management framework.

#### 3.1.3 Integrated Risk Approach.

Every type of risk will be managed in a holistic way by evaluating several types of risk. Analysis is done comprehensively, where risks that might emerge will be discussed in high level and covered all existing functions in the Bank as a whole.

#### 3.1.4 Business lines will be accountable for the risk taken

Business lines will take responsibility to manage the risks which are occured from their activities in accordance with the established risk appetite and also to manage the result which is gained through the risk taken. The risk which is taken by business lines must be consistent with the strategic goal, where the expected result can compensate the risk which is taken.

This responsibility is still valid despite the presence of risk management functions related with such activities.

#### 3.1.5 Risk will be evaluated qualitatively, together with appropriate quantitative analyses and stress testing

All risks will be qualitatively evaluated on a recurring basis and, wherever practical, the evaluation will include quantitative analysis. Risk assessments will consider the effects of both likely and unlikely events.

#### 3.1.6 Risk assessments will be independently reviewed.

Risk assessments will be validated by independent review functions with resources, authority and expertise sufficient to assess the types of risk, test the effectiveness of risk management activities, and provide recommendations for remedial actions

#### 3.1.7 Contigency plans will be established to ensure the ability to handle potential crises or unexpected events.

Risk management policies and processes which are functioned to handle potential crises and unusual circumstances must be in place and tested periodically for appropriateness.

### 3.2 Risk Management Process

Risk management is implemented bank-wide at all organizational components, from the business and supporting units, whether at transactional or portfolio level.

Risk management process is a dynamic way in managing risk, whether regularly or irregularly, where the implementation process focuses on the best practices in the banking industry and current regulations. Through this, risk management process can be adjusted and renewed if necessary.

An effective risk management implementation for Sharia Unit is done for all Sharia Unit's business activities as a singular implementation with respect to the Bank's risk management implementation.
Risk management implementation is implemented as follows:

#### 3.2.1 Risk Identification

The objective of risk identification is to know all types of risk from every functional activity that might cause potential loss for the Bank. Risk identification is a proactive (anticipative) action, not a reactive action.

The identification risk process is implemented by analyzing all sources of risk, which is at least performed toward the risk occured from product, activity, or program of the Bank. The occurance probability of risk and concequency from those products, activities and programs must pass the appropriate risk management process before the implementation.

**3.2.2 Risk Measurement**

Risk measurement system is used to measure the Bank's risk exposure as a control activities guideline. The risk measurement must be implemented periodically, whether for product, portfolio and all of the Banks' business activities.

Risk measurement is used to measure the Bank's risk profile in order know the effectiveness of risk management implementation and to compare it with the Bank's risk appetite, as well as to know the Bank's capital adequacy to absorb such risk.

The measurement is implemented on an individual or bank wide basis. Risk measurement method can be implemented quantitatively and/or qualitatively.

Model that is used in the risk measurement has to be approved by the authorized officer and supported with the adequate documentation.

The risk measurement system should periodically or at anytime be evaluated and enhanced, if necessary, to ensure the appropriateness of assumption, accuracy, equity, data integrity, and procedure that are used.

**3.2.3 Risk Monitoring**

The Bank should have a monitoring system and procedure which covers the monitoring of risk exposure, risk toleration, internal limit compliance, the result of stress testing, and consistency of the implementation towards the stipulated policy and procedure.

Both the implemenation and risk management unit will conduct the monitoring. The results of monitoring will be shown using a periodic report, which will then be delivered to the Management for risk mitigation and any further actions.

**3.2.4 Risk Control**

Risk control is conducted so that the risks that emerge from business activities will not exceed the appoved limit, and endanger the Bank's business.

### 3.2.5 Management Information System

Risk management information system is a part of the management information system that needs to be in place and developed to meet the Bank's requirement for effective risk management implementation.

As part of the risk management process, the management information system is used to support the risk identification, measurement, monitoring, and controlling processes

The Management information system has to ensure:

1. Accurate, complete, informative, timely, and dependable information is in place for the Board of Commissioners, the Directors, and all risk management related units to be used in assessing, monitoring, and mitigating risks which are faced by the Bank, either a composite or individual risk, and/or as the part of the Directors decision-making process;
2. Effectiveness of risk management implementation includes policy, procedure, and determination of risk limits;
3. Information of actual comparison result between the risk management implementation and the Bank's determined target which is aligned with the risk management policy and strategy is in place;
4. Risk exposure are measured accuratly, informatively, and timely, whether for over all risk exposure or for exposure of each risk type which is attached to the Bank's business activities.

### 3.2.6 Internal Control System

An effective risk management implementation process has to be completed with a reliable internal control system. The effective implementation of internal control system can support the Bank's management to protect the Bank's assets, to ensure the availability of accountable financial and managerial reports, to enhance the Bank's compliance towards regulations and legislation and to decrease the risk of potential loss, deviation and prudent principle violation.

The implementation of a good and effective Bank's internal control system becomes the responsibility of all operational, supporting and Internal Audit units. The Internal control system within the implementation of risk management is assessed independently by Internal Audit. The implementation of internal control system at least must be able to detect weaknesses and violations on a timely basis.

## 3.3 Risk Definition

### 3.3.1 Credit Risk

Credit risk is a risk arising from the failure on the part of borrowers' and/or counterparties' to meet their obligations to the

Bank. These include credit risk due to the failure of a debtor, credit concentration risk, counterparty credit risk, settlement risk and country risk.

**3.3.2 Market Risk**
Market risk is a risk at the balance sheet's position and administrative account including the derivative transaction, as a result of changes in market conditions, including the risk of option price changes. It also includes the interest rate and currency rate risks. Interest rate risk and currency rate risk may arise form trading book or banking book position.

**3.3.3 Liquidity Risk**
Liquidity risk is a risk that occurs as a result of the Bank's incapability in fulfilling their maturity obligation from the source of cash flow financing and/or high quality liquid asset that can be warranted, without any disruption to the Bank's activities and financial condition.

**3.3.4 Operational Risk**
Operational risk is a risk that occurs as a result of an inadequate and/or malfunction internal proses, human error, system failure, and/or external event that affects the Bank's operations.

**3.3.5 Legal Risk**
Legal Risk is a risk that occurs as a result of legal suits and/or jurisdiction aspects weakness. This risk arises among others due to weaknesses in legal aspect in contract, non existence and/or changes in laws that caused a transaction undertaken by the Bank become incompliance with the respective regulation, litigation arising from a claim/lawsuit filed by a third party against the Bank or alternatively by the Bank against a third party.

**3.3.6 Reputation Risk**
Reputation Risk is a risk that occurs as a result of the stakeholder's decreasing trust due to negative perceptions of the Bank.

**3.3.7 Strategic Risk**
Strategic Risk is a risk that occurs as a result of inappropriate setting and implementation of the Bank strategy and failure in anticipating the changing of business environment.

**3.3.8 Compliance Risk**
Compliance risk is a risk arising from failure of the Bank to comply with or implement laws, regulations, and other applicable legal provisions.

#### 3.3.9 *Rate of Return Risk*

*Rate of Return Risk* is a risk arising from, among others, the Bank's funding customer's behavioral changes as a result of changes in the expected returns from the Bank. Changes is expectation can be triggered by internal factors such as declining asset values of Banks and/or external factors such as rising returns offered by other banks.

#### 3.3.10 *Equity Investment Risk*

Equity Investment Risk is a risk which occurs because the Bank shall also bear the losses of the customer's business which has been financed through the net revenue sharing method and the profit-and-loss sharing method. This risk arises when the Bank provides financing on the basis of profit-and-loss sharing in which the Bank also bears the risk of any business loss of the customer. In this case, the calculation is not done based on the revenues or sales received by the customer, but based on the profits earned. If the customer's business goes bankrupt, the principal loaned by the Bank to the customer will not be repaid. Meanwhile, the calculation of net revenue sharing method is based on the revenue minus capital.

### 3.4 Validation, *Back-Testing,* and Model Calibration

Back Testing is done with a purpose to test the accuracy, validity, and effectiveness of model which is used in risk measurement. The Bank must have a mechanism to review and test the accuracy, validity, and effectiveness of the model which is done by independent unit.

### 3.5 Stress Testing

Stress testing is a simulation of extreme conditions (abnormal market) to identify the worst scenario in the fluctuating market and the extreme effect towards the Bank's exposure, and to check the Bank's performance sensitivity against the risk factors that significantly affect the Bank's income and capital.

Stress testing includes several factors that may result in a high profit or loss or may affect management and risk control that are difficult to be carried out, including the factors of low probability events.

In conducting the stress testing, bank may consider these several things:

3.5.1 The Bank develops assumptions in testing the Bank's portfolio condition tendencies, the measurement result and these assumptions will be periodically submitted to the directors.

3.5.2 Stress testing analysis will quantify the size of potential loss so as to enable the Bank to see the worst impact from the changes towards the Bank's income and capital.

3.5.3 Stress testing analysis covers the quantitative analysis about the actions and decisions that will be taken by the Directors or the respective officers to anticipate the worst case scenario.

### 3.6 Risk Profile

Risk Profile illustrates the level of risk and the quality of control of the Bank. It includes the inherent risk and the quality of Risk Management implementation which encompasses the risk governance, risk management framework, risk management processes, information systems, human resources and risk control systems. This assessment is performed on the 8 (eight) types of risk, which are: Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Legal Risk, Strategic Risk, Compliance Risk, and Reputation Risk with the addition of 2 (two) risk types for risk management implementation for Sharia Business Unit, which are Rate of Return Risk and Equity Investment Risk.

In conducting the risk profile measurement, the Bank refers to Bank Indonesia regulation that governs the measurement of commercial banks' level of health by using Risk Based Bank Rating (RBBR).

Risk profile measurement involves the working units that are responsible in managing the eight types of inherent risk, as outlined in this Risk Management policy. In addition to the Risk Management working unit, the measurement of risk control system is also done by Internal Audit working unit.

### 3.7 Limit Setting and Risk Appetite

Bank must be attentive to the risk appetite, such as to all relevant estabilished limits. In setting the limits, the Bank needs to pay attention with the complexity of transactions and the availability of supporting infrastructure.

The limit setting will be proposed by the Business and/or Operational Units and reviewed by the respective unit of Risk Management for approval by the relevant authority.

The implementation the set limits of risk exposure has to be monitored by the head of respective units. The data integrity and the limit of risk reporting is the responsibility of respective units. The limits of risk have to be reviewed periodically to ensure the related limit relevancy and priority within the risk control system.

### 3.8 Risk Management Information System and Reporting

The Bank will manage all risk related data in a disciplined and systematic manner within a singular data system developed by the Bank.

The Bank developes an integrated risk management information system for all risk types, including the accurate and timely report arrangement and distribution.

### 3.9 Management of New Products and Activities

To improve the business activities, the risk management must be implemented at the planning stage of new product and or activities development. To ensure the implementation of risk management has been carried out at planning stage, all new products and activities development must be reviewed by a work unit which is directly related with risk management as referred at the Risk Management Framework.

Also, all new product and activities development has to follow the relevant policy and procedure. Product Owner is responsible to ensure that the new product/activities has been approved in accordance with the relevant poliy and procedure.

The Bank will assign which units will be responsible in submiting the New Product and Activity Report to regulator within the time limit stipulated in valid regulation.

### 3.10 Basel Implementation

To improve the Bank's individual health and resistance in confronting crisis, to support the capability of banking sector in absorbing the risk of potential loss due to financial and economic crisis, and to prevent the spreading of crisis from financial sector to economic sector, the Bank must implement Basel as a part of the Bank's capital management framework.

The Bank commits to implement the Basel regulation as established by regulator. The Bank also, through its internal policy, proactively performs the development and preparation of early action to implement Basel approach which is more appropriate for the Bank's need.

### 3.11 Integrated Risk Management Implementation

With regards to Financial Conglomeration, Integrated Risk Management should be implemented with due consideration on the ownership and/or controlling relationship within any financial service sector which will affect the sustainability of financial service institution. Integrated Risk Management reflects the implementation of Integrated Good Corporate Governance. The Integrated Risk Management implementation will be documented separately in other policies.

## 4.0 RISK MANAGEMENT ORGANIZATION

The growth target that has been planned by the bank can be seen from the increase of new branches, new units, number of employees, development of new products, programs, and activities. The consequence of this high growth is the increase of risk towards the bank. Therefore, a risk management organization is needed to manage existing or future risks.

Risk management structure and function, here is Risk Management Group which is to manage risk in accordance with the Bank's growth, as well as integrating all activities in the implementation of risk management, including the risk management implementation of Sharia Unit.

The risk management implementation involves every aspect within the Bank, including the Directors, with active supervision from the Board of Commissioners and the Sharia Supervisory Board (for Sharia Unit).

## 4.1 Board of Commissioners and Directors

### 4.1.1 Board of Commissioner's Role and Authority

Board of Commissioner's authority and responsibilities are referred to the role, authority and responsibilities governed by the Bank's articles of association including the following:

1. Approve and evaluate the Risk Management Policy, including the risk management strategy and framework which is determined in accordance with the risk appetite and risk tolerance of the Bank.
2. Evaluate the Directors' responsibility and provide remedial directions for risk management policy implementation periodically. The evaluation is undertaken in order to ensure that Board of Directors manages Bank's activities and risk effectively.
3. Ensure that in the Bank's organization structure, working units that carry out the functional activities and have risk exposure (Operational Unit and/or Risk Taking Unit) are independent with respect to the working units that are involved in internal control (Internal Audit Unit) and Risk Management Unit.
4. Perform monitoring to ensure that the risk appetite and risk management activities are following the strategic objective, operational environment, effective internal control, capital adequacy and Bank Indonesia regulations.
    a. Through Audit Committee, towards the quality and integrity of the accounting system and financial reports, control and disclosure procedure and internal control;
    b. Through Risk Monitoring Committee, towards the quality of risk management process and system, as well as risk profile.
5. Ensure the policy and risk management process are undertaken effectively, and integrated in the overall risk management process.
6. Evaluate and decide on transactions submitted by the Board of Directors that require the approval of the Board of Commissioners.

### 4.1.2 Sharia Supervisory Board's Role and Responsibility

Roles and responsibilities of Sharia Supervisory Board related to risk management implementation at a minimum includes:

1. Evaluation of Risk Management Policies related to the fulfillment of Sharia principles.
2. Evaluation of the Directors' responsibility on risk management policy implementation related to the fulfillment of Sharia principles.

### 4.1.3 Directors' Role and Responsibility

The Director's authority and responsibilities are referred to the role, authority and responsibilities governed by the Bank's Articles of Association including the following:

1. Develop comprehensive Risk Management policy, strategy and framework, including risk limits for each risk type and overall risk, taking into consideration the risk appetite and risk tolerance in accordance with Bank condition, also taking into account the risk impact on capital adequacy.
2. Prepare and establish the approval mechanism for transactions including the limit breaches and authority for every job within the hierarchy.
3. Evaluate and/or up date Risk Management policy, strategy, and framework at least once a year or more often if there is any significant factors affecting the Bank's business activities, risk exposure, and/or risk profile.
4. Determine the organization structure according to set objective, business policy, size, complexity, the Bank's capability, and also determine the authority and responsibility for every job in the hierarchy related with risk management implementation.
5. Responsible for implementation of risk management policy, strategy and framework have been approved by Board of Commissioners, and also evaluate and provide direction on the risk management strategy based on the report that is periodically delivered by the Risk Management Group including risk profile report.
6. Ensure that all material risks and the impact of those risks have been followed up and reported to Board of Commissioners periodically.
7. Evaluate and decide on transactions that need Director approval.
8. Develop a risk management culture (risk culture principle) including the risk awareness for the entire organization, including sufficient communication towards the entire organization about the importance of internal control effectiveness.
9. Ensure adequacy of resources to manage and control the risk.
10. Determine that risk management function has been implemented independently as reflected by the separation of risk management units in the identification, measuring, monitoring, and risk control with those units that carry out the transactions.

### 4.2 Related Working Unit

Organization structure is established according to the complexity of business and risk that is managed by the Bank. Units that are related with the risk management consist of:

1. Risk Management Unit
2. Business and Operational Units

3. Internal Audit
4. Compliance Unit

In the organization structure, units which conduct the transactions (business and operational units) are separated from the other units which are responsible for internal control a well as independent towards Risk Management and Compliance units.

Every job in the hierarchy that related with the implementation of risk management will be given a clear authority and responsibility.

**4.2.1 Risk Management Unit**

Risk Management Unit as part of Risk Management Group is directly responsible to the Director of Risk Management. Organization structure of Risk Management Group is adjusted to the needs of organization's growth, complexity of business activities and the risk management framework as established by the Management.

The main responsibility of Risk Management Group is to independently perform direct monitor to the bank wide risk management implementation.

In the structure organization of Risk Management Group, there are units that performs following functions and responsibilities, as follows:

1. Credit Risk Management, which is responsible in controlling the disbursement of credit in line with the prudent principle for every business segment and also responsible in keeping the credit quality and handling the non performing loan.
2. Market Risk Management, which is responsible in performing bankwide monitoring of all market risk which is taken by business unit, whether in trading or banking book group.
3. Liquidity Risk Management, which is responsible in properly monitoring, measuring, reporting the liquidity risk management as well as the interest rate risk in banking book, and also acts as the independent party which has a function to control risk that emerge from balance sheet and liquidity position.
4. Operational Risk Management, which is responsible in controlling operational risk in line with best practices to manage estimated losses and to minimize unexpected losses, as well as new business opportunities with controllable risk levels.
5. Enterprise Risk Management, which is responsible in providing a comprehensive and effetive framework of risk management, through the implementation and development of policy architecture, aligment between risk management and business strategy, regulation compliance, and the capital allocation optimization.

#### 4.2.2 Business and Operational Units

Business unit is the unit that directly makes the business decision. Operational unit is the unit that performs support functions in achieving the business target through its operational activities.

Business and operational units must perform activities according to the risk management framework implemented by the Bank and responsible with the decisions taken.

#### 4.2.3 Internal Audit

The role of Internal Audit are:

1. Evaluating and having an active role in improving the effectiveness of the internal control system continuously with respect to the Bank's operational activities in achieving the targets set by Management by:
    a. Creating an analysis and research into the financial, accounting, operational and other activities through on site checking and off site monitoring, as well as reviewing of tasks for set goals.
    b. Providing suggestions for improvements and objective information on the activities that are reviewed by all the management.
    c. Identifying all possibilities for improvement and increasing the efficiency in utilizing the resources and funds availability.
2. Assisting the identifying and evaluating all risks as well as having an active role by providing recommendations and solutions in improving quality of risk management.
3. Providing assurance on the implementation of governance by assessment and recommending solutions to improve the governance process.

#### 4.2.4 Compliance Unit

Compliance unit is the unit responsible for supervising via a ex-ante to ensure that all policy, regulation, system and procedure, and also Bank business activities have been complied with prevailing regulation, in addition also provide opinions related with regulations, activities, and prudent principle for all units to support business progress.

### 4.3 Risk Monitoring Committee

Risk Monitoring Committee is a committee at the level of the Board of Commissioners comprising of an Independent Commissioner who doubles as chairman, an Independent Party knowledgable in financial matters and another Independent Party knowledgable in risk management.

Risk Monitoring Committee at a minimum is responsible to evaluate the implementation of Risk Management policies as well as to monitor and evaluate the duties carried out by the Board Risk Committee and Risk

Management Unit with the purpose to provide recommendations to the Board of Commissioners.

### 4.4 Board Risk Committee

Board Risk Committee is a committee that assists the Directors in the proposal of risk management policy, monitor its implementation and provide recommendations on matters that have to be done with respect to risk management. Sharia units are also included in the Board Risk Committee.

The Board Risk Committee is led by the President Director as chairman with the Risk Management Director as a substitute if the President Director is unable to attend. The membership of Board Risk Committee must include the Directors as majority and executive officers can be invited according to the Bank's need.

The authority and responsibility of the Board Risk Committee are:

1. Proposing the Risk Management Policy and its revisions, including risk management strategy and emergency planning to anticipate any changes due to business growth and extreme conditions.
2. Improving risk management implementation on a periodic basis or whenever necessary due to internal or external changes that affect the Bank's capital adequacy and risk profile and results of the implementation.
3. Estabilishing policy and/or breaches for business decision, such as breaches for significant business expansion beyond the bank's set business plan or taking a position/risk exposure that is over the established limit.

When deemed necessary, the Board Risk Committee can establish several committees as a comprehensiveness of Board Risk Commitee. These committees are established for a more specific type of risk in accordance with the Bank's needs, such as Asset Liability Committee (ALCO), ALCO Sharia, Credit Risk Management Committee, Operational Risk Management Committee, Market Risk Management Committee and other risk committees.

## 5.0 CREDIT RISK MANAGEMENT

### 5.1 General Policies of Credit Risk Management

Implementation of credit risk management requires monitoring and an active role of the Board of Commissioners and the Directors. The details of the role and responsibility of the Board of Commissioners with respect to the risk management implementation is regulated in a separate policy.

Credit risk management implementation at the Bank involves several units, which include business units that conduct the credit disbursement, Credit Recovery Unit that handle nonperforming credit, and Risk Management Unit that measures and monitors credit risk. Risk Management Unit is assigned to implement the four eyes principle consistently, including ensuring that credit disbursement activities do not generate credit risk exposures that will result in losses to the Bank.

The Bank's credit activities have to refer to the framework, policy, procedure, and limit in order to ensure that credit risk is managed properly. These factors will be the guidance in carrying out credit activities, so that credit disbursement is done in accordance to the good credit disbursement principle, risk appetite, and risk tolerance that have been establish, accurate analysis and evaluation, tiered credit approval process, independent identification and handling of non-performing loan, which are also supported by the system administration development and good documentation.

### 5.2 Credit Risk Identification

The Bank must identify credit risk by following the guidance for good credit disbursement, which is conducted via a comprehensive measurement of the borrower risk profile, the purpose of the credit facility, repayment capability analysis, borrower's business capability, fulfillment of credit regulation and agreement which will anticipate the changes to the credit risk exposure in the future.

Credit risk identification process is implemented by the Bank at the individual or portfolio level. It is to limit the risk concentration in credit disbursement with respect to economic sectors, geographical regions, business segment, or by individual borrower.

### 5.3 Credit Risk Measurement

Bank must have a system and written procedure to measure credit risk. Credit risk measurement can use a quantitative credit risk scoring system through the internal rating or scoring approach.

Internal rating or scoring is a factor in credit decision process along with other criteria. Development of internal rating or scoring helps the Bank to measure more accurately a borrower's or prospective borrower's risk profile, potential losses, and the Bank's provision allocation against such losses. For different business segments, different internal rating and scoring system can be used.

The credit risk measurement system takes into consideration of the characteristic for every type of transaction with credit risk exposure, the period for credit disbursement as per potential changes to the market, financial conditions of the borrower/ counterparty, collateral, and potential default, and the bank's capability of absorbing such defaults.

Internal rating or scoring implementation is reviewed periodically by the independent unit towards the unit that applies the system. The review implementation is done for the model accuracy and assumption that is used to predict the failure.

The Bank must have the capability in performing stress test to predict the potential poor conditions that can affect the credit portfolio quality and enter such conditions into the capital adequacy analysis and the Bank's provision calculation. Stress testing is also to check the Bank's capability in overcoming the changes that can affect the credit portfolio from unstable economic or industry conditions, as well as those due to market risk or liquidity risk.

**5.4 Credit Risk Monitoring**

The Bank must develop and implement a comprehensive information system and procedure to monitor the composition and condition of every borrower's or other party's transaction against the Bank's entire credit portfolio.

Credit monitoring is performed towards several key factors in order to identify potential problem earlier (early warning system). Credit risk monitoring can be implemented based on an individual or portfolio review process. The results of the monitoring of credit risk have to be reported and submitted periodically to the authorized Directors and/or Committees.

The Bank must have policy and procedure to handle non-performing loans for every segment and determine which unit will handle such loans. The function for management of non-performing loans has to be separate from the function which conducts credit approval. Non performing credit management is implemented by using non performing loan detection system and credit quality appraisal.
Every effective strategy and results of non-performing loan management must be uploaded into a singular document which will be used as an input by the work unit's which is responsible for credit settlement or restructuring.

**5.5 Credit Risk Control**

Credit risk control not only involves risk management unit, but also involves business and operational units which is responsible for credit disbursement, as well as the separate functions for non-performing credit settlement from that of credit approval.

Credit risk control can be implemented by several methods, such as the implementation of risk mitigation via four eyes principle, strong portfolio management, setting of target markets and industry concentration, sector of industry being financed, setting of credit authority for process for credit approval and disbursement, early warning system, and periodic review of limits by focusing on changes in economic and market conditions.

The setting of credit limits for large exposure and related party is done according to the Bank Indonesia regulation concerning Legal Lending Limit (LLL).

**5.6 Credit Risk Management Information System**

Information system management for credit risk should have the capability to provide an accurate, complete, informative, timely, and quantifable data about the total individual and counterparty credit exposure, credit portfolio, and exceptions so that it can be used by the Directors to identify current credit concentration.

### 5.7 Internal Control System

The implementation of a reliable and effective internal control system is the responsibility of the credit related business and operational units, credit risk management risk and Internal Audit unit.

Internal audit for credit risk process is conducted periodically, which includes indentification for the following:

1. Credit disbursement activity is in line with estabilished policy and procedures.
2. Credit Authority is carried out according the limit established.
3. Good credit quality individually or based on portfolio composition
4. Effectiveness of risk management process implementation for credit risk including policy, procedure, and limits, credit administration process, accuracy of internal ratings and credit monitoring.

## 6.0 MARKET RISK MANAGEMENT

### 6.1 General Policies of Market Risk Management

The purpose of market risk management is to protect the Bank from potential losses due to the taken risk exposure which is over the Bank's market risk tolerance.

The process of market risk management is intended to achieve there goals:

1. Maximize risk-adjusted return.
2. Manage all market risk posisition in accordance to the established risk tolerance and prudent limit.
3. Improve the efficiency of market risk management, particularly with respect to risk positions taken to take advantage of market price movements.

The Board of Commissioners and the Directors must monitor and be actively involved in market risk management. Their detailed roles and responsibilities with respect to market risk management are governed in separate policy.

### 6.2 Market Risk Identification

The Bank should have a risk identification process in accordance with the market risk attached to the Bank which includes interest rate risk, and currency rate risk.

### 6.3 Market Risk Measurement

The Bank must have a system and model to measure the market risk in calculating the position and sensitivity for market risk.

### 6.4 Market Risk Monitoring

The Bank must monitor the limit compliance on a regular basis.

### 6.5 Market Risk Control

Bank must have an appropriate market risk control policy.

**6.6 Market Risk Management Information System**
The market risk management information systrem must have the ability to quantify the risk exposure and monitor the market risk factors, such as interest rate and foreign exchange on a regular basis.

**6.7 Internal Control System**
The internal control system must able to ensure that all transactions and processes are in compliance with established policy, procedure and limit.

## 7.0 LIQUIDITY RISK MANAGEMENT

**7.1 General Policies of Liquidity Risk Management**
The implementation of liquidity management to fund the growth of assets or to fullfill short term and long term liabilities cannot be separate from the market liquidity management.

The Board of Commissioners and the Directors must monitor and be actively involved in liquidity risk management. Their detailed roles and responsibilities with respect to liquidity risk management are governed at separate policy.

Liquidity risk management should refer to the written and documented framework, policy, procedure, and set limits, which must be in line with business strategy, risk appetite, and risk tolerance.

**7.2 Liquidity Risk Identification**
In identifying the liquidity risk, the Bank has to analyze the source of liquidity risk from product and banking activities which affect the source and use of funding, either in asset or liabilities position, or that of administrative account.

**7.3 Liquidity Risk Measurement**
The Bank must have a measurement method to quantify liquidity risk due to asset or liabilities position, or that of administrative account.

The measurement method must be capable of measuring the inherent risk exposure, composed of asset, liability, and administrative account transactions; concentration of asset and liability; and vulnerability to funding needs.

**7.4 Liquidity Risk Monitoring**
Liquidity risk monitoring implemented by the Bank must focus on early warning indicators to determine potential increase to the bank's liquidity risk, including those that affected by the internal or external indicators.

**7.5 Liquidity Risk Control**
Liquidity risk control is implemented through funding strategy, management of liquidity position and daily liquidity risk, high quality liquidity asset management, and an emergency funding plan.

**7.6 Liquidity Risk Management Information System**
The Bank must have a sufficient and good risk management information system to support the implementation of identification, measurement, monitoring, control, and reporting of liquidity risks in normal and crisis

conditions. The support from the system also needs to be complete, accurate, current, and continuous.

**7.7 Internal Control System**

The independent review of the internal control system and the implementation of liquidity risk management are conducted by the Internal Audit unit or by the Risk Management unit.

Weaknesses that are identified in the internal control by the independent party must be reported to parties which have the authority to carry out follow up actions.

## 8.0 OPERATIONAL RISK MANAGEMENT

**8.1 General Policies of Operational Risk Management**

Operational risk management is the responsibility of all employees and management from each unit. Its implementation should be in line with the Bank's business and operational processes.

Operational risk management is implemented by the Risk Management Unit which carries out operational risk management function. This unit is responsible for assisting the Directors in operational risk management and ensuring that operational risk policy is implemented at all levels of the organization.

Working with other risk management units, operational risk management is responsible for monitoring the updating of operational management policies are in accordance with the organization policy and external regulations.

The Board of Commissioners and the Directors must monitor and be actively involved in operational risk management. Their detailed roles and responsibilities with respect to operational risk management are governed by a separate policy.

The Bank must have procedures in place that are based on the Risk Management Policy for Operational Risk. These procedures will cover general operational control of all business and supporting activities and that of specific operational control for each individual business and supporting activity.

The Bank must have in place Business Continuity Management (BCM), which is an integrated and comprehensive protocol to ensure the bank's operational continuity in business activities and service to the customers.

**8.2 Operational Risk Identification and Measurement**

The Bank has to identify and measure the parameters that affect the operational risk exposure of all businesses, products, processes, and information systems, as well as the frequency and impact from system failure, administration system weakness, failure in building relationships with the customer, fraud, mistake and/or adjustments to accounting, delay and mistake in repayment settlement and deception.

The Bank has developed a basic or historical data on the following:

1. Type and impact of operational losses based on the result of identified risks, as potential expected or unexpected losses
2. Frequancy of losses;
3. Violation of Control system; and/or
4. Other operational issues that can cause future losses

The Bank must establish the method that is used to identify and measure the operational risk by considering several internal and external factors. In the event that the method is not available, audit findings with respect to operational risk will become the main source to identify and measure the operational risk.

**8.3 Operational Risk Monitoring**

The Bank must continuously monitor operational risk exposure as well as potential losses that might arise from such exposure due to key activities of the Bank, such as by implementing an internal control system and preparing periodic reports on operational risk losses.

The Bank must periodically review the factors that cause the emergence of Operational Risk and its losses impact.

**8.4 Operational Risk Control**

Operational risk control implementation can be done by:

1. Establishing policy, procedure, and process to control or mitigate operatonal risk, according to the bank's operational complexity.
2. Developing programs to mitigate operational risk including information technology security, insurance, and outsourcing for certain operational activities.
3. Implementing the Know Your Customer (KYC) principle consistentially according to the operational risk exposure.

The Bank must periodically review the procedure, documentation, data process system, contingency plan, and other operation practice to reduce the possibility of human error

**8.5 Operational Risk Management Information System**

Management information system must able to produce a complete, accurate and timely report for detecting and correcting incidents.

The reports must provide the information as per the needs of its users, as follows:

1. Operational risk profile and losses that are caused by operational risk;
2. Results from the operational risk measurement method and trends;
3. Status report and action plan to improve effectiveness of operational risk;
4. Operational risk exposure incident report;
5. Fraud event report;
6. Recommendations of risk management on operational risk.

**8.6 Internal Control System**

In the implementation operational risk management via an internal control system, the Bank needs to have in place a routine rotation system to avoid the potential incidents for self-dealing, conspiracy or non-disclosure of suspicious documents or transactions.

## 9.0 LEGAL RISK MANAGEMENT

### 9.1 General Policies of Legal Risk Management

The main objective of legal risk management is to ensure that risk management process is able to minimize the possibility of negative impact from weaknesses in jurisdiction, non exisiting and/or changes in legislation, and litigations.

Legal risk management in the Bank is implemented under the coordination of the units that perform the legal function or corporate legal. Corporate legal function acts as “legal watch” that is responsible in providing legal advice according to the needs and demands of other units in the Bank which affects the legal and business interests of the Bank,

All activities and Bank product should refer to and comply with the legislation and other regulation as uniform custom practice in banking industry, in order to protect the Bank’s legal interest.

The Board of Commissioners and the Directors must monitor and be actively involved in legal risk management. Their detailed roles and responsibilities with respect to legal risk management are governed by a separate policy.

To ensure management of legal risk, the units that perform the corporate legal function have to responsible to provide and implement legal policy and procedure at the Bank, protect the Bank's legal interests in every Bank activities/products, manage and monitor legal risk involving the Bank, also prevent and minimize the impact of Legal Risk on the Bank's business interests.

### 9.2 Legal Risk Management Identifiation, Monitoring, and Control Process

The Bank is responsible in identifying the legal risk of products and activties as well as ensuring that the risk from such products and activities are deemed to be feasible risk before they are introduced or implemented.

Legal risk can be measured by using parameters for potential loss due to litigation, non fulfillment of agreements due to contract problems or changes in legislation that cause the Bank’s product to violate the new regulations.

In legal risk control, the legal units/functions have to periodically review the contracts and agreements between the bank and other parties by remeasuring the effectiveness of enforceability process through checking the validation of the rights outlined in the contract or agreement.
Every banking transaction must be assured of being supported by strong legal documentation.

### 9.3 Legal Risk Management Information System

The Bank must keep good records and administration for every legal risk related event. The data administration in turn should be able to help the Bank in predicting the potential losses due to the events in that set period of time.

### 9.4 Internal Control System

The Bank implements an effective internal control system that will increase the Bank's compliance level of current regulations and legislation, and also reduce the risk of loss, deviation, and violation towards prudent aspect.

## 10.0 STRATEGIC RISK MANAGEMENT

### 10.1 General Policies of Stragtegic Risk Management

The main purpose of strategic risk management is to ensure that the risk management process can minimize the negative potential impact due to poor strategic decision making and failure in anticipating changes in the business environment.

Strategic risk management is closely tied to the capability in setting a long term or short term coordinated working plan.

The Strategic plan and business plan is established by the Directors, approved by the Board of Commissioners and communicated to all staff and/or employee at every level.

With respect to strategic planning, the President Director is responsible in ensuring that the work plan is prepared for a three years period with a written annual operating plan and the implementation of such annual plan.

Every Division Head and Regional Coordinator is responsible in ensuring the smooth implementation of the annual operating plan in their respective division/regional along with the work plan set by the Directors.

The preparation of the annual operating plan is coordinated by corporate planning units.

By the latest in November of every year, Business and Regional Divisions, Non Business Division, and Operation and IT Group must submit the annual plan to the corporate planning unit.

The proposed annual operating plan must be based on the draft prepared by corporate planning unit and previously submitted to the Directors, with these attachments at least:

1. Analysis of cost and benefit;
2. Analysis of priority and impact from the annual operating plan towards the overall Bank;
3. Assumptions that are used.

Monitoring of the implementation of the annual plan is part of strategic risk management.

The corporate planning unit is responsible for coordinating the monitoring of the annual plan implementation, via performance evaluation with the established plan and through periodic forums/meetings between the management and the executives.

**10.2 Strategic Risk Management Identification**

The Bank has to identify and record the unrealized or ineffective implementation of business strategy and that of the set business plan, particularly those with a significant impact on the Bank's capital.

The Bank should analyze strategic risks, particularly those that require a lot of resources and/or possess high risk, such as: entering a new market, acquisition strategy, or diversification strategic in form of products or services.

**10.3 Strategic Risk Management Measurement**

Strategic risk measurement process can be implemented by testing against the implementation of strategy where every event or change in the business environment that has a negative impact on the initial assumptions of the strategic plan are identified, and the resulting impact to the Bank's financial and non-financial performance are then measured.

The results of this test will be used as feedback with the strategic planning process.

**10.4 Strategic Risk Management Monitoring**

The monitoring and control of strategic implementation is done periodically. Monitoring is implemented by focusing on past losses due to strategic risk or deviations from the strategic plan.

The corporate planning unit is given the authority and responsibility to analyze the actual performance report against the business plan target and report such results to the directors on a periodic basis.

Strategic issues that have a negative impact to the bank's business or financial condition due to changes to operations and business environment have to be reported to the Directors on a timely basis with the analysis of the strategic risk's impact and the necessary corrective actions.

**10.5 Strategic Risk Management Control**

Control is implemented to monitor the performance including financial performance by comparing the 'actual results' with the 'expected results' to ensure that the risk taken is still within the acceptable level and reportinf any significant deviations to the Directors.

The risk control system has to be approved and reviewed periodically to ensure its compatiblility on an on going basis.

**10.6 Strategic Risk Management Information System**

The management information system in place must able to support the strategic planning and decision making process, and must be reviewed on a regular basis, with material strategic risks, changes from business environment and implementation status to be reported on a timely basis to the Directors.

**10.7 Internal Control System**

Internal control system must be implemented effectively so that able to help the Bank in implementing its strategic risk management.

## 11.0 COMPLIANCE RISK MANAGEMENT

**11.1 General Policies of Compliance Risk Management**

The main purpose of compliance risk management is to ensure that the risk management process can minimize the negative impact from any Bank's activities which are violating or breaching of existinal standards, regulations and/or legislation.

Compliance risk implementation in bank is done under the coordination of Compliance Unit or Compliance Division. Every head of working unit in the Bank is responsible to ensure that all activities in their units are performed in accordance with current regulations, legislation, and guidelines.

The Board of Commissioners and the Directors must monitor and be actively involved in compliance risk management. Their detailed roles and responsibilities with respect to compliance risk management are governed by a separate policy.

The Director in charge of compliance must be independent and not be in charge of business and operational functions, risk management that makes decisions on the Bank activities, treasury, finance and accounting, logistics, product/service, IT and internal audit.

**11.2 Compliance Risk Management Identification**

The Bank identifies and takes the corrective actions on a timely basis of any breaches and violations of current regulations and decrees.

The Bank performs the identification and analysis of factors that can increase compliance risk exposure. Compliance risk Identification must be at least carried out on the Bank's business activities by type and business complexity, including new products and activities by checking total number and the materiality of non compliance incidents of current legislation and valid regulation.

The number and materiality of non compliance of internal policies, procedures, current legislation and regulations, good business ethics will be a source in the dentification of compliance risk.

**11.3 Compliance Risk Management Measurement**

Compliace risk measurement is done via parameters listing by type, significance, frequency of noncompliance events or Bank's compliance track record, characteristics of such events, and violations of current standards.

**11.4 Compliance Risk Management Monitoring**
Compliance unit must monitor and submit reports to the Compliance Director, in the event of non-compliance as well as on a regular basis.

**11.5 Compliance Risk Management Control**
The Bank must ensure the adequecy of decrees and regulations interpretation in the field where the Bank performs its operational activities and ensure and that the Bank's staff is well trained with respect to Compliance needs.

Bank must take timely corrective actions on any identified breaches and violations.

**11.6 Compliance Risk Management Information and Internal Control System**
The Bank must have strong management information and internal control systems that can help to increase the Bank's compliance of current regulations and legislation, as well as to reduce losses, deviations and violations towards prudent aspects.

## 12.0 REPUTATION RISK MANAGEMENT

**12.1 General Policies of Reputation Risk Management**
Reputation risk can arise from a number of the activities of the Bank that can result in a reputation loss for the Bank, such as negative publicity in the mass media, violation of business ethics and customer complaints. It can also be due to weaknesses in the organization, corporate culture and business practices of the Bank.

Basically, every employee in every unit is responsible for protecting and maintaining the reputation of the Bank according to their own field. The Bank establishes the work units that are involved in the coordination of reputation risk management such as Corporate Communication or other units which have a function to improve the service quality (customer experience), public relation, and investor relations.

Customer complaints must be dealt in balance with a prompt and consistent manner by independent unit which has a function to handle such cases as per the policy and procedures in place to avoid a worsening reputation risk.

Reputation risk management must fulfill the transparency principles and the improvement of service quality to customers and other stakeholders, and also implementing the right communications to deal with negative news/publication or to prevent any information that is likely to be counterproductive as a mitigation action for any potential reputation risk.
Strategy in using the media is an effective way to counter negative publicity.

To ensure the effective management of reputation risk, there should be the following policies and procedures in place, but not limited to, as follows:

1. Policy and Procedure of Customer Complaints Handling
2. Policy and Guidelines of Product Information Transparency, The Usage of Customer's Data.
3. Reputation Risk Management Policy.

**12.2 Reputation Risk Management Identification**

Every event that can create reputation risk, including the amount of potential losses quantitatively or qualitatively, must be identified, recorded and dealt with promptly in an integrated data administration system. The statistic from this system can then be used to project potential losses of specific functional activities and periods.

**12.3 Reputation Risk Management Monitoring**

The monitoring of reputation risk must be conducted on a regular basis by montoring any potential events that create losses to the Bank.

**12.4 Reputation Risk Management Control**

Reputation risk control can be done by preventing its occurrence in the first place by activities that involve corporate social responsibilities. In terms of risks that have already emerged, the bank should be able to control it. Risk can be accepted as long as it is below the set risk limit.

Control can be implemented by carrying out the *'Know Your Employee'* principle, where the human resources are the most important asset in the organization. By understanding the strengths and weaknesses of one's team, maximal synergy can be achieved. The placement of the people In line with their competencies and capabilities will help the Bank minimize reputation risk in the business activites.

The Bank must promptly resolve customer complaints and legal claims, which can increase reputation risk exposure. In terms of reputation risk control, the Bank can cooperate with third parties by first considering the cost and benefits outlined in the cooperative agreements that state clearly the rights and obligations of both parties.

Reputation risk management is expected to grow in importance in the future, so preventive actions and prompt resolution of reputation risks must be undertaken along with the necessary improvements to the controls and procedures that generate reputation risks.

**12.5 Reputation Risk Management Information System**

Bank must have in place a procedure and regular reporting mechanism to the Board of Directors of reputation risk or events resulting in reputation risks, including an early warning system to the Management so they can take the necessary mitigation actions in response.

**12.6 Internal Control System**

A reliable and effective internal control system for reputation risk management must be put in place, under the responsibility of an operational and a support unit, as well as that of Internal Audit.

## APPENDIX 1

### GLOSSARY OF TERM

| | |
|---|---|
| Banking book | All elements/positions not included in the trading book. (Look at the definition of Trading Book). |
| Capital charge | Capital that is allocated to cover potential loss. |
| Counterparty | Party that conducts the transaction with the Bank (including other banks and customers). |
| Covenant | Credit terms that is established by the bank and approved by the customer in the credit agreement as actions that are allowed and disallowed during the contract period. |
| Dual control | One internal security methodology by determining the certain steps for approval procedures which involve two or more persons (those with special authoritation), which will minimize the possibility of fraud or violation. |
| Four eyes principle | At least two persons which have the authority to make credit decisions, where they are independent and come from the business and risk management units. |
| Good Corporate Governance | Governance of the Bank which implements the principle of transperance, accountability, responsibility, independency and fairness. |
| Inheren risk | A risk that is embedded with the Bank's business activity including quantifable or non quantifable risk, and has a potential in affecting the Bank's financial position. Inherent risk can be a parameter that is expost or ex-ante. |
| Loss | Loss that happened due to direct or indirect consequances from risk, and this loss can be financial or non-financial. |
| Related party | Individual or company that has a controlling relationship with the Bank, either direct or indirect, through ownership, stewardship and/or financial relationship, as regulated by Bank Indonesia. |
| Rating agency | The company that measure the financial abilities of institutions in their abilities to make payments. |
| Risk appetite | The overall level of set risk exposure faced by an entity. |
| Bank Stakeholder | All parties who have interests towards the Bank's existence. |

| | |
|---|---|
| Trading book | The entire position of financial instrument in the balance sheet and off balance sheet including derivative transaction owned by the Bank for:<br>a. Trading purposes and transferable freely or the entire value can be hedged, from transaction for proprietary purposes, based on customer's request or brokerage activities, and in order to market making, which consist:<br>1. position owned for resale in the short term;<br>2. position owned to gain short term realized profit and/or the potential of price movement; or<br>3. position owned for the purpose of locking in arbitrage profits.<br>b. The purposes of hedging over other positions in Trading Book. |