Risk Management Policy

Risk Management Policy & Framework

In managing the Risk Management function, the Bank has established a robust and healthy risk management governance, an independent Risk Management Unit, formulated risk level (risk appetite) and risk tolerance, as well as developed risk management policies and procedures appropriate to keep risks below the levels that have been determined.

Risk Management Organization

1. **Risk Monitoring Committee**

The Risk Monitoring Committee is chaired by an Independent Commissioner and consists of Commissioners and independent parties with expertise in the area of risk management and/or financial risk.

2. **Risk Management Committee**

Risk Management Committee responsible for the implementation of the overall risk management framework. This committee is chaired by the Director responsible for the Risk Management Unit, consisting of a majority of the Board of Directors and Executive Officers of the business units and/or support units, the Compliance Director and the Risk Management Director.

3. **Risk Management Unit**

The Risk Management Unit coordinates and socializes the entire process of the Bank's risk management to minimize the potential impact of various types of risks faced by the Bank. The Risk Management Unit develops a comprehensive process in identifying, measuring, monitoring and controlling risks and reporting on the level of risk and establishes a reliable system of internal control.

4. **Risk Taking Unit**

Risk Taking Unit (Line of Business and support function) have roles and and responsibilities as follows:

- Process of identifying, measuring, monitoring and controlling the risks associated with its business activities.
- Develop Standard Operating Procedure (SOP) and the limit for operational activities, and conduct business activities in accordance with the SOP and restrictions apply.
- Informing the risk exposure related to the business activities on a regular basis toRisk Management Unit
- Raise awareness of the risks to any staff through effective communication

The Bank's risk management framework

The Bank's risk management framework is implemented through policies, procedures, transaction and authority limits, risk tolerance and management risk methods. The Bank develops its risk management continuously in line with the development and increase in complexity of business, strategy and management information systems.

The application of risk management includes:

- Active supervision by the Boards of Commissioners and Directors.
- Adequacy of policies, procedures and establishing limits.
- Adequacy of the process of identification, measurement, monitoring and risk control as well as risk management information system.
- Comprehensive internal control

Risk Management Policies

Risk Management Policies are the written guidelines on managing risks. Risk Management Policy is established to ensure the Bank's risk in maintaining risk exposure is consistent with internal policies and procedures as well as external laws and regulations.

In the application of risk management policy, the Bank regard it as follows:

- Run the type of business and products in accordance with the vision, mission and strategy of the Bank
- Identification and mitigation of risks are clear and controlled particularly in relation to the bank's product and transaction.
- Clear lines of responsibility in managing each type of risk.
- Methodology and information management systems that can be used to measure risk and to support the business.
- Determination authority and quantity limit that describes the maximum acceptable risk of loss that is consistent with the Bank's risk appetite and tolerance.
- Business continuity management plans
- Policy governing new products and activities.
- Measurement and determination of the Bank's risk rating is presented in the form of risk profiles.

Subsidiary Risk Management
BTPN has subsidiary which is Islamic Finance Institution.
In terms of risk management, the company implements a consolidated risk process with its subsidiary, BTPN-Sharia. This consolidated risk management process is done by taking into account the different characteristics of its subsidiary. Implementation of the consolidated risk management process follows the applicable regulations, among others, active management supervision, consolidated financial statements, risk profile reports and the Bank's consolidated capital adequacy based on its consolidated risk profile.

Internal Control Framework
BTPN's internal control framework uses three lines of defense, each of which work independently:

- First line, Internal Control Systems Function Business Risk Management helps Risk Taking Unit (RTU) in the enforcement of discipline of the daily operational risk management practices.
- Second line, the Operational Risk Management (ORM) with the Compliance Unit defines, refines and maintains the operational risk management methodology, ensures adequate risk mitigation, policies and procedures and coordinates/facilitates the overall operational risk management activities.
- The third line, the Internal Auditor will independently ensure that all residual risk has been managed in accordance with the approved risk tolerance.

Credit Risk
Credit risk is the risk of financial loss if Bank debtors or counterparty fail to meet their contractual liabilities to the Bank. The credit risk mainly comes of loans.

1. **Adequacy of Policies, Procedures and Setting of Limits**
   In preparing the credit risk management framework, the Bank established credit policies and as a guidance for credit process implementation and reviewed periodically, especially if there are changes in economic conditions, government regulations and/or the business environment.
   Bank also establishes limits to ensure that the credit risk exposure is in accordance with the Bank's risk appetite. These would include, among others, a limit on the authority to decide on credit decisions that are adjusted to the competence of the decision maker and the level of risk and considering that there is no conflict of interest in the process of loans to customers. The determination of the Legal Lending Limit is in accordance with Bank Indonesia regulations.

2. **Adequacy of Process Identification, Measurement, Monitoring, and Risk Control, and Risk Management Information Systems**
   The Implementation of the Credit Risk framework in BTPN is conducted through a phased integrated process and consists of the Identification , Measurement, Monitoring and the Control/Mitigation of risk.
   The identification of credit risk is the result of the study on the characteristics of credit risk inherent in the functional activity of credit and treasury, including credit concentration risk.
   The Credit risk measurement system should consider product characteristics, duration, assurance aspects, potential defaults, and the ability of the Bank to absorb potential failure.
   The Bank monitors the actual credit risk exposure compared to the credit risk limit, the management of problem loans, and the conformity between policy and implementation of credit risk management.

3. **Comprehensive Internal Control System**
   The Internal Control Systems is done to manage the risks endangering Bank's business, among others, by the implementation of management procedures to handle problem loans effectively, separating the function of problem loans resolution from the credit decision function. The control of credit risk can also be done through mitigation risk, the active managing of portfolio risk positions and the determination of target concentration risk limit targets.

4. **Approach for forming the Allowance for imparment losses**
   Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired for impairment's allowance and calculated using an individual and collective approach.

Market Risk
Market risk is the potential for loss in book value or cash flows caused by interest rate or exchange rate changes.

1. Adequacy Policies, Procedures and Limit

Policies that the Bank has in controlling of risk interest rates made to monitor interest rate risk that affects the book value of securities by using market prices on a daily basis, perform Net Interest Income simulation calculations the Net Interest Income for the possibility of changes in the level of interest rates, monitoring the overall Repricing Gap Profile Asset and Liability in anticipation of trend of market interest rates movement that can cause losses.

2. Adequacy Process Identification, Measurement, Monitoring, and Risk Control, and Systems Information Risk Management

Identification is done to determine and analyze the position of assets, liabilities and administrative accounts sensitive to changes in market prices. Particularly for the interest rate risk in the banking book (IRRBB), the indentification process includes identifying the IRRBB risk factors such as the repricing risk, yield curve risk, basis risk and optionality risk that can affect Bank interest income and the economic value of the Bank 's financial position and the Bank's capital.

The measurement of market risk is calculated based on market risk exposure and potential changes in value or revenue caused by changes in market risk factors.

Information systems can facilitate process and calculation of mark to market results on securities daily in the trading category and available for sale based on the complexity of the product.

3. Comprehesive Internal control system

The Internal Control System is the Comprehensive internal control system done through policy and strategic adjustments associated with the Asset Liability Management (ALMA).

Liquidity Risk

Liquidity risk is the risk from an increase in the funding gap or if the Bank is not able to meet payment obligations at maturity, including liquefaction of customer deposits.

1. Adequacy Policies, Procedures And Establishing Limits

The Bank's policy to control liquidity risk is to establish a liquidity risk control policy that has been adjusted to fit with the mission, business strategy, capital adequacy, human resource management and the Bank’s risk appetite.

2. Adequacy Process Identification, Measurement, Monitoring, and Risk Control, and Systems Information Risk Management

The Identification of liquidity risk to assess cash flow and the liquidity position. The measurement of minimum liquidity risk includes liquidity ratios, maturity profile, cash flow projections and stress testing .

Conduct liquidity position monitor and pays attention to the early warning internal and external indicators.The system can present information on daily liquidity condition.

3. Comprehensive Internal control system

Internal Control System is a comprehensive internal control system that can anticipate the potential increase in liquidity risk that can affect bank operations and business continuity. It can also activate the Contingency Funding Plan to manage liquidity in times of crisis.

Operational Risk

Operational risk is the risk of losses caused by insufficient or non-functioning of the internal processes, human and systems errors or by uncontrollable external events.

1. Policies, Procedures and Establishment of Limits

Bank has policies and procedures to manage operational risks including, among others, Operational Risk Management Policies, Management of Business Continuity Policies, Operations Policies, Human Resource Policies and IT policies, as well as other relevant procedures.

The establishment of operational risk limits to limit the maximum potential losses that can be absorbed by the Bank is made with reference to the operational risk exposure, past losses, operational risk tolerance, as well as analysis of operational risk occurrence and its impact on the future (future looking risks).

2. Adequacy Process Identification, Measurement, Monitoring, and Risk Control, and Systems Information Risk Management

Risk identification is performed through the registration process of all potential operational risks based on processes, products, events risk and asset information held by the Bank. In addition, the identification of risk goes

through the operational risk assessment process on the product/process proposed by the business units and support functions.
The risk measurement process involves periodical self-assessment activities, risk/loss event data-base management and the calculation of capital adequacy for operational risk.
The process of risk management is done by the operational work unit and Risk Management unit by adding effective control mechanisms and/or providing insurance sufficient to minimize risk for the Bank.
Risk Management information system Is made to present accurate, timely and up to date information to support management functions to facilitate the planning process and decision making.

3. The Comprehensive Internal Control System

The internal control system conducts periodic reviews of the procedures, documentation, data processing systems, contingency plans, as well as contracts and agreements between the Bank and other parties, assurance process of all functional activities and conducts follow-ups of the results of internal and external audits.
At the operational level is a layered control system (three lines of defense), in which the Internal Control System (*Quality Assurance*) is instrumental in helping the Risk Taking Units (RTU) in the enforcement of daily management operational risks. In the next layer of control, the Operational Risk Management Unit (ORM) together with Compliance Unit is instrumental in The definition, refinement and maintenance of the risk framework operations, ensure adequate risk mitigation policy and
procedures, as well as act as the coordinator/facilitator of the activities of operational risk management.
Next, the Internal Auditor independently ensures that the residual risks are still within acceptable limits (risk appetite).
The alignment of work between units related to the Bank 's internal control is sustained through periodic forums and routine facilitation.

4. Business Continuity Management

BTPN has developed guidelines for Sustainable Management, a comprehensive effort to anticipate operational risks which may occur in extreme/critical situations such as floods and earthquakes and also other factors such as fire, system/power interruptions and unfavorable business environment so that continuity of service to customers can be assured.

Legal Risk

Legal risk is the risk arising from lawsuits and/or weakness of judicial aspects.

1. Adequacy of policies and procedure

Establish control policy especially the legal risks affecting functional activities. Policies are evaluated at least once a year;

2. Adequacy Process Identification, Measurement, Monitoring, and Risk Control, and Systems Information Risk Management

The Bank ensures adequate processes for the identification, measurement, monitoring, and controlling risks, as well as management information risk to avoid the possibility of legal action.
The Bank identifies and control the legal risks attached to products and activities before being introduced to new customers and identifies legal risks contained in any functional activity. The measuring legal risk is carried out quantitatively.
The process of identification, measurement, monitoring and controlling legal risk is carried out by a specific legal work unit.

3. Comprehensive Internal Control System

Internal control system overall management process legal risk is done through periodic review process.

Compliance Risk

Compliance risk is the risk due to the Bank not complying and/or not implementing laws and regulations and applicable provisions.

1. Adequacy of policies and procedure

The Bank has policies and procedures in place to meet all the provisions in force, including Compliance Policy, Anti Money Laundering (AML) Policy and Combating the Financing of Terrorism (PPT).
The Bank has also established procedures on controlling compliance risk, policy-setting responsibilities and compliance review periodically and establishing identification and measurement procedures of compliance risk for all functional activities;

2. Adequacy Process Identification, Measurement, Monitoring, and Risk Control, and Systems Information Risk Management

The Bank carries out the process of identification, measurement, monitoring and compliance risk control continuously. The identification of compliance risk process is conducted by the compliance unit which is independent in the organizational structure. It actively conducts supervision of the work units periodically and has a compliance risk reporting minimally every month.

3. Comprehensive Internal Control System

The system of internal control is done by a clear separation of functions between operating work unit, the risk control unit and the risk monitoring unit within the organization structure and conducts follow-through on the results of the internal/external audits.

Strategic Risk

Strategic risk is the risk due to inaccurate decision making and/or implementation of strategic decisions as well as failure in the anticipation of business environment changes.

1. Adequacy of policies, procedures and Limits

The Bank has policies and procedures governing the formulation and preparation of the Bank Business Plan including analysis regarding the strategic direction and key activities to support the implementation of strategies taken.

2. Adequacy of Process Identification, Measurement, Monitoring, and Risk Control, and Systems Information Risk Management

The Bank, through its Corporate Strategy, ensures adequate process of identification, measurement, monitoring and controlling strategic risk by conducting a strategic risk review on a quarterly basis including the Bank's financial performance compared to the banking industry and ongoing business plan. This strategic risk review is part of the bank's overall risk profile review process. In addition, the monitoring of business plan achievement and performance of the bank is also outlined in the business plan realization report issued every quarter.

3. Comprehensive Internal Control System

The Bank has an internal control system for strategic risk management that periodically monitors the quantitative and qualitative performance of the Bank.

Reputation Risk

Reputation risk is the risk due to declining levels of stakeholder trust arising from negative perceptions of the Bank.

1. Adequacy of policies and procedure

The Bank has established a Communication policy to prevent and confront negative publicity or prevention.

2. Adequacy Process Identification, Measurement, Monitoring, and Risk Control, and Systems Information Risk Management

Reputation risk identification is carried out for all functional activity and the reputation risk is measured quantitatively;
To monitor and control the reputation risk, the Bank has established a working unit with the authority and responsibility to provide comprehensive information to customers and stakeholders;
Associated with the monitoring and risk control of reputation, the Corporate Communication Unit oversees the number of customer complaints and the percentage level of successful handling of complaints.

3. Comprehensive Internal Control System

The Bank has a system internal control for reputation risk management for managing complaints customers that follows the principle of prudence and transparency.