

COMPLIANCE RISK
GENERAL QUALITATIVE DISCLOSURE
31 December 2023

Compliance risk is a risk that arises if the Bank does not comply and/or does not implement applicable laws and regulations when conducting business activities.

Compliance Risk Management Framework

The Bank’s Compliance Risk Management organization is as shown below:



The Bank has compliance policies and procedures which serving as the basic infrastructure in implementing Compliance Function governance. Reviews and improvements to the Bank's compliance policies are carried out continually, including in line with the issuance of new regulations from the Financial Services Authority (OJK), Bank Indonesia (BI) and the Deposit Insurance Corporation (LPS), as well as regulation other laws and regulations set from Sumitomo Mitsui Banking Corporation (SMBC) as the majority shareholder and Controlling Shareholder of the Bank. The Board of Directors and the Board of Commissioners incessantly carry out supervision on the implementation of the Compliance Function, which, among others, is administered through the following mechanism:

1. Report on the implementation of duties and responsibilities of the Compliance Division to the Director of Compliance. (monthly)
2. Report on the implementation of duties and responsibilities of the Director of Compliance to the President Director with copy to the Board of Commissioners. (quarterly)
3. Report on the implementation of duties and responsibilities of the Director of Compliance submitted to the Financial Services Authority (OJK) with copy to the President Director and the Board of Commissioners. (biannually/semester)
4. Report on the monitoring of Compliance Risk to the Board of Directors in the meetings of the Board of Directors and to the Board of Commissioners in meeting forums of the Board of Directors with the Board of Commissioners as well as in the periodic meetings of the Audit Committee.

The Board of Directors and Board of Commissioners have also approved the Compliance Policies as the basic infrastructure in implementing the Compliance Function governance. These policies is used as a guideline in implementing the Bank's Compliance Function.

In compliance with OJK Regulation No.46/ POJK.03/2017 on the Implementation of Compliance Function of Commercial Banks, the Board of Commissioners assessed the Bank's Compliance Function

implementation carried out at least 2 (two) times in a year (biannually/semester). This includes the provision of suggestions/recommendations to improve the Bank's Compliance Function implementation.

Monitoring the implementation of Compliance and governance functions in subsidiary companies, namely BTPN Syariah, in accordance with OJK regulations regarding Banking Synergy.

Adequacy of Policies, Procedures, and Limit Setting

The Bank has compliance policies and procedures as the basic infrastructure in implementing the Compliance Function governance. These policies serve as guideline in implementing the Bank's Compliance Function. On an ongoing basis, reviews and improvements of the policies and procedures are conducted continuously to ensure compliance with applicable regulations, including in line with the issuance of new regulations from the Financial Services Authority (OJK), Bank Indonesia (BI), and the Deposit Insurance Corporation (LPS), as well as regulations other laws and regulations from Sumitomo Mitsui Banking Corporation (SMBC) as the majority shareholder as well as the Controlling Shareholder of the Bank.

Adequacy of Risk Identification, Measurement, Monitoring and Control, and Risk Management Information System

Compliance risk management is conducted through the risk identification, measurement, monitoring, and control processes in line with the implementation of risk management in order to ensure the Bank's compliance with prevailing laws and regulations as follows:

1. The process of identifying compliance risk, among others, is carried out through compliance tests on policies, program products, scheduled corporate actions, and transactions requiring the Credit Committee's approval.
2. The process of measuring compliance risk is carried out through the self-assessment on Compliance Risk as part of establishing the Bank's risk profile. This activity is carried out periodically using a risk approach (Risk-Based Bank Rating). In addition, a Compliance Self-Assessment is carried out every semester with the aim of ensuring that the policies, systems, procedures and business activities carried out by the Bank are in accordance with the provisions of the OJK, BI, LPS, as well as the provisions of applicable laws and regulations. As a subsidiary of SMBC Group, the process of measuring risk is carried out through the implementation of a Compliance Risk Assessment (CRA) based on SMBC regulations as the majority shareholder and Controlling Shareholder of the Bank as well as regulatory regulations related to others.
3. The process of compliance risk monitoring is carried out, among others, through reviews on the conformity of the Bank's policies with applicable regulations, fulfilling prudential parameters, submission of reports to OJK, BI, LPS and other authorized parties, follow-up on OJK and/or BI findings.
4. The process of compliance risk control is performed, among others, through periodic reviews of compliance policies and procedures, and through follow-up on results of external and internal audits.
5. The implementation of the Bank's Compliance function is periodically and continuously reported to the Director of Compliance and the President Director with copy to the Board of Commissioners. In addition, reports are also conveyed in meeting forums of the Board of Directors, joint meetings of the Board of Directors and the Board of Commissioners as well as in periodic meetings of the Audit Committee.

Internal Control on Compliance Risks

The Bank has an adequate internal control system to ensure compliance with OJK, BI and LPS regulations as well as other laws and regulations. The Bank's internal control system uses a 3 (three) layer defense model (three lines of defense), consisting of Business and Supporting Functions Working Units as Risk Taking Units and assisted by Business Risk/Internal Control & Risk (ICR) as coordinators in the implementation of compliance risk management in the first line of defense.

The second line of defense consists of the Risk Management Directorate, Compliance and Legal Directorate, Finance Division, and Human Resources Division. The Compliance Division – as part of the second line of defense, takes the role of developing the framework and policies related to compliance, and the Internal Audit (IA), as the third line of defense, works independently in assessing the effectiveness of the compliance risk implementation.

The Internal Audit periodically inspects the adequacy of the compliance risk management as well as the compliance of each related party in accordance with the established Audit Plan.

Disclosure of risk exposure and implementation of risk management in 2023:

During the year 2023, the Bank was able to be maintained compliance with regulations of OJK, BI and other applicable laws and regulations with accomplishment, among others, as follows:

1. The Bank's level of soundness based on Risk Based Bank Rating/RBBR as of December 2023 was rated 2 (Sound/Healthy).
2. Compliance with regulatory parameter, including:
 - a. Minimum Capital Adequacy Ratio (CAR), including the Leverage Ratio above the applicable regulations.
 - b. There were no violations or excess of the Legal Lending Limit (LLL).
 - c. Net NPL of below 1% level.
 - d. Fulfillment of Statutory Reserves (GWM) for both Rupiah and Foreign currency above applicable regulations.
 - e. Fulfillment of Net Open Position (PDN) according to applicable regulations.
 - f. Fulfillment of the Net Stable Funding Ratio.
 - g. Fulfillment of Liquidity Coverage Ratio above applicable regulations.
 - h. Setting a target for the Macroprudential Inclusive Financing Ratio (MIFR) and carrying out continuous monitoring to achieve this target.
3. Fulfillment of capital surcharge in accordance with OJK regulations in line with stipulations of BTPN as a Systemic Bank.
4. Fulfillment of the commitment to follow-up on results of OJK's investigation in accordance with target timeline as determined.