# Risk Management

## Risk Management Duties and Responsibilities

Risk management is carried out in all bank activities by referring to the provisions of management standards set by the regulator. The process of risk management implementation in which includes identification, measurement, monitoring and risk control, is carried out continuously by the three line of defense, namely all risk taking units as first line, compliance and risk management units as the second line and internal audit unit as the third line. The result of the risk profile assessment in the third quarter of 2018, the rating of the BRI risk profile is at the level of low to moderate, this indicates that the bank is able to maintain the level of risk management along with the development of business and competition of banks in Indonesia.

The duties and responsibilities of the Risk Management function are:

1. Compilation of integrated enterprise risk management and risk management methodologies.
2. Preparation and analysis of risk profiles, bank soundness, capital adequacy, credit risk rating & scoring and credit risk methodology validation.
3. Preparation of Risk Appetite Statement (RAS).
4. Preparation of the Recovery Plan.
5. Compilation and analysis of the guideline portfolio, sustainability finance, risk-based pricing, and stress testing.
6. Compile, improve and implement risk management processes / procedures / methodologies and methodologies (identification, measurement, monitoring and control including data validation, risk management strategies, risk profiles, stress testing, and monitoring risks (market risk, liquidity risk, risk operational and other risks) Business Continuity Management (MKU) / Business Continuity Management (BCM).
7. Assess the adequacy of risk management for new products and or assets proposed by the work unit.
8. Implementation of Committee Risk Management (RMC).

## Competency Development & Education On Risk Management

The education and competency development program during 2018 is as follows:

1. Introduction to Risk Management and Risk Management Tools.
2. Cyber Risk Management Fundamentals.
3. Training on Environmental Analysis from OJK.
4. Risk Management Certification.
5. Public Course at the Risk Management and Risk Management Division of the Regional Office.

The implementation of the Certification and Officials who have risk management certification at BRI in 2018 are as follows:

| Level of Certification | Participant |
|---|---|
| 1 | 107 |
| 2 | 86 |
| 3 | 12 |
| 4 | 28 |
| 5 | 6 |
| Kom-1 | 1 |
| **TOTAL** | 240 |

## Risk Types & Management

In implementing the Risk management function, Bank BRI manages 10 risks in the financial conglomerate, namely:

# CREDIT RISK

Is a risk due to the failure of the debtor and/or other parties to fulfill obligations to the Bank. Credit risk can be sourced from various bank business activities.

### 1st Pillar
### Active Supervisor of BOC and BOD

a. The process on credit decision beyond certain nominal,required through the BOD Credit Committee and consultation with the BOC.
b. Monitoring follow-up actions by the BOC and BOD, in the event of exceeded risk limit.
c. The implementation of the quarterly RMC forum which discusses strategic issues related to managing company risk, especially credit risk.
d. Quarterly risk profile reporting from the Risk Management Work Unit to the Directors.

## 2nd Pillar
## Adequacy of Procedures and Limit Setting

a. Target Market Provisions
b. Determination of risk levels at the corporate level (risk appetite statement) regarding NPL, and NPL Coverage
c. Provisions for tiered PDWK

## 3rd Pillar
## Risk Management Process and Information System

**a. Credit risk identification** is carried out by using a Credit Risk Rating (CRR) and Credit Risk Scoring (CRS) system since 2001. Internal ratings (Credit Risk Rating / Credit Risk Scoring) used at BRI are currently compiled based on empirical / historical data from existing BRI debtors by using statistical methodology. This internal rating is regularly reviewed on the accuracy of the models and assumptions used to project failures, and adjustments to assumptions are made if there are changes to the provisions of both external (regulator) and internal. In order to overcome the weakness that may arise from the use of the internal rating model, validation has been carried out by a work unit that is independent of the work unit that applies the model. The process of validation or review of the credit risk measurement model is done by the backtesting method.

**b. Credit risk measurement** is carried out with an internal model with standard method by calculating the probability of default and loss given default for each business segment based on the shift in credit collectibility. Currently, BRI is also in the stage of developing an Internal Rating Based Approach (IRBA). In addition, a series of Stress Tests are also conducted to measure the maximum potential loss in the event of a stressful condition. The stress test is based on several hypotheses and assumptions, among others: economic growth, inflation, world oil prices and changes in the Rupiah exchange rate. Another thing that is done is with guidance through the Loan Portfolio Guidelines (LPG), which in the presence of LPG will make lending more targeted according to the potential of each work unit.

**c. Credit risk monitoring** is carried out through a process of monitoring the credit portfolio which is the responsibility of the credit risk monitoring unit at the head office. Portfolio monitoring is carried out based on credit quality, economic sector, credit usage, the geography of the initiating work unit, and so on. Monitoring also applies to credit risk limits, including: NPL, CL, composition of Loan at Risk, Credit Cost, NPL Coverage ratio, PH, Recovery income, and Recovery Rate.

**d. Credit risk control** is carried out through:

1) Credit decisions shall consider the aspects of Collateral analysis, which must comply with the minimum loan to value or minimum coverage of loans.
2) Assessment of collateral becomes more directed through the Collateral Data Management (CODAM) application.
3) Credit risk becomes more controlled through sustainable finance (Green Banking) that integrates Social Environment and Governance risks into the economic / business aspects that have been going on so far, so that the financing provided can pay attention to business practices that do not damage the environment, pay attention to social aspects and good governance.
4) Procedure for improving credit quality through restructuring.
5) Procedure to minimize credit risk loss through credit settlement and billing optimization.
6) Procedure for write off non-performing loans.

## 4th Pillar
## Internal Control System

a. Four Eyes Principles: separation of the function of the credit initiator with the breaker
b. Separation of credit initiator work units (business) with credit risk analysis work units for the Corporate segment
c. Use of the Loan Approval System (LAS) application which includes identification of credit risk through the calculation of CRR and CRS and credit decisions that are in accordance with the tiered PDWK provisions.
d. Automatic determination of CKPN based on internal model to calculate the adequacy of credit risk backup based on credit portfolio per segment.

Risk Management

e. Integration between exceeding credit risk limits and evaluating the performance of business and individual work units.

# MARKET RISK

A risk due to the movement of market variables (adverse movement) from the portfolio owned by the Bank, which can harm the Bank. Market variables in this case are interest rates and exchange rates.

## 1st Pillar
## Active Supervisor of BOC and BOD

a. Monitoring follow-up actions by the Board of Commissioners and Directors if there is a risk limit exceeding.
b. Implementation of quarterly RMC forums that discuss strategic issues related to market risk management.
c. Monthly risk profile reporting from the Risk Management Work Unit to the Directors.

## 2nd Pillar
## Adequacy of Procedures and Limit Setting

Market risk policy, procedures and limit have been compiled and contained in the Treasury Policy and the Market Risk Management Implementation Policy (KUMR and P3MRP). The limit as listed in the policy included open limit position for trading, dealer transaction limit, cut loss and stop loss limit, uncommitted credit line limit, counterparty limits, and Value at Risk (VaR) limits.

## 3rd Pillar
## Risk Management Process and Information System

a. Identification
    1) Calculation of Interest Rate Risk using the standard method is carried out on the position of all BRI financial instruments classified as Trading Book exposed to Interest Rate Risk and Calculation of Risk of Exchange Rate with the standard method performed on BRI foreign exchange positions in the Trading Book and Banking Book exposed to Value Risk Exchange.
    2) Risk factors calculated in interest rate risk in the standard method, namely:
        a. Specific Risk (Specific Risk) of any securities or financial instruments, without regard to long positions or short positions. Thus, the offset process is not possible unless the position is identical;
        b. General Risk (General Market Risk) of the entire portfolio, where long positions or short positions in securities or different instruments can be done offsetting.
    3) The market value of securities used in the calculation of Specific Risk and General Risk is a dirty price, namely the market value of securities (clean price) plus the present value of accrued interest. Calculation of the present value of accrued interest can not be done if based on the coupon payment period, the present value of the value does not cause material differences. Exchange Rate Risk calculations are performed on all BRI positions both Trading Book and Banking Book in foreign currencies including gold, with reference to the calculation of the Net Open Position (NOP). The position of an instrument that has a denomination in foreign exchange, other than being exposed to Exchange Rate Risk, can also cause Interest Rate Risk (for example for cross-currency swaps instruments). In that case, then the Interest Rate Risk exposure must also be taken into account.

The portfolio coverage calculated in the Minimum Capital Requirement (KPMM) includes:
a) Position held for resale in the short term.
b) Position held for the purpose of obtaining short-term profits from actual and / or potential price movements.
c) Position held for the purpose of maintaining locking in arbitrage profit.
d) Derivative instruments related to securities or interest rates include Forward Bonds, Bond Options, Interest Rate Swaps, Cross Currency Swaps, Foreign Exchange Forwarding, Interest Rate Options, and Forward Rate Agreements / FRA.

e) All debt securities with fixed or floating interest rates, and all financial instruments that have similar characteristics, including Negotiable Certificates of Deposits and securities sold by BRI with repurchase terms (Repo / Securities Lending).
f) BRI's foreign exchange position in the trading book and banking book exposed to exchange rate risk.

b. Measurement
   1) Calculation of Interest Rate Risk using the standard method is carried out on the position of all BRI financial instruments classified as Trading Book exposed to Interest Rate Risk and Calculation of Risk of Exchange Rate with the standard method performed on BRI foreign exchange positions in the Trading Book and Banking Book exposed to Value Risk Exchange.
   2) Market risk measurement is carried out periodically (daily, weekly and monthly), among others, calculating market risk using the standardized measurement method approach and internal model measurement (VaR) through the GUAVA application, conducting NII simulations every time a market interest rate changes and arranging the maturity profile of the letter valuable.
   3) The valuation of the trading book and banking book portfolios is carried out by using quoted market prices from actively traded instruments (mark to market). These market prices reflect actual and routine transactions that are carried out fairly. Valuation results based on market value (mark to market) are periodically validated to ensure consistency and fairness of market prices used. If the market price is not available because the instrument is not actively traded, the valuation of fair value determination uses a mark-to-model simulation approach.

c. Monitoring and Control
   In carrying out market risk management, the Board of Directors periodically evaluates market risk through a daily report on Net Open Position, the Asset & Liability Committee (ALCO) forum, and reports on market risk exposure in the market Risk Profile.

## 4th Pillar
## Internal Control System

a. Separation of front, middle and back office functions. BRI's market risk management functions consist of front office work units (Treasury Division), middle office (EMP & MOP Division), and back office (Operations Center Division) with each having different authorities.
   1) Front office ranks are authorized to conduct financial instrument transactions and are responsible for monitoring market price movements.
   2) Middle office ranks establish and monitor market risk limits and periodically ensure market data used for mark-to-market (MTM).
   3) The back office ranks settlement of treasury transactions and daily sets the market price (MTM) at the end of the day. The implementation of the delegation of authority is realized through the setting of a tiered transaction limit in accordance with competence and experience.
b. Market risk control system that is integrated with front office functions.
c. BRI has implemented a treasury and market risk (GUAVA) application system which is an integrated system used by front office, middle office and back office functions. Through this application, BRI can measure market risk that is integrated with the daily transaction process. In addition to monitoring instrument risk exposures, BRI also monitors market risk limits and transaction limits including dealer transaction nominal limits, open position limits, Limit Uncommitted Credit Line (UCL), cut loss limits, and stop loss limits. Monitoring is carried out on a daily basis so as to accelerate the provision of up-to-date information that supports decision making by line officials and management in a timely manner, especially for instruments included in the trading / trading classification.
d. Integration between exceeding market risk limits and evaluating the performance of business units.

Risk Management

# LIQUIDITY RISK

A risk due to the Bank being unable to fulfill obligations that have fallen due.

### 1st Pillar
### Active Supervisor of BOC and BOD

a. Implementation of ALCO ad-hoc mini meetings and weekly Board of Directors Meetings when market liquidity conditions or BRI are tight.
b. Monitoring follow-up actions by the Board of Commissioners and Directors if there is a risk limit exceeding.
c. The implementation of the quarterly RMC forum that discusses strategic issues related to the management of corporate risk
d. Monthly risk profile reporting from the Risk Management Work Unit to the Directors.

### 2nd Pillar
### Adequacy of Procedures and Limit Setting

a. Determination of LCR minimum limit (Risk Appetite Statement)
b. Determination of NSFT minimum limit
c. Other liquidity limits established through policies, procedures and liquidity risk limits are included in the Asset and Liability Management Policy, as well as Kebijakan Penerapan Manajemen Resiko (KUMR), and the Pedoman Pelaksanaan Penerapan Manajemen Risiko Likuiditas (P3MRP).

### 3rd Pillar
### Risk Management Process and Information System

a. Risks Identification, Measurement and Monitoring through the dashboard of daily liquidity profiles.
b. Risk control through the liquidity contingency plan protocol.

### 4th Pillar
### Internal Control System

a. Daily liquidity position monitoring system.
b. Integration between exceeding liquidity risk limits and performance evaluation.

# OPERATIONAL RISK

A risk that is caused partly by insufficient or non-functioning internal process, human error, system failure, or the presence of external problem that affect the Bank's operation.

### 1st Pillar
### Active Supervisor of BOC and BOD

a. Monitoring follow-up actions by the Board of Commissioners and Directors if there is a risk limit exceeding.
b. The quarterly Risk Management Committee (RMC) forum which discusses strategic issues related to corporate risk management and the implementation of the Operational Risk Management Committee (ORMC) which is held when necessary (incidental) discusses risk issues based on the assessment of operational risk issues and other risks and Current loss events and control effectiveness of business and operational processes.

### 2nd Pillar
### Adequacy of Procedures and Limit Setting

a. Limit approval for tiered transaction given.
b. Parameters and limits of operational and other risk profiles.

### 3rd Pillar
### Risk Management Process and Information System

a. Operational risk identification is carried out through the RCSA tool which includes 7 bank functional activities, namely: Credit activity, Treasury and investment, Operation and service, Trade financing, Debt funding and instrument, Information system technology and Management Information, and Management of human resources.

b. Measurement of operational risk is carried out using the Basic Indicator Approach (BIA) methodology. Currently, BRI is preparing for the calculation using the Standardized Approach (SA) method in stages, which will be continued with the Advanced Measurement Approach (AMA) method.

c. Risk profile monitoring is carried out through the Main Risk Indicator (IRU) tool, based on the risk profile assessment and operational loss data managed through the Incident Management (MI) platform.

d. Risk control through:
   1) New Product and Activity assessment procedure for each new product or service, where each product must go through a review by the Risk Management Work Unit and Compliance Work Unit and the Legal Work Unit (if needed) before being registered with the regulator.
   2) Protocol for Business Continuity Management for catastrophic events. In this case, BRI has a Crisis Management Team (TMK) which plays an important role in the event of a disruption or disaster and is responsible for taking steps that need to be taken including managing reputation risk. The TMK structure is formed in all BRI Work Units namely Head Office TMK, Regional Office TMK, Branch Office TMK. The strategic aspect that must be considered in managing reputation risk during a crisis is maintaining customer trust, share ownership, and the surrounding community towards BRI's good name.

### 4th Pillar
### Internal Control System

a. Separation of the Checker-Signer Maker function in banking operational activities, where the approval of most operational processes is embedded in the Core Banking, Asset Management and MIS HR system.
b. Complaint Handling procedure with certain SLA.
c. Implementation of SOP (Standard Operational Procedure) related to AML and CTF to protect BRI from the targets of money laundering and terrorism crimes. As well as the AML system (anti money laundering) to monitor suspicious transactions (CTR and STR).
d. Integration between exceeding operational, legal, strategic risk limits and compliance with the performance of business and individual work units.

## LAW RISK

A risk that causes a weakness in the juridical aspect. The weakness of the juridical aspect is caused by lawsuit, the absence of law and regulations that support or weakness in the engagement, such as not fulfilling the requirements for the validity of contracts and imperfect binding.

### 1st Pillar
### Active Supervisor of BOC and BOD

Discussions on material legal cases, legal risk management and follow-up are discussed in RMC, KPMR Meetings, and Audit Committee Meetings.

### 2nd Pillar
### Adequacy of Procedures and Limit Setting

a. Legal guidelines are prepared by the Legal Division in the Head Office and being socialized throughout the Operational Work Unit.
b. Division of authority to assist legal cases in the Legal Division of the Head Office and Legal Officer at the Regional Office.

### 3rd Pillar
### Risk Management Process and Information System

a. Every transaction process and new product and activitywith potential legal risk is first reviewed by the Legal Division.
b. Legal Risk Monitoring of all Operational Units in Indonesia is carried out by a Legal Officer in the Regional Office through the mechanism of reporting and documentation of legal cases.
c. The Legal Officer at the Regional Office and Head Office will carry out legal assistance in accordance with their authority if there are legal cases in the Operational Work Unit.

Risk Management

### 4th Pillar
### Internal Control System

The Legal Division ais ctively disseminate the mode of operation of crime along with legal handling procedures to minimize legal risk in the Operational Unit.

Legal Risk Control is carried out in several ways including:

a. Legal division as the Legal Risks Cordinator in BRI reviewed changes in laws and regulations to ensure that BRI's internal provisions do not deviate from the provisions of applicable laws.
b. The Legal Division provides legal advices/opinions on perjanjian kerja sama (PKS)/agreements between BRI and other parties, to protect BRI's legal interests before the agreement is signed by authorized BRI officials.
c. Every banking transaction at BRI which includes operations, credit and employment relations has been carried out in accordance with the applicable legal provisions and supported by adequate legal documents.
d. The Legal Division cooperates with a legal officer (LO) at the Regional Office to monitor legal risk in all BRI Work Units with the mechanism of reporting and documenting legal cases as well as socializing the mode of operation of crime along with legal handling procedures to minimize legal risk.
e. The legal division prepares legal guidelines such as guidelines for the preparation of PKS and legal pocket books for both the operational and credit fields.
f. Fostering staff in the Unit Kerja Operasional (UKO) in Regional Offices is conducted by increasing competence in controlling legal risk in the relevant work area including in the form of socialization, discussion of opinions on an event from the side of the applicable law.
g. The legal officer (LO) at the Regional Office provides legal assistance in accordance with his authority to the UKO if there is a legal case in the UKO and coordinates with the Legal Division.
h. The Legal Division provides legal assistance in coresponding with its authority when cases occur.
i. If needed, the UKO can consults with the Legal Division regarding technical legal issues.
j. In case of lawsuits that have a very significant potential loss for the Bank and / or lawsuits that could significantly have a negative impact on BRI's reputation, then as a contingency plan measures must be taken to reduce legal risk, including through: the use of lawyer services and reporting on developments to the Directors.
k. As part of monitoring legal risk, the Legal Division coordinates with the MOP Division regarding with monthly BRI legal risk profile reporting to the Directors through the Risk Profile Dashboard.

Other efforts carried out in order to increase awareness of legal risk, the Legal Division has issued a Compilation of Resume provisions issued by the Legal Division. The compilation contains a resume of the provisions / guidelines issued by the Legal Division which include: Credit and Collateral Activities, Operational Activities, Legal Manuals and Legal Pocket Books. The compilation can be used by the Operational Unit to always pay attention to the provisions in order to protect BRI from legal risks.

## STRATEGIC RISK

A risk that is caused, amongst others by the establishment and implementation of an improper Bank strategy, inappropriate business decision making or the Bank's lack of responsiveness to external changes.

### 1st Pillar
### Active Supervisor of BOC and BOD

Discussions on strategic planning, monitoring target achievement and strategy evaluation are discussed at the Joint Meeting of the BOC and BOD (Radirkom) during discussions on RBB approval, RKAP approval, and discussion of quarterly financial performance.

The material for National Working Meeting (Rakernas) which is held annualy to support the strategy formulation process is also discussed in the BOD. In addition, The BOD Committee Meetings such as ALCO also discuss performance achievement and efforts to achieve financial performance.

### 2nd Pillar
### Adequacy of Procedures and Limit Setting

The process with regards to planning, monitoring and company's strategy evaluation is stipulated in the DUJ and BPO of the Corporate Development and Strategy Division as well as Accounting and Financial Management Division.

### 3rd Pillar
### Risk Management Process and Information System

Implementation of a Joint Planning session during the RBB drafting for business strategies along with the work program plans of each Division Work Unit at the Head Office.

Implementation of Alignment Workshop Strategic work program plan between Head Office Work Units in order to achieve targets in the RKAP and RBB.

Implementation of BRI Performance Management with the Balanced Scorecard approach, through the establishment of Key Performance Indicators (KPI) with the principle of vertical and horizontal synergy.

Strategic Initiatives Monitoring Company by Project Management Office Work Unit. The Strategic Initiative is a strategic and critical non-routine work program, which must be done to achieve the target.

Establishment of Corporate Plan Team in preparing BRI Long Term Plan for the period of 2018-2022.

At the Regional Office level, BRI has an Operation, Network, Service & Performance Management Division with therole of monitoring business target achievement in its working area.

Monitoring and reviewing the achievement of performance target as set out in the RKAP, RBB and CPR is conducted at the corporate level by the Corporate Development and Strategy Division on a regular basis. A review is also conducted on the achievement of work programs (Functional Work Plan - RKF) of a Uker in KP that are carried out to achieve the performance targets of the Budget Work Plan - RKA.

### 4th Pillar
### Internal Control System

In the event of work program realization at a working unit which falls under category of behind schedule, due to the connection with other working unit, the work program will be synchronized/ accelerated to working unit which is requested for support. The alignment and acceleration of the work program is monitored by the Corporate Development and Strategy Division.

## REPUTATION RISK

This is a risk due to negative publication related to the Bank's business activities or negative perceptions of the Bank.

### 1st Pillar
### Active Supervisor of BOC and BOD

Discussion of reputation risk profile and reputation risk management and its follow-up are discussed in RMC, and KPMR Meeting.

### 2nd Pillar
### Adequacy of Procedures and Limit Setting

In the framework of reputation risk control, the SKP Division has been appointed to handle any negative information. The reputation risk management process is contained in the DUJ and BPO of the Corporate Secretariat Division. Complaint Handling procedures with certain SLA.

### 3rd Pillar
### Risk Management Process and Information System

a. Periodic reputation risk identification activity is carried out by the SKP Division by looking at the

Risk Management

number of negative report on BRI, the number of customer complaints in the mass media both print and electronic, call centers and company ratings.

b. Reputation risk measurement aims to estimate the reputation risk faced by BRI. After the identification process, reputation risk will be measured to assess the reputation risk category by using several parameters in accordance with the parameter limits in the reputation Risk Profile Report.
c. Risk monitoring as carried out by the SKP Division is by periodic monitor on the number of complaints and negative reporting in the mass media and reporting on reputation risk profiles.
d. Monitoring of reputation risk in Regional Office is carried out by the OJL Service Division of each Regional Office, namely by regularly monitoring the quality of services at the respective Kanca, KCP and BRI units, where quarterly reporting is carried out regarding compilation of handling reports customer complaints at LKPBU.
e. BRI's reputation risk control includes amongst other, the Circular Letter regarding Information Services and Management policy, and the SKP Division controlling risks by coordinating with the relevant Service and working unit Division to resolve negative reporting and customer complaints in accordance with the established SLA.

### 4th Pillar
### Internal Control System

The independent review by the Internal Audit Unit (SKAI) is conducted periodically on the Quality of Reputation Risk Management Implementation.

## COMPLIANCE RISK

Risk caused by incompliance of Bank law and regulations and other applicable provisions. Compliance risk management is carried out through the application of a consistent internal control system.

### 1st Pillar
### Active Supervisor of BOC and BOD

Discussion on compliance risk profile and compliance risk management as well as follow-ups are discussed in RMC, and KPMR Meetings.

### 2nd Pillar
### Adequacy of Procedures and Limit Setting

Compliance Risk management policies and procedures include:

a. Compliance Charter
b. Implementation of Compliance Function for BRI's Policy and / or Decision Plans by Compliance Director and Line of Compliance of PT Bank Rakyat Indonesia (Persero), Tbk
c. Application of Compliance Culture in Work Units
d. Anti Money Laundering (AML) Policy and Procedure and Counter-Terorism Funding (CTF) Policy and Procedure
e. Policy on Conflict of Interest
f. Code of Ethic Policy
g. Policy on Gratification Control Programs
h. Policy about Whistleblowing System
i. The Compliance Division as a compliance risk coordinator carries out a prudential principle test of all BRI internal policies stipulated by the Board of Directors.

### 3rd Pillar
### Risk Management Process and Information System

a. To Identify compliance risk through compliance risk profile reports submitted by the Regional Office based on compilation from UKO, to the Compliance Division
b. Process of compliance risk supported by the adequate information system, as follows:
    1) AML (Anti Money Laundering) application that being used to monitoring suspicious transactions.
    2) Automatic Compliance Testing application that being used to compliance process and monitoring the compliance progress.

3) GCG Online Application that being used for commitment, gratification, ethical code, conflict of interest and annual disclosure reporting by Working Units.

c. Determination of Special Work Units both at the Regional Office and at the Head Office to coordinate compliance risk management, especially those related to the AML and CTF programs.
d. Compliance risk management is part of the duties and responsibilities of the Risk Management Function that coordinates the implementation of Risk Management for 8 types of risks including compliance risk.
e. Human resources appointed to manage compliance risk have adequate competence and obtain education in coresponding with the level of position.

### 4th Pillar
### Internal Control System

The independent review by the Internal Audit Unit (SKAI) is carried out regularly on the Quality of Implementation of Compliance Risk Management. The Compliance Division actively promotes the impact of new regulations on business and company operations.

## INTRA GROUP TRANSACTION RISK

Is a risk due to the dependence of an entity both directly and indirectly on other entities in a financial conglomerate in order to fulfill written and unwritten agreement obligation which is followed by transfer of funds and / or not followed by transfer of funds.

### 1st Pillar
### Active Supervisor of BOC and BOD

a. BRI Compliance Director as Director who oversees the Integrated Risk Management function for the BRI Financial Conglomerate.
b. The BOD of BRI form an Integrated Risk Management Committee and have held an Integrated RMC Forum to discuss Intra-Group Risk and Intra-Group Risk Policy in BRI Financial Conglomeration.
c. The BOC is responsible for the effectiveness of the implementation of Integrated Risk Management and is responsible for:
    1) Directing, approving and evaluating Integrated Risk Management policies.
    2) Evaluate and provide direction for improvement on the implementation of the Integrated Risk Management Policy periodically.
d. The Integrated Risk Management Unit has held a forum with Subsidiaries on a regular basis to discuss the Intra-Group Risk Profile.

### 2nd Pillar
### Adequacy of Procedures and Limit Setting

There are policies that have regulated Integrated Risk Management including:

a. Decree No: DIR 313-DIR/DMR/06/2015 dated June 30, 2016 on the Integrated Risk Management Policy of PTBank Rakyat Indonesia (Persero) Tbk and Subsidiary Companies.
b. Circular Letter S. 18-DIR/DMR/07/2015 concerning Guidelines for Risk-Based Bank Rating at PT Bank Rakyat Indonesia (Persero) Tbk dated 24 July 2015 which regulates the Intra-Group Risk Profile and Integrated Governance.
c. Risk Management Committee Decree Integrated No: 137-DIR/DMR/12/2016 dated 30 December 2016.

### 3rd Pillar
### Risk Management Process and Information System

a. Integrated Intra-Group Risk Identification is carried out by the Integrated Risk Management Work Unit, both quantitative and qualitative with significant effect on the condition of the BRI Financial Conglomerate.
b. Inherent Intra-Group Risk Measurement and Intra-Group Risk Management Implementation Quality through the Integrated Risk Profile Report.
c. Risk Monitoring and Control through the Subsidiary's Risk Profile Discussion Forum which is held regularly to discuss the Intra-Group Risk Risk Issues and follow-up plan.

d. The process of managing intra-group transaction risk is adequate. In order to control the risk of intra-group transactions, the Investment Service Division has been appointed as a work unit that manages the subsidiaries.

### 4th Pillar
### Internal Control System

a. Intra-Group Risk Conscious culture effectiveness at the BRI Financial Conglomerate.
b. The independent review of the quality of the Implementation of Intra-Group Risk Management by the Internal Audit Unit is carried out periodically at least once a year.

# INSURANCE RISK

It is a risk due to the failure of insurance companies to fulfill obligatios to policyholders as a result of insufficient risk selection (underwriting) process, pricing, reinsurance usage, and/or claim handling.

### 1st Pillar
### Active Supervisor of BOC and BOD

a. BRI Compliance Director as Director who oversees the Integrated Risk Management function for the BRI Financial Conglomerate.
b. BOD of BOD establish an Integrated Risk Management Committee and have held an Integrated RMC Forum to discuss Insurance Risk and Insurance Risk policies in the BRI Financial Conglomerate
c. The BOC is responsible for the effectiveness of the implementation of Integrated Risk Management and is responsible for:
    1) Directing, approving and evaluating Integrated Risk Management policies.
    2) Evaluate and provide direction for improvement on the implementation of the Integrated Risk Management Policy periodically.
d. The Integrated Risk Management Unit has held a forum with Subsidiaries on a regular basis to discuss the Insurance Risk Profile.

### 2nd Pillar
### Adequacy of Procedures and Limit Setting

There are policies that have regulated Integrated Risk Management including:

a. Decree No: DIR-313-DIR/DMR/06/2015 dated June 30, 2016 on the Integrated Risk Management Policy of PT. Bank Rakyat Indonesia (Persero), Tbk and Subsidiary Companies.
b. Circular Letter S.04-DIR/DMR/03/2017 concerning Risk Based Bank Rating Procedure of PT. Bank Rakyat Indonesia (Persero) Tbk dated March 21, 2017 which regulates the Risk Profile of Integrated Insurance and Integrated Governance.
c. Risk Management Comitte Decree Integrated Nokep: 137-DIR/DMR/12/2016 dated 30 December 2016.

### 3rd Pillar
### Risk Management Process and Information System

a. Integrated Insurance Risk Identification is carried out by the Integrated Risk Management Unit, both quantitative and qualitative, has a significant effect on the condition of the BRI Financial Conglomerate.
b. Insurance Inherent Risk Measurement and Quality of Application of Insurance Risk Management through Integrated Risk Profile Report.
c. Risk Monitoring and Control through the Subsidiary's Risk Profile Discussion Forum that is held regularly to discuss the Risk Risk Insurance Issues and their follow-up plans.

### 4th Pillar
### Internal Control System

a. Effectiveness of Conscious on Insurance Risk culture at the BRI Financial Conglomerate
b. The independent review on the quality of the Application of Insurance Risk Management by the Internal Audit Unit is conducted periodically at least once a year.