Risk Management Policy
PT Bank Mandiri (Persero) Tbk.

In order to increase the added value before of the stakeholders, Bank Mandiri is consistently managing the risk management system based on the regulations and laws applicable in Indonesia. In its implementation, Bank Mandiri always prioritized caution principles in managing all types of risks as a form of Bank Mandiri's commitment in conducting good corporate governance practices. Bank Mandiri's risk management framework and governance used the Three Layers of Defense Approach, namely:

1. The Board of Commissioners performed the risk oversight function through Risk Oversight Committee, Integrated Governance Committee and Audit Committee.
2. The Board of Directors performed risk policy through Executive Committee related to risk management, i.e., Risk Management Committee, Asset & Liability Committee, Capital Subsidiaries Committee and Integrated Risk Committee.
3. At the operational level, the Risk Management Work Unit together with the business unit and compliance work unit performed risk identification, risk measurement, risk mitigation and risk control functions.

Four Pillar of Risk Management Implementation

Implementation of Bank Mandiri Risk Management was implemented in accordance with the provision of the regulator by applying the four pillars of Risk Management implementation as follows:

1. **Active Monitoring of The Board of Commissioners and The Board of Directors**

   The risk management and governance frameworks of Bank Mandiri consisted of the Board of Commissioners performing the risk oversight function through the Audit Committee, Risk Monitoring Committee (KPR) and Integrated Governance Committee (TKT), as well as the Board of Directors performing the risk policy function through the Executive Committee related to risk management i.e., Risk Management Committee, Asset and Liability Committee, Capital and Subsidiaries Committee, and Integrated Risk Committee. At the operational level, the Risk Management Work Unit with the Business Unit and Compliance Unit performed the risk identification, risk measurement, risk mitigation and risk control functions.

   The duties, responsibilities and authorities of the Board of Commissioners in relation to the active monitoring of Risk Management activities included the following:

   1) Understanding the risks attached to the Bank's functional activities, particularly those that may affect the Bank's financial condition;
   2) Evaluating and approving Risk Management policies conducted at least once a year or in higher frequency in the event of significant changes in factors affecting the Bank's business activities;

3) Evaluating to the Board of Directors regarding the implementation of Risk Management to comply with Bank policies, strategies and procedures;
4) Providing consultations to the Board of Directors on transactions or business activities with large amounts of funds;
5) Approving the provision of funds to related parties on proposed credits by the credit committee in accordance with its respective authority;
6) conducting active monitoring on the Bank's capital adequacy in accordance with the Bank's risk profile as a whole, including reviewing the Risk Appetite Bank determined by the Board of Directors;
7) Increasing anti-fraud culture and concerns on all personnel of the Company.
8) Monitoring the implementation of Integrated Risk Management in accordance with the characteristics and complexity of the Bank's business.

In order to implement Integrated Risk Management, the Board of Commissioners was responsible for the following:

1) Directing, approving, and evaluating policies regulating the Integrated Risk Management on a regular basis;
2) Evaluating the implementation of the Integrated Risk Management policies by the Directors of the Main Entity.

2. Sufficieny of Policies, Procedures, And Determination Of Limit

Bank Mandiri had a Bank Mandiri Risk Management Policy (KMRBM) serving as the main guideline in implementing the risk management. For a more specific business area, Bank Mandiri had more specific policies and procedures, such as in credit, treasury, and operations. In such policies and procedures, among others were regulated on the limit determination for each activity, both at the portfolio and transactional levels.

All policies and procedures in Bank Mandiri were a form of risk management inherent in every Bank operating activity evaluated and updated at least once a year.

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

Bank Mandiri had implemented Identification, Measurement, Monitoring, Risk Control, and Risk Management Information System through an Enterprise Risk Management (ERM) platform. Implementation of ERM at Bank Mandiri used a two-prong approach, to ensure that risks were not only properly mitigated through day-to-day business processes, but also under unexpected conditions/downturn through capital reserves.

There are four main components that function as supporting pillars in the implementation of a two-prong approach, among others:

1) Organization and Human Capital (HC)

Bank Mandiri Risk Management Unit was responsible for managing all risks faced by Bank Mandiri, including in the development of the necessary supporting tools in business processes and risk management. In addition, there was a work unit acting as a risk counterpart of each business unit in the crediting four-eye process. Recognizing that risk management was the responsibility of all working units at Bank Mandiri, the success of risk management was determined by the existence of risk awareness across all work units of Bank Mandiri accompanied by adequate technical capabilities. Bank Mandiri had always improved the capability and knowledge of all its employees, particularly in terms of risk management, by organizing regular internal trainings through the Risk Management Academy. In addition, Bank Mandiri also regularly, minimum once a year, holds socialization, discussion forums, internship, or other programs related to risk management, which are in line with corporate culture internalization. Risk Management Unit at Bank Mandiri consisted of Retail Risk Directorate led by SEVP Retail Risk, Wholesale Risk Directorate led by SEVP Wholesale Risk and Risk Management Directorate led by Risk Management & Compliance Director.

2) Policies and Procedures

Bank Mandiri Risk Management Policy (KMRBM) served as the main guidance in implementing operational risk management and capital management at Bank Mandiri including:

a. Prudential principles were, among others, Provision of Capital Adequacy, Early Warning System, Limit Determination and Risk Diversification.
b. Risk Management were, among others, Risk Profile, Risk Appetite, Stress Testing and Integrated Risk Management.
c. Risk Management for each risk type, including the process of identification, measurement, monitoring and risk control.
d. Risk Monitoring, including monitoring the implementation of risk management activities/ methodologies at Bank Mandiri, and the Internal Control System.

This Risk Management Policy became the basis for the preparation of procedures and technical guidance related to the risk management at Bank Mandiri.

3) System and Data

The risk management system was developed to support more efficient business processes in order to make decision making faster but still referred to the principles of prudence. In order to maintain data integrity and quality, Bank Mandiri had implemented Integrated Processing System and Loan Origination System to improve credit process efficiency and maintain data quality in corporate, commercial and retail segments. To improve the productivity of collection activities especially in consumer and retail segments, Bank implemented Integrated Collection System. Bank Mandiri used Summit System and ALM System to manage trading book and banking book risk in treasury and asset & liability management activities. To obtain Bank Mandiri's risk profile as a holding company as well as the Bank's risk profile that was consolidated and integrated with subsidiaries, the Bank had implemented Risk Assessment Consolidation Generator System (RACER System) on a web-based basis so as to accelerate access and simplify control. In terms of integration of risk management through bank-wide, Bank Mandiri had implemented ERM system as a means to monitor overall risk management, especially in calculating capital to cover all risk types. ERM system had the capability to perform capital charge calculation (Standardized Approach and Advanced Approach), implementation of operational risk management tools, active portfolio management, stress testing and value-based management.

4) Methodology/Model and Analytics

   Bank Mandiri continuously applied risk measurements referring to international best practices using quantitative and qualitative modeling approaches through the development of risk models such as ratings, scoring, Value at Risk (VaR), portfolio management, stress testing and other models as judgmental decision making support. Periodically, these risk models were calibrated and validated by the independent Model Risk Validator unit to maintain the reliability and validity of the model and meet regulatory requirements. In order to align the implementation of Basel II and ERM with Basel II regulations and best practice implementation, Bank Mandiri cooperated with one of the leading risk management consultants to assist in the adoption and implementation of the Basel II and ERM frameworks. Basel II and ERM Implementation at Bank Mandiri covers areas in Credit Risk, Market Risk, Liquidity Risk, Interest Rate Risk in Banking Book Position, Operational Risk, Capital Management and Internal Capital Adequacy Assessment Process (ICAAP).

Risk Management Principle of Bank Mandiri

The Bank Mandiri Risk Management Principles were as follows:

1. Capital. Bank Mandiri provided capital according to the borne risks and maintained the level of capital in accordance with the applicable regulations.
2. Transparency. Bank Mandiri openly disclosed relevant information in the risk-taking process and the risk-taking process itself.
3. Independence. The management of Bank Mandiri acted professionally and was free from the pressure and influence of others.
4. Integrated. Bank Mandiri implemented the Integrated Risk Management at Financial Services Institutions incorporated in the financial conglomeration of Bank Mandiri in accordance with the regulator’s requirements.
5. Continuous. Risk control was continuously developed to better suit the available business conditions and best practices.
6. Accountability. Bank Mandiri implemented policies and procedures to ensure management accountability to stakeholders.

7. Responsibility. Bank Mandiri acted upon the principles of prudence and compliance with the applicable laws and regulations.
8. Fairness. The Company took into account the interest of all stakeholders based on the principles of fairness and equality (equal treatment).

Evaluation of Risk Management Implementation

The Bank constantly evaluates the effectiveness of the system risk management. Evaluations include strategy adjustments and risk framework as part of risk management policy, adequacy of risk management information systems and adequacy process of identification, measurement, monitoring and control risk.

One form of evaluation on risk management policy is annual evaluation of the Bank's Risk Management Policy Mandiri (KMRBM) and standard procedures. The annual evaluation results shows that risk management at Bank Mandiri during 2017 is sufficient

Implementation of Integrated Risk Management

Consolidation/ntegration of Bank Mandiri risk management has begun gradually since 2008 in harmony with the published Bank Indonesia regulation number 8/6/PBI/2006 concerning Application of Management Consolidated Risk for the Controlling Bank Against Subsidiaries and POJK No.17/POJK.03/2014 on Application of Integrated Risk Management for Conglomeration Finance. These stages have until now become one form of strategic initiative of risk management working unit in Bank Mandiri which is periodically communicated with the Authority Financial Services in a special forum to discuss topics of risk profile and Bank Rating (Risk Based Bank Rating).

This is important because Bank Mandiri realized that its viability is also affected by risk exposure which arise directly or indirectly from activities business of the Subsidiary Company. Related to this, Bank Mandiri has implement a consolidation / integration management system risks to subsidiaries operating in Indonesia and outside the territory of Indonesia while remaining in line with principles risk management and adapted to the jurisdiction of authority / local supervisors, as well as taking into account business characteristics of each subsidiary company. Concept of consolidation/ integration risk management undertaken by Bank Mandiri and the company children are generally divided into 2 (two) major parts, namely:

1. First Line, which is related to the fulfillment of the provisions POJK number 38/POJK.03/2017 on Implementation of Management Consolidated Risk For a Doing Bank Control of Subsidiaries, POJK No. 17/POJK.03/2014 on the Implementation of Integrated Risk Management For the Financial Conglomeration, as well as POJK Number 04/POJK.03/2016 on the Rating of Commercial Bank Health.
2. Second Line, which is more a needs approach internal Bank Mandiri as a whole that covers tools, awareness, governance corporate (governance), and management information systems risk (system). Gradually, Bank Mandiri has implemented consolidation/integration of risk

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Gradually, Bank Mandiri has implemented consolidation/integration of risk management with subsidiary companies included in financial services institutions (Bank Syariah Mandiri, Bank Mandiri Europe Ltd, Bank Mandiri Taspen, Mandiri Sekuritas, Mandiri Investment Management, AXA Mandiri Financial Services, Mandiri AXA General Insurance, Mandiri InHealth Mandiri Tunas Finance, Mandiri Utama Finance, Mandiri International Remittance, and Mandiri Capital Indonesia).

In order to implement integrated risk management comprehensive, the Bank established a Risk Management Committee consists of the Director/ Executive Officer in charge the Risk Management function of the Bank and the Subsidiary Company play a role in providing recommendations on the preparation, improvement and improvement of risk management policies integrated. In addition, the Bank also established a Work Unit Integrated Risk Management (SKMRT) is responsible answer directly to the Director who in charge of Risk function Management. Here are the duties and responsibilities of SKMRT.