15. Management is obliged to improve an effective risk culture and ensure that it is inherent at every level of the organization.

For the oversight of the Board of Directors and control culture, the Bank sets strategies & objectives as requirements for an effective event identification, risk assessment and risk response process, consisting of:

1. Strategic Objectives, the high-level targets and in line with the Bank's vision and mission.
2. Operational Objectives, the derivative goals and strategic objectives at the operational level (activities, work units and others).

The Bank has standard procedures for targets setting in accordance with the vision, mission and risk appetite.

Risk Recognition and Assessment

The Board of Directors identifies events that could potentially affect the Bank's ability to implement strategies and achieve targets effectively. The identification is carried out on events that are expected to have a negative impact (risk) that require the Bank's assessment and response. Identification is also carried out on events that are expected to have a positive impact which is an opportunity for the Board of Directors in developing strategies to achieve the Bank's goals.

In identifying potential events, the Board of Directors considers all aspects of the organization.

Risk assessment is a series of actions starting from the identification, analysis and measurement of the Bank's risk to achieve the set targets. Risk assessment is carried out on all types of risks inherent in each process/activity that has the potential to harm the Bank.

The Bank has a written risk management policy, which is determined by the Board of Directors and approved by the Board of Commissioners.

Risk assessment is carried out by identifying the risks appetite, setting limits and its risk control techniques, assessing risks that can be measured (quantitative) and those that cannot be measured (qualitative), as well as against risks that can be controlled and cannot be controlled, taking into account their costs and benefits. The risk assessment methodology is a benchmark for creating risk profiles in the form of data documentation that can be initiated periodically. Furthermore, the Bank must decide whether to take these risks or not, by reducing certain business activities.

Internal control needs to be reviewed appropriately in the event that there are risks that have not been controlled, both previously existing risks and newly emerging risks. The implementation of the review includes conducting continuous evaluations of the influence of any changes in the environment and conditions, as well as the impact of achieving targets or the effectiveness of internal control in the Bank's operational and organizational activities.

The Board of Directors establishes measures to respond to risks based on an assessment of the risks and relevant controls.

Control and Separation of Functions Activities

Control activities include control activities and segregation of duties, with the following description:

1. **Control Activities**
   Control activities engage all levels of the Company, which includes planning, setting policies and procedures, implementing controls and early verification processes to ensure that policies and procedures have been consistently adhered to, and are activities that cannot be separated from every function or activity of

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the Bank on a daily basis. Control activities are implemented at all levels of functions according to the Bank's organizational structure, which includes:

a. Review by the Board of Directors (Top Level Review)
   The Board of Directors periodically requests explanations (information) and operational performance reports from the Head of the Work Unit in order to review the realization results compared to the targets that have been set. Based on the review, the Board of Directors immediately detects problems, such as control weaknesses, financial statement errors or other irregularities (fraud).

b. Functional Review
   This review is carried out by Internal Audit Unit at the time of audit or in the process of reporting to the regulator, which includes:
   i) Review the risk assessment (risk profile report) produced by the Risk Management Unit.
   ii) Analyzing operational data, both data related to risk and financial data, namely verifying details and transaction activities compared to outputs (reports) produced by the Risk Management Unit.
   iii) Review the realization of the implementation of work plans and budgets made by each work unit (Group/Branch), in order to:
      » Identifying the causes of significant deviations.
      » Sets the requirements for corrective actions.

c. Control of information systems
   i) The Bank carries out verification of the accuracy and completeness of transactions, as well as the implementation of authorization procedures in accordance with applicable regulations.
   ii) The Bank carries out IT control measures to produce systems and data to maintain confidentiality and integrity and support the achievement of the Company's objectives.
   iii) Control of information systems includes:
      » Control over data centre operations (databases), procurement systems, development and maintenance of systems/applications. Such control is applied to servers, and user work stations, as well as networks.
      » Application control is applied to the program used by the Company in processing transactions and to ensure the availability of an effective audit process and to check the correctness of the audit process.

d. Physical controls
   i) Physical asset control is carried out to ensure the implementation of physical security of the Bank's assets.
   ii) Physical asset control includes securing assets, records and documentation, as well as limited access to application programs.
   iii) The Bank must check the value of assets (appraisal) periodically.

e. Documentation
   i) The Bank formalizes and documents all policies, procedures, systems and work standards adequately.
   ii) All policies, procedures, operational systems and accounting standards are updated regularly to describe actual operational activities, and must be informed to the Bank's officials and employees.

iii) Upon request, documents are always available for the benefit of internal auditors, external auditors and the Banking Supervisory Authority.
iv) The Internal Audit Unit assesses the accuracy and availability of these documents when conducting routine and non-routine audits.

2. Segregation of Duties

a. The separation of functions is intended for everyone in his/her position to not have the opportunity to commit and hide errors or deviations in the performance of his/her duties at all levels of the organization and all steps of operational activities.
b. The organizational structure is made by separating the functions of recording, audit, operational and non-operational (segregation of duties), hence to create a system of dual control, dual custody and avoid duplication of work in every activity and avoid conflicts of interest.
c. In carrying out the separation of functions, the Bank takes measures, including:
   i) Establish certain functions or tasks in Tte Bank that are separated or allocated to several people in order to reduce the risk of manipulation of the Bank's data/information or misuse of the Bank's assets.
   ii) Such separation of functions is not limited to front and back-office activities, but also in the control against:
      » approval of the expenditure of funds and the realization of expenses.
      » customer account and bank owner's account.
      » transactions in the Bank's books.
      » providing information to the Bank's customers.
      » assessment of the adequacy of credit documentation and monitoring of debtors after credit disbursement.
      » other business activities that may cause conflicts of interest.
      » independence of the risk management function at the Bank.
d. Directors and Employees have an adequate job description that contains functions, duties, authorities and responsibilities.
e. The Board of Directors and Employees are prohibited from concurrently holding positions in the Bank's internal environment that can cause conflicts of interest.

Accountancy, Information and Communication Systems

1. Accounting System

a. The Bank has written accounting policies that meet the generally accepted accounting principles.
b. The Bank Accounting System includes methods and records in order to identify, group, analyse, classify, record/post and report all transactions and activities of the Bank.
c. The Accounting System must be applied consistently and persistently to all Bank transactions.
d. The Bank is obliged to reconcile the accounting data with the management information system every month. The results of the reconciliation are documented in an orderly manner.
e. Every Work Unit responsible for recording every transaction must record the transaction immediately, accurately, and carefully, and conduct control and monitoring processes to:
   • Review that each transaction has been recorded in the appropriate ledger.
   • Review that each ledger corresponds accurately to its details.

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- Resolve any outstanding accounts that have not been recorded in the appropriate ledger (temporary/holding accounts) promptly.

f. Every Work Unit that uses forms or worksheets must use standardized forms or worksheets containing appropriate security elements and supported by adequate documentation.

2. Information

a. The Bank has an Information System that must be able to provide business activities, financial condition, risk management implementation, fulfillment provisions report to support Board of Directors and Board of Commissioners duties.
b. The internal control system at least includes the provision of a reliable/adequate information system regarding all functional activities of the Bank, particularly functional activities that are significant and have a high potential for risk. Such information systems, including electronic data storage and use systems, must be guaranteed its security, monitored by independent parties (internal auditors) and supported by adequate contingency programs.
c. The Bank ensures that information security is carried out effectively hence able to maintain the confidentiality, integrity and availability of information.

3. Communication

a. The Bank has a communication system that is able to provide information to all stakeholders (interested parties) both internal and external, such as the Banking Supervisory Authority, external auditors, shareholders and customers of the Bank.
b. The Internal Control System ensures that there is an effective communication channel hence the Management and Employees understand and comply with applicable policies and procedures in carrying out their duties and responsibilities.
c. Management organizes effective communication channels/lines hence the necessary information is affordable to interested parties. This requirement applies to any information, both regarding established policies and procedures, risk exposure and actual transactions, as well as on the Bank's operational performance.

Monitoring Activities and Correcting Deficiencies

The Board of Directors continuously monitors the overall effectiveness of the implementation of SPI including but not limited to the effectiveness and security in the use of IT, where in its implementation the Board of Commissioners ensures that the Board of Directors has carried out proper monitoring.

Monitoring of the Company's main risks is part of the Company's daily activities including periodic evaluations, both by the Work Unit, Compliance Unit, Risk Management Unit, and Internal Audit Unit.

Related work units continuously monitor the adequacy of SPI related to changes in internal and external conditions and increase the capacity of the SPI hence its effectiveness can be improved. Meanwhile, if there are weaknesses in the SPI, both identified by the Work Unit (risk taking unit), Internal Audit Unit and other parties, it is immediately reported to the Management, and significant matter are also reported to the Board of Commissioners.

Compliance with SEOJK No. 35/SEOJK.03/2017 on Internal Control Standard Guidelines for Commercial Banks

SPI consists of 5 (five) components that are interrelated with each other and are effectively applied by all levels of organization in the Company in order to achieve the Company's objectives. The SPI component implemented by the Bank refers to the provisions of the Regulator