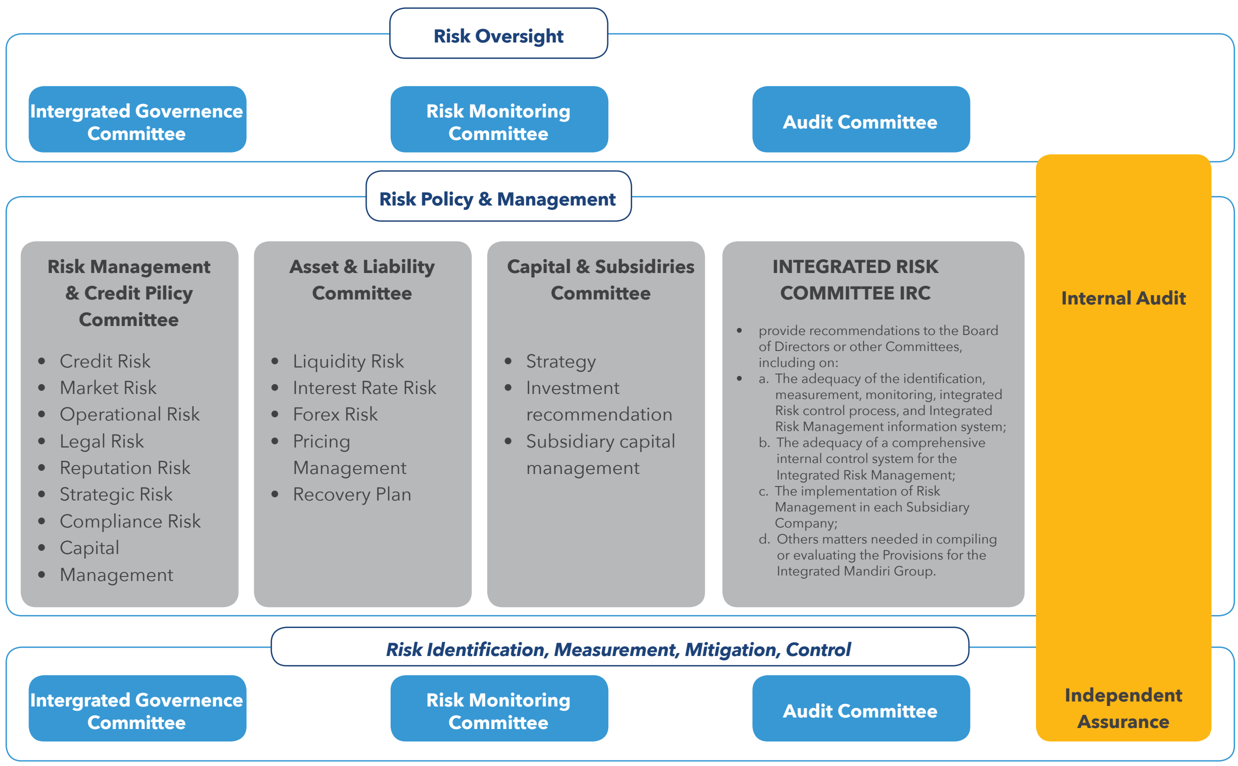
RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

The Risk Management Framework of the Company is outlined in Bank Mandiri's Risk Governance Structure consisting of three main parts, namely Risk Oversight, Risk Policy and Management, and Risk Identification, Measurement, Mitigation, and Control. All these three are supported by an Audit Unit and an Independent Assurer to guarantee operational effectiveness.

Simply, the framework and risk governance of Bank Mandiri as mentioned above can be described as follows:



Bank Mandiri's Risk Governance Structure is developed based on four Risk Management Pillars as follows:

Active Supervision by The Board of Commissioners and Directors

The framework and risk governance at Bank Mandiri consist of the Board of Commissioners performing risk oversight through an Audit Committee, Risk Monitoring Committee, and Integrated Risk Governance, and Directors performing the function related to risk policy through an Executive Committee which consists of Risk Management & Credit Policy Committee, Asset and Liabilities Committee, Capital and Subsidiaries Committee, and Integrated Risk Committee. At the operational level, the Risk Management Work Unit along with Business Unit and Compliance Work Unit conduct risk identification, risk measurement, risk mitigation, and risk control.

The duties, responsibilities, and authority of the Board of Commissioners entail the active monitoring of Risk Management activities, including:

1. Understanding the risk attached to the company's functional activities, particularly one that can influence the Company's financial conditions;
2. Evaluating and approving the Risk Management Policies at least once a year or at a higher frequency if there are changes that affect the Bank's business significantly;

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3. Evaluating the Directors' implementation of Risk Management to make it compliant with the policies, strategies, and procedures set by the Bank;
4. Providing advice to the Directors concerning transactions or business activities requiring significant budget;
5. Approving the financing of related parties for the credit authorized by the Credit Committee;
6. Performing an active oversight of the Bank's capital adequacy per the Bank's risk profile as a whole, including reviewing the Risk Appetite of the Bank established by the Directors;
7. Increasing the awareness of and enhancing antifraud culture across levels at the Bank;
8. Supervising the implementation of the Integrated Risk Management based on the characteristics and complexity of the Bank's business;
9. Supervising and evaluating the implementation of the Recovery Plan.

In implementing the Integrated Risk Management, the Board of Commissioners have the following responsibilities:

1. Directing, approving, and evaluating the Integrated Risk Management policies;
2. Evaluating the implementation of the Integrated Risk Management policies by the Primary Entity Directors.
3. Evaluating the implementation of the Recovery Plan.

The duties, responsibilities, and authority of the Directors regarding Risk Management activities include:

1. Formulating policies, strategies, and procedures for Risk Management in a written form comprehensively including establishing and approving the Bank's risk limit, and performing re-evaluation once a year or more if necessary;
2. Taking the responsibility for the execution of the Risk Management Policies and risk exposures taken by the Bank as a whole, including evaluating and providing strategic direction of Risk Management based on a report submitted by the Risk Management Work Unit and the regular submission of an accountability report to the Board of Commissioners;
3. Evaluating and canceling transactions performed by a Bank official who is one level below the Directors or transactions requiring the approval of Directors under the applicable internal policies and procedure;
4. Increasing awareness and enhancing the culture of Risk Management, including antifraud culture across organizational levels, for instance by emphasizing the importance of effective internal control;
5. Improving human capital concerning the implementation of Risk Management, for instance by giving continuous lectures and training particularly concerning the system and processes of Risk Management;
6. Performing the Risk Management function independently, which is reflected in the separation of functions between the Risk Management Work Unit performing risk identification, measurement, oversight, and control and the work unit performing and concluding transactions;
7. Performing a regular review at an interval suited to the Bank's needs;
8. Establishing the capital adequacy ratio based on the Bank's risk profile and strategies to maintain the level of required capital, including determining the Risk Appetite;
9. Preparing and implementing the Bank's Recovery Plan, which includes:
   a. preparing a Recovery Plan realistically and comprehensively;
   b. presenting the Recovery Plan to shareholders during a General Meeting of Shareholders for approval;
   c. communicating the Recovery Plan kepada seluruh jenjang atau tingkatan organisasi Bank;
   d. performing a Stress Testing of the Recovery Plan regularly; and
   e. implementing the Recovery Plan effectively and timely.

In implementing the Integrated Risk Management, the Directors have the following responsibilities:

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1. Formulating and implementing policies on the Integrated Risk Management
2. Nurturing risk culture as part of the implementation of the Integrated Risk Management;
3. Ensuring the effectiveness of human capital management to execute the Integrated Risk Management function;
4. Ensuring the independent nature of the implementation of the Integrated Risk Management;
5. Evaluating the review done by the Integrated Risk Management Work Unit regularly concerning the Integrated Risk Management;

Bank Mandiri also establishes risk management committees in charge of discussing and giving recommendations to the Directors on matters of:

1. Policies and procedures as well as the risks faced by the Company.
2. Management of the Company's assets and liabilities including interest rate and liquidity.
3. Management of subsidiaries (investment, divestiture, remuneration, formation of the management of the subsidiaries).
4. Implementation of Integrated Risk Management.
5. Business development.

The risk management at the Bank at least consists of:

1. Director in charge of the Risk Management function;
2. Risk Management Unit (SKMR);
3. Operational Unit (risk-taking unit);
4. Internal Audit Unit (SKAI);
5. Compliance Unit.

The Risk Management Unit (SKMR), Internal Audit Unit (SKAI), and Compliance Unit concurrently act as the Integrated Unit.

Adequacy of Policies, Procedures, and Limit Establishment

Bank Mandiri utilizes its Risk Management policies as the main guidance in carrying out the risk management function. For more specific business areas, Bank Mandiri sets more defined policies and procedures, for example in credit, treasury, and operational areas. Among other things regulated in the policies and procedure is the limit for each activity, both at portfolio and transactional levels. All the policies and procedures at Bank Mandiri are the realization of risk management for each activity of the Company that are evaluated and updated at least once a year.

Under SEOJK 34/SEOJK.03/2016 on the Implementation of Risk Management for Commercial Banks, to effectively control risk, a Bank's policies and procedures must reflect its Risk Management strategies by considering the level of risk to take (risk appetite). The level of risk/risk appetite is defined as the types and level of risk the Bank would take/face that is within the Bank's capacity to manage, to achieve business goals.

Bank Mandiri's risk appetite is realized through the Risk Appetite Framework which is strategic decision-making reflecting Bank Mandiri's risk strategies. The risk appetite is reflected in the Bank's strategies and business targets.

The risk appetite is outlined in a Risk Appetite Statement (RAS) which is a formal guideline on risk-taking processes to achieve business targets. RAS is important since it gives a clear and consistent direction for all levels at Bank Mandiri concerning risk-taking capability.

Adequacy of the Processes of Risk Identification, Measurement, Oversight, and Control, and Risk Management Information System

Bank Mandiri conducts the processes of Risk Identification, Measurement, Oversight, and Control as well as Risk Management Information System through the Enterprise Risk Management (ERM) framework. The ERM implementation at Bank Mandiri uses a two-pronged approach to ensure that the risk is not only mitigated properly through daily business processes but also when an unexpected situation (downturn) happens through capital reserves.

Internal Control System

Bank Mandiri practices effective risk management function across all work units by implementing three lines of defense with the following explanation:

1. Work Units as risk owners are the first line of defense responsible for managing their respective risks.
2. The Risk Management Unit acts as the second line of defense performing the oversight function.
3. The Internal Audit Unit acts as the third line of defense performing the independent assurance function.