COPY OF

FINANCIAL SERVICES AUTHORITY REGULATION
NUMBER 18 /POJK.03/2016
CONCERNING
IMPLEMENTATION OF RISK MANAGEMENT FOR COMMERCIAL BANKS

WITH THE BLESSINGS OF GOD ALMIGHTY

BOARD OF COMMISSIONERS OF
FINANCIAL SERVICES AUTHORITY,

Considering:

a. whereas situation of the external and internal environments of the banking sector experiences rapid development which is followed by more complex risks for the banking business activities;

b. whereas more complex risks for banking business activities will increase the needs for good governance as well as for bank risk identification, measuring, monitoring, and control functions;

c whereas the intention of increased risk identification, measuring, monitoring, and control functions is so that business activities conducted by banks do not cause losses that exceed banks' capacities or disrupt the sustainability of banks' business;

d. whereas the management of each of bank functional activity should, as much as possible, be integrated to an accurate and comprehensive risk management system and process;

e. whereas for the purpose of creating the precondition and infrastructure for risk management, bank should take preparatory measures for the implementation of its risk management;

f. whereas transparency is one of the aspects that should be considered in controlling risks that face banks;

g. whereas improving the quality of risk management implementation will bolster the effectiveness of risk-based bank oversight framework;

h. whereas based on considerations referred to in letter a, letter b, letter c, letter d, letter e, letter f, and letter g, it is deemed necessary to enact a stipulation concerning Implementation of Risk Management For Commercial Banks;

In view of:

1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472) as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);
2. Act Number 21 of 2011 concerning Financial Services Authority (State Gazette of the Republic of Indonesia Number 111 of 2011, Supplement to the State Gazette of the Republic of Indonesia Number 5253);

HAS DECREED:

To enact: FINANCIAL SERVICES AUTHORITY REGULATION CONCERNING IMPLEMENTATION OF RISK MANAGEMENT FOR COMMERCIAL BANKS.

CHAPTER I
GENERAL PROVISIONS
Article 1

The terminologies used in this Financial Services Authority Regulation have the following meanings:

1. Bank is a commercial bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, including branch offices of banks domiciling abroad that conduct business activities in conventional manner.
2. Risk is potential loss due to the occurrence of a certain event.
3. Risk Management is a series of methodologies and procedures used to identify, measure, monitor, and control Risks arising from all Bank's business activities.
4. Credit Risk is Risk that is due to failure on the part of another party in meeting its

obligation to the Bank, including Credit Risk due to failure of a debtor, credit concentration risk, counterparty credit risk, and settlement risk.

5. Market Risk is Risk at balance sheet and off-balance sheet positions, including derivative transactions, that is due to a change in overall market condition, including Risk from option price change.
6. Liquidity Risk is Risk that is due to Bank's inability to meet its obligations that have come due from cash flow funding source and/or high-quality liquid assets that can be mortgaged, without disrupting Bank's activities and financial condition.
7. Operational Risk is Risk that is due to insufficiency and/or malfunctioning of the internal process, human error, system failure, and/or the existence of external events that affect the operations of the Bank.
8. Compliance Risk is Risk that is due to Bank not complying with and/or not applying the provisions of legislations and regulations.
9. Legal Risk is Risk that is due to legal claims and/or weaknesses in juridical aspect.
10. Reputation Risk is Risk that is due to declining level of trust on the part of stakeholders that originate from negative perception on the Bank.
11. Strategic Risk is Risk that is due to incorrect decision making and/or implementation of a strategic decision as well as failure in anticipating a change in business environment.
12. Board of Directors means:
    a. in the case of a Bank legally incorporated as a Limited Liability Company, it is the board of directors as referred to in Act Number 40 of 2007 concerning Limited Liability Companies;
    b. in the case of a Bank legally incorporated as:
        1) a Regional Government Public Company or Regional Government Limited Liability Company, it is the board of directors as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015.
        2) a Regional Government Enterprise, it is the board of directors of any Bank that has not changed into a Regional Government Public Company or Regional Government Limited Liability Company as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015;
    c. in the case of a Bank legally incorporated as a Cooperative, it is the management as referred to in Act Number 25 of 1992 concerning Cooperatives;

d. in the case of a Bank that is a branch office of a bank domiciling abroad, it is the head of the branch office and officers of one level below the branch office head.

13. Board of Commissioners means:
    a. in the case of a Bank legally incorporated as a Limited Liability Company, it is the board of commissioners as referred to in Act Number 40 of 2007 concerning Limited Liability Companies;
    b. in the case of a Bank legally incorporated as:
        1) a Regional Government Public Company, it is the supervisory board as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015.
        2) a Regional Government Limited Liability Company, it is the commissioner as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015.
        3) a Regional Government Enterprise, it is the supervisors of any Bank that has not changed into a Regional Government Public Company or Regional Government Limited Liability Company as referred to in Act Number 23 of 2014 concerning Regional Government as latest amended by Act Number 9 of 2015;
    c. in the case of a Bank legally incorporated as a Cooperative, it is the supervisors as referred to in Act Number 25 of 1992 concerning Cooperatives;
    d. in the case of a Bank that is a branch office of a bank domiciling abroad, it is the party assigned to perform the supervisory function.
14. Subsidiary Company is a legal entity or company owned and/or controlled by Bank directly as well as indirectly, located both within the country and abroad, that conducts business activities in financial field, comprising:
    a. subsidiary company, which is Subsidiary Company with Bank's ownership of more than 50% (fifty percent);
    b. participation company, which is Subsidiary Company with Bank's ownership of 50% (fifty percent) or less, however Bank has control over the company;
    c. company with Bank's ownership of more than 20% (twenty percent) up to 50% (fifty percent) that meets the following conditions:
        1) ownerships of Bank and other parties in the Subsidiary Company are equal; and
        2) each owner applies control jointly over the Subsidiary Company;

d. another entity which based on financial accounting standard should be consolidated.

CHAPTER II
SCOPE OF RISK MANAGEMENT

Article 2

(1) Bank is obliged to implement Risk Management effectively, both for Bank at individual level as well as for Bank in consolidation with Subsidiary Companies.

(2) Implementation of Risk Management as referred to in paragraph (1) shall include at least:

a. active oversight by the Directors and Board of Commissioners;

b. adequate Risk Management policy and procedures as well as Risk limit setting;

c. adequacy of Risk identification, measuring, monitoring, and control processes, as well as Risk Management Information system; and

d. an internal control system that is comprehensive.

Article 3

Risk Management Implementation as referred to in Article 2 should be in line with Bank's objective, business policy, business size and complexity, as well as capacity.

Article 4

(1) Risks as referred to in Article 2 cover:

a. Credit Risk;

b. Market Risk;

c. Liquidity Risk;

d. Operational Risk;

e. Legal Risk;

f. Reputation Risk;

g. Strategic Risk; and

h. Compliance Risk.

(2) Bank should implement Risk Management for all Risks as referred to in paragraph (1).

CHAPTER III

ACTIVE OVERSIGHT BY DIRECTORS AND BOARD OF COMMISSIONERS

Part One
General Provisions

Article 5

Bank should determine clear authorities and responsibilities at each position level related to Risk Management implementation as referred to in Article 2.

Part Two
Authorities and Responsibilities of Directors

Article 6

(1) The authorities and responsibilities as referred to in Article 5 for Directors shall be at least to:
   a. develop written and comprehensive Risk Management policy and strategy;
   b. be responsible for the overall implementation of Risk Management policy and Risk exposure taken by Bank;
   c. evaluate and decide on transactions that need Director approval;
   d. develop Risk Management culture at all levels of the organization;
   e. ensure improvement of the competencies of human resources who are involved in Risk Management;
   f. ensure that the Risk Management function has run independently; and
   g. perform periodic review to ensure:
      1) accuracy of Risk assessment methodology;
      2) adequacy of the implementation of Risk Management information system; and
      3) appropriateness of Risk Management policy and procedures.

(2) For the purpose of implementing the authorities and responsibilities as referred to in paragraph (1), the Directors should have adequate understanding concerning Risks that are inherent in all functional activities of the Bank and be able to take necessary actions in accordance with the Bank's Risk profile.

Part Three

Authorities and Responsibilities of Board of Commissioners

Article 7

The authorities and responsibilities as referred to in Article 5 for Board of Commissioners shall be at least to:

a. approve and evaluate Risk Management policy;
b. evaluate the accountability of the Board of Directors on the implementation of Risk Management policy as referred to in letter a; and
c. evaluate and make decision on the request of the Board of Directors concerning transactions that require the approvals of the Board of Commissioners.

CHAPTER IV
RISK MANAGEMENT POLICY AND PROCEDURES AS WELL AS RISK LIMIT SETTING

Part One

Risk Management Policy

Article 8

Risk Management Policy as referred to in Article 2 paragraph (2) letter b shall contain at least:

a. determination of Risks related to banking products and transactions;
b. determination of the use of Risk Management measuring method and information system;
c. determination of Risk limits and tolerance;
d. determination of Risk rating assessment;
e. development of contingency plan in worst case scenario; and
f. determination of internal control system in the implementation of Risk Management.

Part Two

Risk Management Procedures and Risk Limit Setting

Article 9

(1) Risk Management procedures and Risk limit setting as referred to in Article 2 paragraph (2) letter b should be in line with the Risk level that is going to be taken (risk appetite) against Bank's Risks.

(2) Risk Management Procedures and Risk limit setting as referred to in paragraph (1) shall contain at least:

   a. clear authority accountability and levels of delegation;
   b. implementation of periodic review on Risk Management procedures and Risk limit setting; and
   c. adequate documentation of Risk Management procedures and Risk limit setting.

(3) Risk limit setting as referred to in paragraph (2) should cover:

   a. overall limit;
   b. limit for each type of Risk; and
   c. limit for each specific functional activity that has Risk exposure.

CHAPTER V
RISK IDENTIFICATION, MEASURING, MONITORING, AND CONTROL PROCESSES AS WELL AS RISK MANAGEMENT INFORMATION SYSTEM

Part One
General Provisions

Article 10

(1) Bank should perform Risk identification, measuring, monitoring, and control processes as referred to in Article 2 paragraph (2) letter c on material Risk factors.

(2) The conduct of Risk identification, measuring, monitoring, and control processes as referred to in paragraph (1) should be supported by:

   a. management information system that is timely; and
   b. accurate and informative report concerning Bank's financial condition, performance of functional activities, and Risk exposure.

Part Two
Risk Identification, Measuring, Monitoring, and Control Processes

Article 11

(1) For the purpose of performing Risk identification process, Bank should perform analysis on at least:
    a. characteristics of Risks inherent in the Bank; and
    b. Risks coming from Bank's products and business activities.
(2) For the purpose of performing Risk measuring, Bank should at least perform:
    a. periodic evaluation of the appropriateness of assumptions, data sources, and procedures used in measuring Risks; and
    b. enhancement of Risk measuring system in the event materials changes have occurred in Bank's business, products, transactions and Risk factors.
(3) For the purpose of performing Risk monitoring, Bank should at least perform:
    a. evaluation of Risk exposure; and
    b. enhancement of the reporting process in the event there have been material changes to business activities, products, transactions, Risk factors, information technology, and Risk Management information system.
(4) Bank should perform Risk control process in order to manage certain Risks that can endanger the sustainability of Bank's business;
(5) In performing the control function of interest rate Risk, exchange rate Risk, and Liqidity Risk as referred to in Article 4 paragraph (1) letter b and letter c, Bank should at least implement Assets and Liabilities Management (ALMA).

Part Three
Risk Management Information System

Article 12

(1) Risk Management Information System as referred to in Article 2 paragraph (2) letter includes reports or information concerning at least:
    a. Risk exposure;
    b. compliance to Risk Management policy and procedures as well as Risk limit setting as referred to in Article 8 and Article 9; and
    c. realization of Risk Management implementation compared to the set target.
(2) Reports or information produced by the Risk Management information system as referred to in paragraph (1) should be routinely submitted to the Board of Directors.

CHAPTER VI

INTERNAL CONTROL SYSTEM

Part One
General Provisions

Article 13

Bank should implement the internal control system effectively on the conduct of Bank’s business activities and operations at all organization levels.

Article 14

(1) Implementation of the internal control system as referred to in Article 13 at least should be able to timely detect the occurrence of weaknesses and deviations.

(2) The internal control system referred to in paragraph (1) should ensure:
   a. compliance to the provisions of regulations and legislations as well as Bank’s internal policy or regulations;
   b. availability of financial and management information that is comprehensive, accurate, expeditious and timely;
   c. effectiveness and efficiency in operational activities; and
   d. effectiveness of Risk culture in Bank’s overall organization.

Part Two
Internal Control System in Risk Management Implementation

Article 15

(1) Internal control system in the implementation of Risk Management as referred to in Article 2 paragraph (2) letter d shall cover at least:
   a. suitability of the internal control system with the types and levels of Risks inherent in Bank’s business activities;
   b. determination of authorities and responsibilities for the monitoring of compliance to Risk Management policy and procedures, as well as Risk limit setting as referred to Article 8 and Article 9.
   c. determination of clear reporting channel and segregation of functions between operational work units and work unit that performs the control function;
   d. organizational structure that clearly illustrates Bank’s business activities;

e. financial and operational activity reporting that is accurate and timely;
f. adequacy of the procedure for ensuring Bank's compliance to the provisions of regulations and legislations;
g. reviews that are effective, independent, and objective on the procedures for assessing Bank's operational activities;
h. adequate testing and review of the Risk Management information system;
i. comprehensive and adequate documentation of operational procedures, coverage, and audit findings, as well as responses of Bank's management to audit results; and
j. periodic and continuous verification and review of the handling of Bank's material weakneses and the actions of Bank's management to correct deviations that have occurred.

(2) Assessment of the internal control system in Risk Management implementation as referred to in paragraph (1) should be performed by the internal audit work unit.

CHAPTER VII
RISK MANAGEMENT ORGANIZATION AND FUNCTION

Part One
General Provisions

Article 16;

For the purpose of implementing effective Risk Management processes and system as referred to in Article 2, Bank should establish:

a. Risk Management committee; and
b. Risk Management work unit.

Part Two
Risk Management Committee

Article 17

(1) Risk Management committee as referred to in Article 16 letter a should comprise at least:
  a. majority of the Directors; and
  b. related executive officers.

(2) Authorities and responsibilities of the Risk Management committee as referred to in paragraph (1) shall be to give recommendations to the president director, covering at least:
   a. development of Risk Management policy, strategy, and implementation guideline;
   b. correction or enhancement of Risk Management implementation based on results of evaluation on Risk Management implementation; and
   c. determination of matters related to business decisions that deviate from normal procedures.

Part Three
Risk Management Work Unit

Article 18

(1) Organization structure of the Bank's Risk Management work unit as referred to in Article 16 letter b should be in line with Bank's business size and complexity as well as Risks inherent in the Bank.

(2) Risk Management work unit as referred to in paragraph (1) should be independent from operational work units (risk-taking units) and work unit that performs the internal control function.

(3) The Risk Management work unit as referred to in paragraph (2) is responsible directly to the president director or a director that is specifically tasked.

(4) Authorities and responsibilities of the Risk Management work unit cover:
   a. monitoring of the implementation of Risk Management strategy that has been approved by the Board of Directors;
   b. monitoring of overall (composite) Risk position, Risk by type and by type of functional activity as well as the conduct of stress testing;
   c. periodic review of Risk Management processes;
   d. review of proposed new activities and/or products;
   e. evaluation of the accuracy of models and validity of data used for measuring Risks, for Bank that uses models for internal needs (internal models);
   f. provide recommendations to operational work units (risk-taking units) and/or to Risk Management committee, in accordance with its authorities; and
   g. periodically develop and submit Risk profile report to the president director or the director that is specifically tasked and Risk Management committee.

Part Four

Relation Between Operational Work Units and Risk Management Work Unit

Article 19

Each operational work unit (risk-taking unit) as referred to in Article 18 paragraph (2) should periodically inform Risk exposure inherent in that work unit to the Risk Management work unit.

CHAPTER VIII

RISK MANAGEMENT OF NEW PRODUCTS AND ACTIVITIES

Article 20

(1) Bank should have written policy and procedures for managing Risks inherent in Bank's new products or activities.

(2) Policy and procedures as referred to in paragraph (1) should cover at least:
   a. system and procedure (standard operating procedure) as well as authority for managing new products and activities;
   b. identify all Risks inherent in new products or acitivities, both those related to the Bank as well as the customers;
   c. the pilot testing period of the Risk measuring and monitoring methods for new products and activities;
   d. accounting information system for new products and activities;
   e. legal aspect analysis on new products and activities; and
   f. information transparency for customers.

(3) Bank's products or activities constitute new products or new activities when they meet the criteria of:
   a. not having been launched or conducted previously by Bank; or
   b. or having been launched or conducted previously by Bank but further developments have changed or increased certain Risk exposures on the Bank.

Article 21

Bank is prohibited from assigning or giving approval for Bank's management and/or employees to market products or perform activities that are not Bank's products or activities using Bank's facilities.

Article 22

Bank should implement information transparency on Bank's products or activities for the customers as referred to in Article 20 paragraph (2) letter f, both in writing as well as verbally.

CHAPTER IX
REPORTING

Part One
Risk Profile Report as well as Report on New Products and Activities

Article 23

(1) Bank should submit Risk profile report to Financial Services Authority.
(2) Risk profile report as referred to in paragraph (1), which is submitted by the Risk Management work unit, should contain the same substances as the Risk profile report submitted by the Risk Management work unit to the president director and Risk Management committee.
(3) Risk profile report as referred to in paragraph (1) should be submitted quarterly for the positions of the months of March, June, September, and December.
(4) Risk profile report as referred to in paragraph (1) shall be submitted no later than on the 15^{th} (fifteenth) working day after the end of the reporting month.
(5) When required, Financial Services Authority may request Bank to submit Risk profile report as referred to in paragraph (1) outside the set timeframe referred to in paragraph (3).

Article 24

(1) Bank should submit report on new products or activities to Financial Services Authority, comprising:
    a. Report on the plan to launch new products or conduct new activities; and

    b. Report on the realization of the launching of new products or conduct of new activities.

(2) Report on the plan as referred to in paragraph (1) letter a should be submitted no later than 60 (sixty) days prior to the launching of new products or conduct of new activities.

(3) Report on the realization as referred to in paragraph (1) letter b should be submitted no later than 7 (seven) working days after the launching of new products or conduct of new activities.

(4) In addition to meeting the provision on reporting as referred to in paragraph (1), plan for the launching of new products or conduct of new activities that meet the criteria in Article 20 paragraph (3) letter a should be stated in Bank's business plan.

(5) Based on results of evaluation on the report referred to in paragraph (1) letter a, Financial Services Authority may prohibit Bank from launching the planned new products or conducting the planned new activities.

(6) In the event in the future based on the evaluation of Financial Services Authority, the products launched or activities conducted meet the conditions of:
    a. not being in line with the plan for the launching of the new products or conduct of new acivities reported to the Financial Services Authority;
    b. having the potential of causing significant loss to Bank's financial condition; and/or
    c. not being in line with the provisions of regulations,

    Financial Services Authority may instruct the Bank to discontinue the products already launched or activites already conducted.

(7) Reports on the plan and realization of the launching of certain products and the conduct of certain activities shall be separately provided in a Financial Services Institution Circular Letter.

Part Two
Other Reports

Article 25

(1) Bank should submit other reports to Financial Services Authority other than those referred to in Article 23, in the event there is a condition that has the potential to cause significant loss to Bank's financial condition.

(2) Bank should submit to Financial Services Authority other reports related to the implementation of Risk Management and/or related to the launching of certain products or conduct of certain activities periodically or at any time required.
(3) The format and procedures for reporting as referred to in paragraph (2) shall be separately provided in a Financial Services Authority Circular Letter.

Part Three
Time Limits for Submission of Reports

Article 26

Bank is deemed to have been late in submitting the reports referred to in Article 23 and Article 24 when the reports are received after the time limits for submission.

Part Four
Addresses for Submissions

Article 27

Reports referred to in Article 23, Article 24, and Article 25 shall be submitted to Financial Services Authority at the following addresses:

a. Related Bank Supervision Department, for Banks with head offices or branch offices of banks domiciling abroad located within the area of Jakarta Capital City Special Area; or
b. Financial Services Authority's Regional Office or local Office in accordance with the area of domicile of the Bank's head office.

CHAPTER X
OTHER PROVISIONS

Part One
Assessment of Risk Management Implementation

Article 28

Financial Services Authority may undertake assessment of the Risk Management implementation at Bank.

Article 29

Bank should provide data and information related to Risk Management implementation to Financial Services Authority.

Part Two
Aspect of Risk Management Performance and Policy Disclosures

Article 30

(1) Bank should provide disclosure on Risk Management in Bank's annual publicized report.

(2) The disclosure referred to in paragraph (1) should at least cover Risk Management performance and Risk Management policy direction.

CHAPTER XI
SANCTIONS

Article 31

(1) Bank that is late in submitting the reports as referred to in Article 23 paragraph (1), Article 24 paragraph (1) letter b, Article 24 paragraph (3), Article 24 paragraph (7) or Article 25 paragraph (2) shall be imposed with administrative sanction in the form of payment penalty amounting to Rp1,000,000.00 (one million rupiah) per day of delay per report.

(2) Bank that has not submitted the reports as referred to in Article 23 paragraph (1), Article 24 paragraph (1) letter b, Article 24 paragraph (3), Article 24 paragraph (7) or Article 25 paragraph (2) after 1 (one) month since the time limits for report submission shall be imposed with administrative sanction in the form of payment penalty amounting to Rp50,000,000.00 (fifty million rupiah) per report.

(3) Bank that has not submitted the reports as referred to in Article 23 paragraph (1), Article 24 paragraph (1) letter b, Article 24 paragraph (3), Article 24 paragraph (7) or Article 25 paragraph (2) and has been imposed with administrative sanction in the form of payment penalty as referred to in paragraph (2) is still obliged to submit the reports to Financial Services Authority.

(4) Bank that has not submitted the report on plan as referred to in Article 24 paragraph (1) letter a shall be imposed with administrative sanction in the form of payment penalty amounting to Rp100,000,000.00 (one hundred million rupiah).

(5) Banks that has submitted reports as referred to in Article 23 paragraph (1), Article 24 paragraph (1) letter b, Article 24 paragraph (3), Article 24 paragraph (7) or Article 25 paragraph (2), but the submitted reports:

a. are considered significantly incomplete; and/or

b. are not attached with material documents and information,

in accordance with the set formats, shall be imposed with administrative sanction in the form of payment penalty of Rp50,000,000.00 (fifty million rupiah)

(6) Bank shall be imposed with sanction as referred to in paragraph (5) after:

a. Bank has been given 2 (two) warning letters by Financial Services Authority with a grace period of 7 (seven) working days for each warning letter; and

b. Bank has not corrected the reports within a period of no later than 7 (seven) working days after the last warning letter.

Article 32

Any Bank that does not meet the provisions set in Article 2 paragraph (1), Article 3, Article 4 paragraph (2), Article 5, Article 9 paragraph (1), Article 9 paragraph (3), Article 10, Article 11 paragraph (1), Article 11 paragraph (2), Article 11 paragraph (3), Article 11 paragraph (4), Article 12 paragraph (2), Article 13, Article 14 paragraph (2), Article 15 paragraph (2), Article 16, Article 19, Article 20 paragraph (1), Article 21, Article 22, Article 29 or Article 30 paragraph (1) of this Financial Services Authority Regulation and other related implementing regulations, may be imposed with administrative sanctions in the forms of:

a. written warning;

b. lowering of Bank’s soundness level (rating);

c. freezing of certain business activities;

d. inclusion of names of members of management, Bank’s employees, and/or shareholders in the list of parties that have received the predicate of Not Passing in the fit and proper test or in the administrative record of Financial Services Authority as provided in Financial Services Authority regulation; and/or

e. dismissal of the Bank's management.

CHAPTER XII

CONCLUDING PROVISIONS

Article 33

Further stipulations concerning the implementation of Risk Management for Commercial Banks shall be provided in a Financial Services Authority Circular Letter.

Article 34

(1) When this Financial Services Authority Regulation comes into effect:

   a. Bank Indonesia Regulation Number 5/8/PBI/2003 dated 19 May 2003 concerning Implementation of Risk Management for Commercial Banks (State Gazette of the Republic of Indonesia Number 56 of 2003, Supplement to the State Gazette of the Republic of Indonesia Number 4292); and

   b. Bank Indonesia Regulation Number 11/25/PBI/2009 dated 1 July 2009 concerning Amendment to Bank Indonesia Regulation Number 5/8/PBI/2003 concerning Implementation of Risk Management for Commercial Banks (State Gazette of the Republic of Indonesia Number 103 of 2009, Supplement to the State Gazette of the Republic of Indonesia Number 5029) ,

   are hereby revoked and declared no longer valid.

(2) The implementing regulations of Bank Indonesia Regulation Number 5/8/PBI/2003 dated 19 May 2003 concerning Implementation of Risk Management for Commercial Banks and Bank Indonesia Regulation Number 11/25/PBI/2009 dated 1 July 2009 concerning Amendment to Bank Indonesia Regulation Number 5/8/PBI/2003 concerning Implementation of Risk Management for Commercial Banks are declared to still be valid as long as they are not in conflict with this Financial Services Authority Regulation.

(3) With the enactment of this Financial Services Authority Regulation, regulations that previously refer to Bank Indonesia’s regulations concerning Risk Management implementation for commercial banks shall now refer to this Financial Services Authority Regulation.

Article 35

This Financial Services Authority Regulation shall come into effect on the date of enactment.

For public information, orders this Financial Services Authority Regulation be published in the State Gazette of the Republic of Indonesia.

Ratified in Jakarta
On 16 March 2016
CHAIRMAN OF BOARD OF COMMISSIONERS
FINANCIAL SERVICES AUTHORITY

MULIAMAN D. HADAD

Enacted in: Jakarta
On 22 March 2016
MINISTER OF LAW AND HUMAN RIGHT
REPUBLIC OF INDONESIA

signed

YASONNA H. LAOLY
STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 53 OF 2016
Copy is in accordance with the original
Legal Director I
Legal Department

signed

Yuliana

ELUCIDATION

TO

FINANCIAL SERVICES AUTHORITY REGULATION

NUMBER 18 /POJK.03/2015

CONCERNING

IMPLEMENTATION OF RISK MANAGEMENT FOR COMMERCIAL BANKS

I. GENERAL REVIEW

Bank's business activities always face risks that are closely related with its functions as financial intermediation institution. The rapid development of the banking external and internal environments also causes the banking business activity risks to become more complex. Therefore, in order to be able to adapt in the banking business environment, Bank is required to implement Risk Management. In this regards, Risk Management principles that are going to be adopted and implemented in the Indonesian banking sector are directed to be in line with the recommendations issued by the Bank for International Settlements through Basel Committee on Banking Supervision. These principles basically constitute the standard for the banking world in order to be able to operate more prudently within the scope of extremely rapid development of banking business activities and operations.

Through the implementation of Risk Management, Bank is expected to be able to better measure and control the Risks it faces in its business activities. Furthermore, Risk Management that is implemented by the banking sector will promote the effectiveness of Risk-based Bank supervision framework undertaken by the Financial Services Authority.

Efforts with regard the said implementation of Risk Management are not only intended for the interest of Bank but also for the interest of the customers. One of the important aspects in the protection of customer interest and which is aimed at Risk control is information transparency in relation to Bank products or activities.

Risk Management implementation can vary in one Bank with other Banks in line with the objectives, business policy, business size and complexity, financial capacity, supporting infrastructure capacity as well as human resource capacity.

Financial Services Authority sets this regulation as a minimum standard that has to be met by the Indonesian banking sector in implementing Risk Management. Through this regulation, Bank is expected to be able to conduct all its activites in an integrated manner within an accurate and comprehensive Risk management system.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

The scope of Risk Management implementation includes implementation of the Anti Money Laundering and Terrorism Funding Prevention Program.

Paragraph (2)

Self-explanatory.

Article 3

Business complexity covers among others diversity in the types of transactions, products or services, as well as business networks.

Bank's capacity comprises among others financial capacity, supporting infrastructure capacity, and human resource capacity.

Article 4

Paragraph (1)

Letter a

Credit Risk group includes credit concentration Risk, counterparty credit risk, and settlement risk.

Credit concentration risk is the Risk that arises from concentration of fund provision to 1 (one) party or one group of party, industry, sector, and/or a certain geographic area that has the potential for causing quite large losses that can threaten the sustainability of Bank's business.

Counterparty credit risk is the Risk that arises from failure on the part of a counterparty to meet its obligation and it arises from a type of transactions that has a certain characteristic, such as transactions that are influenced by the movement of fair value or market value.

Settlement risk is the Risk that arises from failure to deliver cash and/or financial instruments on settlement date that has been agreed from a sales and / or buying transaction of financial instruments.

Letter b

Market Risk covers among others interest rate Risk, exchange rate Risk, commodity Risk, and equity Risk.

"Interest rate Risk" is the Risk that arises from a change in the price of a financial instrument from trading book position or from a change in the economic value from banking book position, caused by a change in interest rate.

The interest rate Risk category includes interest rate Risk from banking book position, which covers reprising risk, yield curve risk, basis risk, and optionality risk.

"Exchange rate Risk" refers to the Risk that arises from a change in the values at trading book and banking book positions caused by a change in foreign currency exchange rate or a change in the price of gold.

"Commodity Risk" is the Risk that arises from a change in the price of a financial instrument from trading book and banking book positions caused by a change in the price of the commodity.

"Equity Risk" is the Risk that arises from a change in the price of a financial instrument from the trading book position caused by a change in the price of shares.

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

Legal Risk arises among others due to non existence of legislations that support or weaken an agreement, such as insufficient fulfilment of the legal requirements of a contract or imperfect binding of collateral.

Letter f

Reputation Risk arises among others due to the existence of negative news in the media and/or rumors concerning the Bank as well as the existence of Bank's communication strategy that is less effective.

Letter g

Strategic Risk arises due to among others Bank having determined a strategy that is less in line with the vision and mission of the Bank, having undertaken strategic environment analysis that is not comprehensive, and/or there being a mismatch between the strategic plans of different strategic levels.

In addition, Strategic Risk also arises due to failure in anticipating changes in the business environment, which covers failure in anticipating changes in technology, changes in macro economic condition, competition dynamics in the market, and changes in the policies of related authorities.

Letter h

Self-explanatory

Paragraph (2)

Self-explanatory.

Article 5

Self-explanatory.

Article 6

Paragraph (1)

Letter a

Risk Management policy and strategy include determination and approval of Risk limits, both for composite Risk, Risk by type, as well as by functional activity.

Risk Management policy and strategy are developed at least 1 (one) time in 1 (one) year or at a higher frequency when there are changes in factors that significantly influence Bank's business activities.

Letter b

Responsibilities for implementing Risk Management policy include:

1 evaluation and provision of direction based on reports submitted by the Risk Management work unit; and

2 submission of quarterly accountability report to Board of Commissioners.

Letter c

Transations that require the approvals of the Board of Directors are among others transactions that exceed the authorities of Bank officers of one level below the Board of Director, in accordance with the Bank's prevailing internal policy and procedures.

Letter d

Risk Management culture development covers among others adequate communication to all organizational levels concerning the importance of effective internal control.

Letter e

Improvement of human resource competencies is undertaken among others through continuous education and training program concerning Risk Management implementation.

Letter f

To be independent means that there is a segregation of functions between Risk Management work unit which undertakes Risk identification, measuring, and monitoring and the work unit that conducts and settles transactions.

Letter g

Periodic reviews are intended among others to anticipate any changes in the external as well as internal factors.

Paragraph (2)

Self-explanatory.

Article 7

Letter a

Evaluation of Risk Management policy shall be undertaken by the Board of Commissioners at least 1 (one) time in 1 (one) year or or at a higher frequency when there are changes in factors that significantly influence Bank's business activities.

Letter b

Evaluation by the Board of Commissioners on the accountability of Board of Directors concerning the implementation of Risk Management should be undertaken at least quarterly.

Letter c

"Transactions that require the approval of the Board of Commissioners" are transactions that exceed the authorities of the Board of Directors in making decisions on the transactions, in accordance with the prevailing Bank's internal policy and procedures.

Article 8

Risk Management policy is set among others through the development of Risk Management strategy to ensure that:

a. Bank still maintains Risk exposure in accordance with Bank's internal policy and procedures and other legislations as well as regulations; and

b. Bank is managed by human resources who have the knowledge, experience, and expertise in the Risk Management field in accordance with Bank's business complexity.

Development of Risk Management strategy is undertaken by taking into consideration Bank's financial condition, Bank's organization, and Risks that arise due to changes in external factors and internal factors.

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Risk tolerance is the potential loss that can be absorbed by Bank's capital.

Letter d

Determination of Risk rating assessment is the basis for the Bank to categorize Bank's Risk rating. Risk rating for a Bank is categorized into 5 (five) ratings, namely

1. Rating 1 (low);
2. Rating 2 (Low to Moderate);
3. Rating 3 (Moderate);
4. Rating 4 (Moderate to High); and
5. Rating 5 (High).

Letter e

Self-explanatory.

Letter f

Self-explanatory.

Article 9

Paragraph (1)

Risk level that is going to be taken (risk appetite) should take into consideration the experience owned by the Bank in managing Risks.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Periodic means at least 1 (one) time in 1 (one) year or at a higher frequency in accordance with Bank's type of risks, needs, and development.

Letter c

"Adequate documentation" means documentation that is written, complete, and provides ease for the tracing of audit trail for the purpose of Bank's internal control.

Paragraph (3)

Self-explanatory.

Article 10

Paragraph (1)

"Risk factors" mean various parameters that influence Risk exposure.

"Material Risk factors" mean Risk factors that have significant influence, both quantitatively as well as qualitatively, on Bank's financial condition.

Paragraph (2)

Self-explanatory.

Article 11

Paragraph (1)

Risk identification process can be undertaken among others based on Bank's experiences in losses that have occurred previously.

Paragraph (2)

For estimating Risks, Bank can use various approaches, both qualitative as well as quantitative, in accordance with Bank's business objectives, business complexity, and capacity.

Letter a

Periodic means at least quarterly or at a higher frequency in accordance with the development of Bank's business and external condition that directly influences Bank's condition.

Letter b

"Material changes" mean changes in Bank's business activities, products, transactions, and/or Risk factors, which can influence Bank's financial condition.

Paragraph (3)

Letter a

Evaluation on Risk exposure shall be undertaken by monitoring and reporting Risks that are material or have impacts on Bank's capital condition, which are based among others on Risk potential assessment using historical trend.

Letter b

Self-explanatory.

Paragraph (4)

Risk control can be undertaken among others through hedging, Risk mitigation methods, and adding capital for absorbing potential losses.

Paragraph (5)

Self-explanatory.

Article 12

Paragraph (1)

Letter a

Risk exposure report or information covers quantitative and qualitative exposures, at compositve level or in detail by type of Risk and type of functional activity.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Paragraph (2)

Report or information submitted to the Board of Directors may be increased in frequency based on Bank's need.

Article 13

Self-explanatory.

Article 14

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Financial and management information that is comprehensive, accurate, appropriate, timely is required for the purpose of decision making that is appropriate and accountable, as well as communicated to the stakeholders.

Letter c

Effectiveness and efficiency in operational activities are required among others for protecting Bank's assets and resources among others from related Risks.

Letter d

The effectiveness of risk culture is intended for early identification of weaknesses and deviations and sustainable review of the reasonableness of policy and procedures existing at the Bank.

Article 15

Self-explanatory.

Article 16

Letter a

Risk Management committee should be non-structural.

Letter b

Risk Management work unit should be structural.

Article 17

Paragraph (1)

Risk Management committee may comprise permanent and non-permanent members in accordance with Bank's need.

Letter a.

One of the members of the majority of Board of Directors in the Risk Management committee should be the director supervising the compliance function.

Letter b.

"Executive officers" mean officers who are accountable directly to the Board of Directors or who have significant influence on Bank's policy or operations.

Paragraph (2)

Letter a.

Self-explanatory.

Letter b.

Self-explanatory.

Letter c.

Business decisions that deviate from normal procedures include among others significant exceedance of business expansion compared to Bank's business plan and Risk position or exposure taking that deviates from the set limit.

Article 18

Paragraph (1)

This arrangement is intended so that Bank can determine the appropriate organization structure that is in line with Bank's condition, including its financial and human resource capacities.

Paragraph (2)

To be independent is reflected among others by the existence of:

a. segregation of functions and tasks between Risk Management work unit and operational work units (risk-taking units) and work unit that performs the internal control function; and

b. decision making process that does not take sides or benefit particular operational work units and ignore other operational work units.

Paragraph (3)

Considering the business sizes and complexity between Banks differ, Risk Management work unit can be accountable directly the director that is specifically tasked by the Bank such as the director who supervises the compliance function or Risk Management director.

The terminology of main director is considered to be the same as president director.

Paragraph (4)

The authorities and responsibilities of the Risk Management work unit are matched with the Bank's business objectives, business complexity, and capacity.

Letter a.

Self-explanatory.

Letter b.

Stress testing is undertaken to know impacts of the implementation of Risk Management policy and strategy on the performance and revenue of each of Bank's operational work units or functional activities.

Letter c.

Reviews are undertaken among others based on internal audit findings and/or development of internationally accepted Risk Management practices.

Letter d.

Reviews include assessment of Bank’s capacity to undertake new activities and/or products and review on proposed changes in system and procedures.

Letter e.

Self-explanatory.

Letter f.

Recommendations contain among others recommendation that is related to the size or maximum amount of Risk exposure that should be maintained by the Bank.

Letter g.

Risk profile gives an overall picture of the sizes of potential Risks inherent in Bank’s overall portfolios or exposures.

The frequency of report submission should be stepped up in the event of rapid changes in market condition. In the case of Risk exposures that change in relatively long period, such as Credit Risk, report should be submitted at least 1 (one) time in 1 (one) month.

Article 19

The frequency of Risk exposure information submission should be matched with the characteristics of the type of Risk.

The definition of operational work unit (risk-taking unit) includes among others work units in the areas of credit, treasury, and funding.

Article 20

Paragraph (1)

“Bank’s products” mean financial instruments issued by the Bank.

“Bank’s activities” mean services provided by the Bank for the customers, such as among others agency and/or custodian services

Paragraph (2)

Letter a.

Self-explanatory.

Letter b.

Self-explanatory.

Letter c.

Pilot testing period is intended to ensure that the Risk measuring and monitoring methods have been tested.

Letter d.

The accounting information system should at least illustrate Risk profile and levels of profit or loss for the new product or activity accurately.

Letter e.

Analysis of legal aspect covers the possibility of Legal Risk that might arise from a new product or activity as well as compliance with the provisions of regulations and legislations.

Letter f.

Aspects in the implementation of information transparency for the customers should take into consideration at least:

1. the information submitted is complete, correct, and is not misleading for the customers;
2. the information is balanced between the potential benefit that is expected with the Risk that might arise for the customers; and
3. the information submitted does not disguise, reduce, or hide important matters related to the Risk that might arise.

Paragraph (3)

Letter a.

The criteria of not having been launched or conducted previously include products or activities that have been launched or conducted by other Banks but have not been launched or conducted by the relevant Bank.

Letter b.

Changes in Risk exposure in this provision do not include changes in Risk exposure related to conventional products or activities such as demand deposit (giro), savings deposit, term deposit, credit, derivative products that are plain vanilla, and custodian activity.

Article 21

The category of approving action includes knowing but not prohibiting or allowing the marketing of products or activities that are not Bank’s products or activities using the facilities of the Bank by the management and/or employees.

Article 22

The coverage of transparency of information that needs to be disclosed to the customers shall refer to the regulation that provides for information transparency on Bank's products. In addition, information transparency also covers procedures, schemes, and materials that need to be disclosed, such as characteristics of the product or activity, Risks, as well as customer rights and obligations.

Article 23

Paragraph (1)

Risk profile report contains among others information concerning the level and trend of overall Risk exposure.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Risk profile report shall be presented comparatively with the position of the previous quarter.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 24

Paragraph (1)

Self-explanatory.

Paragraph (2)

New products or activities that should be reported include all new products or activities referred to in Article 20 paragraph (3).

Report on planned launching of new products or implementation of new activities shall contain at least matters provided in Article 20 paragraph (2).

Paragraph (3)

Self-explanatory.

Paragraph (4)

Plan for the launching of new products or implementation of new activities should be stated in Bank's business plan for the same year with the plan for the launching of new products or implementation of new activities.

Paragraph (5)

Evaluation of the Financial Services Authority shall cover among others aspects of Bank's readiness, Risk Management implementation, product information transparency, and customer protection.

Paragraph (6)

Letter a.

Matters that are not in line include the procedures, schemes, product or activity characteristics, Risks as well as customer rights and obligations.

Letter b.

Condition that have the potential to cause significant losses to Bank's financial condition can be caused by among others Reputation Risk and Market Risk arising from the launching or implementation of Bank's products or activities.

Paragraph (7)

Self-explanatory.

Article 25

Paragraph (1)

Self-explanatory.

Paragraph (2)

Reports related to Risk Management implementation cover among others cash flow projection report and maturity profile report in relation to the implementation of Risk Management for Liquidity Risk.

Reports related to certain activities cover among others report on the implementation of mutual fund agency and/or report on the implementation of bancassurance activity.

Paragraph (3)

Self-explanatory.

Article 26

Self-explanatory.

Article 27

Self-explanatory.

Article 28

Assessment of Bank's Risk Management includes assessment of inherent Risks and adequacy of Risk control system.

Article 29

Self-explantory.

Article 30

Paragraph (1)

Self-explanatory.

Paragraph (2)

Risk Management performance is the results of Risk Management implementation for the period of beginning of the year (the month of January) up to the period of end of the year (the month of December), including Risk profile. Meanwhile, Risk Management policy direction concerns the direction and strategy of Risk Management for the period of 1 (one) year ahead.

Article 31

Paragraph (1)

"Day" means working day.

Paragraph (2)

Bank, which is imposed with administrative sanction in the form of penalty as referred to in this paragraph, shall not be imposed with the sanction for late submission as referred to in paragraph (1).

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Bank, which is imposed with administrative sanction in the form of penalty referred to in this paragraph, shall not be imposed with the sanction for late submission as referred to in paragraph (1).

Paragraph (6)

Self-explanatory.

Article 32

Self-explanatory.

Article 33

Self-explanatory.

Article 34

Self-explanatory.

Article 35

Self-explanatory.

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 5861