

RISK MANAGEMENT

Implementation the risk management undertaken by Bank Bumi Arta based on the Regulations of Bank Indonesia Number 11/25/PBI/2009 dated July 1, 2009 concerning Amendment to the Regulations of Bank Indonesia Number 5/8/PBI/2003 dated May 19, 2003, concerning the Application of Risk Management for Commercial Banks and the Circular Letter of Bank Indonesia Number 13/23/DPNP dated October 25, 2011, concerning Amendment to the Circular Letter of Bank Indonesia Number 5 /21/DPNP concerning the Application of Risk Management for Commercial Banks, which includes :

1. Active supervisions by The Board of Commissioners and the Board of Directors ;

In accordance with the framework of Good Corporate Governance, Bank Bumi Arta has implemented an integrated Risk Management structure consisting of Risk Monitoring Committee, Risk Management Committee, Risk Management Unit and a number of other committees that serve to manage specific risks, among others, Branch Credit Committee and Head Office, Treasury Credit Committee of the Head Office, Assets and Liability Committee (ALCO), and Information Technology Steering Committee.

The Risk Monitoring Committee is one of active supervisions of the Board of Commissioners in the risk management application. The Risk Monitoring Committee is formed with the purpose of assisting the Board of Commissioners in performing the supervisory duties and functions over any matters related to the risk management policies and strategies prepared by the management. The Risk Monitoring Committee will be chaired by the Vice President Commissioner and two (2) Independent Parties each having expertise in the field of banking, finance and risk management.

The management active supervision with the framework of risk management application will be conducted by the Risk Management Committee. The Risk Management Committee, which consists of the Board of Directors and Middle Management as the members, is responsible for evaluating and providing recommendations to the President Director for the following activities:

1. preparing Risk Management policy and the amendments thereof, including the Risk Management strategy, the level of risk taken and risk tolerance, the Risk Management framework as well as contingency plan to anticipate the occurrence of abnormal condition;
2. revising the Risk Management process periodically and incidentally resulting from a change in external and internal conditions of the Bank, which affect the capital adequacy, the Bank's risk profile, and ineffective application of Risk Management based on the assessment results;
3. stipulating policy and/or business decision which deviate from the normal procedure, such as significantly overrun the business expansion compared with the Bank's business plan which has been previously determined or taking positions/exposures of risk that exceed a predetermined limit.

The risk management policies and application will be implemented by the independent Risk Management Unit on the operational working unit (risk taking unit).

The Risk Management Unit is responsible to the Compliance Director. The authority and responsibilities of the Risk Management Unit are as follows:

1. providing input to the Board of Directors in drawing up Risk Management policy, strategy and framework;
2. developing procedures and tools for risks identification, measurement, monitoring and control;
3. designing and applying the instrument needed in the Risk Management application;

4. monitoring the implementation of Risk Management policy, strategy, and framework recommended by the Risk management Committee and which has been approved by the Board of Directors;
5. monitoring the position/exposure of overall risks and per risk including monitoring the compliance to the risk tolerance and the limit stipulated;
6. conducting stress testing to identify the impact of the implementation of Risk Management policy and strategy against the overall portfolio or achievement of the Bank;
7. studying the proposal on activity and/or new product developed by a certain unit of the Bank. The study is focused particularly on the aspect of Bank's capacity to manage the activity and/or new product, including the completeness of the system and procedure used as well as the impact on the overall risk exposures of the Bank;
8. providing recommendation to the business working unit and/or the Risk Management Committee related to the application of Risk Management among others regarding the amount or maximum exposure of risk that can be maintained by the Bank;
9. evaluating the accuracy and validity of data used by the Bank to measure the risk for the Bank;
10. preparing and submitting the risk profile report to the President Director, Compliance Director, and Risk Management Committee periodically or at least once in three (3) months. The frequency of the report must be increased if the market condition changes quickly;
11. conducting periodical re-study with the frequency adjusted to the Bank's requirement to ensure:
 - a. the adequacy of Risk Management framework;
 - b. the accuracy of risk assessment methodology; and
 - c. the adequacy of Risk Management information system;
12. examining and be responsible for the truth and accuracy of reports submission, either internal or external in the framework of Risk Management application;

13. As a member of Risk Management Committee, is responsible for drawing up Risk Management policy.

2. Adequacy in policy, procedure, and the determination of limit;

In the framework of applying effective risk management, Bank Bumi Arta has set the policy and procedure for each product produced as well as the existing risk management so that it can implement the products properly, well, correctly and carefully so that the business activity of the Bank continues to be controlled at the Risk Appetite and Risk Tolerance as well as providing satisfaction to clients.

The Risk Appetite and Risk Tolerance including the limit determination have considered the strategy and objective of business of the Bank as well as the capacity of the Bank in risk bearing (risk bearing capacity).

Bank regularly reviews the policies, procedures and limits in line with the legislation in force and the growth of the bank's business.

3. Adequacy of process of identification, measurement, and risk control as well as Risk Management Information System;

Bank Bumi Arta identifies and measures all types of risk which are inherent to each product business activity of the Bank as well as monitoring the amount of risk exposure, risk tolerance, limit compliance, which have been set. The result of the monitoring is periodically reported to the Board of Directors in the framework of mitigating the risk and action needed. The risk control has been exercised by the Bank related to the risk exposure which exists, among others the compliance with the existing provision/regulation, complete-ness of procedure, monitoring and reviewing debtor's business activity which has been provided with credit, reliability of human resources, hedging for the volume for foreign currency transaction, determination of limit and the authority, the application of ALMA as well as the increase in Bank capital.

As part of risk management information system is preparation of the Bank's risk profile which shall be reported to Bank Indonesia each quarter. This risk profile report describes the inherent risk of the business activities of the Bank including the Quality of Application of Risk Management of each type of risk.

The risk profile assessment of Bank Bumi Arta will be done on eight (8) types of risk comprising credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk and compliance risk. The composite risk assessment report of Bank Bumi Arta as of December 31, 2014 was Low to Moderate being combination of inherent risk of Low to Moderate aggregate and Satisfactory aggregate Quality of Application of Risk Management.

No.	Risk Profile	Inherent Risk Rating	Rating the Quality of Risk Management	Rating Risk Level
1	Credit Risk	<i>Low to Moderate</i>	<i>Satisfactory</i>	<i>Low to Moderate</i>
2	Market Risk	<i>Low to Moderate</i>	<i>Satisfactory</i>	<i>Low to Moderate</i>
3	Liquidity Risk	<i>Low to Moderate</i>	<i>Satisfactory</i>	<i>Low to Moderate</i>
4	Operational Risk	<i>Low to Moderate</i>	<i>Fair</i>	<i>Low to Moderate</i>
5	Legal Risk	<i>Low</i>	<i>Satisfactory</i>	<i>Low</i>
6	Strategic Risk	<i>Low</i>	<i>Satisfactory</i>	<i>Low</i>
7	Compliance Risk	<i>Low to Moderate</i>	<i>Fair</i>	<i>Low to Moderate</i>
8	Reputation Risk	<i>Low</i>	<i>Satisfactory</i>	<i>Low</i>
	Composite Rating	<i>Low to Moderate</i>	<i>Satisfactory</i>	<i>Low to Moderate</i>

4. Overall Internal Control;

The internal control is conducted by determining the organizational structure which clearly depicts the limit of authority and responsibility of each working unit as well as the internal audit periodically

Internal Audit Working Unit (SKAI) has conducted independent oversight function with sufficient scope and duties in accordance with the audit plan.