Risk Management Policy of

PT Bank Syariah Indonesia Tbk

The Risk management at Bank Syariah Indonesia is carried out continuously to achieve sustainable financial and operational growth. Bank Syariah Indonesia (BSI) has developed a Risk Management Policy because BSI recognizes that business continuity is influenced by risk exposure arising directly or indirectly from the bank's business activities.

Basis for Formulation The formulation of the Risk Management Policy at Bank Syariah Indonesia is based on the following:

1. **Quran and Hadith** a. **QS: Al-Shaff 61:4** "Indeed, Allah loves those who fight in His cause in a row as though they are a single structure joined firmly." b. **QS: Yusuf 12:67** And Jacob said: "O my sons, do not enter from one gate but enter from different gates; and I cannot avail you against [the decree of] Allah at all. The decision is only for Allah; upon Him I have relied, and upon Him let those who would rely [indeed] rely." c. **QS: Yusuf 12:46-49** When the servant met Joseph, he exclaimed, "Joseph, O man of truth, explain to us about seven fat cows eaten by seven lean ones, and seven green spikes of grain and others [that were] dry, that I may return to the people; perhaps they will know [about you]." Joseph said: "You will plant for seven years consecutively; and what you harvest leave in its spikes, except a little from which you will eat. Then will come after that seven difficult [years] which will consume what you saved for them, except a little from which you will store. Then will come after that a year in which the people will be given rain and in which they will press [olives and grapes]."

   d. **Al-Hadith (Dailami)** "Indeed, Allah loves a servant who, when performing a task, does it carefully."

   e. **Al-Hadith (Baihaqi)** "Caution is from Allah, and recklessness is from Satan."

f. **Al-Hadith (Ahmad, Tirmidhi, Nasa'i, and Damiry)** "Leave what makes you doubt for what does not make you doubt. Truth brings tranquility, and falsehood brings doubt."

2. **Laws and Regulations**

   a. **a. Law No. 21 of 2008 concerning Islamic Banking and its amendments;**

   b. **b. Bank Indonesia Regulation No. 8/6/PBI/2006 dated January 30, 2006, concerning the Implementation of Consolidated Risk Management for Banks Exercising Control Over Subsidiaries;**

   c. **c. Bank Indonesia Regulation No. 9/15/PBI/2007 dated November 30, 2007, concerning the Implementation of Risk Management in the Use of Information Technology by Commercial Banks and its amendments;**

   d. **d. Bank Indonesia Regulation No. 11/28/PBI/2009 dated July 1, 2009, concerning the Implementation of Anti-Money Laundering and Combating the Financing of Terrorism Programs for Commercial Banks and its amendments;**

   e. **e. Bank Indonesia Regulation No. 11/25/PBI/2009 dated July 1, 2009, concerning Amendments to PBI No. 5/8/PBI/2003 concerning the Implementation of Risk Management for Commercial Banks and its amendments;**

   f. **f. Bank Indonesia Regulation No. 11/33/PBI/2009 dated December 7, 2010, concerning the Implementation of Good Corporate Governance for Islamic Commercial Banks and Sharia Business Units and its amendments;**

   g. **g. Financial Services Authority Regulation No. 8/POJK.03/2014 dated June 13, 2014, concerning the Health Assessment of Islamic Commercial Banks and Sharia Business Units and its amendments;**

   h. **h. Financial Services Authority Regulation No. 17/POJK.03/2014 dated November 18, 2014, concerning the Implementation of Integrated Risk Management for Financial Conglomerates and its** amendments;

i. i. Financial Services Authority Regulation No. 18/POJK.03/2014 dated November 18, 2014, concerning the Implementation of Integrated Governance for Financial Conglomerates and its amendments;

j. j. Financial Services Authority Regulation No. 21/POJK.03/2014 dated November 18, 2014, concerning Minimum Capital Requirements for Islamic Commercial Banks and its amendments;

k. k. Financial Services Authority Regulation No. 65/POJK.03/2016 concerning the Implementation of Risk Management for Islamic Commercial Banks and Sharia Business Units and its amendments;

l. l. Financial Services Authority Regulation No. 42/POJK.03/2017 concerning the Obligation to Formulate and Implement Credit or Financing Policies for Banks;

m. m. Bank Indonesia Circular Letter No. 5/22/DPNP dated September 29, 2003, concerning Guidelines for Standard Internal Control Systems for Commercial Banks and its amendments;

n. n. Bank Indonesia Circular Letter No. 5/21/DPNP dated September 29, 2003, concerning the Implementation of Risk Management for Commercial Banks and its attachments, and its amendments;

o. o. Bank Indonesia Circular Letter No. 11/16/DPNP dated July 6, 2009, concerning the Implementation of Risk Management for Liquidity Risk and its amendments;

p. p. Bank Indonesia Circular Letter No. 11/35/DPNP dated December 31, 2009, concerning Reporting of New Products or Activities and its amendments;

q. q. Bank Indonesia Circular Letter No. 13/23/DPNP dated October 25, 2011, concerning Amendments to Circular Letter No. 5/21/DPNP regarding the Implementation of Risk Management for Commercial Banks;

r. r. Bank Indonesia Circular Letter No. 13/28/DPNP dated December

9, 2011, concerning the Implementation of Anti-Fraud Strategies for Commercial Banks and its amendments;

s. **s. Financial Services Authority Circular Letter No. 10/SEOJK.03/2014 dated June 11, 2014, concerning the Health Assessment of Islamic Commercial Banks and Sharia Business Units;**

t. **t. Financial Services Authority Circular Letter No. 13/SEOJK.03/2015 dated April 27, 2015, concerning the Calculation of Risk-Weighted Assets for Operational Risk Using the Basic Indicator Approach for Islamic Commercial Banks;**

u. **u. Fatwas issued by the National Sharia Council;**

v. **v. Articles of Association of the Bank and its amendments;**

w. **w. Bank Internal Control System Policies and its amendments.**

Active Supervision by the Board of Commissioners, Directors, and Sharia Supervisory Board

Bank Syariah Indonesia has established the authority and responsibilities of the Board of Commissioners, Directors, and Sharia Supervisory Board in the General Implementation of Risk Management.

1. Board of Commissioners

a. Approving and evaluating the Risk Management Policy;

b. Evaluating the accountability of the Directors for the implementation of the Risk Management Policy.

2. Directors

a. Formulating written and comprehensive risk management policies and strategies;

b. Being responsible for the implementation of the Risk Management Policy;

c. Evaluating and deciding on transactions that require the approval of the Directors;

d. Developing a Risk Management Culture at all organizational levels;

e. Ensuring the enhancement of human resource competencies related to Risk Management;

f. Ensuring that the Risk Management function operates independently;

g. Conducting periodic reviews to ensure:

1) The accuracy of risk assessment methodologies;

2) The adequacy of the implementation of the risk management information system; and

3) The adequacy of policies, procedures, and risk limit setting.

3. Sharia Supervisory Board

a. Evaluating the Risk Management Policy concerning compliance with Sharia Principles;

b. Evaluating the implementation of the Risk Management Policy concerning compliance with Sharia Principles;

c. Assessing and ensuring compliance with Sharia Principles for operational guidelines and bank-issued products and activities;

d. Supervising the development process of new products and bank activities to ensure compliance with the fatwas of the National Sharia Council - Indonesian Ulema Council;

e. Requesting fatwas from the National Sharia Council - Indonesian Ulema Council for new products and bank activities that do not yet have a fatwa;

f. Conducting periodic reviews of Sharia compliance in the mechanisms for fund collection, fund distribution, and bank service provision;

g. Requesting data and information related to Sharia aspects from the bank's work units in the execution of their duties.

Here is the translation to English with a banking context:

Risk Management Organization

As a commitment to manage risks prudently and sustainably, Bank Syariah Indonesia has established risk management committees and work units involved in risk management, which include:

1. Risk Monitoring Committee (KPR)

The Risk Monitoring Committee has the authority and responsibility to provide recommendations to the Board of Commissioners by conducting:

a. Evaluation of the Risk Management Policy;

b. Evaluation of the alignment between the Risk Management Policy and its implementation;

c. Evaluation of the performance of the Risk Management Committee and the Risk Management Work Unit.

2. Risk Management Committee (KMR)

The Risk Management Committee has the authority and responsibility to provide recommendations to the President Director, which at least include:

a. Formulation of Risk Management Policy and its amendments, including risk management strategies, risk appetite, and risk tolerance;

b. Improvement of the risk management process due to changes in the bank's external and internal conditions affecting the adequacy of capital and the bank's risk profile and the effectiveness of risk management implementation;

c. Establishment of policies and/or business decisions that deviate from normal procedures such as significant business expansion beyond the previously set business plan or taking positions/risk exposures that exceed the established limits.

To assist in its duties, the KMR may form working groups based on function grouping, such as Asset and Liability Management, financing, and operations.

3. Risk Management Work Unit (SKMR)

The Risk Management Work Unit has the authority and responsibility in implementing risk management, which at least includes:

a. Monitoring the implementation of risk management policies and strategies approved by the Directors;

b. Monitoring overall risk positions/exposures, by risk type and by functional activity;

c. Conducting back-tests for each risk measurement model used by evaluating the model's measurement results against actual outcomes;

d. Conducting stress tests to understand the impact of risk management policies and strategies on the performance of operational work units;

e. Evaluating the accuracy of models and data validity used in risk measurement. The SKMR may request the opinion of the Internal Audit Work Unit (SKAI) or independent specialists to validate the data or models used;

f. Reviewing proposed activities and/or products, including new activities and/or products submitted or developed by a particular work unit within the Bank;

g. Providing recommendations on the magnitude or maximum risk exposure that the Bank must maintain to operational work units and the Risk Management Committee;

h. Preparing and reporting risk profiles periodically to:

1) President Director or Risk Management Director;

2) Risk Management Committee;

3) Banking Regulator;

4) Parent Company.

i. Coordinating with work units that perform integrated risk management functions at the parent company in a financial conglomerate.

4. Operational Work Unit (Risk-Taking Unit)

The risk-taking unit has the authority and responsibility in implementing risk management, which includes:

a. Identifying, measuring, monitoring, and controlling risks related to products and activities/transactions and their impact on the Bank's risk exposure;

b. Proposing new activities/products;

c. Maintaining good relationships with all customers/counterparties and preserving the Bank's reputation;

d. Informing the inherent risk exposures in the respective work units to the Risk Management Work Unit;

e. Providing information and reports to the Risk Management Work Unit regarding significant conditions and changes in the risk profile inherent in the unit's activities.

Types of Risks Managed

Bank Syariah Indonesia has established measures to manage various risks that may arise from the Bank's business activities. The risk management system is developed to support business processes that adhere to prudential principles. Risk management includes:

1. Credit Risk Management
2. Market Risk Management
3. Liquidity Risk Management
4. Operational Risk Management
5. Legal Risk Management
6. Reputational Risk Management
7. Strategic Risk Management
8. Compliance Risk Management
9. Rate of Return Risk Management
10. Investment Risk Management

Risk Management Implementation Pillars

Bank Syariah Indonesia has established four pillars in risk management:

1. Active Supervision by the Board of Commissioners, Directors, and Sharia Supervisory Board
   a. The Board of Commissioners approves the Risk Management Policy.
   b. The Directors formulate and update the Risk Management Policy.
   c. The Board of Commissioners and Directors ensure the adequacy of risk management implementation in the Bank.
   d. The Directors determine the qualifications of human resources for each position level related to risk management implementation and ensure the adequacy of quantity and quality.
   e. The Sharia Supervisory Board evaluates the Risk Management Policy in relation to

compliance with Sharia principles.

2. Adequacy of Policies, Procedures, and Limit Setting

The Bank establishes and implements Risk Management Policies considering the vision, mission, and strategic plans, and sets procedures and implementation guidelines for transaction/activity limits, products, and the Bank's portfolio.

3. Adequacy of Risk Management Processes

The Bank performs risk identification, measurement, monitoring, and control processes as well as a Risk Management Information System.

4. Comprehensive Internal Control System

The Bank executes control and supervision functions inherent in transactions and operational activities.

Policies, Procedures, and Limit Setting

The Risk Management Policy forms the basis for developing standard procedures and technical operational guidelines related to risk management at Bank Syariah Indonesia.

1. Risk Management Policy

The Bank establishes key provisions in implementing risk management, including:

a. Identification of risks related to banking products and transactions;
b. Determination of risk measurement methods and the Risk Management Information System;
c. Setting the level of risk to be taken (risk appetite) and risk tolerance according to the Bank's business strategies and goals;
d. Risk rating assessment;
e. Contingency planning for worst-case scenarios;
f. Establishment of internal control systems in risk management implementation.

2. Procedures and Limit Setting

The Bank sets:

a. Procedures and risk limit settings in line with the risk appetite and risk tolerance;

b. Procedures and risk limit settings that include:

1) Clear accountability and delegation of authority levels;

2) Regular reviews of procedures and limit settings;

3) Adequate documentation of procedures and limit settings.

c. Risk limits covering:

1) Overall limits;

2) Limits by risk type; and

3) Limits for specific functional activities with risk exposure.

Compliance with Sharia Principles

As an Islamic bank, Bank Syariah Indonesia must ensure that its products and activities comply with Sharia principles, following regulations, rules, and Fatwas issued by competent authorities, evidenced by opinions and approvals from the Bank's Sharia Supervisory Board.

Synergy with Parent Company

Bank Syariah Indonesia consolidates risk management implementation with the parent company to synergize and integrate risk management practices between the Bank and the parent company.

1. The integration aims to meet regulatory requirements and internal needs, as the business continuity of both the Bank and the parent company is influenced by direct or indirect risk exposures from each other's business activities.
2. Benefits of integrated risk management include:

a. Improved risk management;

b. Setting risk appetite and risk tolerance appropriate to the complexity and characteristics of the financial conglomerate's business, enhancing synergy, and increasing business capacity and capital;

c. Sustainable financial system stability, enhancing competitiveness;

d. Integrated Risk Management implementation referring to applicable laws and regulations.

Integrated Risk Management Implementation

1. To implement integrated risk management, the Bank conducts:
   a. Synchronization or adjustment of risk management tools and methodologies used by the parent company and the Bank;
   b. Synchronization or adjustment of policies and standard procedures covering governance and risk management aspects, consulting on policy formulation and standard procedures as needed;
   c. Development of technical guidelines for integrated risk management implementation as necessary, considering applicable regulations at the Bank;
   d. Development of a risk management information system considering the needs and availability of supporting infrastructure;
   e. Enhancing understanding and implementation of good risk management practices through forums, discussions, consultations, surveys, training, internships, etc.
2. The Bank is a member of the Integrated Risk Management Committee formed by the parent company.

   The implementation of Integrated Risk Management is essential for Bank Syariah Indonesia as a public company. Bank Syariah Indonesia continuously enhances the capability and knowledge of all employees in risk management through BSI University. Additionally, the Bank conducts socialization, discussion forums, and internalization of a risk management culture.