

## Internal Control System

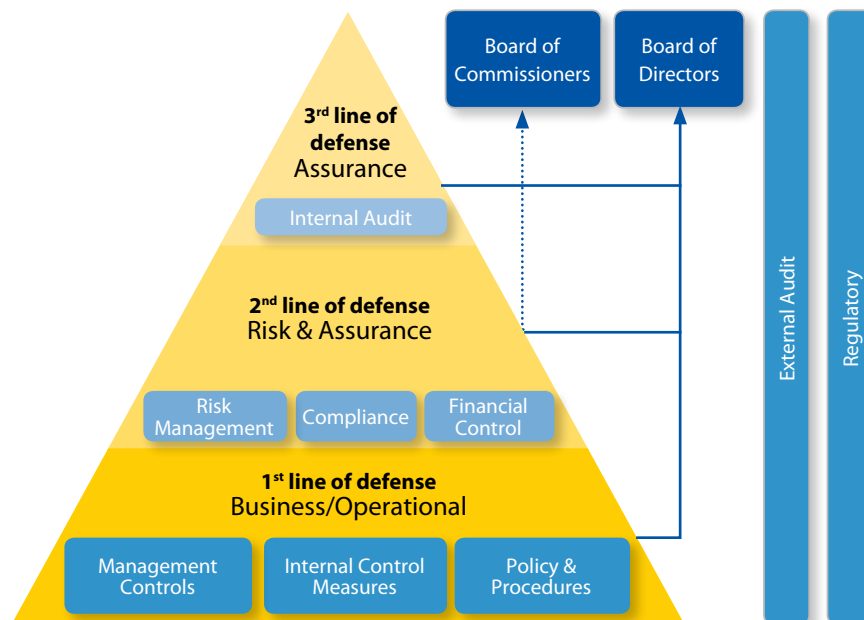
Implementation of Good Corporate Governance sustainable and prudential principles in the organization and management of the Bank, the management committed to improve work ethics and integrity as well as creating a culture that emphasizes the importance of the implementation of the Internal Control System (SPI), a reliable and effective in each level of organization.

Implementation of Internal Control System effectively that help the Bank in maintaining assets, ensure the availability of accurate information and reporting, increasing the Bank's compliance to the rules and regulations in force, as well as reduce the risk of loss, fraud and violation of the principle of prudence.

### Internal Control System Framework

The internal control system framework is implemented in all the processes and decisions that include the process of planning, execution and evaluation of the implementation of the Code of Conduct, the division of duties, powers, procedures which included a risk assessment, risk mitigation, limits, approval, and the presence of adequate reporting.

The internal control system framework adopted by Bank Mandiri is a Three Lines of Defense concept which represents a recent implementation of a control strategy in accordance with COSO – Internal Control Framework system. This concept refers to a collaboration of the roles in on-going monitoring and separate monitoring by involving the business unit in managing internal control, unit that acts as Quality Assessment, Compliance unit, inspection, Risk Management with the function to monitor specific risk as well as Internal Audit with the function in providing independence assurance.



**Note :**

- 1) **Business/Operational Unit (first line of defense):** As the owner of the risks that play a role managing the internal control aspects in their work unit, ensuring a conducive environment to exerting control and consistency in the implementation of risk management policies and procedures.
- 2) **Risk and Compliance Unit (second line of defense):** Develop and monitor the implementation of the risk management of companies overall, the supervision order business function to implement risk management policies and procedures standard operating according to the corridors which have been established as well as monitor and report the risks companies thoroughly to the organ that has the highest accountability in the Company.
- 3) **Internal Audit Unit (third line of defense):** As an Independent Assurance role is to conduct the Review and evaluation of the design and implementation of an overall risk management as well as ensure that the defense of the first layer and the second layer goes as expected.

With the implementation of the three lines of defense are expected to strengthen the internal control system of the Bank Mandiri as a result of cooperation across the lines of the Bank ranks ranging from first, second and third lines of defense. In addition, the Bank has set the Internal Control System Policy Bank Mandiri (KSPIBM) as a cornerstone in the implementation of the Internal Control System, which is a control mechanism established by the Board of Directors with the approval of the Board of Commissioners on an ongoing basis (on-going basis) for the following purposes:

1. Maintaining and securing the assets of the Bank,
2. Ensuring the availability of more accurate reports,
3. Improving compliance with applicable regulations,
4. Reducing financial impacts/losses, irregularities including fraud, and violation of the precautionary principle, and
5. Improving organizational effectiveness and cost efficiency

As the process is being run by all levels of the Bank, the Internal Control System applied in determining the strategy throughout the organization and is designed to be able to identify the potential for an occurrence that may affect the company, and to manage risk in order to remain within the limits of tolerance (risk appetite), for provide reasonable assurance in order to achieve company goals. Internal Control System consists of eight components that are interrelated with each other and determine the effectiveness of the application, namely:

#### 1. Internal Environment

Internal environment is the basis for assessing the risk management and control as well as how to react. This forms the basis and the driving factor goes seven other components of the Internal Control System.

#### 2. Objective Setting

The Bank set a target (objective setting) as a requirement for the event identification, risk assessment and risk response is effective.

#### 3. Event Identification

The management identifies events that could potentially affect the Bank's ability to implement strategies and achieve goals effectively. Such identification is carried out on the events of the estimated negative impact (risk) which requires assessment and response to the Bank. Identification is also made to the events that are expected to positively impact opportunities for management in the preparation of strategies to achieve the goals of the Bank. The management also considers all aspects of the organization in identifying potential events.

#### 4. Risk Assessment

Risk assessment is a series of actions starting from the identification, analysis and risk measurement Bank to achieve the goals set. The risk assessment was conducted

on all types of risks inherent in any process/activity that could potentially harm the Bank.

#### 5. Risk Response

The Management establishes measures to respond to the risks based on an assessment of risks and the relevant control.

#### 6. Control Activities

Control activities cover the activities in control and segregation of duties.

#### 7. Information & Communication

- a. The Bank has information system that can generate reports or provide data/information that is sufficient and comprehensive information regarding the business, financial condition, risk management practices, adherence to rules and regulations, market information or external circumstances and conditions necessary in order right decision.
- b. The Bank has information system that can generate reports or provide data/information that is sufficient and comprehensive information regarding the business, financial condition, risk management practices, adherence to rules and regulations, market information or external circumstances and conditions necessary in order right decision.

#### 8. Monitoring

Monitoring activities include monitoring and corrective weakness and aberration correction action.

### Internal Control System Evaluation

Management is responsible for the implementation of the Internal Control System is a reliable and effective and is obliged to promote effective risk culture and shall ensure that it has been embedded at every level of the organization.

Internal Audit is responsible to evaluate and take an active role in improving the effectiveness of the Internal Control System on an ongoing basis with regard to the implementation of the operations of the Bank in achieving the goals that have been established by the Bank.

Internal Audit conducted a review and periodic inspection of all activities in the Unit of Work and subsidiaries. The evaluation results submitted to management for follow up and monitor their implementation to ensure the Internal Control System was effective. In order to strengthen the Internal Control System, in particular to control fraud, the Bank adopted a strategy of comprehensive anti-fraud and integrated as part of a strategic policy.