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## Risk Management

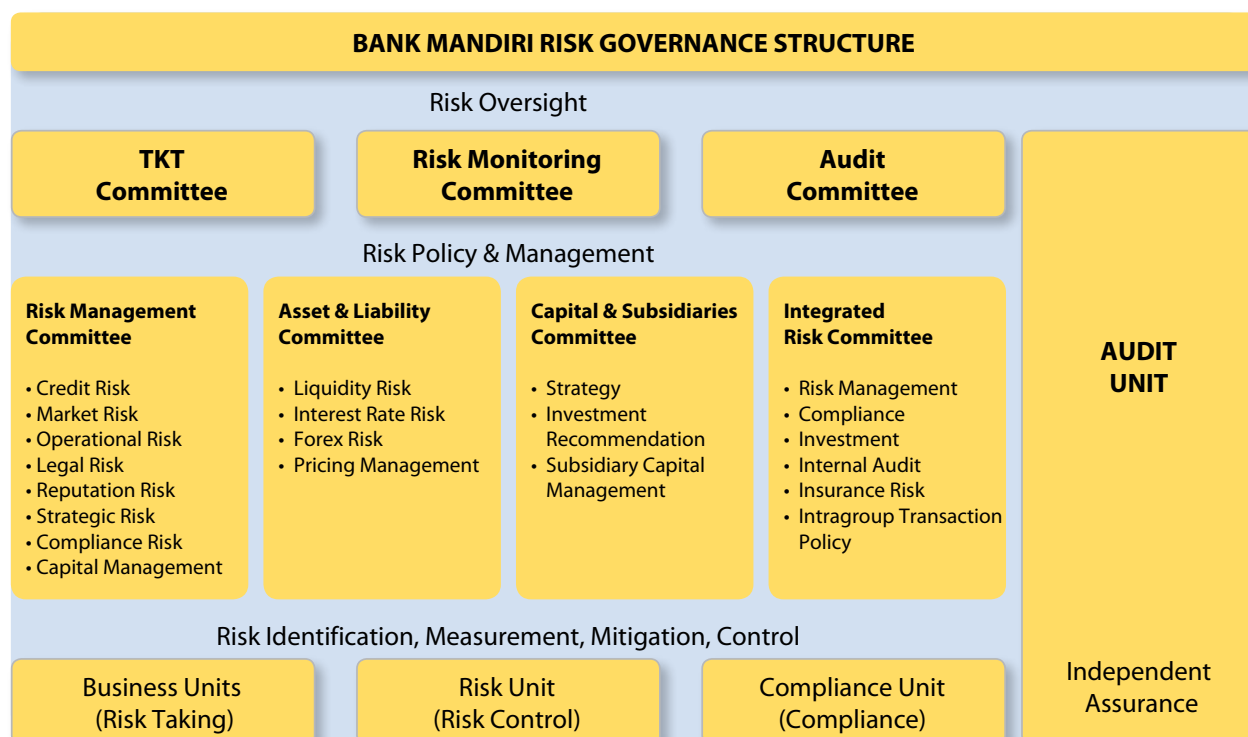
### The Implementation of Risk Management

The risk management principles of Bank Mandiri have carried out proactively in order to achieve healthy and sustainable financial and operational growth, also to maintain the optimum level of risk-adjusted return in accordance with the desired risk appetite. As a real commitment of Bank Mandiri in implementing good corporate governance practices particularly in terms of risk management, Bank Mandiri has set the policies, process, competence, accountability, reporting and supporting technology which aimed to ensure the effectiveness and efficiency of risk management implementation in Bank Mandiri.

In implementing risk management, Bank Mandiri always submissive and obedient to the regulations and laws applied in Indonesia with reference to the FSA Regulation No.17/POJK.03/2014 and the FSA Circular Letter No.14/SEOJK.03/2015 on Integrated Risk Management Application for Financial Conglomerate, FSA Regulation No.18/POJK.03/2014 and FSA Circular Letter No.15/SEOJK.03/2015 on the Application of Integrated Governance for Financial Conglomerate, Regulation OJK No.4/POJK.03/2016 on the Assessment of Commercial Banks, as well as Regulation FSA No.18/POJK.03/2016 and the FSA Circular Letter No.34/SEOJK.03/2016 concerning Application of Risk Management for Commercial Banks.

### Active Supervision of the Board of Directors and Board of Commissioners

Risk management framework and governance of Bank Mandiri consists of the Board of Commissioners that run oversight risk function through Audit Committee, Risk Monitoring Committee (KPR) & Corporate Governance Committee Integrated (TKT), as well as Board of Directors that perform the function of risk policy through Executive Committee related to risk management namely Risk Management Committee, Asset & Liability Committee, Capital & Subsidiaries Committee, and Integrated Risk Committee. At the operational level, Risk Management Unit along with Business Unit and Compliance Unit has function to identify, assess, mitigate and control the risk. Shortly, framework and risk management governance of Bank Mandiri can be described as follows:



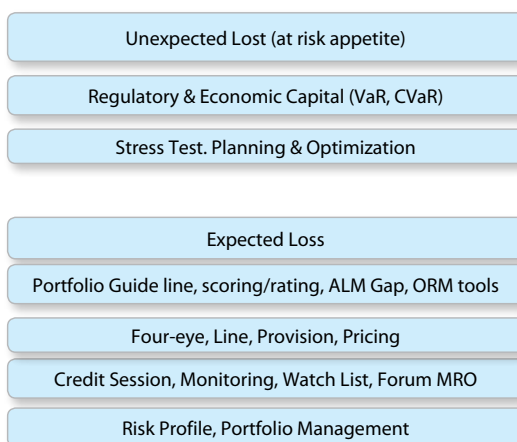
## Adequacy of Policies, Procedures, and Determination of Limit

Bank Mandiri is having Bank Mandiri Risk Management Policy (KMRBM) which is used as main guideline in implementing risk management. For specific business area, Bank Mandiri has policies and procedures which more specific, for example in the fields of credit, treasury, and operational. The policy and procedures set the limits for each activity, both in portfolio level and transactional. All policies and procedures implemented by Bank Mandiri is a form of risk management which inherent in every operational activity of Bank Mandiri and will be evaluated and updated at least once a year



## Identification Process, Measurement, Monitoring, Risk Control and Risk Management Information System

Bank Mandiri is running the Identification Process, Measurement, Monitoring, Risk Control and Risk Management Information System through the Enterprise Risk Management (ERM) framework. The implementation of ERM at Bank Mandiri is done with a two-prong approach, namely risk management through capital and risk management through operational activities, as seen on the scheme below:



There are four main components that function as supporting pillars in the implementation of a two-prong approach, among others:

### 1. The Organization and Human Resources ("HR")

Risk Management Unit of Bank Mandiri is responsible for managing all risks faced by Bank Mandiri, including the development of supporting tools needed in business processes and risk management. In addition, there is a working unit which acts as the counterparty risk of every business unit in the process of credit four-eye. Realizing that risk management is the responsibility of entire unit in Bank Mandiri, so the successful of risk management is determined by risk awareness in all units of the Bank Mandiri which is accompanied by necessary technical competence. Therefore, Bank Mandiri continues to increase the capabilities and knowledge of all employees, especially in terms of risk management, by organizing internal training regularly through the Risk Management Academy. Moreover, Bank Mandiri regularly at least once a year conduct socialization, discussion forums, internships, as well as risk management program in line with the internalization of the corporate culture. Risk Management Unit at Bank Mandiri consists of Retail Risk Directorate which chaired by SEVP Retail Risk, Risk Directorate chaired by SEVP Wholesale Risk and Risk Management Directorate Chaired by the Director of Risk Management & Compliance. Related to the profile of SEVP Retail Risk, Wholesale Risk and Director of Risk Management & Compliance, has been reviewed in Chapter "Company at a Glance", sub-chapter "Profile of SEVP", on page 84.

### 2. Policy & Procedure

Bank Mandiri Risk Management Policy (KMRBM) used as main guideline in implementing operational risk management and capital management at Bank Mandiri include:

- The Principle of Prudence, among others, Provision of Capital Adequacy, Early Warning System, Determination of Limit, and Risk Diversification.
- The Risk Management, among others Risk Profile, Risk Appetite, Stress Testing and Integrated Risk Management.
- The Risk Management for each type of risk, which includes the identification process, measurement, monitoring and risks control.
- Risk supervision, including monitoring the implementation of activities/methodology of risk management at Bank Mandiri, as well as the Internal Control Systems.

This Risk Management Policy became the basis for the preparation of procedures and technical guidance related to risk management at Bank Mandiri.

### 3. System & Data

Risk management system was developed to create more efficient business processes in order to make decision faster within prudent principles. In order to maintain the integrity and quality of the data, Bank Mandiri has implemented an Integrated Processing System and Loan Origination

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System to improve the efficiency of the credit process and maintain data quality on corporate, commercial and retail segment. To increase the productivity of collection activity, especially in Consumer and Retail segment, Bank Mandiri implements the Integrated Collection System. Bank Mandiri is using Summit System and ALM System to manage the risk of trading book and banking book in the activities of treasury and asset & liability management. In order to get an overview of Bank Mandiri's risk profile, both as a holding company as well as Bank Mandiri's risk profile which has consolidated and integrated with the subsidiaries, Bank Mandiri has implemented a Risk Profile Mandiri System (RPX) which is a web-based system to accelerate and facilitate access control. In integrating bankwide risk management, Bank Mandiri has implemented ERM system as a tool to monitor the overall risk management, particularly in calculating the capital to cover all types of risk. ERM system has the capability to perform the computation of capital charge (Standardized Approach and the Advanced Approach), the implementation of operational risk management tools, active portfolio management, stress testing and value-based management.

#### 4. Methodology/Model & Analytics

Bank Mandiri continuously implements risk measurement which refers to the international best practices by using both quantitative and qualitative approach through the development of risk models such as rating, scoring, Value at Risk (VaR), portfolio management, stress testing and other models to support judgmental decision making. Periodically, these risk models are calibrated and validated by the Risk Model Validator unit which is independent to maintain the reliability and validity of the model as well as to meet the regulatory requirements. In order to harmonize the implementation of Basel II and ERM with Basel II regulations and the application of best practices, Bank Mandiri in cooperation with one of the leading consultants in risk management, assist in the adoption and implementation of the Basel II framework and ERM. The implementation of Basel II and ERM on Bank Mandiri covers the area of Credit Risk, Market Risk, Liquidity Risk, Interest Rate Risk in the Banking Book Position, Operational Risk, Capital Management and Internal Capital Adequacy Assessment Process (ICAAP).

#### The implementation of Basel II and ERM

Implementation Aspects	Scope of Implementations
Credit Risk	The development and refinement of Basel II Risk Parameters for the implementation of Internal Rating Based Approach (PD, LGD, and EAD)
Market Risk	Risk measurement of structured products, limit trading treasury, and infrastructure of treasury system
Liquidity and Interest Rate Risk	Completion of liquidity limit framework, core deposit analysis, Risk Appetite Statement (RAS), stress testing liquidity, repricing gap method, and the implementation of the ALM system

Implementation Aspects	Scope of Implementations
Operational Risk	The development of Framework and Governance Operational Risk Management (ORM)
Capital Management	The completion of Economic Capital models, development of framework portfolio optimization as well as capital optimization
Internal Capital Adequacy Assessment Process (ICAAP)	The implementation of Risk Appetite Statement, Stress Testing, Capital Planning, and synchronization with regulation which related to Risk Based Bank Rating (RBBR)

#### Internal Control System

Bank Mandiri runs the effective risk management practices throughout working unit by implementing three lines of defense policy models with the following conditions:

1. Working units as risk owner is the first line of defense which responsible in managing working unit risk.
2. Risk Management Unit as the second line of defense performs the function of oversight.
3. Internal Audit Unit as the third line of defense carries out independent assurance function.

The implementation of Internal Control System on Risk Management function is a shared responsibility either first, second or third line of defense.

#### Capital Disclosures

##### Capital Structure

The capital structure of Bank Mandiri consists of core capital (Tier 1) and supplementary capital (Tier 2). Core capital (Tier 1) is primarily attributable to:

1. Paid-in capital
2. Other comprehensive income consists of:
  - a. Difference in the financial statement translation
  - b. Changes in fair value of financial assets in available for sale category
  - c. Fixed asset revaluation surplus
3. Other disclosed capital reserves:
  - a. Agio
  - b. General reserves
  - c. Prior years profit
  - d. Profit for the year
4. Non-controlling interests (for capital on a consolidated basis)
5. Reduction factors of core capital:
  - a. Deferred taxes calculation
  - b. Goodwill
  - c. Intangible assets
  - d. Participation
  - e. Securitization exposures

Supplementary capital (Tier 2) primarily derived from general reserves PPA over productive assets which shall be established and subordinated loans.