BANK INDONESIA REGULATION
NUMBER: 5/8/PBI/2003
CONCERNING
APPLICATION OF RISK MANAGEMENT FOR COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

Considering:

a. whereas the situation in the external and internal environment of the banking system is undergoing rapid changes to be followed by increasing complexity of risks for the business operations of the banking system;

b. whereas the increasing complexity of these risks will strengthen the need for good governance and the functions of identification, measurement, monitoring, and control of bank risks;

c. whereas improvement in the functions of identification, measurement, monitoring, and control of risks are intended to ensure that business activities conducted by banks do not incur losses exceeding the capacity of the bank or that may disrupt the sustainability of bank operations;

d. whereas the management of each functional activity of a bank must to the extent possible be integrated into a system and processes for accurate and comprehensive risk management;

...
e. whereas to create the preconditions and infrastructure for risk management, banks are required to take preparatory steps for implementation of their risk management;

f. now therefore it is deemed necessary to enact a Bank Indonesia Regulation concerning Application 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 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 Number 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette Number 3843);

HAS DECREED:

To enact: THE BANK INDONESIA REGULATION CONCERNING APPLICATION OF RISK MANAGEMENT FOR COMMERCIAL BANKS.
CHAPTER I
GENERAL PROVISIONS
Article 1

The terminology used in this Bank Indonesia Regulation has 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 a branch office of a foreign bank;
2. Risk is the potential for the occurrence of an event that may incur losses for the Bank;
3. Risk Management is a series of procedures and methodology employed to identify, measure, monitor, and control Risks arising from the business operations of a Bank;
4. Board of Directors:
   a. for a Bank legally incorporated as a Limited Liability Company is the board of directors as referred to in Article 1 number 4 of Act Number 1 of 1995 concerning Limited Liability Companies;
   b. for a Bank legally incorporated as a Regional Government Enterprise is the board of directors as referred to in Article 11 of Act Number 5 of 1962 concerning Regional Government Enterprises;
   c. for a Bank legally incorporated as a Cooperative is the executive board as referred to in Article 29 of Act Number 25 of 1992 concerning Cooperatives;
   d. for a branch office of a foreign bank is the management of the branch office of the foreign bank,

including …
including any caretaker team temporarily taking over the powers and functions of the Board of Directors;

5. Board of Commissioners:
   a. for a Bank legally incorporated as a Limited Liability Company is the board of commissioners as referred to in Article 1 number 4 of Act Number 1 of 1995 concerning Limited Liability Companies;
   b. for a Bank legally incorporated as a Regional Government Enterprise is the board of supervisors as referred to in Article 11 of Act Number 5 of 1962 concerning Regional Government Enterprises;
   c. for a Bank legally incorporated as a Cooperative is the board of supervisors as referred to in Article 29 of Act Number 25 of 1992 concerning Cooperatives, including any caretaker supervisory team temporarily taking over the powers and functions of the Board of Commissioners.

CHAPTER II
SCOPE OF RISK MANAGEMENT

Article 2

(1) Banks are required to apply Risk Management in an effective manner.
(2) Application of Risk Management as referred to in paragraph (1) shall encompass at least the following:
   a. active supervision by the Board of Commissioners and Board of Directors;
   b. adequacy of policy, procedure, and establishment of limits;
   c. adequacy of processes of identification, measurement, monitoring, and control of Risks and the Risk Management information system; and
   d. comprehensive ...
d. comprehensive internal control system.

Article 3

Application of Risk Management as referred to in Article 2 shall be commensurate to the goal, business policy, size and complexity of business, and the capacity of the Bank.

Article 4

(1) Risk as referred to in Article 2 encompasses the following:
   a. Credit Risk;
   b. Market Risk;
   c. Liquidity Risk;
   d. Operational Risk;
   e. Legal Risk;
   f. Reputational Risk;
   g. Strategic Risk;
   h. Compliance Risk.

(2) A Bank with large scale, highly complex business operations shall be required to apply Risk Management as referred to in Article 2 paragraph (2) for all types of risks as referred to in paragraph (1).

(3) A Bank without large scale, highly complex business operations shall be required to apply Risk Management as referred to in Article 2 paragraph (2) for at least the 4 (four) types of Risk as referred to in paragraph (1) letter a, letter b, letter c, and letter d.

(4) In the event …
(4) In the event that a Bank as referred to in paragraph (3) has at any time experienced losses incurred by Risks as referred to in paragraph (1) letter e, letter f, letter g, and/or letter h that may endanger the sustainability of its business operations, the Bank shall be required to apply Risk Management as referred to in Article 2 paragraph (2) in respect of those Risks.

CHAPTER III
ACTIVE SUPERVISION BY THE BOARD OF COMMISSIONERS AND BOARD OF DIRECTORS

Section One
General Provisions

Article 5

Banks shall be required to establish clear powers and responsibilities for each level of position related to the application of Risk Management as referred to in Article 2.

Section Two
Powers and Responsibilities of the Board of Commissioners

Article 6

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

a. approval and evaluation of the Risk Management policy;

b. evaluation of accountability of the Board of Directors in implementation of Risk Management policy as referred to in letter a;

c. evaluation …
Section Three
Powers and Responsibility of the Board of Directors

Article 7

(1) The powers and responsibilities referred to in Article 5 for the Board of Directors shall be at least the following:

a. formulation of a documented, comprehensive Risk Management policy and strategy;

b. responsibility for implementation of the Risk Management policy and overall Risk exposures taken on by the Bank;

c. evaluation and decision in regard to any transaction requiring approval from the Board of Directors;

d. development of a Risk Management culture at all levels of the organization;

e. ensuring increased competency of human resources in regard to Risk Management;

f. ensuring that the Risk Management function is operating independently;

g. conducting regular review to ensure:

1. accuracy of Risk assessment methodology;

2. adequacy of implementation of the management information system;

and

3. appropriateness of Risk policy, procedures, and establishment of limits.

(2) For the purpose of exercising the powers and responsibilities referred to in paragraph (1), the Board of Directors shall possess adequate understanding of the Risks …
the Risks inherent in all functional activities of the Bank and shall possess the ability to make necessary decisions according to the Risk profile of the Bank.

CHAPTER IV
POLICY, PROCEDURES, AND ESTABLISHMENT OF LIMITS

Section One
Risk Management Policy

Article 8

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

a. determination of Risks related to banking products and transactions;
b. determination of the methods to be employed for measurement and the Risk Management information system;
c. establishment of limits and determination of Risk tolerances;
d. establishment of Risk rating;
e. formulation of contingency plan in worst-case scenario;
f. establishment of internal control system for application of Risk Management.

Section Two
Risk Limit Procedures and Establishment of Risk Limits

Article 9

(1) The Risk limit procedures and establishment of Risk limits as referred to in Article 2 paragraph (2) letter b shall be commensurate to the extent of Risk to be taken (risk appetite) in relation to the Risks of the Bank.

(2) The Risk …
(2) The Risk limit procedures and establishment of Risk limits as referred to in paragraph (1) shall state at least the following:
   a. accountability and clear lines of delegation of authority;
   b. regular review of procedures and determination of limits;
   c. adequacy of documentation of procedures and determination of limits.

(3) Establishment of Risk limits as referred to in paragraph (2) shall encompass:
   a. overall limit;
   b. limit per type of Risk; and
   c. limit by certain functional activities carrying Risk exposure.

CHAPTER V

PROCESSES OF IDENTIFICATION, MEASUREMENT, MONITORING, AND CONTROL OF RISKS, AND THE RISK MANAGEMENT INFORMATION SYSTEM

Section One

General Provisions

Article 10

(1) Banks are required to implement processes of identification, measurement, monitoring, and control of Risks as referred to in Article 2 paragraph (2) letter e in respect of all material Risk factors.

(2) Implementation of the processes for identification, measurement, monitoring, and control of Risks as referred to in paragraph (1) shall be supported by:
   a. timely management information system; and

Section …
Section Two
Processes of Identification, Measurement, Monitoring, and Control of Risks

Article 11

(1) The Risk identification process shall be implemented at least by conducting analysis of:
   a. the characteristics of the Risks inherent in the Bank; and
   b. Risks arising from the products and business operations of the Bank.

(2) To conduct measurement of Risk, Banks are required to perform at least the following:
   a. regular evaluation of the appropriateness of assumptions, data sources, and procedures employed to measure Risk;
   b. improvements to the Risk management system, in the event of any material change in the business operations of the Bank, products, transactions, and Risk factors.

(3) To conduct Risk monitoring, Banks are required to perform at least the following:
   a. evaluation of Risk exposure;
   b. improvements to the reporting process in the event of any material change in the business operations of the Bank, products, transactions, Risk factors, information technology, and Risk Management information system.

(4) Banks are required to employ Risk control processes to manage certain risks that may endanger the sustainability of the business operations of the Bank.

(5) In implementing the functions of control of interest rate Risk, exchange rate Risk, and liquidity Risk as referred to in Article 4 paragraph (1) letter b and letter c …
letter c, Banks shall at the minimum adopt assets and liabilities management (ALMA).

Section Three
Risk Management Information System

Article 12

(1) The Risk Management information system as referred to in Article 2 paragraph (2) letter c shall encompass at least reports or information concerning:
   a. Risk exposure;
   b. compliance with policy and procedures and establishment of limits as referred to in Article 8 and Article 9.
   c. progress in implementation of Risk Management against established targets.

(2) Reports or information generated by the Risk Management information system as referred to in paragraph (1) shall be submitted on a routine basis to the Board of Directors.

CHAPTER VI
INTERNAL CONTROL SYSTEM

Section One
General Provisions

Article 13

Banks are required to implement an effective internal control system in respect of the implementation of business activities and operations at all levels of the Bank organization.

Article 14 …
Article 14

(1) Implementation of the internal control system as referred to in Article 13 shall at least be capable of timely detection of weaknesses and irregularities that may arise.

(2) The internal control system as referred to in paragraph (1) is required to provide assurance of:
   a. compliance with prevailing laws and regulations and the internal policies and regulations of the Bank;
   b. availability of complete, accurate, user-friendly, and timely financial and management information;
   c. effectiveness and efficiency in operational activities; and
   d. effectiveness of Risk culture in the Bank organization as a whole.

Section Two
Internal Control System in Application of Risk Management

Article 15

(1) The internal control system in application of Risk Management as referred to in Article 2 paragraph (2) letter d shall encompass at least the following:
   a. appropriateness of the internal control system to the type and magnitude of Risks inherent in the business operations of the Bank;
   b. determination of powers and responsibilities for monitoring of compliance with policies, procedures, and limits as referred to in Article 8 and Article 9;
   c. establishment …
c. establishment of reporting lines and clear separation of functions from operational units and units performing control functions;

d. organizational structure clearly depicting the business operations of the Bank;

e. accurate and timely reporting of financial affairs and operational activities;

f. adequacy of procedures for ensuring the compliance of the Bank with prevailing laws and regulations;

g. effective, independent, and objective review of procedures for assessment of Bank operations;

h. adequate testing and review of the management information system;

i. complete and adequate documentation of operational procedures, scope of audit and audit findings, and responses of Bank management based on audit results;

j. regular and sustained verification and review of the handling of material Bank weaknesses and actions of Bank management in rectifying any irregularities that may occur.

(2) Assessment of the internal control system in application of Risk Management as referred to in paragraph (1) shall be conducted by the internal audit unit (SKAI).
CHAPTER VII
ORGANIZATION AND FUNCTIONS OF RISK MANAGEMENT

Section One
General Provisions
Article 16

For the purpose of implementing effective processes and systems of Risk Management as referred to in Article 2, Banks are required to establish:

a. a Risk Management committee; and

b. a Risk Management unit.

Section Two
Risk Management Committee
Article 17

(1) The Risk Management Committee as referred to in Article 16 letter a shall consist of at least the following:

a. the majority of the Board of Directors; and

b. relevant executive officers.

(2) The powers and responsibility of the Risk Management committee as referred to in paragraph (1) are to provide recommendations to the President Director covering at least the following:

a. formulation of policy, strategy, and guidelines for application of Risk Management;

b. corrections or improvements to implementation of Risk Management based on evaluation of the implementation;

c. justification …
c. justification of matters pertaining to business decisions made in departure from normal procedures (irregularities).

Section Three
Risk Management Unit
Article 18

(1) The organizational structure of the Risk Management unit of a Bank as referred to in Article 16 letter b shall be commensurate to the size and complexity of the operations of the Bank and the inherent Risks in that Bank.

(2) The Risk Management unit as referred to in paragraph (1) must be independent of risk-taking units and of the unit performing the function of internal control.

(3) The Risk Management unit as referred to in paragraph (2) shall be responsible directly to the Managing Director or to a specially assigned Director.

(4) The powers and responsibilities of the Risk Management unit encompass the following:
  a. monitoring of the implementation of the Risk Management strategy approved by the Board of Directors;
  b. monitoring of the composition Risk position, by category of Risk, and by type of functional activity, and conducting stress testing;
  c. regular review of the Risk Management process;
  d. assessment of proposals for new activities and/or products;
  e. evaluation of model accuracy and validity of data employed to measure Risk, for a Bank using internal models;
  f. provision of recommendations to risk-taking units and/or the Risk Management committee, commensurate with its powers;
  g. put together …
g. put together and submit regular Risk profile/composition reports to the managing director or specially assigned director and the Risk Management committee.

Section Four
Linkages Between Risk-Taking Units and Risk Management Unit

Article 19

A risk-taking unit as referred to in Article 18 paragraph (2) shall regularly inform the Risk Management unit of all Risk exposure inherent in the unit concerned.

CHAPTER VIII
RISK MANAGEMENT FOR NEW PRODUCTS AND ACTIVITIES

Article 20

(1) For the purpose of managing Risks inherent in new products and services, Banks are required to have documented policies and procedures.

(2) Policies and procedures referred to in paragraph (1) shall cover at least the following:

a. standard operating procedures and powers in the management of new products and activities;

b. identification of all Risks related to new products and activities;

c. trial period for testing of the method of Risk measurement and monitoring in respect of new products and activities;

d. accounting information system for new products and activities;

e. legal analysis for new products and activities.

Article 21 …
Article 21

Banks are required to disclose to their customers the Risks inherent in new products and activities as referred to in Article 20 paragraph (2) letter b.

CHAPTER IX
REPORTING
Section One
Action Plan for Application of Risk Management

Article 22

(1) Application of Risk Management as referred to in Article 2 may be conducted in phases or without phases.

(2) For the purpose of application of Risk Management as referred to in paragraph (1), Banks are required to submit an action plan report to Bank Indonesia.

(3) Bank Indonesia may request a Bank to amend an action plan report as referred to in paragraph (1) if the action plan is deemed not fully in compliance with the minimum requirements stipulated in this Bank Indonesia Regulation and other relevant implementation regulations.

(4) The action plan as referred to in paragraph (1) shall be submitted no later than 3 (three) months after the enactment of this Bank Indonesia Regulation.

(5) The timeframe for completion of the action plan as referred to in paragraph (2) is stipulated as no later than 9 (nine) months after the action plan report is received by Bank Indonesia.
Article 23

(1) Banks are required to submit to Bank Indonesia action plan progress reports on the application of Risk Management.

(2) Action plan progress reports as referred to in paragraph (1) shall be submitted no later than 7 (seven) working days after each phase of completion of the action plan.

Section Two
Risk Profile Report and Report on New Products and Activities

Article 24

(1) Banks are required to submit Risk profile reports to Bank Indonesia.

(2) The Risk profile report submitted to Bank Indonesia by the Risk Management unit as referred to in paragraph (1) shall present the same substance as the Risk profile report submitted by the Risk Management unit to the Managing Director and the Risk Management Committee.

(3) Risk profile reports as referred to in paragraph (1) shall be submitted on a quarterly basis for the positions of March, June, September, and December.

(4) Risk profile reports as referred to in paragraph (1) shall be submitted no later than 7 (seven) working days after the end of the reporting month.

(5) The Risk profile report as referred to in paragraph (1) shall be submitted for the first time for the reporting position of March 2005.
Article 25

(1) Banks are required to submit reports on new products and activities to Bank Indonesia.

(2) The report on new products and activities as referred to in paragraph (1) shall be submitted upon each release of a new product and activity and no later than 7 (seven) working days after the new product and activity is effectively in operation.

(3) The report on new products and activities as referred to in paragraph (1) shall be submitted for the first time for new products and activities released after the Bank has completed the action plan referred to in Article 22.

Section Three
Other Reports

Article 26

(1) Banks are required to submit reports to Bank Indonesia other than the reports referred to in Article 24 in the event of any condition that may potentially lead to significant losses in the financial condition of the Bank.

(2) Bank Indonesia may request a Bank to submit a report as referred to in Article 24 outside the stipulated period.

Section Four …
Section Four
Reporting Deadline

Article 27
A Bank shall be deemed late in submission of a report as referred to in Article 22, Article 23, Article 24, and Article 25 if the report is submitted past the deadline for submission.

Section Five
Report Format and Addresses for Submission

Article 28
The format and instructions for formulation of reports as referred to in Article 22, Article 23, Article 24, and Article 25 shall be stipulated in a Circular Letter of Bank Indonesia.

Article 29
Reports as referred to in Article 22, Article 23, Article 24, Article 25, and Article 26 shall be submitted to Bank Indonesia at the following addresses:

a. relevant Directorate of Bank Supervision, Jl. MH Thamrin No. 2, Jakarta 10110, for a Bank having its head office in the working area of the Bank Indonesia Head Office.
b. local Bank Indonesia Regional Office, for a Bank having its head office outside the working area of the Bank Indonesia Head Office.
CHAPTER X
MISCELLANEOUS PROVISIONS

Section One
Assessment of Application of Risk Management

Article 30
Bank Indonesia may conduct assessment of the application of Risk Management at any Bank.

Article 31
Banks are required to provide Bank Indonesia with data and information relevant to the application of Risk Management.

Section Two
Disclosure of Risk Management Performance and Policy

Article 32

(1) Disclosure of Risk Management in the Bank annual report as stipulated in the Bank Indonesia Regulation concerning Transparency of Financial Condition of Banks shall be adapted for compliance with this Bank Indonesia Regulation.

(2) Disclosure as referred to in paragraph (1) shall cover at least the Risk Management Performance and policy direction of Risk Management.

(3) Adaptation of Risk Management disclosure as referred to in paragraph (1) shall apply for the first time in the annual report for the position at the end of December 2004.
CHAPTER IX
SANCTIONS

Article 33

(1) Any Bank late in submission of a report as referred to in Article 22, Article 23, Article 24, and Article 25 shall be subject to a penalty of Rp 1,000,000 (one million rupiahs) per day of delay per report.

(2) Any Bank failing to submit a report as referred to in Article 22, Article 23, Article 24, and Article 25 after 1 (one) month past the deadline for report submission shall be subject to a penalty of Rp 50,000,000 (fifty million rupiahs) per report and issued a written warning by Bank Indonesia.

(3) Any Bank submitting a report as referred to in Article 22, Article 23, Article 24, and Article 25 after 1 (one) month past the deadline for report submission shall be subject to a penalty of Rp 50,000,000 (fifty million rupiahs) per report.

(4) A Bank submitting a report deemed significantly incomplete or not enclosing material documents and information in compliance with the format stipulated in this Bank Indonesia Regulation and other relevant implementation regulations shall be subject to a penalty of Rp 50,000,000 (fifty million rupiahs) after the Bank has been issued 2 (two) letters of warning from Bank Indonesia with an interval of 7 (seven) working days for each warning and the Bank has not rectified the report within the period of 7 (seven) working days after the last letter of warning.

Article 34 …
Article 34

Any Bank not implementing the provisions stipulated in this Bank Indonesia Regulation and other relevant implementation regulations may be subject to administrative sanctions as referred to in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, including but not limited to the following:

a. written warning;
b. freezing of certain business activities.

CHAPTER X
CONCLUDING PROVISIONS

Article 35

(1) Further provisions concerning the application of Risk Management and internal control for Banks shall be stipulated further in a Circular Letter of Bank Indonesia.

(2) With the enactment of this Bank Indonesia Regulation, Banks shall be required to bring into compliance their operating procedures relevant to the application of Risk Management.
Article 36

This Bank Indonesia Regulation shall come into force on January 1, 2004.

Enacted in Jakarta
May 19, 2003

GOVERNOR OF BANK INDONESIA

SYAHRIL SABIRIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER ..... OF 2003
DPNP
ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER: 5/ 8 /PBI/2003
CONCERNING
APPLICATION OF RISK MANAGEMENT FOR COMMERCIAL BANKS

GENERAL REVIEW

The business operations conducted by Banks must constantly deal with risks closely linked to the financial intermediary function. The rapid pace of advancement in the external and internal environment of the banking system has also led to increasing complexity of banking risks. Accordingly, for Banks to be able to adapt to the banking business environment, it is essential for Banks to apply risk management. In this regard, the risk management principles to be adopted and applied within the Indonesian banking system are aligned with the recommendations issued by the Bank for International Settlements through the Basle Committee on Banking Supervision. These principles in essence constitute standards that enable the banking community to exercise greater prudence within the scope of present rapid advancement of the business activities and operations of the banking system.

Application of risk management may vary widely from one Bank to another, depending on the goal, business policy, size, and complexity of business, and the capacity of the bank in terms of financial capacity, supporting infrastructure, and human resources. Bank Indonesia is enacting these provisions as a minimum standard …
standard to be met by the Indonesian banking system in the application of risk management.

In regard to these provisions, banks are expected to integrate all their activities into an accurate and comprehensive risk management system.

ARTICLE BY ARTICLE

Article 1
Self-explanatory.

Article 2
Paragraph (1)
Self-explanatory.
Paragraph (2)
Letter a
The role of the Board of Commissioners for a branch office of a foreign bank is performed by the competent party in accordance with the organizational structure of the Bank.
Letter b
Self-explanatory.
Letter c
Self-explanatory.
Letter d
Self-explanatory.

Article 3 …
Article 3

Complexity of business includes but is not limited to diversity of transactions/products/services and the business network.

Capacity of the Bank includes but is not limited to financial capacity, supporting infrastructure, and human resources capacity.

Article 4

Paragraph (1)

Letter a

Credit Risk is the Risk arising from default by a counterparty in meeting its obligations.

Letter b

Market Risk is the Risk arising from adverse movement in the market variables of the portfolios held by the Bank that may incur losses for the Bank. In this letter, market variables are interest rates and exchange rates.

Letter c

Liquidity Risk is Risk including but not limited to Risk caused by default of the Bank on liabilities at due date.

Letter d

Operational Risk is Risk including but not limited to Risk caused by inadequacy or dysfunction in internal processes, human error, system failure, or existence of external problems affecting the operations of the Bank.

Letter e …
Letter e
Legal Risk is Risk caused by weaknesses in juridical matters. Weaknesses in juridical matters include but are not limited to weaknesses resulting from legal claims, absence of legal framework, or contractual weaknesses such as failure to meet the requirements for legality of contracts and loopholes in the binding of collateral.

Letter f
Reputational Risks are Risk including but not limited to Risks caused by negative publicity pertaining to the business operations of the Bank or negative perceptions of the Bank.

Letter g
Strategic Risks are Risk including but not limited to Risks caused by adoption and implementation of an inappropriate strategy for the Bank, inappropriate decision making in the business affairs of the Bank, or lack of responsiveness of the Bank to external change.

Letter h
Compliance Risk is Risk caused by failure of the Bank to comply with or implement prevailing laws and regulations and other legal provisions. Management of Compliance Risk takes place through consistent application of an internal control system.
Paragraph (2)

A Bank is deemed to have large scale, highly complex business operations among others if it meets one or more of the following conditions:

1. The Bank has total assets of Rp 10,000,000,000,000 (ten trillion rupiahs);
2. The Bank is an internationally active bank, having branch offices in several other countries or is a branch office of a Bank having its head office overseas;
3. The Bank has 30 (thirty) or more branch offices;
4. The Bank has 150,000 (one hundred and fifty thousand) or more customers; and/or
5. The Bank has a high diversity of transactions/products/services.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 5

Self-explanatory.

Article 6

Letter a

Evaluation of Risk Management policy shall be performed by the Board of Commissioners at least once each year or at higher frequency in the event …
event of any change in factors significantly affecting the business operations of the Bank.

Letter b
Evaluation of accountability of the Board of Directors in the implementation of Risk Management policy shall be performed by the Board of Commissioners at least every quarter.

Letter c
Transactions requiring approval of the Board of Commissioners are transactions exceeding the decision-making powers of the Board of Directors in regard to those transactions, in accordance with the prevailing internal policies and procedures of the Bank.

Article 7
Paragraph (1)
Letter a
Risk Management policy and strategy includes the establishment and approval of Risk limits, whether for composite Risk, by type of Risk or by functional activity.
Risk Management policy and strategy shall be formulated at least once during one year, or at a higher frequency in the event of any change in factors significantly affecting the business operations of the Bank.

Letter b
Responsibility for implementation of Risk Management policy includes:

1. evaluating …
1. evaluating and providing direction based on reports submitted by the risk management unit;
2. quarterly submission of the report of accountability to the Board of Commissioners.

Letter c
Transactions requiring the approval of the Board of Directors include but are not limited to transactions exceeding the authority of Bank officers one level below the Board of Directors, in accordance with the prevailing internal policies and procedures.

Letter d
Development of a Risk Management culture among others encompasses adequate communications to all levels of the organization on the importance of effective internal control.

Letter e
Increased competency of human resources includes but is not limited to sustained education and training programs on application of Risk Management.

Letter f
Definition of independent includes but is not limited to separation of functions between the Risk Management unit, which conducts the identification, management, and monitoring of Risk, and units involved in the operation and settlement of transactions.

Letter g
Regular review is intended among others to anticipate any changes in external factors and internal factors.
Paragraph (2)
Self-explanatory.

Article 8

Risk Management Policy shall be determined among others by formulating a strategy to ensure that:

1. The Bank consistently maintains Risk exposure in accordance with the internal policies and procedures of the Bank and prevailing laws and regulations and other legal provisions;
2. The Bank is managed by human resources possessing knowledge, experience, and expertise in Risk Management commensurate to the complexity of the business operations of the Bank.

The determination of Risk Management strategy shall also take into account the financial condition of the Bank, organization of the Bank, and Risks arising from 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 the capital of the Bank.

Letter d

The determination of Risk rating forms the basis for a Bank to categorize the rating of Bank Risks.
Risk measurements can be categorized into three ratings, namely low, moderate, and high.
Letter e
Self-explanatory.
Letter f
Self-explanatory.

Article 9

Paragraph (1)
Risk appetite shall take into account the experience of the Bank in managing Risk.

Paragraph (2)
Letter a
Self-explanatory.
Letter b
The definition of regularly is at least once each year or at a higher frequency, commensurate to types of Risk and the needs and growth of the Bank.
Letter c
The definition of adequate documentation is written, complete documentation comprising an audit trail for the purposes of the internal control of the Bank.

Paragraph (3)
Self-explanatory.

Article 10 …
Article 10

Paragraph (1)
Risk factors are various parameters affecting Risk exposure.
Material Risk factors comprise both quantitative and qualitative Risk factors significantly affecting the financial condition of the Bank.

Paragraph (2)
Self-explanatory.

Article 11

Paragraph (1)
The Risk identification process among others may be based on any previous experience of the Bank in sustaining losses.

Paragraph (2)
To estimate Risk, a Bank may use various qualitative and quantitative approaches commensurate to the business objectives, complexity of business operations, and capacity of the Bank.

Letter a
Regularly is defined as no loss than quarterly or at higher frequency, commensurate to developments in the business operations of the Bank and external conditions directly affecting the condition of the Bank.

Letter b
Material change is change in the business operations, products, transactions, and Risk factors of the Bank that may affect the financial condition of the Bank.

Paragraph (3) …
Paragraph (3)
Letter a
Evaluation of risk exposure shall be made by monitoring and reporting of Risks of a material nature or impacting the condition of Bank capital, among others based on assessment of potential for Risk employing historical trends.

Letter b
Self-explanatory.

Paragraph (4)
Risk control may be implemented among others by hedging, risk mitigation methods, and addition of capital to absorb potential loss.

Paragraph (5)
Self-explanatory.

Article 12
Paragraph (1)
Letter a
Reports or information on Risk exposure encompass quantitative and qualitative exposure on a composite basis and disaggregated by type of Risk and type of functional activity.

Letter b
Self-explanatory.

Letter c …
Letter c
Self-explanatory.

Paragraph (2)
Reports or information submitted to the Board of Directors may be increased in frequency, commensurate to the needs of the Bank.

Article 13
Self-explanatory.

Article 14
Paragraph (1)
Self-explanatory.

Paragraph (2)
Letter a
Self-explanatory.

Letter b
Complete, accurate, user-friendly, and timely financial and management information is essential to the making of appropriate and responsible decisions, and must be communicated to the parties whose interests are affected by this information.

Letter c
Effectiveness and efficiency in operational activities is necessary among others to protect the assets and other resources of the Bank from related Risks.
Letter d

Effectiveness of Risk culture is intended to enable earlier identification of weaknesses and irregularities and review of the soundness of the existing policies and procedures in the Bank on a sustained basis.

Article 15

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 16

Letter a

The Risk Management Committee must be a non-structural entity.

Letter b

The Risk Management unit must be a structural entity.

Article 17

Paragraph (1)

Membership of the Risk Management Committee may comprise permanent membership and non-permanent membership, commensurate to the needs of the Bank.
Letter a

One of the members of the majority of the Board of Directors on the Risk Management committee shall be the Compliance Director.

Letter b

Executive officers are Bank officers at one level below the Board of Directors, placed in charge of units and the Risk Management unit. Membership of executive officers in the Risk Management Committee shall be commensurate to the problems and needs of the Bank.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Business decisions in departure from normal procedures include but are not limited to significant overexpansion of business in comparison to the business plan of the Bank and taking of positions/Risk exposures in departure of established limits.
Article 18

Paragraph (1)

This regulation is intended to enable Banks to determine an appropriate organizational structure for the condition of the Bank, including its financial capacity and human resources.

Paragraph (2)

The understanding of independent is among others reflected in:

1. separation of functions/tasks between those of the Risk Management unit and those of risk-taking units and the unit performing the internal control function;
2. decision-making process that is impartial, or not partial to any particular operational unit or ignoring other operational units.

Paragraph (3)

In view of the varying scale and complexity of the business conducted by Banks, the Risk Management unit may be responsible directly to a Director specially assigned by the Bank, such as the Compliance Director or the Risk Management Director.

The term Managing Director may be construed as equivalent to President Director.

Paragraph (4)

The powers and responsibilities of the Risk Management Unit shall be commensurate to the business objectives, business complexity, and capacity of the Bank.

Letter a

Self-explanatory.

Letter b ...
Letter b

Stress testing is conducted to ascertain the impact of the implementation of Risk Management policies and strategy on the performance and revenues of each operational unit or functional activity of the Bank.

Letter c

Review shall be conducted among others on the basis of the findings of internal audit and/or developments in internationally prevailing Risk Management practice.

Letter d

Assessment includes the evaluation of the capacity of the Bank to conduct new activities and/or operate new products and assessment of proposed changes to systems and procedures.

Letter e

Self-explanatory.

Letter f

The recommendations shall among others present recommendations pertaining to the magnitude of or maximum Risk exposure that must be maintained by the Bank.

Letter g

The Risk profile is a composite picture of the magnitude of potential for Risk inherent in all portfolios or exposure of the Bank.

Frequency of reporting must be increased if market conditions undergo sudden change. In the case of Risk exposures undergoing relatively …
relatively prolonged change, such as Credit Risk, reports shall be submitted not later than once in each month.

Article 19
Frequency of provision of information on Risk exposure shall be commensurate to the nature of the Risk.
The definition of risk-taking unit includes but is not limited to the credit, treasury, and funding units.

Article 20
Paragraph (1)
New products and activities are products and activities not previously provided or undertaken by the Bank.

Paragraph (2)
Letter a
Self-explanatory.
Letter b
Self-explanatory.
Letter c
The trial period is intended to obtain assurance that the method for measurement and monitoring of Risk is tested in terms of prudential aspects and other aspects.
Letter d
The accounting information system shall present at least an accurate view of Risk profile and levels of gains and losses for new activities and products.

Letter e
Legal analysis encompasses probability of legal Risk arising from new activities and products and their compliance with prevailing laws and regulations.

Article 21
Customers shall receive transparent information on all risks pertaining to new products and activities, whether verbally or in writing, to ensure that the customers understand the risks of these new products and activities.

Article 22
Paragraph (1)
Self-explanatory.

Paragraph (2)
The action plan shall be formulated to comply with the minimum requirements for application of Risk Management stipulated in this Bank Indonesia Regulation and in other implementation regulations.

Paragraph (3)
Self-explanatory.

Paragraph (4)
Self-explanatory.

Paragraph (5) …
Paragraph (5)
The 9 (nine) month period shall include adjustments to action plans
deemed by Bank Indonesia to be not in full compliance with the
minimum requirements stipulated in this Bank Indonesia regulation and
other implementation regulations.

Article 23

Paragraph (1)
The action plan progress report shall be formulated and used for
monitoring the level of achievement in application of Risk Management.

Paragraph (2)
Self-explanatory.

Article 24

Paragraph (1)
The Risk profile report shall present a report on magnitude and trend of
all Risk exposure.

Paragraph (2)
Self-explanatory.

Paragraph (3)
The risk profile report shall be presented in comparison to the position
for the preceding quarter.

Paragraph (4)
Self-explanatory.

Paragraph (5) …
Paragraph (5)
The risk profile report for March 2005 shall not be presented in comparison to the position for the preceding quarter.

Article 25
Paragraph (1)
The report on new products and activities shall state at least the matters stipulated in Article 20 paragraph (2).

Paragraph (2)
Self-explanatory.

Paragraph (3)
Self-explanatory.

Article 26
Paragraph (1)
Self-explanatory.

Paragraph (2)
The request of Bank Indonesia shall be carried out if based on the results of supervision, it is found that the Bank has potential for difficulties endangering the sustainability of its operations.

Article 27
Self-explanatory.
Article 28
Self-explanatory.

Article 29
Self-explanatory.

Article 30
Assessment of Risk Management includes assessment of inherent Risk and adequacy of the Risk control system.

Article 31
Self-explanatory.

Article 32
Paragraph (1)
Self-explanatory.

Paragraph (2)
Risk Management Performance is the outcome of application of Risk Management for the period from the beginning of the year (January) through the end of the year (December), including Risk profile, while Risk Management policy direction is the direction and strategy of Risk Management for the period of one year into the future.

Paragraph (3)
Self-explanatory.
Article 33

Paragraph (1)
Days are defined as working days.

Paragraph (2)
A Bank subject to penalty in this paragraph shall not be subject to sanctions for delay as referred to in paragraph (1).

Paragraph (3)
A Bank subject to penalty in this paragraph shall not be subject to sanctions as referred to in paragraph (1) and paragraph (2).

Paragraph (4)
Self-explanatory.

Article 34

Letter a
Self-explanatory.

Letter b
Freezing of certain business activities includes the freezing of Bank activities involving high Risk.

Article 35

Paragraph (1)
Self-explanatory.

Paragraph (2)
Operating procedures relevant to the application of Risk Management include the following:

1. Guidelines …
1. Guidelines concerning Implementation of the Bank Internal Audit Function;
2. Guidelines concerning Bank Credit Policy;

Article 36
Self-explanatory.

SUPPLEMENT TO STATE GAZETTE OF THE REPUBLIC OF INDONESIA
NUMBER ....
DPNP