Risk Profile and its Management Efforts

Risk Profile

Credit Risk

Credit Risk is the risk of loss due to failure of other parties to meet their obligations. Included in Credit Risk are Credit Risk due to debtor failure, Credit Risk due to concentrated provision of funds (Credit Concentration Risk), Credit Risk due to counterparty credit risk, Credit Risk due to settlement failure, and Credit Risk due to country risk.

Credit Risk can be sourced from various the Company business activities. In most company, lending is the largest source of credit risk. In addition to credit, the Company faces Credit Risks from various financial systems such as securities, acceptances, interbank transactions, trade finance transactions, exchange rate transactions and transactions as well as commitment and contingent obligations.

Market Risk

Market Risk was the risk to the balance sheet position and administrative accounts including derivative transactions, as a result of the overall change in market conditions, including the risk of changes in option prices. Market risks included, among others, interest rate risk, exchange rate risk, equity risk, and commodity risk that might harm the Bank. Market risk could come from both trading book positions and banking book positions.

Liquidity Risk

Liquidity risk is the risk arising from the inability of the Bank to meet the maturing obligations from cash flow funding sources and/or from high-quality liquid assets that can be pledged, without disturbing the activities and financial condition of the Company.

The inability to obtain funding for cash flows resulting to liquidity risk can be contributed, among others, by:

- Inability to generate cash flows from productive assets as well as from the sale of assets, including liquid assets; and/or
- Inability to generate cash flows from funding, interbank transactions and fund borrowings.

Operational Risk

Operational Risk is the risk due to inadequate and/or malfunctioning of internal processes, human error, system failure, and/or the occurrence of external events that affect the Company's operations.

Operational risks can be sourced from among others HC, internal processes, systems and infrastructure, as well as external events.

These sources of risk may cause events that have an impact on the Bank's operations so that the emergence of these types of Operational Risk events is one measure of success or failure of Risk Management for Operational Risk. The types of operational risk events can be classified into several types of events such as internal fraud, external fraud, labor practices and work environment safety, customers, business products and practices, physical damage, business activity disruptions and system failures, and process and execution errors, including fraud arising from money laundering and terrorism financing activities.

Legal Risk

Legal Risk is the risk due to legal claims and/or weaknesses of juridical aspects. Legal risks can be sourced among others from weaknesses in juridical aspects caused by weak engagement made by the Bank, the absence and/or changes in legislation that causes a transaction that has been conducted by the Bank to be incompatible with the provisions, and a good litigation process arising from third party lawsuit against the Bank or the Bank against third parties.

Strategic Risk

Strategic Risk is the risk due to inaccuracy in making and/or implementing a strategic decision and failure to anticipate changes in the business environment. Strategic risk can be sourced from weaknesses in the process of strategy formulation and inaccuracies in the formulation of strategy, inadequate management information systems, inadequate internal and external environmental outcomes, setting strategic goals that are too aggressive, inaccurate implementation of strategies, and failure to anticipate changes in business environment.

Compliance Risk

Compliance Risk is the risk due to the Company not complying with and/or not implementing the laws and regulations, such as credit risk related to the Minimum Capital Adequacy Requirement (KPMM), Earning Asset Quality, Formation of CKPN, Legal Lending Limit (BMPK), market risk related to Net Open Position (NOP) provisions, strategic risk related to Work Plan provisions. Annual Budget (RKAT), and other risks associated with certain provisions. Compliance Risk may originate from, among other things, certain behaviors, namely the behavior or activities of the Company that deviate or violate the provisions and/or regulations and organizationl behavior, namely the behavior or activities of the Company that deviate or conflict with generally accepted standards.

Reputational Risk

Reputation Risk is a risk due to a decrease in the level of stakeholders' trust originating from negative perceptions of the Company. Reputation Risk can be sourced from the following various Bank activities:

- Events that have harmed the Company, such as the influence of the reputation of the owner of the Bank and related companies, the complexity of the Bank's products and business cooperation, negative news about the Company, violations of business ethics, and customer complaints.
- Other things that can cause Reputation Risk, for example weaknesses in governance, corporate culture, and business practices of the Company.

Efforts to Manage Risk

Bank BTN as a Company whose main focus is in the field of lending or housing finance, is that the asset system is dominated by Housing Loans (KPR) which are affected by changes in the external business climate such as inflation and the BI 7 Day Reverse Repo Rate. Efforts to minimize the impact of the system are conducted by risk management on a day-to-day risk management activities, based on the principles of Good Corporate Governance (GCG) to ensure all processes and mechanisms that occur in achieving the company's goals, prevent the company from irregularities and risks that may result in failure to achieve company goals, and based on the principle of prudence to ensure the growth of the Company's healthy and sustainable performance

PT Bank Tabungan Negara (Persero) Tbk is one of the Systemic Banks. As one of the efforts to prevent and deal with financial system crises, especially with regard to Systemic Bank problems, the Company must be able to determine a plan that will be conducted if it experiences financial stress that may jeopardize business sustainability. The plan was outlined in the form of a Action Plan (Recovery Plan) in accordance with POJK No. 14/POJK.03/2017 dated April 04, 2017 and internal regulations of Company SE No. 15/DIR/RMD/2018 dated March 22, 2018 concerning the Implementation of the Action Plan (Recovery Plan). The Company has prepared a Recovery Plan Document which contains Trigger Level (for the purpose of prevention, recovery and repair). For each system, the Recovery Options included in the Recovery Plan include: Capital Indicator, Liquidity, Profitability and Asset Quality.

Credit Risk Management

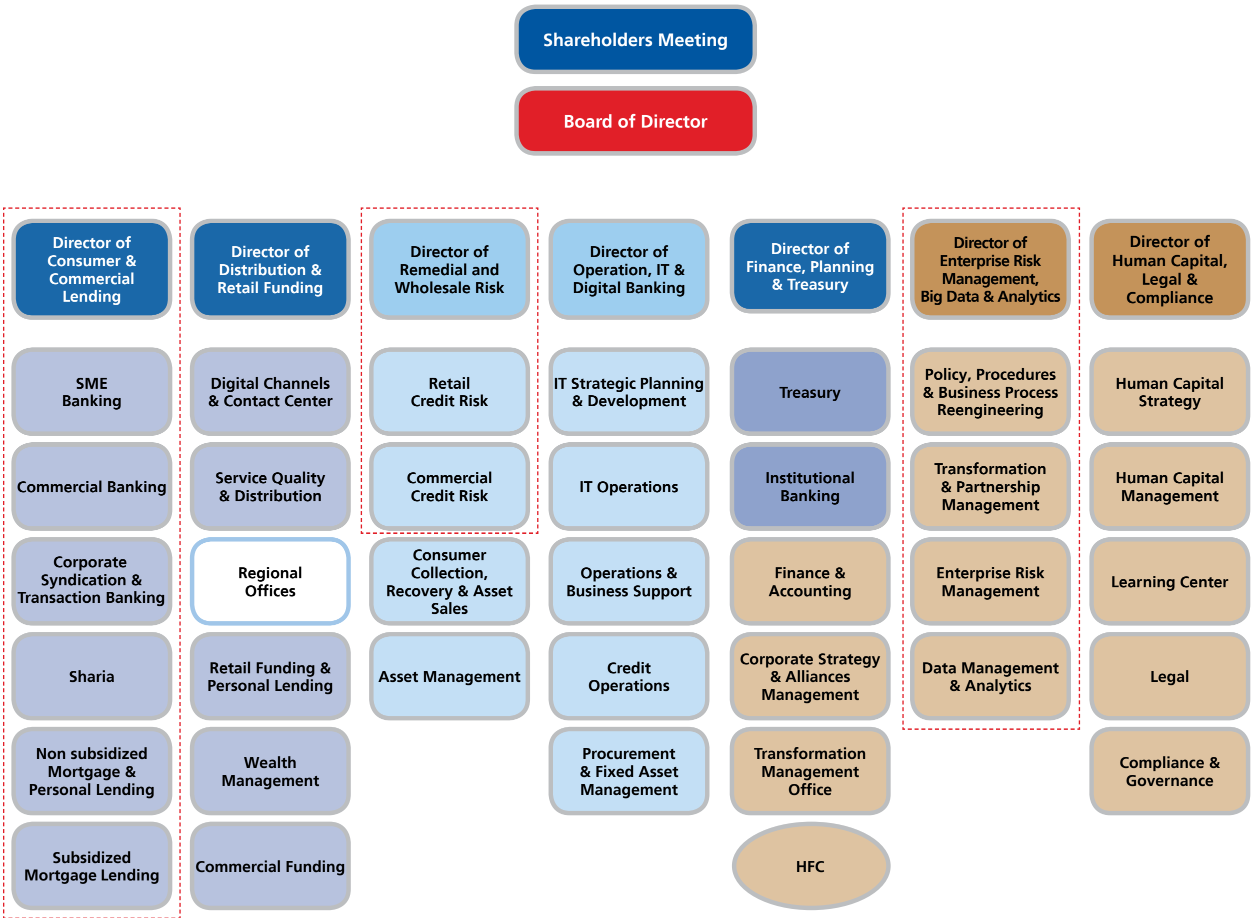
SAs part of credit risk management, the Company regularly reviews and updates Risk Management Policy Guidelines and Credit and Financing Policy Guidelines for the Company credit and financing as part of the risk assessment process. Credit risk exposures are monitored from the credit granting process to the credit maturity. Monitoring and controlling credit risk including evaluating credit risk exposure to credit risk limits (Risk Appetite & Risk Tolerance), the Company is conducting a pilot project on the implementation of the Internal Credit Rating (ICR) for commercial credit in analyzing in terms of credit risk in 3 (three) branch offices. In addition, a Monitoring Department in the Commercial Banking Division has been formed which specifically monitors the credit exposures of large debtors (50 core debtors) and has implemented Intelligence Credit Monitoring (iCremo), an application for commercial credit that functions to conduct commercial credit monitoring processes covering three pillars (Management, Business Prospects and Collateral). Whereas for consumer credit, the process of controlling credit risk is conducted through the Consumer iLoan system which is equipped with a Credit Scoring Model (CSM). The management of Kol-2 and NPL consumer credit debtors is conducted by the Consumer Collection and Remedial Work Unit while for commercial credit is conducted by the Commercial Asset Management Work Unit.

As a follow up to the application of Pillar 1 Basel II, the Bank has implemented credit risk measurement using the Standardized Approach in accordance with FSA Circular Letter No.42/SEOJK.03/2016 dated September 28, 2016 concerning Guidelines for Calculation of Risk Weighted Assets (ATMR) for Credit Risk using the Standard Approach.

In order to manage credit risk, the Company has implemented the Four Eyes Principle by separating credit risk functions from business units.

In commercial credit decisions consist of Commercial Risk and Business Units as the Risk Taking Unit and first line and consumer credit decisions consisting of the Retail Risk Division (Regional Loan Processing Center) and Branch Offices and Regional Offices.

This can also be illustrated by the Company's organization structure that has separated the credit risk and risk taking units and enterprise risk management functions:



Market Risk Management

As part of market risk management, the Company identifies, measures, monitors and controls market risk, which is conducted by the business unit and/or Enterprise Risk Management Division. One of the market risk identification is done for each product or activity that is included in the category of new products or activities. Related to market risk management, the Company has an Assets and Liabilities Committee (ALCO). In this regard, ALCO periodically discusses, among others, interest rates and market risk management at the Company, especially those originating from the banking book position.

In order to measure the interest rate risk in trading book and banking book positions, the Company conducted a sensitivity analysis aimed at measuring the impact of changes in market interest rates on the Company's profit (loss) and equity. Whereas in order to measure exchange rate risk, the Company conducted a sensitivity analysis aimed at measuring the impact of exchange rate changes on the Company's profit (loss). Specifically for the banking book position, the Bank measured interest rate risk in the banking book using the repricing gap method as stipulated in the Director's Circular Letter No.26/SE/DIR/RMD/2019 dated 19 June 2019 regarding Interest Rate Risk Management in the Banking Book. In accordance with Financial Services Authority Circular Letter Number 12/SEOJK.03/2018 dated August 21, 2018 concerning the Implementation of Risk Management and Risk Measurement of the Standard Approach to Interest Rate Risk in the Banking Book for Commercial Banks, the Bank submitted adjustments to policies related to IRRBB and IRRBB calculation reports in accordance with applicable regulations. In order to measure the interest rate risk in the banking book, the Bank developed an IRRBB policy and has developed an IRRBB measurement system/application. In order to complement market risk measurement with standard methods and sensitivity analysis, the Bank conducts stress testing to assess the Company's resilience in the face of extreme changes in interest rates and exchange rates, with the system referring to the regulatory provisions and the Company's internal system. For the Company's internal system, each year the Enterprise Risk Management Division coordinates with the Working Group Stress Test (related Division) to formulate the system and assumptions that will be used in the implementation of Market Risk Stress Tests for the next 1 (one) year.

Monitoring and controlling market risk includes evaluating market risk exposures to the Company's internal limits (Risk Appetite & Risk Tolerance) that have been set and reviewed periodically to be in line with the conditions of the Company. In addition, the Company has determined in order to control or limit exchange rate risk exposures, the Company has set limits that include treasury transaction limits, dealer limits, budget loss limits, stop loss/stop gain limits, and appropriate Net Open Position (NOP) limits with a maximum limit specified in PBI 17/5/PBI/2015 dated May 29, 2015 Bank Indonesia Regulation No.17/5/PBI/2015 dated May 29, 2015 concerning the Fourth Amendment to PBI Number 5/13/PBI/2003 concerning Foreign Exchange Position Net Commercial Bank.

As a follow up to the application of Pillar 2 Basel II, the Company has implemented market risk measurements using the Standardized Model in accordance with FSA Circular Letter No. 38/SEOJK.03/2016 dated September 15, 2016 concerning Guidelines for Using the Standard Method in Calculating the Minimum Capital Requirement for Commercial Banks by Calculating Market Risk. Portfolios taken into account in determining market risk capital CAR consist of a trading book portfolio for interest rate risk and a trading book and banking book portfolio for exchange rate risk.

Liquidity Risk Management

As a guideline in managing liquidity risk, the Company has a Liquidity Risk Management Policy Manual, which is part of the Company's Risk Management Policy Guidelines (PKMR). The Liquidity Risk Management Policy Manual regulates, among others, active supervision of the Board of Commissioners and Directors in the application of liquidity risk management, liquidity risk management processes, and policies, procedures and determination of liquidity risk limits. The Company has an Assets and Liabilities Committee (ALCO) that functions to manage liquidity and periodically discuss the management of liquidity risk at the Bank.

Referring to the Liquidity Risk Management Policy Guidelines, the Company identifies, measures, monitors and controls liquidity risk. Liquidity risk identification is basically intended to find out the amount and trend of liquidity needs as well as funding sources available to meet the needs.

The liquidity risk measurement in the Company is conducted by the Treasury Division (TRSD) and the Enterprise Risk Management Division (ERMD). Liquidity risk measurement uses 4 (four) methods, namely stockbased, maturity profile analysis, cash flow projections and stress testing. The stockbased method is used to measure liquidity risk at the Company using liquidity ratios, the maturity profile analysis method is used to measure liquidity gaps and cash flow projections are used to measure the amount and trend of liquidity requirements. The Company conducts stress testing using Bank Specific Crisis (BSC) scenarios and General Market Crisis (GMC) stress tests, which aim to measure the adequacy of available liquid assets and the Company's ability to meet liquidity needs in crisis conditions. The Enterprise Risk Management Division coordinates with the Stress Test Working Group (related

Division) to formulate the impact of risks on scenarios and assumptions that will be used in the implementation of Stress Tests for Liquidity Risk for the next 1 (one) year.

In order to maintain the availability and adequacy of liquid assets and control or limit exposures to avoid being affected by liquidity risk, the Company regularly monitors liquidity risk both daily, weekly, monthly and quarterly. ERMD liquidity risk monitoring submitted to the Board of Directors and strategy evaluation submitted to the relevant Division.

Monitoring and controlling liquidity risk includes evaluating liquidity risk exposures to the Company's internal limits (Risk Appetite & Risk Tolerance) and predetermined Recovery Plan levels. The limit is reviewed periodically to be in line with the conditions of the Company. In addition, the Company monitors the Early Warning Indicator (EWI) and is reported regularly to the Directors and related Work Units.

In accordance with FSA Regulation No. 14/POJK.03/2017 dated April 04, 2017 concerning the Action Plan (Recovery Plan) for Systemic Banks, the Company has been monitoring the liquidity system, one of which is seen from the LCR and NSFR ratios according to FSA Regulation No. 42/POJK.03/2015 dated December 23, 2015 concerning the Obligation to Meet the Liquidity Coverage Ratio (LCR) for Commercial Banks and FSA Regulation No. 50/POJK.03/2017 dated July 13, 2017 concerning the Obligation to Fulfill Net Stable Funding Ratio.

Operational Risk Management

In order to implement the risk management process, especially operational risk, the Company has an BTN Loss Event Database (BTN-LED) application that functions as an operational risk data collection for operational risk events at the branch office using the risk event criteria based on Basel II (7 risk event types). The BTN LED application is connected to the Branch Office so that in its reporting, the Branch Office can send data loss events online through web-based media every month. The output of this BTN LED is data accumulation of Company losses in one month in the form of actual loss, near miss and potential loss from each risk event, then the data will be converted into Top 10 risk. The results of the collected data will be processed and analyzed so that it can be known the operational risk exposure map of each Branch and Regional Office. This exposure map serves as a reference in preventing similar incidents by taking steps to improve existing business processes or by adding other forms of risk mitigation.

The Company also has a Risk and Control Self-Assessment (RCSA System) application that is used to conduct the process of identifying and measuring operational risks inherent in all work units of the Company. The approach used in the RCSA application is ISO 31000: 2009. Risk can be defined as the impact of uncertainty on achieving targets. Therefore, in filling out RCSA all work units are required to be able to identify and measure operational risks inherent in daily activities and have an impact on achieving the goals of the work unit.

To ensure the sustainability of the Company's operations in conducting business after being affected by operational risks originating from external factors such as natural disasters, social conflicts and IT system failures, the Company has implemented a Business Continuity Management (BCM) policy. The BCM policy contains systematic steps and guides employees in dealing with emergencies starting from pre-disaster preparedness, response to disasters, operational continuity plans, up to returning to normal conditions. In supporting the successful implementation of BCM, the Company conducts an internalization process for all employees by compiling video dissemination materials and conducting periodic trials or simulations. Reports on the results of trials or simulations will serve as benchmarks of success and serve as material for sustainable improvement.

Legal Risk Management

Legal Risk identification is conducted on the causes of risk, including legal claims and weaknesses in the legal aspects inherent in functional credit activities (provision of funds), treasury and investment, operations and services, information technology systems and MIS, and human capital management.

Legal Risk Measurement is conducted by the Enterprise Risk Management Division (ERMD), Legal Division (LGD) and Credit Operation Division (COD). From the measurements made by LGD, it was obtained an evaluation report on the analysis of individual legal cases for contingent liabilities arising from lawsuits that occurred, while from COD obtained the quality of credit document engagement (LAT).

Measurements are conducted based on reports on the results of analysis and evaluation of individual legal cases for contingent liabilities arising from lawsuits that occur as well as quality reports on loan document agreements. Indicators/parameters used in measuring Legal Risk include but are not limited to potential losses due to lawsuits, weaknesses in agreements due to non-fulfillment of conditions for legal agreements and changes in laws and regulations that cause the Company's products to be inconsistent with existing provisions.

Legal Risk Monitoring is conducted by ERMD by evaluating the effectiveness of the implementation of policies, procedures and compliance with specific policies, regulations and Bank limits. Monitoring is conducted regularly for all Legal Risk positions. In conducting legal risk control, LGD provides input and recommendations to each division and work unit and conducts periodic reviews of agreements and cooperation contracts with counterparties. In addition, the Company has a Legal Application System (LApS) that is designed in the form of a website and is used as a register and monitoring of cases that occur or are handled by the Company, both Criminal and Non-Criminal, so that every case that occurs both at the Branch and at the Head Office, the progress can be monitored.

The Company has placed employees in Regional Offices as Branch Legal Representative (BLR) with duties and responsibilities including:

1. Providing legal assistance to litigation issues submitted by each work unit in the context of implementing Bank operations and providing legal assistance in every legal case.
2. Representing the Bank in conducting court proceedings in the Court, Police, Attorney General's Office, other legal institutions, and outside the court in its working area.
3. Providing legal opinion on legal issues raised by Regional Offices, Branch Offices, and Sharia Branch Offices related to operations in their working area.
4. Providing legal consultation on legal issues raised by Sharia Branch Offices and Branch Offices.
5. Performing the legal watch function in accordance with Bank Indonesia regulations.
6. Managing and controlling legal risks that are within the scope of work.

Strategic Risk Management

Strategic Risk identification is based on Strategic Risk factors in certain functional activities, such as credit, treasury and investment activities as well as operations and services through a business plan prepared by the Corporate Strategy & Alliance Management Division (CSAD) as a translation of the General Policy of the Directors (KUD).

Strategic Risk Measurement was based on the bank's performance achievement by comparing actual results with the predetermined target. Strategic Risk Monitoring was carried out by the Corporate Strategy & Planning Division (CSPD) periodically by monitoring the achievement of Key Performance Indicator (KPI) and Enterprise Risk Management Division (ERMD) that monitored risk exposure compared to the Bank's risk appetite and monitoring of Risk Appetite and Strategic Risk Tolerance on a monthly basis. Furthermore, the Board of Commissioners, Board of Directors and Division reviewed the basic strategy with a focus on business transformation, infrastructure and human resources and conducted a review of risk appetite and risk tolerance periodically and at least once a year.

Furthermore, the Enterprise Risk Management Division monitors Strategic Risk by comparing targeted results with expected results, evaluating the performance of work units and ensuring the achievement of targets (target objectives).

In controlling Strategic Risk, the Corporate Strategy & Alliance Management Division (CSAD) functions to analyze gaps between system reports and business plan targets and convey the steps that must be taken to the Board of Directors periodically.

Compliance Risk Management

The Company has an internal application, namely the Compliance Regulatory & Monitoring System (CRMS) to facilitate all the Company employees in accessing all of the Company's internal requirements. In addition, to minimize the potential for compliance risk, the Company has a Compliance Work Unit called Compliance and Governance Division (CMGD) which monitors compliance risk by making a list of the Company's obligations to external parties and periodically reviewing internal regulations so that they remain relevant to external provisions in force.

The Company has placed a Regional Compliance Supervisory Officer (RCSO) at the Regioal Office Branch Compliance Supervisory Officer (BCSO) at the Branch Office to evaluate the level of compliance with the Company's transaction flows and nontransaction operations whether they are in accordance with applicable regulations, provisions or SOPs. CMGD monitors and reports compliance risks that occur to the Company's Board of Directors both at any time and periodically when Compliance Risk occurs.

Compliance Risk measurement is conducted on potential losses caused by non-compliance and the Company's inability to meet the applicable external provisions. Indicators/parameters used in measuring Compliance Risk include types, significance, and frequency of violations of applicable regulations or track records of bank compliance, behavior underlying violations, and violations of generally accepted standards.

In controlling Compliance Risk, ERMD and CMGD have the duty to evaluate the effectiveness of the implementation of Compliance Risk management by regularly monitoring all types of activities that have the potential to cause Compliance Risk.

Ruputation Risk Management

All employees, including business unit management and the Company supporting activities, are part of the Risk Management implementation structure for Reputation Risk, bearing in mind that reputation is the result of all of the Company's business activities. The role of the Business

Unit Management is to identify the Reputation Risk that occurs in the business or activity of the unit and as a front liner in developing and preventing Reputation Risk, specifically related to customer relationships. Reputation Risk identification is conducted on risk factors inherent in certain functional activities such as credit (provision of funds), fund raising, treasury and investment, operations and services, information technology systems and MIS, and HC.

In the process of identifying reputation risk, the Company has a SPN (Customer Complaints System) application and monitors all mass media (print and electronic, both local and national). The Company records every report about the Company both directly (straightnews) and indirectly (mention). The SPN application is integrated with Branch Offices and Contact Centers. Service Quality & Network Division (SQND) as the manager of SPN will follow up on customer complaints and resolve in accordance with the SLA that has been set.

The Reputation Risk Measurement is conducted based on the results of an assessment of the factors affecting the Company's reputation, including customer complaints and reporting about the Company. The Company 's Reputation Risk is managed by the Corporate Secretary Division (CSD) work unit that manages news about the Company which is published in the print and electronic mass media and the Operational & Business Support Division (OBSD) which manages customer complaints.

In order to monitor Reputation Risk and ensure customer satisfaction is maintained, the Company 's SPN (Customer Complaints System) functions to support the management of services and online customer complaint handling between parties related to problems in Branch Offices and Headquarters. In addition, Reputation Risk monitoring is also conducted by the Enterprise Risk Management Division (ERMD) by reminding and providing recommendations for improvement to the Reputation Risk Management Division of CSD and OBSD based on an assessment of reputation risk profile parameters.

In controlling Reputation Risk, the Corporate Secretary Division is responsible for implementing policies relating to handling and resolving negative news or avoiding counter-productive information. To control Reputation Risk related to customer complaints, OBSD follows up on customer complaints and resolves them in accordance with established SLAs.

Risk Management Refinement and Enhancement

As a Company that focuses primarily on lending and housing finance, the Company's asset portfolio is dominated by Housing Loans (KPR) plus the Company has dominantly assisted the government in Sejuta Rumah (Million Houses) Program, in the context of refining and improving the Risk Management, one of the ways that conducted is to improve the culture of risk management, the risk management work unit initiated a strategy to increase the risk awareness of all employees of the Company, among others by using the methods:

1. **Risk Management in Training**
   Training related to overview and application of risk management which includes mandatory material on risk culture, including GBS and ODP training by implementing Gamification, using Fun Risk Quiz Kahoot and Board Game Risk. The Enterprise Risk Management Division is also actively supporting the Learning Center for the Risk Management Competency Test (UKMR) of the Company employees in stages. ESDM employees who have UKM competence provide training to employees who will undergo the UKMR Certification Test facilitated by LSPP.

   For Millennials, ERMD also actively participates in the Kulgram (Telegram Lecture) to explain risk management, especially the Company's Soundness.

2. **Risk Awareness Blasting**
   Aiming to give messages to all employees to be aware of risks (email blasts and SMS blasts), in collaboration with CMPD, HMCD and IAD. During 2020 ERMD has spread Risk Awareness.

Risk Management Due to the Covid-19 Pandemic

The Covid-19 pandemic that had been occurring since early 2020 in Indonesia had greatly impacted the business sector and operational activities of the Company and could endanger the health of employees if infected with the virus. Therefore, there needed to be an anticipation in changing lifestyle and working patterns in every layer of society, especially the Company. The Company through the BCM (Business Continuity Management) Team had made a policy during this pandemic so that this new habit was carried out consistently and even became a work culture. In addition, policies were made as risk management, Covid impact management, and efforts to prevent the spread of the virus. Various actions taken by the Company including: