BNP PARIBAS

Risk Management Procedure

PT. BNP Paribas Sekuritas Indonesia

Issuer (owner entity) *	PT. BNP Paribas Sekuritas Indonesia			
Involved Process(es)*	PR00018 - Governance	PR00018 - Governance	PR00018 - Governance	Others
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Control plan ref, if any	XXX
Evidence(s)	

* mandatory field

All roles, responsibilities and tasks mentioned in this document are undertaken by BNP Paribas Employees without distinction of gender.

EXECUTIVE SUMMARY

This procedure is produced in accordance with Otoritas Jasa Keuangan/OJK (formerly Bapepam) regulation no. V.D.3 in particular, concerning Internal Control of Securities Companies, OJK rule no. 57/POJK.04/2017 concerning Good Corporate Governance for Securities Company and Corporate Finance Manual.

This risk procedure will provide an overview of the main operational control and the reporting processes applicable at BNPPSI and is intended to be read in conjunction with the abovementioned references

WHAT'S NEW?

-Procedure template is as per standard template under Group Policy.

Additional Note

- Section related to Compliance with licensing requirements is removed from this document and included in Compliance Manual PT. BNP Paribas Sekuritas Indonesia
- Section related to Mandate letters and Mandate Committee Governance are removed in this document and included in CCG & CMG APAC Governance
- Section related to Conflict of interest is removed from this document as it has been addressed in Global Policy for Conflict of Interests involving Employees CPL0099 and CCG & CMG APAC Governance.
- Section related to Legal and compliance is removed from this document and included in CCG & CMG APAC Governance

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1. General Provisions

1.1. Objectives and Scope

Purpose of this internal procedure is to prescribe the matters necessary for overall management of risks, which may arise in overall business activity, and to manage the risk control system, set the parameter in PT BNP Paribas Sekuritas Indonesia (hereinafter shall be referred to as "BNPPSI").

1.2. Definitions of Terms

1) The term "Risk" means the possibility of sustaining a loss as a result of unexpected change in business environment or default of customers or mismanagement of internal control system that may negatively impact the revenue and capital of BNPPSI.

2) The term "Risk Management" means decision-making to hedge, bear or mitigate risk by identifying the cause of risk occurrence, measuring its size and evaluating appropriateness of the size and implementing it.

1.3. Principles of Risk Management

1) The risk management principles shall be consistent with the vision, mission and strategic plan and focused more on the risks relevant to the business lines.

2) The risk management principles shall ensure that risk exposure shall be consistent with internal bylaws, laws and regulations, and other applicable legal provisions.

3) Risks shall be managed by human resources possessing knowledge, experience, and expertise in risk management, as appropriate to the complexity and business capabilities.

1.4. Organization

The organizational structures shall be composed of as follows:

1) Risk Management Function,

2) Board of Directors;

3) Board of Commissioners;

The Powers and Responsibilities by Organizational Structure

Board of Commissioners and Board of Directors are responsible to ensure that the application of Risk Management has been sufficiently in line with the Company's characteristics, complexity and risk profile.

Board of Commissioners and Board of Directors must understand well about the types and level of risks that are embedded to the Company's business activity.

(1) Board of Commissioners

1) To approve risk management policy including strategy and Risk Management framework established in accordance with level of risk appetite and risk tolerance.
2) To evaluate risk management policy at least once a year or at a higher frequency in the event of any change in factors significantly affecting the business activities.
3) Evaluate the accountability provided by the Board of Directors for implementation of the above-mentioned risk management policy on regular basis. Evaluation is done to ensure that Board of Directors manages activity and risks of the Company effectively.
4) Ensure adequate quantity and quality of human resources to support the implementation of effective risk management

(2) Board of Directors

1) To prepare the comprehensive, written risk management policy and strategy,
2) To prepare, to establish and to update procedures and tools of identifying, measuring, monitoring and managing Risk.
3) To evaluate and or to update policy, strategy and Risk Management framework at least once a year or at higher frequency in the event of any change in factors that can significantly affect the business activities.
4) To be responsible for implementation of the risk management policy and overall risk exposures taken on by the Company, including evaluation and provision of guidance for the risk management strategy.
5) To develop a risk management culture at all levels of the organization, with scope including adequate communications to all levels of the organization on the importance of effective internal control;
6) To ensure the development of the competency of human resources concerned with application of risk management, including but not limited to ways of conducting ongoing education and training programs, especially those concerned with risk management processes and systems;
7) To ensure that the risk management function is applied on an independent basis, reflected among others by segregation of functions between the Risk Management Unit,

which conducts the identification, measurement, monitoring, and control of risks, and units that conduct and settle transactions;

8) To report if there is condition that potentially issues significant loss to the Company;

9) To ensure the implementation of Internal Audit recommendation.

(3) Risk Management Unit

1) Monitoring of implementation of the risk management strategy approved by the Board of Directors.

2) Monitoring of positions/risk exposures on an overall basis, by type of risk, and by business line.

3) Evaluation of the accuracy and validity of data used by the relevant units to measure risk, for a Bank using model for internal purposes.

4) Preparation and submission of the risk profile report to the President Director on a regular basis.

2. Internal Control

The scope of the internal control system is in accordance with the Group Internal Control Charter No. DG0020, and the application of risk management shall cover at least the followings:

(1) Appropriateness of the internal control system to the type and level of inherent risk in the business operations.

(2) Establishment of powers and responsibilities for monitoring of compliance with internal bylaws and limits.

(3) Establishment of reporting lines and clear segregation of functions between operating units and units performing control functions.

(4) Organizational structure that clearly depicts the business activities.

(5) Financial and operational reporting on an accurate and timely basis.

(6) Adequacy of procedures to ensure the compliance with prevailing laws and regulations.

(7) Effective, independent, and objective review of the procedures for assessment of operations.

(8) Adequate testing and review of management information system.

(9) Complete and adequate documentation of the scope, operating procedures, audit findings, and response of management on the basis of audit results.

(10) Regular and ongoing verification and review of the handling of material weaknesses and actions of the management in correcting any irregularities that may occur.

3. Comprehensive Risk Management Strategy and Framework

3.1. RISK PROFILES

As a securities company that focuses its business activity as underwriter, the relevant risk to our business activity are as follows:

3.1.1. Liquidity Risk

Company applies liquidity management by maintaining the adequacy of current assets and the availability of Net Adjusted Working Capital (NAWC) as per regulatory requirement.

The NAWC reports reflects the working capital position of the company, to be submitted to OJK on annual basis or if any request.

The definition falls under this requirement is the comparison of working capital against the Total Liabilities net after adjustment of market risk, counter party risk and operational risk. The working capital refers to the net amount of Liquid Assets after the deduction of Total Liabilities and Ranking Liabilities which shall not fall below 6.25% of the Total Liabilities subject to minimum of IDR 25 Billion.

The entity monitors regular cash inflows and outflows and reports to the Board of Directors.

Financial reports is produced to provide useful information to either internal or external parties. Financial reporting is designed to enable users of financial statements to assess the financial operations and performance of the Company.

3.1.2. Operational Risk

Operational Risk is defined as the risk resulting from the inadequacy or failure of internal processes, or from external events, that resulted, could result or could have resulted in a loss, a gain or an opportunity cost

1) General

Policies and Procedures

(1) The operational risk management policy shall be appropriate to its mission, business strategy, capital adequacy, and adequacy of human resources. BNP Paribas Group 'Operational Risk Management General Policy - RISK0324EN' presents the general principles relating to the management of Operational Risk and provides the main concepts used throughout the operational risk management framework

(2) Internal bylaws for operational risk management shall be evaluated and updated in accordance with the operational risk exposure, risk profile, and risk culture of the Company.

(3) Business Continuity Management (BCM) shall be established to ensure the operational continuity on the business processes and services to customer.

2) Accounting

The use of accounting methods shall be complied with prevailing accounting standards with attention to the following:

(1) to conduct a regular review to ensure the suitability of the method used to assess transactions;

(2) to conduct a regular review of the suitability of the accounting method used in regard to applicable financial accounting standards;

(3) to conduct regular reconciliation of transaction data;

(4) to identify and analyze any anomaly in transactions;

(5) to maintain all documents and files pertaining to accounts, sub-ledgers, general ledgers, administration of asset classification in order to facilitate the audit trail.

3) Customer Profile and Know Your Customer (KYC) - CPL0252EN - KYC - Global Policy v4

(1) Know Your Customer Principles (KYC) shall be applied on a consistent basis appropriate to its exposure to operational risk.

(2) KYC shall be supported by an effective internal control system, and particularly by the preventive measures against internal fraud.

(3) The application of KYC shall be complied with all requirements and guidelines stipulated in the applicable legal provisions concerning Know Your Customer Principles (KYC).

4) Business Continuity Plan (BCP)

It is the commitment of BNP Paribas Sekuritas Indonesia to have the capability to recover its operations on a timely basis after a disaster or an emergency event. The Business Continuity Plan (BC Plan) of the BNP Paribas Sekuritas Indonesia is established within such objective.

The Business Continuity Plan is built in compliance with OJK (was Bapepam) rule no. V.D.3.

The information in the BC Plan represents BNP Paribas Sekuritas Indonesia commitment to plan, response, and business resumption in terms of staffing and financial resources, based on following priorities:

- Insure the safety and well-being of its employees;
- Meet its business obligations by restoring critical functions;
- Managing its risk;
- Managing the incident;
- Restore to normal operation as quickly as possible.

BNP Paribas Sekuritas Indonesia needs to fulfill the following BCP requirements:

(1) Business Impact Analysis (BIA) annual review;
(2) Participate in call tree tests;
(3) Participate in building evacuation tests;
(4) Small scale of DR test;
(5) Participate in regular BIC & SSM Steering Committee.

3.1.2.1. Management Information System

1) The Company maintains an adequate information system and technology appropriate to the nature and volume of activities.
2) The management information system shall be capable of generating complete and accurate reports that are used in risk monitoring for the purpose of timely detection and correction of irregularities in order to minimize potential for loss events.
3) The management information system must be capable of providing complete, accurate reports on operational risk exposures on a timely basis to support the decision-making processes of the Board of Directors.

3.1.2.2. Control of the Management Information System

1) Control of the information system shall ensure:

    (1) The regular assessment of information system security, accompanied by corrective measures if necessary;
    (2) The availability of a back up procedure to ensure the continuity of Company operations and prevent any significant disruption;
    (3) The availability of a back up procedure and contingency plan tested on a regular basis;
    (4) The regular provision of information to the Board of Directors on the issues above;

2) Supporting systems shall be maintained for covering at least the following:

    (1) Early identification of errors;
    (2) Confidentiality, integrity, and security of transactions.

3) Follow Up on Internal and External Audit Findings:

    (1) All employees shall follow up internal and external audit findings and thereafter proceed with a series of corrective measures;

(2) The Internal Audit Unit (Compliance & Internal Audit) must inform the Board of Directors of any audit findings not followed up or only partially corrected. If these findings are significant, the Board of Directors shall set a deadline for corrective measures and assign the Internal Audit Unit to monitor the effectiveness of the corrective measures taken.

4) The followings shall be regularly reviewed for minimizing the possibility of human error leading to operational risk:

    (1) Procedures and other operational practices;
    (2) Documentation and data processing system;
    (3) Contingency plan.

3.1.3. Regulatory/ Compliance Risk

Compliance Risk is the risk arising from failure of the Company to comply with or implement laws, regulations, and other applicable legal provisions. In practice, compliance risk is inherent in Bank risks pertaining to applicable laws, regulations and other legal provisions.

3.1.3.1. Active Oversight by the Board of Commissioners (BOC) and Board of Directors (BOD)

1) The BOC and BOD are responsible to ensure that the implementation of Compliance risk management has been integrated with the other risk management that has the impact to Company's compliance risk.
2) The BOC and BOD must ensure that all compliance issues arise can be solved effectively by related department, and Compliance department has a responsibility to monitor the corrective action.
3) Compliance department must be independent and reports the implementation of compliance duties to OJK as required by OJK regulation on Implementation of Compliance Function for Securities Company and other relevant provision.

3.1.4. Legal Risk

Legal risk is the risk arising from legal weaknesses, among others resulting from legal actions, absence of supporting provisions in laws and regulations, or weakness of legally binding provisions, such as failure to comply with legal requirements for contracts and loopholes in binding of collateral.

The Company performs a regular review of contracts and agreements between the Company and other parties, including but not limited to a review of the effectiveness of enforceability processes, in order to check the validity of rights in such contracts and agreements.

The Company will control its legal risk by ensuring:

1) Compliance of operations, organizations and internal control with applicable legal provisions, code of ethics and business strategy
2) Compliance with internal procedures
3) Effective application of communications pertaining to the impact of legal risk on all employees at every level of the organization.

3.1.5. Reputation Risk

Reputation risk in risk brought about among others by negative publicity concerning the operations or negative perceptions of the Company.

Control of Reputation Risk

1) The Company must improve compliance with applicable legal provisions as part of the control of reputation risk.
2) The Company must take immediate action to resolve any customer complaints and legal actions that may increase its exposure to reputation risk, including but not limited to continuous communication with the customer of counterparty and holding bilateral negotiations with the customer to avoid litigation and legal claims.

3.1.6. Strategic Risk

The Company maintains the current activity scope, and continue to develop the advisory services to Indonesian corporates, under Underwriter License.

The Company opens for opportunities for listed companies, companies that are going to be listed, as well as companies that is not yet listed in the stock exchange.

3.1.7. Intra-Group Risk

The transactions are comply with the "arm's length" principle, carry out professionally and do not harm either party.

Intra-Grup transactions is moderate, booking and monitoring is very well performed.

3.2. PRUDENTIAL PRINCIPLE

When the Company does the activity as Underwriter, we ensure that prudential principle is adhered to.

Each of transaction that we are going to execute will go through a committee meeting which will assess proposed transaction rationale/terms as well as potential risk arising out of the client and transaction.

The committee meeting is attended by various function like business, legal, compliance, and risk.

3.3. SUFFICIENT CAPITAL RESOURCE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and expand its business in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's strategy to manage the capital by improving the business base in financial advisory and underwriting activities, as well as targeting quality human resources hires with relevant capabilities to achieve the company's strategy. The capital is expected to grow organically with the generation of revenues by focusing the efforts on strong pipeline of deals and the exemption of dividends distribution to shareholders

3.4. COMPLIANCE WITH LAWS AND REGULATIONS

All staff must conduct themselves according to the highest ethical standards and in compliance with all applicable laws and regulations, including relevant registration requirements.

Each staff has a personal responsibility to know the rules that apply to his or her particular activities. It is the responsibility of each staff to avoid violations of any relevant rule or regulation and it is a personal obligation to know when to seek guidance about the requirements of a rule or regulation. Ignorance of the rules is not an acceptable excuse.

If there are ever any doubts as to the meaning, interpretation or application of any particular rule or regulation, Compliance and/or Legal must be consulted.

3.5. EARLY WARNING SYSTEM

In terms of compliance risk, early warning system for Anti Money Laundering and Combatting Terrorist Financing is automated.

As to report submission, we do this on manual basis whereby we use a spreadsheet that indicate types of report and the corresponding deadlines for regulatory submission. Early alert can also be indicated by the trend of the compliance assessment result which is conducted on regular basis.

In terms of legal and reputational risk, we do this on manual basis whereby we submit report on quarterly basis to management (negative news report) and obtain confirmation from stakeholders.

3.6. RISK DIVERSIFICATION AND IDENTIFICATION

The Company is focusing on Financial Advisory for Equity Capital Market (ECM) and Merger & Acquisition (M&A).

The risk profiles as per mentioned in the above point 3.1.1 to 3.1.7 above.

3.7. RISK CONTROL, MONITORING AND MEASUREMENT

This will be performed through a comprehensive Risk Management and Internal Control framework covering compliance mechanism and early warning system as stated in the previous sections above.

3.8. RISK APPETITE AND TOLERANCE TOWARDS CAPITAL RESOURES

The Company does not have any plan to conduct activity that presumably would affect its capital resources.

In the event a business activity would affects the capital resources, it should be performed in accordance with the Article of Association of the Company and Good Corporate Governance framework.

3.9. RISK MITIGATION

Risk mitigation is carried out in various mechanism that is performed by Compliance and Risk Management function.

3.10. RISK CONSCIOUS AND TRANSPARENCY CULTURE

We have mechanism i.e. online training (e-learning) whereby employees are provided with list of online training that must be completed, including face-to-face training, to ensure that employees are aware of risk potential / exposure that the company may encounter from time to time.

In addition, Compliance department sends reminder email to all employees on regular basis so that they are aware of company's policy and procedure from time to time. These are to be performed on annual basis.

4. TRANSACTION WITH AFFILIATED PARTY

Intra-group transactions should comply with the "arm's length" principle. The transactions should carry out professionally and do not harm either party and should be monitored and documented properly.

In the normal course of its operations, the Company undertakes certain advisory services transactions with its affiliates. The Company also receives and remits cash for the completion of the transactions.

Related parties, from time to time, incur and settle expenses on behalf of the Company which are recharged accordingly. The nature of transactions and balances of accounts with related parties, whether or not transacted at normal terms and conditions similar to those with non-related parties, are disclosed in the financial statements.