THE ANNUAL REPORT ON
THE IMPLEMENTATION OF
INTEGRATED GOVERNANCE
FOR THE FINANCIAL
CONGLOMERATE OF
SUMITOMO MITSUI BANKING
CORPORATION GROUP
2015

PT Bank Sumitomo Mitsui Indonesia
PT Bank Tabungan Pensiunan Nasional, Tbk
PT Bank Tabungan Pensiunan Nasional Syariah
THE ANNUAL REPORT ON THE IMPLEMENTATION OF INTEGRATED GOVERNANCE FOR THE SMBC GROUP
POSITION OF 31 DECEMBER 2015

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The Report of Implementation of Good Corporate Governance PT Bank Sumitomo Mitsui
Indonesia as the Lead Entity of Financial Conglomerate of SMBC group as of 31
December 2015
LEGAL BASIS

Based on:


Sumitomo Mitsui Banking Corporation (SMBC) has issued a letter dated 31 March 2015 stating that the members of Financial Conglomerate of SMBC Group are as follows:

1. PT Bank Sumitomo Mitsui Indonesia (“SMBCI”) as Lead Entity.
2. PT Bank Tabungan Pensiunan Nasional Tbk (“BTPN”) as Member Entity.
3. PT Bank Tabungan Pensiunan Nasional Syariah (“BTPN Syariah” or “BTPNS”) as Member Entity.

The said letter has been submitted to the Indonesian Financial Service Authority through letter reference SMBCI/OJK/COD/2015/061 dated 31 March 2015.

In order to fulfill the said regulation, we here submit the Report on the Implementation of Integrated Governance for the Financial Conglomerate of SMBC Group as of 31 December 2015.

I. REPORT OF SELF ASSESSMENT OF IMPLEMENTATION OF INTEGRATED GOVERNANCE

The self assessment of Integrated Governance consists of seven (7) factors as follows:

A. Implementation of duties and responsibilities of Board of Directors of Lead Entity (SMBCI) of Financial Conglomerate of SMBC Group.

B. Implementation of duties and responsibilities of Board of Commissioners of Lead Entity (SMBCI) of Financial Conglomerate of SMBC Group.

C. Duties and Responsibilities of Integrated Governance Committee.

D. Duties and Responsibilities of Integrated Compliance Function.

E. Duties and Responsibilities of the Integrated Internal Audit Unit.

F. Integrated Risk Management Implementation.


Explanation for each item can be found in the following sections.
A. Implementation of duties and responsibilities of Board of Directors of Lead Entity (SMBCI) of Financial Conglomerate of SMBC Group

A.1. Integrated Governance Structure

1) The Board of Directors of the Lead Entity (SMBCI) has fulfilled the requirements of integrity, competency, and financial reputation and obtained approval from the Indonesian Financial Service Authority.

- Requirements regarding integrity, competency and financial reputation are stipulated clearly and completely in The Guidance and Charter of Board of Directors of SMBCI to be complied and implemented by SMBCI.

- Documentation regarding approval from the Indonesian Financial Service Authority (OJK) and Bank Indonesia (BI) has been completed and well administrated by related department/party.

- As of 31 December 2015, the Lead Entity (SMBCI) was in the process of fulfilling requirements of prevailing regulation in terms of the composition of the Board of Directors. The composition of the Board of Directors as of 31 December 2015 were 3 (three) Indonesians and 3 (three) Foreigners. The provision of Article 12 paragraph (4) PBiNo.9/8/PBI/2007 regarding the use of Foreign Man power and Transfer of Knowledge obligates that majority members of the Board of Directors were to be Indonesian. SMBCI has subsequently submitted an application for the approval of an Indonesian candidate for the member of the Board of Directors through the letter No. SMBCI/OJK/CLED/2015/180 dated 15 December 2015 to OJK.

On 10 February 2016 SMBCI has received OJK Letter no. No. SR.17/D.03/2016 dated 5 February 2016 which approved the candidacy of new Indonesian Director of SMBCI and since 10 March 2016 the said new Director has been officially appointed as member of Board of Directors of SMBCI.

Thus, the composition of Board of Directors of SMBCI as Lead Entity of SMBC Financial Conglomerate as of 10 March 2016 has fulfilled the prevailing regulations of Bank Indonesia / the Indonesian Financial Service Authority.

2) The Board of Directors of the Lead Entity (SMBCI) posses good knowledge regarding the Lead Entity including understanding of the Lead Entity’s business activity and major risks faced by the Financial Services Institution (FSI) within the Financial Conglomerate of SMBC group. The Board of Directors has shown willingness and ability in continuous learning in order to enhance banking knowledge and to keep up with the latest developments related to finance / other sectors that would support them to discharge their duties and responsibilities.

- FSI in Financial Conglomerate of SMBC Group are BTPN and BTPN Syariah. Although both entities are in the same banking business as the Lead Entity (SMBCI), they have different business focus (BTPN focuses on the Mass Market which is Retirement, Medium Enterprise and Small
Medium Enterprise, while BTPN Syariah focuses on family under development).

- Detail information regarding the trainings or seminar for enhancing competency attended by the Board of Directors of SMBCI can be seen in the Report of Implementation of Good Corporate Governance of SMBCI. (Please refer to the attachment)

### A.2. Integrated Governance Process

With regards to the protection of public’s interest particularly for the minority shareholders of the Financial Service Institutions of Financial Conglomerate of SMBC Group that are public companies; BOD of Lead Entity (SMBCI) and Member Entities (BTPN and BTPN Syariah) have executed a Non-Disclosure Agreement (“NDA”) and agreed that all of the information and data that provided by the Financial Service Institutions are solely for the purpose of fulfilling the requirements of the relevant Financial Conglomerate regulations.

The Board of Directors (SMBCI) has discharged their duties and responsibilities in the implementation of Integrated Governance, as follows:

1) Composed the Integrated Governance Manual and submitted it to the BOD of FSI in Financial Conglomerate of SMBC Group (BTPN and BTPN Syariah) to be complied with and implemented in accordance to stipulation of the Indonesian Financial Service Authority, Bank Indonesia, and other related Authorities. In addition, BOD had ensured the implementation of Integrated Governance for the Financial Conglomerate of SMBC group.

2) Appointed Director who would supervise Integrated Compliance and Governance, Director who would supervise Integrated Risk Management and Director who would supervise Integrated Compliance and Governance as well as Risk Management.

3) Established the Integrated Compliance Function, the Integrated Internal Audit Unit and the Integrated Risk Management Unit to perform duties and responsibilities in accordance to stipulations of the Indonesian Financial Service Authority regarding Financial Conglomerate.

4) Held coordination meetings with related Directors and Commissioners of the member of Financial Conglomerate of SMBC group (BTPN and BTPN Syariah) in fulfilling the requirements of the Indonesian Financial Service Authority regarding Financial Conglomerate.

5) Directed, monitored, and evaluated the implementation of the Integrated Governance Manual.

6) Followed up the directives or advices from the Board of Commissioners of Lead Entity in order to improve the Integrated Governance Manual.

7) Ensured that the findings and recommendations from the Integrated Internal Audit Working Unit, the Integrated Compliance Function, the
Internal Audit Unit, and results of OJK or other results have been followed up by FSI in Financial Conglomerate of SMBC Group.

8) Reported on the Self Assessment of Implementation of Integrated Governance on semi annual basis and other mandatory reporting to the Indonesian Financial Service Authority in accordance to its stipulation. BOD of Lead Entity also approved the methodology that was used in composing the Report of Self Assessment of Implementation of Integrated Governance.

A.3. Integrated Governance Result

1) Integrated Governance Manual has already been improved in accordance with the directives from BOC.

2) The BOD of Lead Entity has ensured that findings and recommendations from:
   - Integrated Internal Audit Unit and Integrated Compliance Function
   - Internal Audit Unit
   - External Auditors or others
   - OJK’s supervision results or other authorities, such as Bank Indonesia
   - Supervision results of supervisory authorities toward the Head Office of FSI in the event that the FSI is a branch office of an entity which domiciles in overseas;

   has been followed up with the FSIs within the Financial Conglomerate of SMBC group.
   - Each member of the Financial Conglomerate of SMBC Group has submitted statement that findings from internal and external audits or result of supervisory of Authority will be followed up with.
   - Ensured that findings or recommendations that were still being followed up with were being monitored in accordance to their target date and reported to each of FSI’s BOD and BOC periodically.
   - None of the members in the Financial Conglomerate was a branch office of an entity which was domiciled overseas.
   - There was no particular finding raised by Integrated Internal Audit Working Unit and Integrated Compliance Function for the moment. However, toward matters which have been identified by each of FSI as weakness in managing each of FSI’s Governance is monitored by Integrated Compliance Function for the follow up and reported to BOD of Lead Entity (SMBCI).
     (If there is finding from Integrated Internal Audit Working Unit and Integrated Compliance Function in the next period, BOD Lead Entity will follow up).

3) Report of Assessment of Implementation of Integrated Governance for position of 31 December 2015 has been submitted to the Indonesian Financial Service Authority on 15 February 2016 (in accordance to deadline of submission of report).
B. Implementation of duties and responsibilities of Board of Commissioners of Lead Entity of Financial Conglomerate of SMBC Group

B.1. Integrated Governance Structure

1) The BOC of Lead Entity had fulfilled the requirements of integrity, competence, and financial reputation and had obtained approval from Indonesian Financial Service Authority or Bank Indonesia.
   - Requirements regarding integrity, competency and financial reputation have been stipulated clearly and completely on The Guidance and Charter of Board of Commissioners of SMBCI to be complied and implemented by SMBCI.
   - Documentation regarding the approval from the Indonesian Financial Service Authority (OJK) and Bank Indonesia (BI) had been completed and well administrated by related department/party.

2) The Board of Commissioners of the Lead Entity (SMBCI) possesses good knowledge regarding the Lead Entity including understanding of the Lead Entity’s business activity and major risks faced by the Financial Services Institution (FSI) within the Financial Conglomerate of SMBC group. The Board of Commissioners has shown willingness and ability in continuous learning in order to enhance banking knowledge and to keep up with the latest developments related to finance / other sectors that would support them to discharge their duties and responsibilities.
   - Detail information regarding the trainings or seminar for enhancing competency attended by the Board of Commissioners of SMBCI can be seen in the Report of Implementation of Good Corporate Governance of SMBCI. (Please refer to the attachment)

B.2. Integrated Governance Process

   - Detail information regarding the agenda of the meetings of BOC of SMBCI can be seen in the Report of Implementation of Good Corporate Governance of SMBCI (Please refer to attachment).

2) The BOC of Lead Entity (SMBCI) has discharged their duties and responsibilities in implementation of Integrated Governance, as follows:
   a. Carried out supervision toward the implementation of duties and responsibilities of BOD of Lead Entity (SMBCI) and also gave direction or recommendation to BOD of Lead Entity (SMBCI) upon implementation of Integrated Governance Manual.
      - Through coordination meetings between BOC and BOD of Lead Entity or periodic visit by Indonesian Commissioners.
b. Carried out supervision toward the implementation of Integrated Governance.
   ‣ Through coordination meeting between BOC and BOD of the Lead Entity or direct inquiries regarding implementation of Integrated Governance to the BOD of SMBCI.

c. Evaluated the Integrated Governance Manual and provided directions for improvement.

d. Ensured that the BOD of Lead Entity (SMBCI) has ensured that FSI in the Financial Conglomerate of SMBC group has followed up findings and recommendations from the Integrated Internal Audit Unit, Integrated Compliance Function, Internal Audit Unit, external auditor, and result of supervisory of the Indonesian Financial Service Authority and/or others.

e. Formed Integrated Governance Committee to support the BOC of Lead Entity (SMBCI) in performing its duties and function effectively.
   ‣ Membership of the Integrated Governance Committee consists of Independent Commissioners who were appointed by and represent SMBCI, BTPN, BTPN Syariah, The Sharia Supervisory Board of BTPN Syariah and independent parties.

B.3. Integrated Governance Result

1) The results of the BOC of Lead Entity (SMBCI)’s meeting have been recorded in the minutes of meetings and were well documented including clear disclosure of dissenting opinions and the reasons behind the opinions. During 2015, there was no dissenting opinion.

2) Recommendations as the result of the supervision by the BOC of the Lead Entity toward:
   a) Implementation of duties and responsibilities of BOD of the Lead Entity;
   b) Application of Integrated Governance;
   c) The result of evaluation of Integrated Governance by BOC of Lead Entity;

   The recommendations have already been presented to BOD of Lead Entity.

C. Duties and Responsibilities of Integrated Governance Committee

C.1. Integrated Governance Structure

C.1.1. Membership

The BOC of the Lead Entity (SMBCI) has established an Integrated Governance Committee which consisted of permanent employee as follows:

(please, see next page)
The number and composition of the Independent Commissioners that became members of the Integrated Governance Committee were in accordance with the needs of the Financial Conglomerate. The composition also maximise the efficiency and effectiveness of the implementation of the duties of the Integrated Governance Committee by observing the representation of each of the financial services sector.

C.2. Integrated Governance Process

C.2.1. Integrated Governance Committee has discharged their duties and responsibilities as follows:

1. Evaluated the implementation of the Integrated Governance at least through the assessment of the adequacy of internal controls and the implementation of compliance function.

   ▶ Integrated Governance Committee evaluated the implementation of the Integrated Governance from each of internal control function and compliance of FSI then presented it to the Lead Entity to be integrated.

   ▶ The result of assessment of adequacy of internal control and implementation of integrated compliance function showed that Integrated Governance of Financial Conglomerate has complied
with and implemented mandatory stipulations by Bank Indonesia, the Indonesian Financial Service Authority and others.

2. Evaluated the Integrated Governance Manual and provided recommendation for its improvement.

3. Reviewed methodology that applied in the report of Assessment of Implementation of Integrated Governance.

4. Reviewed the Report of Assessment on Implementation of Integrated Governance of Financial Conglomerate of SMBC group that was submitted to the Indonesian Financial Service Authority for position of 31 December 2015.


6. Prepared the report regarding duties and responsibilities of Integrated Governance Committee to Board of Commissioners of Lead Entity (SMBCI).

**C.2.2.** Integrated Governance Committee had held the following meetings:

<table>
<thead>
<tr>
<th>Date</th>
<th>Meeting Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 November 2015</td>
<td>◆ Kick Off – Meeting&lt;br&gt;◆ Introduction of the parties&lt;br&gt;◆ Appointment of Secretary of Committee&lt;br&gt;◆ The early discussion regarding :&lt;br&gt;   Draft of Schedule and Plan of Integrated Governance Committee&lt;br&gt;   Draft of Integrated Governance Committee Charter&lt;br&gt;   Draft of Integrated Governance Manual&lt;br&gt;   Preparation of reporting to OJK for position of 31 December 2015 (format of reporting and supporting reports/working paper)</td>
</tr>
</tbody>
</table>
- Reviewed Integrated Governance Report to be submitted to OJK for position of 31 December 2015.
- Others.

*we presented on this report because of relation with position of report of 31 Dec 2015

- Based on Integrated Governance Committee Charter, Integrated Governance Committee has to conduct meeting at least one time in semi annual basis. Thus, all of members of Integrated Governance Committee has attended Integrated Governance Committee meeting on 10 February 2016.

C.3. Integrated Governance Result

1) Integrated Governance Committee has established its Charter as well as Schedule and Annual Plan which were composed based on prevailing rules to be complied with and implemented by Integrated Governance Committee.

2) Report regarding duties and responsibilities of Integrated Governance Committee has been submitted to the Board of Commissioners of the Lead Entity (SMBCI).

3) The results of the Integrated Governance Committee’s meetings have been recorded in the minutes of meetings and well documented, including if there was any dissenting opinion including the reason behind the opinion.
   - There was no dissenting opinion on the Integrated Governance Committee’s meeting.

D. Duties and Responsibilities of The Integrated Compliance Function

D.1. Integrated Governance Structure

1) SMBCI as the Lead Entity of Financial Conglomerate of SMBC group has established the Integrated Compliance Function. Implementation of the Integrated Compliance Function was done by appointed person from SMBCI in coordination with the Compliance Unit of SMBCI.

   - The Integrated Compliance Function is an independent function, which by definition is segregated from operational working unit (risk-taking unit) and is not involved in function or operational activity and have direct responsibility to Director Overseeing of Compliance Function of

2) The BOD of the Lead Entity had fulfilled the needs for qualified human resources for the member of Integrated Compliance function by ensuring the members have the relevant education, certification and training in accordance the needs as well as working experience in banking, particularly related to Banking’s Good Corporate Governance/Governance.

D.2. Integrated Governance Process

The Integrated Compliance Function has discharged its duties and responsibilities as follows:

1. Prepared methodology used in the preparation of the report of assessment of implementation of Integrated Governance on the function of Integrated Compliance and Governance.

2. Coordinated with related departments in member of Financial Conglomerate of SMBC group related to Integrated Governance and Risk Management.


4. Monitored and evaluated Compliance function in each FSI of Financial Conglomerate of SMBC group.

⇒ As part of its duties, the Integrated Compliance Function in SMBCI has coordinated with Compliance department and Corporate Secretariat department from each FSI (SMBCI, BTPN and BTPN Syariah) in submitting the result of evaluation of Governance and Compliance in each of FSI to be further evaluated and reported to related Authorities.

⇒ The said result of evaluation has been further reviewed by the Integrated Compliance Function in SMBCI and reported to the Board of Directors and Board of Commissioners of Lead Entity (SMBCI) and Integrated Governance Committee.

The said evaluation result was also used as supporting report in composing the report on the Assessment of Implementation of Integrated Governance for position of 31 December 2015 to be submitted to the Indonesian Financial Service Authority.
D.3. Integrated Governance Result

The Integrated Compliance Function has submitted the report of implementation of duties and responsibilities to Director Overseeing of Compliance Function of Lead Entity (SMBCI).

- Result of the report showed that Financial Service Institution (SMBCI, BTPN and BTPN Syariah) in Financial Conglomerate of SMBC group has managed aspects in Governance and Compliance in accordance to the related Authority's stipulations (Bank Indonesia, The Indonesian Financial Service Authority, and others).

- There was no special report from Director Overseeing of Compliance Function from each of Financial Service Institution to each of Supervisory team of Indonesian Financial Service Authority that mentioned there was policy or decision from BOD that was contrary to the regulation of Bank Indonesia, the Indonesian Financial Service Authority and other prevailing regulations.

- All matters that need to be revamped by the Financial Service Institutions in accordance to Authority's stipulation have been followed up with; the Integrated Compliance Function SMBCI will monitor these matters until it is completed and reported to the related Authorized party.

- Director who supervised compliance function of Lead Entity (SMBCI) has submitted report of duties and responsibilities of integrated compliance to the Board of Directors and Board of Commissioners of Lead Entity (SMBCI).

E. Duties and Responsibilities of the Integrated Internal Audit Unit

E.1. Integrated Governance Structure

1) SMBCI as the Lead Entity of the Financial Conglomerate of SMBC Group has established of The Integrated Internal Audit Unit. Implementation of Integrated Internal Audit Function was performed by the Internal Audit Unit of SMBCI.

- The Integrated Internal Audit Unit (SMBCI) is an independent function, which by definition is segregated from operational working unit (risk-taking unit) and is not involved in function or operational activity and have direct responsibility to Director who was appointed to conduct supervisory function toward FSI in Financial Conglomerate (President Director of SMBCI) and able to communicate directly to Board Of Commissioners of Lead Entity (SMBCI).

2) The BOD of the Lead Entity had fulfilled the needs for qualified human resources for the member of Integrated Internal Audit Unit by ensuring the members have the relevant education, certification and training in accordance the needs as well as working experience in banking, particularly related to banking’s audit.
E.2. Integrated Governance Process

- The Integrated Internal Audit Unit has discharged its duties and responsibilities as follows:
  2. Reviewed information regarding internal audit submitted by Internal Audit Unit from each of FSI (BTPN and BTPN Syariah).

- The result of evaluation from the report of Integrated Internal Audit was also used as supporting report in composing report The Assessment of Implementation of Integrated Governance for position of 31 December 2015 to be submitted to the Indonesian Financial Service Authority.

E.3. Integrated Governance Result

1) The Integrated Internal Audit Unit has submitted a report on the implementation of duties and responsibilities to:
   a) Director who was appointed to supervise the FSI in Financial Conglomerate of SMBC group (President Director of SMBCI);
   b) Board of Commissioners of Lead Entity;
   c) Director Overseeing of Compliance Function of Lead Entity.

- Result of the report showed that the Internal Audit Unit organization and audit implementation of Financial Service Institution (SMBCI, BTPN and BTPN Syariah) were in accordance to Standard of Implementation of Bank’s Internal Audit Function regulated by Bank Indonesia; and there was no significant finding raised (for instance violation on implementation of Good Corporate Governance).

2) The Integrated Internal Audit Unit had acted objectively in analyzing data/information submitted by each of Internal Audit Unit of FSI which related to audit implementation.

3) The recommendations in the audit results corresponded with identified problems/issues, and could be used as references for improvement.

F. Integrated Risk Management Implementation

F.1. Integrated Governance Structure

1) The Lead Entity had proper organizational structure to support the implementation of integrated risk management as stipulated in the provision of the Indonesian Financial Service Authority regarding implementation of integrated risk management for financial conglomerate, as follows:
   - Appointed Director who supervised Integrated Risk Management function.
Established Integrated Risk Management Unit.
The implementation of duties and responsibilities of the Integrated Risk Management Unit was performed by the Risk Management Unit of SMBCI.

Established Integrated Risk Management Committee whereas the number and composition of the Independent Commissioners that became members of the Integrated Governance Committee were in accordance with the needs of the Financial Conglomerate. The composition also maximised the efficiency and effectiveness of the implementation of the duties of the Integrated Governance Committee by observing the representation of each of the Financial Service Institution.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position in Integrated Risk Management Committee</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Henoch Munandar</td>
<td>Chairman and Member</td>
<td>Director of Integrated Risk Management of SMBCI including supervise Integrated Risk Management function</td>
</tr>
<tr>
<td>Wolf Arno Kluge</td>
<td>Member</td>
<td>Risk Management Director of BTPN</td>
</tr>
<tr>
<td>Taras Wibawa Siregar</td>
<td>Member</td>
<td>Director Overseeing of Compliance Function and Risk Management of BTPN Syariah</td>
</tr>
<tr>
<td>Yenny Lim</td>
<td>Member</td>
<td>Chief of Financial and Planning of SMBCI</td>
</tr>
<tr>
<td>Deni Djalil</td>
<td>Member</td>
<td>Head of Risk Management unit of SMBCI including supervised of Integrated Risk Management unit</td>
</tr>
</tbody>
</table>

Integrated Risk Management Committee has held meetings as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Meeting Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>03 December 2015</td>
<td>✦ Establishment of Integrated Risk Management Committee.</td>
</tr>
<tr>
<td></td>
<td>✦ Discussion of:</td>
</tr>
</tbody>
</table>
Preparation of reporting part Integrated Risk Management to the Indonesian Financial Service Authority for position of 31 December 2015.

10 February 2016* Discussion regarding the first report to the Indonesian Financial Service Authority part Integrated Risk Management and Capital Adequacy for position of 31 December 2015.

*we presented in this report due to related position of the report of 31 Des 2015

Based on the Integrated Risk Management Charter, Integrated Risk Management Committee had held meetings at least one time in semi annual basis. All members of the Integrated Risk Management Committee have attended the said Integrated Risk Management Committee.

2) The Lead Entity (SMBCI) had policies, procedures and risk limit as stipulated in the provisions of The Indonesian Financial Service Authority regarding implementation of integrated risk management for financial conglomerate to be periodic reviewed in accordance to development and prevailing stipulations.

F.2. Integrated Governance Process

- The Lead Entity (SMBCI) implemented integrated risk management in accordance with the provision of the Indonesian Financial Service Authority regarding implementation of integrated risk management for financial conglomerate.

- The Integrated Risk Management Unit coordinated with the Risk Management Unit of the members of Financial Conglomerate of SMBC group in preparing Integrated Risk Profile Report and Integrated Capital Adequacy for position of 31 December 2015.

- The Financial Conglomerate of SMBC group has conducted self-assessment on integrated risk profile for position of 31 December 2015 on nine (9) kind of risks as follows credit risk, market risk, liquidity risk, operational risk, strategic risk, reputation risk, legal risk, compliance risk and intra-group transaction risk. The conclusion of the said risk profile of Financial Conglomerate SMBC group was at the level of Low to Moderate risk.

- The Financial Conglomerate of SMBC group has also conducted self-assessment on integrated minimum reserved requirement for position of 31 December 2015 which mention that minimum reserve requirements for each of Financial Service Institution of SMBC group as Financial Conglomerate was above the minimum reserve requirements.
F.3. Integrated Governance Result

1) The Lead Entity implemented integrated risk management in line with the characteristics and complexity of the business of Financial Conglomerate which will be reviewed periodically.

2) The Integrated Risk Management Committee has established Guidelines and Charter as well as The Schedule and Annual Working Plan which will be complied and conducted by The Integrated Risk Management Committee.

3) The BOD and BOC of the Lead Entity (SMBCI) were able to perform their duties and responsibilities related to integrated risk management in line with the provisions of the Indonesian Financial Service Authority regarding integrated risk management implementation by conducting coordination with Financial Service Institution (BTPN and BTPN Syariah).

4) The Integrated Risk Profile and Capital Adequacy report of Financial Conglomerate of SMBC Group as per position of 31 December 2015 has been submitted to Indonesian Financial Service Authority on 15 February 2016 (in accordance to dateline of submission of report).

G. Preparation and Implementation of Integrated Governance Manual

G.1. Integrated Governance Structure

1) The Financial Conglomerate of SMBC group has established an Integrated Governance Manual which consists of:
   a. Framework of Integrated Governance for Lead Entity (SMBCI);
   b. Framework of Integrated Governance for Financial Service Institution BTPN and BTPN Syariah

The said Integrated Governance Manual was based on the related Authority's regulations (Bank Indonesia, the Indonesian Financial Service Authority and others, for instance Capital Market for Financial Service Institution of Public Company).

2) The framework of Integrated Governance Manual of Financial Conglomerate of SMBC Group for Lead Entity (SMBCI) consists of:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Requirements for BOD and BOC of Lead Entity;</td>
</tr>
<tr>
<td>b.</td>
<td>Duties and Responsibilities of BOD and BOC of Lead Entity</td>
</tr>
<tr>
<td>c.</td>
<td>Duties and Responsibilities of the Integrated Governance Committee</td>
</tr>
<tr>
<td>d.</td>
<td>Duties and Responsibilities of the Integrated Compliance Function</td>
</tr>
</tbody>
</table>
e. Duties and Responsibilities of the Integrated Internal Audit Unit

f. Implementation of Integrated Risk Management

3) The Framework of Integrated Governance for Financial Conglomerate of SMBC group for Financial Service Institution (BTPN and BTPN Syariah) consists of:

   a. Requirements for candidate members of BOD and BOC
   b. Requirements for candidate members of the Sharia Supervisory Board
   c. Structure of BOD and BOC
   d. Structure of Sharia Supervisory Board
   e. Independence of actions to be taken by BOC
   f. Implementation of management function of Financial Service Institution by BOD
   g. Implementation of supervisory function by BOC
   h. Implementation of supervisory function by the Sharia Supervisory Board
   i. Implementation of Compliance Function, Internal Audit Function, and External Audit
   j. Implementation of Risk Management Function
   k. Remuneration Policy
   l. Management of Conflicts of Interest

G.2. Integrated Governance Process

1) The implementation of Integrated Governance process by the Lead Entity (SMBCI) and Financial Service Institution (BTPN and BTPN Syariah) was based on the Integrated Governance Manual.

2) The Integrated Governance Manual will be reviewed periodically in accordance to the latest of development or regulation.

G.3. Integrated Governance Result

1) The Integrated Governance Manual of SMBC group had been submitted by the Board of Directors of Lead Entity (SMBCI) to Board of Directors of Financial
Conglomerate of SMBC group (BTPN and BTPN Syariah) to be complied and implemented in accordance to stipulation from the Indonesian Financial Service Authority, Bank Indonesia and other related Authority.

2) The Lead Entity (SMBCI) and Financial Service Institution (BTPN and BTPN Syariah) within the Financial Conglomerate have implemented the principles of good governance in accordance with the Integrated Governance Manual.

Result of Self Assessment of Implementation of Integrated Governance for position of 31 December 2015

<table>
<thead>
<tr>
<th>Rating</th>
<th>Rating Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 (Two)</td>
<td>The performance of the Financial Conglomerate in terms of the implementation of Integrated Governance is assessed to be good. This is reflected in the successful implementation of the principles of Integrated Governance. Although there were a few minor weaknesses identified in the implementation of Integrated Governance, generally the weaknesses were insignificant and can be resolved by normal actions by Lead Entity and or Financial Service Institution/members of Conglomerate.</td>
</tr>
</tbody>
</table>

A. Integrated Governance Structure

Values which demonstrate the strength of the Integrated Governance Structure of the Financial Conglomerate of SMBC Group are as follows:

Structures and infrastructures of Governance of Financial Conglomerate of SMBC Group were in accordance or fulfill prevailing stipulations to support implementation principle of Good Corporate Governance, as follows:

- Lead Entity (SMBCI) has established Integrated Governance Committee, Integrated Risk Management Committee, Integrated Internal Audit Unit, Integrated Compliance Function an Integrated Risk Management Unit. The number and competency of the Units, Function and Committee were in accordance to prevailing regulations.
- The Board of Directors and Board of Commissioners of Lead Entity (SMBCI) have carried out stipulations of The Indonesian Financial Service Authority regarding Integrated Governance and Risk Management. The appointment of Director who conducts supervisory toward Financial Service Authority in
Financial Conglomerate of SMBC group, Integrated Risk Management and Integrated Governance as well as Compliance was in compliance with prevailing stipulations.

Infrastructure had been properly established in compliance with prevailing stipulations, which include the availability of Integrated Governance Manual, Integrated Risk Management Manual, Integrated Capital Adequacy Manual, the Charter as well as the Schedule and Plan of Integrated Governance Committee and Integrated Risk Management Committee.

Thus, the structure and infrastructure of the Lead Entity (SMBCI) and the members of Financial Conglomerate of SMBC group were in accordance and complied with prevailing stipulations, including having Strategic Plans, which are in line with each of Financial Service Institution’s vision and mission.

Values which demonstrate the weakness of the Integrated Governance Structure of the Financial Conglomerate of SMBC Group are as follows:
The Lead Entity and each Financial Service Institution in Financial Conglomerate of SMBC Group will continuously enhance the practice of good governance in managing their businesses.

B. Integrated Governance Process

Values which demonstrate the strength of Integrated Governance Process of the Financial Conglomerate of SMBC Group are as follows:

The implementation of Integrated Governance for the Financial Conglomerate of SMBC Group has been conducted effectively and was supported by adequate Integrated Governance structure and infrastructure of Financial Conglomerate of SMBC Group, which were reflected from:

Implementation of duties and responsibilities of the Board of Commissioners and Board of Directors of Lead Entity, and Integrated Governance Committee was in accordance to prevailing stipulations.

Implementation of duties and responsibilities of the Integrated Risk Management Unit, Integrated Compliance Function and Integrated Internal Audit Unit was in accordance to the stipulated requirements.

Implementation of duties and responsibilities of other units/parts of the Lead Entity and members of the Financial Service Institution of Financial Conglomerate of SMBC group were in accordance to prevailing regulations. This includes the implementation of sound internal control system as well as transparency of financial and non financial conditions, product information from each of Financial Service Institution, customer complaint and handling customer’s dispute were in accordance with the stipulation. Evaluation and updating of policy, system and procedure were being conducted periodically in accordance with stipulations and prevailing regulations.
Values which demonstrate the weakness of the Integrated Governance Process of the Financial Conglomerate of SMBC Group are as follows:
As the Financial Conglomerate of SMBC Group has achieved all the requirements of the Integrated Governance process, there was no negative/weakness factor found from this aspect.

C. Integrated Governance Result

Values which demonstrate the strength of the Integrated Governance Result of the Financial Conglomerate of SMBC Group are as follows:

The result of the Integrated Governance result of Financial Conglomerate of SMBC Group showed that Integrated Governance had been properly implemented. This could be seen from:

1. The owner did not intervene in the management of the Financial Conglomerate which was effectively performed by the Board of Commissioners and Board of Directors. Any interference by the owner may cause disruptions to the operational activities of Financial Service Institution in Financial Conglomerate of SMBC Group thus impacting the Financial Service Institution’s profitability and/or causing loss to Financial Service Institution.

2. The strategic plan for each of Financial Service Institution in Financial Conglomerate of SMBC group was fully supported by the owner. This support was reflected from the commitment and owner’s effort to strengthen Financial Service Institution’s capital.

3. The results of the meetings of the Board of Commissioners of the Lead Entity, Board of Directors of the Lead Entity, Integrated Governance Committee, and Integrated Risk Management Committee have been clearly recorded in Minutes of Meeting and well documented, including dissenting opinion if occurred.

4. Integrated reports for The Assessment of Implementation of Integrated Governance, Integrated Risk Management and Integrated Capital Adequacy had been submitted to Indonesian Financial Service Authority in accordance to prevailing stipulations.

5. Capital has been well managed and was more than adequate to cater to the risk from each of Financial Service Institution in Financial Conglomerate or as a Financial Conglomerate. This was reflected in the adequacy of the total of capital which was above the minimum capital requirements.

6. Settlement of disputes by Financial Service Institution such as fraud and violation of regulation related to reporting Financial Service Institution was conducted in accordance to prevailing regulations. Preventive action has been taken to avoid reoccurrence in the future.
The result of meetings of Board of Commissioners, Board of Directors, Sharia Supervisory Board as well as Committee(s) of Financial Service Institution of SMBC group have been recorded and well documented. The mandatory reporting to Authority have been submitted in line with provision, including report of follow up action or recommendation of result of Supervisory Team of Indonesian Financial Service Authority which have been submitted periodically to Indonesian Financial Service Authority.

Values which demonstrate the weakness of Integrated Governance Result of the Financial Conglomerate of SMBC Group are as follows:
As the Financial Conglomerate of SMBC Group has achieved all the requirements of the Integrated Governance process, there was no negative/weakness factor found from this aspect.
Based on the letter issued by Sumitomo Mitsui Banking Corporation (SMBC) dated 31 March 2015 which has been submitted to the Indonesian Financial Service Authority through letter reference SMBCI/OJK/COD/2015/061 dated 31 March 2015, the members of the Financial Conglomerate of SMBC Group are as follows:

1. PT Bank Sumitomo Mitsui Indonesia (“SMBCI”) as Lead Entity.
2. PT Bank Tabungan Pensiunan Nasional Tbk (“BTPN”) as Member Entity.
3. PT Bank Tabungan Pensiunan Nasional Syariah (“BTPN Syariah” or “BTPNS”) as Member Entity.

The structure of Financial Conglomerate of Sumitomo Mitsui Banking Corporation (SMBC) group is briefly explained as follows:

Please kindly refer to the next page for the detail of Structure of Financial Conglomerate.
The structure of Financial Conglomerate of SMBC group was established based on the provisions of the Indonesian Financial Service Authority ("OJK") regarding Financial Conglomerate.

The said structure of Financial Conglomerate of SMBC group describes the relationship and roles all of related parties systematically in Financial Conglomerate of SMBC group which consists of:

a. SMBC as the Controlling Shareholder of Lead Entity (SMBCI) and Member Entities (BTPN and BTPN Syariah).

b. From the Lead Entity (SMBCI), the relevant parties consists of the Board of Commissioners, Board of Directors, Integrated Internal Audit, Integrated Compliance Function, Integrated Risk Management and other supporting parties i.e. Compliance, Corporate Legal and Finance &Planning.

c. From Member Entities (BTPN and BTPN Syariah), the relevant parties consist of the Board of Commissioners, Board of Directors, Corporate Secretariat, Internal Audit, Compliance and Risk Management.

d. The Integrated Governance Committee under the supervision of the Board of Commissioners of Lead Entity (SMBCI) and the Integrated Risk Management Committee under the supervision of Board of Directors of Lead Entity (SMBCI).

e. From outside of Lead Entity (SMBCI) and Member Entities (BTPN and BTPN Syariah, i.e. independent party has been recruited as member of Integrated Governance Committee.

Every elements of the said Financial Conglomerate’s Structure conducts functions, duties and responsibilities in accordance to prevailing stipulations.
III. THE STRUCTURE OF SHARE OWNERSHIP

The structure of share ownership in the Financial Conglomerate of SMBC group until The Ultimate Shareholder for position of 31 December 2015 as follows:

A. Lead Entity: PT Bank Sumitomo Mitsui Indonesia (SMBCI)

The Ultimate Shareholder of SMBCI is Sumitomo Mitsui Financial Group (SMFG)

Sumitomo Mitsui Financial Group (SMFG)
Sumitomo Mitsui Financial Group, Inc (SMFG) was established in December 2002 through a share transfer from SMBC. With business activities covering the management of the affairs of subsidiaries within the group and relevant ancillary, SMFG is headquartered on 1-2, Marunouchi 1-chome, Chiyoda-Ku, Tokyo, Japan and listed on Tokyo Stock Exchange, Nagoya Stock Exchange, and New York Stock Exchange. The companies under SMFG Group of Companies offer a diverse range of financial services, centered on banking, and including credit card services, leasing, information services, and securities.

The Controlling Shareholder of SMBCI is Sumitomo Mitsui Banking Corporation (SMBC)

Sumitomo Mitsui Banking Corporation (SMBC) was established in April 2001 through the merger of The Sakura Bank, Limited, and The Sumitomo Bank, Limited. From December 2002, SMBC became a wholly-owned subsidiary of SMFG, a holding company. Head quartered in Tokyo, Japan, SMBC’s business network spreads across many regions in the world, such as Australia, Europe, Canada, Brazil and Indonesia. SMBC and its group companies offer a broad range of financial services centered on banking. They also engage in the leasing, securities,
credit card, investment, mortgage securitization, venture capital and other credit related businesses. At present, SMBC is one of the largest banks in Japan.

B. Member Entities

B.1. PT Bank Tabungan Pensiunan Nasional, Tbk (BTPN)

The Ultimate Shareholders of BTPN are:
1. Sumitomo Mitsui Financial Group (SMFG) through Sumitomo Mitsui Banking Corporation (SMBC)
2. David Bonderman through TPG Nusantara S.á.r.l

- **Sumitomo Mitsui Financial Group (SMFG) through Sumitomo Mitsui Banking Corporation (SMBC)**
  The brief company profile can be seen in previous page.

- **TPG Nusantara S.á.r.l**
  TPG is a well known private investment, which was established in 1992, with a total asset of $ 70 million. TPG is experienced with public company and private investments through leveraged buyouts, recapitalization, spinouts, growth investments, joint ventures and restructuring.

The Controlling Shareholders of BTPN are:
1. Sumitomo Mitsui Banking Corporation (SMBC)
2. TPG Nusantara S.á.r.l

- **Sumitomo Mitsui Banking Corporation (SMBC)**
  The brief company profile can be seen in the previous page.

- **TPG Nusantara S.á.r.l**
  The brief company profile can be seen on the previous page.
B. 2. PT Bank Tabungan Pensiunan Nasional Syariah (BTPN Syariah)

The Ultimate Shareholders of BTPN Syariah are:

1. Sumitomo Mitsui Financial Group (SMFG) through Sumitomo Mitsui Banking Corporation (SMBC) and David Bonderman (through TPG Nusantara S.á.r.l.)

2. Arif Rachmat (through PT Triputra Persada Rahmat)

   - **Sumitomo Mitsui Financial Group (SMFG) through Sumitomo Mitsui Banking Corporation (SMBC)**
     The brief company profile can be seen in the previous page.

   - **David Bonderman (TPG Nusantara S.á.r.l.)**
     The brief company profile can be seen in the previous page.

   - **PT Triputra Persada Rahmat (Triputra)**
     Triputra was established by Mr. TP Rachmat and Mr. B. Subianto for the purpose of building Indonesia to be a better nation by helping under developed society in order to achieve their economic independent.
     By having motto, “Less for self, More for Others, Enough for Everyone”, it is engaged in micro finance business by distributing fund and collecting
micro saving for productive under developed family through ownership share of Triputra on BTPN Syariah (previously was Bank Sahabat).

**The Controlling Shareholders of BTPN Syariah are:**

1. PT Bank Tabungan Pensiunan Nasional, Tbk (BTPN)
2. PT Triputra Persada Rahmat

- **PT Bank Tabungan Pensiunan Nasional, Tbk (BTPN)**
  The profile of share ownership and management can be seen on this report.

- **PT Triputra Persada Rahmat**
  The brief company profile can be seen in the previous section.
A. Lead Entity: PT Bank Sumitomo Mitsui Indonesia (SMBCI)

The composition of Board of Commissioners and Board of Directors of SMBCI as Lead Entity of Financial Conglomerate SMBC group as of 31 December 2015 were as follows:

### Board of Commissioners of SMBCI

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Commissioner</td>
<td>Masayuki Shimura</td>
</tr>
<tr>
<td>Vice President Commissioner</td>
<td>Tetsuro Yoshino</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>Bramono Dwiedjanto</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>Ninik Herlani Masli Ridwan</td>
</tr>
</tbody>
</table>

### Board of Directors of SMBCI

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Director (also supervise Integrated Risk Management and Integrated Compliance and Governance of Financial Conglomerate of SMBC Group)</td>
<td>Kazuhisa Miyagawa</td>
</tr>
<tr>
<td>Vice President Director</td>
<td>Tsuyoshi Yamaguchi</td>
</tr>
<tr>
<td>Vice President Director</td>
<td>Yasuhiro Daikoku</td>
</tr>
<tr>
<td>Vice President Director</td>
<td>Adrianus Dani Prabawa</td>
</tr>
<tr>
<td>Integrated Risks Director (also supervise Integrated Risk Management of Financial Conglomerate of SMBC Group)</td>
<td>Henoch Munandar</td>
</tr>
<tr>
<td>Director Overseeing of Compliance Function (also supervise Integrated Compliance and Governance of Financial Conglomerate of SMBC)</td>
<td>Dini Herdini</td>
</tr>
</tbody>
</table>

### Additional Information:

Based on the decision of The Annual of Shareholder meeting of SMBCI dated 18 April 2016, the structure of the Board of Commissioners and Board of Directors as of 18 April 2016 were as follows:

### Board of Commissioners of SMBCI

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Commissioner</td>
<td>Ryuji Nishisaki</td>
</tr>
<tr>
<td>Vice President Commissioner</td>
<td>Tetsuro Yoshino</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>Bramono Dwiedjanto</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>Ninik Herlani Masli Ridwan</td>
</tr>
</tbody>
</table>
B. Member Entities

B.1. PT Bank Tabungan Pensiunan Nasional, Tbk (BTPN)

The composition of the Board of Commissioners and Board of Directors of BTPN as member of the Financial Conglomerate SMBC group as of 31 December 2015 were as follows:

Board of Commissioners of BTPN

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Commissioner</td>
<td>Prof. Dorodjatun Kuntjoro-Jakti Ph.D.</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>Harry Hartono</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>Irwan Mahjudin Habsjah</td>
</tr>
<tr>
<td>Commissioner</td>
<td>Ashish Jaiprakash Shastrty</td>
</tr>
<tr>
<td>Commissioner</td>
<td>Chow Ying Hoong</td>
</tr>
<tr>
<td>Commissioner</td>
<td>Hiroshi Higuma</td>
</tr>
</tbody>
</table>

Board of Directors of BTPN

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Director (Independent)</td>
<td>Jerry Ng</td>
</tr>
<tr>
<td>Vice President Director</td>
<td>Ongki Wanadjati Dana</td>
</tr>
<tr>
<td>Vice President Director</td>
<td>Djemi Suhenda</td>
</tr>
<tr>
<td>Director Overseeing of Compliance Function and Company Secretary (Independent)</td>
<td>Anika Faisal</td>
</tr>
</tbody>
</table>
Information Technology Director  Kharim Indra Gupta Siregar
Small and Medium Enterprise Business Director  Mulia Salim
Finance and Funding Director  Arief Harris Tandjung
Retirement Business Director  Asep Nurdin Alfallah
Operational Director  Hadi Wibowo
Human Capital Director  Maya Kartika
Risk Management Director  Wolf Arno Kluge

Additional Information:
Based on the decision of the Annual of Shareholder meeting of BTPN dated 29 April 2016, the structure of the Board of Commissioners and Board of Directors as of 29 April 2016 were as follows:

<table>
<thead>
<tr>
<th>Board of Commissioners of BTPN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title</strong></td>
</tr>
<tr>
<td>President Commissioner (Independent)</td>
</tr>
<tr>
<td>Independent Commissioner</td>
</tr>
<tr>
<td>Independent Commissioner</td>
</tr>
<tr>
<td>Commissioner</td>
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<tr>
<td>Commissioner</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Board of Directors of BTPN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title</strong></td>
</tr>
<tr>
<td>President Director (Independent)</td>
</tr>
<tr>
<td>Vice President Director</td>
</tr>
<tr>
<td>Vice President Director</td>
</tr>
<tr>
<td>Director Overseeing of Compliance Function and Company Secretary (Independent)</td>
</tr>
<tr>
<td>Information Technology Director</td>
</tr>
<tr>
<td>Finance and Funding Director</td>
</tr>
<tr>
<td>Risk Management Director</td>
</tr>
</tbody>
</table>

B. 2. PT Bank Tabungan Pensiunan Nasional Syariah (BTPN Syariah)

The composition of the Board of Commissioners and Board of Directors of BTPN Syariah as member of the Financial Conglomerate SMBC group as of 31 December 2015 were as follows:

<table>
<thead>
<tr>
<th>Board of Commissioners of BTPN Syariah</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title</strong></td>
</tr>
<tr>
<td>President Commissioner (Independent)</td>
</tr>
<tr>
<td>Independent Commissioner</td>
</tr>
<tr>
<td>Commissioner</td>
</tr>
</tbody>
</table>
### Board of Directors of BTPN Syariah

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Director</td>
<td>Harry A.S. Sukadis</td>
</tr>
<tr>
<td>Vice President Director</td>
<td>Ratih Rachmawaty</td>
</tr>
<tr>
<td>Information Technology Director</td>
<td>Setiasmo</td>
</tr>
<tr>
<td>Operational Director</td>
<td>Gatot Adhi Prasetyo</td>
</tr>
<tr>
<td>Director Overseeing of Compliance Function and Risk Management</td>
<td>Taras Wibawa Siregar</td>
</tr>
</tbody>
</table>

### The Sharia Supervisory Board of BTPN Syariah

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>KH. Drs. Amidhan</td>
</tr>
<tr>
<td>Member</td>
<td>KH. Ahmad Cholil Ridwan, Lc.</td>
</tr>
</tbody>
</table>

**Additional Information:**
Based on the decision of The Annual of Shareholder meeting of BTPN Syariah dated 2 May 2016, the Board of Commissioners, Board of Directors and Sharia Supervisory Board of BTPN Syariah were reappointed.
V. THE POLICY OF INTRA-GROUP TRANSACTION

Each of the Financial Service Institution of the Financial Conglomerate of SMBC group has complied with their internal rules and guidelines on managing intra-group transaction of conglomerate.

Intra-Group transaction is a transaction between entities within one Financial Conglomerate for the fulfillment of obligations in either written or unwritten agreement which may or may not involve the movement of funds.

The policy of intra-group transaction has incorporated factors to identify intra-group transaction which causes intra-group transaction risks, among others from:

1. Cross-ownership amongst FSIs within a Financial Conglomerate;
2. Centralization of short-term liquidity management;
3. Guarantees, loans, and commitments that are provided or obtained by an FSI from other FSI within a Financial Conglomerate;
4. Exposure to the controlling shareholder, including the exposure of loans and off-balance sheet such as guarantees and commitments;
5. The purchase or sale of assets to another FSI within one Financial Conglomerate;
6. Transfer of risk through reassurance; and/or transactions to divert third party risk exposure amongst FSIs within one Financial Conglomerate.

In addition, listed below are the indicators that could be used in the identification of inherent risk of intra-group transaction:

a. Significant of intra-group transaction on the total asset of the Financial Conglomerate.
b. Dependency of Financial Service Institution on intra-group transaction.
c. Documentation of transaction’s agreement and support of intra-group transaction.
d. Fulfillment of arm’s length’s principle in agreement of the whole intra-group transaction.

Parameters that could be used in measuring the severity of Intra-Group Transactions are as follows:

1. Composition of intra-group transaction in the Financial Conglomerate using ratio or indicator such as total amount of intra-group transaction compared to total asset, total amount of intra-group transaction including Off Balance Sheet intra-group compared to total capital, exposure toward the Controlling Shareholder (including loan exposure and off-balance sheet such as guarantee and commitment) and others.
2. Documentation and judgment by using indicator such as agreement documentation, fulfillment of arm’s length principle (judgment of transaction) and impact transaction on the financial performance of the Financial Service Institution.

3. Other information such as there are management centralization related to short term liquidity, support of intra-group is not legally blinded and/or could not be executed, supply of service of management and other services such as back-office between Financial Service Institution in one group and purchase or sell asset to other Financial Service Institution in one group.

In terms of management of intra-group transaction risk, exposure should be in accordance to established risk tolerance level.

The management of Intra-Group transaction risk can be done through hedging, additional capital to absorb loss potential or having other risk mitigation based on relevant regulations, for instance Legal Lending Limit.

The intra-group transaction policy of SMBCI as the Lead Entity of the Financial Conglomerate of SMBC group has been stipulated in the Policy of Integrated Risk Management, Policy of Legal Lending Limit and Policy of Equity Participation.

The detail of the intra-group transaction of the Lead Entity (SMBCI) as of 31 December 2015 has been incorporated in The Annual Report for the year 2015 of the Lead Entity (SMBCI).