

NUSANTARA

GOING GLOBAL

Annual Report 2017



HSBC

An aerial photograph of a city, likely Jakarta, showing a dense urban landscape with numerous high-rise buildings and a large green park area in the foreground. The image is slightly faded, serving as a background for the text.

NUSANTARA GOING GLOBAL

Nusantara going Global is a theme chosen by PT Bank HSBC Indonesia (the “Bank”) post-integration, reflecting the Bank’s ambition and intention to further strengthen its commitment in Indonesia, confirming its presence in the nation to realize the Bank’s vision.

“Throughout our history, we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realize their ambitions. This is our role and purpose.”

The Bank now provides more access to products and services for its customers in Indonesia to help them realize their ambitions. The Bank’s services cover 29 cities in 5 major islands in Indonesia. Our customers also have opportunities to connect with the Bank’s entire global network.

DISCLAIMER

This Annual Report contains financial conditions, operating results, projections, plans, strategies, policies, as well as the Bank’s purpose, which is classified as future statements within the meaning of prevailing regulations, excluding historical matters.

The statements have the prospective risk and uncertainties, which may lead to actual developments that are different from what has been written. Prospective statements in this Annual Report are composed based on various assumptions on current conditions and the forecast of future conditions of the Bank and the business environment in which the Bank conducts business activities. The Bank does not guarantee that all measures undertaken would bring specific results as expected.

This Annual Report contains the word “Bank” which is defined as PT Bank HSBC Indonesia. The terms “Company” or “Corporation” are also used at times to refer to PT Bank HSBC Indonesia in general.

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Key Highlights

FINANCIAL HIGHLIGHTS OF 2017

► Total paid up capital



Rp10.5 Trillion ↑

Total paid up capital increased from Rp2.5 trillion to Rp10.5 trillion

► Core Equity Tier 1



Rp14.3 Trillion ↑

Core Equity Tier 1 increased from Rp5.2 trillion to Rp14.3 trillion

► CAR



22.49%

CAR was sound at 22.49%

► Total assets



Rp101 Trillion

Total assets as at 31 December 2017 was Rp101 trillion

The Bank has completed the integration with the foreign bank branch office of HSBC in Indonesia (KCBA HSBC) with the effective date of integration on 17 April 2017. The integration was implemented using a transfer of assets and liabilities mechanism. Total assets and liabilities transferred from KCBA HSBC to the Bank at the effective date of integration amounted to Rp75.2 trillion.

Ratio on Assets (RoA)

1.78%

Increased

**0.47%**

Ratio on Equity (ROE)

11.85%

Increased

**2.27%**

During 2017, the Bank also adjusted the interest rate on time deposits including an alignment of interest rate on time deposits post integration to reduce funding cost and maintain NIM at **5.25%**.

The low-cost funding ratio **increased** from **42.59%** at the end of 2016 to **67.98%** at the end of 2017.

During 2017, the Bank also put efforts to improve operating efficiencies, resulting in improved **Operating Expenses to Operating Revenue** from **95.66% to 82.79%**.

Key Financial Data Highlights	Year	
	2017	2016
Statements of Financial Position		in billion Rupiah
Total Assets	101,017	26,532.1
Loans Receivable - gross	60,535	18,613.8
Investment securities	13,704	3,723.4
Deposits from Customers	56,933	19,111.1
- Demand deposits	25,575	3,034.4
- Saving accounts	13,130	5,105.6
- Time deposits and deposits on call	18,227	10,971.1
Total Liabilities	86,149	21,067.3
Total Equity	14,867	5,464.8
COMPREHENSIVE CONSOLIDATION STATEMENT OF INCOME		in billion Rupiah
Interest income	5,050	2,555.1
Interest Expenses	(1,397)	(1,191.7)
Interest Income - net	3,653	1,363.4
Non-Interest Income	1,763	113.1
Operating Income	4,583	1,262.6
Operating Expenses	(3,064)	(1,127.6)
Profits Before Tax	1,518	135.1
Net Profit for the Current Year	1,370	100.5
Comprehensive income	1,331	115.7
FINANCIAL RATIOS		
Capital		
Capital Adequacy Ratio (CAR)	22.49%	23.69%
Earning Assets Quality		
Productive and Non-Productive Assets to Total Productive Assets and Non-Productive Assets	1.54%	3.42%
Non-Performing Productive Assets to Total Productive Assets	2.80%	4.59%
NPL to Loans Receivable – gross	4.26%	6.06%

Key Financial Data Highlights	Year	
	2017	2016
NPL to Loans Receivable - net	1.70%	3.90%
OTHER RATIOS		
Rentability		
Ratio on Assets (RoA)	1.78%	0.47%
Ratio on Equity (ROE)	11.85%	2.27%
Liability to Equity Ratio	5.79	3.85
Liability to Asset Ratio	85.28%	79.40%
Net Interest Margin (NIM)	5.25%	5.43%
Operating Expenses to Income	82.79%	95.66%
Equity		
Loan to Funding Ratio (LFR)	106.55%	97.30%
Low-cost Funding Ratio	67.98%	42.59%
Current Ratio	123.09%	93.09%
Compliance		
Percentage of excess over Legal Lending Limit (LLL)		
a. Related Party	Nil	Nil
b. Non-Related Party	Nil	Nil
Percentage of Legal Lending Limit (LLL) Exceedance		
a. Related Party	Nil	Nil
b. Non-Related Party	Nil	Nil
Minimum Statutory Reserves in Rupiah	7.85%	7.97%
Net Open Position (NOP)	4.38%	0.77%

THE BANK'S FOCUS IN 2017



In 2017, the Bank focused on the following strategic priorities:

- Completing the integration of KCBA HSBC into the Bank.
- Capturing infrastructure opportunities to grow asset and revenue.
- Utilizing HSBC international network to maximize opportunities in cross-border businesses.
- Improving third-party funds (especially in Rupiah) to support asset growth.
- Investing in digital to improve retail businesses.
- Strengthening and growing local corporate relationship across the top 14 core cities.
- Hiring, training, and maintaining current talents in addition to streamlining operations and improving control.

2017 SIGNIFICANT EVENTS

Integration of HSBC Indonesia

17 April 2017

On 17 April 2017, HSBC Group completed the pioneering integration of its Foreign Bank Branch Office into PT Bank HSBC Indonesia. This integration established a stronger growth platform for HSBC Group to contribute more to the Indonesian economy.



The Launch of PT Bank HSBC Indonesia

May 2017

To mark the integration of HSBC Foreign Bank Branch Office in Indonesia and PT Bank HSBC Indonesia a series of launch events have taken place in 3 major cities in Indonesia: Surabaya (2 May), Medan (5 May) and Jakarta (9 May). Key guests included Chairman of the Indonesian Financial Services Authority, Mr. Muliawan Hadad, and Chairman of the Indonesia Investment Coordinating Board, Mr. Thomas Lembong, who spoke positively about Bank.



Nusantara going Global

August - November 2017

A series of Capabilities Events were launched in 12 cities. During that event, the Bank showcased how customers can benefit from the enlarged capabilities of the Bank post integration.



2017 ACCOLADES

- Best Fund Administrator – Retail Fund Services in Indonesia by the Asset
- No #1 Sub Custodian (both weighted and unweighted categories) in Indonesia by Global Investor Sub-Custody Survey





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Management Report

THE BOARD OF COMMISSIONERS REPORT

Key Highlights

Management Report

Company Profile

Management Discussion and Analysis



Hanny Wurangian

Vice President Commissioner cum Independent Commissioner

Introduction

Our respected shareholders and stakeholders,

2017 was a challenging year for the Indonesian banking industry and the national economy in general. The world's economy is recovering, but with varying speed depending on the region. Although the general global issue of protectionism has subsided, the U.S's economic policies, especially The Fed's move to increase interest rate three times in a year, helped reduce the aggressiveness of the globalization of the banking market and financial industry. Nevertheless, Indonesia's economy grew over 5% in 2017, supported by appropriate economic policies, Bank Indonesia's low interest rate policy, and an improvement in commodity prices and regional trade.

Throughout 2017, credit growth slowed, similar to 2016. This was attributed to the quality of banking assets which have not fully recovered. Non-performing loans (NPL) remained high, at 2.6% in 2017. Moreover, the demand for credit continued to be moderate, reflected by higher rate of undisbursed loans. This also contributed to the slowdown in Indonesia's overall credit growth. However, Indonesia continues to remain a profitable market for the banking industry. The industry continues to become more competitive, however opportunities continue to exist in both retail and corporate segments.

For the Bank, 2017 was an exciting year. We completed the integration of the Foreign Bank Branch Office of HSBC in Indonesia (KCBA HSBC) into the Bank. This integration allows the Bank to expand its banking propositions to customers across Indonesia through our expanded capabilities.

In spite of the hard work of the integration, the Bank was also able to deliver strong performance and profitability. This performance was made possible by the proper business strategies, the tight control of operating expenses, and the close supervision of the quality of the credit portfolio.

Performance Analysis of the Bank

2017 was a very important year for the Bank with the successful integration with HSBC Indonesia branch on

April 17, 2017 as planned. To support the integration, the Bank has received capital injection of Rp8 trillion. As such, the Bank's equity balances at the end of 2017 reached Rp14.9 trillion. The increase in capital was also to support business growth, as well as to provide sufficient buffers to withstand any economy shocks that may occur or which could have a negative impact on the banking industry in Indonesia.

For the year ended December 31, 2017, the Bank recorded Profit before Tax of Rp1,518 billion. This achievement showed a higher profit compared to prior year and also exceeded the target set by the Bank. This achievement was supported by an increase in interest income as a result of the Bank's productive assets increasing from the integration, operational efficiency and enhanced credit quality monitoring. This is shown by maintenance of NIM ratio above 5% and CAR above 20%. Further, return of asset and equity ratios increased to 1.78% and 11.85%, respectively. BOPO was at 82.79% which was an improvement compared to the prior year.

The realization of loans receivable as of December 31, 2017 reached Rp60.5 trillion. In 2017, slow lending growth and increasing credit risk were the main challenges for the Bank in increasing the overall loan balance while maintaining sound NPL ratio. The Bank took various efforts to maintain the NPL ratio below 5%.

The NPL ratio was attributable to the Bank's effort in maintaining the quality of its credit portfolio. The maintenance of credit quality was achieved through tightening the monitoring process of credit quality, adjusting policies, and various efforts for recovery of non-performing loans. The lending was supported by the Bank's funding which were sourced from deposits from customers amounting to Rp56.9 trillion.

The Bank always maintained a balance between funding need and the funding availability. Loan to Deposit Ratio at the end of the year was at 106.55%. In addition to third party deposits as source of funds for lending, the Bank also has long-term borrowing denominated in U.S. Dollar from The Hong Kong and Shanghai Banking Corporation Limited to support lending in foreign currency.

The Bank managed to reach a NIM level that exceeded the 2017 target as a result of the Bank's efforts to adjust interest paid on third party funds. The ratio of low cost funding (saving and current accounts) against total deposits from 3rd party stood at 68%.

Realized Operating Expenses to Operating Income ratio (BOPO) reached 82.79%. This was mainly achieved by efficiencies in operating expenses, lower impairment losses compared to projection, as well as lower interest expense due to an adjustment in the deposit interest rate. At the end of the fourth quarter of 2017, the Bank's Gross NPL ratio was 4.26%, which was lower than the ratio as of end of previous year at 6.06%. The Bank's net NPL ratio improved from 3.9% as of end of the previous year to 1.7%. The improvements in the NPL ratios were attributable to the Bank's effort in maintaining the quality of the credit portfolio. This quality maintenance was achieved by conducting a strict monitoring of credit quality, adjusting policies, and addressing non-performing loans, which included enhanced monitoring and utilizing Customer Risk Rating (CRR).

Assessment on the Board of Directors' Performance

The Board of Commissioners understands the various challenges from the economic recovery in 2017 as mentioned above. Despite these challenges, the Board of Directors demonstrated their collective ability to lead the Bank in overcoming those challenges and capturing opportunities. Their capabilities were reflected in the significantly improved commercial performance. We appreciate the Board of Directors' success in managing income margins, operational effectiveness, close monitoring of credit quality, as well as capturing business opportunities. The Bank booked Profit Before Tax of Rp 1,561 billion and improved the Return on Equity.

The Board of Commissioners would like to express our gratitude and appreciation to the Board of Directors and Management team of the Bank for their exceptional performance in 2017.

The Implementation of Good Corporate Governance

The Board of Commissioners believes that it is important to implement Good Corporate Governance practices across all operational activities in order to ensure a strong foundation to support growth. The Bank is committed to upholding the core values, which are dependable, open, and connected. Therefore, the Board of Commissioners strives to ensure that all business activities in the Bank are conducted professionally, and in accordance with the principles of Good Corporate Governance. The Board of Commissioners is of the opinion that the Board of Directors has implemented Good Corporate Governance well in 2017.

The self-assessment undertaken every semester showed that the Bank's Good Corporate Governance implementation achieved composite score of 2 (two). This indicates that, in general, the Bank's governance implementation was sound. There is always scope for betterment in the implementation of the Good Corporate Governance principles and to continually strive for higher standards. The areas identified for such improvement were generally small in scope and appropriate plans of action were in place from the Bank's management to address such areas.

Committees under the Board of Commissioners

All committees under the Board of Commissioners have effectively discharged their duties and responsibilities. Audit Committee and Internal Audit team have conducted their supervisory function in accordance with the applicable audit standards. The Board of Commissioners also assessed other committees, i.e. Risk Monitoring Committee and Remuneration & Nomination Committee. All such committees performed well and made important contributions to the Bank's overall performance.

2018 Business Outlook

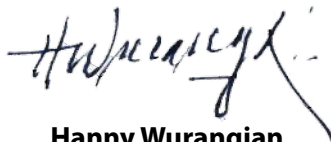
The global economy is expected to continue to recover in 2018 and the following years. In 2018, global economic growth is predicted to increase from 3.0% in 2017 to 3.1%. Indonesia's economic growth is estimated to grow to 5.3% in 2018. According to Bank Indonesia, Indonesia's

economic growth is estimated to range between 5.8% and 6.2% from 2019 to 2022. This estimate is supported by improvements in commodity prices, lower interest rates, declining unemployment, and relatively stable geopolitical conditions.

The Change of Composition of the Board of Commissioners
In 2017, there was a change in the composition of the Board of Commissioners. In the Extraordinary General Meeting of Shareholders (EGMS) held on September 18, 2017, Matthew Kneeland Lobner has been appointed as President Commissioner, replacing Jayant Rikhye. The, EGMS also resolved to add 2 commissioners in the composition of the Board of Commissioners, i.e. Antony Colin Turner as Commissioner and Umar Juoro as Independent Commissioner.

Acknowledgement

On behalf of the Board of Commissioners, I would like to express our most sincere thanks and appreciation to all stakeholders, business partners, and employees. We also would like to extend appreciation to all our customers for their loyalty, encouragement and also any feedback given. It is truly an honor and a pleasure for us to work together with you all.



Hanny Wurangian

Vice President Commissioner cum Independent Commissioner

BOARD OF COMMISSIONER



Hariawan Pribadi
Independent Commissioner

Hanny Wurangian
Vice President Commissioner cum
Independent Commissioner

Matthew Kneeland Lobner
President Commissioner



Mark Thomas McKeown
Commissioner

Umar Juoro
Independent Commissioner

Antony Colin Turner
Commissioner

THE BOARD OF DIRECTORS REPORT

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Sumit Dutta
President Director

Introduction

Our respected shareholders and stakeholders,

On behalf of the Board of Directors, it is a great pleasure for me to present the achievements of PT Bank HSBC Indonesia during 2017 and also the future business prospects.

In April 2017 we successfully integrated the Foreign Bank Branch Office of HSBC in Indonesia (KCBA HSBC) into the Bank, operating across 29 cities with more than 90 branches in Indonesia.

2017 proved to be a challenging year for the Indonesian banking industry as a result of a slowdown in the global and national economic recovery. Despite these challenges the Bank was able to exceed its targets and we remain committed to providing added value to all stakeholders by optimizing human capital and HSBC Group's global network.

Economic Condition and Challenges in 2017

In general, 2017 experienced a slowdown in the global economic recovery coupled with geopolitical conflicts, especially in relation to increased focus on protectionism and cross border trade restrictions, although these ideas did not evolve into major policy changes by European countries or the United States of America.

The global economic recovery was characterized by slow economic growth in European countries and the United States of America, while East Asian and Pacific countries, especially China, recorded significant economic growth.

China's economic growth of 6.9% exceeded economist's predictions of 6.8%, however it is estimated that China's economic growth will slow due to the high level of debts incurred to finance their development projects.

Indonesia's economic condition improved, contributed by the rise of commodity prices, stronger global growth, an increase in international trade, and relatively accommodating monetary and financial conditions. In 2017 Indonesia's economic improvement was mainly underpinned by exports and capital expenditure. Bank Indonesia reported that Indonesia's economic growth had reached 5.05% throughout 2017, which was higher than 5.02% achieved in 2016. The World Bank estimated that Indonesia's economic growth will increase to 5.3% in 2018 and 2019.

The banking industry still experienced a lower than expected growth in 2017. Although as at December 2017, loans grew by 8.2%, a slight increase compared to the previous year's performance of 7.9%, lending growth was not yet conducive as a result of credit quality that has not fully recovered. Non-performing loans (NPL) stood at 2.6% in December 2017. Moreover the demand for credit remained low which was reflected by the increase in the amount of undisbursed loans. This also contributed to the slowdown in Indonesia's credit growth.

In terms of funding, the banking industry saw good growth in third-party funds. During 2017, the banking industry third party funds grew by 9.4% with an increase primarily in the form of deposits. The growth in time deposits increased liquidity in the banking sector, which was reflected in the decrease of the loan to deposit (LDR) ratio from 90.5% in 2016 to 88.3% in 2017.

Meanwhile, the banking industry's profitability, as measured by Return on Assets (RoA), showed a declining trend in certain bank groups. Referring to the Indonesia Banking Statistics issued by the OJK, the RoA of conventional commercial banks as at December 2017 reached 2.45%, slightly up from 2.23% as at the end of 2016. When viewed in more detail, the RoA of conventional mixed banks showed a general downward trend throughout 2017.

Despite the reducing trends in profitability and the lower than expected credit growth, the OJK assessed the condition of the financial service industry, including banking, as stable and remains positive. The assessment was based on excess liquidity within the market, capital adequacy, and interest rates. The interest rates, including both the deposit interest rate and the loan interest rate, showed a declining trend. As of December 2017, the 1-month deposit rate of commercial banks averaged 5.74%, down from 6.45% last year. While interest rates provided by commercial banks to non-banks, based on both business and non-business activities, reduced from 12.16% in 2016 to 11.37% in December 2017.

The Bank's Performance

The year of 2017 was an important year for the Bank with the successful integration with HSBC Foreign Bank Branch Office in Indonesia on April 17, 2017, in line with the plan. The increase in capital has been achieved in accordance with the plan, the Bank's equity increased from Rp5.4 trillion to Rp14,9 trillion as of December 31, 2017. The total assets of the Bank as at December 31, 2017 amounted to Rp 101 trillion.

In 2017, the Bank reported a Profit Before Tax of Rp1,561 billion. This was higher than the plan.

Loan balances as of December 31, 2017 reached Rp60,661,636 million. There were a number of factors impacting the credit balance, such as the demand for credit that has not recovered, repayments from a number of corporate customers, changes in business appetite and prudent credit risk management.

The Bank always maintains a balance between loans provided and the funding of such loans. The LDR as at the end of the year was 106.55%, which was higher than the prior year end at 97,30%. In addition to Third Party Funds as a source of funds to support lending, post the integration, the Bank has a Core Funding facility from HSBC Hong Kong of USD1.4 billion, out of which the Bank has drawn USD985 million to support lending in foreign currency.

The Bank's NIM exceeded target, primarily as a result of the Bank's efforts to adjust interest paid on third party funds while maintaining competitive interest rates on loans.

The Operating Expenses to Operating Income ratio reached 82.31%, which was better than plan. This was mainly due to lower than plan operating expenses as well as lower provisions for impairment loan losses.

At the end of the fourth quarter of 2017, the NPL- Gross Bank Ratio was 4.26%. This was primarily due to loan

growth that was below plan. Non-performing loans (NPL) reached Rp2,586 billion, lower than the original projection. The Bank's success in containing NPL was as a result of the Bank's effort in sustaining the quality of the credit portfolio, achieved through the provision of a stricter loan monitoring process and adjustments to the credit policies.

Future Outlook

Future Business Outlook and Challenges

In 2018, the global economy is estimated to continue to recover. The World Bank predicts that global economic growth will increase to 3.1% from 3.0% in 2017. The World Bank also estimates that Indonesia's economic growth will increase to 5.3% in 2018, higher than 5.1% achieved in 2017. According to Bank Indonesia, Indonesia's economic growth is estimated to be between 5.8% and 6.2% from 2019 to 2022.

In line with the above 2018 prediction, Bank Indonesia estimates that third-party funds (DPK) will range between 9% and 11% in 2018. Meanwhile, loan growth will range between 10% and 12%. The continued expansion of the banking sector will be supported by increasing liquidity and a controlled non-performing loan ratio.

However, the national banking industry will face important challenges in the future; external challenges such as The Fed's increasing interest rate and strengthening USD, to internal challenges such as the competition between the banking industry and corporate bonds and fintech, a NPL ratio that is still deemed to be high and weak consumer spending.

There are however some opportunities to be captured by the national banking industry. These include large-scale infrastructure projects and the government's large capital expenditure; the increasing export value and commodity prices; and Indonesia's sovereign rating upgrade.

Strategic Priorities

Given the 2018 business outlook and challenges, the Bank will continue implementing the current strategic priorities which are as follows:

- Capturing infrastructure opportunities to increase asset growth and income.
- Utilizing the HSBC international network to maximize opportunities in cross-border businesses.
- Improving third-party funds (especially in Rupiah) to support asset growth.
- Investing in the digital field to improve retail businesses.
- Strengthening and expanding the relationship with local companies located in 14 core cities.
- Hiring, training, and maintaining current talents in addition to streamlining operation and improving oversight.

Human Capital Management

The Bank is fully committed to improving its employees' competency in terms of ability, knowledge, and behaviours to support the Bank's business strategy. Throughout 2017, the Bank has improved the employees' competency through various programmes, including hard skills and soft skills training, leadership education, and in-house training to improve specific skills.

In April 2017 KCBA HSBC was integrated into the Bank. This integration had a major impact on the management of Human Capital since the process involved more than 5,000 employees.

Good Corporate Governance

The Bank is committed to consistently and continuously improve the implementation of Good Corporate Governance principles in accordance with the national and international standards of governance. As a result of this, the Bank will be able to improve its performance and protect the shareholders' interests without neglecting interests of other stakeholders.

The Bank has established a Corporate Governance Structure to ensure the implementation of Good Governance principles. The structure is comprised of the main governance bodies being the General Meeting of Shareholders, Board of Commissioners, Board of Directors, and the supporting bodies including Internal Audit, Corporate Secretary, and the committees under the Board of Commissioners and under the Board of Directors.

In 2017, the Bank conducted self-assessments on Corporate Governance every semester. The results of the assessments have been submitted to the regulators. The Bank rated itself in the "Good" category. The Bank continually strives for higher standards of Good Corporate Governance. Areas that were identified for improvements were generally small in scope and appropriate plans of action were in place from the Bank's management to

address such areas. In essence, the Bank is run with sound practices in Good Corporate Governance. The results of the Governance self-assessments were included in the comprehensive Bank Soundness Level evaluation and have been discussed with OJK Supervisory Team.

Sustainability

In conducting its business activities and operations, the Bank is committed to respect and comply with the principles of sustainability. For the Bank, sustainability principles are needed to develop a long-term business by balancing social, environmental, and economic aspects in the decision-making process. Implementing sustainability principles allows the Bank to achieve sustainable growth and achieve commercial success.

The Bank is also fully committed to actively participate in Indonesia's sustainable development. To support this, the Bank continues to contribute to community programmes in education, environmental preservation, and social welfare sector.

In conducting its community programmes, the Bank always involves competent local partners that have a direct access to the people and regions that require assistance. By involving local partners the Bank can ensure that these programmes improve local people's welfare and encourage sustainable economic development.

In order to ensure long-term benefits the Bank monitors the results and the impacts of all community programmes that have been implemented. The Bank also develops and establishes good relationships with various parties not

only the local partners that conduct the programs but supervisors, community governments and the media by providing opportunities for them to jointly engaged in such community programmes.

The Change in the Board of Directors

Previous Board of Directors before Integration	Current Board of Directors
<ul style="list-style-type: none"> • Antony Colin Turner President Director • Gimin Sumalim Network & Distribution Director • Hanna Tantani Finance Director • Luanne Lim Operation Director • Lenggono S Hadi Compliance Director 	<ul style="list-style-type: none"> • Sumit Dutta President Director • Blake Digney Philip Hellam RBWM Director • Catherinawati Hadiman S Director of Commercial Banking • Hanna Tantani Finance Director • John Peter Watt Rosie Operations & IT Director • Tripudjo Putranto Soemarko Strategy & Business Implementation Director • Caecilia Pudji Widyarti Strategy & Business Implementation Director • Yessika Effendi Compliance Director • Stephen W. Angell *) Management Risk Director



Sumit Dutta
President Director

DIREKSI



Tripudjo Putranto Soemarmo
Strategy & Business Implementation Director

Catherinawati Hadiman S
Director of Commercial
Banking

Yessika Effendi
Compliance Director

Sumit Dutta
President Director

Hanna Tantani
Finance Director



Caecilia Widyarti Adinoto
Human Resources Director

Blake Hellam
RBWM Director

Stephen W. Angell (*)
Management Risk Director

John Rosie
Operations & IT Director

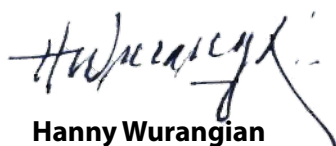
STATEMENT OF THE BOARD OF COMMISSIONERS REGARDING RESPONSIBILITY FOR THE 2017 ANNUAL REPORT OF PT BANK HSBC INDONESIA

We, the undersigned, hereby declare that all information in the Annual Report of PT Bank HSBC Indonesia for the year 2017 have been presented in its' entirety and that we assume full responsibility for the accuracy of the contents of the Company's Annual Report.

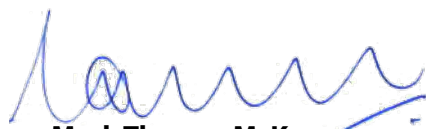
This statement is duly made in all integrity.

Jakarta, April 2018

Board of Commissioners



Hanny Wurangian
Vice President Commissioner cum
Independent Commissioner



Mark Thomas McKeown
Commissioner



Hariawan Pribadi
Independent Commissioner

STATEMENT OF THE BOARD OF DIRECTORS REGARDING RESPONSIBILITY FOR THE 2017 ANNUAL REPORT OF PT BANK HSBC INDONESIA

We, the undersigned, hereby declare that all information in the Annual Report of PT Bank HSBC Indonesia for the year 2017 have been presented in its' entirety and that we assume full responsibility for the accuracy of the contents of the Company's Annual Report.

This statement is duly made in all integrity.

Jakarta, April 2018

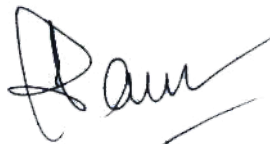
Board of Directors



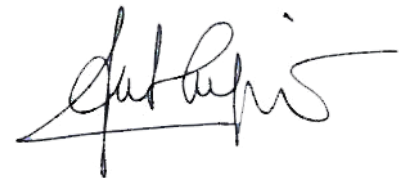
Sumit Dutta
President Director



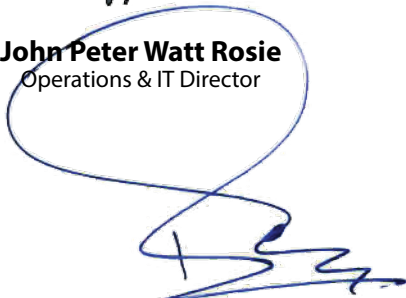
John Peter Watt Rosie
Operations & IT Director



Hanna Tantani
Finance Director



Catherinawati Hadiman S
Director of Commercial Banking



Blake Digney Philip Hellam
RBWM Director



Caecilia Pudji Widyarti
Human Resources Director



Yessika Effendi
Compliance Director



Tripudjo Putranto Soemarko
Strategy & Business Implementation Director





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Company Profile

COMPANY PROFILE



About HSBC Group

HSBC Group (HSBC) is one of the largest banking and financial service providers in the world with offices in 67 countries and operating in both established and fast-growing markets. Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose.

HSBC serves 38 million customers across the globe, from individual customers to major corporates, through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets and Global Private Banking. The HSBC network includes 67 countries throughout Europe, Asia, Middle East and North Africa, North America, and Latin America. HSBC is committed to conducting its business by providing fair value for customers and supporting them in realising their ambition.

HSBC was founded in Hong Kong on 3 March 1865.

HSBC has around

3,900
Offices



67
Countries



HSBC has around **38 million** customers who bank with us.

1

Won the title "World's Best Bank" Euromoney Magazine's Awards for Excellence 2017.



HSBC employs **229,000** people around the world.

HSBC reported profits before tax in 2017 of

USD 17.2 billion

with total asset of **USD2.5** trillion.

HSBC paid dividend

USD 10.2 billion

to the shareholders in 2017

► Learn more about HSBC by visiting www.hsbc.com/about-hsbc

About the Bank

As the pioneer of modern banking in Asian countries HSBC has a long history in Indonesia. The Hong Kong and Shanghai Banking Corporation Limited opened its first Indonesian office in Jakarta (formerly Batavia at that time) in 1884. Initially HSBC only facilitated the Indonesian sugar trade which was an important commerce at that time and then expanded its operation to Surabaya in 1896.

Due to turmoil in the Indonesian market HSBC was forced to cease its activities during the Second World War and re-opened when the war ended. After the closure of its Indonesian business in the mid 1960s, HSBC re-obtained its banking license in 1968. Since then, HSBC continues to grow and maintain its position as one of the largest foreign banks operating in Indonesia.

In October 2008, HSBC announced the plan to acquire PT Bank Ekonomi Raharja Tbk. This acquisition was aimed to enhance HSBC's commercial banking business in Indonesia, extend its retail presence and expand HSBC's network in Indonesia. The acquisition was completed in May 2009.

PT Bank Ekonomi Raharja changed its name to PT Bank HSBC Indonesia (the Bank) in October 2016.

To support the Indonesian Government's agenda to consolidate the banking industry, HSBC was honoured to be given the approval to be the first international bank to integrate its foreign bank branch office (The Hong Kong and Shanghai Banking Corporation Limited, Jakarta Branch) into its local banking subsidiary (PT Bank HSBC Indonesia). The integration was completed on 17 April 2017.

The Bank currently serves the customers through more than 90 offices in 29 Indonesian cities. With support from over 4,600 employees, the Bank provides banking services for Retail Banking and Wealth Management, Commercial Banking, and Global Banking and Markets. The Bank's commitment toward Indonesian communities is reflected by various corporate sustainability activities organised by the Bank.

SHARE OWNERSHIP

The composition of shareholders as of December 31, 2017
is as follows:

Shareholders	Amount of Shares	Shareholding Percentage
HSBC Asia Pacific Holdings (UK) Limited	10,473,719,274	98.9357%
PT Bank Central Asia	112,653,737	1.0641%
Others	21,986	0.0002%
Total	10,586,394,997	100.0000%

COMPANY VISION, MISSION, AND CORE VALUE

Vision

"Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose."

Mission

"To help customers and clients thrive wherever they are in the world and connect them to opportunities near and far, big and small."

Our Values

Our values define who we are as an organisation and what makes us distinctive. By operating in accordance with our values we are:

Dependable

- Standing firm for what is right, delivering on commitments, being resilient and trustworthy.
- Taking personal accountability, being decisive, using judgment and common sense, empowering others.

Open to different ideas and cultures

- Communicating openly, honestly and transparently, welcoming challenge, learning from mistakes.
- Listening, treating people fairly, being inclusive, valuing different perspectives.

Connected to customers, communities, regulators and each other

- Building connections, being aware of external issues, collaborating across boundaries.
- Caring about individuals and their progress, showing respect, being supportive and responsive.

Brand Personality

Our Personality is born of values and experiences of our HSBC Group. Over 150 years ago HSBC was established to serve the needs of emerging trade routes in Asia.

Since then we have grown to become an international bank serving the needs of millions of people, businesses and communities around the world.

Brand Purpose

Advancing prosperity for all we serve; today, tomorrow and into the future.

Everything we do, every product we make, every service we provide, should exist for one reason only; to advance the prosperity of our customers and clients.

Brand Promise

If our Purpose is what we do, and our Personality is the style in which we deliver it, our Brand Promise is our commitment to our customers.

Our Commitment

“Together we thrive” delivers our positioning and personality into the hearts and minds of all those connected to HSBC. It is based on partnership and reciprocity. If our customers thrive, then so does HSBC.

Likewise, if our people thrive, then so do we. Again, if our shareholders, suppliers and the communities we serve thrive, then so do we all.

It is a modern view of what our business is built on; coming together to help those we serve realize their hopes, dreams and ambitions and connecting them to opportunities all over the world.

LINE OF BUSINESS



As specified in the Company's Articles of Association, the purpose of establishing the Bank is to undertake a banking business in accordance with the laws and regulations.

The Bank following business activities:

- Accepting funds from the public
- Providing loans
- Issuing debt paper
- Purchasing, selling, or guaranteeing on own-risk or for the interest of and upon orders of customers
- Money transfer for own account or customers' interest
- Placing funds to, borrowing fund from, or lending fund to other bank(s)
- Receiving payment from securities billing
- Providing custodial service
- Implementing factoring, credit card business, and trustee activities
- Performing activities in foreign exchange
- Performing share investment activities
- Conducting other activities that are generally carried out by banks, as long it does not contradict with any pertaining laws and regulations.

PRODUCTS & SERVICES

The Bank has various products and services in its the major business segments, Retail Banking and Wealth Management, Commercial Banking, and Global Banking & Markets. The following is a list of Bank's products and services:

Deposits	Loan	Wealth Management
<ul style="list-style-type: none"> Rupiah Current Account Rupiah and Foreign Currency Deposit Rupiah and Foreign Currency Saving Account HSBC High Rate Savings 	<ul style="list-style-type: none"> Working Capital Loan Investment Loan Consumption Loan Housing Loan Personal Instalment Loan 	<ul style="list-style-type: none"> Investment Mutual Funds Obligation Structured Products
Credit Card	<ul style="list-style-type: none"> Term Credit Evolving Loan Flexi Credit HSBC Personal Overdraft Smart Money Investment Link 	<ul style="list-style-type: none"> Insurance Care Invest Plus Credit Pro Plus Smart Traveller College Care Optima Care Invest AXA Medicare Essential
Payment and Cash Management	Global Market	<ul style="list-style-type: none"> Managing and Growing Wealth planning Children's Education Planning Retirement Planning Protection Planning
<ul style="list-style-type: none"> HSBCnet Mobile HSBCnet Connect In-house Transfer National clearing system Real time gross settlement (RTGS) Telegraphic transfer Autopay Utility pay Tax payment Cheque giro bill Cash withdrawal Cash deposit Post dated cheque warehousing Post dated cheque discounting Cheque collection Direct debit Virtual account RMS Domestic cash concentration 	<ul style="list-style-type: none"> Money market-Loan & Deposit Repo - Reverse Repo IR MM - Reverse Repo FX - Spot FX - Forward FX - Swap FX - Option FX - Call Spread Option Fixed Income - Government Bonds & Corporate Bonds - IDR & FX Derivatives - Interest Rate Swap Derivate - Cross Currency Swap Dual Currency Investment 	<ul style="list-style-type: none"> Global Trade and Receivables Financing (GTRF) Import Letter of Credit Documentary Collection Import Loans Export Letter of Credit Negotiation Documentary Collection Negotiation Export Loans Supply Chain Supply Chain Solutions Receivables Finance Bank Guarantee Bid/Tender Bond Custom Bond Retention Bond Performance Bond Advance Payment Bond Commodities and Structure Trade Finance
	HSBC Security Service	<ul style="list-style-type: none"> Other Services ATM Personal Internet Banking Business Internet Banking Mobile Banking Express Banking
	<ul style="list-style-type: none"> Facility agent Security agent Account bank Escrow agent Accounting and valuation services Transfer agency Custodian services 	

BOARD OF COMMISSIONERS PROFILE



Matthew Kneeland Lobner*)
President Commissioners

United States of America citizen, 46 years old. Obtained his master degree from Massachusetts Institute of Technology in 1995. Appointed as President Commissioners of PT Bank HSBC Indonesia based on EGMS resolution on September, 18 2017.

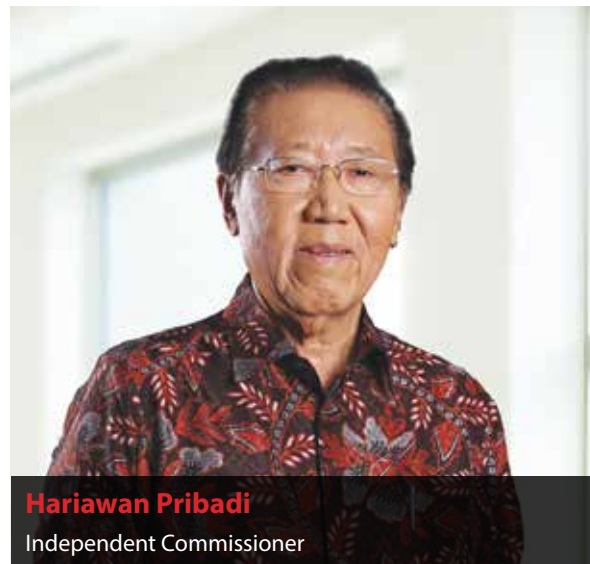
Matthew Lobner is Head of International, Asia-Pacific and Head of Strategy and Planning, Asia-Pacific, HSBC. He joined the HSBC Group in 2005 from McKinsey & Company and has worked in various role in United State of America, United Kingdom, and Asia. Previously, he was Chief of Staff

and Head of Strategy & Planning in Europe; Global Head of Strategy for Commercial Banking; Head of Strategy and Planning in Europe, Middle East and Africa; and CEO in HSBC Thailand.

*) Effective after approved by Indonesia Financial Service Authority (OJK) on Fit and Proper Test result and fulfilment of requirement as prevailing rules and regulations.



Indonesian citizen, born in Manado on February 17, 1950. He obtained his Bachelor's Degree in Economic Management and Accounting and his Master's Degree in Accounting from Airlangga University. He began his career as a teaching staff at Airlangga University before pursuing a career as Accountant Public. Currently, he owns Public Accounting Firm Hendrawinata Hanny Erwin & Sumargo, Kreston International.



Indonesian citizen, born in Pekalongan on December 30, 1941. He obtained his Bachelor's Degree in Accounting from Gadjah Mada University. He began his career as an inspector at Directorate General of the State Finance Supervision in Surabaya from 1971 to 1976. From 1976 to 2004, he worked as a Partner of KAP Hanadi Rahardja & Co (member of Grant Thornton International), KAP Hanadi Sudjendro & Rekan (member of KPMG International), and KAP Prasetyo, Sarwoko & Sandjaja (member of Ernst & Young Global).



Mark Thomas McKeown
Commissioner

British Citizen, born in Liverpool, United Kingdom on February 3, 1958. ACIB, Liverpool School of Banking (Liverpool John Moores University) 1981. Mark joined Midland Bank in 1976 and, following the acquisition of Midland, has been with HSBC ever since. He has held senior roles in Risk, Operations, Retail Banking and Commercial Banking. Currently he has responsibility for Asia Pacific Risk. He was recently appointed a Group General Manager and is Chairman of the Region's Risk Management Committee, is a member of the Region's Executive Committee, a member of HSBC Group Risk Management Board and a Director of HSBC Taiwan. He has been a Commissioner of the Bank since 2016.



Antony Colin Turner*)
Commissioner

British citizen, born December 27, 1959 in Canberra, Australia, 58 years old. He obtained his Bachelor's Degree in History and Politics from the University of Exeter, England, in 1982. He then continued his professional education as Associate of the Chartered Institute of Bankers, and in 1997 he obtained a further Degree in Financial Services awarded by the Institute of Financial Services. He began his career at HSBC in 1984. Since then he has been placed in various senior roles with the HSBC Group, including Senior Executive, International Department in Hong Kong (2009-2010), and Chief Executive Officer (equivalent to President Director) in Armenia and Georgia (2005-2009). His most recent executive role was President Director the Bank in 2010-2017.

*)Effective after approved by Indonesia Financial Service Authority (OJK) on Fit and Proper Test result and complying to prevailing rules and regulations.



Indonesian citizen, born on December 6, 1959 in Solo. His appointment as the Independent Commissioner was conducted in Extraordinary General Meeting of Shareholders on September 18, 2017. He obtained his Bachelor's Degree in Physics from Bandung Institute of Technology (ITB) in 1985.

He continued his study and obtained Master of Arts in Economy from University of Philippines and Master of Arts in Political Economy from Boston University, United State. He continued his study in International Economy, in Kiel, Germany. Prior to serving as the Independent Commissioner of PT Bank HSBC Indonesia, he has held numerous positions; the Independent Commissioner of PT

Bank Maybank Indonesia Tbk from 2002 to 2017; the Board of Trustee of Maybank Foundation (Kuala Lumpur) from 2012 to 2017; and the Chairman of Supervisory Board of Bank Indonesia (BSBI) from 2010 to 2017.

Previously he was the assistant for Economy, Finance, and Industry for Indonesian Vice President / President B.J. Habibie from 1998 to 1999. He also worked on various advisory projects with the World Bank, ADB, ILO, and UNDP.

*) Effective after approved by Indonesia Financial Service Authority (OJK) on Fit and Proper Test result and complying to prevailing rules and regulations.

BOARD OF DIRECTOR PROFILE



Sumit Dutta
President Director

Indian citizen, born on August 7, 1966 in Calcutta. He has served as the President Director in May 29, 2017. Former appointments include: Country Manager and Chief Executive, KCBA HSBC; Chief Executive Officer, HSBC Vietnam; Executive Director, Techcombank Vietnam; Senior Vice President, Head of Consumer and Sales Management, HSBC Bank USA; Head of Product Management, HSBC Bank USA; Head of Global e-Business and Direct Sales, HSBC Group; Senior Distribution Manager, HSBC Asia Pacific, Hong Kong.



Hanna Tantani
Finance Director

Indonesian citizen, born on November 6, 1967 in Surabaya. She obtained Master of Business Administration from University of New South Wales. She has served as Finance Director since May 7, 2014. Prior to joining the Bank, she had worked at various banks, including American Express, Standard Chartered and HSBC Indonesia Branch. Areas and responsibilities include Financial Controllershship, Financial & MI Reporting, Asset Liability & Capital Management, and Tax, Treasury Services.



Catherinawati Hadiman S
Commercial Banking Director

Indonesian citizen, born on November 4, 1964 in Jakarta. She has served as Commercial Banking Director since April 17, 2017. She obtained her Bachelor's Degree in Accounting from Trisakti University Jakarta and Bachelor's Degree in Business Administration from Atmajaya University. She started her career at KAP KPMG in 1989. In 1990, she joined PT Bank CIMB Niaga Tbk and worked for more than 22 years there and pursued various career fields: consumer banking, treasury Commercial, and corporate banking. Her recent position at PT Bank CIMB Niaga was Vice President Director. In 2015, she worked as the Independent Commissioner of PT Bank Tabungan Negara Tbk. Since January 2016 she has served HSBC Foreign Bank Branch as Head of Commercial Banking.



John Rosie
Operations and Information Technology Director

John is a British citizen, born on February 3, 1973 in Aberdeen, Scotland. John has served as the Director of Operations since May 29, 2017. John graduated from the University of Edinburgh in 1994 with a Bachelor of Science degree in Physics. Since joining HSBC in 2004 he has held country, regional and global roles based in the UK, Hong Kong and Indonesia in Technology, Global Markets, M&A Implementation and as a COO. His prior roles include: Director of Operations, KCBA HSBC from November 2015 to April 2017, Global Approach & Mobilisation Lead for HSBC Transactions, HSBC Hong Kong; COO Prime Services Asia Pacific, HSBC Global Banking & Markets, Hong Kong; Senior Relationship Manager, Asia Global Satellite Sites Strategy, HSBC Global Banking & Markets HTS, Hong Kong.



Blake is Canadian citizen, born on October 17, 1963 in Calgary, Canada. Blake has served as the Retail Banking & Wealth Director since May 29, 2017. His prior roles include: Head of Retail Banking & Wealth Management, HSBC Bermuda; SVP Special Project, SVP & Head of Network, SVP Personal Financial Services, HSBC Canada; Head of Distribution Optimization, Royal Bank of Canada; Head of GTA De Novo Market Strategy, Royal Bank of Canada; Head of Enterprise Program Management, Royal Bank of Canada; VP & Director Strategic Resource Planning and Management, Royal Bank of Canada.



Indonesian citizen, born on January 2, 1964 in Jakarta. He has served as Strategy and Business Implementation Director since June 19, 2017. He has been working in the banking industry for 30 years and pursuing various career fields, including compliance, finance, project management, product management, operational, business development, electronic banking, and treasury. Prior to joining the Bank, he worked at a subsidiary of a regional bank and a foreign bank's branch office.



Indonesian citizen, born on November 6, 1972 in Jakarta. She has served as Compliance Director since July 10, 2017. She obtained her Bachelor's Degree in Mathematical and Computer Sciences from the University of Adelaide. Her previous positions include: Compliance Director at Citibank N.A Jakarta in 2010, Global Transaction Services Operations Head in 2008 and Cash and Trade Operations Head in 2006. In 2001, she was appointed as Document Checking and Export Booking Unit Head at Citigroup Regional Trade Processing Center for Asia Pacific in Malaysia.



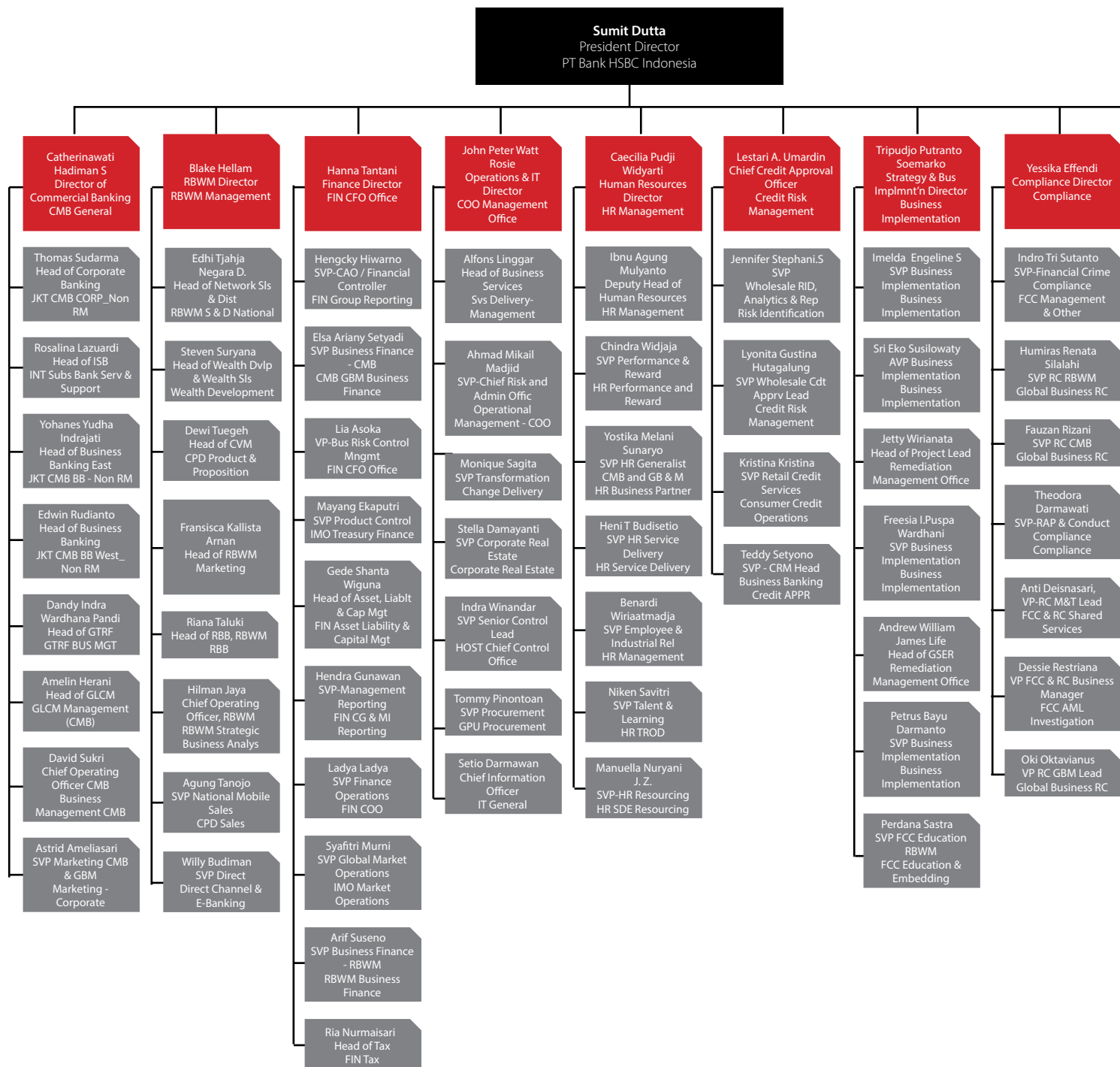
Indonesian citizen, born in Semarang on May 9, 1964. She has served as Human Resources Director since August 8, 2017. She obtained her Bachelor's Degree in Psychology from Gadjah Mada University. Prior to joining Bank, she served as SVP Human Resources, Head/Director of Human Resources at Asean Brown Boveri, Pfizer Pharmaceutical, and General Electric (GE).

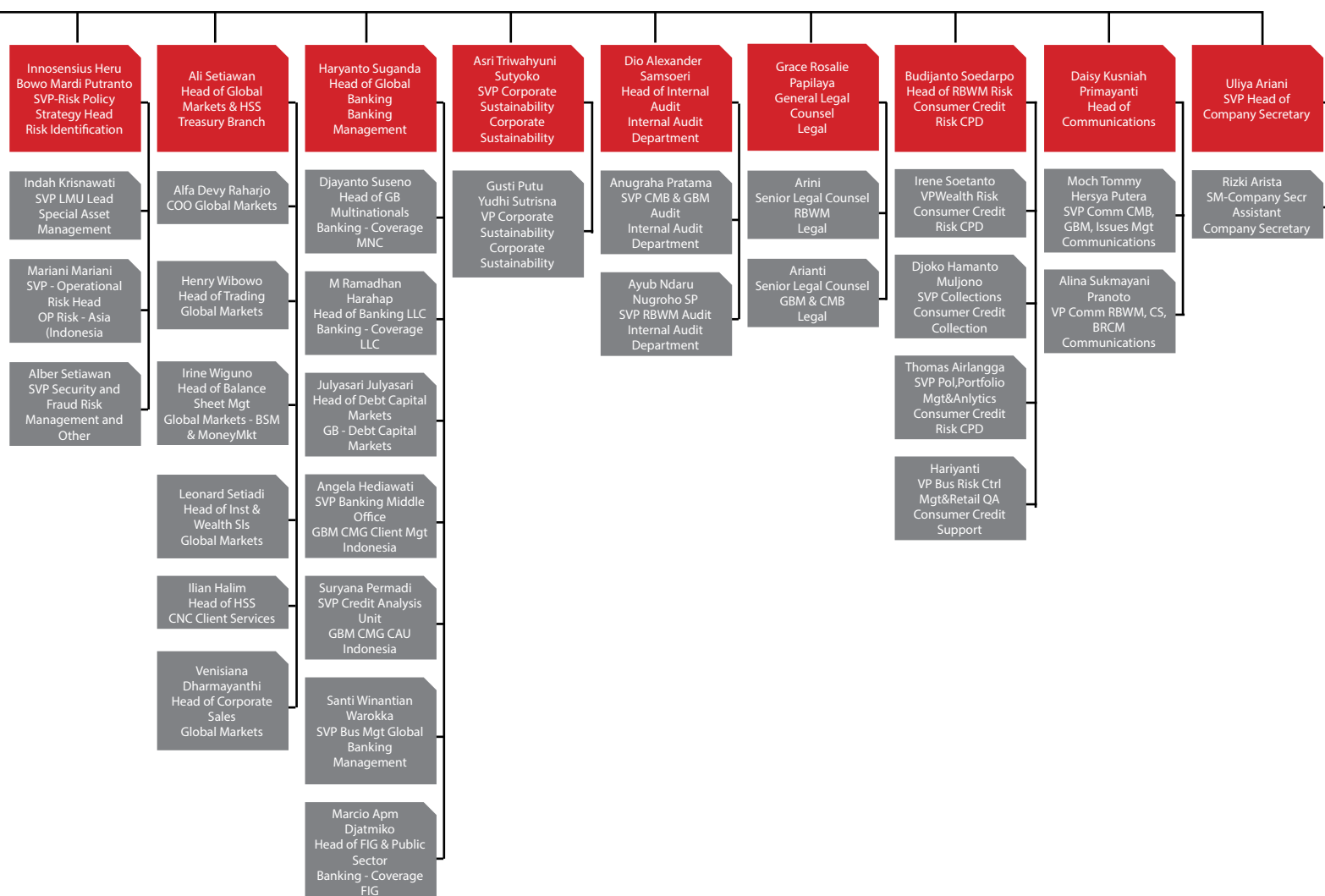


British citizen, born on May 10, 1966 in Farnborough, Kent, UK. He holds a Bachelor of Science degree in Geography and Geology from Nottingham University. Appointed as Risk Management Director of PT Bank HSBC Indonesia based on EGMS resolution on September 18, 2017. His recent roles include CRO Private Banking ASP and Global CRO Private Wealth Solutions, HSBC, Hong Kong. Regional Head Reputational Risk and Client Selection ASP HSBC Hong Kong; Regional Head of Wholesale Risk and Risk Strategy Audit HSBC Asia Pacific; Regional Head of Credit Risk Review and Risk Identification - HSBC Asia Pacific.

*)Effective after approved by Indonesia Financial Service Authority (OJK) on Fit and Proper Test result and complying to prevailing rules and regulations.

ORGANIZATION STRUCTURE









4

Management Discussion and Analysis

ECONOMIC REVIEW

Global Economic Review

In general, according to the World Bank, the global economy in 2017 continued to see a slowdown in economic recovery and it was accompanied by conflicts within countries or between countries. The conflicts were not solely armed conflicts, but global geopolitical uncertainties as well. These uncertainties were due to rising protectionist or trade restriction ideas during European elections and the implementation of US President's programmes.

However, throughout 2017, elected European head of states did not support protectionism. In the United States, President Trump's protectionist policies remained unclear, except for policy of cutting corporate tax rate from 35% to 21%. This policy, ratified in December 2017, is predicted to encourage United States companies to expand their business domestically.

An improved US economic indicator was the rate of employment, as seen in the decrease of from 4.9% in 2016 to 4.1% in 2017. This prompted The Fed to increase the Fed Fund Rate (FFR) three times in 2017, raising FRR to 1.5% by year's end compared to 0.75% in 2016.

Higher employment resulted in improved salary and consequently increased goods and services consumption. The increase of consumption rate led to the rise of inflation in the United States, from 1.3% in 2016 to 2.1% in 2017. The United States economic growth increased significantly from 1.5% in 2016 to 2.6% in 2017.

The European Union economy also improved, albeit gradually due to domestic political turmoil in member states. Taking this into consideration the IMF estimates that European Union economic growth in 2018 will slow down to 1.9%, lower compared to 2.1% of growth in 2017. The World Bank estimated that European economic growth will decrease from 1.7% in 2017 to 1.5% in 2018.

Economic recovery was clearly evident in East Asia and Asia Pacific. Throughout 2017, for example, China's economy grew by 6.9%, higher than forecasts of 6.8%. China's economy was mainly supported by the increase of housing and land prices in the property sector and the steel industry. This condition prompted People's Bank of China (PBOC) to

follow The Fed's move to raise its policy rate in December 2017 with 7-day tenor and 28-day tenor to 2.5% and 2.8% respectively.

However, China's economic growth was predicted to slow down due to the high rate of bond issuance. China's corporate debt levels that reached 160% of GDP prompted the credit-rating agencies S&P and Moody's to downgrade China's credit rating. In view of this, IMF estimated that China's economic growth in 2018 will decrease from 6.8% to 6.6%. The World Bank also shared similar sentiments and estimated that China's economic growth would decrease from 6.5% to 6.4% in 2017.

Japan also had an increase in its economic growth in 2017. The IMF and the World Bank projected that Japan's GDP would increase from 1.0% in 2016 to 1.5% in 2017. The increase in growth was attributed to the rise of domestic consumption and investments in the country due to the preparation of 2020 Olympics. However, Japan does not have sufficient workforce to meet the demands from the consumption and the investments. Therefore, the IMF predicted that Japan's economic growth in 2018 will decrease to 0.7%, lower than the country's economic growth in 2017. The World Bank also estimated that Japan's growth will decrease to 1.0%.

National Economic Review

In Indonesia, Bank Indonesia reported that Indonesia's economic growth had reached 5.05% throughout 2017, higher than 2016 which reached 5.02%. The World Bank estimates that Indonesia's economic growth will increase to 5.3% both in 2018 or 2019.

The strengthening of the national economy was supported by the rise of commodity prices, stronger global growth, the increase of international trade and relatively accommodative monetary and financial conditions. Indonesia's economic improvement in 2017 was mainly underpinned by exports and the provision of fixed capital.

Economic growth was attributed to the growth of international trade where both the growth rate of exports and imports increased respectively to 17.3% and 15.0% (year on year or yoy). Meanwhile, investment had a

notable growth of 7.11%, government spending increased positively to 3.5%, and growth of domestic spending was relatively stable to 4.9%.

The growth of Indonesia's non-oil and gas trade increased as well due to the price increase of its main export commodities such as coal and palm oil. Current account deficit decreased from 1.9% of GDP in the second quarter to 1.7% of GDP. The decrease was attributed to the higher surplus of trade in goods with the stronger exports in the third quarter.

In terms of production, all business sectors had a positive increase in 2017. According to BPS report, in terms of production, the highest growth was achieved by the Information and Communication Business Field of 9.81%. In terms of expenditure, the highest growth was achieved by the Export of Goods and Services by 9.09%. In general, sectoral and industrial growths were still depending on primary sectors in 2017 such as farming, plantation, and the mining sector. The economic growth mainly depended on prices of the main export commodities that began to improve compared to 2015 when commodity prices hit their lowest point.

Private consumption remained stagnant on a year-on-year basis. However, there are indications that private consumption is beginning to recover. The sales of durable goods, such as passenger cars and motorcycles, both made a recovery, with the latter jumping double-digits in 2017 after three years of successive shrinking.

Other indicators showed that Indonesia's economic growth improved. Indonesia's open unemployment rate (TPT) decreased by 0.11% from 5.61% in 2016 to 5.50% in 2017. Consumer price index (CPI) inflation in 2017 according to Bank Indonesia remained under control within the target range of $4.0 \pm 1\%$. This low inflation occurred evenly throughout Indonesia. Bank Indonesia decided to maintain BI 7-day Repo Rate by 4.25% with the deposit facility rate at 3.50% and the lending facility rate at 5.00%.

The Rupiah exchange rate continued to be under pressure and briefly plummeted to Rp13,630 per US dollar on 27

October 2017, its lowest level in 2017. The average rupiah exchange rate I Q4 2017 was recorded at Rp13,537 per US dollar, with volatility of 3.0%.

The Indonesian Composite Index (IHSG) reached 6,356 at the end of 2017. Meanwhile, according to Bank Indonesia's review, the financial market performance is improved. This can be seen from the increasing trend of stock market and bond market performance.

The rating agency Standard and Poor's (S&P) raised Indonesia's credit rating on May 19, 2017. The sovereign rating was upgraded to BB+ from BBB or equal to investment grade. In other words, Indonesia is considered as a favorable place to invest. This rating reassures investors to allocate their funds to Indonesia. This will improve Indonesia's capital market and provide alternative funding to investors through the capital markets in addition to banking. The credit rating upgrade also brings opportunities to the government to implement a lower interest rate.

Banking Industrial Review

The growth of banking industry experienced a slowdown in 2017. As of December 2017, credits or bank loans grew 8.2%, slightly increased compared to previous year performance which was at 7.9%. This was due to the quality of bank assets that have not fully recovered. Non-performing loans (NPL) stood at 2.6% in December 2017, which is still considered high. Moreover, the demands for credit were still low, which was reflected by the increase of undisbursed loans. This also contributed to the slowdown in Indonesia's credit growth.

However, the inflation rate in 2017 remained controlled at 3%-4%, which allowed Bank Indonesia (BI) to implement quantitative easing by reducing the interest rate in August by 25 bps, from 4.7% to 4.5%. In September, BI decreased the interest rate again by 25 bps to 4.3%.

In terms of funding, the banks' third-party funds (DPK) grew reasonably well. During 2017, the Bank's third party fund was able to grow by 9.4% with an increase primarily in the form of time deposits. This growth was higher compared to the third-party fund's growth in 2016 that only reached 9.6%. The increase of growth was supported by the growth

of time deposit from 6.5% in 2016 to 10.6% in October 2017. The growth of time deposit increased liquidity in the banking sector, which was reflected by the decrease of loan to deposit (LDR) ratio from 90.5% in 2016 to 88.3%.

Due to the slowdown in credit and financing, banking assets' growth during 2017, according to the Financial Services Authority, was 10.02%. Even though the national banking industry experienced pressures from domestic and global financial markets, it still had positive and healthy growth. Its capital was still sufficient to survive against current risks and pressures.

Credit growth did not meet expectation due to the low demands while in terms of supply, the banks were still cautious to expand. Bank Indonesia acted realistically by reducing credit projection from 10% - 12% to 8%-10% in 2017. In addition to being affected by global and domestic economic factors, this was also caused by the impact of Financial Services Authority's plan to stop the relaxation of the credit restructure policy at the end of August 2017.

The performance of government spending in 2017 was better than the achievement in 2016. The realization of state expenditure in 2017 reached Rp2,002.8 trillion, up 7.4% compared to the realization of 2016. This increase was accompanied by better 2017 spending absorption compared to 2016, the realization of state expenditure on the APBNP target was also higher. This condition was seen in central government expenditure and transfers to regions and village funds (TKDD), which grew by 9.2% and 4.5% respectively by 2017.

The potential of economic growth that could improve the rate of credit growth is estimated to come from the non-oil and gas processing industries which contributed about 18% of national GDP in 2017. Strategic steps, such as the development of resource-based industries through the downstream policy, would improve the rate of investments and bring new job opportunities. These steps would

strengthen the structure of imports-oriented industries. The biggest contributors from the non-oil and gas processing industries consisted of the divisions of food and beverages at 34.42%, followed by the industry of metal goods, computer, electronic, optic, and electrical equipment at 10.38%, and transportation equipment industry at 9.95%. In addition to credit and third-party funds, liquidity in the financial system is one of the important indicators in measuring the resilience of the economy and the financial system. In December 2017 the rate of Loan to Deposit Ratio (LDR) was 90% compared to the LDR rate at the end of 2016, which reached 90.70%. The decrease of Loan to Deposit Ratio was driven by the growth of third-party funds which was higher than the growth of credit distribution.

Meanwhile, the national banking profitability, which is measured by Ratio on Assets (RoA), showed a decreasing trend. Referring to the Indonesian Banking Statistics issued by the Financial Services Authority, RoA of conventional commercial banks per December 2017 reached 2.45%, slightly up from the end of 2016 position at 2.23%. When viewed in greater detail, the RoA of conventional joint venture banks generally showed a downward trend throughout 2017.

There were some factors that influenced the trend of national banking RoA. First, the interest rate kept decreasing due to global conditions. As a result, the banks had a difficulty to increase the loan interest rate. Second, the pressures on profitability were caused by the increasing regulatory burden which weighed down banks. Banks were left with no choice but to set aside some of their assets, especially their liquid assets. Lastly, credit risk was still deemed too high. Although the Non-Performing Loan (NPL) ratio, according to the OJK, gradually decreased to 2.59% level at the end of 2017, banks still faced credit risks which potentially become NPL.

In line with the RoA, based on the Financial Services Authority's data, throughout 2017 the Net Interest Margin

(NIM) of conventional banks continued to show a downward trend. In December 2017, NIM ratio of conventional commercial banks reached 5.32%, compared to the ratio of NIM in 2016 which reached 5.63%.

In relation to capital aspects, the Financial Services Authority reported that in average the Capital Adequacy Ratio of conventional commercial banks reached 23,18% in December 2017. The CAR value shows an increase compared to 2016, which reached 22.93%.

Although there were trends of decreasing profitability and slowdown in credit growth, the OJK assessed that the condition of financial service industries, including

banking, remained stable and positive. The assessment was evaluated based on excess liquidity, capital adequacy, and interest rate. The interest rate, including both the deposit interest rate and the loan interest rate, showed a decreasing trend. In December 2017, the 1-month deposit rate of commercial banks averaged 5.74%, down from last year's 6.45%. While interest rates commercial banks charge to non-bank businesses and non-business activities, tends to decrease from 12.16% in 2016 to 11.37% in December 2017.



BUSINESS REVIEW

Retail Banking and Wealth Management

The Bank provides diverse products and services to cater for various individual banking's needs, including HSBC Premier, an exclusive service with a global network, which offers individual banking services. In additions to this, the Bank offers wealth management services and various exclusive services and benefits that are applicable all around the world.

For the emerging affluent segment, the Bank positions HSBC Advance as a dependable partner to help customers thrive. Full investment solutions are offered to all individual customers. The solutions include various mutual fund options managed by third-party asset management firms in Indonesia.

The Bank also provides bancassurance products and comprehensive Indonesian Government Bonds. The Bank aims to be a market leader in the wealth management segment and the bank of choice for customers who need wealth management solutions that cater for their needs. In order to realize these objectives, the Bank utilizes educational approaches to engage the affluent and emerging segment and focus on helping customers attain their goals.

Personal Banking

Services and products offered by the Bank through Personal Banking are Rupiah and foreign currencies accounts, and HSBC debit card and credit card. The services of Rupiah and foreign currencies accounts consist of the saving account, current account, deposit in rupiah, and deposit in foreign accounts, while the products are Regular Saving Plan and Tabungan Ekonomi.

For the debit card product, the Bank offers HSBC VISA Debit Card. In addition to the debit card product, the Bank also provides various credit card products, such as HSBC Premier MasterCard, HSBC Visa Signature, HSBC Visa Platinum, HSBC Platinum Cash Back, and HSBC Gold.

Throughout 2017, the Bank continued to optimize the network to improve the growth of upper & middle-class customers. Moreover, the Bank continues to improve penetration the banking products into credit card users and

offer premium credit cards to improve the proposition the upper & middle-class customers. The Bank also increases the penetration into the retail segment in the cities where the Bank operates to facilitate and cater for the public's banking needs.

Personal Lending

The Bank offers the products and services of consumption credit, including Personal Instalment Loan, HSBC FlexiCredit, Housing Loan, HSBC Personal Overdraft, Smart Money, and Investment Link.

During 2017, the Bank increases the penetration of credit card products in the market by providing credit card product with different value propositions. This effort was by performed expanding strategic partners to encourage brand awareness, spending, and acquisition in various cities in Indonesia.

In addition, the Bank also developed strategic partners of both merchants and other parties to provide programs, services and facilities for instalment features or bonus points with HSBC credit cards to enhance customer loyalty and usage.

The loan product proposition continues to be strengthened by the Bank. For trading customers, propositions are made through cross-sell to credit card customers. While for property loans was done through the launch of new products/programs as well as promotional programs.

Retail Business Banking

The Bank owns HSBC Retail Business Banking (RBB) that provides business loan with collateral up to Rp10 billion. The loans are also available in the form of Term Loan, Overdraft, and Revolving Loan

In 2017, the Bank rebranded the Retail Business Banking to accommodate the needs of customers in the SME segment with various facilities that support business activities. This was conducted to develop the types and varieties of products and services to serve business owners in the regions where the Bank's branch office operates. Services for Retail Business Banking segment are available since August 2017. The availability of the services is marked with the distribution of products and services for RBB segment

at 26 branches of the Bank that are spread throughout Indonesia. As of December 2017, RBB has served 2.600 owners of small and medium-sized enterprise.

Wealth Management

The Bank's Wealth Management offers wealth management services and products, including investment, insurance, and wealth management. Investment products provided by the Bank are mutual funds, State-Owned Enterprises and corporates bonds, and Dual Currency Investments (DCI).

For insurance products, the Bank offers Care Invest Plus, Credit Pro Plus, Smart Traveller, College Care, Optima Care Invest, AXA Medicare Essential, and Future Care. In addition to investment and insurance products, the Bank provides wealth management services and products, including Managing and Growing Wealth, Children Education Planning, Retirement Planning, and Protection Planning.

In 2017, the Bank continued to improve the penetration of Wealth Management into upper middle-class customers segment by implementing the needs fulfilment approach, including: wealth management, children education fund planning, family's future protection and pension fund planning.

Throughout 2017, the Bank consolidated current internal processes, systems, and infrastructures to improve and maintain third-party funds. The Bank also developed Wealth Management products by completing mutual fund products and introducing State-Owned Enterprises and Corporates bonds. In addition to State-Owned Enterprises and Corporates bonds, the Bank also participated as a seller agent in the issuance of Indonesian Government's bonds on the primary and secondary market.

In order to support the growth of Wealth Management business in 2017, the Bank reviewed and conducted necessary improvements pertaining to the processes, systems, and infrastructures which are related to investments.

The Bank's Plans, Strategies, and Focus for 2018

In order to address the competition in individual banking

business segment, the Bank has developed following strategies that will be prioritised in 2018:

- Increasing the Wealth Management penetration into the upper middle-class customer segment through the needs fulfilment approach.
- Optimizing the office network to increase the growth of upper-middle class customers segment,
- Improving the penetration of banking or saving products into credit card users and the retail segment in the cities where Bank operate to serve the public by facilitating their banking needs.
- Improving the penetration of credit card products by providing various options with a varied value proposition.
- Expanding strategic partners to improve the brand awareness, card usage, and acquisition in various Indonesian cities.
- Rebranding or expanding Retail Business Banking (RBB) segment to accommodate the needs of customers in the SME segment with various facilities that support business activities.

Commercial Banking

In the Commercial Banking segment, the Bank provides full banking services for large and varied customer bases, from upper business banking to big corporates. The banking services include the working capital credit, project financing, foreign exchange transaction, derivatives, trade finance and cash management services.

In 2017, a program was launched to support the Bank's goal to be 'The corporate customers' bank of choice through closer collaboration with Global Banking and Markets (GBM)'. In order to realize this program, the Bank took following steps:

- Improving the penetration into major Indonesian companies by focusing the scope of Global Capital Financing (GCF) products.
- Improving the Bank's focus on international customers by sourcing targeted customers, strengthening teamwork with Indonesian partners, and becoming more active in Indonesian capital market.
- Coordinating with Global Banking and Markets (GBM) by focusing on the sources and the opportunities of cross-selling.

The Bank also optimized the wallet share through a solid account planning with the support from the targeted acquisition programs. In 2017, the Bank also implemented the TradeNet system that monitors post-transaction activities and has the capability to automate the detection of suspicious networks and frauds between customers, their accounts, and their transactions.

In addition to TradeNet, the Bank also implemented the IFAI System that facilitates the transactions of international invoice financing in which the data of customers, products, buyers/sellers, and agreement with customers is recorded and documented in details in accordance with the audits' request.

Moreover, the Bank implemented the Trade Transaction Tracker system that facilitates customers to see the status of their documents whenever and wherever they want. The implementation of HSBC Supply Chain Finance could cover a larger market comprehensively with an integrated system.

Furthermore, the Bank introduced risk distribution. In risk distribution, HSBC Group could buy or sell credit risk transactions between the Banks that conduct both full or partial transactions on a funded or unfunded basis.

In 2017, the Bank more actively promote the Global Trade and Receivable Financing (GTRF) service to customers outside Jakarta in order to support the regional business development.

Moreover, the Bank increased the fee income of branch offices located outside of Jakarta by utilizing the proposition of Trade, Cash, Management, and Foreign Exchange. Expanding the network through the collection network with the partnership between local banks and the third party in a form of switching agent or collection agent.

In general, the Bank's Commercial Banking had a good performance in 2017 and will further develop its performance.

The Bank's Plans, Strategies, and Focus for 2018

The following plans are the focus of the Bank's Commercial Banking for 2018:

- As a global bank, HSBC Indonesia bring value added to the customers for our international connectivity and especially for this year we leverage our ASEAN connectivity and BRI
- Improving the supervision of Financial Crime Risk (FCR) for all customers.
- Improving the growth of corporate credit especially customers whose credit account is in good standing.
- Maintaining the credit quality of all customers to ensure that Non-Performing Loan (NPL) and Loan Impairment Charges (LIC) could be reduced.
- Increasing third-party fund (Current Account) by relying on various first-rate products which cater the needs of the customers and conducting various promotional activities to source customers' fund.
- Improving Non-Funds Income (NFI) by collaborating with product teams to increase the amount of products (cross-sell) used actively by customers.
- Improving customers'services when they do banking transactions.
- supporting and promote sustainable financing as our corporate responsibility to community.

Global Banking & Markets

HSBC Global Banking and Markets (GBM) is a business activity that follows the growth of emerging market and focuses on financial services which provide financial solutions for government institutions, companies, and other institutions all around the world. The customers of this activity are assisted by the Bank's relationship manager who also serves as a product specialist and provides financial solutions to cater for their needs. In order to fully understand the customers' financial needs, the Bank implements a long-term relationship management strategy.

Global Banking

In Global Banking segment, the Bank provides services and products, such as Global Capital Financing (GCF), Institutional Banking, Global Trade and Receivable

Financing (GTRF), Global Liquidity and Cash Management, HSBC Securities Services (HSS), treasury services, and Foreign Direct Investment (FDI).

In 2017, Global Banking focused on multinational sectors, financial institutions groups, and major local companies.

Multinational Sectors

Global Banking Multinational service includes trades and capital flows across countries. This service is started by holding a one-on-one dialogue with customers who engaged in the major trade businesses and contribute as Indonesia's main investment partners. The Bank actively takes part in 'International Day' and "Asia Day" managed by Global Multinationals and Regional Office respectively.

The Bank always supports the government's projects in developing infrastructures by providing assistance for current customers and new customers related to the projects.

Financial Institutions Groups

In order to increase penetration into financial institutions groups, the Bank offers repositioning that focuses on treasury products. Moreover, the Bank also conducts cross-selling between debt capital market and advisory businesses.

Major Local Companies

In 2017, the Bank increased the portion of event wallet from State-Owned Enterprises and major local companies by taking following steps:

- Strengthening senior coverage roles in the business line.
- Utilizing the Bank's strong balance capacity to gain

fees and conduct cross-selling for advisory businesses.

- Strengthening the Bank's position to gain opportunities to fund projects and exports.
- Improving selective penetrations with State-Owned Enterprises and the infrastructure sector.

Global Markets

The Bank's Global Markets provides full treasury services for corporate customers, financial institutions, and retails. The products offered in the service are classified into following product segments: Foreign Exchange (FX), Derivative, Bonds, and Money-Markets.

In 2017, the Bank maintained the Global Markets business strategy to focus on activities related to the other product groups, including the Global Trade and Receivable Financing (GTRF), Payment & Cash Management (PCM), and HSBC Securities Services (HSS). This was conducted to provide full services that benefit the customers.

In order to improve interaction with the customers, the Bank develops the means of communication with internal teams and those who engage in the capital market. The Bank develops new products, such as FX-Call Spread, to support the market development and improve FX transactions in Indonesia. This is conducted to improve the Bank's services.

As an integral part of the Global Markets, HSBC Securities Service offers services in the form of following products: Custody Services, Fund Services, and Corporate Trust and Loan Agency (CTLA).

MARKETING REVIEW

The Bank provides diverse products and services for various individual banking or corporate banking's needs. For the individual banking, the Bank offers HSBC Premier and HSBC Advance. HSBC Premier provides individual banking and wealth management service with various global benefits and exclusive services to affluent customers. Meanwhile, the Bank offered HSBC Advance to the emerging affluent segment which is deemed as dependable partners. The Bank will provide assistances to help them grow without taking their financial conditions into consideration.

The Bank also offers HSBC credit card with various products to cater for its consumers' lifestyle. HSBC credit card also provides several exclusive benefits that are applicable all around the world when the customers shop, dine, and travel. HSBC credit card also comes with 'cashback feature' or 'reward program' that facilitates the consumers in collecting 'reward point' from credit card use. The customers are able to exchange the point with hotel vouchers, the mileage program, shopping vouchers, or discounts that are available in various participating Instant Reward Merchant.

Throughout 2017, the Bank carried out credit card promotion programs with selected merchants that are separated into 6 categories:

- Thematic Campaign that includes Ramadhan Program, Independence Day Program, and Year-End Holiday Program
- E-Commerce online daily deals is a discount and instalment program that's available every day in various e-commerce merchants.
- Dining program provides discounts or allows consumers to pay their bill with points.
- HAT program is a discount and instalment program for Hotel, Airlines, and Travel Merchant, including Travel E-Commerce Merchant.
- Groceries program offers discounts on certain days.
- Event program includes "travel fair", "midnight sales", and "new gadget launching" program.

For customers with short-term needs, the Bank offers Non-Collateral Loan with a competitive interest rate, fast approval, and the time period from 1 year to 3 years. The

Bank also provides HSBC Housing Loan (KPR) for consumers with medium-term and long-term needs who are planning to buy their first house or properties as an investment. HSBC Housing Loan can be adjusted to catering for the customers' financial needs with a competitive interest rate, and a fast and easy approval.

Through various efficient distribution channels, the Bank offers diverse modern banking technologies, including ATM, phone banking, personal internet banking facility for investment and banking transaction needs, video banking, and mobile banking to serve customers wherever required.

In Indonesia, the Bank has more than 90 offices in 29 city. The Bank also opened satellite branches in various malls in Jakarta and Bandung to allow consumers to do banking transactions on the weekend through video banking facility that connects every customer with the Bank Contact Centre. The Bank's consumers could access more than 77,000 ATM through the ATM Bersama network and more than 100,000 ATM through the PRIMA network.

In order to serve the owners of small and medium-sized enterprises, the Bank's Retail Business Banking (RBB) offers financial solutions to cater to their personal or business financial needs. The products and services offered in the program are business loan facility and banking transaction service.

Moreover, throughout 2017, the Bank also conducted following marketing programs:

Wealth Management

- Throughout 2017, the Bank held 23 events of the Education of Wealth Management & HSBC Banking Capabilities in 15 Indonesian cities.
- The Bank held 3 seminar events of Wealth Management in order to educate and offer ORI-014 in Jakarta on October 4, 2017, Makassar on October 12, 2017, and Malang on October 16, 2017.
- Maintaining partnership with current digital partners (Travel, Fashion, and Electronics) and 13 new additional digital partners through promotion programs was conducted to improve the number of customers who

buy their products or use their services and strengthen the acquisition of related merchants.

- The proposition of product penetration into corporate customers has been improved through the development process and the variety of products that can be enjoyed by the Premier and Advance customers.

Retail Business Banking (RBB)

- Opening Retail Business Banking (RBB) service segment in August 2017. The opening was marked with the distribution of products and services for RBB segment at 26 branches of the Bank that are spread throughout Indonesia. As of December 2017, RBB has served 2,600 owners of small and medium-sized enterprises.

Commercial Banking (CMB)

- In 2017, the Bank opened two additional trade counters in Jakarta to increase the amount of transactions that can be processed by the GTRF Services.

Global Banking & Markets (GBM)

- In order to support the development of repo market, throughout the fourth quarter of 2017, the Bank signed the Global Master Repurchase Agreement (GMRA) with Bank Danamon Indonesia, Bank Maybank Indonesia, Bank OCBC NISP, and Bank Tabungan Negara. The GMRA document which also involved 4 other banks – BRI, BNI, Mandiri & BCA – has been re-signed by the Bank as the results of the integration with HSBC Foreign Bank Branch Office in Indonesia.



FINANCIAL PERFORMANCE REVIEW

The financial performance described in this report refers to the Financial Statements for the year ended 31 December 2017. The Financial Statements was audited by Certified Public Accountant Firm Tanudiredja, Wibisana, Rintis,

& Partners (member of PricewaterhouseCoopers) and received unmodified audit opinion as described in the auditor's report dated 14 March 2018.

Statement of Financial Position

Description	31 December 2017	31 December 2016	Growth	
	Rp Billion	Rp Billion	Rp Billion	%
ASSETS				
Cash	581,5	567,6	13,9	2
Demand deposits with Bank Indonesia	6,755,2	1,521,9	5,233,3	344
Demand deposits with other banks	1,866,1	310,5	1,555,6	501
Placements with other banks	6,353,1	1,177,8	5,175,3	439
Placements with Bank Indonesia	1,249,6	-	1,249,6	-
Investment securities	13,703,9	3,723,4	9,980,5	268
Assets at fair value through profit or loss	5,342,9	2,1	5,340,8	254,324
Securities purchased with agreement to resell	500,0	-	500,0	-
Export bills	1,218,8	9,2	1,209,6	13,148
Acceptance receivables	1,827,7	703,0	1,124,7	160
Loans to customers - net	57,951,4	18,042,9	39,908,5	221
Other assets	2,601,2	280,9	2,320,3	826
Properties and equipment	672,9	102,1	570,8	559
Intangible assets	231,3	21,3	210,0	986
Deferred tax assets	162,1	69,4	92,7	134
TOTAL ASSETS	101,017,7	26,532,1	74,485,6	281

Description	31 December 2017	31 December 2016	Growth	
	Rp Billion	Rp Billion	Rp Billion	%
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from customers	56,932,7	19,111,1	37,821,6	197,9
Deposits from other banks	8,577,3	89,5	8,487,8	9,483,6
Liabilities at fair value through profit or loss	527,0	2,7	524,3	19,418,5
Acceptance payables	1,827,7	703,0	1,124,7	160,0
Income tax payables	-	1,7	-1,7	-
Accruals and provisions	529,1	279,1	250,0	89,6
Other liabilities	2,683,3	202,9	2,480,4	1,222,5
Borrowings	13,364,0	471,5	12,892,5	2,734,4
Subordinated debt	1,017,6	-	1,017,6	-
Employee benefits obligations	690,7	205,7	485,0	235,8
TOTAL LIABILITIES	86,149,4	21,067,2	65,082,2	308,9
EQUITY				
Share capital	10,586,4	2,586,4	8,000,0	309,3
Additional paid-in capital	257,6	257,6	0,0	0,0
Other comprehensive income - net	18,7	(13,5)	32,2	-238,5
Retained earnings				
Appropriated	3,7	3,4	0,3	8,8
Unappropriated	4,001,9	2,630,8	1,371,1	52,1
TOTAL EQUITY	14,868,3	5,464,8	9,403,6	172,1
TOTAL LIABILITIES AND EQUITY	101,017,7	26,532,1	74,485,8	281

Total assets as of December 31, 2017 was amounted to Rp101 trillion. This included the result of the integration between HSBC Foreign Bank Branch Office in Indonesia with PT Bank HSBC Indonesia which took place on 17 April 2017. As of December 31, 2017, the Bank's total assets were dominated by loans provided to customers - gross and investment securities amounting to Rp60.53 trillion and Rp13.7 trillion, respectively.

Whereas total liabilities as of December 31, 2017 was amounted to Rp86.1 trillion. Liability composition was dominated by deposits from customer and borrowing amounting to Rp56.9 trillion and Rp15,4 trillion, respectively.

Financial Analysis Statements Report

Total Assets

As of 31 December 2017, the Bank's total assets reached Rp101 trillion, increased from Rp26.5 trillion as of 31 December 2016.

The Bank's total assets were dominated by loans to customers-gross (Rp60.5 trillion), investment securities (Rp13.7 trillion), and demand deposits with Bank Indonesia (Rp6.7 trillion). Demand deposits with Bank Indonesia were provided to fulfil Bank Indonesia's minimum statutory reserve requirement (GWM). The minimum Statutory

Reserve (GWM) in Rupiah and foreign currencies as at 31 December 2017 were 7.85% and 8.04% respectively.

Commercial surplus was placed in liquid instruments, as part of the Bank's risk management on liquidity and funding.

Loans to customers

As of mentioned earlier, from Bank's total assets for the position of 31 December 2017, the biggest composition is loans to customers-gross accounted for 59.9% or amounted to Rp60.5 trillion. Compared to the same position last year, loan to customers increased by 225.2% including assets received from the result of integration.

Loans by currency

At the end of 2017, the composition of loans based on

currencies denominated in Rupiah and foreign currencies was 49.9% and 50.1%, respectively.

Balance of in Rupiah Loans was Rp30.2 trillion. Meanwhile, Balance of foreign currency loan was Rp30.3 trillion.

Loans by type

As at 31 December 2017, total loans were still dominated by working capital loans with contribution of 70.4% of total loans to customers.

Loans based on the collectability classification of Bank Indonesia

Based on the collectability classification as per Bank Indonesia (BI), as of December 31, 2017, 93.7% of the total loans were loans with current collectability with total amount of Rp56.7 trillion.

Loans composition by economic sector

Below is a table showing data on loan composition based on BI classification.

Economic sector - gross	2017		2016		Growth	
	Rp Billion	%	Rp Billion	%	Rp Billion	%
Business services	4,139,8	7,0	1,700,9	9,1	2,438,9	143,4
Construction	5,113,4	8,4	1,178,6	6,4	3,934,8	333,9
Transportation, warehousing and communication	4,091,1	6,7	673,2	3,6	3,417,9	507,7
Trading, restaurant and hotel	15,079,0	24,9	7,782,3	41,8	7,296,7	93,8
Industry	22,715,0	37,5	6,515,7	35,0	16,199,3	248,6
Others	9,396,5	15,5	753,9	4,1	8,642,6	1,147,0
Total	60,534,8	100	18,604,6	100	41,930,2	225,2

Non-performing loans

The gross non-performing loan ratio as of December 31, 2017 was 4.26%. The amount of non-performing loans was Rp2.5 trillion of total loans to customers.

Liabilities and Equity

Total liabilities

Liabilities Composition	2017		2016		Growth	
	Rp Billion	%	Rp Billion	%	Rp Billion	%
Deposits from customers	56,932,7	66,1	19,111,1	91,0	37,821,6	197,9
Deposits from other banks	8,577,3	9,9	89,5	0,4	8,487,8	9,483,6
Liabilities at fair value through profit or loss	527,0	0,6	2,7	0,0	524,3	19,418,5
Acceptance payables	1,827,7	2,1	703,0	3,3	1,124,7	160,0
Income tax payables	-	0,0	1,7	0,0	-1,7	-
Accruals and provisions	529,1	0,6	279,1	1,3	250,0	89,6
Other liabilities	2,683,3	3,1	202,9	0,9	2,480,4	1,222,5
Borrowings	13,364,0	15,5	471,5	2,2	12,892,5	2,734,4
Subordinated debt	1,017,6	1,2	-	0,0	1,017,6	-
Employee benefits obligations	690,7	0,9	205,7	0,9	485,0	235,8
TOTAL LIABILITIES	86,149,4	100	21,067,2	100	65,082,2	308,9

Total liabilities of the Bank as of December 31, 2017 amounted to Rp86.1 trillion, this included the results of the integration with HSBC Indonesia Branch. The composition

of liabilities in 2017 was dominated by deposits from customers and borrowings from HSBC Hong Kong in USD, i.e. 66.1% and 15.5% of total liabilities, respectively.

Deposits from customers

Deposits from customers reached Rp56.9 trillion in 2017. The achievement was mainly contributed by increase in demand deposits balance by Rp22.5 trillion. The Bank's CASA : TD ratio was 68% : 32%

Table Composition of Bank Deposits Products During 2017

Deposits from customers	2017		2016		Growth	
	Rp Billion	%	Rp Billion	%	Rp Billion	%
Demand deposits	25,575,3	44,9	3,034,3	15,9	22,541	743
Saving accounts	13,129,9	23,1	5,105,5	26,7	8,024,4	158
Time deposits & Deposit On Call	18,227,5	32,0	10,971,2	57,4	7,256,3	67
Total	56,932,7	100,0	19,111,0	100,0	37,821,7	198

Demand deposits

By currency, the demand deposit in Rupiah has the largest contribution of 60.5% or Rp15.5 trillion.

Demand Deposits by Currency

Demand deposit	2017		2016		Growth	
	Rp Trillion	%	Rp Trillion	%	Rp Trillion	%
Rupiah	15,457,7	60,4	2,238,6	73,8	13,219,1	590,5
Foreign currency	10,117,6	39,6	795,7	26,2	9,321,9	1171,5
Total	25,575,3	100	3,034,3	100	22,541	742,9

Saving accounts

The balance of savings as at December 31, 2017 amounted to Rp13.1 trillion. The composition was dominated by savings in foreign currency with contribution of 58.78% from total saving accounts.

Saving accounts type composition

Tabungan	2017	
	Rp Trillion	%
Rupiah	5,4	41,22
Foreign currency	7,7	58,78
Total	13,1	100,00

Time deposits & Deposit On Call

By contractual term, time deposit balance was dominated by one-month time deposit of 67.6%.

Time Deposit Based on Contractual Term

Type of Time Deposits & Deposit on Call	2017		2016		Growth	
	Rp Trillion	%	Rp Trillion	%	Rp Trillion	%
1 Months	12,3	67,6	7,1	64,5	5,2	73,2
3 Months	3,6	19,8	2,1	19,1	1,5	71,4
6 Months	1,6	8,8	1,1	10,0	0,5	45,5
12 Months	0,7	3,8	0,7	6,4	0	0,0
Total	18,2	100,0	11	100,0	7,2	65,5

Equity

In April 2017, the Bank increased its authorized capital from Rp3 trillion to Rp20 trillion, issued and paid-up capital from Rp2.5 trillion to Rp10.5 trillion. The capital increase was carried out by issuing new shares amounting to 8,000,000,000 shares with nominal value per share of Rp1,000 (one thousand Rupiah).

The Bank's retained earnings increased by Rp1,371.3 billion in 2017 to Rp4,005.6 billion. The increase was as a result of the Bank's financial performance in 2017..

Thus, the Bank's equity balance at the end of 2017 was recorded at Rp14.8 trillion, an increase of Rp9.4 trillion compared to the previous year of Rp5.4 trillion.

Statement of Cashflows

Description	(in billion Rupiah)		
	2017	2016	Fluctuations
Cashflows from Operating Activities	2,538,3	(2,944,3)	187
Cashflows from Investing Activities	(11,216,9)	(639,3)	(1,655)
Cashflows from Financing Activities	21,906,7	607	3,509
Net Increase/(Decrease) in Cash and Cash Equivalents	13,228,1	(2,976,7)	544
Effect of Foreign Exchange Rate Fluctuation on Cash	(0,3)	0,3	(200)
Cash and Cash Equivalents, 1 January	3,577,8	6,554,1	(45)
Cash and Cash Equivalents, 31 December	16,805,5	3,577,8	370

At the end of the 2017, the Bank recorded closing balance of cash and cash equivalents of Rp16.8 trillion. This consist of cash flows from operating activities of Rp2.6 trillion, cash flows from investment activities of Rp11.3 trillion, and cash flows from financing activities of Rp21.9 trillion.

Cashflows from Operating Activities

Net cash from operating activities in 2017 amounted to Rp2.6 trillion, an increase of 186% from cashflows for operating activities in 2016. The increase in cash from operating activities was due to cash inflows from the Bank's net operating income.

Cashflows from Investment Activities

Net cash used in investing activities in 2017 amounted to

Rp11.2 trillion, an increase of 1,655% from cashflows for investment activity in 2016. Increased cash usage from this investment activity was due to net purchase of investment securities of Rp10 trillion and acquisition of fixed asset of Rp1 trillion.

Cashflows from Financing Activities

Net cash provided by financing activities in 2017 amounted to Rp21.9 trillion, an increase of 3,509% from cashflows from financing activities in 2016. The increase in cashflows from financing activities was received from issuance of share capital of Rp8 trillion and proceeds from borrowings and subordinated debt of Rp139 trillion

Statement of Profit or Loss and Other Comprehensive Income

Description	2017	2016	Growth	
	Rp Billion	Rp Billion	Rp Billion	%
Interest income	5,050,4	2,555,1	2,495,3	98
Interest expenses	(1,397,4)	(1,191,7)	-205,7	17
Net interest income	3,653,0	1,363,4	2,289,6	168
Net fees and commissions income	1,063,8	67,8	996	1,469
Other operational income	699,1	45,3	653,8	1,443
Impairment losses on financial assets - net	(833,3)	(213,8)	-619,5	290
Total operating income	4,582,6	1,262,7	3,319,9	263
Total operating expenses	(3,064,4)	(1,127,6)	-1936,8	172

Description	2017	2016	Growth	
	Rp Billion	Rp Billion	Rp Billion	%
Profit before tax	1.518,1	135,1	1383	1.024
Income tax expense	(146,8)	(34,6)	-112,2	324
Net profit for the year	1.371,3	100,5	1270,8	1.264
Other comprehensive (loss)/income	(39,6)	15,2	-54,8	-361
Total comprehensive income for the year	1.331,7	115,7	1.216	1.051

Revenue and Profitability

Interest income in 2017 was Rp5,050.4 billion. In 2017, interest income from loans to customers contributed 81.47% of the total interest income with total amount of Rp4,114.8 billion.

Interest income from investment securities in 2017 amounted to Rp706.6 billion or 13.99% of the total interest income.

Interest Income Composition in 2017

Interest Income	2017		2016		Growth	
	Rp Billion	%	Rp Billion	%	Rp Billion	%
Loans to customers	4,114,8	81,47	2,198,8	86,06	1,916,0	87,14
Investment securities	706,6	13,99	320,7	12,55	385,9	120,33
Securities purchased with agreement to resell	91,9	1,82	-	0,00	91,9	-
Placements with Bank Indonesia	73,9	1,46	11,4	0,45	62,5	548,25
Loans and advances to banks	9,2	0,18	19,0	0,74	-9,8	-51,58
Demand deposits with Bank Indonesia	0,9	0,02	5,0	0,20	-4,1	-82,00
Others	53,1	1,05	0,1	0,00	53,0	53,000
Total	5,050,4	100,00	2,555,0	100,00	2,495,4	97,67

Interest expenses

Interest expense in 2017 amounting to Rp1,397.4 billion. The highest interest expenses came from time deposits with a contribution of 61.69% from the total interest expense with an amount of Rp862.0 billion.

The composition of interest expenses in 2017 are shown in the following table.

Interest expenses	2017		2016		Growth	
	Rp Billion	%	Rp Billion	%	Rp Billion	%
Demand deposits	191,5	13,7	65,6	5,5	125,9	191,9
Saving accounts	97	6,9	202,6	17,0	(105,6)	(52,1)
Time Deposits and Deposits on Call	862	61,7	857,6	72,0	4,4	0,5
Borrowing and Subordinated debt	221,9	15,9	12,4	1,0	209,5	1,689,5

Interest expenses	2017		2016		Growth	
	Rp Billion	%	Rp Billion	%	Rp Billion	%
Others	25	1,8	53,5	4,5	(28,5)	(53,3)
Total	1,397,4	100,0	1,191,7	100,0	205,7	17,3

Net interest income

As of December 31, 2017, the Bank managed to book a net interest income of Rp3.6 trillion. To maintain the net interest income, the Bank proactively reviewed its funding composition on a regular basis so that funding costs can be controlled as well as the NIM level can be maintained at an optimum level.

Non-Interest Income

In 2017, non-interest income amounted to Rp1,762.9 billion. Non-interest income increased from expanded business and products of the Bank post integration.

Non-Interest Income	2017		2016		Growth	
	Rp Billion	%	Rp Billion	%	Rp Billion	%
Net fees and commissions	1,063,8	60,3%	67,8	59,9%	996	1,469,0%
Other operating income	699,1	39,7%	45,3	40,1%	653,8	1,443,0%
Total	1,762,9	100,0%	113,1	100,0%	1,649,7	1,458,6%

Impairment losses on financial assets - net

In 2017, impairment losses of financial assets amounted to Rp833.3 billion. This included the amount booked post integration.

Operating Expenses

During 2017, operating expenses amounted to Rp3,064.4 billion. The largest operational expense was employees' expense, which was 53.18% of the total operating expenses.

Operating Expenses	2017		2016		Growth	
	Rp Billion	%	Rp Billion	%	Rp Billion	%
Employees expenses	1,629,7	53,2	693,4	61,5	936,3	135,0
General and administrative expenses	1,249,6	40,8	354,3	31,4	895,3	252,7
Depreciation expenses of properties and equipment	130,3	4,3	49,3	4,4	81,0	164,3
Amortization expenses of intangible assets	54,7	1,8	30,6	2,7	24,1	78,8
Total	3,064,3	100,0	1,127,6	100,0	1,936,7	171,8

Profit Before Tax

In 2017, the Bank booked profit before tax of Rp1,518.1 billion. This is included result obtained post integration.

Statement of Comprehensive Income

Bank recorded comprehensive income of Rp1,331.7 billion in 2017.

Net Profit

In 2017, the Bank's net profit reached Rp1,371.3 billion.

Net Profit and Other comprehensive income

(in billion of rupiahs)

Operating Expenses	2017	2016
	Rp Billion	Rp Billion
Net profit for the year	1,371,3	100,5
Other comprehensive income:		
Available-for-sale investments:		
- (Loss)/profit during the year	(7,5)	31,4
Remeasurements from post employment benefits obligation:		
- (Actuarial loss during the year	(32,1)	(16,2)
Other comprehensive (loss)/ income, net of tax	(39,6)	(15,2)
Total Comprehensive Income for The Year	1,331,7	115,7

Liquidity and Solvency

To measure the Bank's financial ability to meet its obligation as they fall due, the Bank uses several liquidity ratios such as Loan to Deposit Ratio (LDR), Liquidity Coverage Ratio (LCR), and Net Stable Funding Ratio (NSFR).

Besides LDR, to measure the level of liquidity to fulfil obligations as they fall due, the Bank also uses NSFR to monitor funding risk and LCR to monitor daily liquidity to ensure NSFR and LCR are within the set limits. The Bank's NSFR and LCR as at 31 December 2017 were 160% and 438%, respectively.

Liquidity Ratio

Description	2017	2016
Loan to Deposit Ratio (LDR)	106,55%	97,30
Liquidity Coverage Ratio (LCR)	438%	383%
Net Stable Funding Ratio (NSFR)	160%	158%

To measure the ability to meet Bank's liabilities, Bank uses solvency ratio by comparing liabilities over total assets, liabilities over equity, and leverage ratio by comparing Bank's core capital over total assets.

Solvency Ratio

Description	2017	2016
Ratio of Liabilities to Total Assets	85,28%	79,40%
Ratio of Liabilities to Equity	5,79x	3,85x
Leverage Ratio	13,34%	18,60%



OTHER MATERIAL INFORMATION

Ability to Pay Debt

The Bank's ability to meet all debts, including long term and short term debt, is measured by liquidity and solvency ratio. Until the end of 2017, the Bank levels of liquidity and solvency were good, represented by a healthy liquidity and solvency ratios.

Ability to Pay Short-Term Debt

Liquidity level of The Bank was measured using Loan to Deposit Ratio (LDR) where this ratio described deposit from customer used to financing loan to customers. At 31 December 2017, The LDR ratio was 106.55%. In addition to deposits from customers, Bank also has long term borrowing as financing source for loans. If this included in the calculation, the LDR of the Bank would be at a level below 100%

Ability to Pay Long-Term Debt

The Bank's ability to pay its long-term debt is also reflected by the Bank's sound capital position where the Bank's CAR on 31 December 2017 was above the minimum ratio required by OJK. Further, the Bank has been able to generate positive profit from year to year, this showed the Bank's ability to generate sufficient operating income to cover its operating expenses in long term. The continuous generation of profit has also strengthened the Bank's capital. As at 31 December 2017, the Bank's total capital is Rp16,1 trillion which was dominated by core capital (Tier-1 capital) of Rp14,3 trillion or approximately 89% of the Bank's total capital. The Bank's core capital has a healthy composition which comprised of share capital of 73% and retained earnings of 27%.

Loan Collectability

The Gross Non Performing Loan (NPL) ratio in 2017 was 4.26%. The Bank's Net NPL ratio was at a 1.70%.

Capital Structure and Management Policy on Capital Structure

The Bank calculates the capital requirement of on December 31, 2017 based on the Financial Services Authority Regulation No. 11/POJK.03 /2017 regarding "Minimum Capital Adequacy Requirement for Commercial Banks" which is valid since February 2, 2017 and as amended by POJK no. 34/POJK.03/ 2017. The required capital by the regulator is analysed in two tiers as follows:

- **Tier 1 Capital**, tier 1 capital consisted of common equity Tier-1 and additional Tier-1 capital. The common equity Tier-1 included issued and fully paid-up capital, additional paid-in capital, general reserves, previous years' and current year's profit, other comprehensive income in the form of profit/loss arising from changes in fair value of financial assets in the available-for-sale assets, the excess of the allowance for uncollectible accounts under prevailing regulations and allowance for impairment losses on earning assets. Deferred tax assets, intangible assets are key reducing factors of Tier-1 capital. The Bank does not have additional Tier-1 capital.
- **Tier 2 capital** includes subordinated and general allowance for earning assets in accordance with prevailing regulations.

To strengthen the Bank's capital and support the integration, in 2017, the Bank issued new shares amounting to Rp8 trillion. After the issuance and receipt of payments from shareholders, the Bank's Tier-1 capital increased to Rp14.3 trillion on 31 December 2017.

Furthermore, the Bank also obtained subordinated debt amounting to USD 75 million from HSBC Asia Pacific Holding (UK) Limited. This subordinated debt has been included as Tier-2 capital in CAR calculation as of 31 December 2017

after the approval from OJK obtained in November 2017. Management uses the minimum capital adequacy ratio required by the regulator to monitor the Bank's capital adequacy. The capital ratio requirement remains as the industry standard for measuring capital adequacy. OJK's approach to the measurement is primarily based on monitoring the relationship between the Bank's risk profile and the availability of capital. Banks are required to provide minimum capital according to risk profile as follow:

1. For banks with ranking 1 in the risk rating profile, the lowest required minimum capital is 8% (eight percent) of the RWA;
2. For banks with ranking 2 in the risk rating profile, the lowest required minimum capital is 9% (nine percent) to less than 10% (ten percent) of the RWA;
3. For banks with ranking 3 in the risk rating profile, the lowest required minimum capital is 10% (ten percent) to less than 11% (eleven percent) of the RWA; and
4. For banks with ranking 4 or 5 in the risk rating profile, the lowest required minimum capital is 11% (eleven percent) to less than 14% (fourteen percent) of the RWA;

The Bank calculates the minimum capital according to the risk profile for the position of 31 December 2017 by using the risk profile position as of June 2017. Based on the

Bank's self-assessment, the Bank's risk profile is ranked 2nd. Therefore, the Bank is obliged to meet the minimum capital of 9% to less than 10%.

Several restrictions also apply to parts of capital required by regulator, among others, the Bank is required to provide the lowest Tier 1 capital ratio of 6% of the RWA and the Common Equity Tier 1 ratio at the lowest of 4.5% of RWA.

On top of minimum Common Equity Tier 1 ratio, there are certain capital buffers which required to be met by Bank for position of 31 December 2017 as per below:

- Capital Conservation Buffer of 1.25%
- Counter cyclical Buffer of 0%
- DSIB capital surcharge of 0.5%

Based on OJK letter No. SR-91/PB.33/2017 dated 23 November 2017, the Bank has been appointed as one of the Domestically Systematically Important Bank (bucket 1). With this appointment the capital surcharge which was imposed to the Bank was 50% from 1 January 2017 until 31 December 2017, 0.70% from 1 January 2018 and 1.00% from 1 January 2019.

The Bank has met all of the above minimum capital requirements throughout the reporting period.

The CAR as at 31 December 2017 is as follow:

Tier 1 Capital	2017
Capital Stock	10,586,395
Additional paid-in capital	257,610
General reserve	3,648
Retained earning	2,630,644
Profit of the current period	1,371,300
Other Comprehensive Income	44,763
The excess of allowance and allowance for impairment losses on earning assets	(174,425)
Allowance for Asset Losses (PPA) on non-earning assets is compulsory	(12,635)
Deferred tax calculation	(162,125)
Other intangible assets	(231,315)

Tier 2 Capital	2017
Capital Instruments in the form of shares or other eligible Tier 2	1,017,563
General reserves of productive assets	799,058
Amount of capital	16,130,481
Risk Weighted Assets	
Credit risk	66,484,292
Market risk	2,660,750
Operational risk	2,584,902
Number of Weighted Assets According to Risk	71,729,944
Ratio of Minimum Capital Adequacy Ratio	22,49%
CET Ratio 1	19,96%
Tier 1 ratio	19,96%
Tier 2 ratio	2,53%
Capital Conversion Buffer	1,25%
Countercyclical Buffer	0,00%
Domestically Systemically Important Bank	0,50%
Required Minimum Capital Requirement Ratio	9% up to less than 10%
The minimum CET 1 ratio required	4,50%
Required minimum Tier 1 Ratios	6,00%

As of December 31, 2017, the Bank's CAR was at 23.69%. Further, the CET1 ratio of 19.96% is higher than the required minimum CET1 ratio and capital buffers.

Business Integration with HSBC Indonesia (KCBA HSBC) Foreign Bank Branch Office in

In April 2017, the Bank issued new shares for an amount of Rp8 trillion to strengthen the Bank's capital in the event of integration. In addition, the Bank also received subordinated debt amounting to USD75 million from HSBC Asia Pacific Holdings (UK) Limited which was a component of the Bank's supplementary capital. This subordinated debt has been calculated as part of supplementary capital started in November 2017.

Transactions with Affiliated Parties

During 2017, there were no material transactions with conflict of interest.

Details of the relationship and type of transactions with related parties as of 31 December 2017 were as follows:

Related party	Nature of relationship	Type of transaction
HSBC Bank Australia Ltd	Affiliated company	Demand deposits and derivative transactions
HSBC Bank Canada	Affiliated company	Demand deposits and fees and commissions expense
The Hong Kong and Shanghai Banking Corporation Limited	Affiliated company	Borrowing
The Hong Kong and Shanghai Banking Corporation Limited, Bangkok branch	Affiliated company	Demand deposits

Related party	Nature of relationship	Type of transaction
The Hong Kong and Shanghai Banking Corporation Limited, London branch	Affiliated company	Demand deposits and acceptance
The Hong Kong and Shanghai Banking Corporation Limited, India branch	Affiliated company	Demand deposits
The Hong Kong and Shanghai Banking Corporation Limited, Tokyo branch	Affiliated company	Demand deposits
The Hong Kong and Shanghai Banking Corporation Limited, Auckland branch	Affiliated company	Demand deposits
The Hong Kong and Shanghai Banking Corporation Limited, Beijing branch	Affiliated company	Acceptance
The Hong Kong and Shanghai Banking Corporation Limited, Guang Zhou branch	Affiliated company	Acceptance
The Hong Kong and Shanghai Banking Corporation Limited, Shanghai branch	Affiliated company	Acceptance
Hang Seng Bank Ltd	Affiliated company	Acceptance
HSBC Bank plc	Affiliated company	Acceptance and derivative transactions
The Hong Kong and Shanghai Banking Corporation Limited, Singapore branch	Affiliated company	Demand deposits and acceptance
The Hong Kong and Shanghai Banking Corporation Limited, Hong Kong branch	Affiliated company	Demand deposits, acceptance, derivative transactions, call money, borrowings and communication services
The Hong Kong and Shanghai Banking Corporation Limited, Jakarta branch	Affiliated company	Demand deposits
HSBC Trinkaus and Burkhardt AG	Affiliated company	Acceptance
The Hong Kong and Shanghai Banking Corporation Limited, Malaysia branch	Affiliated company	Acceptance
The Hong Kong and Shanghai Banking Corporation Limited, Shenzhen branch	Affiliated company	Acceptance
HSBC Asia Pacific Holdings (UK) Ltd	Parent company	Other liabilities
Board of Commissioners, Board of Directors, and family	Key management	Loans and Deposits from customers Subordinated debt

Significant Changes in The Bank and Bank Group in The Current Year

An Important change that occurred in 2017 was the integration of the HSBC Group with the Bank which affected the changes of capital structure and business consolidation between the two entities.

Dividend Policy

The annual dividend policy is determined through the approval of the Annual General Meeting of Shareholders (AGMS). In 2017, AGMS determined not to share dividend.

Management and/or Employee Share Ownership Program (ESOP/MSOP)

Certain employees are entitled to equity instrument of HSBC Holdings plc, the controlling shareholder, through employee share ownership program. This transaction was treated as transaction completed using equity instrument since HSBC Holdings plc is a party who give its own equity instrument for all employee share ownership program within the group.

Significant Changes in Laws And Regulations Affecting The Bank

Some of the regulations issued in 2017:

- POJK No.13/POJK.03/2017 Regarding the Use of Public Accountant Services and Public Accountant Firm in Financial Services Activities
- Regulation of the Financial Services Authority No. 14/POJK.04/2017 Regarding Recovery Plan for Systemic Banks
- Bank Indonesia Regulation No. 19/8/PBI/2017 Regarding the National Payment Gateway
- Bank Indonesia Regulation No. 19/5/PBI/2017 Regarding Treasury Certification And Implementation of Market Ethical Code
- Regulation of the Financial Services Authority No. 50/POJK.03/2017 Regarding the Obligation of Fulfilment of Net Stable Funding Ratio for Commercial Bank
- SEOJK No. 11/SEOJK.03/2017 Regarding Prudential Principles for Commercial Banks Submitting Partial Implementation of Works to Others
- SEOJK No. 16/SEOJK.03/2017 Regarding the Submission of Foreign Client Information Regarding Taxation in the Framework of Automatic Interregional Information Exchange by Using Common Reporting Standards (CRS)
- POJK No. 12/POJK.01/2017 Regarding Implementation of Anti Money Laundering and Counter-Terrorism Financing Program in Financial Services Sector jo. SEOJK No. 32/SEOJK.03/2017 Regarding Implementation of Anti Money Laundering Program and Prevention of Terrorism Financing in the Banking Sector
- PBI No. 19/6/PBI/2017 Regarding Fifth Amendment to PBI No Fifth Amendment to PBI No. 15/15/PBI/2013 concerning Statutory Reserves of Commercial Banks in Rupiah and Foreign Currency for Conventional Commercial Banks jo. PADG No. 19/4/PADG/2017 Regarding Statutory Reserves for Commercial Banks in Rupiah and Foreign Currencies for Conventional Commercial Banks
- POJK No. No.18/POJK.03/2017 Regarding Reporting and Requesting Debtor Information Through the Financial Information Services System
- PBI No. 19/8/PBI/2017 Regarding the National Payment Gateway.

Changes in Accounting Policies Implemented in the Last Fiscal Year

Except as described below, the accounting policies applied are consistent with those of the financial statements for the year ended 31 December 2017, which conform to the Indonesian Financial Accounting Standards.

Financial Accounting Standard Board of Indonesian Institute of Accountant (DSAK-IAI) has issued the following new standards, amendments and interpretations which were effective on or after 1 January 2017 as follows

- Amendment to PSAK 1 "Presentation of Financial Statements"
- Amendment SFAS 3 "Interim financial statements"
- Amendment SFAS 24 "Employee benefits"
- Amendment SFAS 58 "Non-current assets held for sale

and discontinued operation"

- Amendment SFAS 60 "Financial instrument: disclosure"
- ISFAS 31 "Interpretation on the scope of SFAS 13: Investment property"
- ISFAS 32 "Definition and hierarchy of financial accounting standards"

The above SFAS and ISFAS had no significant effect on the amounts reported for current year or prior year.

The implementation of the above standards did not result in changes to the Bank's accounting policies and had no effect on the amounts reported for current or prior financial years.

FUNCTIONAL REVIEW

Human Resources

The year of 2017 was a challenging year for The Bank particularly due to the integration between the Bank and HSBC Foreign Bank Branch Office in Indonesia (KCBA HSBC). This integration process brought a significant impact on Human Resources as it involved more than 5,000 employees. In light of the integration the Bank's Human Resources Division conducted five major agendas in 2017:

1. Option for Termination of Employment or continuation of service with PT Bank HSBC Indonesia
2. Employee Benefit Harmonization
3. Post-Integration Recruitment

4. Team and Cultural Assimilation
5. Employee Training

An overview of the afore mentioned agenda will be explicated upon summary of the Bank's Employee figures and data as follows:

Employee Profile

The number of employees of the Bank as of December 31, 2017 is 4,629 people. This is increased more than twice the size as compared to previous year which was recorded at 1,922, due to the inclusion of employees from both entities

The Human Resources composition as of December 31, 2017 is as follows:

1. The Composition of the Human Resources based on Educational Level

Educational	2017		2016	
	Number of Employees	Percentage	Number of Employees	Percentage
Master (S2)	269	5.81%	54	2.78%
Bachelor (S1)	3,733	80.64%	1,460	75.26%
Diploma (D3)	271	5.85%	278	14.33%
Diploma (D1)	41	0.89%	1	0.05%
Senior High School	315	6.80%	146	7.53%
Junior High School	0	0.00%	0	0.00%
Elementary School	0	0.00%	0	0.00%
TOTAL	4,629	100.00%	1,940	100.00%

Post the integration, the proportion of employees holding Bachelor's Degree (S1) continues to increase from 78% in 2016 to 86% in 2017. Since the Bank's status has been upgraded to BUKU III, the Bank requires highly capable employees with a higher educational level. Consequently, the standard and requirements in recruiting capable employees continues to be enhanced.

2. The Composition of the Human Resources based on Age

Age	2017		2016	
	Number of Employees	Percentage	Number of Employees	Percentage
18-30	1,886	40.74%	613	31.60%
31-40	1,788	38.63%	766	39.48%
41-50	847	18.30%	486	25.05%
Above 50 years	108	2.33%	75	3.87%
Total	4,629	100.00%	1,940	100.00%

Post integration, employee composition is dominated by the productive and dynamic young generation. More than

78% of the employee are under 40 years. Voluntary Termination of Employment program contributes to the figure in the composition as a number of employees who are nearing retirement age decided to terminate their employment to pursue career outside the Bank.

3. The Composition of the Human Resources based on Organisational Level

Organisational Level	2017		2016	
	Number of Employees	Percentage	Number of Employees	Percentage
Top Management	11	0.24%	5	0.26%
Middle Management	126	2.72%	298	15.36%
Lower Management	672	14.52%	922	47.53%
Staff and Others	3,820	82.52%	715	38.86%
TOTAL	4,629	100.00%	1,940	100.00%

The composition of the Human Resources based on the organisational level reflects the Bank's ensures effective organisational structures. The composition of Middle Management, Lower Management, and staffs (126 : 672 : 3.820) reflects in average one Manager leads 5 or 6 staff. The ratio is close to the HSBC 's directive which recommends 1 manager to lead 8 staffs to ensure efficient and effective organizational management.

4. The Composition of the Human Resources based on Employment Status

Description	2017		2016	
	Number of Employees	Percentage	Number of Employees	Percentage
Contract Employee	835	17.00%	27	1.34%
Permanent Employee	3,789	77.15%	1,913	94.84%
Outsourcing	287	5.84%	77	3.82%
TOTAL	4,911	100.00%	2,017	100.00%

Post integration, the number of Contract Employee increases from 1.34% to 17%. This is due to the large number of temporary tasks required to support new business initiatives as well imperative projects within the integration.

5. The Composition of the Human Resources based on Gender

Description	2017		2016	
	Number of Employees	Percentage	Number of Employees	Percentage
Male	2,093	45.21%	815	42.01%
Female	2,536	54.79%	1,125	57.99%
TOTAL	4,629	100.00%	1,940	100.00%

The number of female employees (54.79%) is a higher than male employees (45.21%) in 2017. This is aligned with the directive of HBSC Group as a shareholder to ensure career opportunities for women.

Human Resources Agenda in 2017

Voluntary Termination of Employment

The Bank offers Voluntary Termination of Employment to all permanent employees of HSBC and PT Bank HSBC Indonesia (formerly PT Bank Ekonomi Raharja) who opt not to join PT Bank HSBC Indonesia. All of permanent employees were entitled to the option. If an employee decides to opt not to join, they are paid severance in accordance with the Laws.

Employee Benefit Harmonization

The Bank has integrated employees from two different entities with dissimilar remuneration structures. The Bank's management commissioned harmonisation of employee benefits in 2017. The harmonized benefits offers the same, competitive and sustainable benefits for all of employees.

Summary of the harmonized benefits is as follows:

- 15-Month Salaries
- Pension Benefit in the form of Defined Contribution

(DPLK)

- Health Insurance
- Life Insurance
- Employee Loans
- Leave Benefits

Post-Integration Employee Recruitment

Employee recruitment, particularly post the integration becomes one of the core importance of Human Resources due to the number of employees opted out and most of these positions required to be replaced. With the purpose to meet 2017 recruitment target, Human Resources Directorate strengthened the Resourcing Department, upgrade and increase the number of employees in several segments both permanent and contract. Human Resources Directorate managed to recruit 870 permanent and contract employees as of the end of 2017. The statistic of employees recruited for each Directorate as of the end of 2017 is as follows:

Business Unit	Band							Total
	3	4	5	6	7	8	DC	
Retail Banking Wealth Management	1	2	29	58	69	139	268	566
Marketing	-	-	-	4	-	-	-	4
Commercial Banking	-	4	18	16	4	9	-	51
Global Banking	1	1	-	2	-	-	-	4
Global Markets	-	2	5	5	8	15	-	35
HOST	-	-	3	7	14	29	50	103
Risk	2	1	-	-	4	7	59	73
Compliance	-	-	1	1	-	1	26	29
Human Resources	-	-	-	1	-	-	1	2
Legal	1	-	-	-	-	-	-	1
Company Secretary	1	-	-	-	-	-	-	1
MGT/CEO	-	-	1	-	-	-	-	1
TOTAL	6	10	57	94	99	200	404	870
	1%	1%	7%	11%	11%	23%	46%	100%

The continued commitment Employee training and development and development is reflected by the investment of the educational programs in 2017 of Rp65 billion.

Team Assimilation

The integration has assimilated employees from diverse background and of two different sets of cultures. The Bank recognizes the need to assimilate teams and culture hence a Team Assimilation program is commissioned to ensure people recognizes the differences and to thrive on working together as a team in good governance, harmonized processes and policies and most importantly the same vision. This, to enhance effective working method and team effectiveness leading to continuously enhanced performance. Human Resources Division initiated the engagement of an independent consultant to commission 'Team Assimilation' Program

To conduct in-depth analysis on root cause the Management launched Post-Integration Pulse Survey prior to conducting the Team Assimilation program to assess the root cause of.

Team Assimilation consisted of 31 sessions, conducted in 2 phases:

First Phase: October 2017 – 88 participants

- 2 sessions for the Top Management (Board of Directors and Head of Business).
- 3 sessions for Head of Departments (HOD)
- 4 sessions for HODs 1-down.

Second Phase: November – December 2017 – 283 participants

- 22 session teams for Department

Training and Development

Training and Development has been an integral part of the Bank to ensure its capability is continuously enhanced and results through people are achieved. The Bank continues the primacy of training and development programs, in various approaches to improve capability of its employees through development of skills, knowledge, and improving value-based behaviour. The Bank conducts training and development programs through following methods and approaches:

- Seminars, workshops, and conferences.
- Training and certification programs mandated by regulatory and the Bank, including Global Mandatory Training (GMT), Financial Crime and Compliance (FCC), Global Standard and Risk Management Certification, WAPERD and AAJI.
- Foreign Language training program
- Training programs for new employees (induction)
- Various Programs conducted held internally and externally to ensure employees' understanding and knowledge on products, process, systems and procedures, policies, governance and regulations.
- Introduction to the Company culture program
- Early talent identification program for top fresh graduates through Global Graduate Program

The Bank periodically conducts training programs to improve employees' competency. In general, the development of employees' competency includes Technical and soft skills trainings, leadership development experiential in-training to improve specific and leadership skills. These programs are classified into following groups:

Core Competency

Core competency reflects the value and attitude that must be possessed by all employees. This program includes trainings in value-based management, managerial and leadership skills, and new hire on boarding program.

Managerial Capability

Managerial Capability enhancement covers leadership and managerial topics.

Technical and Functional Competency

This program explains the specific competency for employees to enhance their technical knowledge. Knowledge and skills taught in this program are in accordance with their roles and positions.

The Integration took place in April 2017 is a historic event for HSBC in Indonesia. It brought significant changes and impacts to the Bank's vision, strategy and the way it offers the services through improved processes, product and people.

The focused training on Financial Crime Compliance (FCC) for employees is a continued commitment of the Bank in combating financial crimes and ensure employees' capability to serve as the first and second layer of defence, specifically employees with a high-risk role. The FCC trainings are focused particularly to equip employees with a high-risk role in mitigating the risks of financial crimes.

To ensure Talent Pipeline and succession and to enhance the people capability PT Bank HSBC engages in Early Talent Identification Programs such as Global Graduate Program (GGP), which is hold to create future business leaders, and Wealth Management Trainee (WMT), a program that is conducted to produce competent Relationship Manager (RM) Wealth personnel.

Bank has conducted 53 comprehensive training programs with total of 21, 485 participation in 2017. Summary is as explicated below:

Training Type	Total Training Batches	Total Participants
Induction Training		
Discovery Global Induction	70	890
Premier Banking Staff On boarding Training	12	99
FCC New Joiner Induction	4	21
Global Mandatory Training		
Conduct and Me (e-learning)		4,859
My Financial Crime Risk Responsibilities (e-learning)		4,867
HSBC and Me (e-learning)		5,660
FCC and Global Standard Training Program		
AML and Sanctions for Commercial Banking	29	122
AML and Sanctions for Financial Crime Risk	4	10
AML and Sanctions for Global Banking and Markets	7	14
AML and Sanctions for Retail Banking and Wealth Management	88	298
Customer Due Dilligence (CDD) for RBWM	26	313
Global Minimum Standard AML Scenarios (GMSAS)	2	28
Building Financial Crime Capability for RBWM	28	314
ECCFC for Retail Banking and Wealth Management	26	684
Banking Certification Programs		
Risk Management Certification - Level 1	21	107
Risk Management Certification - Level 2	11	42
Risk Management Certification - Level 3	7	16
Risk Management Certification - Level 4	4	5
Risk Management Certification - Level 5	2	2
Risk Management Certification Refresher Program	25	152
Treasury Certification – Basic	1	8
Treasury Certification – Intermediate	1	2
Treasury Certification - Advance	1	1
Compliance Certification Refreshment Program	1	6

Training Type	Total Training Batches	Total Participants
WAPERD Certification	46	195
PPL WAPERD	32	86
AAJI Certification	44	108
Foreign Language Training		
English In-House Class Training - Basic	1	17
English In-House Class Training - Business	1	14
English In-House Class Training - Business Writing	1	9
English In-House Class Training - Negotiation	2	29
English In-House Class Training - Presentation	1	5
English In-House Class Training - Telephoning	1	15
English In-House Class Training - Basic Telephoning	1	17
English Public Class Training - Business English		130
Early Talent Identification Programs		
Global Graduate Program - Global Banking	2	4
Global Graduate Program - RBWM	2	9
Wealth Management Trainee - RBWM	3	31
Integration Training Programs		
Integration Training for CMB	16	363
Integration Training for Compliance	24	1,038
Integration Training for CRAO	34	454
Integration Training for CRE	6	114
Integration Training for Finance	12	217
Integration Training for GBM-GM Operation	3	74
Integration Training for GBM-HSS	17	135
Integration Training for GPU	12	221
Integration Training for GTRF	9	187
Integration Training for HOST-IT	15	34
Integration Training for HOST-Operation	62	1,208
Integration Training for Marketing	5	88
Integration Training for PCM-GLCM	9	183
Integration Training for RBWM	134	2,435
Integration Training for Risk	11	221
Total Participants		21,485

The continued commitment Employee training and development and development is reflected by the investment of the educational programs in 2017 of Rp65 billion.

Technology & Operations

Strategy & Implementation of Technology & Operations 2017

The technology and operational aspects included in this report relate to hardware, software or standard operating

procedures for duties in line with the Bank's scope of work.

Throughout 2017 the Bank implemented development plans & hardware and software upgrades related to the scope of work.

This includes the implementation of Data Centres with core banking systems in the country continuing the Bank's commitment to developing appropriate on-shore capabilities.

On-shoring plans have been submitted through Letter No.: 489/DIR/OJK/X/2017 dated October 13, 2017. The letter contains the follow up plans for the Location Changes of Data Centre, Disaster Recovery Centre and Information Technology-based Transaction Processing from the Outside of Indonesia to Indonesia. These plans may be adjusted with the publication of any new relevant regulations.

In order to support business growth the Bank delivers initiatives and projects in the form of the implementation of new systems, and upgrades and development of existing systems. These projects are supported by the utilization of new technologies. In terms of Operations, the Bank reviews and analyses current processes and makes efficiencies of its operating cost by utilizing robotic & automation solutions, migrating flows to e-channels and reducing paper use to support future business and volume growth.

On September 30, 2017, the SKNBI Bulk Direct Debit Inward project was successfully implemented. Through this service customers can pay their bills regularly by deducting payments from their registered account at a pre-specified time. Automation is also utilized to directly deduct payments from customers' accounts which is instructed by other banks through the SKN network service.

The bank continues improving Anti-Money Laundering (AML), Know Your Customer (KYC), Customer Due Diligence (CDD) and Transaction screening systems such as the implementation of OWS (Oracle Watchlist Screening) system and the GMSAS (Global Minimum Standard AML Scenarios of our Customer Activity Monitoring Programme) previously implemented in KCBA HSBC. Through the integration process these systems have been fully implemented to support the Bank's overall business activities and efforts in tackling financial crime.

For Retail Business Banking (RBB)'s customers the implementation of CDD capabilities has been upgraded at all RBB branches by submitting both new RBB customers' data and those who have already registered to the CDD system. This was conducted to ensure the Bank could avoid financial crime carried out by its customers who work alone or in groups.

Technology and Operations prioritises and ensures the availability of support for compliance, regulation and risk management projects including security against cybercrime.

The SAS EFM (Enterprise Fraud Management) System was implementation in October 2017. The system monitors all Bank customers' credit card transactions in real time and globally.

The Bank is updating its systems and technologies to support internal mobility and collaboration through flexible working capabilities, for example by converting PCs into laptops for employees and expanding corporate Wi-Fi networks.

The efficiency of the relationship between Head Office and Branches has been a focus such as through the centralization of credit operational teams in 3 cities to improve efficiency and control. In 2017, the Bank has implemented Workflow solutions to support operational processes in Payment, Banking and Credit Operations.

The bank has implemented digitalization of documents such as personal account and credit card statements and transaction forms to improve customer service and increase efficiency to customers as well as the Bank. The Bank evergreens software and hardware constantly, carrying out this activity to ensure that internal and external services use the most modern and efficient platforms maximising service availability and security.

Similarly throughout 2017 the Bank renewed ATM devices to improve security and performance in conducting customer transactions. Moreover the SWIFT annual upgrade has been implemented in November 2017. Additionally, throughout 2017 the Bank published several Standard Operating Procedures (SOP) in order to improve governance capabilities within all Technology and Operations divisions.

PLAN AND STRATEGY IN 2018

The Bank recognizes that risk management plays an important role for the Bank in achieving its business objectives. The balance between profit and risk must be continuously monitored so that in conducting its business,

the Bank also analyses, measures, and mitigates potential risks.

Therefore a series of initiatives, to improve risk management capability and ensure prudential principles, will be conducted in 2018. Banks are also constantly trying to implement the latest technology standards to ensure excellent service to our customers and all stakeholders.

Therefore, the Bank will continuously conduct the review and actions (including updates and patches) necessary to ensure that the hardware and software used by the Bank are capable and adequate in supporting the Bank's achievements and services to its customers. Obsolete devices will be updated or demised according to our standards.

In addition, the Bank also recognizes the importance of resilience toward cyber threats, hence the Bank continues to collaborate with HSBC Group in conducting the Cyber Security Maturity Improvement Program (CSMIP).

The Bank will also enhance anti-malware protection by using new systems that will provide protection against phishing. The Bank also ensures use of the latest appropriate versions of firewall software and hardware. The Bank will also continue to make improvements and enhancement in processes and systems to support business growth, efficiency, performance, security and customer service in 2018 by:

- Moving applications that are currently operated using data centres outside of Indonesia to data centres within Indonesia.
- Delivering system and infrastructure enhancements for debit cards, ATM features and Digital Banking to support the development of the retail banking business
- Implementation of systems aimed at automating suspicious network detection and fraud among customers, accounts, and transactions and facilitating international invoice financing transactions for corporate business.

- Completion of existing systems such as C-Best to support the introduction of features for straight-through processing in the Global Market and Global Banking business.
- Development of internal systems that support compliance with regulations, risk management, and data security.

In addition, given the importance of the Bank's efforts to tackle financial crime, throughout 2018, the Bank will also continue to optimize the use of systems and procedures related to AML, KYC, CDD as well as Transaction Screening. Optimization of space and collaboration will be realised via the Corporate Real Estate (CRE) Openwork Office Space strategy with the provision of collaborative working spaces, infrastructure and technology that supports mobile and agile ways of working.

The Bank supports the process of digitalization through paperless processes with the implementation of Pushed Email Letters and Statement, reducing paper forms for individual customers, sending PIN via SMS, increasing the use of electronic payment forms and maximizing e-channels to customers.

The bank will also work with logistics companies with modern technology and data capabilities so that it can track the delivery of bank account statements and cards in real time.

Risk Management

"Through the implementation of effective governance, it would make the Bank's risk management become more sound."

The business challenges in the future for credit and operational risks are more affected by the continued slowdown in Indonesia's economic growth during 2017, which the slowdown is expected to continue in 2018. The biggest risk that the Bank will face credit risk. Therefore, the Bank will continue to strengthen credit control in the midst of rising non-performing loans (NPLs) which generally also occur in the national banking industry.

Due to macroeconomic conditions that are still unstable during the period 2016-2017, the Bank only targets moderate credit growth in 2018. The Bank will continue to focus more on sustainable growth on good quality asset and risk control aspects such as the implementation of the three lines of defence mechanisms (First, Second and Third Lines of Defence) which will continue to be improved in terms of its effectiveness as part of the Bank's risk management process.

Eight Categories of Risk

Credit Risk is a risk arising from the failure of the debtor or counterparties in fulfilling its liabilities to the Bank. In managing credit risk, the Bank implements guideline which set the limit of the credit authority and the risk appetite.

The risk of credit concentration arises when a number of customers run the same business activity or conduct business in the same geographical area, or when customers have similar characteristics that will cause their ability to fulfil the same contractual obligations as affected by changes in economic or other conditions.

Market Risk is a risk caused by the movement of variables in the market, namely interest rates and exchange rates which have impact on the Bank's portfolio.

The Bank measures the potential risk of loss resulting from the possibility of a less favourable movement of interest rate fluctuations and currency exchange rates using the Value at Risk (VaR) method. The Bank also conducts stress tests on market risk, control and monitoring of daily market risk limit utilization and net open position at the end of each day in accordance with Bank Indonesia regulations.

Operational Risk is a risk category that become more significant considering Bank's business model and products, and banking services, keep growing in term of complexity and variation. Risks from inadequate and/or inadequate internal processes, deliberate human error or negligence, failure of information technology systems and external factors such as fraud and other illegal acts must be

minimized to maintain the level of operational risk profile of the Bank. Therefore, the Bank uses a comprehensive system consisting of Risk Control Self Assessment, Key Risk Indicator, Loss Event Database and Issue and Action Management in managing operational risks faced by the Bank.

Liquidity Risk is a risk arising from the failure of the Bank to fulfil its liabilities to depositors, investors and creditors, due to limited funding or inability of the Bank to liquidate assets at fair value. To manage its liquidity, in addition to maintaining the primary Statutory Reserves (SR) and secondary reserves, the Bank also conducts daily monitoring of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) reports. In addition, the Bank also conducts periodic stress tests using the scenario assumption that are considered relevant to the condition of Indonesian banking industry.

Strategic Risk is the risk caused by dramatic changes in the external and internal environment which can not be accommodated or anticipated by the Bank using existing strategies and policies. To address these risks, the Bank formulates short, medium, and long term strategies and budgets, taking into account the various financial models and scenarios that may occur in the future.

Reputational Risk is a risk associated with policies, procedures or issues related to the Bank that may damage the trust and confidence of the Bank's stakeholders. To address this risk, the Bank uses a comprehensive communication system to maintain a sound communication within both internal and external scope. Complaints are dealt with promptly and delivered to authorized departments to be addressed immediately and to provide appropriate solutions in improving service quality.

Legal Risk is the risk due to lawsuits and/or weakness of juridical aspect which can arise from, among others, the weakness of juridical aspect caused by the weakness of engagement done by the Bank, the absence and/or amendment of law and regulation causing a transaction

which has been done by Bank become not in accordance with the provisions, and litigation process whether arising from a third party lawsuit against the Bank or the Bank against a third party. To handle this risk, the Bank Legal Division, among other things, continuously performs legal aspect analysis procedures for new products and/or activities, and also reviews the contracts and agreements between the Bank and other parties.

Compliance Risk is the risk caused by the Bank's failure to comply with applicable laws and regulations. To address this, the Bank ensures that all layers of the organization have understood their responsibilities and comply with all applicable laws and regulations. With the assistance of the Compliance and Anti-Money Laundering and Counter-Terrorism Prevention Work Unit, the Compliance Director manages compliance risks and ensures their implementation, including the implementation of the Anti Money Laundering and Counter-Terrorism Financing policy.

Risk Management Implementation

OJK regulation requires banks to ensure proper risk management, causing the risk principle to be a very important element in operations in the banking industry today. The Bank has established a Risk Management and other task force to ensure sound risk management to support the Bank's business activities.

The development of risk management to support business activities is conducted through the improvement of the capability and competence of all Bank employees in understanding the aspects of risks which may arise.

Risk Management Framework

Implementation of effective risk management through an integrated Risk Management Framework can ensure measurement of risk management, which then be reported and controlled in line with the Bank's vision, mission and business strategy.

The risk management process is evaluated by the Risk Management Committee who is responsible for the implementation of overall risk management. This Committee consists of the Board of Directors, chaired by the President Director and reports to the Board of

Commissioners through the Risk Oversight Committee. The Committee has full responsibility for the establishment and implementation of the risk management framework and ensures that all risks of the Bank are properly managed.

The Bank's risk management framework is established to identify and analyse the risks that exist within the Bank's operations, to determine appropriate risk constraints and controls and to monitor risks and compliance with pre-defined limits.

Risk management policies and systems are regularly reviewed to adapt to changes in market conditions, products and services offered. Through various training and management standards and procedures, The Bank strives to develop a culture of risk control. The Bank also involves all employees so that they understand and participate in managing risks in accordance with their responsibilities.

Risk Oversight Committee

The Board of Commissioners establishes the Risk Oversight Committee to ensure that the risk management framework has provided an adequate protection against all risks faced by the Bank in conducting its business. The Risk Oversight Committee also plays a role in overseeing the development, implementation of risk management policies and providing input on the risk management strategies that the Bank should implement. The Risk Monitoring Committee is chaired by an Independent Commissioner appointed by the Board of Commissioners and can only act as Chairman of another committee under the Board of Commissioners.

The Authority and Responsibility of Risk Monitoring Committee

1. To supervise and advise the Board of Commissioners on high risk matters, including current and future exposure to risks; corporate risk tolerance limits and upcoming risk strategies including capital and liquidity management strategies; as well as risk management within the Bank.
2. Providing input to the Board of Commissioners on risks related to the strategy of loan extension approval by the Director after consultation with the Chairman of the Risk Oversight Committee.
3. Requesting periodic risk management reports

from management that enable the Risk Oversight Committee to assess the risks involved in the Bank's business, as well as to apply a clear, explicit and targeted focus on aspects of current or potential exposure to risks.

4. To assess the effectiveness of the Bank's risk management framework and internal control system.
5. To instil and maintain a Bank culture that supports the implementation of internal risk control management in line with the outlined provisions and procedures.
6. Review internal audit reports, audited annual reports of external auditors on the stage of external audit progress, management letters prepared by external auditors, external auditor's proposed questions to management or, in any case, responses from management, relating to risk management or internal control and has been submitted to the Risk Oversight Committee by the Company's Audit Committee or as reasonably deemed by the Audit Committee.
7. If possible, review and give consent to the content of the Risk Committee Report in the annual report to be submitted to the Board of Commissioners.
8. To review and approve the content of the statement made in connection with internal control (other than internal financial control) in the annual report to be submitted to the Board of Commissioners.
9. If needed, to annually submit terms of reference to the executive risk management meeting; as well as reviewing the minutes of the meeting and further information on the executive risk management meeting; as requested from time to time by risk executive management.
10. To re-ensure the Board of Commissioners as requested in terms of reliability of risk information to be submitted to the Board of Commissioners.
11. The Risk Oversight Committee holds a special meeting with the Head of Internal Audit at least once a year to ensure that there are no unresolved issues or problems.
12. To carry out other relevant tasks or to consider other relevant topics on behalf of the President Commissioner or the Board of Commissioners as authorized from time to time by the President Commissioner or the Board of Commissioners.
13. The Committee may designate, or employ professional

advisors as deemed appropriate by the Risk Oversight Committee.

The Risk Oversight Committee conducts an annual review of the Committee's terms of reference effectiveness and recommends necessary changes to the Board of Commissioners.

Risk Management Committee

The Risk Management Committee is responsible for monitoring risk management and implementation of the Bank's risk management framework. The Risk Management Committee is chaired by the President Director and the Board of Directors as a member.

The Authority and Responsibility of Risk Management Committee

1. To review the "enterprise-wide" risk management main policies and frameworks, including but not limited to the Risk Appetite Framework, the Annual Risk Appetite Statements and the Stress Testing Framework prior to submission to the Board of Commissioners.
2. To conduct an analysis and provide recommendations to the Board of Directors in relation to risk management aspects including the following matters:
 - To review risk management policies and changes, including risk management strategy, risk and resilience levels, risk management frameworks and mitigation plans to anticipate abnormal conditions.
 - To increase the risk management process on a regular and incidental basis as a consequence of internal and external changes of the Bank which affected capital adequacy, risk profile of the Bank and the assessment of ineffective implementation of risk management
 - Establish policies and/or deviations on business procedures, such as business expansion that is too significant compared to the Bank's business plan and risk position/exposure that exceeds the limit.
3. To develop risk management framework and Enterprise Risk Reports (Risk Appetite, Risk Map and Top & Emerging Risks).
4. To review credit risk exposure report and the root of the problem from the Risk Management Unit (RMU).

5. To review all management reports relating to internal risks and controls to be presented to the Risk Oversight Committee in the performance of the board's accountability.
6. To understand credit risk, the dynamics of financial statements, the interaction between portfolios and to approve policies regarding those matters
7. To review all risks (current and potential risks) systematically, to ensure that: i) there is an initial risk identification mechanism, ii) adequate controls for mitigation and iii) the benefits gained reflect those risks and the capital allocated to support it. Risks under review include:
 - Enterprise Risk Reports (Risk Appetite, Top & Emerging Risks, Risk Map)
 - Risk Ownership – First Line of Defence
 - Risk Stewardship – Second Line of Defence, Financial Management, Asset, Liability & Capital Management, Accounting & tax, Legal, Regulatory Compliance, Financial Crime Compliance, System, Projects and Operations, Strategic Risk, People Risk, Reputational Risk – external, Wholesale Credit Risk, Market Risk, Operational Risk, Political Risk, Physical Risk, Internal Fraud, External Fraud, Contingency Risk, Information Risk, Conduct Risk
 - Internal Audit – Third Line of Defence
 - Risk Monitoring (Asset, Liability and Capital Management, Wholesale Credit Risk, Market Risk, Reputational Risk, Operational Risk, System, Projects and Operations.
8. To review the progress of the regulations to be implemented and ensure appropriate action is taken in a timely manner to manage those developments, with the purpose of sustainability and benefit to the Bank.
9. To review the results of the stress test and the "Risk Appetite Statement" quarterly in accordance with the direction of the shareholders and the Board of Commissioners
10. Risk Management Meeting may recommend or escalates issues as follows:
 - Certain issues to be discussed in Board of Directors Meetings, or

- Matters that require approval from the Board of Directors to be discussed in Board of Directors Meeting.

Integrated Risk Management Committee

In order to apply a comprehensive Integrated Risk Management in accordance with the regulations of POJK No. 17 / POJK. 03/2014, Main Entity which in this case is PT HSBC Indonesia Bank is required to establish an Integrated Risk Management Committee.

The Integrated Risk Management Committee is responsible for the monitoring of risk management and implementation of the risk management framework in the entities included in the Financial Conglomeration. The Risk Management Committee is chaired by the Director of Risk Management and Board of Directors who is appointed as a member of the Principal Entity as well as the Board of Directors or the designated representative of the entity included in the Financial Conglomeration.

The Integrated Risk Management Committee has the authority and responsibility to provide recommendations to the Board of Directors of the Main Entity, in order to:

- a. Preparation of Integrated Risk Management policy; and
- b. Improving or perfecting Integrated Risk Management policy based on the results of implementation evaluation.

Main Task of Integrated Risk Management Committee Members:

- a. Providing inputs to the Integrated Risk Management Committee in the form of topics and meeting materials to be discussed in the meeting of the Integrated Risk Management Committee.
- b. Providing inputs in the form of information and analysis related to the topics discussed in the Integrated Risk Management Committee meeting.

Risk Management Working Unit

Risk Management Working Unit is an independent unit established to support good corporate governance for the Bank by taking a role in risk assessment and analysis to support business strategies. The main function of this unit is to provide risk monitoring results to the Risk Management Committee and to prepare the Bank's risk profile and its recommendations to Bank Indonesia. Risk Management Working Unit leadership is directly responsible to the Bank's Risk Management Director.

The authority and responsibility of the Risk Management Unit

1. To provide input for the Board of Directors in formulating Risk Management policy, strategy and framework.
2. To develop procedures and tools for identification, measurement, monitoring, and risk control.
3. To design and implement the tools required in the application of risk management.
4. To review new activities and/or products proposals developed by the business unit. The assessment focuses primarily on aspects of the bank's ability to manage new activities and/or products including the completeness of the systems and procedures used, and their impact on the Bank's overall risk exposure.
5. To provide recommendations for the business unit and/or to the Risk Management Committee regarding the implementation of risk management including the maximum risk exposure acceptable to the Bank.
6. To monitor the implementation of the risk management policies, strategies and risk framework recommended by the Risk Management Committee and has been approved by the Board of Directors.
7. To monitor overall risk position/ exposures, including monitoring of compliance with risk tolerance and defined limits.
8. To conducting stress testing for determining the impact of the implementation of risk management policies and strategies on the portfolio or the performance of the Bank as a whole.
9. To evaluate the accuracy and validity of data used by banks to measure risk for the Bank by using a particular model for internal purposes.
10. To prepare and submit risk profile reports to the President Director, Risk Management Director, Compliance Director, and Risk Management Committee on a regular basis, or at least on a quarterly basis. Report frequency should be increased if market conditions change rapidly.
11. To conduct periodic reviews with frequencies tailored to the Bank's needs, in order to ensure the adequacy of the risk management framework, the accuracy of the risk assessment methodology and the adequacy of the risk management information system.

Active Supervision of Board of Commissioners and Board of Directors

Comprehensive oversight of all loan portfolios is carried out on a regular basis, including monthly meetings of the Risk Management committee led by the President Director, as well as other executive committees that support the Bank's risk management process.

While at a higher level, the Risk Oversight Committee comprising of Independent Commissioners and Commissioners conducts supervision in meetings once every three months. The Board of Directors and senior management involved in risk control and supervision at the Bank is invited to attend this meeting.

The involvement of senior management in the credit process is accommodated in the composition of the Credit Committee comprising the President Director, Director, Chief Credit Approval Officer and other executive officers as guided by Terms of Reference. With the composition of committee members involving credit units and business units, it is expected to achieve credit decisions based on objective and impartial considerations of the Bank's interests.

Operational Risk Unit

The Operational Risk Unit is responsible for implementing risk management which includes:

- Active supervision and proactive management from the Board of Commissioners and/or Board of Directors on the Bank's operational risk profile and exposure

- through regular committee meetings.
- Establishment of policies, procedures and operational risk limits including periodic review with the objective of compliance with the latest regulations and/or current best practices.
 - Implementation of an operational risk management framework that includes identification, assessment, monitoring and control on operational risks to maintain operational risk loss levels in accordance with predetermined tolerance limits. Development of risk awareness culture and internal control at all organization level through adequate communication to achieve effective internal control.

Three Defence Line

Bank adopt three lines of defence that includes Business and Function as First Line of Defence, Risk Stewards (unit that establishes policy on certain risk and conduct oversight process over that risk) and Operational Risk as Second Line of Defence, and Internal Audit as Third Line of Defence.

All units in each line are in synergy to implement the risk management, including to ensure compliance against applicable regulation and policy in each working unit.

Review of New Products and Activities

New products and activities at the Bank are reviewed comprehensively in accordance with prudential principles by considering the risk and yield aspects. It is especially related to the integration process that will be carried out. The identification process includes analysis of 8 types of risks that are likely to affect both the Bank and its customers. Risk analysis for new products and activities is undertaken by the Risk Management Working Unit together with other relevant work units.

Socialization of Risk Management

The Bank continues to disseminate risk management in creating risk awareness to all work units and branch offices. Socialization activities have been conducted thoroughly to all employees in the form of e-learning training and training in the classroom.

In order to improve the competence of risk management, the following trainings have been conducted throughout 2017:

1. Risk Management Certification Program as required.
2. Risk Management Certification Maintenance/ Refreshment Program for employees who have received Risk Management Certification in previous years.
3. E-learning training that must be followed by all employees associated with risk awareness such as Information Security Risk, Operational Risk, Anti Money Laundering & Sanction, Bribery & Corruption, Compliance & Reputational Risk.
4. Other trainings to improve competence in risk management.

Credit Risk

Socialization of Risk Management

Credit risk is one of the main risks covered in the application of risk management. Credit risk management is performed by all units related to the credit process, through various levels from the operational level up to the senior level of management, among others through the Risk Management Committee forum.

The structure of the risk management that has been implemented is as follows::

Operational Level

Risk Management Director and Chief Credit Approval Officer supervise several divisions that each have functions in support of good risk management.

Credit Approval

Credit Approval serves as the first independent filter of Business before a credit proposal approved by credit approver(s) or Credit Committee. This unit reviews the credit proposal independently of the business unit.

In addition to providing review, credit approval officers under the Credit Approval organization provides approval of credit proposals submitted by the business unit based on credit risk level, which is delegated by management based on the experience and capability of the credit approval officer.

Approvals raised to the Credit Committee must carry independent opinion by the Risk Management Director.

Wholesale Credit Review Unit (WCRU)

The supervisory role in the process of credit application to disbursement of approved facilities is run by the Wholesale Credit Review Unit division which specifically examines the credit process and submits the findings along with the recommendations required to improve the existing credit process.

Through sampling, WCRU reviews the overall quality of the loan portfolio, WCRU thoroughly assesses the crediting processes undertaken by the business unit to the Credit Service, and ensures that all units and parties involved in the credit process perform their duties and responsibilities in accordance with applicable terms and procedures.

The WCRU function performs the second line of defence role, so that the control over the procedures in the credit process is inherent and continuously carried out independently. With such special teams, it is possible to establish credit specialization skills in creating effective control over the years.

Risk Identification (RID)

RID plays a role in monitoring the risk profile of the wholesale loan portfolio. RID also plays a role to ensure that the business has taken proper follow-up measures against debtors with early warning signs. RID proactively coordinates with Business and Approvers in regards to managing debtors included in the watchlist list, and reviews sectors considered as high risk. In 2017, the role of RID is strengthened in terms of early risk identification and providing solutions for watchlist debtors. Several filters are introduced in order to identify early warning signs such as review of newly downgrade to CRR 6 and 7, daily past due monitoring and daily news alert.

As part of the portfolio review, RID conducted several review in 2017 including a new-to-bank review for those onboarded in the period May 2016 - April 2017, review of NBF (Non Bank Financial Institution) debtors in CMB, and

a review for debtors who are engaged in the shipping business.

Loan Management Unit (LMU)

To ensure that there is no conflict of interest, the LMU division responsible for managing troubled debtors and troubled debt settlement processes, stands apart from the business division and is under the Risk Management Director. This is to keep the handling of problem loans run professionally and independently from the division that distributes credit, so avoid the conflict of interest.

In the midst of global uncertainty and the increasing trend of NPL in Indonesian Banking, the level of non performing loan settlement during 2017 achieved recovery rate of 89%. Although the Gross NPL rate increased to 4.26% during 2017, this is more due to the economic slowdown and macroeconomic conditions that have not improved significantly which impacted the loan portfolio. Several steps are taken to accelerate the settlement of problem loans, especially on accounts with material value, which have been initiated and are expected to have some significant results in 2018.

Credit Policy

In support of credit prudent lending, the division dealing with credit policy stands separately.

The Credit Policy Division has the primary responsibility to support the business unit by developing comprehensive credit policies that can be used to support the credit process effectively and efficiently, while maintaining the prudential principles, risk aspects and in line with Bank Indonesia regulations.

Various policy changes have been issued to support a more professional working system in support of credit growth. It is in line with local terms and policies adopted from the HSBC Group.

Adequacy of Policies, Procedures and Boundary Determination

The credit policy is prepared by an independent unit to

ensure that the existing policies support the credit under the Bank's ongoing process. In particular, each work unit also has a role to ensure the availability of procedures to confirm standardization of credit processes and the availability of a technical procedure to facilitate the work processes of each unit involved in the credit process.

The credit policy which is the guideline used in the credit process is composed by the credit policy unit, and this policy is constantly reviewed and updated on a regular basis.

During 2017, credit policies and guidelines reviewed and updated include:

- List of Insurance Companies;
- Authority to Approve Credit;
- General Guidelines and Guidelines relating to credit in the 'Wholesale' segment
- Integrated Risk Management Guidelines
- Guidelines of the Integrated Risk Management Committee
- ToR Risk Management Committee,
- Approved KJPP and KAP;
- Binding of Credit Facility Agreement
- Determination of hypothec Value for the 'Wholesale' segment.

One of the credit policies applied and required for adherence by the business unit is related to the annual review process. Business units are required to undertake annual review of debtors in a disciplined manner at least once a year. With the annual review, the business unit can monitor and ensure that the debtor's business performance is still running as expected and if there is a change in business conditions, anticipative actions can be taken to prevent deterioration in credit quality.

In addition to the implementation of policies and procedures, the Bank also exercise a limit in the credit process in accordance with the Bank's risk appetite. The limits set covers, the credit approval limit authority, Single group lending limits (in accordance with the LLL), and economic sector and others.

The credit approval authority for the customer is determined

based on the amount of exposure per group. Thus, the likelihood of credit concentrations exceeding the limits of one group debtor can be avoided. The Bank also refers to and meets the Legal Lending Limit (LLL) in accordance with the provisions of OJK, which limits the maximum amount of credit to each counterparty either individually or as group counterparty.

Adequacy of Credit Risk Identification Process

The risk identification process is carried out by units acting in the Three Lines of Defence where the front line is the business units and their support units. A special unit responsible for identifying potential problematic borrowers is Risk Identification Department (RID).

RID performs its tasks by using a specific methodology to identify clients who are considered vulnerable or potentially problematic. List of watchlist updated at least once a month and discussed with business and Credit Approval Division to find the best strategy to mitigate problem for particular debtor.

Strict monitoring is conducted for Business and Corporate Banking customers with payment arrears. The supervision is based on reports issued on daily basis and reconfirmed in biweekly reports and circulated to all regional offices for their attention.

Adequacy of Process Measurement, Monitoring, and Risk Control

Risk measurement is conducted periodically through the preparation of the Bank's annual plan beginning with the determination of the "Risk Appetite Statement" as risk appetite and risk tolerance corridor acceptable to the Bank for the year. Proposals for the draft Risk Appetite Statement will be submitted for approval by the Risk Management Committee annually before being implemented at the Bank. Important indicators such as the ratios related to income, profitability, capital, risk weight, liquidity, NPLs and some other Bank risk categories are monitored monthly in the "Risk Appetite Statement" report.

Risk performance is measured and evaluated each month by comparing the actual risk conditions with the Risk Appetite Statement, allowing for earlier detection and for mitigation

measures required. The Bank also proactively classifies the risk level in the Risk Map, which is reviewed monthly in the Risk Management Committee forum. Preventive and corrective measures are discussed in the committee including progress that has been achieved so far.

The Bank has in place monitoring systems and procedures covering risk exposure, risk tolerance, internal limit compliance and stress testing results as well as consistency of implementation with established policies and procedures.

One aspect that is reviewed periodically and approved by the Board of Directors is the determination of the industrial sector that is considered to have good prospects as the target of credit portfolio development. The industrial sector is structured and classified based on Bank credit interest. For sectors that fall under the low interest category, the Bank performs a more rigorous analysis and requires a higher level of approval than usual.

Periodic review of portfolios is conducted to see the impact of external factors which are occurring that can directly or indirectly affect credit exposure especially for large debtors. The results of this study are discussed with the Credit Approval Division and businesses to take anticipatory measures if necessary.

In December 2017, the Bank has conducted stress testing to measure the financial condition and ability of the Bank's management to continue operating effectively in extreme economic conditions. For the purpose of stress tests the Bank uses the assumption of 100% loss on impairment of credit against profit before tax, which is considered very conservative.

The Bank ignores the impact of corporate ratings on which all corporations are perceived to be 100% risk resulting in an increase in credit RWA of 3.5% from normal conditions. The Bank also has an adequate risk control system with reference to established policies and procedures. Credit policies and procedures are reviewed and developed in accordance with the Bank's business needs, the dynamics of the banking industry and banking regulations in Indonesia while maintaining the prudential principles.

Credit Risk level as of 31 December 2017 was Low to Moderate, based on inherent risk level was Moderate and Risk Management Implementation Quality assessed as Satisfactory.

Market Risk

Market risk is the risk that movement in market factors, such as foreign exchange rates, interest rate, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios. Market risk management is performed by the Global Markets as a competent party in managing market risk, while market risk monitoring is performed by a unit that independent from Global Markets.

The Bank separates market risk exposures between the trading portfolio (trading) and non-tradable (non-trading). The traded portfolio includes positions arising from market making, and others that set at market value. Non-tradable portfolios include positions arising mainly from interest rate management of interest-bearing assets and liabilities, and assets classified as available for sale.

The Bank shall exercise maximum market risk monitoring in accordance with the approved limits by Risk Management Committee. The monitoring of market risk limits are done on a daily basis, including net monetary net monitor's end-of-day position in accordance with BI regulations. The Bank approves the maximum limit for interest risk in the form of PVBP (Present Value Basis Point) for each book: trading, banking and the total position of the bank.

The Bank measures the potential losses that can occur due to interest rate fluctuations, currency exchange rates using VaR (Value at Risk) based on historical simulation. Bank perform the Back Testing on daily basis and Stress testing regularly.

Market Risk level as of 31 December 2017 was Low to Moderate, based on inherent risk level Low to Moderate and Risk Management Implementation Quality assessed as Satisfactory.

Liquidity Risk

Liquidity Risk is a risk that may be faced by the Bank because it can not fulfil its obligations to depositors, investors, and

creditors, due to limited funding or inability of the Bank to liquidate assets at fair value.

In managing its liquidity, in addition to maintaining a Primary Minimum Reserve Requirement (GWM) and a Secondary Reserve Requirement, the Bank also conducts daily monitoring of the Liquidity Coverage Ratio (LCR) report and Net Stable Funding Ratio (NSFR). The Bank also periodically conducts stress test on liquidity conditions by using scenario assumptions that may occur in the Indonesian banking system.

Liquidity Risk Management

The main objective of the implementation of Liquidity Risk Management is to ensure adequate daily funding, both during normal conditions and for the purpose of anticipating crisis conditions, in timely fulfilment of liabilities from various sources of funds available, including ensuring the availability of high quality liquid assets.

The Bank's implementation of Liquidity Risk Management includes:

- Active supervision of the Board of Commissioners and Board of Directors;
- Adequacy of Risk Management policies, procedures, and stipulations;
- Adequacy of risk identification, measurement, monitoring and control processes as well as Risk Management Information System;
- Comprehensive internal control system.

The risk management applied by the Bank is as follows:

1. Daily monitoring of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), which includes daily monitoring of the Bank's liquid assets and the daily cash outflow and inflows of Bank;
2. The Bank shall establish a secondary reserve to maintain the liquidity position of the Bank, which includes placing excess funds into a liquid financial instrument;
3. Establish a Cash Holding limit policy on Bank branch offices;
4. Implementing the Asset and Liability Committee (ALCO) function to regulate the interest rate in increasing / reducing certain sources of funds related

to maturity mismatch;

5. Implement liquidity contingency plans and mechanisms, which includes establishing crisis response teams to anticipate liquidity crises.

In the liquidity risk management process, the Bank has been using measurement parameter in accordance with Basel III standards, which implemented ratios has subsequently maintained a sound liquidity position of the Bank.

Liquidity Risk level as of 31 December 2017 was Low to Moderate, based on inherent risk level Low to Moderate and Risk Management Implementation Quality assessed as Satisfactory.

Operational Risk Operational Risk Management

The OpR Unit (Operational Risk) is a division under the Risk Management Director and is in charge to oversight operational risk management at the Bank. This monitoring process is conducted through establishing an operational risk management framework, which will be implemented by businesses and functions, where the operational risk framework will continuously improved from time to time to enable sufficient management over operational risk, to the acceptable risk level.

In the day-to-day process, operational risk oversight processes are conducted by the OpR unit through involvement in risk and control assessment processes performed by risk and control owners, oversight on the management of operational risk incidents, as a part of SKMR unit that deliver the responsibility in managing operational risk, provide input on the process or issue related to operational risks faced by management; and perform operational risk analysis on new activities and new products, as well as perform various other operational risk management activities.

1. The implementation of Three Lines of Defence concept that introduced by Bank since 2013 is approaching to the expected level, with continuous improvement will continue to ensure adequate risk management across the Bank.
2. First Line of Defence is the business and function that owned the risk and control, and implemented the risk management in their daily process. This concept was

introduced to increase the awareness of First Line of Defence on their critical roles in managing operational risk when they carrying out their daily activities.

3. The Second Line of Defence is the function that create risk management policy and perform overall oversight on that risk, for example is Operational Risk Unit, SFR (Security and Fraud Risk) unit, CMP (Compliance) unit, LGA (Legal) unit, and others. The Second Line of Defence may also consist of units that perform daily process but have certain risk management coverage, for example the Finance Unit (for financial risks such as liquidity risk), Strategy Unit (for strategic risk), and Human Resources (for people risk). The second line of Defence provides input to the First Line of Defence on managing their risk, and conduct oversight to ensure that risk management has been performed in accordance with their respective controls.
4. The Third Line of Defence is Internal Audit (SKAI), who provide independent assurance to management that First and Second Line of Defence are managing the overall risk and in accordance with Bank's policy.

Implementation of risk management in the First Line of Defence are being supported by additional roles developed by management, known as BRCM (Business Risk and Control Manager), which as part of the respective unit, is expected to closely monitor the operational risk management in each respective units, and connecting the business and function with Second Line of Defence. Management is expected to have a better understanding on their responsibility in

managing their risk, by implementation of this concept.

Several methods or tools have been provided to the First Line of Defence to manage risk in their respective areas. The method that has been introduced includes self assessment of the risks and control, implementation of risk-based review performed by BRCM, identification of risk or existing problems followed by the monitoring on agreed action plan, and management of operational risk incidents. It is expected that the Bank can continue to improve the concept in order to achieve better and sustainable risk management.

Along with implementation of the Three Lines of Defence concept, operational risk management framework has been adjusted to ensure that the risk management will be done effectively and efficiently with clear roles and responsibilities of each roles in operational risk management. This framework will continuously improved in accordance with level of maturity and implementation by first and second line of Defence.

The Operational Risk Unit will provide advise to the First Line of Defence, and work together with Second Line Defence, to ensure that the quality of the risk management implemented will be in accordance with the operational risk management framework within the Bank.

Various efforts have been performed to create a good risk culture in operational risk management and have lead to reduce operational losses in accordance with the risk appetite set by the Bank for the period 2017.

Measurement of Risk Weighted Assets (RWA) for operational risk can be seen in the table below: (in IDR billion).

The approach used	31 December 2017		
	Average gross income averaged the last three years	Capital Expense	RWA OPR Risk
The indicator approach	1,378,6	206,8	2,584,9

RWA operational risk is measured based on the Basic Indicator approach in accordance with direction from Bank Indonesia as regulator, and in accordance with Bank's condition. The RWA for operational risk is 12.5 times of Capital Expense. Capital Expense is calculated at 15% of the average gross income over the last three years. There is no

significant change in RWA for operational risk by 2017.

Operational Risk level as of 31 December 2017 was Moderate, based on inherent risk level Moderate and Risk Management Implementation Quality assessed as Satisfactory.

Legal Risk

Legal Risk is the risk due to lawsuits and / or weakness of juridical aspect which can be sourced, among others, from the weakness of juridical aspect caused by the weakness of engagement done by the Bank, the absence and / or amendment of law and regulation causing a transaction which has been done by Bank become not in accordance with the provisions, and litigation process whether arising from a third party lawsuit against the Bank or the Bank against a third party.

The legal risk management organization undertaken by the Bank is by having a work unit, the Legal Division, which functions as a legal watch. Broadly speaking, the Bank Legal division has the following responsibilities:

- Provide advice and legal opinions to the Board of Directors and / or other Bank units on matters pertaining to business, operating strategies, initiatives and legal issues,
- Provide advice and legal opinion to senior management members in establishing systems and procedures for controlling legal risks, and,
- The Legal Division has several mechanisms in legal risk control, including but not limited to:
 1. Have a written legal policy,
 2. Carry out legal aspects analysis of the product, new or ongoing business activity, if necessary,
 3. Assess the impact of changes in terms and regulations on legal risks,
 4. Review of standard documents of contracts, contracts and other legal documents of the Bank with others in respect of the effectiveness of the mitigation of legal risks that may be incurred by such documents,
 5. Monitoring of ongoing court cases.
 6. Have an external legal counsel panel for corporate law and litigation that assists the Bank for legal risk control. There are currently 15 external legal counsel in the Bank panel.

The Legal risk level at the position of 31 December 2017 is rated Low, based on the inherent risk assessment is Low and the level of Quality of Implementation of Strategic Risk Management (KPMR) is Satisfactory.

Strategic Risk

Strategic risk is the risk of loss resulting from Bank's inadequate strategy and policies in anticipating and accommodating dramatic changes in the external and internal environment. Implementation of such improper and inadequate strategies may result in non-achievement of the Bank's business targets.

The strategic risk management that has been implemented by the Bank includes:

1. Establish Bank's business plan.
2. Make a policy to implement the strategy that has been set.
3. Implement supervision over the achievement of the work plan on a regular basis.
4. Re-evaluate the interim results achieved, along with the factors that prevented the Bank's target achievement, followed by mitigation of risk factors causing losses.
5. Making improvements to the initial work plan as an effort to achieve the target Bank that have been set.

The implementation of the Bank's strategic risk management starts from the formulation of business plans followed by supervision of the implementation of the Bank's strategy and ends with the evaluation of achievements to make the necessary adjustments.

In the last quarter of each year, the Bank conducts business planning involving business leaders, support divisions and Directors in formulating business plans for the coming year. At the end of the formulation process, the business plan will be submitted to the Board of Commissioners for approval. An approved business plan will be communicated to all levels of the Bank's management for the realization of the business plan.

In its application, on a regular basis, the Board of Directors and business leaders and supporting divisions of the Bank will evaluate the realization of the business plan and take necessary corrective action. In the event of significant internal or external changes, the business plan will be changed at the time of the mid-year business plan evaluation.

Directors and business leaders and other relevant sections review the results of Bank operations and the challenges faced every month and take remedial action needs to be done to ensure the achievement of the business plan that has been declared. In the event of any external or internal circumstances assessed could lead to non-achievement of the Bank's original business plan, monitoring and precautions will be planned, implemented and monitored for progress. The Board of Commissioners together with the Board of Directors periodically monitors the Bank's business results and strategic risks faced by the Bank.

The Bank has committees that meet regularly to monitor the risks faced by the Bank in which these committees contribute to direct and indirect strategic risk control. The Risk Management Committee will discuss each month the risks associated with achieving the Bank's business plan including the identification of related strategic risks.

In performing its duties the Risk Management Committee is assisted by the Risk Management Unit (SKMR) in coordinating each section related to risk control in preparing an analysis of each risk, including strategic risk, on a monthly or quarterly basis. In addition, the Asset and Liability Committee also provides information on the current state of the banking industry and the Bank's comparison with peer banks and recent macro conditions that may impact the Bank's strategic risk.

The Bank's Strategic risk level at the position of 31 December 2017 is rated Low to Moderate, based on the inherent strategic risk assessment of Low to Moderate and the level of Quality of Implementation of Strategic Risk Management (KPMR), namely Satisfactory. The valuation is influenced by the assessment of the Bank's overall business results that are above the target, Profit Before Tax up to Quarter IV of 2017 amounted to Rp1,561 billion, higher than the target of Rp528 billion.

Reputational Risk

Reputational Risk Management handles matters relating to the maintenance of customers and the public trust to the Bank. Reputation risk may result from negative publicity related to the Bank's business activities or public perceptions of the Bank. This risk can arise due to various

causes including the way the bank conducts its business and provides financial services to its customers.

One of the perception-makers is the customer's complaints about the services the Bank provides. Complaints such as this can lead to a negative perception of the product and the service as a whole. The Bank always manages these complaints as best as possible through a good system tool. This device is a Complaint Management System that integrates with business units and has a fast and precise settlement time. Utilization of this device can minimize the likelihood of reporting potentially negative impact on the reputation of the Bank.

In general, the number of complaints received during the year 2017 is minimal, with an average figure below 1% of the number of transactions in each quarter. In the third quarter, there was an increase in the number of complaints after the completion of integration, but various handling efforts managed to reduce the number of complaints to 22% smaller in the next quarter.

Internally, a series of risk-related campaign was also carried out, particularly in the context of financial crime prevention into the banking system. The campaign seeks to ensure that all employees of Bank understand and can detect the risk of financial crime, which ultimately poses an adverse reputation risk.

Externally, the Bank's makes good relationship with mass media and also helps the community to better understand banking products and services through various activities. Press conferences, media teach-ins, press briefings, press releases, and interviews are organized throughout the year for our capabilities, solutions and outlook on Retail Banking and Wealth Management, Commercial Banking, Global Banking and Global Markets.

As part of the measurement and reputation risk monitor, the Communications division monitors the Bank's news coverage in mass media every day.

Reputational Risk rating as of 31 December 2017 was Low, based on inherent risk level was low and Risk Management Implementation Quality assessed as Satisfactory.

Compliance Risk

Compliance Risk is the risk arising from the Bank's failure to comply with and/or not enforce the prevailing laws and regulations.

The Bank always strongly committed to complying with the legislation by growing a culture of compliance at all levels of the organization and its business activities. The active supervision of the Board of Commissioners and Board of Directors of the Bank plays an important role in ensuring that compliance functions work. The Bank has also appointed one of the Directors as the Compliance Director who oversees the Compliance Function. In order to assist the Compliance Director's duties, a comprehensive Compliance Working Unit is established which generally oversees two functions: compliance management and anti-money laundering implementation functions.

Taking into account the complexity of the bank's business activities continues to change and improvement in line with the development of information technology, globalization and the integration of financial markets, it would require a wide variety of efforts that are to be ex-ante and ex-post to mitigate those risks. A good and timely Compliance Risk Management is expected to minimize the impact of risk as early as possible. Therefore the Bank's Compliance Risk Management strategy is based on three lines of Defence as follows:

- The First Line of Defence is all employees of the Bank, by ensuring fulfilment of the compliance aspects that exist in their respective work units. Compliance procedures together with compliance training are held to support all employees to ensure compliance risks can be mitigated. Overview and direct supervision by management are also part of the main control, and internal control is responsible for ensuring that the Bank's activities are in compliance with applicable regulations.
- The Second Line of Defence is a compliance unit, which complements direct management control over business processes, compliance monitoring procedures and analysis of key risk indicators conducted by the compliance unit, which periodically performs compliance risk assessment of business.
- The Third Line of Defence is conducted by an Internal

Audit, which assesses whether the key control of compliance risk is adequate to address the relevant risks, and verifies that the secondary controls operate effectively so that risks are identified and mitigated appropriately.

Compliance Risk Monitoring and Control Mechanism

The compliance monitoring and compliance control mechanisms in the First Line of Defence are performed by each business unit.

In the Second Line of Defence, the Compliance Unit takes a proactive approach to identifying risks and their potential impact on the business, one of which is the result of regulatory changes. Any regulatory changes, compliance unit inform, distribute and disseminate the OJK Regulation, Bank Indonesia Regulation and other applicable laws and regulations to other units. The Compliance Unit also updates the compliance manual and the compliance chart.

Identification carried out related compliance fulfilment, among others include::

- Capital Adequacy Ratio
- Quality of Productive Assets and Impairment Reserves
- Net Open Position
- Legal Lending Limit
- Number of Non Performing Loans (NPL)
- Prohibition of credit for certain business activities
- Prohibition of granting of commercial securities
- Minimum statutory reserve
- Short Term Offshore Borrowing

Certain events that meet criteria for significant event should be reported. Such events include violations of rules or procedures of internal control, fraud or monetary losses, or situations that reflect the weakness of the control system. To encourage the creation of a culture of compliance, management provides the HSBC Confidential and / or Compliance Disclosure Line as an employee tool to report any issues or compliance violations, or attempt to hide issues or compliance violations, if escalation to line managers is not possible or there is a conflict of interest. This reporting system includes several sections, namely the reporting process, the investigation process and its

corrective actions, the communication process and the identity protection program of the reporting party.

The Bank's Compliance risk level at the position of 31 December 2017 is rated Low to Moderate, based on the inherent risk assessment of Moderate and Quality of Risk Management Implementation (KPMR) of Satisfactory.

management implementation for all risks is relatively stable and well maintained in the 'Low to Moderate' category in the last three years. Consistently, the Bank continues to take various remedial measures related to control and ensures that mitigation is carried out effectively.

Risk Profile

Overall assessment of inherent risk and quality of risk

The Bank has implemented various risk measurement parameters both in measuring Bank risk level as well as

Credit Based on Time Contract Period

(in billion rupiah)

		31 December 2017					
No.	Portfolio Category	Net Claims Based on Contract Time Period					Total
		< 1 year	>1 year to 3 year	>3 year to 5 year	> 5 year	Non-Contractual	
(2)	(3)	(4)	(5)	(6)	(7)	(7)	(7)
A	Balance Sheet Exposure						
1	Receivables on Government	20,295	4,643	1,149	795	-	26,882
2	Receivables on Public Sector Entities	64	-	-	-	-	64
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	8,898	-	-	-	-	8,898
5	Loans Secured by Residential Property	2	7	28	146	-	183
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	9,769	1,670	1,524	828	-	13,791
9	Receivables on Corporate	43,766	906	954	369	-	45,995
10	Past Due Receivables	862	3	-	2	-	867
11	Other Assets	-	-	-	-	4,337	4,337
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Balance Sheet Exposure	83,656	7,229	3,655	2,140	4,337	101,017
B	Administrative Account Exposure						
1	Receivables on Government	14	-	-	-	-	14
2	Receivables on Public Sector Entities	60	183	-	-	-	243
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	15	-	-	-	-	15

other mechanisms that are accommodated in Risk Appetite Statement Monitoring. Thus, control and mitigation efforts have become part of the Bank's internal processes to keep risk profiles in a acceptable position.

To strengthen Risk Culture, the Bank introduced the concept of operational risk management with the concept of 'Three Lines of Defence' in 2013, focusing primarily on first-line(business and function) for awareness and

responsibility in conducting adequate risk management.

With this application, it is expected that the Bank can strengthen the KPMR with effective implementation of risk management in all lines and functions. The consistent application of the concept of Three Lines of Defence has contributed to the Bank's greater 'risk awareness' and control in every workplace, therefore necessary mitigation and rectification can be taken as early as possible.

(in billion rupiah)

31 December 2016						
Net Claims Based on Contract Time Period						
< 1 year	>1 year to 3 year	>3 year to 5 year	> 5 year	Non-Contractual	Total	
(3)	(4)	(5)	(6)	(7)		
4,786	482	-	-	-	5,268	
-	-	-	-	-	-	
-	-	-	-	-	-	
1,550	-	-	-	-	1,550	
-	0	0	24	-	25	
-	65	252	379	-	696	
-	-	-	-	-	-	
70	23	51	167	-	311	
8,608,01	3,222,78	1,521,52	3,760	0	17,112	
270	234	96	142	-	742	
-	-	-	-	886	886	
-	-	-	-	-	-	
15,284	4,027	1,921	4,472	886	26,591	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	

(in billion rupiah)

		31 December 2017					
No.	Portfolio Category	Net Claims Based on Contract Time Period					Total
		< 1 year	>1 year to 3 year	>3 year to 5 year	> 5 year	Non-Contractual	
5	Loans Secured by Residential Property	-	-	-	-	-	-
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	72	1	-	-	-	73
9	Receivables on Corporate	4,421	1,329	23	13	-	5,787
10	Past Due Receivables	1	-	-	-	-	1
11	Other Assets	-	-	-	-	-	-
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Administrative Account Exposure	4,583	1,513	24	13	-	6,133
C	Counter Party Credit Risk Exposure						
1	Receivables on Government	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	113	619	24	-	-	756
5	Loans Secured by Residential Property	-	-	-	-	-	-
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-
9	Receivables on Corporate	24	479	-	-	-	503
10	Past Due Receivables	-	-	-	-	-	-
11	Other Assets	-	-	-	-	-	-
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Counter Party Credit Risk Exposure	137	1,098	24	-	-	1,259
	TOTAL	88,376	9,840	3,703	2,153	4,337	108,409

Loans based on the remaining term of the contract are dominated by a period of less than 1 year amounting to 81.5% of the total portfolio. For lending between 1 - 3 years and more than 5 years with contribution of 9.1% and 2%. For contracts more than 3-5 years only contributed 3.4%.

spread across various economic sectors with the largest contribution in the two sectors as in 2016, i.e. in the manufacturing sector (20.6%) and large and retail trade (19.1%).

Loans by Economic Sector

From the Bank's balance sheet exposure, the portfolio was

(in billion rupiah)

31 December 2016						
Net Claims Based on Contract Time Period						
< 1 year	>1 year to 3 year	>3 year to 5 year	> 5 year	Non-Contractual	Total	
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
23	-	-	-	-	-	23
486	45	120	-	-	-	651
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
509	45	120	-	-	-	674
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6	-	-	-	-	-	6
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6	-	-	-	-	-	6
15,799	4,072	2,041	4,472	886	-	27,271

Good Corporate Governance

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Financial Report

(in billion rupiah)

No.	Economic Sector	Receivables on Government	Receivables on Public Sector Entities	Receivables on Multilateral Development Banks and International Institutions	Receivables on Banks
	(2)	(3)	(4)	(5)	
31 December 2017					
A	Balance Sheet Exposure				
1	Agriculture, Hunting and Forestry	-	-	-	-
2	Fishery	-	-	-	-
3	Mining and Quarrying	-	-	-	-
4	Manufacturing	-	-	-	-
5	Electricity, Gas and Water	-	-	-	-
6	Construction	-	-	-	-
7	Wholesale and Retail Trading	-	-	-	-
8	Hotel and Food & Beverage	-	-	-	-
9	Transport, Warehousing and Communications	-	-	-	-
10	Financial Intermediary	7,955	64	-	8,898
11	Real Estate, Rentals and Business Services	-	-	-	-
12	Public Administration, Defence and Compulsory Social Security	18,927	-	-	-
13	Education Services	-	-	-	-
14	Human Health and Social Work Activities	-	-	-	-
15	Public, Socio-Culture, Entertainment and Other Personal Services	-	-	-	-
16	Activities of Households as Employers	-	-	-	-
17	International Institution and Other Extra International Agencies	-	-	-	-
18	Undefined Activities	-	-	-	-
19	Non Business Field	-	-	-	-
20	Others	-	-	-	-
	Total Balance Sheet Exposure	26,882	64	-	8,898
B	Administrative Account Exposure				
1	Agriculture, Hunting and Forestry	-	-	-	-
2	Fishery	-	-	-	-
3	Mining and Quarrying	-	-	-	-
4	Manufacturing	-	-	-	-
5	Electricity, Gas and Water	-	-	-	-
6	Construction	-	-	-	-
7	Wholesale and Retail Trading	-	-	-	-
8	Hotel and Food & Beverage	-	-	-	-
9	Transport, Warehousing and Communications	-	-	-	-
10	Financial Intermediary	-	-	-	15
11	Real Estate, Rentals and Business Services	-	-	-	-
12	Public Administration, Defence and Compulsory Social Security	14	-	-	-
13	Education Services	-	-	-	-
14	Human Health and Social Work Activities	-	-	-	-

Corporate Social Responsibility

Corporate DataFinancial Report

(in billion rupiah)

No.	Economic Sector	Receivables on Government	Receivables on Public Sector Entities	Receivables on Multilateral Development Banks and International Institutions	Receivables on Banks
	(2)	(3)	(4)	(5)	
15	Public, Socio-Culture, Entertainment and Other Personal Services	-	-	-	-
16	Activities of Households as Employers	-	-	-	-
17	International Institution and Other Extra International Agencies	-	-	-	-
18	Undefined Activities	-	-	-	-
19	Non Business Field	-	-	-	-
20	Others	-	243	-	-
	Total Administrative Account Exposure	14	243	-	15
C	Counter Party Credit Risk Exposure				
1	Agriculture, Hunting and Forestry	-	-	-	-
2	Fishery	-	-	-	-
3	Mining and Quarrying	-	-	-	-
4	Manufacturing	-	-	-	-
5	Electricity, Gas and Water	-	-	-	-
6	Construction	-	-	-	-
7	Wholesale and Retail Trading	-	-	-	-
8	Hotel and Food & Beverage	-	-	-	-
9	Transport, Warehousing and Communications	-	-	-	-
10	Financial Intermediary	-	-	-	756
11	Real Estate, Rentals and Business Services	-	-	-	-
12	Public Administration, Defence and Compulsory Social Security	-	-	-	-
13	Education Services	-	-	-	-
14	Human Health and Social Work Activities	-	-	-	-
15	Public, Socio-Culture, Entertainment and Other Personal Services	-	-	-	-
16	Activities of Households as Employers	-	-	-	-
17	International Institution and Other Extra International Agencies	-	-	-	-
18	Undefined Activities	-	-	-	-
19	Non Business Field	-	-	-	-
20	Others	-	-	-	-
	Total Counter Party Credit Risk Exposure	-	-	-	756
	TOTAL	26,896	307	-	9,669

	Loans Secured by Residential Property	Loans Secured by Commercial Real Estate	Loans for Retired	Receivables on Micro, Small Business & Retail Portfolio	Receivables on Corporate	Past Due Receivables	Other Assets	Exposures at Sharia Based Business Activity Unit (if any)
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	1	-
	-	-	-	73	5,787	1	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	504	-	-
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	-	-	
	-	-	-		-	504	-	-
	183	-	-	13,865	52,286	868	4,337	

(in billion rupiah)

No.	Economic Sector	Receivables on Government	Receivables on Public Sector Entities	Receivables on Multilateral Development Banks and International Institutions	Receivables on Banks
	(2)	(3)	(4)	(5)	
31 December 2016					
A	Balance Sheet Exposure				
1	Agriculture, Hunting and Forestry	-	-	-	-
2	Fishery	-	-	-	-
3	Mining and Quarrying	-	-	-	-
4	Manufacturing	-	-	-	-
5	Electricity, Gas and Water	-	-	-	-
6	Construction	-	-	-	-
7	Wholesale and Retail Trading	-	-	-	-
8	Hotel and Food & Beverage	-	-	-	-
9	Transport, Warehousing and Communications	-	-	-	-
10	Financial Intermediary	1,668	-	-	1,507
11	Real Estate, Rentals and Business Services	-	-	-	-
12	Public Administration, Defence and Compulsory Social Security	3,600	-	-	-
13	Education Services	-	-	-	-
14	Human Health and Social Work Activities	-	-	-	-
15	Public, Socio-Culture, Entertainment and Other Personal Services	-	-	-	-
16	Activities of Households as Employers	-	-	-	-
17	International Institution and Other Extra International Agencies	-	-	-	-
18	Undefined Activities	-	-	-	-
19	Non Business Field	-	-	-	-
20	Others	-	-	-	-
	Total Balance Sheet Exposure	5,268	-	-	1,507
B	Administrative Account Exposure				
1	Agriculture, Hunting and Forestry	-	-	-	-
2	Fishery	-	-	-	-
3	Mining and Quarrying	-	-	-	-
4	Manufacturing	-	-	-	-
5	Electricity, Gas and Water	-	-	-	-
6	Construction	-	-	-	-
7	Wholesale and Retail Trading	-	-	-	-
8	Hotel and Food & Beverage	-	-	-	-
9	Transport, Warehousing and Communications	-	-	-	-
10	Financial Intermediary	-	-	-	-
11	Real Estate, Rentals and Business Services	-	-	-	-
12	Public Administration, Defence and Compulsory Social Security	-	-	-	-
13	Education Services	-	-	-	-
14	Human Health and Social Work Activities	-	-	-	-

Loans Secured by Residential Property	Loans Secured by Commercial Real Estate	Loans for Retired	Receivables on Micro, Small Business & Retail Portfolio	Receivables on Corporate	Past Due Receivables	Other Assets	Exposures at Sharia Based Business Activity Unit (if any)	
-	-	-	4	148	-	-	-	-
-	-	-	-	4	-	-	-	-
-	-	-	0	163	1	-	-	-
-	-	-	15	6,565	301	-	-	-
-	-	-	-	16	-	-	-	-
-	380	-	3	608	109	-	-	-
-	-	-	81	7,696	126	-	-	-
-	-	-	2	244	-	-	-	-
-	-	-	11	861	77	-	-	-
-	-	-	-	36	-	-	-	-
-	321	-	5	374	2	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	3	-	-	-	-
-	-	-	-	144	-	-	-	-
-	-	-	4	273	102	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	919	-
25	-	-	185	47	3	-	-	-
25	701	-	311	17,182	721	919	-	-
-	-	-	-	1	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	75	-	-	-	-
-	-	-	-	35	-	-	-	-
-	-	-	-	73	-	-	-	-
-	-	-	23	325	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	1	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	2	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

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(in billion rupiah)

No.	Economic Sector	Receivables on Government	Receivables on Public Sector Entities	Receivables on Multilateral Development Banks and International Institutions	Receivables on Banks
	(2)	(3)	(4)	(5)	
15	Public, Socio-Culture, Entertainment and Other Personal Services	-	-	-	-
16	Activities of Households as Employers	-	-	-	-
17	International Institution and Other Extra International Agencies	-	-	-	-
18	Undefined Activities	-	-	-	-
19	Non Business Field	-	-	-	-
20	Others	-	-	-	-
	Total Administrative Account Exposure	-	-	-	-
C	Counter Party Credit Risk Exposure				
1	Agriculture, Hunting and Forestry	-	-	-	-
2	Fishery	-	-	-	-
3	Mining and Quarrying	-	-	-	-
4	Manufacturing	-	-	-	-
5	Electricity, Gas and Water	-	-	-	-
6	Construction	-	-	-	-
7	Wholesale and Retail Trading	-	-	-	-
8	Hotel and Food & Beverage	-	-	-	-
9	Transport, Warehousing and Communications	-	-	-	-
10	Financial Intermediary	-	-	-	6
11	Real Estate, Rentals and Business Services	-	-	-	-
12	Public Administration, Defence and Compulsory Social Security	-	-	-	-
13	Education Services	-	-	-	-
14	Human Health and Social Work Activities	-	-	-	-
15	Public, Socio-Culture, Entertainment and Other Personal Services	-	-	-	-
16	Activities of Households as Employers	-	-	-	-
17	International Institution and Other Extra International Agencies	-	-	-	-
18	Undefined Activities	-	-	-	-
19	Non Business Field	-	-	-	-
20	Others	-	-	-	-
	Total Counter Party Credit Risk Exposure	-	-	-	6
	TOTAL	5,268	-	-	1,513

Loans Secured by Residential Property	Loans Secured by Commercial Real Estate	Loans for Retired	Receivables on Micro, Small Business & Retail Portfolio	Receivables on Corporate	Past Due Receivables	Other Assets	Exposures at Sharia Based Business Activity Unit (if any)	
-	-	-	-	139	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	23	651	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	1	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	1	-	-	-	-
25	701	-	334	17,834	721	919	-	-

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Receivables Based on Area Disclosure

(in billion rupiah)

		31 December 2017				
No.	Portfolio Category	Receivables Based on Area Disclosure				
		Region 1	Region 2	Region 3	Region 4	Total
		Jakarta	Medan	Surabaya	Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A	Balance Sheet Exposure					
1	Receivables on Government	26,882	-	-	-	26,882
2	Receivables on Public Sector Entities	64	-	-	-	64
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-
4	Receivables on Banks	8,763	22	81	32	8,898
5	Loans Secured by Residential Property	149	-	16	18	183
6	Loans Secured by Commercial Real Estate	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	7,480	777	2,283	3,251	13,791
9	Receivables on Corporate	37,369	3,131	4,584	911	45,995
10	Past Due Receivables	249	135	132	351	867
11	Other Assets	3,771	155	221	190	4,337
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-
	Total Balance Sheet Exposure	84,727	4,220	7,317	4,753	101,017
B	Administrative Account Exposure					
1	Receivables on Government	14	-	-	-	14
2	Receivables on Public Sector Entities	243	-	-	-	243
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-
4	Receivables on Banks	15	-	-	-	15
5	Loans Secured by Residential Property	-	-	-	-	-
6	Loans Secured by Commercial Real Estate	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	14	5	2	52	73
9	Receivables on Corporate	5,419	145	103	120	5,787
10	Past Due Receivables	1	-	-	-	1
11	Other Assets	-	-	-	-	-
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-
	Total Administrative Account Exposure	5,706	150	105	172	6,133
C	Counter Party Credit Risk Exposure					
1	Receivables on Government	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-

(in billion rupiah)

31 December 2016					
Receivables Based on Area Disclosure					
Region 1	Region 2	Region 3	Region 4	Total	
Jakarta	Medan	Surabaya	Other		
(3)	(4)	(5)	(6)	(7)	
5,268	-	-	-	5,268	
-	-	-	-	-	
-	-	-	-	-	
1,525	-	25	-	1,550	
16	-	0	9	25	
446	13	26	211	696	
-	-	-	-	-	
176	28	16	91	311	
6,939	1,329	3,777	5,067	17,112	
211	148	36	347	742	
570	36	54	226	886	
-	-	-	-	-	
15,151	1,554	3,934	5,952	26,591	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
6	1	1	15	23	
484	54	40	73	651	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
490	55	41	88	674	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	

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		31 December 2017				
No.	Portfolio Category	Receivables Based on Area Disclosure				
		Region 1	Region 2	Region 3	Region 4	Total
		Jakarta	Medan	Surabaya	Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
4	Receivables on Banks	756	-	-	-	756
5	Loans Secured by Residential Property	-	-	-	-	-
6	Loans Secured by Commercial Real Estate	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-
9	Receivables on Corporate	503	-	-	-	5043
10	Past Due Receivables	-	-	-	-	-
11	Other Assets	-	-	-	-	-
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-
	Total Counter Party Credit Risk Exposure	1,260	-	-	-	1,259
	TOTAL	91,692	4,369	7,422	4,926	108,409

Visible composition spread of Loan and Advances based on territory dominated by Jakarta area, which accounted 84% of the total portfolio, with the largest concentration of Loan and Advances are in the corporate segment, which increased significantly after the integration as compared to the same period in 2016.

Other than credit risks due to customer default, the Bank exposes to credit risks from counterparty dealing in derivative transactions conducted with the Bank. The Bank limit itself in offering derivative transactions, leading to low derivative transactions exposures.

Counterparty Credit Risk : Derivative Transaction Disclosure

		31 December 2017							
No	Underlying Variable	Notional Amount			Derivative Recoverables	Derivative liabilities	Net Receivables before MRK	MRK	Net Receivables after MRK
		< 1 year	> 1 year - < 5 year	> 5 year					
BANK ONLY									
1	Interest Rates	90	6,356	2,607	21	-	21	-	21
2	Foreign Exchange	23,640	12,332	1,217	168	-	168	-	168
3	Other	-	-	-	-	-	-	-	-
	TOTAL	23,730	18,688	3,824	189	-	189	-	189
BANK CONSOLIDATED									
1	Interest Rates	-	-	-	-	-	-	-	-
2	Foreign Exchange	-	-	-	-	-	-	-	-
3	Equity	-	-	-	-	-	-	-	-

(in billion rupiah)

31 December 2016					
Receivables Based on Area Disclosure					
	Region 1	Region 2	Region 3	Region 4	Total
	Jakarta	Medan	Surabaya	Other	
	(3)	(4)	(5)	(6)	(7)
	6	-	-	-	6
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	6	-	-	-	6
	15,647	1,609	3,975	6,040	27,272

31 December 2017									
No	Underlying Variable	Notional Amount			Derivative Recoverables	Derivative liabilities	Net Receivables before MRK	MRK	Net Receivables after MRK
		< 1 year	> 1 year - < 5 year	> 5 year					
4	Gold	-	-	-	-	-	-	-	-
5	Metals other than Gold	-	-	-	-	-	-	-	-
6	Other	-	-	-	-	-	-	-	-
	TOTAL	-	-	-	-	-	-	-	-

31 December 2017									
No	Underlying Variable	Notional Amount			Derivative Recoverables	Derivative liabilities	Net Receivables before MRK	MRK	Net Receivables after MRK
		< 1 year	> 1 year - < 5 year	> 5 year					
BANK ONLY									
1	Interest Rates	-	-	-	-	-	-	-	-
2	Foreign Exchange	428	-	-	2	-	2	-	2
3	Other	-	-	-	-	-	-	-	-
	TOTAL	428	-	-	2	-	2	-	2
BANK CONSOLIDATED									
1	Interest Rates	-	-	-	-	-	-	-	-
2	Foreign Exchange	-	-	-	-	-	-	-	-
3	Equity	-	-	-	-	-	-	-	-

		31 December 2017							
No	Underlying Variable	Notional Amount			Derivative Recoverables	Derivative liabilities	Net Receivables before MRK	MRK	Net Receivables after MRK
		< 1 year	> 1 year - < 5 year	> 5 year					
4	Gold	-	-	-	-	-	-	-	-
5	Metals other than Gold	-	-	-	-	-	-	-	-
6	Other	-	-	-	-	-	-	-	-
	TOTAL	-	-	-	-	-	-	-	-

Disclosures of Net Charges by Risks Weight After Considering Credit Risks Mitigating Impact

		31 December 2017											
No.	Portfolio Category	Disclosures of Net Charges by Risks Weight After Considering Credit Risks Mitigating Impact										RWA	Capital Charge
		0%	20%	35%	40%	45%	50%	75%	100%	150%	Other		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)		
A	Balance Sheet Exposure												
1	Receivables on Government	26,882	-	-	-	-	-	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	64	-	-	-	-	-	-	-	-	13	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-	-	-	-	-	-	-
4	Receivables on Banks	-	8,292	-	-	-	451	-	-	2	-	1,887	-
5	Loans Secured by Residential Property	-	-	183	-	-	-	-	-	-	-	64	-
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-	-	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-		13,791	-	-	-	10,122	-
9	Receivables on Corporate	-	1,350	-		-	2,444	-	41,808	393	-	42,774	-
10	Past Due Receivables	-	-	-	-	-	-	-	-	867	-	1,289	-
11	Other Assets	582	-	-	-	-		-	3,643	111		3,768	-
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-		-	-	-	-	-
	Total Balance Sheet Exposure	27,464	9,706	183	-	-	2,895	13,791	45,451	1,375	-	59,917	-

		31 December 2017											
No.	Portfolio Category	Disclosures of Net Charges by Risks Weight After Considering Credit Risks Mitigating Impact										RWA	Capital Charge
		0%	20%	35%	40%	45%	50%	75%	100%	150%	Other		
B	Administrative Account Exposure												
1	Receivables on Government	-	69	-	-	-	-	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	243	-	-	-	-	122	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-	-	-	-	-	-	-
4	Receivables on Banks	-	15	-	-	-	-	-	-	-	-	3	-
5	Loans Secured by Residential Property	-	-	-	-	-	-	-	-	-	-	-	-
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-	-	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-	73	-	-	-	55	-
9	Receivables on Corporate	62,778	4,186	-	-	-	9,899	-	-	-	-	5,787	-
10	Past Due Receivables	140	-	-	-	-	-	-	-	-	-	-	-
11	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-
	Exposures at Sharia Based Business Activity Unit (if any)	62,918	4,270	-	-	-	10,142	73	-	-	-	5,967	-
C	Counter Party Credit Risk Exposure												
1	Receivables on Government	-	-	-	-	-	-	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-	-	-	-	-	-	-
4	Receivables on Banks		696				41		19		-	179	-
5	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-	-	-	-	-	-	-
6	Receivables on Corporate		102						402			422	
7	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-	-	-	-	-	-	-
	Total Counterparty Credit Risk Exposure	-	798	-	-	-	41	-	421	-	-	601	-

31 Dcseember 2016														
No.	Portfolio Category	Disclosures of Net Charges by Risks Weight After Considering Credit Risks Mitigating										RWA	Capital Charge	
		0%	20%	35%	40%	45%	50%	75%	100%	150%	Other			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)			
A	Balance Sheet Exposure													
1	Receivables on Government	-	-	-	-	-	-	-	-	-	-	-	-	
2	Receivables on Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-	-	-	-	-	-	-	
4	Receivables on Banks	-	308	-	-	-	5	-	-	-	-	313	-	
5	Loans Secured by Residential Property	-	-	9	-	-	-	-	-	-	-	9	-	
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-	-	696	-	-	696	-	
7	Loans for Retired	-	-	-	-	-	-	-	-	-	-	-	-	
8	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-	232	-	-	-	232	-	
9	Receivables on Corporate	-	-	-	-	-	-	-	16,895	-	-	16,895	-	
10	Past Due Receivables	-	-	-	-	-	-	-	-	1,112	-	1,112	-	
11	Other Assets	-	-	-	-	-	-	-	232	131	-	363	-	
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-	-	-	-	-	-	-	
	Total Balance Sheet Exposure	-	308	9	-	-	5	232	1,823	1,243	-	19,620	-	
B	Administrative Account Exposure													
1	Receivables on Government	-	-	-	-	-	-	-	-	-	-	-	-	
2	Receivables on Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-	-	-	-	--	-	-	
4	Receivables on Banks	-	-	-	-	-	-	-	-	-	-	-	-	
5	Loans Secured by Residential Property	-	-	-	-	-	-	-	-	-	-	-	-	
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-	-	-	-	
7	Loans for Retired	-	-	-	-	-	-	-	-	-	-	-	-	
8	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-	17	-	-	-	17	-	
9	Receivables on Corporate	-	-	-	-	-	-	-	651	-	-	651	-	
10	Past Due Receivables	-	-	-	-	-	-	-	-	-	-	-	-	
11	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-	17	651	-	-	668	-	

31 Dcember 2016														
No.	Portfolio Category	Disclosures of Net Charges by Risks Weight After Considering Credit Risks Mitigating										RWA	Capital Charge	
		0%	20%	35%	40%	45%	50%	75%	100%	150%	Other			
C	Counter Party Credit Risk Exposure													
1	Receivables on Government	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Receivables on Banks	-	1	-	-	-	-	-	-	-	-	-	1	-
5	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Receivables on Corporate	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total Counterparty Credit Risk Exposure	-	1	-	-	-	-	-	-	-	-	-	1	-

Disclosures of Total Credit Risks Measurements

The RWA represent the total of RWA from credit risk (both from assets in balance sheet and commitments and contingencies liabilities from administrative transactions account) and counterparty default risk.

(in billion rupiah)

	31 December 2017	31 December 2016
RWA-CREDIT RISK FOR FAILURE OF DEBTOR	65,883	20,288
RWA-CREDIT RISK FOR FAILURE OF COUNTERPARTY	601	1
TOTAL RWA-CREDIT RISK	66,484	20,289

Disclosures of Credit Risks Using Standard Method

No.	Type of Risk	31 December 2017		31 December 2016	
		Bank		Bank	
		Capital Charge	RWA	Capital Charge	RWA
(1)	(2)	(3)	(4)	(7)	(8)
1	Interest Rate Risk	-	-	-	-
	a. Specific Risk	-	-	-	-
	b. General Risk	55	684	-	-
2	Foreign Exchange Risk	158	1,977	4	50
3	Equity Risk *)	-	-	-	-
4	Commodity Risk *)	-	-	-	-
5	Option Risk	-	-	-	-
	Total	213	2,661	4	50

Quantitative Disclosures of Operational Risk using Basic Indicator Approach

Operational risk RWA is calculated using standard approach where it is 12.5 times capital charges. Capital charges amounted to 15% of average gross income over three last years. The increase in RWA from operational risk was driven by increase in Bank's average gross income for the last three years.

No.	Indicator Approach	31 December 2017			31 December 2016		
		Average Gross Income For The Last Three Years	Capital Charge	RWA	Average Gross Income For The Last Three Years	Capital Charge	RWA
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Basic Indicator Approach	1,379	207	2,585	1,303	195	2,444
	Total	1,379	207	2,585	1,303	195	2,444

Receivables and Allowance Disclosures by Region - Bank Individually

(in billion rupiah)

No.	Description	31 December 2017				
		Region				Total
		Region 1 Jakarta	Region 2 Medan	Region 3 Surabaya	Region 4 Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Receivables	82,458	4,334	7,400	5,073	99,265
2	impaired Recievables					
	a. Not Past Due	-	-	-	-	-
	b. Past Due	1,140	245	341	860	2,586
3	Miscellaneous Assets	3,771	155	221	188	4,335
4	Specific Allowance for Impairment Losses	993	215	161	356	1,725
5	Collective Allowance for Impairment Losses	510	54	143	151	858
6	Written-Off Receivables	-	-	-	-	-

(in billion rupiah)

		31 December 2016				
No.	Description	Region				Total
		Region 1 Jakarta	Region 2 Medan	Region 3 Surabaya	Region 4 Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Receivables	14,768	1,612	3,923	5,964	26,267
2	impaired Recievables					
	a. Not Past Due	31	-	26	-	57
	b. Past Due	315	205	53	501	1,074
3	Miscellaneous Assets	570	36	54	226	886
4	Specific Allowance for Impairment Losses	136	84	17	197	434
5	Collective Allowance for Impairment Losses	51	10	26	40	128
6	Written-Off Receivables	-	-	-	-	-

More than 80% of the receivables were the island of Java, especially around Jakarta. This is in line with the spread of economic activity in Indonesia with concentration on the trade and manufacturing sectors which reflects the Bank's main portfolio.

Receivables and Allowance Disclosures by Economic Sector - Bank Individually

(in billion rupiah)

No.	ECONOMIC SECTOR	Receivables	Impaired Receivables		Allowances for Impairment Losses -Individual	Allowances for Impairment Losses -Collective	Written-Off Receivables
			Non Past Due	Past Due			
(1)	(2)	(5)	(6)	(7)	(8)	(9)	(10)
	Position of the report date 31 December 2017						
1	Agriculture, Hunting and Forestry	875	-	-	-	9	-
2	Fishery	104	-	-	-	1	-
3	Mining and Quarrying	3,130	10	-	445	27	-
4	Manufacturing	22,842	567	34	520	272	-
5	Electricity, Gas and Water	8	-	-	-	-	-
6	Construction	5,113	181	-	199	53	-
7	Wholesale and Retail Trading	14,848	313	-	465	223	-
8	Hotel and Food & Beverage	231	26	-	-	17	-
9	Transport, Warehousing and Communications	4,100	45	-	10	64	-
10	Financial Intermediary	1,541	-	-	-	16	-
11	Real Estate, Rentals and Business Services	2,077	84	-	20	62	-
12	Public Administration, Defence and Compulsory Social Security	-	-	-	-	-	-
13	Education Services	31	-	-	-	-	-
14	Human Health and Social Work Activities	81	-	-	-	-	-
15	Public, Socio-Culture, Entertainment and Other Personal Services	542	-	-	19	5	-
16	Activities of Households as Employers	-	-	-	-	-	-
17	International Institution and Other Extra International Agencies	-	-	-	-	-	-
18	Undefined Activities	-	-	-	-	-	-
19	Non Business Field	179	-	-	-	2	-
20	Others	4,960	61	-	1	86	-
	TOTAL	60,662	1,288	34	1,679	837	-

(in billion rupiah)

	(in Billion Rupiah)			Impaired Receivables		Allowances for Impairment Losses -Individual	Allowances for Impairment Losses -Collective	Written-Off Receivables
	Other Asset	Exposures at Sharia Based Business Activity Unit (if any)	Receivables	Non Past Due	Past Due			
				(6)	(7)			
	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
31 December 2016								
			153	-	-	-	1	-
			4	-	-	-	0	-
			169	5	-	3	1	-
			7,034	396	26	109	45	-
			17	-	-	-	0	-
			805	185	-	77	7	-
			8,016	135	-	58	57	-
			248	-	-	-	2	-
			1,054	175	-	99	6	-
			3,211	-	-	-	-	-
			394	5	-	7	5	-
			3,600	-	-	-	-	-
			4	-	-	-	-	-
			145	-	-	-	1	-
			406	127	-	25	2	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			237	2	-	1	1	-
			25,497	1,030	26	379	129	-

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The largest economic sectors are manufacturing and trading industries, each contributing 37.6% and 24.6% of total loans as of 31 December 2017. For economic sectors which were considered to have a higher risk level, control is applied to maintain the quality of the loan portfolio. With the controlled level of concentration in the sectors, the external factor can be contained and this could support a healthy future loan growth.

Non performing loan

The ratio of non performing loans of the Bank in 2017 declined to 4.26% compared to the previous period of 5.82% in 2016.

In 2017, total non-performing loans mainly came from large and retail trading sector having the biggest contribution of 1.48%. The relatively high NPL ratio was also contributed by the stagnant credit growth.

Movements of Allowance for Impairment Losses (CKPN)

The impairment charges in 2017 has shown a significant increase, especially for individual impairment due to use of more conservative "distressed restructuring" method post integration, relatively low recovery from collateral sales due to unfavourable economic condition.

Net Receivables based on Portfolio and Rating

31 December 2017		Long-Term Rating				
Portfolio Category	Rating Company					
	Standad and Poor's	AAA	AA+ sd AA-	A+ sd A-	BBB+ sd BBB-	
	Fitch Rating	AAA	AA+ sd AA-	A+ sd A-	BBB+ sd BBB-	
	Moody's	Aaa	Aa1 sd AA3	A1 sd A3	Baaa1 sd Baa3	
	PT Fitch Rating Indonesia	AAA	AA+(idn) sd. AA- (idn)	A+ (idn)sd A-(idn)	BBB+ (idn) sd BBB- (idn)	
	PT ICRA Indonesia PT Pemeringkat Efek Indonesia	(Idr) AAA ID AAA	(Idr) AA+ sd (Idr) AA- idAA+ sd id AA-	(Idr) A+ sd (Idr) A- idA+ sd id A-	(Idr) BBB+ sd (Idr) BBB- id BBB+ sd id BBB-	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A Balance Sheet Exposure						
1	Receivables on Government	-	-	-	-	-
2	Receivables on Public Sector Entities	-	64	-	-	-
3	Receivables From Development Bank	-	-	-	-	-
4	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-
5	Receivables on Banks	-	-	-	-	-
6	Loans Secured by Residential Property	-	-	-	-	-
7	Loans Secured by Commercial Real Estate	-	-	-	-	-
8	Loans for Retired	-	-	-	-	-
9	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-
10	Receivables on Corporate	-	-	1,350	2,444	152
11	Past Due Receivables	-	-	-	-	-
12	Other Assets	-	-	-	-	-
13	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-
	Total Balance Sheet Exposure	-	64	1,350	2,444	152
B Administrative Account Exposure						
1	Receivables on Government	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-
3	Receivables From Development Bank	-	-	-	-	-
4	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-
5	Receivables on Banks	-	-	-	-	-
6	Loans Secured by Residential Property	-	-	-	-	-
7	Loans Secured by Commercial Real Estate	-	-	-	-	-
8	Loans for Retired	-	-	-	-	-

Description	31 December 2017		31 December 2016	
	CKPN Individual	CKPN Collective	CKPN Individual	CKPN Collective
Beginning Balance	434	128	375	137
Recovery CKPN in the current period (Net)	718	75	223	(8)
2.a CKPN used in the current year	1,038	507	291	16
2.b CKPN recovered in the current period	(320)	(432)	(68)	(24)
CKPN used for written off receivables during the year	(342)	(250)	(119)	-
Other recovery in the current period	-	-	-	-
Others *)	915	905	(45)	(1)
CKPN Ending Balance	1,725	858	434	128

*) Discount Securities and Exchange Difference

(in billion rupiah)

Short-Term Rating							Unrated	Total
BB+ sd BB-	B+ sd B-	Less than B-	A-1	A-2	A-3	Less than A-3		
BB+ sd BB-	B+ sd B-	Less than B-	F1+ sd F1	F2	F3	Less than F3		
Ba1 sd Ba3	B1 sd B3	Less than B3	P-1	P-2	P-3	Less than P-3		
BB= (idn) sd BB- (idn)	B+ (idn) sd B- (idn)	Less than B- (idn)	F1+ (idn) sd F1 (idn)	F2 (idn)	F3 (idn)	Less than F3 (idn)		
(Idr) BB+ sd (Idr) BB-	(Idr) B+ sd (Idr) B-	Less than (Idr) B-	(Idr) A1+ sd (Idr) A1	(Idr) A2+ sd (Idr) A2	(Idr) A3+ sd (Idr) A4	Less than (Idr) A3		
id BB+ sd id BB	id B+ sd id B-	Less than id B-	id A1	id A2	id A3 sd A4	Less than id A4		
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
-	-	-	-	-	-	-	26,882	26,832
-	-	-	-	-	-	-	-	64
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	7,832	-	548	68	450	8,898
-	-	-	-	-	-	-	183	183
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	13,791	13,791
1,262	394	-	-	-	-	-	40,393	45,995
-	-	-	-	-	-	-	867	867
-	-	-	-	-	-	-	4,337	4,337
-	-	-	-	-	-	-	-	-
1,262	394	-	7,832	-	548	68	68,544	101,017
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	14	14
-	-	-	-	-	-	-	243	243
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	15	15
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

31 December 2017		Long-Term Rating					
Portfolio Category	Rating Company						
	Standad and Poor's	AAA	AA+ sd AA-	A+ sd A-	BBB+ sd BBB-		
	Fitch Rating	AAA	AA+ sd AA-	A+ sd A-	BBB+ sd BBB-		
	Moody's	Aaa	Aa1 sd AA3	A1 sd A3	Baaa1 sd Baa3		
	PT Fitch Rating Indonesia	AAA	AA+(idn) sd. AA- (idn)	A+ (idn)sd A-(idn)	BBB+ (idn) sd BBB- (idn)		
	PT ICRA Indonesia	(Idr) AAA	(Idr) AA+ sd (Idr) AA-	(Idr) A+ sd (Idr) A-	(Idr) BBB= sd (Idr) BBB		
PT Pemeringkat Efek Indonesia	ID AAA	idAA+ sd id AA-	idA+ sd id A-	id BBB+ sd id BBB-			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
9	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	
10	Receivables on Corporate	-	-	-	-	-	
11	Past Due Receivables	-	-	-	-	-	
12	Other Assets	-	-	-	-	-	
13	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	
Total Administrative Account Exposure		-	-	-	-	-	
C	Counter Party Credit Risk Exposure	-	-	-	-	-	
1	Receivables on Government	-	-	-	-	-	
2	Receivables on Public Sector Entities	-	-	-	-	-	
3	Receivables From Development Bank	-	-	-	-	-	
4	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	
5	Receivables on Banks	-	662	-	-	-	
6	Loans Secured by Residential Property	-	-	-	-	-	
7	Loans Secured by Commercial Real Estate	-	-	-	-	-	
8	Loans for Retired	-	-	-	-	-	
9	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	
10	Receivables on Corporate	-	102	-	-	-	
11	Past Due Receivables	-	-	-	-	-	
12	Other Assets	-	-	-	-	-	
13	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	
Counter Party Credit Risk Exposure		-	764	-	-	-	
TOTAL			828	1,350	2,444	152	

31 December 2016		Long-Term Rating				
Portfolio Category	Rating Company					
	Standad and Poor's	AAA	AA+ sd AA-	A+ sd A-	BBB+ sd BBB-	
	Fitch Rating	AAA	AA+ sd AA-	A+ sd A-	BBB+ sd BBB-	
	Moody's	Aaa	Aa1 sd AA3	A1 sd A3	Baaa1 sd Baa3	
	PT Fitch Rating Indonesia	AAA	AA+(idn) sd. AA- (idn)	A+ (idn)sd A-(idn)	BBB+ (idn) sd BBB- (idn)	
	PT ICRA Indonesia	(Idr) AAA	(Idr) AA+ sd (Idr) AA-	(Idr) A+ sd (Idr) A-	(Idr) BBB= sd (Idr) BBB	
PT Pemeringkat Efek Indonesia	ID AAA	idAA+ sd id AA-	idA+ sd id A-	id BBB+ sd id BBB-		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A	Balance Sheet Exposure					
1	Receivables on Government	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-
3	Receivables From Development Bank	-	-	-	-	-
4	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-
5	Receivables on Banks	-	-	-	-	-
6	Loans Secured by Residential Property	-	-	-	-	-
7	Loans Secured by Commercial Real Estate	-	-	-	-	-
8	Loans for Retired	-	-	-	-	-
9	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-
10	Receivables on Corporate	-	-	-	-	-
11	Past Due Receivables	-	-	-	-	-
12	Other Assets	-	-	-	-	-
13	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-

(in billion rupiah)

Short-Term Rating							Unrated	Total
BB+ sd BB-	B+ sd B-	Less than B-	A-1	A-2	A-3	Less than A-3		
BB+ sd BB-	B+ sd B-	Less than B-	F1+ sd F1	F2	F3	Less than F3		
Ba1 sd Ba3	B1 sd B3	Less than B3	P-1	P-2	P-3	Less than P-3		
BB= (idn) sd BB- (idn)	B+ (idn) sd B- (idn)	Less than B- (idn)	F1+ (idn) sd F1 (idn)	F2 (idn)	F3 (idn)	Less than F3 (idn)		
(ldr) BB+ sd (ldr) BB-	(ldr) B+ sd (ldr) B-	Less than (ldr) B-	(ldr) A1+ sd (ldr) A1	(ldr) A2+ sd (ldr) A2	(ldr) A3+ sd (ldr) A4	Less than (ldr) A3		
id BB+ sd id BB	idB+ sd id B-	Less than id B-	id A1	id A2	id A3 sd A4	Less than id A4		
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
-	-	-	-	-	-	-	73	73
-	-	-	-	-	-	-	5,787	5,787
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	6,133	6,133
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
19	-	-	29	-	-	9	37	756
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	402	504
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
19	-	-	29	-	-	9	438	1,260
1,282	394	-	7,861	-	548	77	93,475	108,409

Short-Term Rating							Unrated	Total
BB+ sd BB-	B+ sd B-	Less than B-	A-1	A-2	A-3	Less than A-3		
BB+ sd BB-	B+ sd B-	Less than B-	F1+ sd F1	F2	F3	Less than F3		
Ba1 sd Ba3	B1 sd B3	Less than B3	P-1	P-2	P-3	Less than P-3		
BB= (idn) sd BB- (idn)	B+ (idn) sd B- (idn)	Less than B- (idn)	F1+ (idn) sd F1 (idn)	F2 (idn)	F3 (idn)	Less than F3 (idn)		
(ldr) BB+ sd (ldr) BB-	(ldr) B+ sd (ldr) B-	Less than (ldr) B-	(ldr) A1+ sd (ldr) A1	(ldr) A2+ sd (ldr) A2	(ldr) A3+ sd (ldr) A4	Less than (ldr) A3		
id BB+ sd id BB	idB+ sd id B-	Less than id B-	id A1	id A2	id A3 sd A4	Less than id A4		
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
-	-	-	-	-	-	-	5,268	5,268
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,424	-	116	10	-	1,550
-	-	-	-	-	-	-	25	25
-	-	-	-	-	-	-	696	696
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	311	311
-	-	-	-	-	-	-	17,112	17,112
-	-	-	-	-	-	-	742	742
-	-	-	-	-	-	-	886	886
-	-	-	-	-	-	-	-	-

Good Corporate Governance

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		31 December 2016					Long-Term Rating
(1)	(2)	Rating Company					
		Standad and Poor's	AAA	AA+ sd AA-	A+ sd A-	BBB+ sd BBB-	
		Fitch Rating	AAA	AA+ sd AA-	A+ sd A-	BBB+ sd BBB-	
		Moody's	Aaa	Aa1 sd AA3	A1 sd A3	Baaa1 sd Baa3	
		PT Fitch Rating Indonesia	AAA	AA+(idn) sd. AA- (idn)	A+ (idn)sd A-(idn)	BBB+ (idn) sd BBB- (idn)	
		PT ICRA Indonesia PT Pemeringkat Efek Indonesia	(Idr) AAA ID AAA	(Idr) AA+ sd (Idr) AA- idAA+ sd id AA-	(Idr) A+ sd (Idr) A- idA+ sd id A-	(Idr) BBB+ sd (Idr) BBB- id BBB+ sd id BBB-	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
	Total Balance Sheet Exposure	-	-	-	-	-	-
B	Administrative Account Exposure						
1	Receivables on Government	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	-
3	Receivables From Development Bank	-	-	-	-	-	-
4	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
5	Receivables on Banks	-	-	-	-	-	-
6	Loans Secured by Residential Property	-	-	-	-	-	-
7	Loans Secured by Commercial Real Estate	-	-	-	-	-	-
8	Loans for Retired	-	-	-	-	-	-
9	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-
10	Receivables on Corporate	-	-	-	-	-	-
11	Past Due Receivables	-	-	-	-	-	-
12	Other Assets	-	-	-	-	-	-
13	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Administrative Account Exposure	-	-	-	-	-	-
C	Counter Party Credit Risk Exposure						
1	Receivables on Government	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	-
3	Receivables From Development Bank	-	-	-	-	-	-
4	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
5	Receivables on Banks	-	-	-	-	-	-
6	Loans Secured by Residential Property	-	-	-	-	-	-
7	Loans Secured by Commercial Real Estate	-	-	-	-	-	-
8	Loans for Retired	-	-	-	-	-	-
9	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-
10	Receivables on Corporate	-	-	-	-	-	-
11	Past Due Receivables	-	-	-	-	-	-
12	Other Assets	-	-	-	-	-	-
13	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Counter Party Credit Risk Exposure	-	-	-	-	-	-
	TOTAL	-	-	-	-	-	-

Short-Term Rating							Unrated	Total
BB+ sd BB-	B+ sd B-	Less than B-	A-1	A-2	A-3	Less than A-3		
BB+ sd BB-	B+ sd B-	Less than B-	F1+ sd F1	F2	F3	Less than F3		
Ba1 sd Ba3	B1 sd B3	Less than B3	P-1	P-2	P-3	Less than P-3		
BB= (idn) sd BB- (idn)	B+ (idn) sd B- (idn)	Less than B- (idn)	F1+ (idn) sd F1 (idn)	F2 (idn)	F3 (idn)	Less than F3 (idn)		
(Idr) BB+ sd (Idr) BB-	(Idr) B+ sd (Idr) B-	Less than (Idr) B-	(Idr) A1+ sd (Idr) A1	(Idr) A2+ sd (Idr) A2	(Idr) A3+ sd (Idr) A4	Less than (Idr) A3		
id BB+ sd id BB	id B+ sd id B-	Less than id B-	id A1	id A2	id A3 sd A4	Less than id A4		
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
-	-	-	1,424	-	116	10	25,041	26,591
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	23	23
-	-	-	-	-	-	-	651	651
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	674	674
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	5	-	1	-	-	6
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	5	-	1	-	-	6
-	-	-	1,429	-	117	10	25,715	27,271

Disclosure of Net Receivables and Credit Risk Mitigation Techniques (MRK)

There were three risk mitigation techniques that can be used, namely mitigation techniques from collateral, mitigation techniques using guarantee, and / or mitigation techniques from insurance or credit insurance.

Meanwhile, most of the collateral received by the Bank are in the form of land and buildings that can not be applied as mitigation technique, thus causing less collateral accounted for this purpose.

(in billion rupiah)

31 December 2017							
No	Portfolio Category	Portion secure With					Unsecured Portion
		Net Receivables	Collateral	Guarante	Credit Insurance	Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (3) - [(4) + (5) + (6) + (7)]
A Balance Sheet Exposure							
1	Receivables on Government	26,882	-	-	-	-	26,882
2	Receivables on Public Sector Entities	64	-	-	-	-	64
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	8,898	-	-	-	-	8,898
5	Loans Secured by Residential Property	183	-	-	-	-	183
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	13,791	-	-	-	-	13,791
9	Receivables on Corporate	45,995	-	-	-	-	45,995
10	Past Due Receivables	867	-	-	-	-	867
11	Other Assets	4,337	-	-	-	-	4,337
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Balance Sheet Exposure	101,017	-	-	-	-	101,017
B Administrative Account Exposure							
1	Receivables on Government	14	-	-	-	-	14
2	Receivables on Public Sector Entities	243	-	-	-	-	243
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	15	-	-	-	-	15
5	Loans Secured by Residential Property	-	-	-	-	-	-
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	73	-	-	-	-	73
9	Receivables on Corporate	5,787	-	-	-	-	5,787
10	Past Due Receivables	-	-	-	-	-	-
11	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Administrative Account Exposure	6,133	-	-	-	-	6,133

(in billion rupiah)

31 December 2017							
No	Portfolio Category	Portion secure With					Unsecured Portion
		Net Receivables	Collateral	Guarante	Credit Insurance	Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (3) - [(4) + (5) + (6) + (7)]
C	Eksposur Counterparty Credit Risk						
1	Receivables on Government	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	756	-	-	-	-	756
5	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-
6	Receivables on Corporate	503	-	-	-	-	503
7	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Eksposur Counterparty Credit Risk	1,259	-	-	-	-	1,259
Total (A+B+C)		108,409	-	-	-	-	108,409

(in billion rupiah)

31 December 2016							
No	Portfolio Category	Portion secure With					Unsecured Portion
		Net Receivables	Collateral	Guarante	Credit Insurance	Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (3) - [(4) + (5) + (6) + (7)]
A	Balance Sheet Exposure						
1	Receivables on Government	5,268	-	-	-	-	5,268
2	Receivables on Public Sector Entities	-	-	-	-	-	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	1,550	-	-	-	-	1,550
5	Loans Secured by Residential Property	25	-	-	-	-	25
6	Loans Secured by Commercial Real Estate	696	-	-	-	-	696
7	Loans for Retired	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	312	2	-	-	-	310
9	Receivables on Corporate	17,112	217	-	-	-	16,895
10	Past Due Receivables	742	-	-	-	-	742
11	Other Assets	886	-	-	-	-	886
12	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Balance Sheet Exposure	26,591	219	-	-	-	26,372
B	Administrative Account Exposure						
1	Receivables on Government	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	-	-	-	-	-	-

(in billion rupiah)

31 December 2016							
No	Portfolio Category	Portion secure With					Unsecured Portion
		Net Receivables	Collateral	Guarante	Credit Insurance	Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (3) - [(4) + (5) + (6) + (7)]
5	Loans Secured by Residential Property	-	-	-	-	-	-
6	Loans Secured by Commercial Real Estate	-	-	-	-	-	-
7	Loans for Retired	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	23	-	-	-	-	23
9	Receivables on Corporate	651	-	-	-	-	651
10	Past Due Receivables	-	-	-	-	-	-
11	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Administrative Account Exposure	674	-	-	-	-	674
C	Counter Party Credit Risk Exposure						
1	Receivables on Government	-	-	-	-	-	-
2	Receivables on Public Sector Entities	-	-	-	-	-	-
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	6	-	-	-	-	6
5	Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-
6	Receivables on Corporate	-	-	-	-	-	-
7	Exposures at Sharia Based Business Activity Unit (if any)	-	-	-	-	-	-
	Total Counter Party Credit Risk Exposure	6	-	-	-	-	6
Total (A+B+C)		27,271	219	-	-	-	27,052

For the position of December 2017 there no cash collateral or bank guarantee that were used as a deduction in credit risk mitigation.

RWA calculation using Standard Approach - Disclosure of Asset Exposure in Balance Sheet Year 2017 and 2016

(in billion rupiah)

		31 December 2017			31 December 2016		
No.	Description	Net Receivables	RWA before MRK	RWA after MRK	Net Receivables	RWA before MRK	RWA after MRK
(1)	(2)	(3)	(4)	(5)	(3)	(4)	(5)
1	Receivables on Government	26,882	-	-	5,268	-	-
2	Receivables on Public Sector Entities	64	13	13	-	-	-

(in billion rupiah)

No.	Description	31 December 2017			31 December 2016		
		Net Receivables	RWA before MRK	RWA after MRK	Net Receivables	RWA before MRK	RWA after MRK
(1)	(2)	(3)	(4)	(5)	(3)	(4)	(5)
3	Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
4	Receivables on Banks	8,898	1,918	1,887	1,550	313	313
5	Loans Secured by Residential Property	183	64	64	25	9	9
6	Loans Secured by Commercial Real Estate	-	-	-	696	696	696
7	Loans for Retired	-	-	-	-	-	-
8	Receivables on Micro, Small Business & Retail Portfolio	13,791	10,344	10,123	311	234	232
9	Receivables on Corporate	45,995	43,890	42,774	17,112	17,112	16,895
10	Past Due Receivables	867	1,302	1,289	742	1,112	1,112
11	Other Assets	4,337	-	3,767	886	-	362
TOTAL		101,017	57,531	59,917	26,590	19,476	19,619

Disclosure of exposure to the Commitment/contingent liabilities on administrative account transactions

In addition to on-balance sheet assets, the Bank also has RWA which come from the committed liabilities and contingent /administrative account which consist mainly of Letter of Credit and Bank Guarantee issued to corporate customers. The following table shows the comparison of credit risk RWA for administrative account charges before and after taking into account risk mitigation.

(in billion rupiah)

Description	31 December 2017			31 December 2016		
	Net Receivables	RWA before MRK	RWA after MRK	Net Receivables	RWA before MRK	RWA after MRK
Receivables on Government	14	-	-	-	-	-
Receivables on Public Sector Entities	243	122	122	-	-	-
Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
Receivables on Banks	15	3	3	-	-	-
Loans Secured by Residential Property	-	-	-	-	-	-

(in billion rupiah)

Description	31 December 2017			31 December 2016		
	Net Receivables	RWA before MRK	RWA after MRK	Net Receivables	RWA before MRK	RWA after MRK
Loans Secured by Commercial Real Estate	-	-	-	-	-	-
Loans for Retired	-	-	-	-	-	-
Receivables on Micro, Small Business & Retail Portfolio	73	55	55	23	17	17
Receivables on Corporate	5,787	5,787	5,787	651	651	651
Past Due Receivables	-	-	-	-	-	-
TOTAL	6,133	5,967	5,967	674	668	668

Disclosure of Maturity Profile

Disclosure of Bank Maturity Profile - Bank Individually

31 December 2017

No.	Posts	Balance	Due date	
			< 1 month	> 1 month to 3 month
(1)	(2)			
I	BALANCE			
A	Asset	57,283	16,350	8,690
1	Cash	408	408	-
2	Placements with Bank Indonesia	12,038	4,908	1,785
3	Placements with other banks	15	15	-
4	Marketable Securities	11,517	66	1,340
5	Loans	30,210	8,633	5,414
6	Other Receivables	937	162	151
7	Others	2,158	2,158	-
Total Asset		57,283	16,350	8,690
B	Liabilities	44,574	40,845	2,538
1	Third party depositors	34,616	31,152	2,385
2	Liabilities on Bank Indonesia	-	-	-
3	Liabilities with Other Banks	6,470	6,470	-

Exposure Disclosures that Raise Credit Risk as a result of Counterparty Credit Risk

Here is the comparison of RWA after and before applying risk mitigation for counterparty credit risk:

Description	31 December 2017			31 December 2016		
	Net Receivables	RWA before MRK	RWA after MRK	Net Receivables	RWA before MRK	RWA after MRK
Receivables from Government	-	-	-	-	-	-
Receivables on Public Sector Entities	-	-	-	-	-	-
Receivables on Multilateral Development Banks and International Institutions	-	-	-	-	-	-
Receivables on Banks	756	179	179	6	1	1
Receivables on Micro, Small Business & Retail Portfolio	-	-	-	-	-	-
Receivables on Corporate	504	422	422	-	-	-
TOTAL	1,260	601	601	6	1	1

31 December 2016

Balance			Due date					
> 3 month to 6 month	> 6 month to 12 month	> 12 month		< 1 month	> 1 month to 3 month	> 3 month to 6 month	> 6 month to 12 month	> 12 month
			(3)	(4)	(5)	(6)	(7)	(8)
9,215	11,276	11,752	21,698	3,204	3,235	3,688	5,988	5,583
-	-	-	479	479	-	-	-	-
3,134	2,211	-	1,399	1,252	-	147	-	-
-	-	-	116	116	-	-	-	-
623	3,060	6,428	3,585	2	729	394	788	1,672
4,854	5,999	5,310	15,837	1,275	2,395	3,056	5,200	3,911
604	6	14	282	80	111	91	-	-
-	-	-	-	-	-	-	-	-
9,215	11,276	11,752	21,698	3,204	3,235	3,688	5,988	5,583
975	211	5	16,498	8,582	2,767	2,113	1,639	1,397
872	207	-	16,135	8,421	2,656	2,022	1,639	1,397
-	-	-	-	-	-	-	-	-
-	-	-	89	89	-	-	-	-

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31 December 2016

			Balance	Due date					
> 3 month to 6 month	> 6 month to 12 month	> 12 month		< 1 month	> 1 month to 3 month	> 3 month to 6 month	> 6 month to 12 month	> 12 month	
			(3)	(4)	(5)	(6)	(7)	(8)	
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
103	4	5	274	72	111	91	-	-	-
-	-	-	-	-	-	-	-	-	-
975	211	5	16,498	8,582	2,767	2,113	1,639	1,397	
8,240	11,065	11,747	5,200	(5,378)	468	1,575	4,349	4,186	
15	535	19	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
15	535	19	-	-	-	-	-	-	-
15	535	19	-	-	-	-	-	-	-
4,512	9,330	5,064	7,769	544	1,696	1,866	3,180	483	
3,470	7,453	4,034	7,033	472	1,545	1,644	2,904	468	
1,042	1,877	1,030	736	72	151	222	276	15	
4,512	9,330	5,064	7,769	544	1,696	1,866	3,180	483	
(4,497)	(8,795)	(5,045)	(7,769)	(544)	(1,096)	(1,866)	(3,180)	(483)	
3,743	2,270	6,702	(2,569)	(5,922)	(1,228)	(291)	1,169	3,703	
(34,025)	(31,755)	(25,053)	-	(5,922)	(7,150)	(7,441)	(6,272)	(2,569)	

Good Corporate Governance

Corporate Social Responsibility

Corporate Data

Financial Report

Disclosure of Forex Maturity Profile - Bank Individually

31 December 2017

No.	Posts	Balance	Due date	
			< 1 month	> 1 month to 3 month
(1)	(2)			
I	BALANCE			
A	Asset	45,414	26,866	5,861
1	Cash	174	174	-
2	Placements with Bank Indonesia	3,297	3,297	-
3	Placements with other banks	8,205	8,001	-
4	Marketable Securities	400	133	150
5	Loans	30,452	13,305	4,905
6	Other Receivables	2,095	961	806
7	Others	791	791	-
	Total Asset	45,414	26,866	5,861
B	Liabilities	41,575	25,923	1,368
1	Third party depositors	22,316	21,137	676
2	Liabilities on Bank Indonesia	-	-	-
3	Liabilities with Other Banks	1,904	1,904	-
4	Securities issued	-	-	-
5	Borrowings	13,364	-	-
6	Other Liabilities	1,947	838	692
7	Others	2,044	2,044	-
	Total Liabilities	41,575	25,923	1,368
	On Balance Sheet Asset and Liabilities Differences	3,839	943	4,493

31 December 2016								
Balance			Due date					
> 3 month to 6 month	> 6 month to 12 month	> 12 month		< 1 month	> 1 month to 3 month	> 3 month to 6 month	> 6 month to 12 month	> 12 month
			(3)	(4)	(5)	(6)	(7)	(8)
4,683	6,374	1,630	4,877	1,914	727	535	719	982
-	-	-	88	88	-	-	-	-
-	-	-	269	269	-	-	-	-
-	-	-	1,329	1,329	-	-	-	-
2	7	108	-	-	-	-	-	-
4,463	6,332	1,447	2,759	135	477	458	707	982
218	35	75	432	93	250	77	12	-
-	-	-	-	-	-	-	-	-
4,683	6,374	1,630	4,877	1,914	727	535	719	982
464	1,699	12,121	3,836	1,111	527	1,166	562	470
192	311	-	2,933	1,019	277	617	550	470
-	-	-	-	-	-	-	-	-
-	-	-	1	1	-	-	-	-
-	-	-	-	-	-	-	-	-
-	1,357	12,007	472	-	-	472	-	-
272	31	114	430	91	250	77	12	-
-	-	-	-	-	-	-	-	-
464	1,699	12,121	3,836	1,111	527	1,166	562	470
4,219	4,675	(10,491)	1,041	803	200	(631)	157	512

31 December 2017

No.	Posts	Balance		Due date	
				< 1 month	> 1 month to 3 month
(1)	(2)				
II	OFF BALANCE SHEET				
A	Off Balance Sheet Receivable	22,854		13,382	4,486
	1 Commitment	18,794		11,708	3,695
	2 Contingencies	4,060		1,674	791
	Total Off Balance Sheet Receivables	22,854		13,382	4,486
B	Off Balance Sheet Liabilities	74,099		34,759	10,994
	1 Commitment	68,909		34,464	10,141
	2 Contingencies	5,190		295	853
	Total Off Balance Sheet Liabilities	74,099		34,759	10,994
	Total Off Balance Sheet Asset and Liabilities Difference	(51,245)		(21,377)	(6,508)
	Difference [(IA-IB)+(IIA-IIB)]	(47,406)		(20,434)	(2,015)
	The Cumulative Difference	-		(20,434)	(22,449)

31 December 2016

			Balance	Due date				
> 3 month to 6 month	> 6 month to 12 month	> 12 month		< 1 month	> 1 month to 3 month	> 3 month to 6 month	> 6 month to 12 month	> 12 month
			(3)	(4)	(5)	(6)	(7)	(8)
1,415	1,848	1,723	145	141	4	-	-	-
1,020	1,309	1,062	145	141	4	-	-	-
395	539	661	-	-	-	-	-	-
1,415	1,848	1,723	145	141	4	-	-	-
8,315	18,217	1,814	2,570	764	889	360	415	142
7,559	16,531	214	2,449	746	872	354	411	66
756	1,686	1,600	121	18	17	6	4	76
8,315	18,217	1,814	2,570	764	889	360	415	142
(6,900)	(16,369)	(91)	(2,425)	(623)	(885)	(360)	(415)	(142)
(2,681)	(11,694)	(10,582)	(1,384)	180	(685)	(991)	(258)	370
(25,130)	(36,824)	(47,406)	-	180	(505)	(1,496)	(1,754)	(1,384)

Good Corporate Governance

Corporate Social Responsibility

Corporate Data

Financial Report

BUSINESS OUTLOOK



Macroeconomic Analysis of 2018

In 2018, the global economy is predicted to recover at a varied pace in each region. This condition is reflected in the Global Economic Prospects published by the World Bank in January 2018.

In the report, it's estimated that the global economic growth in 2018 will increase to 3.1% from 3.0% in 2017. The estimation increases by 0.2% from the projection predicted in June 2017. The world economic growth is predicted to slightly decrease to 3% in 2019 and 2.9% in 2020. However, the overall world economic growth is above 2.4% of growth in 2016 when the world had just recovered from the crisis. Developed countries' economic growth is predicted to slightly decrease from 2.3% in 2017 to 2.2% in 2018. This is due to the tendency of major central banks to gradually withdraw from accommodative monetary policies. In the United States, with the increasing private investment support, the economy is predicted to grow 2.5% in 2018 from 2.3% in 2017. The United States economic growth is

estimated to moderate slightly to an average of 2.1% in 2019 and 2020.

However, the World Bank warns that the world economy is already operating at near full capacity and the pace of monetary policy normalization might increase. Therefore, the benefits of fiscal stimulus will likely be constrained. The economic advancement in this year and the following years will only be temporary unless governments adopt policies that would focus on increasing workforce participation.

World economic growth is mainly supported by developing countries, especially commodity exporting countries. The economic growth rate of developing countries will increase to 4.5% in 2018 from 4.3% of growth in 2017. It's predicted that the growth rate will keep increasing to an average of 4.7% in 2019 and 2020.

China is notable due to its economic growth. The country's economic growth increased to 6.8% in 2017. It's predicted

that the growth will decrease to 6.4% in 2018. However, this growth rate is 0.1% higher than what the World Bank predicted in June 2017. China's economic growth is estimated to moderate to 6.3% in 2019. The main factor of the moderation is the rebalancing of growth from consumption and the service sector while, on the other hand, China's credit growth is estimated to decrease.

Meanwhile, India's GDP growth is expected to reach 7.3% in 2018 and increase to 7.5% in 2019 and 2020. The economic growth of the countries of Africa, Latin America, Middle East, and Asia is expected to reach 5.4% in 2018. These region's growth is mainly driven by the increasing commodity's prices, although lower than originally projected. The global oil price, for example, is estimated by the World Bank to reach USD 58 per barrel in 2018 and increase to USD 59 per barrel in 2019.

The World Bank warns that while the prediction of the global economy for 2018 is relatively optimistic, there are some global economic risks that must be taken into consideration. The risks include an abrupt tightening of global financing conditions, increased protectionism, and rising geopolitical tensions. The World Bank also reminds the potential of a long-term growth slowdown due to the weak investments and the shrinking workforce.

Indonesia's economic growth for 2018 is predicted to increase compared to 2017. Based on the Indonesia Economic Quarterly published by the World Bank, the growth of real GDP will increase to 5.3% in 2018, higher compared to 5.1% of growth in 2017. Bank Indonesia predicts that Indonesia's economic growth will grow to 5.8% - 6.2% in 2019 to 2022.

The increase is driven by investment growth which remains strong and which consequently improves the rate of

consumption recovery. The World Bank and Bank Indonesia predict that the consumer price inflation rate will decrease from 3.8% in 2017 to 3.5% with $\pm 1\%$ deviation in 2018. The prediction is calculated based on the continued subdued food prices and the absence of further planned energy hikes.

The World Bank also projects a fiscal deficit of 2.2% of GDP, the same as the 2018 budget target. This is in accordance with the stronger macroeconomic outlook for 2018 and the ongoing tax policy and administration reforms. The fiscal deficit target in 2018 will be lower than previous years. It's expected that this condition will increase the fiscal space in the short term.

According to Bank Indonesia, global economic growth will improve gradually, followed by the increase of commodity prices with the same pattern. In the financial sector, BI predicts that the global interest rate will increase in line with the tightening trend of monetary policies in developed countries. The United States' policy rate is estimated to increase three times in 2018.

In the short term, the government's stimulus will play an important role in supporting the economy. In addition to the government's stimulus, the regional elections and Asian Games to be held in 2018 will affect the levels of domestic consumption. Infrastructure investments from the government will contribute to the growth of future investment. On the other hand, since Indonesia's exports still rely on commodities, exports in 2018 will grow slower than last year.

In line with the increasing investments and the acceleration of infrastructure projects, the current account deficit is predicted to slightly increase, but still in a healthy level, below 3% of GDP.

In 2018, Indonesia's economy still faces risks including the volatility of the global financial market and a slowdown in the growth of private investments. This is disconcerting as private investments account for more than half of the country's GDP. Another risk faced by Indonesia's economy is the political uncertainties during the regional election that could slow down the investment growth. Moreover, tighter monetary policies in developed countries, especially the United States, could trigger the exchange rate volatility and the foreign capital outflow that can disrupt the overall macroeconomic stability.

Information Regarding Business Continuity

Based on the economic outlook explained above, Bank Indonesia publishes the projection of the national banking industry's growth in 2018. Third-party fund (DPK) is estimated to hover between 9% and 11%. Meanwhile, the banking credit disbursement will reach between 10% and 12% in 2018.

It's estimated that the growth of the banking sector will be expansive. This is supported by the increasing liquidity and non-performing loan ratio that is still under control, albeit quite high. However, the banking industry is deemed still cautious to distribute the credit aggressively until the second quarter of 2018.

In general, the national banks will face various challenges and find new opportunities in 2018. Following challenges will be faced by the national banking: **First** banking liquidity is still tight due to the Fed's policy to increase the interest rate three times. This policy will trigger capital outflows that tighten the global financial market including for Indonesia. **Second**, a high level of corporate bonds issuance could potentially become competition to banking credit. **Third**, NPL remain a concern – (NPL reached 2.96% in October 2017). **Fourth**, the lessening of people's interest to shop due to the changes in the allocation of income and Indonesian people's tendency to deposit their money rather than spend it. **Fifth**, the rise of financial technology and start-up that could potentially become the banks' competitors. Financial technology's total funding reached 653.28% as of September 2017. **Sixth**, USD that continues to strengthen due to the increasing growth of the United States' economy. As a result, it could potentially put pressures on rupiah exchange rate.

Opportunities that can benefit the national banks are as follows: **First**, large-scale infrastructure projects and the government's capital expenditure. In the State Budget for 2018, infrastructure funding is increased to Rp410.7 trillion, while the government's capital expenditure increases to Rp2,220.7 trillion. Indonesia's preparation for Asian Games 2018 also could bring opportunities in the banking industry.

Second, the increasing export value. In 2017, Indonesia's export value reached USD168.89 billion, an increase of 16.9% from 2016. Meanwhile, Indonesia's import value grew 16.14% to USD149.99 billion. **Third**, the policy of Loan to Value (LTV) relaxation, varied in each region, depending on the characteristics of the region's automotive and property industries. It's expected that this policy could encourage the banking intermediation in the automotive and property sectors. **Fourth**, the low interest rate policy (single digit) adopted by the government. **Fifth**, the increasing global commodity prices that will improve Indonesia's economic growth. **Sixth**, the positive business sentiments towards Indonesia's economy. These sentiments are reflected in the projection of Indonesia's economic growth by international financial institutions. This condition prompts them to

raise Indonesia's credit rating to "investment grade". The rating was given on February 8, 2017 and May 19, 2017 by Moody's and Standard & Poor's respectively. Fitch Ratings also upgraded Indonesia's Sovereign Credit rating from BB+ to BBB- on 20 December 2017.

The conditions that have been explained above show that, although its economic growth experiences a slowdown, the national banking industry will have a better year in 2018 than in 2017.



HSBC

The image shows the HSBC logo in a large, three-dimensional, illuminated font. The letters are dark blue or black with a bright blue light emanating from within, creating a glowing effect. The logo is mounted on a light-colored, possibly metallic, wall. The background is a solid dark blue or black.



5

GOOD
CORPORATE
GOVERNANCE

THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE IMPLEMENTATION

Good Corporate Governance (GCG) arose in the 1990s. During that time, Asian and Latin American regions were hit by crisis. The crises were caused by failure of GCG that were implemented by the companies. There were some factors that were deemed responsible for the failure of GCG, including a low-quality law system, non-existent accounting and audit standard, poor banking practices, and inadequate attention to the minority shareholders.

As a result, in 1990s demands for consistent and comprehensive implementation of GCG rises. The principles of GCG, such as fairness, transparency, accountability, and stakeholder concern, was viewed to be able to assist companies and the economy of countries hit by crisis to improve toward healthier condition and able to compete and managed dynamically and professionally.

In Indonesia, GCG started to gain attention in early 1999. The National Committee on Governance (KNKCG), which was formed based on the Decree of the Coordinating Ministry of Economic Affairs No. KEP31/M.EKUIIN/08/1999, published the first GCG Guideline in Indonesia.

Following that, Bank Indonesia issued provisions on the implementation of GCG: Bank Indonesia Regulation (PBI) No.8/4/PBI/2006 dated January 30, 2006 on the

Implementation of Good Corporate Governance for Public Banks which was subsequently replaced by Bank Indonesia Regulation No.8/14/PBI/2006 dated October 5, 2006 on the Implementation of Good Corporate Governance for Public Banks and Bank Indonesia Circular Letter No.15/15/DPNP/ dated April 29, 2013 on the Implementation of Good Corporate Governance for Public Banks. At the end of 2016, the PBI was replaced by the Regulation of the Financial Services Authority (POJK) No.55/POJK.03/2016 dated December 7, 2016 on the Implementation of Governance for Public Banks by Financial Services Authority (OJK).

In line with the issuance of OJK Regulation No. 18 / POJK.03 / 2014 dated November 18, 2014 on Implementation of Integrated Governance for Financial Conglomeration and Circular Letter of OJK (SEOJK) No. 15 / SEOJK.03 / 2015 dated May 25, 2015 on Integrated Corporate Governance for Financial Conglomeration and the successful integration of Banks with HSBC Indonesia Branch Offices, The Bank has reviewed and made several adjustments as well as improvements to the structure and infrastructure among others by establishing the Bank as the Main Entity in HSBC Financial Conglomeration in Indonesia.

GOVERNANCE STATEMENT

The Bank's Governance Structure as a Limited Liability Company is based on Law No. 40 of 2007 regarding Limited Liability Companies consists of three organs, namely General Meeting of Shareholders (GMS or RUPS) which is an ultimate forum for the shareholders, Board of Commissioners, and Board of Directors.

The Bank realizes that the implementation of GCG principles to the Company's operation is a prerequisite that must be met in order to become a healthy and growing organization. In 2017, the Bank remained committed to perfecting the implementation of GCG values consistently and continuously. Thus, the Bank was able to improve financial performance and protect the interests of shareholders both in the short and long term without neglecting the interests of other stakeholders.

The Bank continues to maximize the structure and the procedures of GCG through the Company's values, resources capacity, and effective and efficient risk mapping. This is conducted to ensure that Corporate Governance's structures and procedures are in accordance with Financial Services Authority' regulations.

The Bank's GCG infrastructures, such as the committees under the Board of Commissioners' supervision, are constantly empowered through exceptional synergized teamwork. This is important for the Bank's business to ensure that its activities are in line with the applicable laws.

GOOD CORPORATE GOVERNANCE PRINCIPLES

In order to achieve the Bank's visions and missions in the future, it's important for the Bank to have the capability to implement GCG principles. The implementation of the Bank's GCG is realized by conducting the five principles of GCG implementation:

1. Transparency

Transparency is related with the quality of information given by the Bank. The Bank continuously provides accurate, accessible, and comprehensible information for the stakeholders. The principles of transparency include the transparency in the decision-making process and open disclosure of the Bank's information. The Bank implements these principles in order to conduct its business objectively and professionally, while supporting the customers.

2. Accountability

Accountability is a system that manages the relationship between the Bank's supervision units, including evaluating the Board of Commissioners and the Board of Directors' performance. Healthy, measurable and professional management is a prerequisite, and so The Bank has an obligation to be accountable for its performance in a transparent and accountable manner.

3. Responsibility

The Bank is committed to complying with the applicable laws and regulations as a manifestation of the Bank's responsibility in implementing GCG principles. As a manifestation of the Bank's commitment to the people and the environment, The Bank always implements a fair management.

4. Independency

Independency emphasizes a professional management that is free from conflict of interests and intervention from other parties that are inconsistent with the Bank's laws and regulations. Each organ of the Bank and all the ranks under it are independent in order to avoid dominance over fellow employees and ensure that no meddling by other parties. This is carried out to maintain their objectivity and professionalism in conducting their duty and responsibility.

5. Fairness and Equality

In conducting its business activities, the Bank always implements fairness principles that are in accordance with applicable agreements and regulations by providing fair and equal treatment and opportunities towards all stakeholders.

THE OBJECTIVE OF GOOD CORPORATE GOVERNANCE IMPLEMENTATION

The implementation of strategies that are in accordance with the business plan and are conducted consistently can strengthen the Bank's competitive position. Eventually, this advantage will earn customers' interest and trust. As a result, the Bank will have a continuous and long-term growth. The implementation of GCG is expected to increase the added value for all stakeholders. The objectives of GCG implementation are as follows:

1. Increasing efficiency and effectivity; supporting the sustainability of organisations to improve the welfare of all shareholders, stakeholders, and employees; and providing effective solutions to face future challenges.
2. Establishing the Bank as a legitimate entity that's managed in a fair, open, and responsible manner.
3. Maintaining and protecting all shareholders and stakeholders' rights and responsibilities.
4. Increasing the value of the Company and all stakeholders.
5. Improving the efficiency and the effectiveness of the performance of the Board of Commissioners, the Board of Directors, and the Company's management.

GOVERNANCE ASSESSMENT

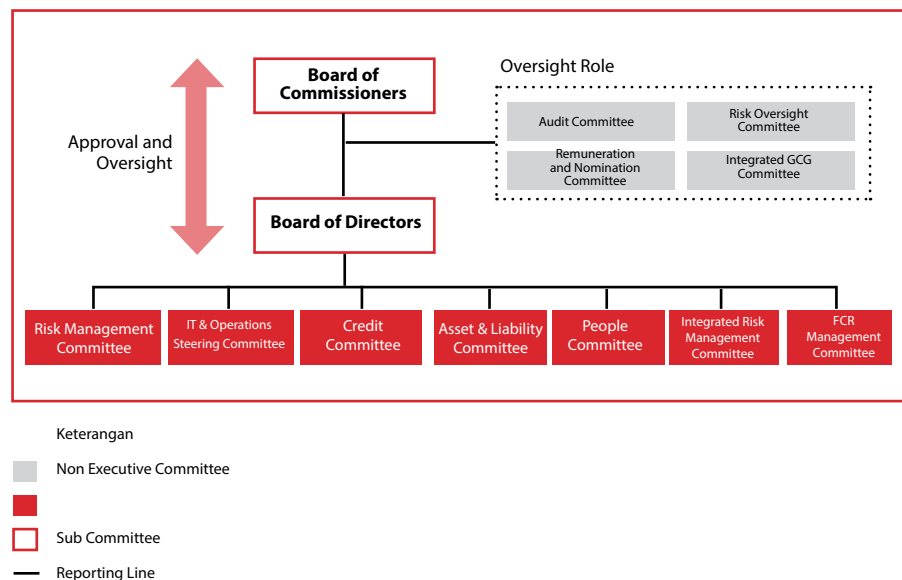
The objectives of GCG assessments conducted by the Bank are measuring the success of GCG implementation towards the Bank's performance by comparing it to the best practices and identifying GCG practices that are needed to be improved to reach the ideal results of GCG implementation. The Bank conducts self-assessments on GCG every semester. The results of the assessment have been sent to the regulators. In the period between June and December 2017, based on the results of self-assessments,

the Bank's soundness level ranked second or attained the "Good" category. The soundness level shows that the Bank's business activities have been conducted in fair manners. The results of GCG self-assessments are included in the comprehensive Bank Soundness Level evaluation and have been discussed with Financial Services Authority's Supervision Team. There were some minor shortcomings in the implementation of GCG conducted by the Bank that could be addressed immediately and didn't bring significant issues.

GOOD CORPORATE GOVERNANCE STRUCTURES

The Bank has formulated the GCG Structures to ensure that the principles of GCG could be implemented without any difficulty. The Bank always strives to complete all elements needed to implement GCG and achieve desired results. The structures include some important aspects that are needed to improve the control and the management of the Bank. The structures consist of the main organs, which are General Meeting of Shareholders, the Board of Commissioners, the Board of Directors, and the supporting organs, including Internal Audit, Corporate Secretary, the Committees under the Board of Commissioners, including Audit Committee,

Remuneration and Nomination Committee, and Risk Oversight Committee and the Committees under the Board of Directors, such as Credit Committee, Assets and Liabilities Committee, Risk Management Committee, Information Technology, Operational, and Services Steering Committee, Financial Crime Risk Management Committee, and People Committee. The structures comply with the provisions on limited liability companies in Indonesia. The GCG structures implemented by the Bank are as follows:



GENERAL MEETING OF SHAREHOLDERS

General Meeting of Shareholders (GMS) is the highest authority in the Bank. In the GMS, shareholders are authorized to evaluate the performance of the Board of Commissioners and the Board of Directors, to give approval for the annual report, to appoint and dismiss members of the Board of Commissioners and the Board of Directors, to specify compensation and allowances for the Board of Commissioners and the Board of Directors, and to appoint an Independent Auditor. Annual GMS is held once every year and in 2017, in 2017 on March 16. Throughout 2017, the Bank has held three Extraordinary GMS on February 21, 2017, March 30, 2017, and September 18, 2017.

Extraordinary GMS held on February 21, 2017 approved the Banks plan to appoint 1 (one) candidate for the Board of

Commissioners of the Bank that was effective on the date of the approval of Fit and Proper Tests results; Extraordinary GMS held on March 30, 2017 approved the Banks plan to increase authorized capital, issued capital, paid-up capital of the Bank and approved the Banks plan to appoint 1 (one) candidate for Compliance Director. The Extraordinary GMS held on September 18, 2017, approved the Banks plan to appoint 1(one) Commissioner candidate as President Commissioner and 1(one) candidate Independent Commissioner which shall become effective on the date of the approval of Fit and Proper Tests results from OJK. Another agenda is approving the Banks plan to amend and restate the Banks Articles of Association.

Major and Controlling Shareholder Information

Major and Controlling Shareholder information is as follows:

No	Shareholder Name	Share Ownership	Percentage of Ownership
1	HSBC Asia Pacific Holdings (UK) Limited	10,473,719,274	98.94%
2	Other Shareholders	112,675,723	1.06%

BOARD OF COMMISSIONERS

Under the Limited Liability Company Law, the Board of Commissioners is an Organ of PT Bank HSBC Indonesia (Bank) responsible for supervising publicly and / or specifically in accordance with the articles of association and advising the Board of Directors. The Board of Commissioners has the duty and responsibility to oversee and advise the Board of Directors in all matters concerning company policy. In performing its duties, the Board of Commissioners exercises its right to monitor and review the performance of the Board of Directors.

Based on Board of Commissioners' Guideline and Charter, the duties and the responsibilities of the Board of Commissioners are as follows:

1. oversee the management of the company by the Board of Directors and give approval to the Bank's annual work plan, prior to the starting of the year;
2. Conduct duties as regulated by the applicable laws, the Articles of Association, the applicable laws and / or the decisions of the General Meeting of Shareholders;
3. Conduct duties and responsibilities as regulated by the Bank's Articles of Association and General Meeting of Shareholders' decisions;
4. research and review the annual reports prepared by the Board of Directors, and as well as executing the annual report; and

5. Comply with the Articles of Association and regulations, as well as implement the principles of professionalism, efficiency, transparency, independence, accountability, accountability, and fairness.

In connection with the duties of the Board of Commissioners referred to above, the Commissioner is obliged to:

1. Supervise the implementation of the Bank's annual work plan;
2. Follow the development of the Bank's activities, and in the event the Bank shows signs of setbacks, report the condition through GMS and provide suggestions regarding corrective actions;

3. Providing opinions and suggestions for GMS regarding matters considered crucial for managing the Bank;
4. Conduct other supervisory duties as determined by the GMS; and
5. Give feedback on periodic reports prepared by the Board of Director at any time regarding the Bank's development.

The Composition of the Board of Commissioners

The composition of the Bank's Board of Commissioners as of December 31, 2017 is as follows:

Designation	Name
President Commissioner	: Matthew Kneeland Lobner*
Vice President Commissioner Concurrently as Independent Commissioner	: Hanny Wurangian
Independent Commissioner	: Hariawan Pribadi
Commissioner	: Mark Thomas McKeown
Commissioner	: Antony Colin Turner*
Independent Commissioner	: Umar Juoro*

*) The appointment of Matthew Kneeland Lobner and Umar Juoro was conducted in Extraordinary GMS held on September 18, 2017, while the appointment of Antony Colin Turner was conducted on Extraordinary GMS held on February 21, 2017. The tenure of the candidates is effective after approved by Financial Service Authority (OJK) on Fit and Proper Test result and complying with prevailing rules and regulations.

Board of Commissioners Meeting

No	Name	Numbef of Board of Commissioners Meeting for a year = 15		
		Number of Meetings in Accordance with the effective period	Attendance	% Attendance
1	Jayant Rikhye*	3	0	0%
2	Hanny Wurangian	6	5	100%
3	Hariawan Pribadi	6	5	100%
4	Mark Thomas McKeown	6	5	100%

*) Term of office as President Commissioner has ended dated September 18, 2017.

COMMITTEES UNDER THE BOARD OF COMMISSIONERS

In conducting their duties, the Board of Commissioners is assisted by 3 (three) Executive Committees, which are the Audit Committee, the Risk Oversight Committee, and the Remuneration and Nomination Committee.

Audit Committee

The Audit Committee is formed by and is responsible to the Board of Commissioners in assisting the Board of Commissioners to perform duties and functions. The Audit Committee is chaired by an Independent Commissioner and consists of 2 (two) external Independent parties with specific expertise as required by the regulations.

The Audit Committee has the authority and responsibility to:

1. Supervise the integrity of the Bank's financial statement and various formal announcements pertaining to the Bank's financial performance or information on additional regulations, review significant considerations related to the financial statement. Review the Bank's financial and accounting policies and practices.
2. Review and discuss with management the effectiveness of the internal control system in relation to financial reporting and, where applicable, approve statements on the internal control over the financial statements present in the annual report to be submitted to the Board of Commissioners.
3. Supervise and review the efficiency of Internal Audit function, consider findings from internal inspection and responses from the management, and ensure that the Internal Audit function has adequate resources, placed in a proper position in the Bank and free from the management's influence or limitations.
4. Ensure that internal auditors can coordinate with external auditors without any difficulty.
5. Provide suggestions or recommendations to the Board of Commissioners, and provide suggestions in the GMS to shareholders to get approval pertaining to the appointment, reappointment, and dismissal of external auditors' service, and directly responsible to the approval of honorarium and the period of external auditor' appointment.
6. Review and supervise the independency of external

auditors and the objectivity and efficiency of the audit process, taking into account regulators' requirements and profession, and reports from external auditors regarding the policies and the procedures on independency, quality control, and audit partner rotation policies for external auditors.

7. Adopt best practices in HSBC Group as long it does not contradict with Indonesia's laws and regulations on the assignment of external auditors for non-audit services, by considering ethical guidelines on the implementation of non-audit services from a public accountant firm, and deliver notifications on the non-audit services conducted by the external auditors and their honorarium; submit reports to the Board of Commissioners pertaining to the necessary measures and improvements and provide recommendations as part of steps needed.
8. Review the annual report prepared by external auditors, letters to the management, significant problems on accounting records found by external auditors, financial statement or control system and, in some cases, responses from the management.
9. Obtain timely responses to the provision of financial statements and issues related to the controls raised in the letter from the external auditor to the management.
10. Discuss with external auditors regarding general approaches that will be implemented, the scope and the nature of the audit and the mandatory report before the commencement of the audit. This includes the nature of accounting issues and the audit's findings that have not been resolved and notes from the review of interim and the audit's final results, main assessment areas (including important accounting policies and practice utilized by the Bank and its changes), all alternative accounting policies that have been discussed with the management and consequences that may arise pertaining to the implementation of the alternatives, significant adjustments, going concern assumption, compliance with accounting standards, laws, and the prerequisites of capital market, reclassification or significant additional disclosures suggested by external auditors or additional closures that may bring material impact in the future, the nature and the impact of material changes in accounting

policies and practice, all written communication sent from external auditors to the management and other matters discussed with the auditor.

11. Review and discuss the adequacy of resources, accountant staff's qualifications and experiences and the function of the financial statement, training programs, fund, and transition plan from employees with vital roles in the function.
12. Consider all important findings from the inspection of internal control pertaining to the financial statement delegated by the Board of Commissioners or initiated by the Audit Committee to assess the management's response.
13. Receive the annual report and other reports from time to time as preredquired by applicable regulations and provisions, from executive officer and financial officers that must be disclosed to the Audit Committee and to external auditors regarding weaknesses in material and deficiency in internal control plans and the operational of financial reporting that may hinder the Bank in recording and reporting financial data and frauds, both material and non-material, which involve the management or other employees who have significant roles in the Bank's internal control and financial reporting process.
14. Provide assurance to the Board of Commissioners that is required to meet with the Bank's compliance standards.
15. Provide further assurance to the Board of Commissioners required to ensure the reliability of the delivered financial information.
16. Receive reports from the Compliance Function on complaints with convincing information regarding bookkeeping practice, internal control on bookkeeping practice, or matters related to the audit which are received from the Disclosure Line, a special mechanism used to report confidential information, and facilitate employees to ask questions anonymously regarding bookkeeping or audits.
17. Report significant matters pertaining to the event or allegation of fraud (including misconduct or ethical issues pertaining to the financial statement) or errors in asset records which are not disclosed in the report prepared by the management for the Audit Committee
18. Together with the Board of Commissioners, give approval on the Bank's policies to hire employees who previously worked in the external auditor team under certain conditions in accordance with the policies.
19. The Audit Committee must meet external auditors and the chairman of Internal Audit Work Unit at least once per year and ensure that all findings and issues have been resolved.
20. Conduct or being considered to represent the Chairman or the Board of Commissioners in conducting their duties from time to time.
21. The Audit Committee can appoint or utilize professional adviser's services if needed. The appointment is conducted through the Corporate Secretary as Audit Committee Secretary, which is responsible for the Bank's agreement contract and honorarium.
22. The Audit Committee must conduct an annual review of Audit Committee's Charter and its effectivity and recommend all necessary changes.
23. Report to the Board of Commissioners regarding provisions.
24. Submitting certificates every half year to the Group Audit Committee. The certificates contain statements on the Audit Committee's independency.
25. The Audit Committee considers all matters related to, and can request information that is deemed necessary from Risk Oversight Committee or other committees that are responsible to monitor risks in the Bank.

Risk Oversight Committee

Risk Oversight Committee consists of three (3) independent members:

Chairman : Independent Commissioner

Member : Independent Party with expertise in Banking.

: Independent Party with expertise in Risk Management

Risk Oversight Committee Responsibilities

Risk Oversight Committee has following responsibilities, authorities, and policies:

1. Monitor and provide suggestions to the Board of Commissioners regarding all matters that shows signs of risk
2. Provide suggestions to the Board of Commissioners

regarding risk appetite and risk tolerance in formulating strategies.

3. Provide suggestions to the Board of Commissioners and/or Remuneration and Nomination Committee regarding the alignment of remuneration with risk appetite.
4. Consider and provide suggestions to the Board of Commissioners regarding risks related to the proposals of acquisition strategy implementation or sale of assets as required by the Board of Directors from time to time, after consulting the Chairman of Risk Oversight Committee.
5. Request periodic reports on risk management from the management that:
 - Facilitate the Risk Oversight Committee in assessing risks indicated in the Bank's business and how the risks are controlled and supervised by the management; and
 - Provide clear, explicit and specific focus on the aspects of current risk exposure and risk exposure that may arise which require complex assessments on the Bank's vulnerability towards unidentified risks.
6. Review the efficiency of the Bank's risk management framework and the internal control system (in addition to internal financial control system).
7. If necessary, the Risk Oversight Committee can provide approval recommendation on the appointment and the dismissal of Chief Risk Officer.
8. Ensure, instill, and maintain the Bank's supportive culture in relation to the risk management and the maintenance of internal controls in addition to provisions and procedures that have been set.
9. Review management letters from the Internal Audit Work Unit and external auditors, the annual report prepared by external auditors, questions asked by external auditors to the management, the management's responses which are related to risks or the Bank's internal control and delivered by Internal Audit Work Unit to the Risk Oversight Committee.
10. Request punctual responses from the management regarding significant issues related to the risk management or internal control (in addition to the financial internal control) which is stated in the management letter from external auditors and considered by the Risk Oversight Committee.
11. If necessary, review and ratify the contents of Risk Committee Report in the annual report and financial statements that will be delivered to the Board of Commissioners.
12. Review and ratify the contents pertaining to the internal control (in addition to the financial internal control) contained in the annual report and financial statement which will be delivered to the Board of Commissioners.
13. Provide reasonable further assurance to the Board of Commissioners as requested regarding the reliability of risk information which will be delivered to the Board of Commissioners.
14. Hold a meeting, at least once per year, attended by this Committee with external auditors and the Chairman of Internal Audit Unit (IAU) to ensure all issues can be resolved.
15. If necessary, review the composition, authorities, duties, and responsibilities of Audit Committee and Risk Management Committee from the Bank's subsidiaries.
16. Represent the Chairman of the Risk Oversight Committee or the Board of Commissioners to consider and perform their duties or other related topics as required by the Risk Oversight Committee or the Board of Commissioners from time to time.
17. Can appoint, hire, or maintain professional advisors if it is deemed necessary by the Risk Oversight Committee.
18. The Risk Oversight Committee must conduct an annual review on Terms of Reference and its effectivity and recommend all required changes to the Board of Commissioners.
19. The Risk Oversight Committee reports to the Board of Commissioners regarding matters written in the Terms

of Reference.

20. The Risk Oversight Committee provides the Risk Oversight Committee Charter to the Group Risk Committee.

Remuneration and Nomination Committee

In accordance with regulations issued by Financial Services Authority and other banking authorities, the Bank's Board of Commissioners establishes Remuneration and Nomination Committee to support the Board of Commissioners in performing their duties and responsibilities. In performing their duties and responsibilities, the Remuneration and Nomination Committee is required to have internal policies, including guidelines and procedures, that must be known and complied with by each member of the Committee.

The Remuneration and Nomination Committee consists of:

Chairman : Independent Commissioner

Member : 1 (one) Non-Independent Commissioner

: 1 (one) Executive Officer responsible for Human Resources

Duties and Responsibilities of The Remuneration and Nomination Committee

The Remuneration and Nomination Committee has following responsibilities, authorities, and policies:

1. Consider various aspects related to the Bank's remuneration, including related entities (if any), and provide suggestions to the Board of Commissioners in relation to the Bank's remuneration policies and structures in accordance with the market's conditions and provisions.
2. Review performance-based remuneration by referring to the Bank's objectives which are set by the Board of Commissioners from time to time, by considering matters that, if any, are related to the approval of funding and the Bank's suggestions or proposals in implementing the Pay Review.
3. Give explanations needed by the Board of Commissioners regarding individual remuneration and provide suggestions as needed;
4. Discuss significant matters with the Board of Commissioners;
5. Make a decision on behalf of the President Commissioner or the Board of Commissioners in performing their roles and responsibilities that have been delegated by the President Commissioner or the Board of Commissioners from time to time as needed; and
6. Suggest the cost proposal related to the Director for approval by the Board of Commissioners and shareholders through GMS.

During 2017, the Audit Committee, Risk Oversight Committee, and Remuneration and Nomination Committee held 4 (four) committee meetings, with attendance at the meeting as follows:

No	Name	Number of Audit Committee Meeting for a year = 4		
		Number of Meetings in Accordance with the effective period	Attendance	% Attendance
1	Hanny Wurangian	4	4	100%
2	Yustrida Bernawati Remiasa	4	4	100%
3	Ubaidillah Nugraha	4	4	100%

No	Name	Number of Risk Oversight Committee Meeting for a year = 4		
		Number of Meetings in Accordance with the effective period	Attendance	% Attendance
1	Hariawan Pribadi	4	4	100%
2	Yustrida Bernawati Remiasa	4	4	100%
3	Ubaidillah Nugraha*)	4	2	100%

*) Effectively appointed as Member of Risk Oversight Committee as of July 27, 2017

No	Name	Number of Remuneration and Nomination Committee Meeting for a year = 4		
		Number of Meetings in Accordance with the effective period	Attendance	% Attendance
1	Hariawan Pribadi	4	4	100%
2	Jayant Rikhye*)	2	2	100%
3	Mark Thomas McKeown**)	2	2	100%
4	Ibnu Agung Mulyanto	4	4	100%

*) Term of office as member of Member of Remuneration and Nomination has ended dated September 18, 2017

**) Effectively appointed as Member of Remuneration and Nomination as of September 18, 2017

Board of Directors is an organ that is fully responsible for the Bank's operational activities in accordance with the Articles of Association. The Board of Directors has collective duties and responsibilities regarding the management of the Bank to increase the added value and ensure the Bank can maintain the sustainability of its business.

Duties and Responsibilities of the Board of Directors

The Board of Directors is responsible in performing its duties to achieve the Bank aims and objectives. The Board of Directors shall in good faith and with full responsibility carry out their duties, in compliance with the prevailing laws and regulations and the Articles of Association.

According to Board of Directors' Guideline and Charter, the main duties of the Board of Directors are as follows:

1. Lead, manage, and control the Bank in accordance with the Bank's objectives and strive consistently to improve the efficiency and effectiveness of the Bank.
2. Master, maintain, and manage the assets of the Bank.

3. Establish a plan to create an internal control and risk management system, to ensure the implementation of the Bank's internal audit function at all levels of management, and to follow up on the findings of the Internal Audit Unit in accordance with the annual work schedule including the annual budget of the Bank and shall be submitted to the Board of Commissioners for approval by the Board Commissioner before the commencement of the following fiscal year.

In order to implement the GCG in the Bank's operational activities, the Board of Directors is supported by the staff under him/her and the committees established by the Board of Directors. The Board of Director supervises the implementation of GCG conducted the staff by holding periodic meetings with Credit Committee, Assets and Liabilities Committee, Risk Management Committee, Information Technology, Operational, and Services Steering Committee, Integrated Risk Management Committee, Financial Crime Risk Management Committee, People Committee, and Head of Business.

The Composition of the Board of Directors

The composition of the Bank's Board of Directors as of December 31, 2017 is as follows:

Designation	Name
President Director	: Sumit Dutta
Director	: Hanna Tantani
Director	: Catherinawati Hadiman Sugianto
Director	: John Peter Watt Rosie
Director	: Blake Digney Philip Hellam
Director	: Tripudjo Putranto Soemarko
Compliance Director	: Yessika Effendi
Director	: Caecilia Pudji Widyarti
Director	: Stephen Whilton Angell*

*) The appointment of Stephen Whilton Angell was conducted in Extraordinary GMS on September 18, 2017. The tenure of the candidates is effective after approved by Financial Service Authority (OJK) on Fit and Proper Test result and complying with prevailing rules and regulations.

Board of Directors Meeting

As of December 31, 2017, the Board of Directors has held Board of Directors Meeting 15 times. Meeting Attendance Percentage is as follows:

No	Name	Number of Board of Directors Meeting for a year = 15		
		Number of Meetings in Accordance with the effective period	Attendance	% Attendance
1	Sumit Dutta ¹	15	6	40%
2	Hanna Tantani	15	14	93%
3	Catherinawati Hadiman Sugianto ²	15	5	33%
4	John Peter Watt Rosie ³	15	9	60%
5	Blake Digney Philip Hellam ⁴	15	9	60%
6	Tripudjo Putranto Soemarmo ⁵	15	8	53%
7	Yessika Effendi ⁶	15	7	47%
8	Caecilia Pudji Widyarti ⁷	15	12	80%
9	Antony Colin Turner ⁸	15	6	40%
10	Gimin Sumalim ⁹	15	4	27%
11	Lenggono Sulistiano Hadi ¹⁰	15	6	40%

1) Effectively appointed as President Director as of May 29, 2017

2) Effectively appointed as Director as of April 17, 2017

3) Effectively appointed as Director as of May 9, 2017

4) Effectively appointed as Director as of May 9, 2017

5) Effectively appointed as Director as of Juni 19, 2017

6) Effectively appointed as Compliance Director as of July 10, 2017

7) Effectively appointed as Director as of August 8, 2017

8) Term of office as member of President Director has ended since Sumit Dutta has effective to serve as President Director

9) Term of office as member of Director has ended dated June 30, 2017

10) Term of office as member of Compliance Director has ended dated July 10, 2017

COMMITTEES UNDER THE BOARD OF DIRECTORS

In conducting their duties, the Board of Directors is assisted by 6 (six) Executive Committees, which are The Credit Committee, The Assets and Liabilities Committee, The Risk Management Committee, The Information Technology, Operational, and Services Steering Committee, The Financial Crime Risk Management Committee, and The People Committee.

The Credit Committee

The Credit Committee is formed to approve the proposal of loan distribution, including all processes related to the

settlement process for non-performing loans.

The Credit Committee Authorities and Responsibilities

The Credit Committee is authorized to approve all matters related to the wholesale credit, including:

1. Approving unlimited amount of credit applications by referring to applicable provisions and governance.
2. Approving loan restructurings and reserves including the disposal of reserves, write-off, write back, etc.

The Members of Credit Committee

The Credit Committee consists of:

Chairman : President Director

Members : . Commercial Banking Director

- Finance Director
- Strategy and Business Implementation Director
- Chief Credit Approval Officer
- Head of Business Banking Approver
- Senior Wholesale Credit Approver
- Head of Business Segment (BB/Corporate/ISB/GB)

The Assets and Liabilities Committee (ALCO)

Assets and Liabilities Committee is a Committee under the Board of Directors that manages all of the Bank's assets and liabilities to maximize returns, improve profitability, manage capital and funds, and protect the Bank from severe financial consequences arising from liquidity risks, interest rate risks, capital and funds, regulations and the market's condition.

The Assets and Liabilities Committee Responsibilities

1. Manage the balance sheet to attain an efficient allocation and maximize the utilisation of resources, improve profits by increasing the net income, promote efficiency in capital utilisation and funding by increasing gains on risk assets in the context of growth policies and review all risks and ensure that the management implements prudence principles in inputting structural interest-rate risks, structural foreign exchange risks, liquidity risks and funding risks.
2. Give directives and conduct a tactical follow-up to create balance sheet structures to achieve performance target under the established risk parameters.
3. Monitor the external environment and measure the impact on future profitability, strategies, and balance sheet factors, such as the volatility of interest rate and exchange rate, market liquidity, monetary and fiscal policies, customers' attitudes and the action of the Bank's competitors, including the impacts of changes in accounting and provisions.

4. Understand different interactions between business lines and portfolio, and issues that may affect the Bank, such as transfer pricing, behaviour patterns, and resources allocation.
5. Provide a forum to discuss issues faced by the Assets and Liabilities Committee and facilitate teamwork between different businesses/departments to resolve issues, such as transfer pricing.
6. Review all resources and fund allocation.
7. Predict the future prospects of the banking industry and the banking environment to develop assets/liabilities plan and analyse contingency scenarios.
8. Evaluate the alternatives of interest rate, prices, and portfolio combination scenarios, review the distribution of assets/liabilities and the Bank's due date and rationalisation.

The Members of Assets and Liabilities Committee

Assets and Liabilities Committee consists of:

Chairman : President Director

Members : Finance Director

- Retail Banking & Wealth Management Director
- Compliance Director
- Operations and Information Technology Director
- Risk Management Director
- Head of Treasury and FI
- Head of Corporate Banking
- Head of Business Banking
- Head of Global Trade Receivable Financing (GTRF) and Product Control Management (PCM).

The Risk Management Committee

The Risk Management Committee is established to ensure that the framework of risk management has provided adequate protection against all risks faced by the Bank.

The Purpose and the Scope of The Risk Management Meeting

The Risk Management Committee serves as the monitoring board that oversees the Bank's risk management and

focuses on risk culture, risk appetite, risk profile, and the integration of risk management with the Bank's strategic objectives. The Risk Management Committee is expected to accomplish following objectives:

1. Conduct an enterprise-wide review on the principles of the risk management policies and its framework, including but not limited to The Risk Appetite Framework, Annual Risk Appetite Statements and the Stress Testing Framework before delivering it to the Board of Commissioners.
2. Analyse and give recommendations to the relevant Directors regarding risk management aspects which cover following matters:
 - Review risk management policies and the changes, including risk management strategies, risk rating and risk resilience, risk management framework, and counter measures to anticipate abnormal conditions.
 - Improve the process of risk management regularly and incidentally. This needs to be conducted due to internal and external changes from the Bank that affect capital adequacy, the Bank's risk profile, and the assessment of risk management that fails to be implemented effectively.
 - Determine policies and/or the deviation of business procedures, such as business expansions that exceed what is budgeted in the Bank's business plan, the risk exposure and risk positions that exceed the limit.
3. Develop the framework of risk appetite, risk map, top risks, and emerging risks.
4. Review the credit limit before asking for approval from the Board of Directors.
5. Review the risk exposure reports from the Risk Management Work Unit and the root of the problem.
6. Review the management's reports regarding risks and the internal control which will be presented to the Risk Oversight Committee as a part of the implementation of their responsibilities.
7. Understand credit risks, the dynamics of financial statements, interactions between portfolios, and give approval on these matters.
8. Review all risks (current risks and risks that may arise in the future) systematically, ensure that: i) there is a mechanism of initial risk identification ii) there is an

adequate control to conduct mitigation and iii) profits obtained by the Bank reflect the allocation of risks and capital needed to support this matter. The risks are as follows:

- Enterprise Risk Reports (Risk Appetite, Top & Emerging Risks, Risk Map)
 - Risk Ownership – First Line of Defence
 - Risk Stewardship – Second Line of Defence
 - Financial Management, Asset, Liability & Capital Management, Accounting & tax,
 - Legal, Regulatory Compliance, Financial Crime Compliance, System, Projects and Operations, Strategic Risk, People Risk, Reputational Risk – external, Wholesale Credit Risk, Market Risk, Operational Risk, Political Risk, Physical Risk, Internal Fraud, External Fraud, Contingency Risk, Information Risk, Conduct Risk
 - Internal Audit – Third Line of Defence
 - Risk Monitoring (Asset, Liability and Capital Management, Wholesale Credit Risk, Market Risk, Reputational Risk, Operational Risk, System, Projects and Operations)
9. Review the development of regulations which will be implemented and ensure appropriate measures are taken punctually to manage this development for maintenance purposes and benefit the bank.
 10. Review the results of the stress test and "Risk Appetite Statement" every quarter in accordance with the directives from shareholders and the Board of Commissioners.
 11. Risk Management Meeting can recommend or escalate:
 - Certain issues that will be discussed in the Board of Directors Meeting, or
 - Matters requiring the approval of the Board of Directors to be discussed in The Board of Directors Meeting.

The Members of The Risk Management Committee

Risk Management Committee consists of:

Chairman : President Director

Members:

- Risk Management Director
- Finance Director

- Operations and Information Technology Director
- Commercial Banking Director
- Strategy and Business Implementation Director
- Retail Banking & Wealth Management Director
- Human Resources Director
- Compliance Director

The Information Technology, Operational, and Services Steering Committee

Authorities and responsibilities of Information Technology, Operational, and Services Steering Committee are as follows:

1. Plan the strategy of Information Technology, Operational, and Services that is in accordance with the strategic plan of the Bank's business activities.
2. Outline policies and main procedures of Information Technology, such as Information Technology security policies and risk management regarding the use of Information Technology in the Bank;
3. Determine the priority of Information Technology, Operational, and Services projects deemed critical and supervise the implementation of these projects;
4. Monitor risks in the Information Technology, Operational, and Services sector and reduce the impacts;
5. Monitor the performance of Information Technology, Operational, and Services that function as a catalyst in improving technology, productivity, and operational services;
6. Monitor the actual costs of the activities and the projects of Information Technology, Operational, and Services against the cost plan and the target of the Bank's financial performance.
7. Information Technology, Operational, and Services Steering Committee is involved in approving Information Technology projects.

The Members of Information Technology, Operational, and Services Steering Committee

Information Technology, Operational, and Services Steering Committee consists of:

Chairman : Director responsible for Information Technology, Operational, and Services work unit

Members :

- President Director & CEO
- Commercial Banking Director
- Retail Banking & Wealth Management Director
- Finance Director
- Risk Management Director
- Compliance Director
- Human Resources Director
- Head of Global Market and HSS
- Head of Global Banking

The Financial Crime Risk Management Committee

Purpose and Scope

The Financial Crime Risk Management Committee is a formal governance committee established to maintain the effectivity of the financial crime risk management in the Bank and support the Bank's President Director in performing their responsibilities related to the financial crime risk.

The Financial Crime Risk Management Committee, which is mandated to address matters related to the financial crime risk management, aims to monitor financial crime risk management, escalate risk management issues related to the financial crime, and facilitate information exchange on financial crime.

The Financial Crime Risk Management Committee is authorized to address matters related to financial crime risk management as instructed by the Risk Management Committee. The Financial Crime Risk Management Committee's scope includes all of the Bank's business activities, products, and services and supervising the FCC risk management in the Bank's entities in Indonesia. The scope of Financial Crime Risk Management Committee also includes all activities outsourced to other parties outside the Bank or third parties.

The committee's outcome can be measures/ recommendations for Business Lines, Function, and/or

Financial Crime Risk divisions in the Bank or the Bank's entities in Indonesia, escalation recommendations for the Bank's Risk Management Committee, and escalations as a note/notification for the Regional Head of FCC for Asia Pacific. The committee received suggestions from Business lines, Function, and/or FCR division in the Bank or the Bank's entities in Indonesia. The committee is required to review their reference framework once a year and recommends necessary changes.

The Members of Financial Crime Risk Management Committee

Financial Crime Risk Management Committee consists of:

Chairman : President Director

Members :

- Head of Financial Crime Compliance
- Operations and Information Technology Director
- Risk Management Director
- Compliance Director
- Retail Banking & Wealth Management Director
- Commercial Banking Director
- Head of Global Banking
- Head of Global Markets
- Head of Internal Audit
- Head of GSER
- GS Execution Lead

Duties and Responsibilities of the Financial Crime Risk Management Committee

The duties and responsibilities of the Financial Crime Risk Management Committee include, but are not limited to:

1. Review, follow up, and give approval regarding matters related to the financial crime risk in the Bank, including matters that fall under the Top Risks and Emerging Risks category, issues related to the reputation risk, and matters in related business lines which need to be identified and escalated, including matters from PT HSBC Sekuritas Indonesia and Foreign Bank Branch the Hong Kong and Shanghai Banking Corporation Limited Indonesia if necessary.
2. Monitor and analyse matters related to AML external regulators, Sanctions, and AB&C.
3. Review and discuss main changes in the policy of

Financial Crime Risk and its impacts.

4. Review, discuss, and follow up transformations delivered by In-Country Execution Committee ("ICEC") and remediation agenda.
5. Review, discuss, and follow up issues related to the Data Governance.
6. Review, discuss, and address issues related to Affiliates Risk Management and Client Selection and Exit Management (CSEM) if necessary.
7. Affiliates Risk Management and Client Selection and Exit Management (CSEM management and customers selection and exit customers) if necessary
8. Encourage, supervise, and assess the compliance culture on financial crime risk included in the Compliance Culture Plan to create positive changes in the culture in accordance with the Bank's communication strategy.
9. Protect the customers' interests by considering the impacts of every decision made in the meeting that may affect them. Every party involved must take the customers' interests and needs into consideration to make fair decisions and maintain the integrity of the market.
10. Exchange information related to Financial Crime Risk.
11. Review and discuss relevant solutions for financial crime risk management.

The People Committee

Duties and Responsibilities of Committee

1. Review and supervise the implementation of Global People Strategy in Indonesia.
2. Review and supervise the implementation of Global Business Strategy/Global People Strategy for local adoption in Indonesia.
3. Review and monitor significant people risk metric, including Personal Conduct Case (PCC), the implementation of managing initiative actions, Global People Survey and recommended change management programs.
4. Review the implementation of HSBC Group Talent Management Strategy in Indonesia for local adaptation, including the approach and members of Local Talents.
5. Developing Succession Planning annually for the Bank's cross business lines and provide recommendation to

- Board of Directors (for critical executive positions) and Board of Commissioners (for Directors level position).
6. Review and monitor the progress of the President Director's scorecards achievements.
 7. Review the annual update of Performance and Rewards strategy. This encompasses the metric around Performance Management, the process of Potentials Assessment, Rewards and Recognition Process as well as other recognition strategy and policy.
 8. Review organizational structure changes and decision regarding relevant organizational design based on business needs.
 9. Minute the meetings of Diversity Committee and review its activities.

People Committee Member

People Committee consists of:

Chairman : President Director

Vice Chairman : Human Resources Director

- Members :
- Retail Banking & Wealth Management Director
 - Commercial Banking Director
 - Operations and Information Technology Director
 - Risk Management Director
 - Strategy and Business Implementation Director
 - Finance Director
 - Head of Global Banking
 - Head of Global Markets & HSBC Securities Services
 - Head of Internal Audit
 - SVP HR Talent and Development
 - GS Execution Lead

The Implementation of Financial Conglomerates

In order to improve the infrastructures of HSBC Financial Conglomerates in Indonesia, the Bank is assigned by controlling shareholders as the Main Entity along with two Financial Services Institutions (LJK), which are PT HSBC Sekuritas Indonesia and Foreign Bank Branch of the Hong Kong and Shanghai Banking Corporation Limited

as sister companies that become the member of Financial Conglomerates. In order to comply Regulation of the Financial Services Authority (POJK) No.17/POJK.03/2014 on Implementation of Integrated Risk Management for Financial Conglomerates and Regulation of the Financial Services Authority No.18/POJK.03/2014 on Implementation of Integrated Governance for Financial Conglomerates, the Bank, as the Main Entity, always perform its duties and responsibilities well in accordance with the Regulation of the Financial Services Authority. As the Main Entity, the Bank has established the Integrated Governance Committee and the Integrated Risk Management Committee.

The Integrated Governance Committee

The Integrated Governance Committee is established based on the Resolution of the Board of Commissioners Meeting which assigns the Bank as the Main Entity. Integrated Governance Committee and acts independently in performing their duties and reporting. The Integrated Governance Committee is responsible to the Board of Commissioners of the Main Entity.

Duties and Responsibilities of The Integrated Governance Committee

1. The Integrated Governance Committee, at a minimum, has following duties and responsibilities:
 - b. Evaluate the implementation of Integrated Governance at least by assessing the adequacy of internal control and the implementation of integrated compliance function and Integrated Governance Guideline. In performing the evaluation, Integrated Governance Committee obtains the information in the form of evaluation results of internal audit implementation and compliance function of each Financial Services Institution from Commissioner Board members for each Financial Services Institution that becomes the member of Integrated Governance Committee.
 - c. Give recommendations to The Board of Commissioners of the Main Entity regarding the evaluation results of Integrated Governance implementation and the improvement of Integrated Governance Guideline.

2. The Integrated Governance Committee works collectively in performing their duty, which is supporting Board of Commissioners of the Main Entity.

The Members of Integrated Governance Committee

Integrated Governance Committee consists of:

Chairman: The Bank's Independent Commissioner (also serves as the Chairman of the Bank's Risk Oversight Committee)

Members:

- 1 (one) Independent Non-Executive Commissioner– PT HSBC Sekuritas Indonesia
- 1 (one) External Independent Party (member of Risk Oversight Committee -The Bank)

The Integrated Risk Management Committee

The Integrated Risk Management Committee has authorities and responsibilities to provide recommendations to the Main Entity Director to:

1. Formulate the policies of Integrated Risk Management; and
2. Improve Integrated Risk Management policies based on the evaluation results.

Principal Tasks of the Integrated Risk Management Committee Member:

1. Provide suggestions to the Integrated Risk Management Committee in a form of topics and meeting materials which will be discussed in the meeting of Integrated Risk Management Committee.
2. Provide suggestions in a form of information and analysis regarding the topics that will be discussed in the meeting of the Integrated Risk Management Committee.

Topics which can be discussed in the meeting of Integrated Risk Management Committee are as follows:

1. Directives and targets of the Company in formulating the policies, strategies, and guidelines for integrated risk management implementation and the changes if necessary.

2. Assessment of the effectivity of integrated risk management framework implementation.
3. Development and tendency of integrated risk exposure and the levels of risk appetite and risk tolerance.
4. Results of the study of total integrated risk exposure and its impacts.
5. Assessment of the Bank's capital adequacy in facing the risk of loss incurred by utilizing various stress testing scenarios. Suggestions for the development of risk measurement methods, contingency plans with the worst-case scenario, and other methods related to the integrated risk management.
6. Matters related to irregularities in business decisions which need justification.
7. Limits of authority, exposure, credit portfolio concentration or other parameters aimed to limit risks.
8. Improvement of integrated risk management implementation which is conducted periodically or incidentally due to changes in internal and external conditions that affect the capital adequacy and risk profile, and result in the ineffectiveness of the implementation of integrated risk management based on evaluation results.

The Members of Risk Management Committee

Risk Management Committee consists of:

Chairman : Director of the Main Entity responsible for Risk Management

Members :

- Finance Director
- Compliance Director
- Director / representative assigned by PT HSBC Sekuritas Indonesia
- Director / representative assigned by Foreign Bank Branch the Hong Kong and Shanghai Banking Corporation Limited Indonesia
- Executive Officer

Integrated Corporate Governance Implementation

The Implementation of Integrated Corporate Governance

in the Bank Financial Conglomerate has been conducted through the comprehensive formulation and execution of Integrated Corporate Governance. In implementing Integrated Corporate Governance, the Main Entity cooperates with each Financial Services Institutions to ensure that the implementation of management function is performed well by the Main Entity Director and Financial Services Institutions and in accordance with Integrated Governance Guidelines. This is also conducted to ensure

that the Main Entity Board of Commissioners and Financial Services Institutions can perform their monitoring function effectively.

Based on self-assessments conducted in 2017, the implementation of Integrated Corporate Governance by the Bank Financial Conglomerate ranked second or attained the "Good" category.

CORPORATE SECRETARY

Corporate Secretary Profile

The Bank's Corporate Secretary position is held by Uliya Ariani, Indonesian citizen. She has served as the Bank's Corporate Secretary since August 2017. She obtained her Bachelor's Degree in Law from University of Indonesia. She started her career as Legal Counsel in 2000. She started pursuing career in the Banking Industry at PT Bank OCBC NISP Tbk, in 2003 and has held various position among others as Corporate Legal Head, as Corporate Secretary in 2008 to 2013 and as Executive Assistant to Board of Commissioners in late 2013 to 2015. She also held position as Corporate Secretary and Corporate Legal Division Head in PT Bank QNB Indonesia Tbk in early 2013 and also held position as Corporate Secretary and Corporate Legal Division Head at PT Bank Mayora in January 2016 until July 2017.

The Corporate Secretary has responsibilities to disclose all accurate information regarding the Bank to stakeholders in time. The announcement regarding the Bank's condition and performance are conducted in accordance with applicable provisions the Bank's Articles of Association.

The Corporate Secretary's functions and responsibilities are assisting the Board of Commissioners and the Board of Directors in implementing Good Corporate Governance, which covers:

1. Provide advice to the Bank's Board of Commissioners

and Board of Directors through the President Director and/or President Commissioner regarding Good Corporate Governance.

2. Support the Board of Commissioners. The Committees under the Board of Commissioners, and the Board of Directors regarding Good Corporate Governance and capital market provisions if necessary.
3. Understand and address the changes in Indonesia laws related to Good Corporate Governance and duties of corporate secretary.

The Company's Responsibilities related to the Corporate Secretary

1. Deliver brief information regarding the implementation of Board of Directors Meeting, Board of Commissioners Meeting, The Committee of the Board of Commissioners Meeting, General Meeting of Shareholders, The Bank Share Ownership Data, the Board of Commissioners and the Board of Directors biography, the data of the Committee under the Board of Commissioners members in the Bank's annual report.
2. Disclose brief description regarding the implementation of corporate secretary function and information on education and training attended by the Corporate Secretary in the Bank's annual report.

COMPLIANCE FUNCTION

To ensure the implementation of Compliance Function in the Bank, the Compliance Director, with assistance from Compliance Work Unit, conducts following steps:

1. Ensure Compliance Culture has been implemented at all level of the organization and the Bank's business activities by conducting following steps in 2017:
 - In relation to the compliance culture, the Conduct Compliance Unit is a part of Compliance Work Unit. The Conduct Compliance Unit aims to supervise the implementation of business ethics in the Bank to prevent misconduct. The Conduct Compliance Unit periodically holds socialization through the Discovery Event program for new employees or those with "high-risk" positions. The program discusses the conduct compliance role that is in accordance with the regulator's provisions or the Bank's internal regulations adopted by the HSBC Group.
 - In order to conduct their duties in nurturing the compliance culture on all organisation functions and the Bank's business activities, the Compliance Work Unit holds various training and socialisation for all employees. Compliance Work Unit cooperates with the Human Resources work unit to hold these trainings.
 - Deliver information and material on the internal provisions and regulatory provisions
 - Deliver information or New Provisions Update to the Bank's Management
 - Conducts the compliance review or monitoring carried out by the Compliance Work Unit
 - Supervise the implementation of the Prudential Banking Principle
 - Supervise of 2017 Business Plan Realisation Achievement.
2. Manage Compliance Risk - Compliance Risk refers to the risks of not complying with the applicable provisions and laws. The Bank has the zero-tolerance policy on the violation or the failure to comply with applicable provisions. In order to support the implementation of the compliance culture in the Bank, the Compliance Work Unit delivers socialisation regarding all Financial Services Authority provisions and laws and Bank's activities that have been informed, circulated, and socialised to related personnel.

3. Ensure that all of the policies, provisions, systems, and procedures of business activities conducted by the Bank are in accordance with the provisions of Financial Services Authority, Bank Indonesia, and applicable laws. Maintain the Bank's compliance with the commitment between the Bank, Financial Services Authority, Bank Indonesia, and other supervisory authorities. Supervise the follow-up of findings discovered by the Internal Audit Work Unit, Audit Group, External Auditor, Bank Indonesia and other authorities. Compliance Work Unit monitors the follow-up of the settlement of these findings.

In order to supervise and maintain the compliance of the Bank's business activities with applicable provisions, the Bank has conducted following steps:

- Consistently assess the implementation of the principles of prudence in providing loans to Large Debtors and related parties by utilizing Compliance Checklist in order to prevent violations of the regulations of LLL, APU PPT, and other provisions.
- The Compliance Director always attends the Audit Committee meetings, Risk Monitoring Committee meetings, Assets and Liabilities Committee meetings, Risk Management Committee meetings, and Information Technology, Operational, and Services Steering Committee meetings. The Compliance Director supervises findings from Financial Services Authority and The Financial Transaction Reports and Analysis Centre (PPATK) inspection and ensures the follow-up of the Bank's commitment over these findings.

As a part of the management of compliance risks, the Bank has implemented the Anti-Money Laundering and Terrorism Financing Practices (APU PPT) program well and in accordance with Bank Indonesia Regulation/Bank Indonesia Circular Letter that covers 4 pillars of APU PPT risk management: Active Monitoring to the Management, Policies and Procedures, Audit Function and Internal Control, Management Information System, and Training/ Human Resources. Through the Decree of Board of Directors No.082/SK/DIR/IX/2017 dated September 21, 2017 on The Changes of Anti Money Laundering Implementation Policy. This Decree of Board of Directors is issued to facilitate the

changes in local regulations which are covered in FSA Regulation No.12 /POJK.01/2017 on the Implementation of Anti-Money Laundering and Combating Terrorism Financing Programs in Financial Services Sector.

In order to implement the APU PPT program, in addition to adopting applicable regulations based on Bank Indonesia Regulations and/or other regulations, the Bank also adopts regulations based on the HSBC Group's Global Standards as long it does not contradict with local regulations.

Compliance with this Policy and other related guidelines is required to ensure the Bank comply with laws and regulations on Anti-Money Laundering, maintains the effectivity and safeguarding of the APU PPT Program and manages APU PPT risks well. All of the Bank's employees are expected to comply with the Policy, laws, applicable APU PPT regulations and provisions in Indonesia. Therefore, training and human resources programs, especially those related to the APU PPT, are held continuously for new employees or those with high exposure to the implementation of APU PPT in their duties and responsibilities.

In the Bank's organisational structures, the Compliance Work Unit comprises Regulatory Compliance (RC), Financial Crime Compliance (FCC), and Business Management. RC and FCC are special work units which are responsible to implement APU PPT programs and improve the implementation process, while Business Management supports FCC and RC work units in conducting Compliance Function, budgeting,

and providing information management and translators. The Compliance Work Unit is under the Director who is responsible for Compliance and reports directly to the President Director.

In relation to the supervision of integrated governance, since the Bank is assigned as the main entity by the financial conglomerate HSBC Indonesia, the Bank's Compliance Work Unit established the Integrated Compliance Work Unit to ensure the compliance function can be implemented well by the Bank and other members of the conglomerate, which are HSBC Foreign Bank Branch, that is in the middle of closure process, and PT HSBC Sekuritas Indonesia. Based on the previous review regarding the implementation of integrated governance, the Bank is committed to conducting a follow-up to the Financial Services Authority regarding the improvement of integrated governance guideline and its implementation.

LEGAL ISSUES

From January 1 to December 31, 2017, there are 3 (three) cases that involve the Bank, in which 2 (two) cases are currently in process at the District Court level and at the High Court level, while 1 (one) case had a permanent legal force after Supreme Court of the Republic of Indonesia ruled a decision.

SHARE OPTIONS

The Bank didn't have share options program throughout 2017. In 2017, the Bank did not have plans to introduce share option schemes based on the Bank's shares to the Board of Commissioners, the Board of Directors, and Executive Officer.

SHARE OWNERSHIP OF THE BOARD OF COMMISSIONERS AND THE BOARD OF DIRECTORS

No members of the Board of Commissioners and the Board of Directors, as an individual or a collective, owns shares of the Bank of 5% (five percent) or more from the capital deposited by the Bank.

AFFILIATE RELATIONSHIPS

Information related to the Affiliated Relationships between the Board of Directors, the Board of Commissioners, and Shareholders of the Bank are as follows:

Name	Affiliate Relationships					
	the Board of Commissioners		the Board of Directors		Share Holders	
	Yes	No	Yes	No	Yes	No
Hanny Wurangian	-	√	-	√	-	√
Hariawan Pribadi	-	√	-	√	-	√
Mark Thomas Mckeown	-	√	-	√	√	-
Sumit Dutta	-	√	-	√	-	√
John Peter Watt Rosie	-	√	-	√	-	√
Blake Digney Philip Hellam	-	√	-	√	-	√
Hanna Tantani	-	√	-	√	-	√
Catherinawati Hadiman Sugianto	-	√	-	√	-	√
Caecilia Pudji Widyarti	-	√	-	√	-	√
Tripudjo Putranto Soemarko	-	√	-	√	-	√
Yessika Effendi	-	√	-	√	-	√

SELF-ASSESSMENT

The Bank's management conducts self-assessment periodically on the compliance of Good Corporate Governance principles. The results will be submitted to Financial Services Authority. Recent assessment shows that the Bank ranks second, meaning that the Bank's soundness level is **good**.

INTERNAL AUDIT WORK UNIT

The Bank SKAI is an integral part of the Bank's governance and control framework. The main task of SKAI is to assist the Board of Commissioners and Executive Management in securing the organization's assets, reputation, and sustainability. The SKAI provides independent and objective test of the adequacy of the design and implementation of risk management, risk control, and governance processes, as designed and represented by management. In the context of the risk management framework, SKAI Bank acts as the Third Line of Defence and acts as a function independent of the First Line of Defence and Second Lines of Defence. As part of the implementation of Good Corporate Governance, SKAI Heads and senior officials attend strategic meetings, such as Board of Directors Meetings, and Risk Management Committee (RMC) meetings to obtain up-to-date information on issues arising and strategic development of the Bank.

The Bank SKAI submits the objective and independent audit results regarding to business activities and supporting functions to the management. If requested, SKAI may advise senior management on bank operations. The SKAI shall undertake an assessment by applying a risk-based approach, on the adequacy and operational effectiveness of the risk management framework, internal control, and governance, as designed and implemented by management. As part of this assessment, the Bank SKAI should consider whether the results achieved through the implementation of these policies and processes are in compliance with the objectives, risk tolerance and organizational values.

EXTERNAL AUDIT

The Bank establishes transparent cooperation with a Public Accounting Firm and requests professional advice from them to ensure that the Bank has met the accounting standard. The General Meeting of Shareholders has assigned Tanudiredja, Wibisana, Rintis & Rekan as the Bank's independent Public Accounting Firm that audits the Bank's Annual Report for 2017.

THE IMPLEMENTATION OF RISK MANAGEMENT

Risk Management gains a special attention in meeting the requirements of Risk Management as stated in the Regulations of the Financial Services Authority No.18/POJK.03/2016 on the Risk Management Implementation for Public Bank and taking into account the recommendations of the Basel Committee on Banking Supervision.

Therefore, the Bank has implemented Risk Management policies aimed to ensure that the risks arising from business activities can be identified, measured, managed, and reported, and as a result, the Bank is expected to conduct its business activities with a better performance. The implementation of risk management could provide a more accurate overview of the Bank's performance in the future, including the possibility of potential losses, and improve the method and the process of decision-making and risk assessment due to the availability of current information, which could improve the Bank's competitiveness and performance. The Bank continues to develop and improve the system of Risk Management by upgrading the Information Management System (IMS) in order to anticipate risks earlier and implement necessary steps to minimize the impacts of the risk. Therefore, the process of risk management in identifying, measuring, supervising, and controlling risk can be conducted consistently. Expanding the framework of risk management is conducted by establishing the Risk Management Work Unit.

Currently the Risk Management Work Unit has ensured that the process of Risk Management implementation is working

without any difficulty and has provided the overview of risk profile to the management.

Responsibilities of the Risk Management Work Unit are as follows:

- Oversee the implementation of Risk Management strategies that have been approved by the Board of Directors;
- Oversee the overall Risk position (composite), per type of risk, and per type of functional activities of the Bank and conducts stress testing;
- Review the process of Risk Management periodically;
- Review activity suggestions and/or new products;
- Provide recommendations to the risk-taking unit and/or Risk Management Committee in accordance with their authorities; and
- Formulate and submit periodically the reports of risk profile to the President Director or a director who is assigned specifically as well as to the Risk Management Committee.

As a part of the Board of Commissioners and the Board of Directors' supervision towards the implementation of the Bank's Risk Management, the Risk Management Committee is established and has the authority and responsibility to provide recommendations to the President Director regarding the formulation of the Risk Management policy and implementation, and improve the Risk Management implementation.

RISK PROFILE

In general, the result of the rating assessment of the Bank's risk as of December 31, 2017 was Rating 2. All risk ratings are Low to Moderate or Low, except operational risks that attained a Moderate rating.

RISK MANAGEMENT CERTIFICATION

The Bank's officials and employees have attended Risk Management Certification periodically. As of December 2017, the total number of officials and employees who have attended Management Risk Certification examination is 331 participants.

RISK MANAGEMENT PROCESS

The implementation of risk management at the Bank is conducted with provision of Financial Services Authority.

The Risk Management Unit has identified eight key risks faced by all divisions: liquidity risk, reputation, law, strategic, compliance, market, operations and credit.

GREAT FUND SUPPLIES

Table of Fund Provision to Related Party and Large Exposure as of December 2017

No.	Fund Provision	Amount	
		Debtor	(IDR millions)
1	To Affiliated *)	56	7.873.027
2	To Core Debtors		
	a. Individual	11	7.244.715
	b. Group	14	12.919.177

*) Including fund provision to prime bank related parties

REMUNERATION POLICY

Remuneration policies and facilities provided for the Board of Directors and Board of Commissioners are as follows:

- Club Membership
- Service Gratuity

Remuneration in kind and not-in kind, including salary, allowance and facilities covering:

- Basic Salary
- Fix Allowances
- Vehicle Facility
- Medical Facility

Based on the Company's Articles of Association, remuneration policies for the Board of Directors and Board of Commissioners are determined in the General Meeting of Shareholders as follow:

Type of Remuneration and Other Facility	Amount Received in 1 Year			
	Board of Commissioners		Board of Directors	
	Person	Million IDR	Person	Million IDR
Remuneration (salary, bonus, regular allowances, bonuses and other perks in the form of non natura)	3	3,222	8	42,899
Other Facility in natura	3	195	8	4,787

The number of Board of Commissioners and Board of Directors who receive remuneration packages in one year and classified based on their salary levels are as follows:

Remuneration for on a year	Commissioners	Directors
Above IDR 2 billions	-	8
Above IDR 1 billion until IDR 2 billions	2	-
Above IDR 500 millions until IDR 1 billion	-	-
Below IDR 500 millions	1	-

RATIO OF THE HIGHEST TO THE LOWEST SALARY

- The ratio of the highest employee salary to the lowest employee salary is 92,45 : 1
- The ratio of the highest Director salary to the lowest Director salary is 3,34 : 1
- The ratio of the highest Commissioner salary to the lowest Commissioner salary is 1,05 : 1
- The ratio of the highest Director salary to the highest employee salary is 1,40 : 1





6

Corporate Social Responsibility

SUSTAINABILITY

For the Bank, sustainability means building a long-term business by balancing social, environmental and economic considerations in decisions taken. This is what enables the Bank to grow sustainability in a commercially viable manner.

The Bank continues to contribute to Indonesia's sustainable development through various community programmes in education, wildlife and environment conservation as well as in social welfare.

In doing so, these community programmes are conducted with local partners who are competent and have direct access to the surrounding community and area in need. The Bank hopes that these programmes can improve the welfare of the community and encourage economic development throughout Indonesia in a sustainable manner.

The Bank constantly monitors the results and impacts of each community programme's implementation. This is done to ensure that beneficiaries feel a positive impact in

the long run. The Bank continues to develop and maintain good relationships with various parties such as partners, supervisors, government, communities and the media by providing mutual opportunities to engage in the implementation of such community programmes.

Programmes that have been implemented in 2017 are as follows:

Education

In 2017, the Bank has implemented educational community programmes addressed to different levels of society covering financial and business literacy as well as global skills education.

This financial literacy education is in line with the direction of the Financial Services Authority listed in the Indonesian National Financial Literacy Blueprint, aimed at improving the public's understanding of financial products and services. Through business focused student education,



students are introduced to the real business world via the HSBC Business Case Competition which aims to improve students' analytical capacity and business intuition.

This financial and business literacy education programme targets students from elementary through high school, college students, teachers and lecturers, housewives with household-scale businesses, and also the general public. The programme covers various cities in Java, Sumatra, Borneo (Kalimantan), Sulawesi, Maluku and Bali.

As for the global skills education programme. In 2017, the Bank has conducted activities in Jakarta and Bandung covering 12 high schools of SMA/SMK and attended by principals, teachers, and students. This global skills education aims to equip and prepare young people to face the ASEAN Economic Community. Global skills education includes training for Core-Skill materials, Interpersonal Communication, Collaborative Relationship, Project Management, Final Project Scoring, and English.

Environment

The Bank seeks to actively participate in conservation of nature and environment. In 2017, Banks held a series of sustainable environmental conservation programmes throughout Indonesia from Sumatra to Papua.

These sustainable programmes include fisheries cultivation programme in Maluku, Java, Sulawesi, Papua, Sumatra, Kalimantan, and the Banda Sea and Sunda Strait; a research programme for the protection of shark whales in the Bay of Cendrawasih; clean water programme in Rimbang Baling, Riau; waste management and sanitation programmes in Cendrawasih Bay and Labuan Bajo; a sustainable palm oil farming programme in West Kalimantan; an environmentally friendly marine tourism programme in Cendrawasih Bay, Kei, Koon, Wakatobi, Labuan Bajo and Bali; as well as environmental education programmes targeting communities, teachers, and elementary students in Cendrawasih Bay. These programmes also include natural resource protection, environmental conservation management, behaviour change, and small business development.



These sustainable programmes aim to contribute significantly to the preservation of the environment as a vital resource for sustainable business and various economic sectors. Other objectives are to minimise the impact of environmental pollution, as this may disrupt the rate of economic growth and long-term prosperity due to the declining quality of various goods.

Social Welfare

The Bank is committed in supporting inclusive growth that is capable of realising the potential of society in economic and social development. This community empowerment programme aims to form community groups to become more independent and more dignified with a better quality of life. The programme will focus on providing new skills and access to information in order to create new opportunities to participate in the life of the wider community.

The Bank is seeking to increase employee participation which is the backbone of a successful implementation of sustainability programme.

In 2017, Smart Posyandu or Smart Post programme has been implemented as a posyandu reinforcement programme by improving growth monitoring and improving nutrition counselling in the community using smart phone technology based on the Posyandu application. This Smart Post programme covers Jakarta, Surabaya, and Pontianak.

Plan, Focus, and Programme in 2018

In 2018, the Bank re-affirmed its commitment to the implementation of sustainability programmes in Indonesia. The implementation of sustainability strategy is expected to encourage sustainable economic growth. Top priority for sustainability programme implementation in 2018 includes:

Overall objective:

Supporting sustainable growth in a global economy

3 specific priorities:

1. Provide young people with the skills to succeed in a global economy
 - Financial literacy: Educate young people about



- the world of business and managing money.
- Employability: Help future generations develop skills and capabilities to succeed in a global economy
2. Foster new businesses development and sustainable international growth
- Entrepreneurships: Support young businesses with training and financial support
 - Sustainable supply chains: Help customers establish international trade and business activities and improve the quality of their supply chains
3. Support the transition to a low carbon economy
- Sustainable Finance: Invest in sustainable economic growth and help our clients manage the transition risk
 - HSBC carbon footprint: Reduce HSBC's direct impact on the environment
- Each priority will be supported by a mix of commercial activity, partnerships, community investments, and employee engagement.
- As a result of this, we want to be recognised as a leading institution for conducting and promoting sustainable business.





7

Corporate Data

CORPORATE DATA

List of Senior Executive

Ali Setiawan
Head of Global Markets & HSS

He has served as Head of Global Markets & HSS PT Bank HSBC Indonesia since April 17, 2017. He obtained Master of Commerce, in Economic & Finance from Curtin University of Technology, Perth, Australia.

Haryanto Suganda
Head of Global Banking

He has served as Head of Global Banking & Banking Management PT Bank HSBC Indonesia since April 17, 2017. He obtained Master of Business Management & Admin Studies from University of Portland, USA.

Daisy Kusniah Primayanti
Head of Communications

She has served as Head of Communications PT Bank HSBC Indonesia since April 17, 2017. She obtained Bachelor's Degree in Communication from University of Indonesia.

Dio Alexander Samsoeri
Head of Internal Audit

He has served as Head of Internal Audit PT Bank HSBC Indonesia since July 24, 2017. He obtained Bachelor's Degree in Accounting from University of Indonesia.

Budijanto Soedarpo
Head of RBWM Risk

He has served as Head of RBWM Risk PT Bank HSBC Indonesia since October 2, 2017. He obtained Master of Business Administration from Queensland University of Technology, Australia.

Uliya Ariani
SVP Head of Corporate Secretary

She has served as SVP Head of Corporate Secretary PT Bank HSBC Indonesia since August 7, 2017. She obtained Bachelor's Degree in Law from University of Indonesia.

Lestari A Umardin
Chief Credit Approval Officer

She has served as Chief Credit Approval Officer PT Bank HSBC Indonesia since April 17, 2017. She obtained Master of Finance from Atma Jaya University.

Innosensius Heru Bowo Mardi Putranto
SVP Risk Policy Strategy Head Risk Identification

He has served as Risk Policy Strategy Head Risk Identification PT Bank HSBC Indonesia since April 17, 2017. He obtained Bachelor's Degree in Finance from De La Salle University (DLSU), Manila.

Asri Triwahyuni Sutyoko
SVP and Head of Corporate Sustainability

She has served as SVP Corporate Sustainability PT Bank HSBC Indonesia since April 17, 2017. She obtained Bachelor's Degree in English Language and Culture from the University of Indonesia.

Grace Rosalie Papilaya
General Legal Counsel

She has served as General Legal Counsel PT Bank HSBC Indonesia since July 3, 2017. She obtained Bachelor's Degree in Law from University of Indonesia.

Contact Centre**64722****(dari telepon genggam di Indonesia)**
(form Indonesia)**(+6221) 5291 4722****(dari luar negeri)**
(from Abroad)**Atau 1500 700 (Premier), 1500 808 (Signature, Platinum, Cashback)****Office Address & Branch****Bali****Denpasar**

Ruko Sudirman Panjer, Jl. Jendral Sudirman, Kel. Panjer, Kec. Denpasar Selatan, Denpasar

Banten**Alam Sutera**

Ruko Jalur Sutera, Jl. Jalur Sutera 29D No. 47, Tangerang, 15326

Banten**Bintaro**

Kebayoran Arcade Blok KA/B1 No. 23, Kel. Pondok Jaya, Kec. Pondok Aren, Kota Tangerang Selatan

Bumi Serpong Damai

Jl. Pahlawan Seribu No. 8 A - B, Tangerang, 15321

Gading Serpong

Cluster Rodeo Drive Boulevard Blok A No. 1, Jl. Gading Serpong Boulevard, Tangerang, 15138

Tangerang

Jl. Merdeka Blok A-12 No. 92, Tangerang, 15114

DIY Yogyakarta**Yogyakarta**

Jl. Pangeran Mangkubumi No. 63, Yogyakarta, 55232

DKI Jakarta**Hayam Wuruk**

Jl. Hayam Wuruk 106D, RT.003 RW.008 Kel. Maphar, Kec. Taman Sari, Jakarta Barat 11160

Glodok

Komplek Ruko Glodok Jaya, Jl. Hayam Wuruk No. 21, Jakarta, 11180

Green Garden

Komplek Perumahan Green Garden Blok Z. 4 No. 11 - 12, Jakarta, 11520

Jembatan Lima**Office Address & Branch**

Jl. K.H. Mansyur No. 120 G-H, Jakarta, 11250

Kebon Jeruk

Wisma AKR, Lantai Dasar, Jl. Panjang No. 5, Jakarta, 11520

Kopi

Jl. Kopi No. 2K, Jakarta, 11230

Pasar Pagi

Jl. Pasar Pagi Lama No. 86, Jakarta, 11230

Puri Kencana

Ruko Puri Kencana Niaga, Jl. Puri Kencana Blok J1 No. 20 - P, Jakarta, 11610

Tanjung Duren

Jl. Tanjung Duren Raya Blok A 11 No. 6A - B, Jakarta, 11470

Tomang

Graha Antero, Jl. Tomang Raya No. 27, Jakarta, 11440

Harco Mangga Dua

Jl. Mangga Dua Raya Blok E No. 28, Jakarta, 14430

Pangeran Jayakarta

Jl. Pangeran Jayakarta No. 126 - 129 Blok A/6 - 7, Jakarta, 10730

Roxy Mas

Pertokoan ITC Roxy Mas Blok D2 No. 3, Jl. Kyai Haji Hasyim Ashari, Jakarta, 10150

Sawah Besar

Jl. Sukarjo Wiryopranoto No. 2/5, Jakarta, 11160

Tanah Abang

Jl. Fachrudin 36 Blok D No. 7, Jakarta, 10250

Permata Hijau

Komplek Grand ITC Permata Hijau Blok Emerald Persil No. 34, Jl. Arteri Permata Hijau, Jakarta, 12210

Hang Lekir

Jl. Hang Lekir Raya No. 14B, Jakarta, 12120

Kemang

Jl. Kemang Raya No. 7, Jakarta, 12730

Kuningan

Plaza Kuningan Menara Utara, Lantai Dasar Suite 102, Jl. Rasuna Said Kav. C 11-14, Jakarta, 12940

Melawai

Jl. Melawai Raya No. 26, Jakarta, 12160

Menara Dea

Gedung Menara Dea I, Lantai Dasar Zona A, Jl. Mega Kuningan Barat Kav. E 4.3 No. 1, Jakarta, 12950

Pondok Indah

Wisma Pondok Indah 2 Suite G01, Jl. Sultan Iskandar Muda V TA, Jakarta, 12310

Office Address & Branch

Senayan

Gedung Sentral Senayan I, Lantai Dasar, Jl. Asia Afrika No. 8, Senayan, Jakarta 10270

Talavera

Talavera Office Park, Lantai Dasar Suite 1-01 dan Mezzanine Suite 2-01 & 2-02, Jl. Letjen TB Simatupang No. 22 - 26, Jakarta, 12430

Tebet

Gedung Graha TNT, Lantai Dasar Wing Kiri, Jl. Dr. Saharjo 107, Jakarta, 12810

Wisma 46

Wisma BNI 46 - Kota BNI, Lantai Dasar, Jl. Jendral Sudirman Kav. 1, Jakarta, 10220

World Trade Centre

World Trade Center 1, Lantai 1, Jl. Jendral Sudirman Kav. 29 - 31 Jakarta, 12920

Pemuda

Jl. Pemuda Blok W Kav. 706, Jakarta, 13220

Kelapa Gading

Jl. Boulevard Blok FY-1 No. 7 - 8, Jakarta, 14250

Kelapa Gading Boulevard

Jl. Boulevard Barat Blok LC 6 Kav. 39-40, Jakarta, 14240

Mangga Dua

Komplek Ruko Bahan Bangunan, Blok F4 No. 6 - 7, Jl. Mangga Dua Raya, Jakarta, 10730

Pantai Indah Kapuk

Rukan Exclusive Mediterania, Pantai Indah Kapuk Blok B No. 27B, Jakarta, 14470

Pluit

Jl. Muara Karang Blok B8 No. 1, Jakarta, 14440

Pluit Kencana

Jl. Pluit Kencana No. 85 C - D Blok B Kav. 6, Jakarta, 14450

Sunter

Komplek Puri Mutiara Blok A Kav. 93 - 95, Jl. Griya Utama, Jakarta, 14350

Jambi

Jambi

Jl. Hayam Wuruk No. 46 - 47, Jambi, 36125

Jawa Barat

Asia Afrika

Wisma HSBC, Jl. Asia Afrika No. 116, Bandung, 40261
Buah Batu
Jl. Buah Batu No. 238, Bandung, 40265
Dago

Office Address & Branch

Jl. Ir. H. Djuanda No. 74, Bandung, 40132

Flamboyen

Flamboyen Square Unit F1, Lantai 1 - 2, Jl. Sukajadi 232, Bandung, 40153

Bekasi

Komplek Sentral Niaga Kalimalang Blok A8 No. 10, Jl. Ahmad Yani, Bekasi, 17141

Jababeka

Kawasan Industri Jababeka II, Ruko Kapitol Blok 2I & 2G, Jl. Niaga Raya, Bekasi, 17530

Bogor

Jl. Raya Pajajaran No.84 Ruko C - D, Bogor, 16143

Cirebon

Jl. Yos Sudarso No. 15 A - C, Cirebon, 45111

Cibubur

Perumahan Bukit Rafflesia, Jl. Alternatif Cibubur Blok AF No. 1, Depok, 17435

Depok

Jl. Margonda Raya No.389, Depok, 16424

Jawa Tengah

Kudus

Komplek Ruko Ahmad Yani No. 9, Jl. Ahmad Yani, Kudus, 59317

Malang

Jl. Pasar Besar 99, Malang, 65118

Pati

Komplek Ruko Plaza Puri, Jl. Kolonel Sunandar No. 15, Pati, 59113

Purwokerto

Jl. S. Parman No. 84, Purwokerto, 53141

Solo

Jl. Slamet Riyadi No. 73, Solo, 57112

Jawa Timur

Bukit Darmo

Ruko Office Park 2, Jl. Bukit Darmo Boulevard Blok B2 No. 29, Surabaya, 60162

Coklat

Jl. Coklat No. 29, Surabaya, 60161

Darmo Park

Darmo Park I Blok IA No.1 - 2, Jl. Mayjen Sungkono No.118 - 118A, Surabaya, 60256

Jemursari

Jl. Raya Jemursari No. 240B - 242, Surabaya, 60237

Office Address & Branch**Kapas Krampung**

Jl. Kapas Krampung 69A, Surabaya, 60135

Manyar

Jl. Manyar Kertoarjo 31A - G, Surabaya, 60285

Ngagel

Komplek Manyar Megah Indah Plaza Blok D-6, Jl. Bratang Binangun, Surabaya, 60283

Raden Saleh

Komplek Pertokoan Permata Raden Saleh Square, Jl. Raden Saleh Blok B-3, Surabaya, 60174

Raya Darmo

Jl. Raya Darmo No. 31, Surabaya, 60261

Sidoarjo

Jl. Achmad Yani No. 40 L, Sidoarjo, 61212

Surabaya

Graha HSBC, Jl. Jendral Basuki Rachmat No. 58 - 60, Surabaya, 60271

Kalimantan Barat**Pontianak**

Jl. Ir. Juanda No. 37 - 39, Pontianak, 78117

Kalimantan Selatan**Banjarmasin**

Jl. Ahmad Yani KM 1 No. 20A - B, Banjarmasin, 70233

Kalimantan Timur**Balikpapan**

Jl. Jendral Sudirman No. 9, Balikpapan, 76112

Samarinda

Jl. Imam Bonjol No. 8, Samarinda, 75112

Pandananan

Jl. Pandananan No. 101, Semarang, 50243

Semarang

Wisma HSBC, Jl. Gajah Mada 135, Semarang, 50134

Office Address & Branch**Kepulauan Bangka Belitung****Pangkal Pinang**

Jl. Soekarno Hatta No 17, Pangkal Pinang, 33684

Kepulauan Riau**Batam Raden Patah**

Komplek Sumber Jaya Blok A No. 1 - 3, Jl. Raden Patah, Batam, 29444

Lampung**Tanjung Karang**

Jl. Kartini No. 136E, Bandar Lampung, 35111

Teluk Betung

Jl. Ikan Bawal No. 79 -81, Bandar Lampung, 35223

Riau**Pekanbaru**

Gedung Surya Dumai Group, Lantai 1 Wing Selatan, Jl. Jendral Sudirman No. 395, Pekanbaru, 28116

Riau

Jl. Riau No. 2 A - C, Pekanbaru, 28291

Sulawesi Selatan**Makassar**

Jl. Dr. W. Sudirohusodo No. 42, Makassar, 90174

Panakkukang

Jl. Boulevard Ruko Jasper II F No. 30, Makassar, 90213

Sulawesi Utara**Manado**

Komplek Ruko Mega Mas Blok C1 No. 15 - 16, Jl. Pierre Tendean Boulevard, Manado, 95111

Office Address & Branch

Sumatera Selatan

Basuki Rahmat

Jl. Basuki Rahmat No. 24, Palembang, 30125

Ilir Kebumen

Jl. Kebumen No. 791 - 792, Palembang, 30122

Sumatera Utara

Glugur

Glugur Golden Trade Center No.8, Jl. Glugur, Medan, 20111

Graha Merah Putih

Gedung Graha Merah Putih, Jl. Putri Hijau No. 1, Medan, 20111

Office Address & Branch

Medan

Wisma HSBC, Lantai Dasar, Jl. Diponegoro 11, Medan, 20152

Medan Asia

Jl. Asia No. 170 A, Medan, 20214

Medan Center Point

Komplek Centre Point Business Park Blok G10 - 11, Jl. Jawa, Medan, 20412

Medan Cirebon

Jl. Cirebon No. 19 - 21, Medan, 20212

Perintis

Jl. Perintis Kemerdekaan No. 9, Medan, 20234

Pusat Pasar

Jl. Pusat Pasar No. 183, Medan, 20112







8

Financial Report

2017

PT BANK HSBC INDONESIA

**LAPORAN KEUANGAN/
*FINANCIAL STATEMENTS***

31 DESEMBER/*DECEMBER* 2017



**SURAT PERNYATAAN DIREKSI
TENTANG
TANGGUNG JAWAB ATAS LAPORAN KEUANGAN 31 DESEMBER 2017
DAN TAHUN YANG BERAKHIR 31 DESEMBER 2017
PT BANK HSBC INDONESIA**

***DIRECTORS' STATEMENT LETTER
RELATING TO
THE RESPONSIBILITY ON THE FINANCIAL STATEMENTS 31 DECEMBER 2017
AND FOR THE YEAR ENDED 31 DECEMBER 2017
PT BANK HSBC INDONESIA***

Kami yang bertandatangan di bawah ini/*We, the undersigned:*

- | | |
|--------------------------------------|-----------------------------------------------------------------------------|
| 1. Nama/ <i>Name</i> | : Sumit Dutta |
| Alamat kantor/ <i>Office address</i> | : Gedung World Trade Center
Jl. Jend. Sudirman Kav. 29-31, Jakarta 12920 |
| Nomor Telepon/ <i>Phone Number</i> | : (021) 25545800 |
| Jabatan/ <i>Position</i> | : Direktur Utama/ <i>President Director</i> |
| 2. Nama/ <i>Name</i> | : Hanna Tantani |
| Alamat kantor/ <i>Office address</i> | : Gedung World Trade Center
Jl. Jend. Sudirman Kav. 29-31, Jakarta 12920 |
| Nomor Telepon/ <i>Phone Number</i> | : (021) 25545800 |
| Jabatan/ <i>Position</i> | : Direktur/ <i>Director</i> |

Menyatakan bahwa:

State that:

- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Bertanggung jawab atas penyusunan dan penyajian laporan keuangan PT Bank HSBC Indonesia ("Bank"); | 1. <i>We are responsible for the preparation and presentation of the financial statements of PT Bank HSBC Indonesia (the "Bank");</i> |
| 2. Laporan keuangan Bank telah disusun dan disajikan sesuai dengan Standar Akuntansi Keuangan di Indonesia; | 2. <i>The Bank's financial statements have been prepared and presented in accordance with Indonesian Financial Accounting Standards;</i> |
| 3. a. Semua informasi dalam laporan keuangan Bank telah dimuat secara lengkap dan benar; | 3. a. <i>All information contained in the Bank's financial statements is complete and truthful manner;</i> |
| b. Laporan keuangan Bank tidak mengandung informasi atau fakta material yang tidak benar, dan tidak menghilangkan informasi atau fakta material; | b. <i>The Bank's financial statements do not contain misleading material information and facts, nor do they omit information or material facts;</i> |
| 4. Bertanggung jawab atas sistem pengendalian intern dalam Bank. | 4. <i>We are responsible for the Bank's internal control system.</i> |

Demikian Pernyataan ini dibuat dengan sebenarnya.

This Statement Letter is made truthfully.

Jakarta, 14 Maret/March 2018

Direktur Utama/
President Director

Sumit Dutta

Direktur /
Director

Hanna Tantani





**LAPORAN AUDITOR INDEPENDEN
KEPADA PARA PEMEGANG SAHAM**

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF**

PT BANK HSBC INDONESIA

Kami telah mengaudit laporan keuangan PT Bank HSBC Indonesia ("Bank") terlampir, yang terdiri dari laporan posisi keuangan tanggal 31 Desember 2017, serta laporan laba rugi dan penghasilan komprehensif lain, laporan perubahan ekuitas dan laporan arus kas untuk tahun yang berakhir pada tanggal tersebut, dan suatu ikhtisar kebijakan akuntansi signifikan dan informasi penjelasan lainnya.

Tanggung jawab manajemen atas laporan keuangan

Manajemen bertanggung jawab atas penyusunan dan penyajian wajar laporan keuangan ini sesuai dengan Standar Akuntansi Keuangan di Indonesia, dan atas pengendalian internal yang dianggap perlu oleh manajemen untuk memungkinkan penyusunan laporan keuangan yang bebas dari kesalahan penyajian material, baik yang disebabkan oleh kecurangan maupun kesalahan.

Tanggung jawab auditor

Tanggung jawab kami adalah untuk menyatakan suatu opini atas laporan keuangan ini berdasarkan audit kami. Kami melaksanakan audit kami berdasarkan Standar Audit yang ditetapkan oleh Institut Akuntan Publik Indonesia. Standar tersebut mengharuskan kami untuk mematuhi ketentuan etika serta merencanakan dan melaksanakan audit untuk memperoleh keyakinan memadai tentang apakah laporan keuangan bebas dari kesalahan penyajian material.

We have audited the accompanying financial statements of PT Bank HSBC Indonesia (the "Bank"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Indonesian Financial Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing established by the Indonesian Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Kantor Akuntan Publik Tanudiredja, Wibisana, Rintis & Rekan

Plaza 89, Jl. H.R. Rasuna Said Kav. X-7 No.6 Jakarta 12940 - INDONESIA, P.O. Box 2473 JKP 10001

T: +62 21 5212901, F: + 62 21 52905555 / 52905050, www.pwc.com/id



Suatu audit melibatkan pelaksanaan prosedur untuk memperoleh bukti audit tentang angka-angka dan pengungkapan dalam laporan keuangan. Prosedur yang dipilih bergantung pada pertimbangan auditor, termasuk penilaian atas risiko kesalahan penyajian material dalam laporan keuangan, baik yang disebabkan oleh kecurangan maupun kesalahan. Dalam melakukan penilaian risiko tersebut, auditor mempertimbangkan pengendalian internal yang relevan dengan penyusunan dan penyajian wajar laporan keuangan entitas untuk merancang prosedur audit yang tepat sesuai dengan kondisinya, tetapi bukan untuk tujuan menyatakan opini atas keefektifitasan pengendalian internal entitas. Suatu audit juga mencakup pengevaluasian atas ketepatan kebijakan akuntansi yang digunakan dan kewajaran estimasi akuntansi yang dibuat oleh manajemen, serta pengevaluasian atas penyajian laporan keuangan secara keseluruhan.

Kami yakin bahwa bukti audit yang telah kami peroleh adalah cukup dan tepat untuk menyediakan suatu basis bagi opini audit kami.

Opini

Menurut opini kami, laporan keuangan terlampir menyajikan secara wajar, dalam semua hal yang material, posisi keuangan PT Bank HSBC Indonesia pada tanggal 31 Desember 2017, serta kinerja keuangan dan arus kas untuk tahun yang berakhir pada tanggal tersebut, sesuai dengan Standar Akuntansi Keuangan di Indonesia.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PT Bank HSBC Indonesia as of 31 December 2017, and its financial performance and cash flows for the year then ended, in accordance with Indonesian Financial Accounting Standards.

JAKARTA,
14 Maret/March 2018

Lucy Luciana Suhenda, S.E., Ak., CPA

Ijin Akuntan Publik/License of Public Accountant No. AP. 0229

PT BANK HSBC INDONESIA

LAPORAN POSISI KEUANGAN
31 DESEMBER 2017

(Dinyatakan dalam jutaan Rupiah, kecuali dinyatakan lain)

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2017

(Expressed in millions of Rupiah, unless otherwise stated)

	Catatan/ Notes	2017	2016 ^{*)}	
ASET				ASSETS
Kas	6,24	581.541	567.552	Cash
Giro pada Bank Indonesia	7,24	6.755.215	1.521.906	Demand deposits with Bank Indonesia
Giro pada bank-bank lain	8,24,33	1.866.023	310.491	Demand deposits with other banks
Penempatan pada bank-bank lain	9,24,33	6.353.055	1.177.800	Placements with other banks
Penempatan pada Bank Indonesia	24	1.249.637	-	Placements with Bank Indonesia
Efek-efek untuk tujuan investasi	10,24	13.703.861	3.723.413	Investment securities
Aset yang diukur pada nilai wajar melalui laba rugi	11,24,33	5.342.887	2.080	Assets at fair value through profit or loss
Efek-efek yang dibeli dengan janji dijual kembali	24	500.000	-	Securities purchased with agreement to resell
Wesel ekspor	24	1.218.778	9.203	Export bills
Tagihan akseptasi	12,24	1.827.734	703.016	Acceptance receivables
Kredit yang diberikan kepada nasabah - setelah dikurangi penyisihan kerugian penurunan nilai sebesar Rp 2.583.319 pada 31 Desember 2017 dan Rp 561.774 pada 31 Desember 2016	13,24,33	57.951.447	18.042.847	Loans to customers - net of allowance for impairment losses of Rp 2,583,319 on 31 December 2017 and Rp 561,774 on 31 December 2016
Aset lain-lain	14,33	2.601.215	280.946	Other assets
Aset tetap - setelah dikurangi akumulasi penyusutan sebesar Rp 832.301 pada 31 Desember 2017 dan Rp 373.564 pada 31 Desember 2016		672.863	102.112	Properties and equipments - net of accumulated depreciation of Rp 832,301 on 31 December 2017 and Rp 373,564 on 31 December 2016
Aset tak berwujud - setelah dikurangi akumulasi amortisasi sebesar Rp 90.377 pada 31 Desember 2017 dan Rp 125.804 pada 31 Desember 2016		231.315	21.253	Intangible assets - net of accumulated amortisation of Rp 90,377 on 31 December 2017 and Rp 125,804 on 31 December 2016
Aset pajak tangguhan	31	162.125	69.432	Deferred tax assets
JUMLAH ASET		101.017.696	26.532.051	TOTAL ASSETS

^{*)} Reklasifikasi – lihat Catatan 36

^{**)} Laporan keuangan komparatif tidak disajikan kembali – lihat Catatan 3z

^{*)} Reclassification – refer to Note 36

^{**)} Comparative financial statement is not restated – refer to Note 3z

Catatan atas laporan keuangan merupakan bagian yang tidak terpisahkan dari laporan keuangan.

The accompanying notes form an integral part of these financial statements.

PT BANK HSBC INDONESIA

LAPORAN POSISI KEUANGAN
31 DESEMBER 2017

(Dinyatakan dalam jutaan Rupiah, kecuali dinyatakan lain)

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2017

(Expressed in millions of Rupiah, unless otherwise stated)

	Catatan/ Notes	2017	2016 ^{*)}	
LIABILITAS DAN EKUITAS				LIABILITIES AND EQUITY
LIABILITAS				LIABILITIES
Simpanan dari nasabah	15,24,33	56.932.673	19.111.092	Deposits from customers
Simpanan dari bank-bank lain	16,24,33	8.577.319	89.499	Deposits from other banks
Liabilitas yang diukur pada nilai wajar melalui laba rugi	11,24,33	527.037	2.695	Liabilities at fair value through profit or loss
Utang akseptasi	12,24,33	1.827.734	703.016	Acceptance payables
Utang pajak penghasilan	31	-	1.691	Income tax payable
Beban akrual dan provisi	17,24,33	529.064	279.088	Accruals and provisions
Liabilitas lain-lain	18,24,33	2.683.331	202.889	Other liabilities
Pinjaman	24,33	13.363.988	471.538	Borrowings
Pinjaman subordinasi	24,33	1.017.563	-	Subordinated debt
Liabilitas imbalan kerja	20	690.705	205.768	Employee benefits obligations
JUMLAH LIABILITAS		86.149.414	21.067.276	TOTAL LIABILITIES
EKUITAS				EQUITY
Modal saham – nilai nominal Rp 1.000 (dalam Rupiah penuh) per saham; Modal dasar – 20.000.000.000 saham; Modal ditempatkan dan disetor penuh – 10.586.394.997 saham (2016: 2.586.394.997 saham)	21	10.586.395	2.586.395	Share capital – nominal value of Rp 1,000 (in Rupiah full amount) per share; Authorised capital – 20,000,000,000 shares; Issued and fully paid-up capital – 10,586,394,997 shares (2016: 2,586,394,997 shares)
Tambahan modal disetor - bersih	22	257.610	257.610	Additional paid-in capital - net
Penghasilan komprehensif lain - bersih:				Other comprehensive income – net:
- Pengukuran kembali atas liabilitas imbalan pasca kerja		(52.575)	(20.505)	Remeasurements from post - employment benefits obligation
- Perubahan nilai wajar bersih aset keuangan tersedia untuk dijual		53.748	6.983	Net changes in fair value available-for sale financial assets
- Perubahan cadangan program kompensasi berbasis saham		17.512	-	Movement of share-based payments-program reserves
		18.685	(13.522)	
Saldo laba:				Retained earnings:
Telah ditentukan penggunaannya	23	3.648	3.398	Appropriated
Belum ditentukan penggunaannya		4.001.944	2.630.894	Unappropriated
JUMLAH EKUITAS		14.868.282	5.464.775	TOTAL EQUITY
JUMLAH LIABILITAS DAN EKUITAS		101.017.696	26.532.051	TOTAL LIABILITIES AND EQUITY

^{*)} Reklasifikasi – lihat Catatan 36

^{**)} Laporan keuangan komparatif tidak disajikan kembali – lihat Catatan 3z

^{*)} Reclassification – refer to Note 36

^{**)} Comparative financial statement is not restated – refer to Note 3z

Catatan atas laporan keuangan merupakan bagian yang tidak terpisahkan dari laporan keuangan.

The accompanying notes form an integral part of these financial statements.

PT BANK HSBC INDONESIA

**LAPORAN LABA RUGI DAN PENGHASILAN
KOMPREHENSIF LAIN
UNTUK TAHUN BERAKHIR 31 DESEMBER 2017**
(Dinyatakan dalam jutaan Rupiah, kecuali dinyatakan lain)

**STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**
(Expressed in millions of Rupiah, unless otherwise stated)

	Catatan/ Notes	2017	2016 ¹⁾	
PENDAPATAN OPERASIONAL				OPERATING INCOME
Pendapatan bunga	25,33	5.050.434	2.555.131	Interest income
Beban bunga	25,33	(1.397.416)	(1.191.731)	Interest expenses
Pendapatan bunga bersih		3.653.018	1.363.400	Net interest income
Pendapatan provisi dan komisi	26,33	1.418.539	84.066	Fees and commissions income
Beban provisi dan komisi	26,33	(354.705)	(16.282)	Fees and commissions expenses
Pendapatan provisi dan komisi bersih		1.063.834	67.784	Net fees and commissions
Pendapatan instrumen yang diperdagangkan - bersih	27	674.866	27.842	Trading income - net
Laba atas selisih kurs - bersih		25.774	17.412	Foreign exchange gain - net
Rugi dari aset yang dimiliki untuk dijual - bersih		(3.440)	(249)	Loss from assets held for sale - net
Pendapatan lainnya - bersih		1.870	335	Other income - net
		699.070	45.340	
Kerugian penurunan nilai aset keuangan - bersih	28	(833.358)	(213.878)	Impairment losses on financial assets - net
Jumlah pendapatan operasional		4.582.564	1.262.646	Total operating income
BEBAN OPERASIONAL				OPERATING EXPENSES
Beban karyawan	29,33	(1.629.700)	(693.354)	Employees expenses
Beban umum dan administrasi	30,33	(1.249.654)	(354.259)	General and administrative expenses
Beban depresiasi aset tetap		(130.331)	(49.307)	Depreciation expenses of properties and equipments
Beban amortisasi aset tak berwujud		(54.745)	(30.657)	Amortization expenses of intangible assets
Jumlah beban operasional		(3.064.430)	(1.127.577)	Total operating expenses
LABA SEBELUM PAJAK		1.518.134	135.069	PROFIT BEFORE TAX
Beban pajak penghasilan	31	(146.834)	(34.554)	Income tax expense
LABA BERSIH TAHUN BERJALAN		1.371.300	100.515	NET PROFIT FOR THE YEAR
(RUGI)/PENGHASILAN KOMPREHENSIF LAIN				OTHER COMPREHENSIVE (LOSS)/INCOME
Pos-pos yang akan direklasifikasi ke laba rugi:				Items that will be reclassified subsequently to profit or loss:
Investasi tersedia untuk dijual:				Available-for-sale investments:
- (Rugi)/laba tahun berjalan		(10.055)	41.896	(Loss)/profit during the year -
- Pajak penghasilan	31	2.514	(10.474)	Income tax -
		(7.541)	31.422	
Pos-pos yang tidak akan direklasifikasi ke laba rugi:				Items that will not be reclassified subsequently to profit or loss:
Pengukuran kembali atas liabilitas imbalan pasca kerja:				Remeasurements from post employment benefits obligation:
- Kerugian aktuarial tahun berjalan		(42.760)	(21.592)	Actuarial loss during the year -
- Pajak penghasilan	31	10.690	5.398	Income tax -
		(32.070)	(16.194)	
(RUGI)/PENGHASILAN KOMPREHENSIF LAIN, BERSIH SETELAH PAJAK		(39.611)	15.228	OTHER COMPREHENSIVE (LOSS)/INCOME, NET OF TAX
JUMLAH PENGHASILAN KOMPREHENSIF UNTUK TAHUN BERJALAN		1.331.689	115.743	TOTAL COMPREHENSIVE INCOME FOR THE YEAR

¹⁾ Laporan keuangan komparatif tidak disajikan kembali – lihat Catatan 3z

¹⁾ Comparative financial statement is not restated – refer to Note 3z

Catatan atas laporan keuangan merupakan bagian yang tidak terpisahkan dari laporan keuangan.

The accompanying notes form an integral part of these financial statements.

**LAPORAN PERUBAHAN EKUITAS
UNTUK TAHUN BERAKHIR 31 DESEMBER 2017**
(Dinyatakan dalam jutaan Rupiah, kecuali dinyatakan lain)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**
(Expressed in millions of Rupiah, unless otherwise stated)

		Modal ditempatkan dan disetor penuh/ Issued and fully paid-up capital	Tambahan modal disetor - bersih/ Additional paid-in capital - net	Penghasilan komprehensif lain - bersih/ Other comprehensive income - net	Telah ditentukan penggunaannya/ Appropriated	Saldo laba/ Retained earnings	Jumlah ekuitas/ Total equity	
Saldo, 1 Januari 2016		1.586.395	257.610	(28.750)	3.148	2.530.629	4.349.032	Balance, 1 January 2016
Penerbitan modal saham	21	1.000.000	-	-	-	-	1.000.000	Issued and paid up capital
Cadangan umum dan wajib yang telah ditentukan penggunaannya	23	-	-	-	250	(250)	-	Appropriation for general and legal reserves
Jumlah penghasilan komprehensif tahun berjalan:		-	-	-	-	100.515	100.515	Total comprehensive income for the year:
Laba bersih tahun berjalan		-	-	-	-	-	-	Net profit for the year
Penghasilan komprehensif lain, bersih setelah pajak:		-	-	-	-	-	-	Other comprehensive income, net of tax:
Pengukuran kembali atas liabilitas imbalan pasca kerja		-	-	(16.194)	-	-	(16.194)	Remeasurements from post- employment benefits obligation
Perubahan nilai wajar (aset keuangan tersedia untuk dijual)	5	-	-	31.422	-	-	31.422	Changes in fair value (available-for- sale financial assets)
Jumlah penghasilan komprehensif tahun berjalan		-	-	15.228	-	100.515	115.743	Total comprehensive income for the year
Saldo, 31 Desember 2016		2.586.395	257.610	(13.522)	3.398	2.630.894	5.464.775	Balance, 31 December 2016
Penerbitan modal saham	21	8.000.000	-	-	-	-	8.000.000	Issued and paid up capital
Cadangan umum dan wajib yang telah ditentukan penggunaannya	23	-	-	-	250	(250)	-	Appropriation for general and legal reserves
Jumlah penghasilan komprehensif tahun berjalan:		-	-	-	-	1.371.300	1.371.300	Total comprehensive income for the year:
Laba bersih tahun berjalan		-	-	-	-	-	-	Net profit for the year
Penghasilan komprehensif lain, bersih setelah pajak:		-	-	-	-	-	-	Other comprehensive income, net of tax:
Pengukuran kembali atas liabilitas imbalan pasca kerja		-	-	(32.070)	-	-	(32.070)	Remeasurements from post- employment benefits obligation
Perubahan nilai wajar (aset keuangan tersedia untuk dijual)	5	-	-	(7.541)	-	-	(7.541)	Changes in fair value (available-for- sale financial assets)
Perubahan cadangan program berbasis saham		-	-	(4.285)	-	-	(4.285)	Movement of share-based payment program reserves
Jumlah penghasilan komprehensif tahun berjalan		-	-	(43.896)	-	1.371.300	1.327.404	Total comprehensive income for the year
Perubahan ekuitas karena pengalihan aset dan liabilitas:		-	-	-	-	-	-	Equity movement due to transfer of assets and liabilities:
Perubahan cadangan program kompensasi berbasis saham		-	-	21.797	-	-	21.797	Movement of share-based-payments program reserves
Perubahan nilai wajar bersih aset keuangan tersedia untuk dijual		-	-	54.306	-	-	54.306	Net changes in fair value available-for- sale financial assets
Saldo, 31 Desember 2017		10.586.395	257.610	18.685	3.648	4.001.944	14.868.282	Balance, 31 December 2017

Catatan atas laporan keuangan merupakan bagian yang tidak terpisahkan dari laporan keuangan.

The accompanying notes form an integral part of these financial statements.

Lampiran - 4 - Schedule

PT BANK HSBC INDONESIA

LAPORAN ARUS KAS
UNTUK TAHUN BERAKHIR 31 DESEMBER 2017
(Dinyatakan dalam jutaan Rupiah, kecuali dinyatakan khusus)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Expressed in millions of Rupiah, unless otherwise stated)

	Catatan/ Notes	2017	2016	
ARUS KAS DARI AKTIVITAS OPERASI				CASH FLOWS FROM OPERATING ACTIVITIES
Penerimaan pendapatan bunga		4.599.912	2.562.249	Receipts from interest income
Pembayaran beban bunga		(1.358.178)	(1.207.375)	Payments for interest expenses
Penerimaan provisi dan komisi		1.408.604	69.703	Receipts from fees and commissions
Pembayaran provisi dan komisi		(354.705)	(16.282)	Payments for fees and commissions
Laba/(rugi) atas selisih kurs - bersih		25.774	(14.339)	Realised foreign exchange gain/(loss) - net
Hasil penjualan aset yang dimiliki untuk dijual		8.023	2.948	Proceeds from sale of assets held for sale
Penerimaan pendapatan operasional		26.775	31.698	Receipts from operating income
Pembayaran beban operasional		(824.529)	(1.341.873)	Payments for operating expenses
Pembayaran pajak penghasilan badan		(641.941)	(33.530)	Corporate income tax paid
Perubahan aset operasi:				Changes in operating assets:
Aset yang diukur pada nilai wajar melalui laba rugi		(5.213.937)	6.490	Assets at fair value through profit or loss
Kredit yang diberikan kepada nasabah		(42.047.080)	1.335.813	Loans to customers
Aset lain-lain		(4.057.257)	(10.124)	Other assets
Perubahan liabilitas operasi:				Changes in operating liabilities:
Simpanan dari nasabah		37.821.581	(3.780.733)	Deposits from customers
Simpanan dari bank-bank lain		8.487.820	(742.778)	Deposits from other banks
Liabilitas yang diukur pada nilai wajar melalui laba rugi		524.342	2.558	Liabilities at fair value through profit or loss
Beban akrual dan provisi		527.934	146.095	Accruals and provisions
Liabilitas lain-lain		3.605.158	45.185	Other liabilities
Kas bersih yang diperoleh dari/ (digunakan untuk) aktivitas operasi		2.538.296	(2.944.295)	Net cash provided from/(used in) operating activities
ARUS KAS DARI AKTIVITAS INVESTASI				CASH FLOWS FROM INVESTING ACTIVITIES
Pembelian efek-efek untuk tujuan investasi		(19.130.306)	(2.863.828)	Purchase of investment securities
Hasil penjualan/maturitas efek-efek untuk tujuan investasi		9.131.089	2.270.478	Proceed from sale/maturity of investment securities
Hasil penjualan aset tetap		368	16.682	Proceed from sale of properties and equipments
Perolehan aset tetap		(1.043.448)	(59.352)	Acquisition of properties and equipments
Perolehan aset tak berwujud		(174.635)	(3.332)	Acquisition of intangible assets
Kas bersih yang digunakan untuk aktivitas investasi		(11.216.932)	(639.352)	Net cash used in investing activities
ARUS KAS DARI AKTIVITAS PENDANAAN				CASH FLOWS FROM FINANCING ACTIVITIES
Hasil dari penerbitan modal saham	21	8.000.000	1.000.000	Proceed from issuance of share capital
Penerimaan pinjaman dan pinjaman subordinasi		13.906.688	-	Proceed from borrowings and subordinated debts
Pembayaran pinjaman		-	(393.000)	Payments of borrowings
Kas bersih yang diperoleh dari aktivitas pendanaan		21.906.688	607.000	Net cash provided from financing activities
KENAIKAN/(PENURUNAN) BERSIH KAS DAN SETARA KAS		13.228.052	(2.976.647)	NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS
PENGARUH SELISIH KURS MATA UANG ASING PADA KAS DAN SETARA KAS		(330)	264	EFFECT OF FOREIGN EXCHANGE RATE FLUCTUATION ON CASH AND CASH EQUIVALENTS
KAS DAN SETARA KAS, 1 JANUARI		3.577.749	6.554.132	CASH AND CASH EQUIVALENTS, 1 JANUARY
KAS DAN SETARA KAS, 31 DESEMBER		16.805.471	3.577.749	CASH AND CASH EQUIVALENTS, 31 DECEMBER
Kas dan setara kas terdiri dari:				Cash and cash equivalents consist of:
Kas	6	581.541	567.552	Cash
Giro pada Bank Indonesia	7	6.755.215	1.521.906	Demand deposits with Bank Indonesia
Giro pada bank-bank lain	8	1.866.023	310.491	Demand deposits with other banks
Penempatan pada Bank Indonesia - jatuh tempo dalam 3 bulan sejak tanggal perolehan		1.249.637	-	Placements with Bank Indonesia - mature within 3 months from the date of acquisition
Penempatan pada bank-bank lain - jatuh tempo dalam 3 bulan sejak tanggal perolehan	9	6.353.055	1.177.800	Placements with other banks - mature within 3 months from the date of acquisition
		16.805.471	3.577.749	

Catatan atas laporan keuangan merupakan bagian yang tidak terpisahkan dari laporan keuangan.

The accompanying notes form an integral part of these financial statements.

**CATATAN ATAS LAPORAN KEUANGAN
TAHUN BERAKHIR 31 DESEMBER 2017**

(Dinyatakan dalam jutaan Rupiah, kecuali dinyatakan lain)

**NOTES TO THE FINANCIAL STATEMENT
YEAR ENDED 31 DECEMBER 2017**

(Expressed in millions of Rupiah, unless otherwise stated)

1. UMUM**a. Pendirian dan informasi umum**

PT Bank HSBC Indonesia ("Bank") didirikan dengan akta No. 31 tanggal 15 Mei 1989 yang dibuat di hadapan Winnie Hadiprodjo, S.H., selaku pengganti dari Kartini Muljadi, S.H., notaris di Jakarta. Berdasarkan akta No. 29 tanggal 8 September 1989 yang dibuat di hadapan Kartini Muljadi, S.H., notaris di Jakarta, nama Bank diubah menjadi PT Bank Ekonomi Raharja. Kedua akta tersebut telah disahkan oleh Menteri Kehakiman Republik Indonesia (sekarang Menteri Hukum dan Hak Asasi Manusia) dengan Surat Keputusan No. C2-8787.HT.01.01.TH'89 tanggal 18 September 1989 dan diumumkan dalam Tambahan No. 2573 pada Berita Negara Republik Indonesia No. 84 tanggal 20 Oktober 1989.

Sesuai dengan akta No. 101 tanggal 10 Agustus 2016 yang dibuat di hadapan Dr. Irawan Soerodjo, S.H., MSi, notaris di Jakarta, para pemegang saham menyetujui perubahan nama Bank menjadi PT Bank HSBC Indonesia. Perubahan nama Bank ini telah disahkan oleh Menteri Hukum dan Hak Asasi Manusia Republik Indonesia dalam Surat Keputusan No. AHU-0014340.AH.01.02. tanggal 10 Agustus 2016 dan telah disetujui oleh Otoritas Jasa Keuangan (OJK) melalui keputusan Dewan Komisiner OJK No. 15/KDK.03/2016 tanggal 4 Oktober 2016 tentang Penetapan Penggunaan Izin Usaha Atas Nama PT Bank Ekonomi Raharja menjadi Izin Usaha Atas Nama PT Bank HSBC Indonesia.

Anggaran dasar Bank telah mengalami beberapa kali perubahan, perubahan terakhir dilakukan dengan akta No. 57 tanggal 12 April 2017 yang dibuat di hadapan DR. Irawan Soerodjo, S.H., M.Si., notaris di Jakarta sehubungan dengan penambahan modal saham Bank (lihat catatan 21).

Bank mulai beroperasi secara komersial pada tanggal 8 Maret 1990. Sesuai dengan pasal 3 anggaran dasar Bank, maksud dan tujuan didirikannya Bank adalah:

1. Menjalankan usaha di bidang bank umum.
2. Untuk mencapai maksud dan tujuan tersebut di atas, Bank dapat melaksanakan kegiatan usaha antara lain: menghimpun dana dari masyarakat, memberikan kredit, menerbitkan surat pengakuan utang, membeli, menjual atau memberikan jaminan atas risiko sendiri maupun untuk kepentingan dan atas perintah nasabah, melaksanakan kegiatan anjak piutang, usaha kartu kredit dan kegiatan wali amanat, melakukan transaksi dalam valuta asing sesuai dengan ketentuan Bank Indonesia, melakukan penyertaan modal pada bank atau lembaga keuangan lainnya dengan memenuhi ketentuan yang ditetapkan Bank Indonesia.

1. GENERAL**a. Establishment and general information**

PT Bank HSBC Indonesia (the "Bank") was established based on the notarial deed No. 31 dated 15 May 1989 of Winnie Hadiprodjo, S.H., substitute of Kartini Muljadi, S.H., notary public in Jakarta. Based on notarial deed No. 29 dated 8 September 1989 of Kartini Muljadi, S.H., notary public in Jakarta, the Bank's name was changed to PT Bank Ekonomi Raharja. Both notarial deeds were approved by the Minister of Justice of the Republic of Indonesia (currently the Minister of Law and Human Rights) in the Decision Letter No. C2-8787.HT.01.01.TH'89 dated 18 September 1989 and published in the Supplement No. 2573 to State Gazette of the Republic of Indonesia No. 84 dated 20 October 1989.

According to notarial deed No. 101 dated 10 August 2016 of Dr. Irawan Soerodjo, S.H., MSi, notary public in Jakarta, the shareholders approved the change of the Bank's name to PT Bank HSBC Indonesia. The change of Bank's name has been approved by Minister of Law and Human Rights of the Republic of Indonesia in its Decision Letter No. AHU-0014340.AH.01.02. dated 10 August 2016 and has been approved by Financial Service Authority (FSA) through the Board Commissioner Decision No. 15/KDK.03/2016 dated 4 October 2016 on The Confirmation to Use The Bank's Business License from PT Bank Ekonomi Raharja to PT Bank HSBC Indonesia.

The Bank's articles of association have been amended several times, the latest amendment was effected by notarial deed No. 57 dated 12 April 2017 of DR. Irawan Soerodjo, S.H., M.Si., notary in Jakarta in relation to increase the Bank's share capital (see note 21).

The Bank started its commercial operations on 8 March 1990. In accordance with article 3 of the Bank's articles of association, the aims and objectives for the establishment of the Bank are as follows:

1. To carry out general banking business.
2. To achieve its aims and objectives, the Bank undertakes, among other things, the following: taking deposits from the public, granting loans, issuing promissory notes, buying, selling or providing guarantee for its own risk or for the interest of and on customer's order, conducting factoring, credit cards and trust activities, conducting foreign exchange activities that comply with Bank Indonesia regulations, and investing in banks or other financial institutions that comply with Bank Indonesia regulations.

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1. UMUM (lanjutan)**a. Pendirian dan informasi umum (lanjutan)**

Izin usaha Bank diberikan oleh Menteri Keuangan Republik Indonesia dengan Surat Keputusan No. 104/KMK.013/1990 tanggal 12 Februari 1990. Bank juga memperoleh izin untuk menjalankan aktivitas sebagai bank devisa berdasarkan Surat Keputusan Direksi Bank Indonesia No. 25/64/ KEP/DIR tanggal 16 September 1992.

Kantor pusat Bank berlokasi di World Trade Center I, Jl. Jenderal Sudirman Kav. 29-31, Jakarta 12920. Pada tanggal 31 Desember 2017, Bank memiliki 39 cabang utama (termasuk kantor pusat) dan 57 cabang pembantu di Indonesia.

Pada tanggal 31 Desember 2017 dan 2016 jumlah karyawan tetap Bank masing-masing sebanyak 4.623 dan 1.922 orang (tidak diaudit).

Induk perusahaan Bank adalah HSBC Asia Pacific Holdings (UK) Limited sedangkan pemegang saham pengendali Bank adalah HSBC Holdings plc, yang didirikan di Inggris. HSBC Holdings plc memiliki entitas anak dan perusahaan afiliasi yang tersebar di seluruh dunia.

Susunan Dewan Komisaris dan Direksi Bank pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

	2017	
Komisaris Utama	Matthew Kneeland Lobner ¹⁾	President Commissioner
Wakil Komisaris Utama merangkap Komisaris Independen	Hanny Wurangian	Vice-President Commissioner and Independent Commissioner
Komisaris Independen	Hariawan Pribadi	Independent Commissioner
Komisaris Independen	Umar Juoro ¹⁾	Independent Commissioner
Komisaris	Mark Thomas McKeown	Commissioner
Komisaris	Antony Colin Turner ¹⁾	Commissioner
Direktur Utama	Sumit Dutta ²⁾	President Director
Direktur	John Peter Watt Rosie ³⁾	Director
Direktur	Blake Digney Philip Hellam ³⁾	Director
Direktur	Hanna Tantani	Director
Direktur	Catherinawati Hadiman Sugianto ⁴⁾	Director
Direktur	Caecilia Pudji Widyarti ⁵⁾	Director
Direktur	Tripudjo Putranto ⁶⁾	Director
Direktur	Stephen Whilton Angell ¹⁾	Director
Direktur Kepatuhan	Yessika Effendi ⁷⁾	Compliance Director

¹⁾ Efektif setelah memperoleh persetujuan atas uji kemampuan dan kepatuhan dari OJK

²⁾ Efektif sejak tanggal 29 Mei 2017

³⁾ Efektif sejak tanggal 9 Mei 2017

⁴⁾ Efektif sejak tanggal 17 April 2017

⁵⁾ Efektif sejak tanggal 8 Agustus 2017

⁶⁾ Efektif sejak tanggal 19 Juni 2017

⁷⁾ Efektif sejak tanggal 10 Juli 2017

¹⁾ Effective after obtaining approval of fit and proper test result from FSA

²⁾ Effective since 29 May 2017

³⁾ Effective since 9 May 2017

⁴⁾ Effective since 17 April 2017

⁵⁾ Effective since 8 August 2017

⁶⁾ Effective since 19 June 2017

⁷⁾ Effective since 10 July 2017

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1. UMUM (lanjutan)**a. Pendirian dan informasi umum (lanjutan)**

Susunan Dewan Komisaris dan Direksi Bank pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut: (lanjutan)

	2016
Komisaris Utama	Jayant Rikhye ¹⁾
Wakil Komisaris Utama merangkap Komisaris Independen	Hanny Wurangian
Komisaris Independen	Hariawan Pribadi
Komisaris	Mark Thomas McKeown ²⁾
Direktur Utama	Antony Colin Turner ³⁾
Direktur	Hanna Tantani
Direktur	Gimin Sumalim ⁴⁾
Direktur	Lim Hui Hung Luanne ⁵⁾
Direktur Kepatuhan	Lenggono Sulistianto Hadi ⁶⁾

¹⁾ Telah mengundurkan diri efektif pada tanggal 18 September 2017²⁾ Efektif sejak tanggal 25 Agustus 2016³⁾ Telah mengundurkan diri efektif pada tanggal 28 Juli 2017⁴⁾ Telah mengundurkan diri efektif pada tanggal 30 Juni 2017⁵⁾ Telah mengundurkan diri efektif pada tanggal 23 Januari 2017⁶⁾ Telah mengundurkan diri efektif pada tanggal 10 Juli 2017

Susunan Komite Audit Bank pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

	2017 dan/and 2016
Ketua	Hanny Wurangian ¹⁾
Anggota independen	Yustrida B. Remiasa
Anggota independen	Ubaidillah Nugraha

¹⁾ Wakil Komisaris Utama merangkap Komisaris Independen**b. Penawaran umum saham dan privatisasi**

Sesuai dengan akta No. 140 tanggal 25 Oktober 2007 yang dibuat di hadapan Dr. Irawan Soerodjo, S.H., MSi, notaris di Jakarta, para pemegang saham mengambil dan menyetujui keputusan-keputusan, antara lain, sebagai berikut:

- Mengubah status Bank dari perseroan tertutup menjadi perseroan terbuka.
- Mengubah nama Bank menjadi PT Bank Ekonomi Raharja Tbk.
- Mengubah nilai nominal saham semula sebesar Rp 1.000 (dalam Rupiah penuh) menjadi Rp 100 (dalam Rupiah penuh) per saham.

1. GENERAL (continued)**a. Establishment and general information (continued)**

The composition of the Bank's Board of Commissioners and Board of Directors as of 31 December 2017 and 2016 are as follows: (continued)

President Commissioner
Vice-President Commissioner and Independent Commissioner
Independent Commissioner
Commissioner
President Director
Director
Director
Director
Compliance Director

¹⁾ Effectively resigned on 18 September 2017²⁾ Effective since 25 August 2016³⁾ Effectively resigned on 28 July 2017⁴⁾ Effectively resigned on 30 June 2017⁵⁾ Effectively resigned on 23 January 2017⁶⁾ Effectively resigned on 10 July 2017

The composition of the Bank's Audit Committee as of 31 December 2017 and 2016 are as follows:

Chairperson
Independent member
Independent member

¹⁾ Vice-President Commissioner and Independent Commissioner**b. Public offering of shares and privatisation**

Based on notarial deed No. 140 dated 25 October 2007 of Dr. Irawan Soerodjo, S.H., MSi, notary public in Jakarta, the shareholders resolved and approved, among others, the following:

- Change the Bank's status from a private to a public company.
- Change the Bank's name to PT Bank Ekonomi Raharja Tbk.
- Change the nominal value of share from Rp 1,000 (in Rupiah full amount) to Rp 100 (in Rupiah full amount) per share.

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1. UMUM (lanjutan)**b. Penawaran umum saham dan privatisasi
(lanjutan)**

- Menerbitkan saham sebanyak-banyaknya 270.000.000 lembar saham dengan nilai nominal Rp 100 (dalam Rupiah penuh) per saham melalui penawaran umum kepada masyarakat.

Akta tersebut telah disahkan oleh Menteri Hukum dan Hak Asasi Manusia Republik Indonesia dengan Surat Keputusan No. C-01814.HT.01.04-TH.2007 tanggal 31 Oktober 2007 serta diumumkan dalam Tambahan No. 11468 pada Berita Negara Republik Indonesia No. 94 tanggal 23 November 2007.

Pada tanggal 28 Desember 2007, Bank memperoleh Pernyataan Efektif dari Ketua Badan Pengawas Pasar Modal dan Lembaga Keuangan (Bapepam-LK) melalui suratnya No.S-6568/BL/2007 untuk melakukan penawaran umum perdana atas 270.000.000 lembar saham Bank dengan nilai nominal Rp 100 (dalam Rupiah penuh) per saham. Harga penawaran saham adalah sebesar Rp 1.080 (dalam Rupiah penuh) per saham.

Bank mencatatkan sahamnya pada Bursa Efek Indonesia (BEI) pada tanggal 8 Januari 2008.

Pada tanggal 16 Februari 2015, Bank mengajukan permohonan kepada BEI untuk melakukan penghentian sementara perdagangan saham Bank sejak sesi perdagangan pertama pada tanggal 17 Februari 2015 sehubungan dengan rencana Bank untuk mengubah statusnya dari perusahaan terbuka menjadi perusahaan tertutup (*go private*) dan melakukan *delisting* dari BEI. BEI menghentikan sementara perdagangan efek Bank mulai sesi pertama perdagangan efek tanggal 17 Februari 2015 hingga diselesaikannya proses *delisting*.

Sehubungan dengan rencana *go private* di atas, Bank mengadakan Rapat Umum Pemegang Saham Luar biasa (RUPSLB) pada tanggal 12 Mei 2015 yang memutuskan pokok-pokok sebagai berikut:

- Menyetujui rencana *go private* Bank dan
- Menyetujui perubahan dalam Anggaran Dasar Bank sehubungan dengan perubahan status Bank dari perusahaan terbuka menjadi perusahaan tertutup.

1. GENERAL (continued)**b. Public offering of shares and privatisation
(continued)**

- Issuance of a maximum number of 270,000,000 shares with nominal value of Rp 100 (in Rupiah full amount) per share through initial public offering.

The deed was approved by the Minister of Law and Human Rights of the Republic of Indonesia through its Decision Letter No. C-01814.HT.01.04-TH.2007 dated 31 October 2007 and was published in the Supplement No. 11468 to State Gazette of the Republic of Indonesia No.94 dated 23 November 2007.

On 28 December 2007, the Bank obtained the Effective Notification from the Chairman of Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) through its letter No. S-6568/BL/2007 for the Bank's initial public offering on 270,000,000 shares at nominal value of Rp 100 (in Rupiah full amount) per share. The offering price for the shares was Rp 1,080 (in Rupiah full amount) per share.

The Bank listed its shares at the Indonesia Stock Exchange (IDX) on 8 January 2008.

On 16 February 2015, the Bank submitted a letter to the IDX for temporary suspension of trading of the Bank's shares starting from the first trading session on 17 February 2015 in relation with the Bank's plan to change its status from a public listed company to a private company (*go private*) and to delist from the IDX. IDX temporarily suspended trading of the Bank's shares starting from the first session on 17 February 2015 until the completion of the delisting process.

In relation with the above *go private* plan, the Bank held the Extraordinary General Meeting Shareholders (EGMS) on 12 May 2015 which decided the following:

- Approving the Bank's *go private* plan and
- Approving the changes in the Bank's Articles of Association relating to the changes of the Bank's status from a publicly listed company to a private company.

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1. UMUM (lanjutan)**b. Penawaran umum saham dan privatisasi (lanjutan)**

Setelah mendapat persetujuan RUPSLB atas rencana *go private*, HSBC Asia Pacific Holdings (UK) Limited (HAPH) menyampaikan Pernyataan Penawaran Tender kepada OJK dan dinyatakan efektif berdasarkan Surat OJK No. S-298/D.04/2015 tanggal 30 Juni 2015. HAPH setuju untuk melaksanakan Penawaran Tender atas Saham Publik Bank, yaitu sebanyak-banyaknya 1.718.000 saham yang mewakili 0,06% dari jumlah seluruh saham yang telah ditempatkan dan disetor penuh Bank dengan harga penawaran sebesar Rp10.000 (dalam Rupiah penuh) per saham.

Berdasarkan Akta Pernyataan Keputusan Rapat Perseroan Terbatas No. 97 tanggal 16 November 2015, dibuat di hadapan DR. Irawan Soerodjo, S.H., M.Si., notaris di Jakarta dan telah disetujui oleh Menteri Hukum dan Hak Asasi Manusia Republik Indonesia berdasarkan Surat Persetujuan No. AHU-0946124.AH.01.02.Tahun 2015 tanggal 17 November 2015, Anggaran Dasar Bank telah diubah sehubungan dengan perubahan status Bank dari perusahaan terbuka (publik) menjadi perusahaan tertutup.

c. Integrasi usaha dengan The Hongkong and Shanghai Banking Corporation Limited – Cabang Indonesia

Pada tanggal 18 Oktober 2016, Bank telah menandatangani Perjanjian Kerangka Kerja untuk Melaksanakan Integrasi Bisnis Perbankan di Indonesia dengan The Hongkong and Shanghai Banking Corporation Limited (HBAP) untuk melaksanakan integrasi usaha dan operasi dengan kantor cabang Indonesia dari HBAP yang dikenal sebagai *Indonesian Management Office* (IMO). Pada tanggal 13 April 2017, Bank dan IMO menandatangani Perjanjian Pernyataan Kembali dan Perubahan Perjanjian Kerangka Kerja untuk Melaksanakan Integrasi Bisnis Perbankan di Indonesia. Pada tanggal 22 Maret 2017, OJK menyetujui rencana integrasi usaha Bank dan IMO melalui suratnya No. S-29/D.03/2017. Untuk informasi atas Perjanjian Integrasi, lihat Catatan 35.

1. GENERAL (continued)**b. Public offering of shares and privatisation (continued)**

Subsequent to the EGMS approval on *go private* plan, HSBC Asia Pacific Holdings (UK) Limited (HAPH) submitted a Tender Offer Statement to the FSA and was declared effective by the FSA based on its letter No. S-298/D.04/2015 dated 30 June 2015. HAPH agreed to conduct the Tender Offer on the Bank's Shares held by Public shareholders, for a maximum of 1,718,000 shares representing 0.06% of the total issued and paid-up capital of the Bank at an offering price of Rp10,000 (in Rupiah full amount) per share.

Pursuant to the Deed of Statement of Resolutions of Limited Corporation Meeting No. 97 dated 16 November 2015, drawn up by DR. Irawan Soerodjo, S.H., M.Si., notary in Jakarta and approved by the Minister of Law and Human Rights of the Republic of Indonesia through Letter of Approval No. AHU-0946124.AH.01.02.Tahun 2015 dated 17 November 2015, Articles of Association of the Bank have been amended in relation to the change in the Bank's status from a publicly listed company to a private company.

c. Business integration with The Hongkong and Shanghai Banking Corporation Limited – Indonesia Branch

On 18 October 2016, The Bank signed Framework Agreement to Implement the Integration of the Banking Business in Indonesia with The Hongkong and Shanghai Banking Corporation Limited (HBAP) to implement business and operation integration with Indonesian branches of HBAP, known as *Indonesian Management Office* (IMO). On 13 April 2017, the Bank and IMO signed the Restated and Amended Agreement to Implement the Integration of the Banking Business in Indonesia. On 22 March 2017, FSA has approved the business integration of the Bank and IMO through its letter No. S-29/D.03/2017. For information on Integration Agreement, see Note 35.

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1. UMUM (lanjutan)
c. Integrasi usaha dengan The Hongkong and Shanghai Banking Corporation Limited – Cabang Indonesia (lanjutan)

Bank telah menyelesaikan integrasi usaha dan operasi dengan IMO dengan tanggal efektif integrasi pada 17 April 2017. Pada tanggal efektif integrasi, jumlah tercatat aset dan liabilitas untuk posisi tutup buku 16 April 2017 yang telah diambil alih masing-masing sebesar Rp 75.181.882 sehingga nilai aset bersih yang dialihkan sama dengan Rp nihil. Bank dan IMO merupakan entitas sepengendali sehingga transaksi integrasi usaha diakui pada nilai tercatatnya berdasarkan metode penyatuan kepemilikan (Lihat Catatan 3z).

Rincian aset dan liabilitas yang ditransfer dari IMO kepada Bank pada tanggal efektif integrasi adalah sebagai berikut:

Aset	
Kas	222.535
Giro pada Bank Indonesia	5.370.180
Giro pada bank-bank lain	4.908.987
Penempatan pada Bank Indonesia dan bank-bank lain	2.604.186
Aset yang diukur pada nilai wajar melalui laba rugi	3.754.856
Wesel ekspor	862.760
Tagihan akseptasi	3.099.181
Kredit yang diberikan kepada nasabah - bersih	40.743.541
Efek-efek yang dibeli dengan janji untuk dijual kembali	500.000
Efek-efek untuk tujuan investasi	9.717.065
Aset pajak tangguhan - bersih	78.692
Aset tetap - bersih	470.730
Aset lain-lain	2.849.169
Jumlah aset	75.181.882
Liabilitas	
Simpanan dari nasabah	54.650.838
Simpanan dari bank-bank lain	3.035.449
Liabilitas yang diukur pada nilai wajar melalui laba rugi	1.061.473
Utang akseptasi	3.099.181
Utang pajak penghasilan	-
Beban yang masih harus dibayar	659.817
Liabilitas lain-lain	12.597.772
Liabilitas pada kantor pusat	1.249
Cadangan nilai wajar	54.306
Cadangan program kompensasi berbasis saham	21.797
Jumlah liabilitas	75.181.882
Nilai aset bersih	-

1. GENERAL (continued)
c. Business integration with The Hongkong and Shanghai Banking Corporation Limited – Indonesia Branch (continued)

The Bank has completed the business and operation integration with IMO with the effective date of integration on 17 April 2017. On the effective date of integration, the carrying amount of total assets and liabilities as at 16 April 2017 which have taken over were each Rp 75,181,882; as such, the transferred net asset value is equal to Rp nil. The Bank and IMO are entities under common control; therefore, the business integration transaction is recognised at its carrying value under pooling of interest method (See Note 3z).

Details of the assets and liabilities transferred from IMO to the Bank at the effective integration date are as follows:

Assets	
Cash	
Demand deposits with Bank Indonesia	
Demand deposits with other banks	
Placements with Bank Indonesia and other banks	
Assets at fair value through profit and loss	
Export bills	
Acceptance receivables	
Loans to customers - net	
Securities purchase with agreement to resell	
Investment securities	
Deferred tax assets - net	
Properties and equipments - net	
Other assets	
Total assets	
Liabilities	
Deposits from customers	
Deposits from other banks	
Liabilities at fair value through profit and loss	
Acceptance payables	
Income tax payables	
Accrued expenses	
Other liabilities	
Due to head office	
Fair value reserves	
Share-based payment program reserves	
Total liabilities	
Net asset value	

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2. DASAR PENYUSUNAN

Laporan keuangan Bank telah disetujui untuk diterbitkan oleh manajemen pada tanggal 14 Maret 2018.

Berikut ini adalah dasar penyusunan laporan keuangan.

a. Pernyataan kepatuhan dan dasar penyusunan laporan keuangan

Laporan keuangan Bank disusun sesuai dengan Standar Akuntansi Keuangan (SAK) di Indonesia.

Laporan keuangan disusun berdasarkan harga perolehan, kecuali untuk aset keuangan yang diklasifikasikan sebagai tersedia untuk dijual, aset dan liabilitas keuangan yang diukur pada nilai wajar melalui laporan laba rugi dan kontrak derivatif yang diukur berdasarkan nilai wajar.

Laporan keuangan disusun atas dasar akrual, kecuali laporan arus kas.

Laporan arus kas menyajikan perubahan dalam kas dan setara kas dari aktivitas operasi, investasi dan pendanaan. Laporan arus kas disusun dengan metode langsung. Untuk tujuan laporan arus kas, kas dan setara kas meliputi kas dan saldo yang tidak dibatasi penggunaannya di giro pada Bank Indonesia, giro pada bank-bank lain, penempatan pada Bank Indonesia yang jatuh tempo dalam waktu tiga bulan sejak tanggal perolehan dan penempatan pada bank-bank lain yang jatuh tempo dalam waktu tiga bulan sejak tanggal perolehan.

Laporan keuangan disajikan dalam Rupiah, yang merupakan mata uang fungsional dan pelaporan Bank. Seluruh angka dalam laporan keuangan ini disajikan dalam jutaan Rupiah yang terdekat, kecuali dinyatakan secara khusus.

b. Penggunaan pertimbangan, taksiran dan asumsi

Penyusunan laporan keuangan sesuai dengan Standar Akuntansi Keuangan di Indonesia mengharuskan manajemen untuk membuat pertimbangan-pertimbangan, taksiran-taksiran, dan asumsi-asumsi yang mempengaruhi penerapan kebijakan akuntansi dan jumlah aset, liabilitas, pendapatan dan beban yang dilaporkan.

Walaupun taksiran ini dibuat berdasarkan pengetahuan terbaik manajemen atas kejadian dan kegiatan saat ini, hasil aktual dapat berbeda dari taksiran-taksiran tersebut.

Taksiran-taksiran dan asumsi-asumsi yang digunakan ditelaah secara berkesinambungan. Revisi atas taksiran akuntansi diakui pada periode dimana taksiran tersebut direvisi dan periode-periode yang akan datang yang dipengaruhi oleh revisi taksiran tersebut.

2. BASIS OF PREPARATION

The Bank's financial statements were authorised for issue by the management on 14 March 2018.

The basis of preparation of the financial statements are set out below.

a. Statement of compliance and basis for preparation of financial statements

The Bank's financial statements have been prepared in accordance with Indonesian Financial Accounting Standards (FAS).

The financial statements are prepared under the historical cost convention, except for financial assets classified as available-for-sale, financial assets and liabilities held at fair value through profit or loss and all derivative contracts which are measured at fair value.

The financial statements have been prepared on the accrual basis, except for the statement of cash flows.

The statement of cash flows presents the changes in cash and cash equivalents from operating, investing and financing activities. The statement of cash flows is prepared using the direct method. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and unrestricted balances in demand deposits with Bank Indonesia, demand deposits with other banks, placements with Bank Indonesia mature within three months from the date of acquisition and placements with other banks mature within three months from the date of acquisition.

The financial statements are presented in Rupiah, which is the Bank's functional and reporting currency. Figures in these financial statements are rounded to and stated in millions of Rupiah, unless otherwise stated.

b. Use of judgments, estimates and assumptions

The preparation of financial statements in conformity with Indonesian Financial Accounting Standards requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Although these estimates are based on management's best knowledge of current events and activities, actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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2. DASAR PENYUSUNAN (lanjutan)**b. Penggunaan pertimbangan, taksiran dan asumsi (lanjutan)**

Informasi mengenai hal-hal penting yang terkait dengan ketidakpastian taksiran dan pertimbangan-pertimbangan penting dalam penerapan kebijakan akuntansi yang memiliki dampak yang signifikan terhadap jumlah yang diakui dalam laporan keuangan dijelaskan di Catatan 5.

c. Perubahan kebijakan akuntansi

Kecuali dinyatakan dibawah ini, kebijakan akuntansi telah diterapkan secara konsisten dengan laporan keuangan untuk tahun yang berakhir 31 Desember 2017 yang telah sesuai dengan Standar Akuntansi Keuangan di Indonesia.

Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia (DSAK-IAI) telah menerbitkan standar baru, revisi dan interpretasi yang berlaku efektif pada atau setelah tanggal 1 Januari 2017 sebagai berikut:

- Amandemen PSAK 1 "Penyajian laporan keuangan"
- Amandemen PSAK 3 "Laporan keuangan interim"
- Amandemen PSAK 24 "Imbalan kerja"
- Amandemen PSAK 58 "Aset tidak lancar yang dimiliki untuk dijual dan operasi yang dihentikan"
- Amandemen PSAK 60 "Instrumen keuangan: pengungkapan"
- ISAK 31 "Interpretasi atas ruang lingkup PSAK 13: Properti investasi"
- ISAK 32 "Definisi dan hierarki standar akuntansi keuangan"

PSAK dan ISAK tersebut di atas tidak memiliki dampak yang signifikan terhadap jumlah yang dilaporkan pada tahun berjalan atau tahun sebelumnya.

Implementasi dari standar-standar tersebut tidak menghasilkan perubahan terhadap kebijakan akuntansi Bank dan tidak memiliki dampak terhadap jumlah yang dilaporkan di periode berjalan atau tahun sebelumnya.

Standar baru, amandemen dan interpretasi yang telah diterbitkan, namun belum berlaku efektif untuk tahun buku yang dimulai pada 1 Januari 2017 adalah sebagai berikut :

- Amandemen PSAK 2 "Laporan arus kas"
- Amandemen PSAK 13 "Properti investasi"
- Amandemen PSAK 15 "Investasi pada entitas asosiasi dan ventura bersama"
- Amandemen PSAK 16 "Aset tetap"
- Amandemen PSAK 46 "Pajak penghasilan"
- Amandemen PSAK 53 "Pembayaran berbasis saham"

2. BASIS OF PREPARATION (continued)**b. Use of judgments, estimates and assumptions (continued)**

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amount recognised in the financial statements are described in Note 5.

c. Changes in accounting policies

Except as described below, the accounting policies applied are consistent with those of the financial statements for the year ended 31 December 2017, which conform to the Indonesian Financial Accounting Standards.

Financial Accounting Standard Board of Indonesian Institute of Accountant (DSAK-IAI) has issued the following new standards, amendments and interpretations which were effective on or after 1 January 2017 as follows:

- Amendment to PSAK 1 "Presentation of Financial Statements"
- Amendment SFAS 3 "Interim financial statements"
- Amendment SFAS 24 "Employee benefits"
- Amendment SFAS 58 "Non-current assets held for sale and discontinued operation"
- Amendment SFAS 60 "Financial instrument: disclosure"
- ISFAS 31 "Interpretation on the scope of SFAS 13: Investment property"
- ISFAS 32 "Definition and hierarchy of financial accounting standards"

The above SFAS and ISFAS had no significant effect on the amounts reported for current year or prior year.

The implementation of the above standards did not result in changes to the Bank's accounting policies and had no effect on the amounts reported for current or prior financial years.

New standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 January 2017 are as follows :

- Amendment to SFAS 2 "Statement of cash flow"
- Amendment to SFAS 13 "Investment property"
- Amendment to SFAS 15 "Investment in associate and joint venture"
- Amendment to SFAS 16 "Property, plant and equipment"
- Amendment to SFAS 46 "Income taxes"
- Amendment to SFAS 53 "Share-based payment"

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2. DASAR PENYUSUNAN (lanjutan)**c. Perubahan kebijakan akuntansi (lanjutan)**

Standar baru, amandemen dan interpretasi yang telah diterbitkan, namun belum berlaku efektif untuk tahun buku yang dimulai pada 1 Januari 2017 adalah sebagai berikut : (lanjutan)

- Amandemen PSAK 62 "Kontrak asuransi"
- Amandemen PSAK 67 "Pengungkapan kepentingan dalam entitas lain"
- PSAK 71 "Instrumen keuangan"
- PSAK 72 "Pendapatan dari kontrak dengan Pelanggan"
- PSAK 73 "Sewa"
- ISAK 33 "Transaksi valuta asing dan imbalan di muka"

Standar baru, amandemen dan interpretasi tersebut di atas berlaku efektif pada 1 Januari 2018, kecuali ISAK 33 berlaku efektif pada 1 Januari 2019, amandemen PSAK 15, PSAK 71, PSAK 72 dan PSAK 73 berlaku efektif pada 1 Januari 2020 dan Amandemen PSAK 62 berlaku efektif pada 1 Januari 2021.

Pada saat penerbitan laporan keuangan, Bank masih mempelajari dampak yang mungkin timbul dari penerapan standar baru dan revisi tersebut serta pengaruhnya pada laporan keuangan Bank.

3. IKHTISAR KEBIJAKAN AKUNTANSI YANG PENTING

Kebijakan-kebijakan akuntansi yang penting yang diterapkan dalam penyusunan laporan keuangan Bank adalah sebagai berikut:

a. Aset keuangan dan liabilitas keuangan

Aset keuangan Bank terutama terdiri dari kas, giro pada Bank Indonesia, giro pada bank-bank lain, aset yang diukur pada nilai wajar melalui laba rugi, penempatan pada Bank Indonesia dan bank-bank lain, tagihan akseptasi, wesel ekspor, kredit yang diberikan kepada nasabah, efek-efek yang dibeli dengan janji dijual kembali, efek-efek untuk tujuan investasi dan aset keuangan lainnya yang disajikan sebagai bagian dari aset lain-lain.

Liabilitas keuangan Bank terutama terdiri dari simpanan dari nasabah, simpanan dari bank-bank lain, liabilitas yang diukur pada nilai wajar melalui laba rugi, utang akseptasi, beban akrual, pinjaman, pinjaman subordinasi dan liabilitas keuangan lainnya yang disajikan sebagai bagian dari liabilitas lain-lain.

2. BASIS OF PREPARATION (continued)**c. Changes in accounting policies (continued)**

New standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 January 2017 are as follows : (continued)

- Amendment of SFAS 62 "Insurance contract"
- Amendment to SFAS 67 "Disclosure of interests in other entities"
- SFAS 71 "Financial instrument"
- SFAS 72 "Revenue from contract with customer"
- SFAS 73 "Leases"
- ISFAS 33 "Foreign currency transactions and advance consideration"

The new standards, amendment, and interpretation mention above become effective on 1 January 2018 except for ISFAS 33 is effective on 1 January 2019, SFAS 71, SFAS 72 and SFAS 73 are effective on 1 January 2020, and amendment to SFAS 62 is effective on 1 January 2021.

At the time of issuance of the financial statements, the Bank is still evaluating the possible impact of the adoption of new standards and the revision and its influence on the Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the Bank's financial statements were as follows:

a. Financial assets and liabilities

The Bank's financial assets mainly consist of cash, demand deposits with Bank Indonesia, demand deposits with other banks, assets at fair value through profit or loss, placements with Bank Indonesia and other banks, acceptance receivables, export bills, loans to customers, securities purchase with agreement to resell, investment securities and other financial assets that are presented as part of other assets.

The Bank's financial liabilities mainly consist of deposits from customers, deposits from other banks, liabilities at fair value through profit or loss, acceptance payables, accruals, borrowings, subordinated debts and other financial liabilities that are presented as part of other liabilities.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**a. Aset keuangan dan liabilitas keuangan
(lanjutan)**
a.1. Klasifikasi

Bank mengelompokkan aset keuangannya dalam kategori berikut pada saat pengakuan awal:

- i. Diukur pada nilai wajar melalui laba rugi, yang memiliki 2 sub-klasifikasi, yaitu aset keuangan yang ditetapkan demikian pada saat pengakuan awal dan aset keuangan yang diklasifikasikan dalam kelompok diperdagangkan;
- ii. Tersedia untuk dijual;
- iii. Dimiliki hingga jatuh tempo;
- iv. Pinjaman yang diberikan dan piutang.

Liabilitas keuangan dikelompokkan ke dalam kategori berikut pada saat pengakuan awal:

- i. Diukur pada nilai wajar melalui laba rugi, yang memiliki 2 sub-klasifikasi, yaitu liabilitas keuangan yang ditetapkan demikian pada saat pengakuan awal dan liabilitas keuangan yang diklasifikasikan dalam kelompok diperdagangkan;
- ii. Liabilitas keuangan yang diukur pada biaya perolehan diamortisasi.

Kategori untuk diperdagangkan adalah aset dan liabilitas keuangan yang diperoleh atau dimiliki Bank terutama untuk tujuan dijual atau dibeli kembali dalam waktu dekat, atau dimiliki sebagai bagian dari portofolio yang dikelola bersama untuk memperoleh laba jangka pendek atau *position taking*. Derivatif juga dikategorikan sebagai dimiliki untuk diperdagangkan kecuali jika ditetapkan sebagai lindung nilai.

Kategori tersedia untuk dijual terdiri dari aset keuangan non-derivatif yang ditetapkan sebagai tersedia untuk dijual atau yang tidak dikelompokkan ke dalam salah satu kategori aset keuangan lainnya.

Di dalam kategori dimiliki hingga jatuh tempo adalah aset keuangan non-derivatif dengan pembayaran tetap atau telah ditentukan dan jatuh temponya telah ditetapkan dimana Bank mempunyai intensi positif dan kemampuan untuk memiliki hingga jatuh tempo, dan yang tidak ditetapkan pada nilai wajar melalui laba rugi atau tersedia untuk dijual. Pada tanggal 31 Desember 2017 dan 2016, Bank tidak memiliki aset keuangan yang diklasifikasikan sebagai dimiliki hingga jatuh tempo.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
a. Financial assets and liabilities (continued)
a.1. Classification

The Bank classified its financial assets in the following categories on initial recognition:

- i. Fair value through profit or loss, which has 2 sub-classifications, i.e. financial assets designated as such upon initial recognition and financial assets classified as held for trading;
- ii. Available-for-sale;
- iii. Held-to-maturity;
- iv. Loans and receivables.

Financial liabilities are classified into the following categories on initial recognition:

- i. Fair value through profit or loss, which has 2 sub-classifications, i.e. those designated as such upon initial recognition and those classified as held for trading;
- ii. Financial liabilities measured at amortised cost.

Held for trading category are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Derivatives are also categorised as held for trading unless they are designated as hedges.

The available-for-sale category consists of non-derivative financial assets that are designated as available-for-sale or are not classified in one of the other categories of financial assets.

In the held-to-maturity category are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. As of 31 December 2017 and 2016, the Bank does not have any financial assets classified as held-to-maturity.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**a. Aset keuangan dan liabilitas keuangan
(lanjutan)**
a.1. Klasifikasi (lanjutan)

Pinjaman yang diberikan dan piutang adalah aset keuangan non-derivatif dengan pembayaran tetap atau dapat ditentukan yang tidak mempunyai kuotasi di pasar aktif.

a.2. Pengakuan

Pembelian dan penjualan aset keuangan yang lazim (*regular*) diakui pada tanggal perdagangan dimana Bank memiliki komitmen untuk membeli atau menjual aset tersebut.

Pada saat pengakuan awal, aset keuangan atau liabilitas keuangan diukur pada nilai wajar ditambah/dikurang (untuk *item* yang tidak diukur pada nilai wajar melalui laporan laba rugi setelah pengakuan awal) biaya transaksi (jika ada) yang dapat diatribusikan secara langsung atas perolehan aset keuangan atau penerbitan liabilitas keuangan. Pengukuran aset keuangan dan liabilitas keuangan setelah pengakuan awal tergantung pada klasifikasi aset keuangan dan liabilitas keuangan tersebut.

Biaya transaksi hanya meliputi biaya-biaya yang dapat diatribusikan secara langsung untuk perolehan suatu aset keuangan atau penerbitan suatu liabilitas keuangan dan merupakan biaya tambahan yang tidak akan terjadi apabila instrumen keuangan tersebut tidak diperoleh atau diterbitkan. Biaya transaksi tersebut diamortisasi selama umur instrumen berdasarkan metode suku bunga efektif dan dicatat sebagai bagian dari pendapatan bunga untuk biaya transaksi sehubungan dengan aset keuangan atau sebagai bagian dari beban bunga untuk biaya transaksi sehubungan dengan liabilitas keuangan.

a.3. Penghentian pengakuan

Bank menghentikan pengakuan aset keuangan pada saat hak kontraktual atas arus kas yang berasal dari aset keuangan tersebut kadaluwarsa, atau Bank mentransfer seluruh hak untuk menerima arus kas kontraktual dari aset keuangan dalam transaksi dimana Bank secara substansial telah mentransfer seluruh risiko dan manfaat atas kepemilikan aset keuangan yang ditransfer. Setiap hak atau kewajiban atas aset keuangan yang ditransfer yang timbul atau yang masih dimiliki oleh Bank diakui sebagai aset atau liabilitas secara terpisah.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
a. Financial assets and liabilities (continued)
a.1. Classification (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

a.2. Recognition

Regular way of purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell those assets.

A financial asset or financial liability is initially measured at fair value plus/less (for an item not subsequently measured at fair value through profit or loss) transaction costs (if any) that are directly attributable to the acquisition of financial asset or issuance of financial liability. The subsequent measurement of financial assets and financial liabilities depends on their classification.

Transaction costs only include those costs that are directly attributable to the acquisition of a financial asset or issuance of a financial liability and are incremental costs that would not have been incurred if the financial instrument had not been acquired or issued. Such transaction costs are amortised over the terms of the instruments based on the effective interest method and are recorded as part of interest income for transaction costs related to financial assets or interest expenses for transaction costs related to financial liabilities.

a.3. Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Bank transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which the Bank has substantially transfer all the risks and rewards of ownership of the financial asset. Any rights or obligation in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**a. Aset keuangan dan liabilitas keuangan
(lanjutan)**
a.3. Penghentian pengakuan (lanjutan)

Bank menghentikan pengakuan liabilitas keuangan pada saat kewajiban yang ditetapkan dalam kontrak dilepaskan atau dibatalkan atau kadaluwarsa.

Bank menghapusbukukan saldo kredit dan efek untuk tujuan investasi, dan penyisihan kerugian penurunan nilai terkait, pada saat Bank menentukan bahwa kredit atau efek-efek tersebut tidak dapat ditagih. Keputusan ini diambil setelah mempertimbangkan informasi seperti telah terjadinya perubahan signifikan pada posisi keuangan debitur/penerbit sehingga debitur/penerbit tidak lagi dapat melunasi kewajibannya, atau hasil penjualan agunan tidak akan cukup untuk melunasi seluruh eksposur yang diberikan. Selisih lebih nilai tercatat kredit yang diberikan atas arus kas masuk dari eksekusi jaminan dibebankan sebagai kerugian penurunan nilai dalam laba rugi tahun berjalan.

a.4. Saling hapus

Aset keuangan dan liabilitas keuangan disalinghapuskan dan jumlah netonya dilaporkan pada laporan posisi keuangan ketika terdapat hak yang berkekuatan hukum untuk melakukan saling hapus atas jumlah yang telah diakui tersebut dan adanya niat untuk menyelesaikan secara neto, atau untuk merealisasikan aset dan menyelesaikan liabilitas secara bersamaan. Hak saling hapus tidak kontingen atas peristiwa di masa depan dan dapat dipaksakan secara hukum dalam situasi bisnis yang normal dan dalam peristiwa gagal bayar, atau peristiwa kepailitan atau kebangkrutan Bank atau pihak lawan.

**a.5. Pengukuran biaya perolehan
diamortisasi**

Aset atau liabilitas keuangan yang diukur dengan biaya perolehan diamortisasi adalah jumlah aset atau liabilitas keuangan yang diukur pada saat pengakuan awal, dikurangi pembayaran pokok, ditambah atau dikurangi dengan amortisasi kumulatif dengan menggunakan metode suku bunga efektif yang dihitung dari selisih antara nilai awal dan nilai jatuh temponya, dan dikurangi penyisihan kerugian penurunan nilai.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
a. Financial assets and liabilities (continued)
a.3. Derecognition (continued)

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Bank writes off a loan and investment security balance, and any related allowance for impairment losses, when the Bank determines that the loan or security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the debtor's/issuer's financial position such that the debtor/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Any excess of loans carrying amount over the cash flow from collateral execution is charged to impairment loss in the current year profit or loss.

a.4. Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default in solvency or bankruptcy of the Bank or the counterparty.

a.5. Amortised cost measurement

Financial assets or liabilities measured at amortised cost is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, and minus any reduction for impairment.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**a. Aset keuangan dan liabilitas keuangan
(lanjutan)**
a.6. Pengukuran nilai wajar

Nilai wajar adalah harga yang akan diterima untuk menjual suatu aset atau harga yang akan dibayar untuk mengalihkan suatu liabilitas dalam transaksi teratur (*orderly transaction*) antara pelaku pasar (*market participants*) pada tanggal pengukuran di pasar utama atau, jika tidak terdapat pasar utama, di pasar yang paling menguntungkan dimana Bank memiliki akses pada tanggal tersebut. Nilai wajar liabilitas mencerminkan risiko wanprestasinya.

Jika tersedia, Bank mengukur nilai wajar instrumen menggunakan harga kuotasi di pasar aktif untuk instrumen tersebut

Instrumen keuangan dianggap memiliki kuotasi di pasar aktif jika harga kuotasi tersedia sewaktu-waktu dan dapat diperoleh secara rutin dari bursa, pedagang efek (*dealer*), perantara efek (*broker*), kelompok industri, badan pengawas (*pricing service* atau *regulatory agency*), dan harga tersebut mencerminkan transaksi pasar yang aktual dan rutin dalam suatu transaksi yang wajar. Jika kriteria di atas tidak terpenuhi, maka pasar aktif dinyatakan tidak tersedia. Indikasi-indikasi dari pasar tidak aktif adalah terdapat selisih yang besar antara harga penawaran dan permintaan atau kenaikan signifikan dalam selisih harga penawaran dan permintaan atau hanya terdapat beberapa transaksi terkini.

Bukti terbaik atas nilai wajar instrumen keuangan pada saat pengakuan awal adalah harga transaksi, yaitu nilai wajar dari pembayaran yang diberikan atau diterima. Jika Bank menetapkan bahwa nilai wajar pada pengakuan awal berbeda dengan harga transaksi dan nilai wajar tidak dapat dibuktikan dengan harga kuotasi di pasar aktif untuk aset atau liabilitas yang sejenis atau berdasarkan teknik penilaian yang hanya menggunakan data dari pasar yang dapat diobservasi, maka nilai wajar instrumen keuangan pada saat pengakuan awal disesuaikan untuk menanggulangi perbedaan antara nilai wajar pada saat pengakuan awal dan harga transaksi. Setelah pengakuan awal, perbedaan tersebut diamortisasi dan diakui dalam laba rugi sepanjang umur dari instrumen tersebut.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
a. Financial assets and liabilities (continued)
a.6. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is amortised and recognised in profit or loss on over the life of the instrument.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**a. Aset keuangan dan liabilitas keuangan
(lanjutan)**
a.6. Pengukuran nilai wajar (lanjutan)

Untuk instrumen keuangan yang tidak mempunyai harga pasar, estimasi atas nilai wajar ditetapkan dengan mengacu pada nilai wajar instrumen lain yang substansinya sama atau dihitung berdasarkan arus kas yang diharapkan terhadap aset bersih efek-efek tersebut.

Nilai wajar untuk semua instrumen keuangan lainnya ditentukan dengan menggunakan teknik penilaian. Dengan teknik ini, nilai wajar merupakan suatu estimasi yang dihasilkan dari data yang diobservasi dari instrumen keuangan yang sama, menggunakan model-model untuk mendapatkan estimasi nilai kini dari arus kas masa depan yang diharapkan atau teknik penilaian lainnya menggunakan *input* (sebagai contoh *LIBOR yield curve*, nilai tukar mata uang asing, volatilitas, dan *counterparty spreads*) yang tersedia pada tanggal laporan posisi keuangan.

b. Giro pada Bank Indonesia dan bank-bank lain

Giro pada Bank Indonesia dan giro pada bank-bank lain dicatat pada biaya perolehan diamortisasi dengan menggunakan metode suku bunga efektif

c. Penempatan pada Bank Indonesia dan bank-bank lain

Penempatan pada Bank Indonesia dan bank-bank lain pada awalnya diukur pada nilai wajar ditambah biaya transaksi (jika ada) yang dapat diatribusikan secara langsung dan merupakan biaya tambahan untuk memperoleh aset keuangan tersebut, dan setelah pengakuan awal diukur pada biaya perolehan diamortisasi menggunakan metode suku bunga efektif.

d. Kredit yang diberikan kepada nasabah

Kredit yang diberikan kepada nasabah adalah penyediaan uang atau tagihan yang dapat disetarakan dengan kas, berdasarkan persetujuan atau kesepakatan pinjam-meminjam dengan debitur yang mewajibkan debitur untuk melunasi utang berikut bunganya setelah jangka waktu tertentu.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
a. Financial assets and liabilities (continued)
a.6. Fair value measurement (continued)

For financial instruments with no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instruments which substantially have the same characteristic or calculated based on the expected cash flows of the underlying net asset base of the marketable securities.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques using inputs (for example, *LIBOR yield curve*, foreign exchange rates, volatilities, and *counterparty spreads*) existing at the dates of the statement of financial position.

b. Demand deposits with Bank Indonesia and other banks

Demand deposits with Bank Indonesia and other banks are carried at amortised cost using the effective interest method.

c. Placements with Bank Indonesia and other banks

Placements with Bank Indonesia, and other banks are initially measured at fair value plus incremental direct transaction costs (if any), and subsequently measured at their amortised cost using the effective interest method.

d. Loans to customers

Loans to customers represent provision of cash or cash equivalent based on agreements with debtors, where debtors are required to repay their debts with interest after a specified period.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**d. Kredit yang diberikan kepada nasabah
(lanjutan)**

Kredit yang diberikan kepada nasabah pada awalnya diukur pada nilai wajar ditambah biaya atau pendapatan transaksi yang dapat diatribusikan secara langsung (jika ada), dan setelah pengakuan awal diukur pada biaya perolehan diamortisasi menggunakan metode suku bunga efektif.

Jenis kredit yang diberikan terdiri dari kredit modal kerja, investasi, konsumsi dan karyawan.

Kredit dalam rangka pembiayaan bersama (kredit sindikasi) dinyatakan sebesar biaya perolehan diamortisasi sesuai dengan porsi risiko yang ditanggung oleh Bank.

Restrukturisasi pinjaman debitur yang mengalami kesulitan dalam memenuhi kewajibannya, dilakukan antara lain melalui perpanjangan jangka waktu pinjaman dan perubahan fasilitas pinjaman.

Kerugian yang timbul dari restrukturisasi pinjaman yang berkaitan dengan modifikasi persyaratan pinjaman diakui bila nilai sekarang dari jumlah penerimaan kas yang akan datang yang telah ditentukan dalam persyaratan pinjaman yang baru, termasuk penerimaan yang diperuntukkan sebagai bunga maupun pokok, adalah lebih kecil dari nilai pinjaman yang diberikan yang tercatat sebelum restrukturisasi.

e. Efek-efek yang dibeli dengan janji dijual kembali

Efek-efek yang dibeli dengan janji dijual kembali (*reverse repo*) yang dimiliki Bank dengan tujuan untuk memperoleh arus kas kontraktual dengan janji untuk dijual kembali pada waktu dan harga yang telah ditentukan, bukan dengan tujuan untuk diperdagangkan, disajikan sebagai tagihan sebesar harga jual yang telah disepakati, dikurangi dengan selisih antara harga beli dan harga jual yang telah disepakati. Selisih antara harga beli dan harga jual kembali yang disepakati tersebut diamortisasi sebagai pendapatan bunga selama jangka waktu sejak efek-efek itu dibeli hingga saat dijual kembali dengan menggunakan metode suku bunga efektif. Efek-efek yang mendasari transaksi *reverse repo* tidak diakui di laporan posisi keuangan.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
d. Loans to customers (continued)

Loans to customers are initially measured at fair value plus incremental direct transaction costs or income (if any), and subsequently measured at their amortised cost using the effective interest method.

The types of loans consist of working capital, investment, consumer and employee loans.

Syndicated loans are stated at amortised cost in accordance with the risk borne by the Bank.

Loan restructuring for debtors facing difficulties in fulfilling their obligation, is done through extension of loan period and changes of loan facilities.

Losses on loan restructuring in respect of modification of the terms of the loans are recognised only if the present value of total future cash receipts specified by the new terms of the loans, including both receipts designated as interest and those designated as loan principal, are less than the carrying amount of loans before restructuring.

e. Securities purchased with agreement to resell

Securities purchased with agreement to resell (reverse repo) which are held by the Bank in order to collect contractual cash flows with a promise of reselling it at a predetermined time and price, rather than intention for trading, are presented as receivable at the agreed resale price less the difference between the purchase price and the agreed resale price. The difference between the purchase price and the agreed resale price is amortised as interest income over the period commencing from the acquisition date to the resale date using the effective interest rate method. The underlying securities on reverse repo transactions are not recognised at the statement of financial position.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**f. Aset dan liabilitas yang diukur pada nilai
wajar melalui laba rugi**

Aset dan liabilitas yang diukur pada nilai wajar melalui laba rugi terdiri dari aset dan liabilitas untuk diperdagangkan dan derivatif yang digunakan untuk tujuan manajemen risiko tapi karena beberapa alasan tidak memenuhi kriteria akuntansi lindung nilai. Aset dan liabilitas yang diukur pada nilai wajar melalui laba rugi diakui dan diukur pada nilai wajar di laporan posisi keuangan pada saat pengakuan awal dan setelah pengakuan awal, dengan biaya transaksi yang terjadi diakui langsung di dalam laba rugi. Semua perubahan nilai wajar aset dan liabilitas yang diukur pada nilai wajar melalui laba rugi diakui di dalam laba rugi tahun berjalan. Aset dan liabilitas yang diukur pada nilai wajar melalui laba rugi tidak direklasifikasi setelah pengakuan awal.

g. Tagihan dan utang akseptasi

Tagihan dan utang akseptasi dicatat pada biaya perolehan diamortisasi.

h. Efek-efek untuk tujuan investasi

Efek-efek untuk tujuan investasi terdiri dari Sertifikat Bank Indonesia (SBI), Surat Perbendaharaan Negara (SPN), obligasi pemerintah, dan sukuk.

Efek-efek untuk tujuan investasi diklasifikasikan sebagai aset keuangan yang tersedia untuk dijual dan pada awalnya diukur pada nilai wajar ditambah biaya transaksi (jika ada). Setelah pengakuan awal, efek-efek untuk tujuan investasi dinyatakan pada nilai wajar.

Pendapatan bunga diakui dalam laporan laba rugi menggunakan metode suku bunga efektif. Laba atau rugi selisih kurs atas efek-efek untuk tujuan investasi diakui pada laba rugi tahun berjalan.

Perubahan nilai wajar lainnya diakui dalam penghasilan komprehensif lain sampai investasi tersebut dijual atau mengalami penurunan nilai, dimana keuntungan dan kerugian kumulatif yang belum direalisasi yang sebelumnya diakui dalam penghasilan komprehensif lain harus diakui pada laba rugi tahun berjalan berdasarkan metode rata-rata tertimbang.

Perubahan nilai wajar aset moneter yang didenominasikan dalam mata uang asing yang diklasifikasikan sebagai tersedia untuk dijual dipisahkan antara selisih penjabaran yang timbul dari perubahan biaya perolehan diamortisasi efek dan perubahan nilai tercatat efek lainnya. Selisih penjabaran terkait dengan perubahan biaya perolehan diamortisasi diakui di dalam laporan laba rugi, dan perubahan nilai tercatat lainnya diakui pada penghasilan komprehensif lainnya.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
**f. Assets and liabilities at fair value through
profit or loss**

Assets and liabilities at fair value through profit or loss consist of assets and liabilities held for trading and derivatives used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. Assets and liabilities at fair value through profit or loss are initially and subsequently recognised and measured at fair value in the statement of financial position, with transaction costs recognised directly in profit or loss. All changes in the fair value of assets and liabilities at fair value through profit or loss are recognised in profit or loss for the year. Assets and liabilities at fair value through profit or loss are not reclassified subsequent to their initial recognition.

g. Acceptance receivables and payables

Acceptance receivables and payables are carried at amortised cost.

h. Investment securities

Investment securities consist of Certificates of Bank Indonesia, Treasury Bills, government bonds, and sukuk.

Investment securities are classified as available-for-sale, and initially measured at fair value plus transaction costs (if any). Subsequent to initial measurement, investment securities are carried at fair value.

Interest income is recognised in the profit or loss using the effective interest method. Foreign exchange gains or losses on investment securities are recognised in the profit or loss for the year.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, where upon the cumulative unrealised gains and losses previously recognised in other comprehensive income are recognised in the profit or loss for the year based on a weighted average method.

Changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
h. Efek-efek untuk tujuan investasi (lanjutan)
Investasi pada sukuk

Bank mengklasifikasikan investasi pada sukuk sebagai diukur pada nilai wajar melalui penghasilan komprehensif lain sesuai dengan PSAK No. 110 (revisi 2015), "Akuntansi Sukuk". Investasi pada sukuk diklasifikasikan sebagai diukur pada nilai wajar melalui penghasilan komprehensif lain jika:

- Investasi tersebut dimiliki dalam suatu model usaha yang bertujuan utama untuk memperoleh arus kas kontraktual dan melakukan penjualan sukuk; dan
- Persyaratan kontraktual menentukan tanggal tertentu pembayaran pokok dan/atau hasilnya.

Pada saat pengakuan awal, Bank mencatat investasi pada sukuk sebesar biaya perolehan ditambah biaya transaksi yang dapat diatribusikan secara langsung untuk perolehan investasi pada sukuk. Setelah pengakuan awal, investasi pada sukuk yang diukur pada nilai wajar melalui penghasilan komprehensif lain dinyatakan sebesar nilai wajar. Selisih antara biaya perolehan dan nilai nominal diamortisasi secara garis lurus selama jangka waktu sukuk dan diakui dalam laba rugi. Keuntungan atau kerugian dari perubahan nilai wajar diakui dalam penghasilan komprehensif lain.

i. Penjabaran transaksi dan saldo dalam valuta asing

Transaksi-transaksi dalam valuta asing dijabarkan ke dalam Rupiah, mata uang fungsional Bank, dengan menggunakan kurs pada tanggal transaksi

Saldo akhir tahun aset dan liabilitas moneter dalam valuta asing dijabarkan ke dalam Rupiah dengan kurs tengah Reuters pukul 16:00 WIB.

Seluruh keuntungan dan kerugian selisih kurs yang diakui dalam laporan laba rugi disajikan bersih dalam laporan laba rugi.

Kurs valuta asing utama pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

Valuta asing		2017	2016	Foreign currencies	
		Rupiah penuh/ Rupiah full amount	Rupiah penuh/ Rupiah full amount		
1	Dolar Amerika Serikat (USD)	13.567,50	13.472,50	United States Dollar (USD)	1
1	Dolar Australia (AUD)	10.594,19	9.723,11	Australian Dollar (AUD)	1
1	Dolar Singapura (SGD)	10.154,56	9.311,93	Singapore Dollar (SGD)	1
1	Dolar Hong Kong (HKD)	1.736,21	1.737,34	Hong Kong Dollar (HKD)	1
1	Pound Inggris (GBP)	18.325,62	16.555,01	British Pound (GBP)	1
100	Yen Jepang (JPY)	12.052,00	11.506,50	Japanese Yen (JPY)	100
1	Euro (EUR)	16.236,23	14.175,77	Euro (EUR)	1

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
h. Investment securities (continued)
Investments in sukuk

The Bank classifies all investment in sukuk as measured at fair value through other comprehensive income in accordance with SFAS No. 110 (revised 2015), "Accounting for Sukuk". The investments in sukuk are classified as measured at fair value through other comprehensive income if:

- Such investment is held in a business model whose objective is to collect contractual cash flows and to sell sukuk; and
- The contractual terms of the financial asset give rise on specified dates of payments of principals and/or the margin.

At initial recognition, the Bank records investments in sukuk at acquisition cost plus directly attributable transaction costs. Subsequent to initial recognition, investments in sukuk measured at fair value through other comprehensive income are stated at fair value. Difference between acquisition cost and nominal value is amortised using straight line during the sukuk time period and recognised in profit or loss. Gain or loss from fair value changes recognised in other comprehensive income.

i. Foreign currency transactions and balances

Transactions in foreign currencies are translated into Rupiah, the Bank's functional currency, using the spot exchange rate on the date of transaction.

Year-end balances of monetary assets and liabilities in foreign currencies were translated into Rupiah using the Reuters middle rates at 16:00 Western Indonesian Time.

All foreign exchange gains and losses recognised in the statement of profit or loss are presented net in the statement of profit or loss.

The major rates of foreign exchange used as of 31 December 2017 and 2016 were as follows

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
j. Transaksi dengan pihak-pihak berelasi

Dalam laporan keuangan ini, istilah pihak berelasi digunakan sesuai dengan PSAK No. 7 (revisi 2015) mengenai "Pengungkapan Pihak-pihak Berelasi".

Transaksi dan saldo dengan pihak berelasi, baik yang dilakukan dengan atau tidak dengan persyaratan dan kondisi yang sama dengan pihak ketiga, diungkapkan dalam catatan atas laporan keuangan.

k. Pajak penghasilan

Beban pajak terdiri dari pajak kini dan pajak tangguhan. Pajak diakui dalam laporan laba rugi, kecuali jika pajak tersebut terkait dengan transaksi atau kejadian yang diakui di penghasilan komprehensif lain atau langsung diakui ke ekuitas. Dalam hal ini, pajak tersebut masing-masing diakui dalam penghasilan komprehensif lain atau ekuitas.

Pajak penghasilan tangguhan diakui dengan menggunakan metode aset dan liabilitas untuk semua perbedaan temporer antara dasar pengenaan pajak aset dan liabilitas dengan nilai tercatatnya pada laporan keuangan. Tarif pajak yang berlaku saat ini dipakai untuk menentukan pajak tangguhan.

Aset pajak tangguhan diakui apabila besar kemungkinan bahwa jumlah laba fiskal pada masa mendatang akan memadai untuk mengkompensasi perbedaan temporer yang menimbulkan aset pajak tangguhan tersebut.

Aset dan liabilitas pajak penghasilan tangguhan dapat saling hapus apabila terdapat hak yang berkekuatan hukum untuk melakukan saling hapus antara aset pajak kini dengan liabilitas pajak kini dan apabila aset dan liabilitas pajak penghasilan tangguhan dikenakan oleh otoritas perpajakan yang sama, baik atas entitas kena pajak yang sama ataupun berbeda dan adanya niat untuk melakukan penyelesaian saldo-saldo tersebut secara neto.

Koreksi terhadap kewajiban perpajakan diakui saat surat ketetapan pajak diterima atau jika mengajukan keberatan, pada saat keputusan atas keberatan tersebut telah ditetapkan.

l. Aset tetap
l.1. Pengakuan dan pengukuran

Aset tetap pada awalnya diakui sebesar biaya perolehan. Biaya perolehan meliputi harga perolehannya dan biaya-biaya yang dapat diatribusikan secara langsung dengan perolehan aset tersebut. Perangkat lunak yang dibeli sebagai bagian integral dari fungsi perangkat terkait dikapitalisasi sebagai bagian dari perangkat tersebut.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
j. Transactions with related parties

In these financial statements, the term related parties is used as defined in PSAK No. 7 (revised 2015) regarding "Related Party Disclosures".

Transactions and balance of accounts with related parties, which were made under the same as well as different terms and conditions with non-related parties, are disclosed in the notes to the financial statements.

k. Income taxes

The tax expense comprises of current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the taxes are also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognised using the asset and liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Current enacted tax rates are used to determine deferred income tax.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset arising from temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Amendments to taxation obligations are recorded when an assessment is received or, if appealed against, when the appeal has been decided.

l. Properties and equipments
l.1 Recognition and measurement

Properties and equipments are initially recognised at cost. Cost includes its purchase price and any costs directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
I. Aset tetap (lanjutan)
I.1. Pengakuan dan pengukuran (lanjutan)

Setelah pengukuran awal, aset tetap diukur dengan model biaya, yaitu dicatat sebesar biaya perolehan dikurangi akumulasi penyusutan dan akumulasi rugi penurunan nilai aset.

Jumlah tercatat aset tetap dihentikan pengakuannya pada saat pelepasan atau ketika tidak terdapat lagi manfaat ekonomi masa depan yang diekspektasikan dari penggunaan atau pelepasannya.

Laba atau rugi dari penjualan aset tetap ditentukan dengan membandingkan penerimaan dari penjualan dengan nilai tercatat dari aset tetap terkait, diakui sebagai pendapatan/beban lainnya di dalam laba rugi tahun berjalan.

I.2. Pengeluaran selanjutnya

Biaya untuk renovasi dan penambahan yang jumlahnya signifikan dan memperpanjang masa manfaat aset tetap dikapitalisasi ke aset tetap yang bersangkutan. Beban perbaikan dan pemeliharaan dibebankan pada laba rugi tahun berjalan.

I.3. Penyusutan

Tanah dinyatakan sebesar harga perolehan dan tidak disusutkan.

Bangunan disusutkan dengan menggunakan metode garis lurus berdasarkan taksiran masa manfaat selama 20 tahun. Pada tahun 2017, Bank mengubah estimasi masa manfaat terkait penyusutan instalasi kantor dan aset tetap lainnya. Instalasi kantor dan aset tetap lainnya disusutkan berdasarkan taksiran masa manfaat aset selama 3 sampai dengan 20 tahun dengan menggunakan metode garis lurus. Perubahan kebijakan akuntansi ini diterapkan secara prospektif. Pada tahun 2016, instalasi kantor disusutkan berdasarkan taksiran masa manfaat selama 5 dan 10 tahun dan aset tetap lainnya disusutkan berdasarkan taksiran masa manfaat aset selama 4 dan 8 tahun dengan menggunakan metode garis lurus.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
I. Properties and equipments (continued)
**I.1. Recognition and measurement
(continued)**

After initial measurement, properties and equipments are measured using the cost model, i.e. carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The carrying amount of an item of properties and equipments is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss on disposal of an item of properties and equipments is determined by comparing the proceeds from disposal with the carrying amount of the item of properties and equipments, and is recognised as other income/other expenses in the profit or loss for the year.

I.2. Subsequent costs

The cost for renovation and improvements, which are significant and prolong the useful life of properties and equipments, is capitalised to the respective properties and equipments. Normal repair and maintenance expenses are charged to the profit or loss for the year.

I.3. Depreciation

Land is stated at cost and not depreciated.

Buildings are depreciated using the straight-line method over their estimated useful lives of 20 years. In 2017, the Bank changes its useful life estimation related to depreciation of leasehold improvements and other properties and equipments. Leasehold improvements and other properties and equipments are depreciated over their estimated useful life of 3 to 20 years using the straight line method. This change of accounting policy is applied prospectively. In 2016, leasehold improvement is depreciated over its estimated useful life of 5 and 10 years and other properties and equipments are depreciated over their estimated useful lives of 4 and 8 years using the straight line method.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)****l. Aset tetap (lanjutan)****l.3. Penyusutan (lanjutan)**

Metode penyusutan yang digunakan, masa manfaat dan nilai residu dikaji pada setiap akhir tahun buku dan, jika terjadi perubahan yang signifikan dalam ekspektasi pola pemakaian manfaat ekonomi masa depan dari aset tetap tersebut, maka metode penyusutan diubah untuk mencerminkan perubahan pola tersebut.

m. Aset yang dimiliki untuk dijual

Aset yang dimiliki untuk dijual merupakan agunan berupa aset tidak lancar yang diambil alih sehubungan dengan penyelesaian kredit yang mengalami penurunan nilai.

Aset tidak lancar diklasifikasikan sebagai dimiliki untuk dijual jika jumlah tercatat aset tersebut akan dipulihkan terutama melalui transaksi penjualan, aset ini harus berada dalam keadaan dapat dijual pada kondisinya saat ini dan penjualannya harus sangat mungkin terjadi.

Aset tidak lancar yang dimiliki untuk dijual diukur pada nilai yang lebih rendah antara jumlah tercatat dan nilai wajar setelah dikurangi biaya untuk menjualnya.

Selisih antara jumlah tercatat dan hasil penjualan dari aset yang dimiliki untuk dijual diakui sebagai laba atau rugi dari aset yang dimiliki untuk dijual pada saat penjualan aset tersebut dalam laba rugi tahun berjalan.

n. Aset tak berwujud

Aset tak berwujud merupakan perangkat lunak komputer yang dihasilkan secara internal dan/atau dibeli. Aset tak berwujud dicatat pada harga perolehan dikurangi akumulasi amortisasi. Harga perolehan dari perangkat lunak yang dihasilkan secara internal terdiri atas semua biaya yang dapat diatribusikan secara langsung terhadap perancangan, pengembangan dan persiapan hingga perangkat lunak tersebut dapat digunakan sesuai intensi manajemen. Biaya yang terjadi dalam rangka pemeliharaan atas perangkat lunak tersebut diakui sebagai beban pada saat terjadinya.

Aset tak berwujud dihentikan pengakuannya jika dilepas atau ketika tidak terdapat lagi manfaat ekonomi masa depan yang diperkirakan dari penggunaan atau pelepasannya.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)****l. Properties and equipments (continued)****l.3. Depreciation (continued)**

The depreciation method applied, useful lives and residual value are reviewed at each financial year-end and, if there is a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the depreciation method is changed to reflect the changed pattern.

m. Assets held for sale

Assets held for sale represent non-current assets which were foreclosed in conjunction with settlement of impaired loans.

Non-current assets are classified as held for sale when their carrying amounts will be recovered principally through a sale transaction, they must be available for sale in their present condition and their sale must be highly probable.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The difference between the carrying value and the proceeds from selling assets held for sale is recognised as gain or loss from assets held for sale at the time of sale in the current year profit or loss.

n. Intangible assets

Intangible assets represent computer software that was internally generated and/or purchased. Intangible asset is stated at cost less accumulated amortisation. The cost of internally generated software comprises of all directly attributable costs necessary to create, develop and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

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**3. IKHTISAR KEBIJAKAN AKUANSI YANG
PENTING (lanjutan)**
n. Aset tak berwujud (lanjutan)

Amortisasi diakui pada laba rugi dengan menggunakan metode garis lurus selama taksiran masa manfaat dari perangkat lunak yang bersangkutan, sejak tanggal perangkat lunak tersebut siap untuk digunakan. Taksiran masa manfaat untuk perangkat lunak adalah 3 - 5 tahun.

o. Identifikasi dan pengukuran penurunan nilai aset keuangan

Pada setiap tanggal pelaporan, Bank mengevaluasi apakah terdapat bukti obyektif bahwa aset keuangan yang tidak dicatat pada nilai wajar melalui laporan laba rugi telah mengalami penurunan nilai. Aset keuangan mengalami penurunan nilai jika bukti obyektif menunjukkan bahwa peristiwa yang merugikan telah terjadi setelah pengakuan awal aset keuangan, dan peristiwa tersebut berdampak pada arus kas masa datang atas aset keuangan yang dapat diestimasi secara handal.

Bukti obyektif bahwa aset keuangan mengalami penurunan nilai meliputi wanprestasi atau tunggakan pembayaran oleh debitur, restrukturisasi kredit atau tagihan oleh Bank dengan persyaratan yang tidak mungkin diberikan jika debitur tidak mengalami kesulitan keuangan, indikasi bahwa debitur atau penerbit akan dinyatakan pailit, hilangnya pasar aktif dari aset keuangan akibat kesulitan keuangan, atau data yang dapat diobservasi lainnya yang terkait dengan kelompok aset keuangan seperti memburuknya status pembayaran debitur atau penerbit dalam kelompok tersebut, atau kondisi ekonomi yang berkorelasi dengan wanprestasi atas aset dalam kelompok tersebut.

Bank menentukan bukti penurunan nilai atas kredit yang diberikan kepada nasabah, wesel ekspor, efek-efek untuk tujuan investasi dan tagihan akseptasi secara individual dan kolektif. Evaluasi penurunan nilai secara individual dilakukan terhadap semua kredit yang diberikan, efek-efek untuk tujuan investasi dan tagihan akseptasi yang signifikan secara individual.

Semua kredit yang diberikan kepada nasabah, wesel ekspor, efek-efek untuk tujuan investasi dan tagihan akseptasi yang signifikan secara individual yang tidak mengalami penurunan nilai secara individual dievaluasi secara kolektif untuk menentukan penurunan nilai yang sudah terjadi namun belum diidentifikasi.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
n. Intangible assets (continued)

Amortisation is recognised in profit or loss on a straight-line method over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is 3 - 5 years.

o. Identification and measurement of impairment of financial assets

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of a loan or receivable by the Bank on terms that the Bank would not otherwise consider, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security due to financial difficulties, or other observable data relating to a group of assets such as adverse changes in the payment status of debtors or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans to customers, export bills, investment securities and acceptance receivables at both individual and collective level. All individually significant loans, investment securities and acceptance receivables are assessed for individual impairment.

All individually significant loans to customers, export bills, investment securities and acceptance receivables found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**o. Identifikasi dan pengukuran penurunan nilai
aset keuangan (lanjutan)**

Kredit yang diberikan kepada nasabah, wesel ekspor, efek-efek untuk tujuan investasi dan tagihan akseptasi yang tidak signifikan secara individual akan dievaluasi secara kolektif untuk menentukan penurunan nilainya dengan mengelompokkan aset keuangan tersebut berdasarkan karakteristik risiko yang serupa.

Semua penempatan dan giro pada bank-bank lain dievaluasi penurunan nilainya secara individual.

o.1. Dinilai secara individu

Penurunan nilai atas aset keuangan yang dinilai secara individu ditentukan dengan mengevaluasi eksposur secara satu per satu. Prosedur ini diterapkan atas aset keuangan yang dianggap signifikan secara individu.

Dalam menentukan penurunan nilai atas aset keuangan yang dinilai secara individu, faktor-faktor berikut dijadikan pertimbangan:

- jumlah eksposur Bank terhadap pihak lawan;
- keandalan bisnis model pihak lawan dan kemampuan mengatasi kesulitan keuangan serta menghasilkan arus kas yang cukup untuk melunasi kewajiban terhutang;
- jumlah dan perkiraan waktu penerimaan pembayaran dari debitur dan pemulihan;
- nilai realisasi agunan.

Kerugian penurunan nilai atas aset keuangan diukur sebesar selisih antara nilai tercatat aset keuangan dengan nilai kini estimasi arus kas masa datang yang didiskonto menggunakan suku bunga efektif awal dari aset keuangan tersebut.

o.2. Dinilai secara kolektif

Kerugian penurunan nilai dievaluasi secara kolektif untuk portofolio aset keuangan berikut ini:

- Aset keuangan yang ditelaah secara individu (lihat catatan 3o.1 di atas) dalam hal kerugian telah terjadi tetapi belum dapat diidentifikasi; dan
- Kredit homogen yang tidak signifikan secara individu.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
**o. Identification and measurement of
impairment of financial assets (continued)**

Loans to customers, export bills, investment securities and acceptance receivables that are not individually significant are collectively assessed for impairment by grouping together such financial assets with similar risk characteristics.

All placements and demand deposits with other banks are assessed for individual impairment.

o.1. Individually assessed

Impairment losses on individually assessed financial assets are determined by an evaluation of the exposures on a case-by-case basis. This procedure is applied to financial assets that are considered individually significant.

In determining impairment losses on individually assessed financial assets, the following factors are considered:

- the Bank's aggregate exposure to the counterparty;
- the viability of the counter party's business model and capability to overcome financial difficulties and generate sufficient cash flow to service its debt obligations;
- the amount and timing of expected payments from debtors and recoveries;
- the realizable value of collaterals.

Impairment loss on financial assets are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate.

o.2. Collectively assessed

Impairment losses are assessed on a collective basis for the following financial assets:

- Financial assets subject to individual assessment for impairment (see Note 3o.1 above) in respect of losses which have been incurred but have not yet been identified; and
- Homogeneous groups of loans that are not considered individually significant.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**o. Identifikasi dan pengukuran penurunan nilai
aset keuangan (lanjutan)**
o.2. Dinilai secara kolektif (lanjutan)
**Penurunan nilai yang telah terjadi tapi
belum diidentifikasi**

Untuk aset keuangan yang telah dinilai secara individu dan tidak terdapat bukti penurunan nilai yang dapat diidentifikasi, aset keuangan tersebut dikelompokkan berdasarkan karakteristik risiko kredit yang serupa untuk tujuan perhitungan kerugian penurunan nilai secara kolektif. Kerugian tersebut meliputi aset keuangan yang telah mengalami penurunan nilai pada tanggal pelaporan, tetapi belum dapat diidentifikasi secara individu sampai waktu tertentu di masa yang akan datang. Penurunan nilai kolektif ditentukan setelah mempertimbangkan hal-hal berikut ini:

- pengalaman kerugian historis atas portofolio yang memiliki karakteristik risiko kredit yang serupa;
- periode yang diperkirakan antara terjadinya suatu kerugian sampai kerugian tersebut diidentifikasi dan dibuktikan dengan pembentukan penyisihan kerugian penurunan nilai atas aset keuangan tersebut; dan
- pertimbangan dan pengalaman manajemen tentang kondisi ekonomi dan kredit saat ini terhadap tingkat aktual kerugian yang terjadi dan apakah akan lebih besar atau lebih kecil dari apa yang disarankan oleh pengalaman historis.

Kredit yang homogen

Untuk kredit homogen yang tidak signifikan secara individu, Bank menggunakan model statistik dari tren kemungkinan gagal bayar, yang ditelaah pada setiap saat di mana pembayaran kontraktual dari nasabah telah lewat waktu. Penentuan kerugian penurunan nilai kolektif tersebut juga mempertimbangkan data historis lain serta evaluasi atas kondisi ekonomi saat ini.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
**o. Identification and measurement of
impairment of financial assets (continued)**
o.2. Collectively assessed (continued)
**Incurred but not yet identified
impairment**

For financial assets which have been individually assessed and evidence of loss has not been identified, these financial assets are grouped together based on similar credit risk characteristics for the purpose of calculating collective impairment loss. This loss covers financial assets that are impaired at the reporting date but have not been individually identified as such until some time in the future. The collective impairment loss is determined after taking into account the following:

- historical loss experience in portfolios of similar credit risk characteristics;
- the estimated period between the time when a loss occurs and the time when a loss has been identified and evidenced by the establishment of an allowance for impairment loss on an individual financial asset; and
- management's experiences and judgments as to whether the current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

Homogeneous loans

For homogeneous groups of loans that are not considered individually significant, the Bank utilizes statistical modeling of historical trends of the probability of default, assessed at each time period for which the customer's contractual payments are overdue. The determination of collective impairment losses also takes into consideration other historical data and evaluation of current economic conditions.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**o. Identifikasi dan pengukuran penurunan nilai
aset keuangan (lanjutan)**

Kerugian penurunan nilai atas aset keuangan yang dicatat pada biaya perolehan diamortisasi diukur sebesar selisih antara nilai tercatat aset keuangan dengan nilai kini estimasi arus kas masa datang yang didiskonto menggunakan suku bunga efektif awal dari aset keuangan tersebut. Kerugian yang terjadi diakui pada laba rugi tahun berjalan dan dicatat pada akun penyisihan atas aset keuangan yang dicatat pada biaya perolehan diamortisasi. Pendapatan bunga atas aset keuangan yang mengalami penurunan nilai tetap diakui atas dasar suku bunga yang digunakan untuk mendiskonto arus kas masa datang dalam pengukuran kerugian penurunan nilai. Ketika peristiwa yang terjadi setelah penurunan nilai menyebabkan jumlah kerugian penurunan nilai berkurang, kerugian penurunan nilai yang sebelumnya diakui harus dipulihkan dan pemulihan tersebut diakui pada laba rugi tahun berjalan.

Kerugian penurunan nilai atas efek-efek untuk tujuan investasi diakui dengan mengeluarkan kerugian kumulatif yang telah diakui secara langsung dalam penghasilan komprehensif lain ke dalam laba rugi tahun berjalan. Jumlah kerugian kumulatif yang dikeluarkan dari ekuitas dan diakui pada laba rugi tahun berjalan merupakan selisih antara biaya perolehan, setelah dikurangi pelunasan pokok dan amortisasi, dengan nilai wajar kini, dikurangi kerugian penurunan nilai aset keuangan yang sebelumnya telah diakui pada laba rugi. Perubahan penyisihan kerugian penurunan nilai yang dapat diatribusikan pada nilai waktu (*time value*) tercermin sebagai komponen pendapatan bunga.

Jika, pada periode berikutnya, nilai wajar efek-efek untuk tujuan investasi yang mengalami penurunan nilai meningkat dan peningkatan tersebut dapat secara obyektif dihubungkan dengan peristiwa yang terjadi setelah pengakuan kerugian penurunan nilai pada laba rugi, maka kerugian penurunan nilai tersebut harus dipulihkan dan pemulihan tersebut diakui pada laba rugi tahun berjalan.

Jika persyaratan kredit, piutang atau investasi yang dimiliki hingga jatuh tempo dinegosiasi ulang atau dimodifikasi karena debitur atau penerbit mengalami kesulitan keuangan, maka penurunan nilai diukur dengan suku bunga efektif awal yang digunakan sebelum persyaratan diubah.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
**o. Identification and measurement of
impairment of financial assets (continued)**

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. Losses are recognised in the profit or loss for the year and reflected in an allowance account against financial assets carried at amortised cost. Interest on the impaired financial asset continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the profit or loss for the year.

Impairment losses on investment securities are recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to the profit or loss for the year. The cumulative loss that has been removed from equity and recognised in the profit or loss for the year is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in the profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired investment securities increase and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed, with the amount of reversal recognised in the profit or loss for the year.

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the debtor or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**p. Identifikasi, pengukuran penurunan nilai dan
pengukuran nilai wajar aset non-keuangan**

Nilai tercatat aset non-keuangan, selain aset pajak tangguhan, ditelaah untuk mengetahui apakah telah terjadi penurunan nilai bilamana terdapat kejadian atau perubahan keadaan yang mengindikasikan bahwa nilai tercatat aset tersebut tidak dapat terpulihkan. Kerugian akibat penurunan nilai diakui sebesar selisih antara jumlah tercatat aset dengan jumlah terpulihkan dari aset tersebut.

Jumlah terpulihkan atas sebuah aset adalah jumlah yang lebih tinggi antara nilai wajar dikurangi biaya pelepasan dengan nilai pakainya. Dalam rangka mengukur penurunan nilai, aset dikelompokkan hingga kelompok aset terkecil teridentifikasi yang menghasilkan arus kas terpisah.

Setiap tanggal pelaporan, aset non-keuangan yang telah mengalami penurunan nilai ditelaah kembali untuk menentukan apakah terdapat kemungkinan pemulihan penurunan nilai. Jika terjadi pemulihan nilai, maka langsung diakui dalam laba rugi, tetapi pemulihan tersebut tidak boleh menyebabkan nilai aset melebihi nilai tercatat neto setelah penyusutan atau amortisasi, seandainya aset tidak mengalami rugi penurunan nilai pada tahun-tahun sebelumnya.

Pengukuran nilai wajar aset non-keuangan memperhitungkan kemampuan pelaku pasar untuk menghasilkan manfaat ekonomis dengan menggunakan aset dalam penggunaan tertinggi dan terbaiknya (*highest and best use*) atau dengan menjualnya kepada pelaku pasar lain yang akan menggunakan aset tersebut dalam penggunaan tertinggi dan terbaiknya.

q. Simpanan dari nasabah dan bank-bank lain

Simpanan dari nasabah terdiri dari giro, tabungan dan deposito berjangka.

Simpanan dari bank-bank lain terdiri dari giro, *call money* dan deposito berjangka.

Simpanan pada awalnya diukur pada nilai wajar dikurangi biaya transaksi (jika ada) yang dapat diatribusikan secara langsung untuk perolehan simpanan, dan setelah pengakuan awal diukur pada biaya perolehan diamortisasi menggunakan metode suku bunga efektif, kecuali jika Bank memilih untuk mencatat liabilitas pada nilai wajar melalui laba rugi.

r. Pinjaman yang diterima dan pinjaman subordinasi

Pinjaman yang diterima dan pinjaman subordinasi merupakan dana yang diterima dari pihak berelasi dengan kewajiban pembayaran kembali sesuai dengan persyaratan perjanjian pinjaman dan pinjaman subordinasi.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
**p. Identification, measurement of impairment
and fair value of non-financial assets**

The carrying amount of the Bank's non-financial assets, other than deferred tax assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

Recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the smallest identifiable group of assets that generates separately identifiable cash flows.

At each reporting date, non-financial assets that suffered impairment are reassessed for possible reversal of the impairment. If there is a reversal of impairment, it shall be recognised immediately to profit or loss, however the reversal amount shall not cause the carrying amount of an asset exceeds the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years.

A fair value measurement of non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

q. Deposits from customers and other banks

Deposits from customers consist of demand deposits, saving accounts and time deposits.

Deposits from other banks consist of demand deposits, call money and time deposits.

Deposits are initially measured at fair value less directly attributable transaction costs (if any), and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

r. Borrowings and subordinated debts

Borrowings and subordinated debts are funds received from a related party with payment obligation based on the borrowing and subordinated debts agreements.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**r. Pinjaman yang diterima dan pinjaman
subordinasi (lanjutan)**

Pinjaman dan pinjaman subordinasi pada awalnya diukur pada nilai wajar dikurangi biaya transaksi yang dapat diatribusikan secara langsung untuk perolehan pinjaman, dan setelah pengakuan awal diukur pada biaya perolehan diamortisasi menggunakan metode suku bunga efektif.

s. Imbalan kerja
s.1. Liabilitas imbalan kerja jangka pendek

Liabilitas imbalan kerja jangka pendek merupakan bonus karyawan yang akan diselesaikan dalam jangka waktu satu tahun.

Liabilitas imbalan kerja jangka pendek diukur berdasarkan jumlah tidak terdiskonto dan dibebankan pada saat jasa tersebut diberikan.

Liabilitas diakui untuk jumlah yang akan dibayar sebagai bonus jangka pendek jika Bank memiliki kewajiban hukum atau kewajiban konstruktif atas pembayaran beban tersebut sebagai akibat dari jasa masa lalu yang diberikan oleh pekerja dan kewajiban tersebut dapat diestimasi secara andal.

s.2. Liabilitas pembayaran berbasis saham

Karyawan tertentu berhak atas instrumen ekuitas dari HSBC Holdings plc, pemegang saham pengendali, melalui program imbalan kerja berbasis saham. Transaksi ini diperlakukan sebagai transaksi yang diselesaikan dengan instrumen ekuitas karena HSBC Holdings plc adalah pihak yang memberikan instrumen ekuitasnya sendiri untuk semua program imbalan kerja berbasis saham dalam grup.

Biaya atas program pembayaran berbasis saham diukur dengan mengacu pada nilai wajar instrumen ekuitas pada tanggal pemberian. Dikarenakan adanya pengaturan pembebanan kembali antara Bank dan HSBC Holdings plc, liabilitas atas transaksi pembayaran berbasis saham diakui pada saat kewajiban untuk melakukan pembayaran disepakati secara kontraktual.

Liabilitas diukur berdasarkan pengaturan pembayaran berbasis saham. Perubahan atas nilai wajar dari liabilitas setelah pengakuan awal hingga penyelesaian diakui sebagai perubahan kontribusi modal (dicatat sebagai bagian dari tambahan modal disetor).

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
**r. Borrowings and subordinated debts
(continued)**

Borrowings and subordinated debts are initially measured at fair value less directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

s. Employee benefits
s.1 Short-term employee benefit obligation

Short-term employee benefit obligation represent employees bonus which will be paid within one year.

Short-term employee benefit obligation is measured on an undiscounted basis and is expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

s.2. Share-based payment liabilities

Certain employees are eligible for equity instruments in HSBC Holdings plc, the ultimate parent entity, under share-based compensation plan. These transactions are accounted as equity settled because HSBC Holdings plc is the grantor of its equity instruments for share-based compensation plans across the group

The cost of the share-based payment arrangement is measured by reference to the fair value of equity instruments at grant date. Since a recharge arrangement exists between the Bank and HSBC Holdings plc, a liability for share-based payment transactions is recognised at the point the obligation to make the payment is contractually agreed.

The liability is measured in accordance with the share-based payment arrangement. Any changes in the fair value of the liability from initial recognition to settlement are recognised as a true-up of capital contribution (which is recorded as part of additional paid-in capital).

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
s. Imbalan kerja (lanjutan)
**s.2. Liabilitas pembayaran berbasis saham
(lanjutan)**

Nilai wajar ditetapkan dengan menggunakan harga pasar atau teknik penilaian, dengan mempertimbangkan syarat dan ketentuan pemberian instrumen ekuitas. Kondisi kinerja pasar dipertimbangkan dalam menaksir nilai wajar instrumen ekuitas pada tanggal pemberian, sehingga pemberian tersebut dianggap telah memenuhi kondisi *vesting*, tanpa memperhatikan apakah kondisi kinerja pasar tersebut terpenuhi, selama kondisi lainnya terpenuhi.

Kondisi *vesting*, selain dari kondisi kinerja pasar, tidak dipertimbangkan dalam penaksiran awal nilai wajar pada tanggal pemberian. Kondisi tersebut dipertimbangkan dengan menyesuaikan jumlah instrumen ekuitas yang diperhitungkan dalam pengukuran transaksi, sehingga nilai yang diakui untuk jasa yang diterima sebagai imbalan atas instrumen ekuitas yang diberikan didasarkan pada jumlah instrumen ekuitas yang akhirnya menjadi *vesting*. Secara kumulatif, tidak ada beban yang diakui untuk instrumen ekuitas yang tidak *vesting* karena kegagalan dalam memenuhi kondisi kinerja non-pasar atau kondisi pemberian jasa.

Ketika syarat dan ketentuan pemberian instrumen ekuitas dimodifikasi, sekurang-kurangnya, beban dari pemberian awal tetap diakui seolah-olah syarat dan ketentuan tidak dimodifikasi. Jika dampak modifikasi mengakibatkan kenaikan nilai wajar dari instrumen ekuitas yang diberikan atau kenaikan jumlah instrumen ekuitas, kenaikan nilai wajar dari instrumen yang diberikan atau kenaikan nilai wajar dari ekuitas tambahan tersebut diakui sebagai tambahan atas beban pemberian awal yang diukur pada tanggal modifikasi untuk periode *vesting* yang dimodifikasi.

s.3. Liabilitas imbalan pasca-kerja

Sejak Januari 2017, Bank menyelenggarakan program iuran pasti.

Program iuran pasti adalah program pensiun dimana Bank membayar iuran tetap kepada sebuah entitas terpisah. Iuran ini dicatat sebagai biaya karyawan pada saat terutang. Bank tidak lagi memiliki kewajiban pembayaran lebih lanjut setelah iuran tersebut dibayarkan.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
s. Employee benefits (continued)
**s.2. Share-based payment liabilities
(continued)**

Fair value is determined by using market prices or appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Market performance conditions are taken into account when estimating the fair value of equity instruments at the grant date, so that an award is treated as vested irrespective of whether the market performance condition is satisfied, provided all other conditions are satisfied.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

Where an award has been modified, at a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of the extra equity instruments is recognised as an addition to the expense of the original grant measured at the date of modification, for the modified vesting period.

s.3. Post-employment benefits obligation

Since January 2017, the Bank has defined contribution plan.

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. Contributions are recognised as personnel expense when they are due. The Bank have no further obligations once the contributions have been paid.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
s. Imbalan kerja (lanjutan)
s.3. Liabilitas imbalan pasca-kerja (lanjutan)

Bank diwajibkan menyediakan jumlah minimum imbalan pensiun berdasarkan Undang – undang Ketenagakerjaan (UUTK) No. 13/2003. Secara substansi program pensiun dalam UUTK No. 13/2003 merupakan program imbalan pasti karena UUTK telah menetapkan formula dalam menentukan jumlah minimum imbalan. Jika porsi program imbalan pensiun yang didanai Bank lebih rendah dari imbalan yang diwajibkan menurut UUTK, Bank akan membentuk penyisihan untuk menutupi kekurangan tersebut.

Program pensiun imbalan pasti adalah program pensiun yang menetapkan jumlah imbalan pensiun yang akan diterima oleh karyawan pada saat pensiun, biasanya berdasarkan pada satu faktor atau lebih seperti usia, masa kerja dan kompensasi.

Liabilitas imbalan pasca-kerja yang diakui dalam laporan posisi keuangan adalah nilai kini liabilitas imbalan pasti pada tanggal laporan posisi keuangan disesuaikan dengan keuntungan atau kerugian aktuarial.

Liabilitas imbalan pasti dihitung setiap tahun oleh aktuaris independen dengan menggunakan metode *projected unit credit*.

Nilai kini liabilitas imbalan pasti ditentukan dengan mendiskontokan arus kas estimasi menggunakan tingkat bunga obligasi pemerintah (dengan pertimbangan saat ini tidak ada pasar aktif untuk obligasi korporasi berkualitas tinggi) dalam mata uang yang sama dengan mata uang imbalan yang akan dibayarkan dan waktu jatuh tempo yang kurang lebih sama dengan waktu jatuh tempo liabilitas pensiun yang bersangkutan.

Pengukuran kembali yang timbul dari perubahan pada asumsi-asumsi aktuarial yang dibebankan atau dikreditkan ke ekuitas di penghasilan komprehensif lain dan disajikan bagian dari penghasilan komprehensif lain di ekuitas.

Biaya jasa lalu diakui segera di laporan laba rugi.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
s. Employee benefits (continued)
s.3. Post-employment benefits obligation (continued)

The Bank is required to provide a minimum amount of pension benefits in accordance with Labor Law No. 13/2003. Since the Labor Law sets the formula for determining the minimum amount of benefits, in substance pension plans under Labor Law No. 13/2003 represent defined benefit plans. If the Bank funded portion of the pension plan benefit is less than the benefit as required by the Labor Law, the Bank will provide provision for such shortage.

A defined benefit plan is a pension plan program where the pension amount to be received by employees at the time of retirement will depend on one or more factors such as age, years of service and compensation.

The post-employment benefits liability recognised in the statement of financial position in respect of a defined pension benefit plan is the present value of the defined benefit obligation at the statement of financial position date adjusted for unrecognised actuarial gains.

The defined benefits obligation is calculated annually by an independent actuary using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (considering currently there is no deep market for high quality corporate bonds) that are denominated in the currency in which the benefit will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income and presented as part of other comprehensive income in equity.

Past service costs are recognised immediately in the statement of profit or loss.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
s. Imbalan kerja (lanjutan)
s.4. Provisi pemutusan hubungan kerja

Provisi pemutusan hubungan kerja terutang ketika Bank memberhentikan hubungan kerja sebelum usia pensiun normal, atau ketika seorang pekerja menerima penawaran mengundurkan diri secara sukarela dengan kompensasi imbalan pesangon. Bank mengakui pesangon pemutusan hubungan kerja pada tanggal yang lebih awal antara: i) ketika Bank tidak dapat lagi menarik tawaran atas imbalan tersebut dan ii) ketika Bank mengakui biaya untuk restrukturisasi yang berada dalam ruang lingkup PSAK 57 dan melibatkan pembayaran pesangon.

Ketika Bank menyediakan pesangon sebagai penawaran untuk mengundurkan diri secara sukarela, pesangon pemutusan hubungan kerja diukur berdasarkan jumlah karyawan yang diharapkan menerima penawaran tersebut. Imbalan yang jatuh tempo lebih dari 12 bulan setelah periode pelaporan didiskontokan menjadi nilai kininya.

t. Beban akrual dan provisi

Beban akrual dan provisi terdiri dari beban operasional yang masih harus dibayar, bunga yang masih harus dibayar dan provisi untuk biaya restrukturisasi termasuk provisi pemutusan hubungan kerja.

Provisi untuk biaya restrukturisasi diakui hanya jika:

- i) Bank memiliki rencana formal rinci untuk restrukturisasi dengan mengidentifikasi sekurang-kurangnya usaha atau bagian usaha yang terlibat; lokasi utama yang terpengaruh; lokasi, fungsi, dan perkiraan jumlah pegawai yang akan menerima kompensasi karena pemutusan hubungan kerja; pengeluaran yang akan terjadi; dan waktu implementasi rencana tersebut.
- ii) Bank menciptakan perkiraan yang valid kepada pihak-pihak yang terkena dampak restrukturisasi bahwa Bank akan melaksanakan restrukturisasi dengan memulai implementasi rencana tersebut atau mengumumkan pokok-pokok rencana.

u. Modal saham

Saham diklasifikasikan sebagai ekuitas karena tidak terdapat kewajiban kontraktual untuk mentransfer kas atau aset keuangan lainnya.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
s. Employee benefits (continued)
s.4. Termination provisions

Termination provisions are payable when the Bank terminates employment before the normal retirement date, or when an employee accepts offer of voluntary redundancy with termination benefits. The Bank recognises termination benefits at the earlier of: i) when the Bank can no longer withdraw the offer of the termination benefits and ii) when the Bank recognises costs for restructuring within the scope of SFAS 57 and involves payment of termination benefits.

When Bank provides termination benefits as an offer for voluntary redundancy, termination benefits are measured based on the number of employees expected to accept the offer. Benefits due for more than 12 months after the reporting period are discounted to their present value

t. Accruals and provisions

Accruals and provisions consist of accrued operational expenses, accrued interest expenses and provision for restructuring costs including termination provisions.

A provision for restructuring costs are recognised only when:

- i) the Bank has a detailed formal plan for the restructuring identifying at least the business or part of a business concerned; the principal location affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented.
- ii) the Bank has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

u. Share capital

Shares are classified as equity as there is no contractual obligation to transfer cash or other financial assets.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
v. Beban emisi

Beban emisi saham disajikan sebagai bagian dari tambahan modal disetor dan tidak diamortisasi.

w. Pendapatan dan beban bunga

Pendapatan dan beban bunga diakui dalam laba rugi tahun berjalan menggunakan metode suku bunga efektif. Suku bunga efektif adalah suku bunga yang secara tepat mendiskontokan estimasi pembayaran dan penerimaan kas di masa datang selama perkiraan umur dari aset keuangan atau liabilitas keuangan (atau, jika lebih tepat, digunakan periode yang lebih singkat) untuk memperoleh nilai tercatat dari aset keuangan atau liabilitas keuangan. Pada saat menghitung suku bunga efektif, Bank mengestimasi arus kas di masa datang dengan mempertimbangkan seluruh persyaratan kontraktual dalam instrumen keuangan tersebut, tetapi tidak mempertimbangkan kerugian kredit di masa mendatang.

Perhitungan suku bunga efektif mencakup seluruh imbalan/provisi dan bentuk lain yang dibayarkan atau diterima yang merupakan bagian tak terpisahkan dari suku bunga efektif. Biaya transaksi meliputi biaya tambahan yang dapat diatribusikan secara langsung untuk perolehan aset keuangan atau penerbitan liabilitas keuangan.

Pendapatan dan beban bunga yang disajikan di dalam laporan laba rugi meliputi bunga atas aset keuangan dan liabilitas keuangan yang dicatat pada biaya perolehan diamortisasi dan bunga atas efek-efek untuk tujuan investasi yang dihitung menggunakan suku bunga efektif.

Pendapatan bunga atas kredit yang diberikan atau aset keuangan lainnya yang diklasifikasikan sebagai bermasalah diakui pada saat pendapatan tersebut diterima. Pada saat aset keuangan diklasifikasikan sebagai bermasalah, bunga yang telah diakui tetapi belum ditagih akan dibatalkan pengakuannya. Selanjutnya bunga yang dibatalkan tersebut diakui sebagai tagihan kontinjensi.

x. Pendapatan dan beban provisi dan komisi

Pendapatan dan beban provisi dan komisi yang merupakan bagian tak terpisahkan dari suku bunga efektif aset keuangan atau liabilitas keuangan dimasukkan ke dalam perhitungan suku bunga efektif.

Provisi dan komisi yang diperoleh atas beragam jasa yang diberikan kepada nasabah umumnya diakui pada saat penyelesaian transaksi. Untuk jasa yang diberikan selama periode waktu tertentu atau periode risiko kredit yang diterima, provisi dan komisi diamortisasi dengan menggunakan metode garis lurus selama jangka waktunya.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
v. Issuance costs

Share issuance costs are presented as part of additional paid-in capital and are not amortised

w. Interest income and expenses

Interest income and expenses are recognised in the profit or loss for the year using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset or issuance of a financial liability.

Interest income and expenses presented in the statement of profit or loss include interest on financial assets and liabilities at amortised cost and interest on investment securities calculated on an effective interest method.

Interest income on loans or other financial assets that classified as non-performing is recognised at the time the interest is received. When a financial asset is classified as non-performing, any interest income previously recognised but not yet collected is reversed against interest income. The reversed interest income is recognised as a contingent receivable.

x. Fees and commissions income and expenses

Fees and commissions income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commissions earned from a range of services rendered to customers are normally recognised upon a completion of a transaction. For services provided over a period of time or credit risk undertaken, fees and commissions are amortised on the straight-line method over the period of the services.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**y. Pendapatan bersih instrumen yang
diperdagangkan**

Pendapatan bersih instrumen yang diperdagangkan terdiri dari laba dikurangi rugi atas aset dan liabilitas keuangan yang dimiliki untuk diperdagangkan, dan termasuk perubahan nilai wajar yang sudah ataupun yang belum direalisasi, selisih kurs, serta pendapatan dan beban bunga yang terkait.

z. Kombinasi bisnis entitas sependengali

Transaksi integrasi usaha dan operasi antara Bank dan HBAP (lihat Catatan 1c) merupakan transaksi kombinasi bisnis entitas sependengali. Transaksi kombinasi bisnis antar entitas sependengali, berupa pengalihan bisnis termasuk aset maupun liabilitas terkait dalam rangka reorganisasi entitas-entitas yang berada dalam suatu kelompok yang sama bukan merupakan perubahan kepemilikan dalam arti substansi ekonomi. Berdasarkan PSAK No. 38 "Kombinasi Bisnis Entitas Sependengali", transaksi tersebut diakui pada jumlah tercatat berdasarkan metode penyatuan kepemilikan. Selisih antara jumlah imbalan yang diterima/dialihkan dan jumlah tercatat dari transaksi bisnis yang dialihkan dicatat di ekuitas dan disajikan sebagai bagian dari pos tambahan modal disetor.

Selain itu, PSAK No. 38 juga menyatakan, dalam menerapkan metode penyatuan kepemilikan, unsur-unsur laporan keuangan dari entitas-entitas yang bergabung untuk periode terjadinya kombinasi bisnis entitas sependengali dan untuk periode komparatif sajian, disajikan sedemikian rupa seolah-olah penggabungan itu telah terjadi sejak awal periode entitas yang bergabung berada dalam sependengalian.

Manajemen telah menelaah ketentuan PSAK 38 terkait dengan penyajian kembali periode komparatif di atas dan menentukan bahwa tidak praktis untuk menyajikan kembali periode komparatif untuk menyajikan seolah-olah transaksi pengalihan aset dan liabilitas tertentu dari IMO kepada Bank, telah terjadi sejak awal periode pelaporan dimana Bank dan IMO berada dalam sependengalian. Hal ini disebabkan karena untuk menyajikan kembali laporan keuangan tahun buku 2016, diperlukan sebuah proses yang kompleks dalam menentukan jumlah aset dan liabilitas yang ditransfer dimana juga diperlukan penentuan asumsi dan estimasi signifikan mengenai alokasi aset-aset, liabilitas-liabilitas dan cadangan-cadangan.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
y. Net trading income

Net trading income comprises gains less losses related to financial assets and liabilities held for trading, and includes all realised and unrealised fair value changes, foreign exchange differences, together with the related interest income and expenses.

z. Business combination under common control

Business integration transaction and operation between the Bank and HBAP (see Note 1c) is a business combination under common control transaction. Business combination transaction between entities under common control, in form of business transfer including the related assets and liabilities in the event of reorganisation of entities under the same group does not constitute change in ownership by economic substance definition. According to SFAS No. 38 "Business Combination of Entities Under Common Control", such transaction is recognised at carrying value under pooling of interest method. Difference between proceed received/paid and carrying value of business transaction being transferred is recorded in equity and presented as part of additional paid-up capital account.

In addition, SFAS No. 38 also requires, in applying the pooling of interest method, the financial statements items of the merging entities for the period in which the merger occur and for the comparative period, is presented as if the merger had occurred since the beginning period of the merging entities are under the same common control.

Management has assessed PSAK 38 requirement related to the restatement of comparative period as per the above and determined that it is impracticable to restate comparative period to present as if the transfer of certain assets and liabilities from IMO to the Bank, has occurred since the earliest reporting period where Bank and IMO under the same common control. To restate comparative financial statement for the year 2016, it requires complex processes to determine the amounts of assets and liabilities being transferred where it also require the determination of significant assumptions and estimates on the allocation of assets, liabilities and reserves.

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**3. IKHTISAR KEBIJAKAN AKUNTANSI YANG
PENTING (lanjutan)**
**z. Kombinasi bisnis entitas sepengendali
(lanjutan)**

Sesuai yang diperbolehkan dalam PSAK No. 25 "Kebijakan Akuntansi, Perubahan Estimasi Akuntansi dan Kesalahan", Bank menentukan untuk menyajikan restrukturisasi tersebut hanya dari tanggal praktis paling awal, yaitu dari tanggal pengalihan. Oleh karena itu hasil dari pengalihan disajikan dan diungkapkan secara prospektif dari tanggal pengalihan dan informasi komparatif tidak perlu disajikan kembali karena tidak praktis.

4. MANAJEMEN RISIKO KEUANGAN
a. Pendahuluan dan gambaran umum

Bank memiliki eksposur terhadap risiko-risiko atas instrumen keuangan sebagai berikut:

- Risiko kredit
- Risiko pasar
- Risiko likuiditas
- Risiko operasional

Catatan ini menyajikan informasi mengenai eksposur Bank terhadap setiap risiko di atas, tujuan dan kebijakan yang dilakukan oleh Bank dalam mengukur dan mengelola risiko.

Kerangka manajemen risiko

Direksi memiliki tanggung jawab penuh atas penetapan dan pengawasan kerangka manajemen risiko Bank untuk memastikan bahwa risiko Bank telah dikelola dengan tepat.

Manajemen telah membentuk:

- Komite Audit;
- Komite Pemantau Risiko;
- *Assets and Liabilities Committee* (ALCO);
- Komite Manajemen Risiko;
- Satuan Kerja Manajemen Risiko;
- Komite Manajemen Risiko Terintegrasi;

yang bertanggung jawab untuk mengembangkan dan memantau kebijakan manajemen risiko Bank atas masing-masing areanya. Komite Audit dan Komite Pemantau Risiko melaporkan aktivitasnya kepada Dewan Komisaris, sedangkan ALCO, Satuan Kerja Manajemen Risiko, dan Komite Manajemen Risiko melaporkan aktivitas mereka secara berkala kepada Direksi.

Kebijakan manajemen risiko Bank dibentuk untuk mengidentifikasi dan menganalisa risiko-risiko yang dihadapi Bank, untuk menentukan batasan dan pengendalian risiko yang sesuai dan untuk mengawasi risiko dan kepatuhan terhadap batasan yang telah ditetapkan. Kebijakan dan sistem manajemen risiko dikaji secara berkala untuk mencerminkan perubahan pada kondisi pasar, produk dan jasa yang ditawarkan. Bank melalui berbagai pelatihan serta standar dan prosedur pengelolaan, berusaha untuk mengembangkan lingkungan pengendalian yang teratur dan konstruktif, dimana seluruh karyawan memahami peran dan tanggung jawab mereka.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**
**z. Business combination under common
control (continued)**

As allowable in SFAS No. 25 "Accounting Policies, Changes in Accounting Estimates and Errors", the Bank determined to present such restructuring only from the earliest date practicable, which is from the date of transfer. Therefore, the results of the transfer is presented and disclosed on a prospective basis from the date of transfer, and comparative information does not need to be restated as it is impractical to prepare.

4. FINANCIAL RISK MANAGEMENT
a. Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives and policies for measuring and managing risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework to ensure that the Bank's risks are managed in a sound manner.

The Management has established:

- Audit Committee;
- Risk Oversight Committee;
- *Assets and Liabilities Committee* (ALCO);
- Risk Management Committee (RMC);
- Risk Management Task Force Unit;
- Integrated Risk Management Committee;

which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. Audit Committee and Risk Oversight Committee report to the Board of Commissioners, while, ALCO, Risk Management Task Force Unit, and RMC report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**a. Pendahuluan dan gambaran umum (lanjutan)****Kerangka manajemen risiko (lanjutan)**

Komite Audit Bank memiliki tanggung jawab untuk:

- (i) memantau dan mengevaluasi atas perencanaan dan pelaksanaan audit serta pemantauan atas tindak lanjut hasil audit dalam rangka menilai kecukupan pengendalian internal termasuk kecukupan proses pelaporan keuangan;
- (ii) membahas dan mengkaji perencanaan audit Satuan Kerja Audit Intern dan menyajikan temuan mereka secara berkala

Komite Pemantau Risiko mengawasi perkembangan kebijakan manajemen risiko dan menilai penerapannya. Komite juga memberikan nasihat mengenai strategi manajemen risiko yang harus digunakan oleh Bank. Dalam melaksanakan fungsi pengawasan, Komite Pemantau Risiko akan melakukan pengawasan dan evaluasi kinerja Komite Manajemen Risiko yang diketuai oleh Kepala Unit Manajemen Risiko.

ALCO merupakan sarana utama untuk mencapai tujuan dalam mengelola aset, liabilitas dan modal sedemikian rupa dengan memperhatikan risiko terkait untuk tujuan penggunaan secara efisien dan optimum. Tujuan utama dari ALCO adalah:

- (i) memberikan arahan dan meyakinkan penerapan strategi untuk mengelola komposisi posisi keuangan dan struktur pendanaan Bank pada kondisi normal dan stress;
- (ii) memonitor risiko-risiko dan pengaruh dari kondisi pasar;
- (iii) menyediakan sarana untuk mendiskusikan masalah ALCO;
- (iv) memfasilitasi kerjasama antara bisnis/departemen yang berbeda;
- (v) menyelesaikan isu antar departemen seperti *transfer pricing* dan alokasi sumber daya;
- (vi) menelaah sumber dan alokasi pendanaan secara keseluruhan;
- (vii) melakukan perencanaan ke depan dan menentukan lingkungan perbankan yang paling sesuai untuk perencanaan aset/liabilitas di masa depan dan menelaah skenario kontinjensi; dan
- (viii) mengevaluasi skenario alternatif tingkat suku bunga, harga dan kombinasi portofolio; menelaah distribusi aset/liabilitas dan jatuh temponya.

4. FINANCIAL RISK MANAGEMENT (continued)**a. Introduction and overview (continued)****Risk management framework (continued)**

The Bank's Audit Committee is responsible for:

- (i) monitoring and evaluating the planning and execution of audit and monitoring the follow-up results of the audit in order to assess the adequacy of internal controls including the adequacy of the financial reporting process;
- (ii) discussing and reviewing the audit plan of the Internal Audit Unit and presenting their findings on a regular basis.

The Risk Oversight Committee supervises the development of risk management policies and assesses the implementation. The Committee also provides advice on the risk management strategy to be employed by the Bank. In conducting its oversight role, the Risk Oversight Committee will also monitor and evaluate the performance of the Risk Management Committee chaired by the Head of Risk Management Unit.

The ALCO is the primary vehicle for achieving the objectives of managing assets, liabilities and capital with the consideration of related risks for the purpose of efficient and optimum utilisation. The main purposes of the ALCO are to:

- (i) provide direction and ensure tactical follow-through to manage the Bank's balance sheet composition and funding structure under normal and stressed conditions;
- (ii) monitor the risks and market influences;
- (iii) provide a forum for discussing ALCO issues;
- (iv) facilitate teamwork between different businesses/departments;
- (v) resolve departmental inter-face issues such as transfer pricing and resource allocation;
- (vi) review overall sourcing and allocation of funding;
- (vii) plan and determine the most appropriate banking environment for asset/liability forward planning and review contingency scenarios; and
- (viii) evaluate alternative rate, pricing and portfolio mix scenarios; review asset/liability distributions and maturities.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**a. Pendahuluan dan gambaran umum (lanjutan)****Kerangka manajemen risiko (lanjutan)**

Komite Manajemen Risiko dibentuk dengan tujuan, diantaranya adalah:

- (i) untuk menelaah seluruh risiko secara sistematis dan memastikan terdapat pengendalian yang memadai sehingga tingkat pengembalian mencerminkan risiko-risiko terkait. Risiko-risiko yang harus ditelaah antara lain risiko kredit, risiko operasional, risiko pasar, risiko reputasi, dan risiko keberlanjutan;
- (ii) untuk mengidentifikasi masalah yang terkait dengan risiko pada seluruh bisnis sejak dini untuk menghindari kerugian yang tidak semestinya terjadi dan memastikan bahwa Bank telah memperhitungkan seluruh risiko dengan tepat; dan
- (iii) untuk menjalankan tata kelola dan pengawasan atas sistem penilaian risiko guna meyakinkan bahwa sistem tersebut telah tepat sasaran dan dipergunakan secara memadai untuk pengendalian risiko pada bisnis.

Satuan Kerja Manajemen Risiko Bank bertanggung jawab dalam penerapan manajemen risiko operasional yang mencakup:

- (i) pengawasan aktif dan manajemen proaktif dari Dewan Komisaris dan/atau Direksi terhadap profil risiko operasional Bank dan eksposurnya melalui rapat komite secara berkala;
- (ii) penetapan kebijakan dan prosedur dan limit risiko operasional termasuk penelaahan berkala dengan tujuan kepatuhan terhadap peraturan
- (iii) pengimplementasian kerangka kerja manajemen risiko operasional yang mencakup proses identifikasi, penilaian, pemantauan dan pengendalian risiko operasional untuk menjaga tingkat kerugian risiko operasional Bank berada dalam batasan toleransi dan untuk menjaga Bank dari kemungkinan kerugian yang dapat terjadi; dan
- (iv) pengembangan budaya kesadaran risiko dan pengendalian pada seluruh jenjang organisasi melalui komunikasi yang memadai mengenai pentingnya pengendalian internal yang efektif.

4. FINANCIAL RISK MANAGEMENT (continued)**a. Introduction and overview (continued)****Risk management framework (continued)**

The Risk Management Committee is established with having, among others, the following objectives:

- (i) to review all risks on a systematic basis and ensure that adequate controls exist and that the related returns reflect these risks. Risks to be reviewed include credit risk, operational risk, market risk, reputation risk, and sustainability risk;
- (ii) to identify risk issues across all businesses at an early stage to avoid unnecessary loss and ensure that the Bank is pricing all risks correctly; and
- (iii) to exercise governance and oversight over the Bank's risk rating systems to ensure that they are fit for purpose and adequately utilised to control risk in the business.

The Bank's Risk Management Task Force Unit is responsible for applying operational risk management which comprises:

- (i) active oversight and pro-active management from Board of Commissioners and/or Directors over Bank's operational risk profiles and its exposures through regular committee meetings;
- (ii) establishment of operational risk policies and procedures and operational risk appetite including its regular reviews in order to comply with updated regulations and/or best practices;
- (iii) implementation of operational risk management framework that comprises the identification, assessment, monitoring, and mitigation of operational risk so as to maintain losses within acceptable levels and to protect the Bank from foreseeable future losses; and
- (iv) development of risk and control awareness culture in all organisational level, through adequate communication regarding the importance of effective internal controls.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit**

Risiko kredit adalah risiko kerugian keuangan yang timbul jika nasabah, klien atau rekanan Bank gagal memenuhi kewajiban kontraktualnya kepada Bank. Risiko kredit Bank terutama berasal dari kredit yang diberikan kepada nasabah.

Manajemen risiko yang telah diterapkan oleh Bank adalah sebagai berikut:

- Menetapkan kebijakan mengenai kewenangan persetujuan kredit.
- Menerbitkan laporan pengendalian risiko, yang memungkinkan Bank untuk mengidentifikasi dan mengambil langkah awal atas timbulnya tanda peringatan awal.
- Melaksanakan fungsi pengawasan oleh Manajemen Senior dan Dewan Komisaris melalui pertemuan membahas risiko secara berkala
- Fungsi persetujuan kredit dijalankan secara independen dari bagian bisnis dalam melakukan penelaahan dan pengambilan keputusan.
- Pembentukan unit khusus untuk melakukan fungsi penilaian kualitas kredit untuk memastikan bahwa deviasi di dalam proses pemberian kredit bisa diidentifikasi lebih awal.

i. Eksposur maksimum terhadap risiko kredit

Untuk aset keuangan yang diakui di laporan posisi keuangan, eksposur maksimum terhadap risiko kredit sama dengan nilai tercatatnya. Untuk bank garansi dan *irrevocable letter of credit* (L/C) yang diterbitkan, eksposur maksimum terhadap risiko kredit adalah nilai yang harus dibayarkan oleh Bank jika kewajiban atas bank garansi dan *irrevocable* L/C yang diterbitkan terjadi. Untuk komitmen kredit, eksposur maksimum atas risiko kredit adalah sebesar jumlah fasilitas kredit komitmen (*committed*) yang belum digunakan oleh nasabah.

Tabel berikut menyajikan eksposur maksimum Bank terhadap risiko kredit untuk instrumen keuangan pada laporan posisi keuangan dan rekening administratif bersih setelah cadangan kerugian penurunan nilai, tanpa memperhitungkan agunan yang dimiliki atau peningkatan kualitas kredit lainnya.

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk**

Credit risk is the risk of financial loss, should any of the Bank's customers, clients or counterparties fail to fulfil their contractual obligations to the Bank. Credit risk in the Bank mainly arises from loans to customers.

The risk management applied by the Bank is as follows:

- *Establishing policies on credit approval authority.*
- *Issuing risk control reports which allow the Bank to identify and take an early action on potential warning signs.*
- *Performing oversight function by Senior Management and Board of Commissioners through regular risk meetings.*
- *The credit approval function acts independently from business in its review and giving its decision.*
- *Establishment of a team to conduct the credit quality assessment to ensure that deviations in the credit initiation process can be identified at an early stage.*

i. Maximum exposure to credit risk

For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount. For bank guarantees and irrevocable letter of credit (L/C) issued, the maximum exposure to credit risk is the amount that the Bank would have to pay if the obligations of the bank guarantees and irrevocable L/C issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the unused committed credit facilities granted to customers.

The following table presents the Bank's maximum exposure to credit risk of financial instruments in the statement of financial position and off-balance sheet accounts net after allowance for impairment losses, without taking into account any collateral held or other credit enhancement.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)****i. Eksposur maksimum terhadap risiko kredit (lanjutan)**

	2017	2016
Laporan posisi keuangan:		
Giro pada Bank Indonesia	6.755.215	1.521.906
Giro pada bank-bank lain	1.866.023	310.491
Penempatan pada bank-bank lain	6.353.055	1.177.800
Penempatan pada Bank Indonesia	1.249.637	-
Efek-efek untuk tujuan investasi	13.703.861	3.723.413
Aset yang diukur pada nilai wajar melalui laba rugi	5.342.887	2.080
Efek-efek yang dibeli dengan janji dijual kembali	500.000	-
Wesel ekspor	1.218.778	9.203
Tagihan akseptasi	1.827.734	703.016
Kredit yang diberikan kepada nasabah	57.951.447	18.042.847
Aset lain-lain	531.630	73.624
	<u>97.300.267</u>	<u>25.564.380</u>
Rekening administratif dengan risiko kredit:		
L/C yang tidak dapat dibatalkan	2.307.855	625.178
Fasilitas kredit yang belum digunakan - <i>committed</i>	2.202.919	245.625
Bank garansi yang diterbitkan	10.447.404	855.414
	<u>14.958.178</u>	<u>1.726.217</u>
Jumlah	<u>112.258.445</u>	<u>27.290.597</u>

ii. Pembagian aset keuangan berdasarkan kualitas kredit

Sejak tahun 2017, peringkat (*grading*) kualitas kredit ditentukan berdasarkan estimasi internal Bank atas kemungkinan gagal bayar (*probability of default*) selama setahun dari debitur-debitur atau portofolio tertentu yang dinilai berdasarkan sejumlah faktor-faktor kualitatif dan kuantitatif.

Perbaikan peringkat dari yang mengalami penurunan nilai menjadi tidak mengalami penurunan nilai baru dapat dilakukan apabila debitur telah menunjukkan kepastian pemulihan dan kembali ke kondisi normal.

Lima klasifikasi kualitas kredit yang dinyatakan di bawah ini mencakup peringkat kredit internal yang lebih terperinci yang diterapkan pada pinjaman korporasi dan bisnis ritel, termasuk peringkat eksternal yang diterapkan oleh agensi eksternal untuk efek utang.

Peringkat (*grading*) ditentukan berdasarkan estimasi internal Bank atas kemungkinan gagal bayar (*probability of default*) selama setahun dari debitur-debitur atau portofolio tertentu yang dinilai berdasarkan sejumlah faktor-faktor kualitatif dan kuantitatif.

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)****i. Maximum exposure to credit risk (continued)**

Statement of financial position:
Demand deposits with Bank Indonesia
Demand deposits with other banks
Placements with other banks
Placements with Bank Indonesia
Investment securities
Assets at fair value through profit or loss
Securities purchased with agreement to resell
Export bills
Acceptance receivables
Loans to customers
Other assets

Off-balance sheet accounts with credit risk:

Irrevocable L/C

Unused credit facilities - committed

Bank guarantees issued

ii. Distribution of financial assets by their credit quality

Since 2017, the grading of credit quality is determined based on the Bank's internal estimate of probability of default over a one-year horizon, from debtors or portfolios assessed against a range of quantitative and qualitative factors.

Improvement in the grading from impaired to not-impaired can only be made if debtors have shown evidence of recovery and have returned to normal condition.

The five credit quality classifications defined below encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to debt securities.

The grading is based on the Bank's internal estimate of probability of default over a one-year horizon, with customers or portfolios assessed against a range of quantitative and qualitative factors.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)**

- ii. Pembagian aset keuangan berdasarkan kualitas kredit (lanjutan)

Perbaikan peringkat dari yang mengalami penurunan nilai menjadi tidak mengalami penurunan nilai baru dapat dilakukan apabila debitur telah menunjukkan kepastian pemulihan dan kembali ke kondisi normal.

Lima klasifikasi kualitas kredit yang dinyatakan di bawah ini mencakup peringkat kredit internal yang lebih terperinci yang diterapkan pada pinjaman korporasi dan bisnis ritel, termasuk peringkat eksternal yang diterapkan oleh agensi eksternal untuk efek utang.

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)**

- ii. Distribution of financial assets by their credit quality (continued)

Improvement in the grading from impaired to not-impaired can only be made if debtors have shown evidence of recovery and have returned to normal condition.

The five credit quality classifications defined below encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to debt securities.

Klasifikasi kualitas/ Quality classification	Kredit non-ritel/ Non-retail lending ¹⁾	Kredit ritel/ Retail lending ²⁾	Efek-efek utang dan tagihan lain/ Debt securities and other bills
Lancar/Strong	CRR 1 - CRR 2	EL 1 - EL 2	A- ke atas/A-and above
Baik/Good	CRR 3	EL 3	BBB+ sampai dengan BBB-/ BBB+ to BBB-
Memuaskan/Satisfactory	CRR 4 - CRR 5	EL 4 - EL 5	BB+ sampai dengan B, dan tanpa peringkat/ BB+ to B, and without rating
Kurang Lancar/Sub-standard	CRR 6 - CRR 8	EL 6 - EL 8	B- sampai dengan C/ B-to C
Penurunan nilai/Impaired	CRR 9 - CRR 10	EL 9 - EL 10	Gagal bayar/Default

¹⁾ CRR: Customer Risk Rating

²⁾ EL: Expected Loss

Definisi dari kualitas kredit Bank adalah sebagai berikut:

- Lancar: eksposur kredit memiliki kapasitas yang kuat untuk memenuhi komitmen keuangan dengan kemungkinan gagal dan/atau tingkat ekspektasi kerugian yang rendah. Rekening kredit ritel bergerak sesuai pada parameter produknya dan hanya sesekali menunjukkan keterlambatan pembayaran.
- Baik: eksposur kredit memerlukan pengawasan yang lebih dekat dan memiliki kapasitas yang cukup untuk memenuhi komitmen keuangan dengan risiko gagal bayar yang rendah. Rekening kredit ritel umumnya hanya menunjukan tingkat keterlambatan pembayaran yang pendek dengan kerugian, jika ada, dapat diminimalisasi setelah penerapan proses pemulihan.
- Memuaskan: eksposur kredit memerlukan pengawasan yang lebih melekat dan menunjukkan kemampuan menengah untuk memenuhi komitmen keuangan dengan tingkat risiko gagal yang moderat. Rekening kredit ritel umumnya hanya menunjukkan tingkat keterlambatan pembayaran yang pendek, dimana kerugian yang terjadi, jika ada, diharapkan kecil setelah penerapan proses pemulihan.

The Bank's credit quality definitions are as follows:

- Strong: credit exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within product parameters and only exceptionally show any period of delinquency.
- Good: credit exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk. Retail accounts typically show only short periods of delinquency, with any losses, if any, expected to be minimal following the adoption of recovery processes.
- Satisfactory: credit exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Retail accounts typically show only short periods of delinquency, with any losses expected, if any, to be minor following the adoption of recovery processes.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)**

- ii. Pembagian aset keuangan berdasarkan kualitas kredit (lanjutan)

Definisi dari kualitas kredit Bank adalah sebagai berikut: (lanjutan)

- Kurang Lancar: eksposur kredit memerlukan perhatian khusus dengan tingkat yang bervariasi dan risiko gagal bayar yang meningkat. Rekening kredit ritel menunjukkan ekspektasi kerugian yang lebih tinggi disebabkan oleh menurunnya kemampuan untuk memitigasi risiko tersebut melalui realisasi agunan atau proses pemulihan lainnya.
- Penurunan nilai: eksposur kredit telah dievaluasi sebagai kredit bermasalah. Eksposur - eksposur ini adalah dimana Bank mempertimbangkan bahwa nasabah tidak lagi mempunyai kemampuan membayar seluruh kewajiban kreditnya tanpa merealisasi agunan, jika ada, atau untuk nasabah ritel, pembayaran kewajiban kredit yang material telah terlambat lebih dari 90 hari.

Customer Risk rating (CRR) dengan 10 skala peringkat di atas merupakan ringkasan dan 23 skala peringkat yang lebih terperinci atas probabilitas gagal bayar dari debitur.

Setiap peringkat CRR dikaitkan dengan peringkat eksternal dengan mengacu pada tingkat gagal bayar jangka panjang untuk peringkat tersebut, diwakili oleh rata-rata gagal bayar historis tertimbang. Pemetaan antara penilaian internal dan eksternal merupakan indikasi dan dapat bervariasi dari waktu ke waktu

Expected Loss (EL) dengan 10 skala peringkat untuk bisnis ritel merupakan ringkasan dari skala EL yang lebih terperinci untuk segmen nasabah ritel, yang mengkombinasikan faktor risiko peminjam dan risiko fasilitas/produk dalam sebuah pengukuran gabungan.

Untuk efek-efek utang dan instrumen keuangan tertentu lainnya, peringkat eksternal telah diselaraskan dengan lima klasifikasi kualitas berdasarkan pemetaan CRR terkait dengan peringkat kredit eksternal.

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)**

- ii. Distribution of financial assets by credit quality (continued)

The Bank's credit quality definitions are as follows: (continued)

- Sub-standard: credit exposures require varying degrees of special attention and increased default risk. Retail accounts show higher expected loss due to a reduced ability to mitigate the risk through collateral realisation or other recovery processes.
- Impaired: credit exposures have been assessed as troubled accounts. These are exposures where the Bank considers that either the customer is unlikely to pay its credit obligations in full, without foreclosing the collaterals, if any, or for retail customer is past due more than 90 days on any material credit obligation

The Customer Credit Risk Rating (CRR) 10-grade scale summaries a more granular underlying 23-grade scale of obligor probability of default (PD).

Each CRR grade is associated with an external rating grade by referring to long-run default rates for that grade, represented by average of issuer-weighted historical default rates. This mapping between internal and external rating is indicative and may vary over time.

The expected loss ('EL') 10-grade scale for retail business summaries a more granular underlying EL scale for retail customer segment; which combine obligor and facility/product risk factors in a composite measure.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related CRR to external credit grade.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)****ii. Pembagian aset keuangan berdasarkan kualitas kredit (lanjutan)**

Eksposur yang telah ditentukan sebagai telah jatuh tempo tetapi tidak mengalami penurunan nilai disajikan pada tabel di atas dalam klasifikasi terpisah sebagai "Aset keuangan yang telah jatuh tempo tetapi tidak mengalami penurunan nilai". Contoh-contoh eksposur yang telah jatuh tempo tetapi tidak mengalami penurunan nilai termasuk pinjaman yang terlambat melakukan pembayaran terakhir saat jatuh tempo tetapi tidak terdapat bukti adanya penurunan nilai; pinjaman korporasi yang sepenuhnya dijamin dengan agunan kas; fasilitas perdagangan jangka pendek yang telah jatuh tempo karena alasan-alasan teknis seperti keterlambatan dokumentasi, tetapi tidak merupakan sebuah kekhawatiran atas kemampuan membayar debitur.

Pembagian aset keuangan berdasarkan kualitas kreditnya pada tanggal 31 Desember 2017 disajikan di bawah ini:

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)****ii. Distribution of financial assets by credit quality (continued)**

Exposure designated as past due but not impaired are disclosed in the above table in a separate classification as "Past due but not impaired financial assets". Examples of exposure designated as past due but not impaired include loans that have missed the most recent payment date but on which there is no evidence of impairment; corporate loans fully secured by cash collateral; short-term trade facilities past due for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the debtor.

Distribution of financial assets by their credit quality as of 31 December 2017 is summarised as below:

2017													
	Giro pada Bank Indonesia/ Demand deposits with Bank Indonesia	Giro pada bank-bank lain/ Demand deposits with other banks	Penempatan pada bank-bank lain/ Placements with other banks	Penempatan pada Bank Indonesia/ Placements with Bank Indonesia	Efek-efek untuk tujuan investasi/ Investment securities	Aset yang diukur pada nilai wajar melalui laba rugi/ Assets at fair value through profit or loss	Efek-efek yang dibeli dengan janji dijual kembali/ Securities purchased with agreement to resell	Wesel ekspor/ Export bills	Tagihan akseptasi/ Acceptance receivables	Kredit yang diberikan kepada nasabah/ Loans to customers	Aset lain-lain/ Other assets	Jumlah/ Total	
Aset pada biaya perolehan diamortisasi												Assets at amortised cost	
Aset keuangan yang mengalami penurunan nilai	-	-	-	-	-	-	-	360	-	2.879.530	120.119	3.000.009	Impaired financial assets
Aset keuangan yang telah jatuh tempo tetapi tidak mengalami penurunan nilai: Sampai dengan 29 hari	-	-	-	-	-	-	-	321.863	-	207.445	-	529.308	Past due but not impaired financial assets:
Dari 30 hari sampai dengan 59 hari	-	-	-	-	-	-	-	-	-	34.801	-	34.801	Up to 29 days From 30 days to 59 days
Dari 60 hari sampai dengan 89 hari	-	-	-	-	-	-	-	-	-	13.754	-	13.754	From 60 days to 89 days
Aset keuangan yang belum jatuh tempo dan tidak mengalami penurunan nilai:													Neither past due nor impaired financial assets:
Lancar	3.458.313	1.801.006	6.353.055	1.249.637	-	-	-	622.842	187.540	7.011.533	175.288	20.859.214	Strong
Baik	3.296.902	53.937	-	-	-	-	500.000	34.787	355.779	13.213.542	51.961	17.506.908	Good
Memuaskan	-	11.080	-	-	-	-	-	208.452	1.038.171	29.854.663	151.523	31.263.889	Satisfactory
Kurang lancar	-	-	-	-	-	-	-	30.474	246.244	7.319.498	32.739	7.628.955	Sub-standard
Dikurangi: cadangan kerugian penurunan nilai	-	-	-	-	-	-	-	-	-	(2.583.319)	-	(2.583.319)	Less: allowance for impairment losses
Jumlah nilai tercatat - biaya perolehan diamortisasi	6.755.215	1.866.023	6.353.055	1.249.637	-	-	500.000	1.218.778	1.827.734	57.951.447	531.630	78.253.519	Carrying amount - amortised cost
Aset pada nilai wajar													Assets at fair value
Aset keuangan yang belum jatuh tempo dan tidak mengalami penurunan nilai:													Neither past due nor impaired financial assets:
Lancar	-	-	-	-	-	102.228	-	-	-	-	-	102.228	Strong
Baik	-	-	-	-	13.703.861	5.106.096	-	-	-	-	-	18.809.957	Good
Memuaskan	-	-	-	-	-	134.562	-	-	-	-	-	134.562	Satisfactory
Kurang lancar	-	-	-	-	-	-	1	-	-	-	-	-	Good
Jumlah nilai tercatat - nilai wajar	-	-	-	-	13.703.861	5.342.887	-	-	-	-	-	19.046.748	Carrying amount - fair value
Jumlah nilai tercatat	6.755.215	1.866.023	6.353.055	1.249.637	13.703.861	5.342.887	500.000	1.218.778	1.827.734	57.951.447	531.630	97.300.267	Total carrying amount

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)****ii. Pembagian aset keuangan berdasarkan kualitas kredit (lanjutan)**

Sebelum tahun 2017, proses penentuan peringkat kredit internal Bank membedakan eksposur untuk menentukan eksposur mana yang memiliki faktor risiko lebih besar dan tingkat kerugian potensial yang lebih tinggi. Peringkat kredit setiap debitur ditelaah secara berkala dan perubahannya diimplementasikan secepatnya. Peringkat kredit yang diterapkan atas setiap debitur juga mempertimbangkan kualitas kredit dari debitur tersebut yang telah ditentukan oleh bank-bank lain.

Berikut pembagian aset keuangan berdasarkan kualitas kreditnya pada tanggal 31 Desember 2016:

2016								
Belum jatuh tempo dan tidak mengalami penurunan nilai/ <i>Neither past due nor impaired</i>			Telah jatuh tempo namun tidak mengalami penurunan nilai/ <i>Past due but not impaired</i>			Mengalami penurunan nilai/ <i>Impaired</i>	Penyisihan penurunan nilai/ <i>Allowance for impairment losses</i>	Jumlah/ <i>Total</i>
Lancar/ <i>Pass</i>	Dalam perhatian khusus/ <i>Special mention</i>	1-30 hari/ <i>days</i>	31 - 60 hari/ <i>days</i>	61 - 90 hari/ <i>days</i>				
Pada biaya perolehan diamortisasi:								
Giro pada Bank Indonesia	1.521.906	-	-	-	-	-	-	1.521.906
Giro pada bank-bank lain	310.491	-	-	-	-	-	-	310.491
Penempatan pada bank-bank lain	1.177.800	-	-	-	-	-	-	1.177.800
Wesel ekspor	9.203	-	-	-	-	-	-	9.203
Tagihan akseptasi Kredit yang diberikan kepada nasabah	589.579	113.437	-	-	-	-	-	703.016
Aset lain-lain	16.988.350	295.417	96.843	49.279	11.778	1.162.954	(561.774)	18.042.847
	73.624	-	-	-	-	-	-	73.624
Pada nilai wajar:								
Aset yang diukur pada nilai wajar melalui laba rugi	2.080	-	-	-	-	-	-	2.080
Efek-efek untuk tujuan investasi	3.723.413	-	-	-	-	-	-	3.723.413
Jumlah	24.396.446	408.854	96.843	49.279	11.778	1.162.954	(561.774)	25.564.380

<i>Demand deposits with Bank Indonesia</i>	<i>Demand Deposits with other banks</i>	<i>Placement with other banks</i>	<i>Export bills</i>	<i>Acceptance receivables</i>	<i>Loans to customers</i>	<i>Other assets</i>
<i>At amortised cost:</i>	<i>At fair value:</i>	<i>Assets at fair value through profit or loss</i>	<i>Investment securities</i>			
Total						

Definisi dari kualitas kredit Bank adalah sebagai berikut:

- **Lancar:** eksposur menunjukkan laba yang tinggi atau stabil, modal dan likuiditas yang memadai, yang secara umum direfleksikan dengan pembayaran komitmen terhadap Bank dan kreditur lainnya secara tepat waktu. Sumber pembayaran dapat diidentifikasi secara jelas dan Bank tidak bergantung pada jaminan untuk penyelesaian komitmen masa datang
- **Dalam perhatian khusus:** eksposur memerlukan tingkat pemantauan yang bervariasi dan risiko wanprestasi menjadi perhatian.
- **Telah jatuh tempo namun tidak mengalami penurunan nilai:** eksposur dimana nasabah dalam tahap awal dari keterlambatan pembayaran dan telah gagal untuk melakukan pembayaran atau pembayaran sebagian, sesuai dengan persyaratan kontraktual dalam perjanjian kredit. Hal ini pada umumnya dimana suatu kredit telah lewat jatuh tempo sampai dengan 90 hari dan tidak terdapat indikasi penurunan nilai lainnya.

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)****ii. Distribution of financial assets by credit quality (continued)**

Prior to 2017, the Bank's internal credit rating determination processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. The credit rating for each debtor is reviewed regularly and any amendments are implemented promptly. The credit rating applied for each debtor also considered credit quality of the respective debtor as determined by other banks.

The following presents the distribution of financial assets by their credit quality as of 31 December 2016:

The Bank's credit quality definitions are as follows:

- **Pass:** exposures exhibit high or stable earnings, adequate capital and liquidity, as generally evidenced by prompt repayment of its commitment with the Bank and other creditors. Source of payment can be clearly identified and the Bank does not rely on collateral for settlement of its future commitments.
- **Special mention:** exposures require varying degrees of special attention and default risk is of concern.
- **Past due but not impaired:** exposures of which the debtor is in the early stages of delinquency and has failed to make a payment, or partial payment, in accordance with the contractual terms of the loan agreement. This is typically where a loan is up to 90 days past due and there is no other indicators of impairment.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)****ii. Pembagian aset keuangan berdasarkan kualitas kredit (lanjutan)**

- Mengalami penurunan nilai: eksposur telah mengalami penurunan nilai. Bank mempertimbangkan bahwa nasabah tidak mungkin membayar kewajiban kreditnya secara menyeluruh, atau pemulihannya akan bertumpu pada realisasi agunan apabila ada, atau nasabah telah menunggak kewajiban kredit selama lebih dari 90 hari.

iii. Agunan

Agunan digunakan untuk memitigasi eksposur risiko kredit. Kebijakan mitigasi risiko menentukan jenis agunan yang dapat diterima. Umumnya jenis agunan yang diterima Bank untuk memitigasi risiko kredit diantaranya adalah kas, giro, tabungan, deposito berjangka, rumah tinggal, properti komersial dan industri, garansi bank dan *letters of credit*. Untuk jenis pembiayaan tertentu, umumnya kredit pemilikan rumah dan pembiayaan aset, adanya hak untuk mengambil alih aset fisik merupakan hal penting dalam penentuan harga dan pemulihan yang dapat diperoleh dalam hal terjadi kegagalan pembayaran kredit.

Agunan dilaporkan sesuai dengan kebijakan mitigasi risiko Bank. Jika diperlukan, nilai agunan disesuaikan guna mencerminkan kondisi pasar terkini, probabilitas pemulihan agunan dan jangka waktu untuk merealisasikan agunan dalam hal terjadi pengambilalihan.

Persyaratan agunan bukanlah merupakan pengganti faktor kemampuan debitur dalam hal pembayaran kembali kredit, di mana hal ini menjadi pertimbangan utama dalam setiap keputusan pemberian kredit. Dalam menentukan dampak keuangan agunan terhadap kredit yang belum jatuh tempo dan belum mengalami penurunan nilai, Bank menilai signifikansi agunan terkait dengan jenis pembiayaan yang diberikan.

Agunan non-fisik, seperti garansi korporasi dan *letters of comfort* dapat juga dimiliki Bank untuk eksposur korporasi meskipun dampak keuangan untuk jenis agunan ini kurang signifikan dalam hal pemulihan kredit.

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)****ii. Distribution of financial assets by credit quality (continued)**

- *Impaired: exposures have been assessed as impaired. The Bank considers that either the debtor is unlikely to pay its credit obligation in full, or the recovery will be relied on realising collateral if held, or the debtor has been past due more than 90 days on any credit obligation.*

iii. Collaterals

Collateral is held to mitigate credit risk exposures. Risk mitigation policies determine the eligibility of collateral types. Typically the Bank uses cash, current accounts, saving accounts, time deposits, residential, commercial and industrial property, bank guarantee, and letters of credit as eligible collateral to mitigate credit risk. For certain types of lending, typically mortgages and asset financing, the right to repossess the assets is critical in determining appropriate pricing and recoverability in the event of default.

Collateral is reported in accordance with the Bank's risk mitigation policy. Where appropriate, collateral values are adjusted to reflect current market conditions, its probability of recovery and the period of time to realize the collateral in the event of repossession.

The requirement for collateral is not a substitute factor for the debtor's ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans that are neither past due nor impaired, the Bank assessed the significance of the collateral held in relation to the type of lending.

Non-tangible collateral, such as corporate guarantees and letters of comfort, may also be held against Bank corporate exposures although the financial effect of this type of collateral is less significant in terms of recoveries.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)****iii. Agunan (lanjutan)**

Untuk jenis eksposur tertentu seperti L/C dan garansi, Bank juga memperoleh agunan seperti kas yang terkait dengan penilaian internal risiko kredit untuk eksposur tersebut. Selain itu, untuk produk *trade finance* seperti *letters of credit*, dalam hal terjadi gagal bayar Bank juga memiliki hak hukum atas aset yang mendasarinya.

Tergantung dari peringkat kredit nasabah dan tipe produk, fasilitas kredit dapat diberikan tanpa agunan. Penempatan pada Bank Indonesia dan bank-bank lainnya, derivatif, efek-efek untuk tujuan investasi dari sektor pemerintah, dan pinjaman ritel lainnya yang terdiri dari pinjaman perseorangan, cerukan dan kartu kredit, semuanya adalah pinjaman tanpa agunan. Tetapi untuk pinjaman lainnya agunan umumnya diperlukan dan diperhitungkan dalam menentukan keputusan kredit dan harga.

Dalam hal terjadi kegagalan bayar, Bank dapat menggunakan agunan sebagai sumber pembayaran kembali. Tergantung dari fasilitas kreditnya, agunan dapat memberikan dampak keuangan yang signifikan dalam memitigasi eksposur risiko kredit.

Kredit properti

Khusus untuk Kredit Pemilikan Rumah, Bank wajib menjaga rasio *Loan to Value* (LTV). Rasio LTV dihitung berdasarkan nilai tercatat bruto dari kredit dan, jika ada, komitmen fasilitas kredit rekening administratif, terhadap nilai agunan. Metodologi untuk memperoleh nilai agunan properti pada umumnya ditentukan melalui kombinasi dari hasil jasa penilai profesional, indeks harga properti atau analisa statistik. Penilaian harus diperbaharui secara berkala dan minimal dilakukan setiap tiga puluh enam (36) bulan sekali. Frekuensi penilaian dilakukan lebih sering jika kondisi pasar atau kinerja portofolio mengalami perubahan yang signifikan atau ketika terdapat kredit yang teridentifikasi dan dinyatakan sebagai bermasalah.

Untuk kredit properti komersil, LTV rasio maksimum adalah 75%-90%, sebagaimana diatur pada Peraturan Bank Indonesia No.18/16/PBI/2016. Sementara kredit pemilikan rumah pada kelompok LTV yang lebih tinggi, termasuk yang lebih besar dari 100%, merupakan kredit pemilikan rumah untuk karyawan Bank.

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)****iii. Collaterals (continued)**

For certain types of exposures such as L/C and guarantees, the Bank also obtains collateral such as cash depending on internal credit risk assessments. In addition, for trade finance products such as letters of credit, the Bank will also hold legal title on the underlying assets should a default take place.

Depending on the customer's credit rating and the type of product, facilities may be provided unsecured. Placements with Bank Indonesia and other banks, derivatives, investment securities from government sectors, and other retail lending which consist primarily of personal lending, overdrafts and credit cards are all unsecured loans. However, for other lending a charge over collateral is normally obtained and considered in determining the credit decision and pricing.

In the event of default, the Bank may utilize the collateral as a source of repayment. Depending on its credit facility, collateral can have a significant financial effect in mitigating exposure to credit risk.

Mortgage lending

Specifically for mortgages, the Bank is required to maintain a Loan to Value (LTV) ratio. The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loans and any off-balance sheet loan commitment at the balance sheet date divided by the value of collateral. The methodologies for obtaining property collateral values are typically determined through a combination of professional appraisals, property price indices or statistical analysis. Valuations must be updated on a regular basis and, at a minimum, at intervals of every thirty six (36) months. Valuations are conducted more frequently when market conditions or portfolio performance are subject to significant change or when a loan is identified and assessed as impaired.

For commercial mortgage lending, the LTV ratio has been set at maximum of 75%-90%, as set out in Bank Indonesia Regulation No.18/16/PBI/2016. While mortgages in the higher LTV bands, including greater than 100% LTV, are the Bank's staff housing loans.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)****iii. Agunan (lanjutan)**Kredit korporasi

Pinjaman kepada nasabah korporasi ditentukan atas dasar evaluasi kredit dan pengujian penurunan nilai secara individual. Secara umum kemampuan membayar nasabah korporasi merupakan indikasi yang paling relevan terhadap kualitas kredit dari pinjaman yang diberikan dan merupakan pertimbangan yang utama dalam pengambilan keputusan pemberian kredit korporasi. Namun, agunan merupakan jaminan tambahan dan Bank dapat meminta nasabah korporasi untuk menyediakan agunan. Jenis-jenis agunan yang pada umumnya disyaratkan pada kredit korporasi dapat berupa hak tanggungan pertama atas properti, aset-aset korporasi dengan nilai dan kuantitas bergerak serta jaminan dan garansi lainnya.

Dalam aktivitas pembiayaan terhadap kredit korporasi, nilai agunan tidak berkorelasi langsung terhadap kemampuan membayar nasabah korporasi. Terlebih lagi, untuk beberapa jenis agunan yang umum dijamin pada kredit korporasi, seperti jaminan garansi korporasi, *letters of comfort* dan aset-aset korporasi dengan nilai dan kuantitas bergerak dimana nilai atas agunan tersebut tidak dapat ditentukan secara pasti.

Ketika kemampuan membayar nasabah korporasi memburuk dan perlu dilakukan evaluasi atas kemampuan pembayaran kembali melalui sumber jaminan lain yang tersedia, penilaian agunan secara umum akan dilakukan dengan frekuensi yang lebih sering. Ketika terdapat kredit korporasi yang teridentifikasi dan dinyatakan sebagai bermasalah, pengkinian nilai agunan kredit bermasalah tersebut dilakukan sedikitnya setiap 3 bulan, kecuali ditentukan lain oleh oleh direktur yang berwenang.

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)****iii. Collaterals (continued)**Corporate lending

Loans and advances to corporate customers are subject to individual credit assessment and impairment testing. General creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended and is the primary consideration for any corporate lending decisions. Collateral however provides additional security and the Bank may request corporate customers to provide collateral. Types of collateral which are commonly taken for corporate lending may be in the form of a first charge of real estate, floating charges over corporate assets and other liens and guarantees.

For financing activities in corporate lending, collateral value is not directly correlated with principal repayment performance. Moreover, for some types of collateral commonly taken in corporate lending, such as corporate guarantees, letters of comfort and floating charges over corporate assets, the assignable value is insufficiently certain.

When a corporate customer's general credit performance deteriorates and it is necessary to assess the likely performance of secondary sources of repayment, the valuation of collateral will generally be conducted on a more frequent basis. When a corporate loan is identified and assessed as impaired, the collateral must be revalued at least every 3 months, unless otherwise determined by authorized director.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**b. Risiko kredit (lanjutan)****iv. Analisa konsentrasi risiko kredit**

Konsentrasi risiko kredit timbul ketika sejumlah nasabah menjalankan kegiatan usaha yang sejenis atau menjalankan kegiatan usaha dalam wilayah geografis yang sama, atau ketika nasabah memiliki karakteristik yang sejenis yang akan menyebabkan kemampuan mereka untuk memenuhi kewajiban kontraktualnya secara serupa dipengaruhi oleh perubahan kondisi ekonomi atau kondisi lainnya.

Tabel berikut menyajikan konsentrasi aset keuangan berdasarkan debitur:

4. FINANCIAL RISK MANAGEMENT (continued)**b. Credit risk (continued)****iv. Concentration of credit risk analysis**

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The following table presents the concentration of financial assets by type of debtors:

2017			
Korporasi dan perorangan/ Corporate and Retail	Pemerintah dan Bank Indonesia/ Government and Bank Indonesia	Bank/Banks	
Giro pada Bank Indonesia	-	6.755.215	-
Giro pada bank-bank lain	-	-	1.866.023
Penempatan pada bank-bank lain	-	-	6.353.055
Penempatan pada Bank Indonesia	-	1.249.637	-
Efek-efek untuk tujuan investasi	-	13.703.861	-
Aset yang diukur pada nilai wajar melalui laba rugi	199.808	5.026.762	116.317
Efek-efek yang dibeli dengan janji dijual kembali	-	-	500.000
Wesel Ekspor	1.218.778	-	-
Tagihan akseptasi	1.602.983	-	224.751
Kredit yang diberikan kepada nasabah	57.951.447	-	-
Aset lain-lain	384.609	145.688	1.333
Rekening administratif dengan risiko kredit	14.951.733	-	6.445
Jumlah	76.309.358	26.881.163	9.067.924
%	68%	24%	8%
2016			
Korporasi dan perorangan/ Corporate and Retail	Pemerintah dan Bank Indonesia/ Government and Bank Indonesia	Bank/Banks	
Giro pada Bank Indonesia	-	1.521.906	-
Giro pada bank-bank lain	-	-	310.491
Penempatan pada bank-bank lain	-	-	1.177.800
Efek-efek untuk tujuan investasi	-	3.723.413	-
Aset yang diukur pada nilai wajar melalui laba rugi	159	-	1.921
Wesel Ekspor	9.203	-	-
Tagihan akseptasi	652.397	-	50.619
Kredit yang diberikan kepada nasabah	18.042.847	-	-
Aset lain-lain	50.487	23.087	50
Rekening administratif dengan risiko kredit	1.726.217	-	-
Jumlah	20.481.310	5.268.406	1.540.881
%	75%	19%	6%

Konsentrasi kredit yang diberikan kepada nasabah berdasarkan jenis kredit dan sektor ekonomi diungkapkan pada Catatan 13.

The concentration of loans to customers by type of loan and economic sector is disclosed in Note 13.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**c. Risiko pasar**

Risiko pasar adalah risiko terjadinya kerugian yang disebabkan oleh adanya perubahan variabel-variabel pasar seperti perubahan tingkat bunga dan nilai tukar mata uang. Pendapatan Bank berasal dari selisih antara bunga yang dihasilkan dari aset dengan bunga yang dibayarkan atas dana pihak ketiga. Perubahan tingkat bunga dapat menyebabkan menurunnya pendapatan bunga, sehingga mempengaruhi kinerja Bank. Selain itu, pendapatan Bank dapat berasal dari selisih kurs mata uang dalam transaksi jual beli valuta asing. Perubahan nilai tukar dapat menyebabkan penurunan pendapatan Bank yang pada akhirnya dapat mempengaruhi kinerja Bank.

Manajemen risiko yang telah diterapkan oleh Bank adalah sebagai berikut:

- Melaksanakan fungsi ALCO untuk membahas kondisi pasar dan menetapkan tindakan yang akan diambil.
- Memantau dan mengukur tingkat risiko pasar dan melakukan *stress tests*.
- Memantau perubahan tingkat bunga dan kurs mata uang yang berlaku di pasar secara harian.
- Memantau pos-pos aset dan liabilitas sesuai dengan tanggal *re-pricing*.
- Melakukan analisa sensitivitas pendapatan bunga bersih terhadap perubahan tingkat bunga pasar dan kurs mata uang di pasar.
- Melakukan penyesuaian tingkat bunga kredit dan dana terhadap perubahan tingkat bunga pasar sesegera mungkin setelah terjadi perubahan tingkat bunga pasar.
- Mengelola dan memelihara posisi devisa neto (PDN) selalu berada di bawah level maksimum dan memonitor PDN intra hari sesuai dengan peraturan yang berlaku.

Secara garis besar, risiko pasar dibagi menjadi:

i. Risiko mata uang

Bank memiliki ekposur risiko mata uang melalui transaksi dalam valuta asing. Bank memonitor konsentrasi risiko yang terkait dengan setiap mata uang individual sehubungan dengan penjabaran transaksi, aset moneter dan liabilitas moneter dalam valuta asing ke dalam mata uang fungsional Bank, yaitu Rupiah.

Posisi devisa neto ("PDN") Bank dihitung berdasarkan Peraturan Bank Indonesia yang berlaku. Sesuai dengan peraturan yang berlaku, bank diwajibkan untuk memelihara posisi devisa neto secara keseluruhan setinggi-tingginya 20% dari jumlah modal.

4. FINANCIAL RISK MANAGEMENT (continued)**c. Market risk**

Market risk relates to the possibility of losses caused by fluctuations of the market variables, such as changes in interest rates and foreign exchange. The Bank's income is generated from the difference between interest income derived from assets and the interest paid to third party depositors. Changes in interest rates may reduce the interest income and consequently affect the Bank's performance. Likewise, the Bank may earn income from exchange rate differences in foreign exchange transactions. Changes in exchange rates may reduce the Bank's income and thereby affect the Bank's performance.

The risk management applied by the Bank is as follows:

- Implementing ALCO functions to review market conditions and to determine actions to be taken.
- Monitoring and measuring the level of market risk and conducting stress tests.
- Monitoring interest rate and exchange rate movements in the market on a daily basis.
- Monitoring maturity of asset and liability accounts in line with re-pricing dates.
- Performing sensitivity analysis of net interest income relative to market interest rate and market exchange rate movements.
- Adjusting interest rates of credit and funds to promptly counter any changes in market interest rates.
- Managing and maintaining a net open position (NOP) to be always below the maximum level and monitoring the NOP at all times (intra-day NOP) in accordance with the prevailing regulations.

In overall, market risk is divided into the following risks:

i. Currency risk

The Bank is exposed to currency risk through transaction in foreign currencies. The Bank monitors any concentration of risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the Bank's functional currency, i.e. Rupiah.

The Bank's net open position ("NOP") was calculated based on the prevailing Bank Indonesia regulations. In accordance with the regulations, banks are required to maintain its aggregate net foreign exchange position at a maximum of 20% of its capital.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**c. Risiko pasar (lanjutan)****i. Risiko mata uang (lanjutan)**

PDN Bank pada tanggal 31 Desember 2017 dan 2016 berdasarkan mata uang adalah sebagai berikut:

4. FINANCIAL RISK MANAGEMENT (continued)**c. Market risk (continued)****i. Currency risk (continued)**

The Bank's NOP as of 31 December 2017 and 2016 by currencies were as follows:

2017				
Aset/Assets	Liabilitas/ Liabilities	Posisi devisa neto (nilai absolut)/Net open position (absolute amount)		
Mata uang			Currencies	
Keseluruhan (laporan posisi keuangan dan rekening administratif)			Aggregate (statement of financial position and off- balance sheet accounts)	
Dolar Amerika Serikat	64.429.741	65.026.483	596.742	United States Dollar
Dolar Australia	730.986	729.614	1.372	Australian Dollar
Dolar Singapura	623.259	621.871	1.388	Singapore Dollar
Dolar Hong Kong	154.262	148.786	5.476	Hong Kong Dollar
Pound Inggris	278.227	277.833	394	British Pound
Yen Jepang	1.472.408	1.481.567	9.159	Japanese Yen
Yuan Cina	82.581	235.251	152.670	China Yuan
Yuan Cina Renminbi	230.999	78.594	152.405	Chinese Yuan Renminbi
Euro	2.501.812	2.514.921	13.109	Euro
Franc Swiss	170.034	170.628	594	Swiss Franc
Baht Thailand	2.476	477	1.999	Thailand Baht
Dolar Kanada	119.843	118.570	1.273	Canadian Dollar
Krone Denmark	1.024	-	1.024	Danish Krone
Ruppee India	1.681	1.318	363	Indian Rupee
Krona Swedia	2.314	2.233	81	Swedish Krona
Krone Norwegia	408	-	408	Nowegian Krone
Dolar Selandia Baru	32.977	33.880	903	New Zealand Dollar
Ringgit Malaysia	-	1	1	Malaysian Ringgit
Jumlah		939.361	Total	
Jumlah modal (Catatan 4f)		16.130.481	Total capital (Note 4f)	
Posisi Devisa Neto		5,82%	Net Open Position	
2016				
Aset/Assets	Liabilitas/ Liabilities	Posisi devisa neto (nilai absolut)/Net open position (absolute amount)		
Mata uang			Currencies	
Keseluruhan (laporan posisi keuangan dan rekening administratif)			Aggregate (statement of financial position and off- balance sheet accounts)	
Dolar Amerika Serikat	4.249.032	4.285.641	36.609	United States Dollar
Dolar Australia	42.493	42.300	193	Australian Dollar
Dolar Singapura	181.915	181.846	69	Singapore Dollar
Dolar Hong Kong	6.979	6.966	13	Hong Kong Dollar
Pound Inggris	4.235	2.670	1.565	British Pound
Yen Jepang	24.080	23.719	361	Japanese Yen
Yuan Cina	14.421	13.809	612	China Yuan
Euro	35.493	34.539	954	Euro
Franc Swiss	440	10	430	Swiss Franc
Baht Thailand	339	5	334	Thailand Baht
Dolar Kanada	346	100	246	Canadian Dollar
Dolar Selandia Baru	115	-	115	New Zealand Dollar
Dolar Selandia Baru	115	-	115	New Zealand Dollar
Jumlah		41.501	Total	
Jumlah modal (Catatan 4f)		5.396.405	Total capital (Note 4f)	
Posisi Devisa Neto		0,77%	Net Open Position	

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**c. Risiko pasar (lanjutan)****ii. Risiko tingkat bunga**

Kegiatan usaha Bank dipengaruhi oleh risiko fluktuasi tingkat bunga sepanjang aset berbunga dan liabilitas berbunga (bukan untuk tujuan diperdagangkan) jatuh tempo atau *re-price* pada saat yang berbeda-beda atau dalam jumlah yang beragam.

Tabel di bawah ini menyajikan aset berbunga dan liabilitas berbunga (bukan untuk tujuan diperdagangkan) Bank pada nilai tercatat bersih setelah cadangan kerugian penurunan nilai, yang dikategorikan menurut mana yang terlebih dahulu antara tanggal *re-pricing* atau tanggal jatuh tempo:

4. FINANCIAL RISK MANAGEMENT (continued)**c. Market risk (continued)****ii. Interest rate risk**

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities (not for trading purpose) mature or *re-price* at different times or in differing amounts.

The table below summarises the Bank's interest-earning assets and interest-bearing liabilities (not for trading purpose) at carrying amounts net after allowance for impairment losses, categorised by the earlier of contractual *re-pricing* or maturity dates:

2017						
	Jumlah/ Total	Hingga 3 bulan/ Up to 3 months	>3 - 6 bulan/ months	>6 - 12 bulan/ months	>1 - 5 tahun/ years	>5 tahun/ years
Giro pada Bank Indonesia	6.755.215	6.755.215	-	-	-	-
Giro pada bank-bank lain	1.866.023	1.866.023	-	-	-	-
Penempatan pada bank-bank lain	6.353.055	6.353.055	-	-	-	-
Penempatan pada Bank Indonesia	1.249.637	1.249.637	-	-	-	-
Efek-efek untuk tujuan investasi	13.703.861	2.722.084	3.483.385	4.679.338	2.819.054	-
Wesel ekspor	1.218.778	1.089.377	129.401	-	-	-
Tagihan akseptasi	1.827.734	1.535.733	292.001	-	-	-
Efek-efek yang dibeli dengan janji dijual kembali	500.000	-	500.000	-	-	-
Kredit yang diberikan kepada nasabah	57.951.447	57.951.447	-	-	-	-
	91.425.750	79.522.571	4.404.787	4.679.338	2.819.054	-
Simpanan dari nasabah	(56.932.673)	(55.350.045)	(1.064.154)	(518.474)	-	-
Simpanan dari bank-bank lain	(8.577.319)	(8.577.319)	-	-	-	-
Pinjaman	(13.363.988)	(13.363.988)	-	-	-	-
Pinjaman subordinasi	(1.017.563)	-	(1.017.563)	-	-	-
	(79.891.543)	(77.291.352)	(2.081.717)	(518.474)	-	-
	11.534.207	2.231.219	2.323.070	4.160.864	2.819.054	-
2016						
	Jumlah/ Total	Hingga 3 bulan/ Up to 3 months	>3 - 6 bulan/ months	>6 - 12 bulan/ months	>1 - 5 tahun/ years	>5 tahun/ years
Giro pada Bank Indonesia	1.521.906	1.521.906	-	-	-	-
Giro pada bank-bank lain	310.491	310.491	-	-	-	-
Penempatan pada bank-bank lain	1.177.800	1.177.800	-	-	-	-
Wesel ekspor	9.203	9.203	-	-	-	-
Kredit yang diberikan kepada nasabah	18.042.847	18.042.847	-	-	-	-
Efek-efek untuk tujuan investasi	3.723.413	721.564	541.240	788.407	1.672.202	-
	24.785.660	21.783.811	541.240	788.407	1.672.202	-
Simpanan dari nasabah	(19.111.092)	(18.016.792)	(789.409)	(304.891)	-	-
Simpanan dari bank-bank lain	(89.499)	(89.499)	-	-	-	-
Pinjaman	(471.538)	(471.538)	-	-	-	-
	(19.672.129)	(18.577.829)	(789.409)	(304.891)	-	-
	5.113.531	3.205.982	(248.169)	483.516	1.672.202	-

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**c. Risiko pasar (lanjutan)****ii. Risiko tingkat bunga (lanjutan)**

Berdasarkan perjanjian kredit dengan debitur/nasabah, Bank berhak mengubah besaran suku bunga sewaktu-waktu atas dasar pertimbangan Bank, kecuali untuk kredit-kredit tertentu yang sudah ditetapkan jangka waktu *re-pricing*.

Tabel di bawah ini mengikhtisarkan suku bunga efektif rata-rata tertimbang pada tanggal 31 Desember 2017 dan 2016 untuk masing-masing instrumen keuangan.

4. FINANCIAL RISK MANAGEMENT (continued)**c. Market risk (continued)****ii. Interest rate risk (continued)**

Based on the loan agreement with the debtors/customers, the Bank has the rights to change the interest rates at any time at its discretion, except for certain loans which re-pricing period have been determined.

The tables below summarise the weighted average effective interest rates as of 31 December 2017 and 2016 for each financial instrument.

	2017	2016
Aset Rupiah:		
Penempatan pada bank-bank lain:		
<i>Call money</i>	-	4,56%
Efek-efek untuk tujuan investasi:		
Sertifikat Bank Indonesia	5,15%	6,32%
Surat Perbendaharaan Negara	4,29%	6,14%
Obligasi pemerintah	5,48%	7,52%
Obligasi pemerintah – sukuk*)	5,02%	7,54%
Efek-efek yang dibeli dengan janji dijual kembali	8,00%	8,00%
Wesel ekspor	0,00%	0,00%
Tagihan akseptasi	0,00%	0,00%
Kredit yang diberikan kepada nasabah	11,51%	11,36%
Valuta asing:		
Penempatan pada bank-bank lain:		
<i>Call money</i>	1,20%	0,64%
Kredit yang diberikan kepada nasabah	4,33%	4,94%

*) Menunjukkan rata-rata tertimbang dari bagi hasil

Assets Rupiah:	
Placements with other banks:	
<i>Call money</i>	
Investment securities:	
Certificates of Bank Indonesia	
Treasury bills	
Government bonds	
Government bonds – sukuk*)	
Securities purchased with agreement to resell	
Export bills	
Acceptance receivables	
Loans to customers	
Foreign currencies:	
Placements with other banks:	
<i>Call money</i>	
Loans to customers	

*) Represent weighted average of revenue sharing

	2017	2016
Liabilitas Rupiah:		
Simpanan dari nasabah:		
Giro	2,55%	2,24%
Tabungan	2,63%	3,20%
Deposito berjangka dan <i>deposits on call</i>	5,02%	7,11%
Simpanan dari bank-bank lain:		
Giro	0,99%	3,70%
Deposito berjangka	0,00%	7,00%
<i>Call money</i>	4,46%	-
Valuta asing:		
Simpanan dari nasabah:		
Giro	0,10%	0,20%
Tabungan	0,14%	0,21%
Deposito berjangka dan <i>deposits on call</i>	0,68%	0,66%
Simpanan dari bank-bank lain:		
Giro	0,00%	0,00%
<i>Call money</i>	0,00%	-
Pinjaman	1,82%	1,64%
Pinjaman subordinasi	5,42%	-

Liabilities Rupiah:	
Deposits from customers:	
Demand deposits	
Saving accounts	
Time deposits and deposits on call	
Deposits from other banks:	
Demand deposits	
Time deposits	
<i>Call money</i>	
Foreign currencies:	
Deposits from customers:	
Demand deposits	
Saving accounts	
Time deposits and deposits on call	
Deposits from other banks:	
Demand deposits	
<i>Call money</i>	
Borrowings	
Subordinated debts	

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**c. Risiko pasar (lanjutan)****iii. Value at Risk**

Bank memisahkan eksposur risiko pasar antara portofolio yang diperdagangkan dan tidak diperdagangkan. Portofolio yang diperdagangkan meliputi posisi yang timbul dari pembentukan pasar dan *position-taking* dan lainnya yang ditetapkan pada nilai pasar. Portofolio yang tidak diperdagangkan meliputi posisi yang timbul terutama dari manajemen tingkat suku bunga atas aset berbunga dan liabilitas berbunga, dan efek-efek yang diklasifikasikan sebagai tersedia untuk dijual.

Salah satu alat utama yang digunakan oleh Bank untuk memantau dan membatasi eksposur risiko pasar adalah *Value at Risk* ("VaR"). VaR adalah teknik yang digunakan untuk mengestimasi potensi kerugian yang mungkin terjadi atas posisi risiko yang diambil sebagai akibat dari pergerakan suku bunga pasar dalam jangka waktu tertentu dan dengan tingkat keyakinan tertentu.

Metodologi VaR yang digunakan oleh Bank adalah berdasarkan simulasi historis. Simulasi historis merupakan salah satu metode yang paling umum digunakan, dimana diasumsikan distribusi perubahan faktor risiko pasar masa depan yang diharapkan (seperti nilai tukar mata uang asing dan tingkat bunga) adalah identik dengan distribusi (terpisah) faktor risiko yang sama yang diobservasi selama periode historis yang telah ditentukan sebelumnya.

Meskipun VaR adalah panduan yang berharga untuk pemantauan risiko, akan tetapi VaR harus juga dilihat dalam konteks keterbatasannya, antara lain:

- Penggunaan data historis untuk mengestimasi peristiwa di masa depan mungkin tidak mencakup semua peristiwa yang mungkin terjadi, terutama peristiwa yang ekstrem sifatnya;
- Penggunaan asumsi posisi per hari, mengasumsikan bahwa semua posisi dapat dilikuidasi atau risiko dapat saling hapus dalam jangka waktu satu hari. Hal ini mungkin tidak mencerminkan risiko pasar yang timbul pada saat kondisi likuiditas sangat terbatas, ketika posisi satu hari tidak cukup untuk melikuidasi atau melakukan lindung nilai terhadap semua posisi Bank secara menyeluruh;

4. FINANCIAL RISK MANAGEMENT (continued)**c. Market risk (continued)****iii. Value at Risk**

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market-making and position-taking and others designated as marked-to-market. Non-trading portfolios include positions that primarily arise from the interest rate management of interest-earning assets and interest-bearing liabilities, and investment securities designated as available-for-sale.

One of the principal tools used by the Bank to monitor and limit market risk exposure is Value at Risk ("VaR"). VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR methodology used by the Bank is based on historical simulation. Historical simulation is one of the most commonly used method, it assumes the expected distribution of future changes in market risk factors (e.g. foreign exchange rates and interest rates) is identical observed (discrete) distribution of the same risk factors over a pre-specified historical period.

Although VaR is a valuable guidance for risk monitoring, VaR should always be viewed in the context of its limitations, among others:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- The use of position per day assumes that all positions can be liquidated or the risks offset in one-day. This may not fully reflect the market risk arising at times of severe liquidity, when the position per day may be insufficient to liquidate or hedge all positions fully;

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**c. Risiko pasar (lanjutan)****iii. Value at Risk (lanjutan)**

- Penggunaan tingkat keyakinan pada tingkat 99 persen, secara definisi, tidak memperhitungkan kerugian yang mungkin terjadi di luar tingkat keyakinan tersebut;
- VaR dihitung berdasarkan atas eksposur yang tercatat pada saat akhir hari dan dengan demikian tidak mencerminkan eksposur intra hari.

VaR dari total portofolio dan portofolio yang diperdagangkan adalah sebagai berikut:

	2017			2016			
	Jumlah VaR/ Total VaR	VaR untuk portofolio yang diperdagangkan/ Trading VaR		Jumlah VaR/ Total VaR	VaR untuk portofolio yang diperdagangkan/ Trading VaR		
		Risiko Nilai Tukar/ Foreign Exchange Risk	Risiko Suku Bunga/ Interest Rate Risk		Risiko Nilai Tukar/ Foreign Exchange Risk	Risiko Tingkat Bunga/ Interest Rate Risk	
Pada 31 Desember	17.682	1.691	12.438	8.189	520	284	At 31 December

Bank melakukan validasi atas keakuratan model VaR dengan melakukan *back-testing* menggunakan hasil laba rugi aktual harian.

4. FINANCIAL RISK MANAGEMENT (continued)**c. Market risk (continued)****iii. Value at Risk (continued)**

- The use of a 99 percent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not reflect intra-day exposures.

VaR of the total and trading portfolios were as follows:

The Bank validates the accuracy of VaR model by performing back-testing using actual daily profit or loss results.

d. Risiko likuiditas

Risiko likuiditas adalah risiko bahwa Bank tidak memiliki kemampuan finansial yang memadai untuk memenuhi kewajibannya pada saat jatuh tempo, atau memenuhi kewajiban tersebut tetapi dengan biaya yang tinggi. Risiko timbul dari ketidakselarasan waktu dari arus kas. Bank mempertahankan basis pendanaan yang stabil dan terdiversifikasi dari simpanan nasabah ritel inti dan simpanan nasabah korporasi serta portofolio aset yang sangat likuid. Tujuan dari kerangka kerja likuiditas Bank adalah untuk memastikan bahwa Bank dapat bertahan pada saat krisis likuiditas yang ekstrim. Kerangka kerja likuiditas dibentuk sedemikian rupa agar dapat beradaptasi terhadap perubahan bisnis model, pasar dan regulasi.

Bank mengelola risiko likuiditas dan pendanaan masing-masing dengan menerapkan sebuah kerangka kerja dan struktur limit yang ditetapkan oleh ALCO. Bank diharuskan untuk mempertahankan posisi likuiditas yang kuat dan mengelola struktur likuiditas aset, liabilitas dan komitmen untuk memastikan bahwa sumber likuiditas yang memadai, baik untuk jumlah dan kualitas, untuk memastikan bahwa tidak ada risiko yang signifikan dimana kewajiban tidak dapat dipenuhi saat jatuh tempo, dan untuk memastikan bahwa profil pendanaan struktural yang bijaksana dapat dipertahankan.

d. Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. The risk arises from mismatches in the timing of cash flows. The Bank maintains a stable and diversified funding base of core retail and corporate customer deposits as well as portfolios of highly liquid assets. The objective of the Bank's liquidity framework is to allow the Bank to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations.

The Bank manages liquidity and funding risk on a stand alone basis, employing a centrally imposed framework and limit structure set by ALCO. The Bank is required to maintain strong liquidity positions and to manage the liquidity profiles of its assets, liabilities and commitments with the objective of ensuring that liquidity resources are adequate, both as to the amount and quality, to ensure that there is no significant risk that liabilities cannot be met as they fall due, and to ensure that a prudent structural funding profile is maintained.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**d. Risiko likuiditas (lanjutan)**

Manajemen lokal bertanggung jawab untuk memastikan kepatuhan terhadap peraturan lokal yang berlaku dan limit yang ditetapkan oleh ALCO. Likuiditas dikelola setiap hari oleh fungsi treasuri.

Likuiditas dan toleransi risiko pendanaan diatur dalam *Risk Appetite Statement* (RAS) yang ditetapkan oleh ALCO dan dibahas dalam rapat bulanan *Risk Management Committee* (RMC).

Net Stable Funding Ratio (NSFR) digunakan untuk memantau risiko pendanaan dan *Liquidity Coverage Ratio* (LCR) digunakan untuk memantau risiko likuiditas secara harian untuk memastikan posisi NSFR dan LCR berada dalam limit internal.

Giro, tabungan dan deposito berjangka merupakan bagian signifikan dari keseluruhan pendanaan Bank. Bank menempatkan pentingnya stabilitas simpanan ini, yang dicapai melalui kegiatan perbankan ritel Bank dan dengan mempertahankan kepercayaan nasabah terhadap struktur modal Bank yang kuat. Pasar profesional diakses dengan tujuan untuk menyediakan pendanaan tambahan, mempertahankan keberadaan di pasar uang lokal dan mengoptimalkan jatuh tempo aset dan liabilitas.

Liquidity Coverage Ratio (LCR)

Untuk mengendalikan risiko likuiditas, Bank menggunakan skenario untuk memastikan bahwa kewajiban pembayaran yang jatuh tempo dapat dipenuhi. LCR menggunakan skenario bahwa pasar berada dalam keadaan *stress* selama 30 hari.

Posisi LCR berdasarkan kebijakan internal dan peraturan Bank Indonesia berdasarkan data 31 Desember dapat dilihat pada tabel di bawah ini:

	<u>2017</u>	<u>2016</u>
<i>Liquidity Coverage Ratio –</i> Dihitung berdasarkan Kebijakan Internal ^{*)}	370%	208%
<i>Liquidity Coverage Ratio –</i> Dihitung berdasarkan peraturan OJK yang berlaku	438%	383%

^{*)} Tidak diaudit

Berdasarkan kebijakan internal, ditetapkan limit sebesar 125% atas *Liquidity Coverage Ratio*, sedangkan limit sebesar 100% ditetapkan berdasarkan peraturan OJK yang berlaku.

4. FINANCIAL RISK MANAGEMENT (continued)**d. Liquidity risk (continued)**

It is the responsibility of local management to ensure compliance with local regulatory requirements and limits set by ALCO. Liquidity is managed on a daily basis by treasury functions.

Liquidity and funding risk tolerance is set out in the Risk Appetite Statement (RAS) established by ALCO and discussed in monthly Risk Management Committee (RMC) meeting.

Net Stable Funding Ratio (NSFR) use to monitor funding risk and Liquidity Coverage Ratio (LCR) use to monitor liquidity risk are assessed daily to ensure the positions of NSFR and LCR are within the internal limits.

Demand deposits, saving accounts and time deposits payable form a significant part of the Bank's overall funding. The Bank places considerable importance on the stability of these deposits, which is achieved through the Bank's retail banking activities and by maintaining depositor confidence in the Bank's capital strength. Professional markets are accessed for the purposes of providing additional funding, maintaining a presence in local money markets and optimising asset and liability maturities.

Liquidity Coverage Ratio (LCR)

To control liquidity risk, the Bank uses scenarios to ensure that the payment obligation could be met as they fall due. LCR uses scenario that represents a 30 day severe market stress.

LCR position based on internal policy and BI regulations as of 31 December are provided in the following table:

<i>Liquidity Coverage Ratio -</i> Calculated based on internal policy ^{*)}
<i>Liquidity Coverage Ratio -</i> Calculated based on the prevailing FSA regulations

^{*)} Unaudited

Based on internal policy, a limit of 125% is set for Liquidity Coverage Ratio, whilst a limit of 100% is set based on prevailing FSA regulation.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**d. Risiko likuiditas (lanjutan)**Net Stable Funding Ratio (NSFR)

Bank menggunakan konsep NSFR dalam mendanai aset pada neraca, dimana Aset yang membutuhkan dana stabil (*required stable funding*) didukung oleh kewajiban dana stabil yang tersedia (*available stable funding*)

Posisi NSFR berdasarkan kebijakan internal berdasarkan data 31 Desember dapat dilihat pada table di bawah ini:

	2017	2016
Net Stable Funding Ratio – Dihitung berdasarkan kebijakan internal ^{*)}	160%	158%

^{*)} Tidak diauditRencana Pendanaan Kontinjensi

Rencana Pendanaan Kontinjensi (CFP) memiliki fokus pada skenario stres *idiosyncratic* dan *market wide*. Skenario stres harus memiliki tingkat kesulitan yang bervariasi untuk menangani isu-isu yang berkembang dalam rentang waktu tertentu dan dihubungkan dengan kerangka risiko likuiditas dan asumsi stres.

CFP harus membentuk *Early Warning Indicators* dengan *trigger* yang telah ditentukan diawal untuk menginformasikan seluruh penilaian status RAG (*Red/Amber/Green*). CFP harus menguraikan secara singkat tanggung jawab dan tindakan yang dapat diterapkan dalam skenario stres likuiditas dan menetapkan tahapan-tahapan spesifik selama skenario stres tersebut.

Eksposur risiko likuiditas

Sisa umur atas arus kas kontraktual yang tidak didiskontokan atas liabilitas keuangan sampai dengan jatuh tempo pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

	2017				
	Nilai tercatat/ Carrying amount	Nilai nominal bruto arus kas masuk (keluar)/ Gross nominal inflow/ (outflow)	Hingga 1 bulan/ Up to 1 month	>1 - 3 bulan/ months	>3 bulan/ months
Liabilitas non-derivatif					
Simpanan dari nasabah	(56.932.673)	(57.007.845)	(52.340.798)	(3.077.094)	(1.589.953)
Simpanan dari bank-bank lain	(8.577.319)	(8.578.401)	(8.578.401)	-	-
Utang akseptasi	(1.827.734)	(1.827.734)	(841.220)	(694.513)	(292.001)
Pinjaman	(13.363.988)	(13.605.984)	-	(241.997)	(13.363.987)
Pinjaman subordinasi	(1.017.563)	(1.030.276)	-	-	(1.030.276)
Liabilitas lainnya	(713.465)	(713.465)	(713.465)	-	-
L/C yang tidak dapat dibatalkan	-	(2.307.855)	(543.338)	(1.384.651)	(379.866)
Fasilitas kredit yang belum digunakan - committed	-	(2.202.919)	-	-	(2.202.919)
	<u>(82.432.742)</u>	<u>(87.274.479)</u>	<u>(63.017.222)</u>	<u>(5.398.255)</u>	<u>(18.859.002)</u>
Liabilitas derivatif					
Diperdagangkan:					
Arus kas keluar	(527.035)	(48.638.120)	(20.179.549)	(14.416.786)	(14.041.785)
Arus kas masuk	-	48.414.669	20.265.991	13.756.801	14.391.877
	<u>(527.035)</u>	<u>(223.451)</u>	<u>86.442</u>	<u>(659.985)</u>	<u>350.092</u>
	<u>(82.959.777)</u>	<u>(87.497.930)</u>	<u>(62.930.780)</u>	<u>(6.058.240)</u>	<u>(18.508.910)</u>

Lampiran – 6/52 - Schedule**4. FINANCIAL RISK MANAGEMENT (continued)****d. Liquidity risk (continued)**Net Stable Funding Ratio (NSFR)

The Bank uses NSFR concept in funding assets on balance sheet where assets assessed to require stable funding are supported by liabilities providing stable funding.

NSFR position based on internal policy as of 31 December are provided in the following table:

	2017	2016
Net Stable Funding Ratio – Calculated based on internal policy ^{*)}	160%	158%

^{*)} UnauditedContingent Funding Plan

Contingency Funding Plan (CFP) focus on *idiosyncratic* and *market wide* stress scenarios. Stress scenarios should vary in severity, address issues developing over a range of time horizons and be linked to liquidity risk framework and stress testing assumptions.

CFPs should establish a collection of *Early Warning Indicators* with predetermined warning triggers to inform an overall RAG (*Red/Amber/Green*) status assessment. CFP should seek to outline at a high level responsibilities and actions that could be applied during liquidity stress scenarios and set out specific stages during a liquidity stress scenario.

Exposure to liquidity risk

Maturity on contractual undiscounted cash flows of financial liabilities as of 31 December 2017 and 2016 were as follows:

Non-derivative liabilities
Deposits from customers
Deposits from other banks
Acceptance payables
Borrowings
Subordinated debt
Other liabilities
Irrevocable L/C
Unused credit facilities - committed
Derivative liabilities
Trading:
Cash outflow
Cash inflow

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**d. Risiko likuiditas (lanjutan)**

Eksposur risiko likuiditas (lanjutan)

4. FINANCIAL RISK MANAGEMENT (continued)**d. Liquidity risk (continued)**

Exposure to liquidity risk (continued)

2016					
	Nilai tercatat/ Carrying amount	Nilai nominal bruto arus kas masuk (keluar)/ Gross nominal inflow/ (outflow)	Hingga 1 bulan/ Up to 1 month	>1 - 3 bulan/ months	>3 bulan/ months
Liabilitas non-derivatif					
Simpanan dari nasabah	(19.111.092)	(19.257.886)	(15.817.447)	(2.154.159)	(1.286.280)
Simpanan dari bank-bank lain	(89.499)	(89.987)	(89.987)	-	-
Utang akseptasi	(703.016)	(703.016)	(174.470)	(347.891)	(180.655)
Pinjaman	(471.538)	(480.344)	-	(1.910)	(478.434)
Liabilitas lainnya	(28.918)	(28.918)	(28.918)	-	-
L/C yang tidak dapat dibatalkan	-	(625.178)	(172.802)	(373.129)	(79.247)
Fasilitas kredit yang belum digunakan - committed	-	(245.625)	-	-	(245.625)
	<u>(20.404.063)</u>	<u>(21.430.954)</u>	<u>(16.283.624)</u>	<u>(2.877.089)</u>	<u>(2.270.241)</u>
Liabilitas derivatif					
Diperdagangkan:					
Arus kas keluar	(2.695)	(396.738)	(396.738)	-	-
Arus kas masuk	-	394.036	394.036	-	-
	<u>(2.695)</u>	<u>(2.702)</u>	<u>(2.702)</u>	<u>-</u>	<u>-</u>
	<u>(20.406.578)</u>	<u>(21.433.656)</u>	<u>(16.286.326)</u>	<u>(2.877.089)</u>	<u>(2.270.241)</u>

Tabel di atas menyajikan arus kas yang tidak didiskontokan dari liabilitas keuangan Bank berdasarkan periode jatuh tempo kontraktual yang paling dekat. Arus kas atas instrumen keuangan yang diharapkan Bank bervariasi secara signifikan dari analisa ini. Sebagai contoh, giro dari nasabah diharapkan memiliki saldo yang stabil atau meningkat.

Nilai nominal bruto arus kas masuk/(keluar) yang diungkapkan pada tabel di atas menyajikan arus kas kontraktual yang tidak didiskontokan terkait dengan nilai pokok dan bunga dari liabilitas keuangan. Pengungkapan instrumen derivatif menunjukkan nilai bersih derivatif yang dapat diselesaikan secara neto, juga nilai bruto arus kas masuk dan keluar untuk derivatif yang diselesaikan bruto secara bersamaan (sebagai contoh kontrak berjangka valuta asing). Arus kas liabilitas derivatif seperti yang ditunjukkan di tabel di atas merupakan arus kas berdasarkan jatuh tempo kontraktual yang menurut Bank adalah penting untuk memahami waktu dari arus kas.

Analisa jatuh tempo aset dan liabilitas keuangan bruto Bank (bukan untuk tujuan diperdagangkan) berdasarkan periode tersisa sampai dengan tanggal jatuh tempo kontraktual pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

The gross nominal inflow/(outflow) disclosed in the above table represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The disclosure for derivatives shows a net amount for derivatives that are net settled, and a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g. currency forward). The cash flows of derivative liabilities as in the above table represent the cash flows based on contractual maturities which the Bank believes is essential for understanding of the timing of the cash flows.

The analysis of maturities of the Bank's gross financial assets and liabilities (not for trading purpose) based on remaining period to contractual maturity as of 31 December 2017 and 2016 were as follows:

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)

4. FINANCIAL RISK MANAGEMENT (continued)

d. Risiko likuiditas (lanjutan)

d. Liquidity risk (continued)

Eksposur risiko likuiditas (lanjutan)

Exposure to liquidity risk (continued)

	2017						Nilai tercatat sebelum dikurangi penyisihan kerugian penurunan nilai/ Carrying amount before allowance for impairment losses	
	Tanpa tanggal jatuh tempo kontraktual/No contractual maturity	Hingga 1 bulan/Up to 1 month	>1 - 3 bulan/ months	>3 - 12 bulan/ months	1 - 5 tahun/ years	>5 tahun/ years		
Aset								Assets
Kas	581.541	-	-	-	-	-	581.541	Cash
Giro pada Bank Indonesia	6.755.215	-	-	-	-	-	6.755.215	Demand deposits with Bank Indonesia
Giro pada bank-bank lain	1.866.023	-	-	-	-	-	1.866.023	Demand deposits with other banks
Penempatan pada Bank Indonesia	-	-	1.249.637	-	-	-	1.249.637	Placements with Bank Indonesia
Penempatan pada bank-bank lain	-	6.353.055	-	-	-	-	6.353.055	Placements with other banks
Efek-efek untuk tujuan investasi	-	199.664	2.522.421	8.162.722	2.819.054	-	13.703.861	Investment securities
Wesel Ekspor	-	575.247	514.129	129.402	-	-	1.218.778	Export bills
Tagihan Akseptasi	-	841.220	694.513	292.001	-	-	1.827.734	Acceptance receivables
Kredit yang diberikan kepada nasabah	-	25.491.845	6.851.492	21.434.337	5.464.995	1.292.097	60.534.766	Loans to customers
Efek-efek yang dibeli dengan janji dijual kembali	-	-	-	500.000	-	-	500.000	Securities purchased with agreement to resell
Aset lain-lain	-	531.630	-	-	-	-	531.630	Other assets
Jumlah aset	9.202.779	33.992.661	11.832.192	30.518.462	8.284.049	1.292.097	95.122.240	Total assets
Liabilitas								Liabilities
Simpanan dari nasabah	(38.705.199)	(13.583.495)	(3.061.352)	(1.582.627)	-	-	(56.932.673)	Deposits from customers
Simpanan dari bank-bank lain	(6.577.319)	(2.000.000)	-	-	-	-	(8.577.319)	Deposits from other banks
Utang akseptasi	-	(841.220)	(694.513)	(292.001)	-	-	(1.827.734)	Acceptance payables
Beban akrual dan provisi	-	(88.974)	-	-	-	-	(88.974)	Accruals and provisions
Liabilitas lain-lain	(713.465)	-	-	-	-	-	(713.465)	Other liabilities
Pinjaman subordinasi	-	-	-	(1.356.750)	(12.007.238)	-	(13.363.988)	Borrowings
Jumlah liabilitas	(45.995.983)	(16.513.689)	(3.755.865)	(3.231.378)	(12.007.238)	(1.017.563)	(82.521.717)	Total liabilities
Selisih	(36.793.204)	17.478.972	8.076.327	27.287.082	(3.723.189)	274.534	12.600.524	Difference
	2016						Nilai tercatat sebelum dikurangi penyisihan kerugian penurunan nilai/ Carrying amount before allowance for impairment losses	
	Tanpa tanggal jatuh tempo kontraktual/No contractual maturity	Hingga 1 bulan/Up to 1 month	>1 - 3 bulan/ months	>3 - 12 bulan/ months	1 - 5 tahun/ years	>5 tahun/ years		
Aset								Assets
Kas	567.552	-	-	-	-	-	567.552	Cash
Giro pada Bank Indonesia	1.521.906	-	-	-	-	-	1.521.906	Demand deposits with Bank Indonesia
Giro pada bank-bank lain	310.491	-	-	-	-	-	310.491	Demand deposits with other banks
Penempatan pada bank-bank lain	-	1.177.800	-	-	-	-	1.177.800	Placements with other banks
Efek-efek untuk tujuan investasi	-	-	721.564	1.329.647	1.672.202	-	3.723.413	Investment securities
Wesel ekspor	-	1.941	7.262	-	-	-	9.203	Export bills
Tagihan akseptasi	-	174.470	347.891	180.655	-	-	703.016	Acceptance receivables
Kredit yang diberikan kepada nasabah	-	3.210.806	2.285.334	8.260.367	4.088.027	760.087	18.604.621	Loans to customers
Aset lain-lain	-	73.624	-	-	-	-	73.624	Other assets
Jumlah aset	2.399.949	4.638.641	3.362.051	9.770.669	5.760.229	760.087	26.691.626	Total assets

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**d. Risiko likuiditas (lanjutan)**

Eksposur risiko likuiditas (lanjutan)

4. FINANCIAL RISK MANAGEMENT (continued)**d. Liquidity risk (continued)**

Exposure to liquidity risk (continued)

2016

	Tanpa tanggal jatuh tempo kontraktual/ No contractual maturity	Hingga 1bulan/Up to 1 month	>1 - 3 bulan/ months	>3 - 12 bulan/ months	>1- 5 tahun/ years	>5 tahun/ years	Carrying amount before allowance for impairment losses	
Liabilitas								Liabilities
Simpanan dari nasabah	(7.629.584)	(8.127.938)	(2.112.956)	(1.158.339)	(82.275)	-	(19.111.092)	Deposits from customers
Simpanan dari bank-bank lain	(9.499)	(80.000)	-	-	-	-	(89.499)	Deposits from other banks
Utang akseptasi	-	(174.470)	(347.891)	(180.655)	-	-	(703.016)	Acceptance payables
Beban akrual dan provisi	-	(35.270)	(8.777)	(5.664)	(25)	-	(49.736)	Accruals and provisions
Liabilitas lain-lain	(131.559)	(28.918)	-	-	-	-	(160.477)	Other liabilities
Pinjaman	-	-	-	(471.538)	-	-	(471.538)	Borrowings
Jumlah liabilitas	(7.770.642)	(8.446.596)	(2.469.624)	(1.816.196)	(82.300)	-	(20.585.358)	Total liabilities
Selisih	(5.370.693)	(3.807.955)	892.427	7.954.473	5.677.929	760.087	6.106.268	Difference

e. Risiko operasional

Risiko operasional adalah risiko kerugian yang disebabkan oleh kegagalan sistem teknologi informasi, kesalahan karena faktor manusia, kelemahan proses internal dan kejadian eksternal termasuk *fraud*. Risiko ini dapat menyebabkan terjadinya kerugian pada Bank sehingga akan mempengaruhi kinerja dan tingkat kesehatan Bank.

Manajemen risiko operasional dan internal kontrol yang kuat adalah elemen inti dari strategi risiko operasional Bank dan semua karyawan bertanggung jawab untuk mengelola dan memitigasi risiko operasional dalam kegiatan sehari-hari. Kerangka Manajemen Risiko Operasional (KMRO) Bank adalah pendekatan menyeluruh yang diterapkan oleh bank untuk mengelola risiko operasionalnya sesuai dengan bisnis dan strategi risiko operasional dan objektif dan juga *appetite* risiko operasional.

Three Lines of Defence berhubungan dengan peran, tanggung jawab dan akuntabilitas yang dimiliki karyawan untuk mendukung efisiensi dan efektifitas pengelolaan risiko operasional untuk mencapai objektif bisnis bank.

<i>First line of defence</i>	Yang memiliki risiko-risiko operasional bank dan menerapkan kontrol-kontrol untuk memitigasi risiko-risiko tersebut. Yang termasuk <i>First Line of Defence</i> adalah Pemilik Risiko, Pemilik Kontrol dan <i>Business Risk & Control Managers (BRCM)</i>
<i>Second line of defence</i>	Pembuat Kebijakan dan Pedoman untuk mengelola risiko operasional, dan memberikan saran dan pedoman tentang manajemen risiko yang efektif. Yang termasuk <i>Second Line of Defence</i> adalah <i>Risk Stewards</i> dan Fungsi Risiko Operasional
<i>Third line of defence</i>	Audit Internal memberikan kepastian yang independen bahwa Bank mengelola risiko operasional secara efektif

e. Operational risk

Operational risk is the potential losses arising from IT system failure, human error, deficiencies in internal process and external event including fraud. These risks may trigger losses for the Bank and consequently affect the Bank's performance and soundness.

Strong operational risk management and internal control are core elements of the Bank's operational risk strategy and all staff are responsible for managing and mitigating operational risks in their day-to-day operations. The Bank's Operational Risk Management Framework (ORMF) is the overarching approach adopted by the Bank to manage its operational risk in accordance with its business and operational risk strategies and objectives and accordingly its operational risk appetite

Three Lines of Defence relate to the roles, responsibilities and accountabilities assigned to individuals in order to support the efficient and effective management of operational risks to the achievement of the Bank's business objectives.

<i>First line of defence</i>	Own Bank's operational risks and puts in place controls that mitigate these risks. The <i>First Line of Defence</i> includes Risk Owners, Control Owners and Business Risk & Control Managers (BRCM)
<i>Second line of defence</i>	Set Policy and Guidelines for managing operational risk, and provide advice and guidance on effective risk management. The <i>Second Line of Defence</i> are the Risk Stewards and Operational Risk Function
<i>Third line of defence</i>	Internal Audit which independently ensures the Bank is managing operational risk effectively

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**e. Risiko operasional (lanjutan)**

Bank mengelola risiko ini melalui lingkungan berbasis-pengendalian dimana proses didokumentasi, wewenang bersifat independen dan transaksi-transaksi dicocokkan dan dipantau. Hal ini didukung oleh program kajian berkala yang dilaksanakan secara independen oleh audit internal, dan dengan memantau peristiwa eksternal yang terkait dengan risiko operasional, yang memastikan bahwa Bank tetap sejalan dengan *best practice* di industri dan belajar dari kegagalan operasional dalam industri jasa keuangan yang telah dipublikasi.

Bank telah mengkodifikasi proses manajemen risiko operasionalnya dengan mengeluarkan standar tingkat tinggi yang dilengkapi dengan panduan resmi yang lebih rinci. Hal ini menjelaskan bagaimana Bank mengelola risiko operasional dengan mengidentifikasi, menilai, memantau, mengontrol dan memitigasi risiko, memperbaiki kejadian yang terkait dengan risiko operasional, dan melaksanakan prosedur tambahan yang diperlukan untuk memenuhi persyaratan berdasarkan peraturan lokal. Standar tersebut mencakup hal-hal sebagai berikut:

- Risiko operasional merupakan tanggung jawab seluruh karyawan dan lini manajemen yang didukung oleh Kerangka Manajemen Risiko Operasional (KMRO);
- Sistem informasi digunakan untuk mencatat pengidentifikasian dan penilaian risiko operasional dan untuk menghasilkan pelaporan manajemen yang tepat secara berkala;
- Penilaian dilaksanakan terhadap risiko operasional yang dihadapi oleh setiap unit bisnis, baik risiko yang melekat dan risiko residual dalam proses, kegiatan dan produk terkait. Penilaian risiko menyertakan kajian berkala atas risiko yang teridentifikasi untuk memantau perubahan signifikan;
- Data kerugian risiko operasional dikumpulkan dan dilaporkan kepada manajemen senior. Kerugian risiko operasional secara keseluruhan dicatat dan keterangan lengkap mengenai insiden di atas ambang material dilaporkan ke *Head of Region/Global Business* dan *Region/Global Business Chief Risk Officers*, Audit Internal dan juga *Global Head of Operational Risk*; dan
- Mitigasi risiko, termasuk asuransi, dipertimbangkan bilamana hal ini dipandang efektif dari segi biaya.

Bank menjaga dan menguji fasilitas kontinjensi untuk mendukung operasionalnya apabila terjadi bencana. Kajian dan uji tambahan dilaksanakan apabila terdapat kantor Bank yang terkena suatu kejadian merugikan, untuk menyertakan pelajaran yang didapat dalam pemulihan operasi dari situasi tersebut.

4. FINANCIAL RISK MANAGEMENT (continued)**e. Operational risk (continued)**

The Bank manages this risk through a control-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the Bank stays in line with industry best practice and takes account of lessons learnt from publicised operational failures within the financial services industry.

The Bank has codified its operational risk management process by issuing a high level standard, supplemented by more detailed formal guidance. This explains how the Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The standard covers the following:

- *Operational risk is primarily the responsibility of all employees and line management, supported by the Operational Risk Management Framework (ORMF);*
- *Information systems are used to record the identification and assessment of operational risks and to generate appropriate, regular management reporting;*
- *Assessments are undertaken of the operational risks facing each business, both inherent and residual risks in its processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;*
- *Operational risk loss data is collected and reported to senior management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Head of Region/Global Business and Region/Global Business Chief Risk Officers, Internal Audit as well as the Global Head of Operational Risk; and*
- *Risk mitigation, including insurance, is considered where this is cost-effective.*

The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that any Bank office is affected by a business disruption event, to incorporate lessons learnt in the operational recovery from those circumstances.

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**f. Manajemen modal****Modal yang diwajibkan regulator**

Bank telah mematuhi semua persyaratan modal yang ditetapkan oleh pihak eksternal sepanjang periode pelaporan.

Rasio KPMM pada tanggal 31 Desember 2017 dan 2016 adalah:

	Catatan/ Notes	2017	2016
Modal tier 1			
Modal saham	21	10.586.395	2.586.395
Tambahan modal disetor	22	257.610	257.610
Cadangan umum		3.648	3.398
Saldo laba		2.630.644	2.530.378
Laba periode berjalan		1.371.300	100.515
Penghasilan komprehensif lain		44.763	6.983
Selisih kurang antara penyisihan wajib dan cadangan kerugian penurunan nilai atas aset produktif		(174.425)	(196.977)
Penyisihan Penghapusan Aset (PPA) atas aset non produktif yang wajib dihitung		(12.635)	(4.656)
Perhitungan pajak tangguhan		(162.125)	(72.108)
Aset tidak berwujud lainnya		(231.315)	(18.578)
		<u>14.313.860</u>	<u>5.192.960</u>
Modal tier 2			
Pinjaman subordinasi		1.017.563	-
Cadangan umum aset produktif		<u>799.058</u>	<u>203.445</u>
Jumlah modal		<u>16.130.481</u>	<u>5.396.405</u>
Aset Tertimbang Menurut Risiko			
Risiko kredit		66.484.292	20.289.313
Risiko pasar		2.660.750	46.828
Risiko operasional		<u>2.584.902</u>	<u>2.443.624</u>
Jumlah Aset Tertimbang Menurut Risiko		<u>71.729.944</u>	<u>22.779.765</u>
Rasio Kewajiban Penyediaan Modal Minimum			
Rasio CET 1		22,49%	23,69%
Rasio tier 1		19,96%	22,80%
Rasio tier 2		19,96%	22,80%
Rasio tier 2		2,53%	0,89%
Capital Conservation Buffer			
Countercyclical Buffer		1,25%	0,625%
Domestically Systemically Important Bank		0,00%	0,00%
		0,50%	-
Rasio Kewajiban Penyediaan Modal Minimum yang diwajibkan		9% sampai dengan kurang dari 10%/9% to less than 10%	9% sampai dengan kurang dari 10%/9% to less than 10%
Rasio CET 1 minimum yang diwajibkan		4,50%	4,50%
Rasio Tier 1 minimum yang diwajibkan		6,00%	6,00%

4. FINANCIAL RISK MANAGEMENT (continued)**f. Capital management****Regulatory capital**

The Bank has complied with all externally imposed capital requirements throughout the reporting period.

The CAR as at 31 December 2017 and 2016 are as follows:

Tier 1 capital	
Share capital	
Additional paid-in-capital	
General reserve	
Retained earnings	
Profit for the period	
Other comprehensive income	
Negative differences between regulatory provision and allowance for impairment losses on productive assets	
Non-earning asset provision that should be calculated	
Deferred tax calculation	
Other intangible assets	
Tier 2 capital	
Subordinated debt	
General allowance for earning assets	
Total capital	
Risk Weighted Asset	
Credit risk	
Market risk	
Operational risk	
Total Risk Weighted Assets	
Capital Adequacy Ratio	
CET 1 Ratio	
Tier 1 Ratio	
Tier 2 Ratio	
Capital Conservation Buffer	
Countercyclical Buffer	
Domestically Systemically Important Bank	
Required Capital Adequacy Ratio	
Required minimum CET 1 Ratio	
Required minimum Tier 1 Ratio	

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4. MANAJEMEN RISIKO KEUANGAN (lanjutan)**f. Manajemen modal (lanjutan)****Modal yang diwajibkan regulator (lanjutan)**

Melalui Surat OJK No. S-141/PB.33/2017 tanggal 23 November 2017, OJK telah memberikan persetujuan bagi Bank untuk memperhitungkan pinjaman subordinasi sebesar USD 75 juta dari HSBC Asia Pacific Holdings (UK) Limited (lihat Catatan 33) sebagai bagian dari komponen modal pelengkap (modal Tier 2) efektif mulai November 2017.

Berdasarkan surat OJK No. SR-91/PB.33/2017 tanggal 23 November 2017, OJK menetapkan Bank sebagai salah satu *Domestically Systematically Important Bank (bucket 1)*. *Capital surcharge* yang dikenakan kepada Bank adalah sebesar 0,50% sejak 1 Januari 2017 hingga 31 Desember 2017, 0,70% sejak 1 Januari 2018 dan 1,00% sejak 1 Januari 2019.

Perhitungan Rasio Kewajiban Penyediaan Modal Minimum telah sesuai dengan Peraturan Otoritas Jasa Keuangan Nomor 11/POJK.03/2016 tentang "Kewajiban Penyediaan Modal Minimum Bank Umum" yang berlaku sejak 2 Februari 2016 dan sebagaimana telah diubah dengan POJK Nomor 34/POJK.03/2016.

OJK berwenang menetapkan modal minimum lebih besar dari modal minimum dalam hal OJK menilai suatu bank menghadapi potensi kerugian yang membutuhkan modal lebih besar.

Bank menghitung modal minimum sesuai profil risiko untuk posisi 31 Desember 2017 dengan menggunakan peringkat profil risiko posisi Juni 2017.

Berdasarkan *self-assessment* Bank, profil risiko Bank dinilai berada pada peringkat 2. Oleh karena itu, Bank berkewajiban untuk memenuhi modal minimum sebesar 9% sampai dengan kurang dari 10%. Pada tanggal 31 Desember 2017, KPMM Bank berada pada level di atas modal minimum yang diwajibkan tersebut, yaitu sebesar 22,49%.

4. FINANCIAL RISK MANAGEMENT (continued)**f. Capital management (continued)****Regulatory capital (continued)**

Through its letter No. S-141/PB.33/2017 dated 23 November 2017, the FSA has given their approval for the Bank to include the subordinated loan amounting to USD 75 million from HSBC Asia Pacific Holdings (UK) Limited (see Note 33) as supplementary capital (Tier 2 capital) component effectively since November 2017.

Based on OJK letter No. SR-91/PB.33/2017 dated 23 November 2017, the FSA has determined the Bank as one of the Domestically Systematically Important Bank (bucket 1). The Bank is imposed with 0.50% capital surcharge from 1 January 2017 until 31 December 2017, 0.70% from 1 January 2018 and 1.00% from 1 January 2019.

Calculation of Capital Adequacy Ratio in compliance with Financial Service Authority Regulation No 11/POJK.03/2016 concerning "Minimum Capital Adequacy of Commercial Banks" which effective since 2 February 2016 as amended by POJK No. 34/POJK.03/2016.

FSA is authorised to stipulate minimum capital greater than minimum capital in terms of FSA assesses a bank as facing potential losses which requires a larger capital.

The Bank calculated the minimum capital requirement based on risk profile on 31 December 2017 by using June 2017 risk profile rating.

Based on its self-assessment, the Bank's risk profile is assessed to be in rating 2. Therefore, the Bank is required to provide a minimum capital of 9% to less than 10%. As of 31 December 2017, the Bank's CAR was 22.49%, which was higher than the required minimum provision of capital.

5. PENGGUNAAN TAKSIRAN DAN PERTIMBANGAN

Pengungkapan ini merupakan tambahan atas pembahasan tentang manajemen risiko keuangan (lihat Catatan 4).

a. Sumber utama atas ketidakpastian taksiran**a.1. Penyisihan kerugian penurunan nilai aset keuangan**

Evaluasi atas kerugian penurunan nilai aset keuangan yang dicatat pada biaya perolehan diamortisasi dijelaskan di Catatan 30.

5. USE OF ESTIMATES AND JUDGMENTS

These disclosures supplement the commentary on financial risk management (see Note 4).

a. Key sources of estimation uncertainty**a.1. Allowances for impairment losses of financial assets**

Financial assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 30.

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**5. PENGGUNAAN TAKSIRAN DAN PERTIMBANGAN
(lanjutan)**
**a. Sumber utama atas ketidakpastian
taksiran (lanjutan)**
**a.1. Penyisihan kerugian penurunan nilai
aset keuangan (lanjutan)**

Cadangan kerugian penurunan nilai terkait dengan pihak lawan spesifik dalam seluruh cadangan kerugian penurunan nilai dibentuk atas tagihan yang penurunan nilainya dievaluasi secara individual berdasarkan taksiran terbaik manajemen atas nilai tunai arus kas yang diharapkan akan diterima. Dalam mengestimasi arus kas ini, manajemen membuat pertimbangan mengenai kondisi keuangan dari pihak lawan dan nilai bersih yang dapat direalisasi dari agunan yang diterima. Setiap aset yang mengalami penurunan nilai dievaluasi, dan strategi penyelesaiannya serta estimasi arus kas yang dinilai dapat diperoleh kembali secara independen disetujui oleh Departemen Kredit.

Evaluasi penyisihan kerugian penurunan nilai secara kolektif meliputi kerugian kredit yang melekat pada portofolio tagihan dengan karakteristik ekonomi yang serupa ketika terdapat bukti obyektif bahwa telah terjadi penurunan nilai tagihan dalam portofolio tersebut namun penurunan nilai secara individu belum dapat diidentifikasi. Dalam menentukan perlunya membentuk penyisihan kerugian penurunan nilai kredit secara kolektif, manajemen mempertimbangkan faktor-faktor seperti kualitas kredit, besarnya portofolio, konsentrasi kredit dan faktor-faktor ekonomi.

Evaluasi cadangan kerugian penurunan nilai secara kolektif meliputi kerugian kredit yang melekat pada portofolio tagihan dengan karakteristik ekonomi yang serupa ketika terdapat bukti obyektif bahwa telah terjadi penurunan nilai tagihan dalam portofolio tersebut, namun penurunan nilai secara individu belum dapat diidentifikasi atau untuk kredit homogen yang tidak signifikan secara individu. Dalam menentukan perlunya membentuk cadangan kerugian penurunan nilai secara kolektif, manajemen mempertimbangkan faktor-faktor seperti kualitas kredit, besarnya portofolio, konsentrasi kredit dan faktor-faktor ekonomi. Dalam mengestimasi cadangan yang dibutuhkan, asumsi-asumsi dibuat untuk menentukan model kerugian bawaan dan untuk menentukan parameter input yang dibutuhkan, berdasarkan pengalaman historis dan kondisi ekonomi saat ini. Ketepatan dari cadangan ini bergantung pada seberapa tepat estimasi arus kas masa depan untuk menentukan cadangan individual serta asumsi model dan parameter yang digunakan dalam menentukan cadangan kolektif.

**5. USE OF ESTIMATES AND JUDGMENTS
(continued)**
**a. Key sources of estimation uncertainty
(continued)**
**a.1. Allowances for impairment losses of
financial assets (continued)**

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Department.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of receivables with similar economic characteristics when there is objective evidence to suggest that they contain impaired receivables, but the individual impaired items cannot yet be identified or for homogenous groups of loans that are not considered individually significant. In assessing the need for collective allowances, management considers factors such as credit quality, portfolio size, credit concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

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**5. PENGGUNAAN TAKSIRAN DAN PERTIMBANGAN
(lanjutan)**
**a. Sumber utama atas ketidakpastian
taksiran (lanjutan)**
**a.1. Penyisihan kerugian penurunan nilai
aset keuangan (lanjutan)**

Untuk kredit homogen yang tidak signifikan secara individu, Bank menggunakan model statistik dari tren kemungkinan gagal bayar, yang ditelaah pada setiap saat dimana pembayaran kontraktual dari nasabah telah lewat waktu. Penentuan kerugian penurunan nilai kolektif tersebut juga mempertimbangkan data historis lain serta evaluasi atas kondisi ekonomi saat ini.

a.2. Penentuan nilai wajar

Dalam menentukan nilai wajar atas aset keuangan dan liabilitas keuangan dimana tidak terdapat harga pasar yang dapat diobservasi, Bank harus menggunakan teknik penilaian seperti dijelaskan pada Catatan 3a.6. Untuk instrumen keuangan yang jarang diperdagangkan dan tidak memiliki harga yang transparan, nilai wajarnya menjadi kurang obyektif dan karenanya, membutuhkan tingkat pertimbangan yang beragam, tergantung pada likuiditas, konsentrasi, ketidakpastian faktor pasar, asumsi penentuan harga, dan risiko lainnya yang mempengaruhi instrumen tertentu.

**b. Sumber akuntansi yang penting dalam
menerapkan kebijakan akuntansi Bank**

Pertimbangan akuntansi yang penting dalam menerapkan kebijakan akuntansi Bank meliputi:

b.1. Penilaian instrumen keuangan

Kebijakan akuntansi Bank untuk pengukuran nilai wajar dibahas di Catatan 3a.6.

Kerangka penilaian

Nilai wajar termasuk dalam kerangka penilaian yang dirancang untuk memastikan bahwa nilai wajar ditentukan dan divalidasi oleh bagian yang independen dari pengambil risiko.

Untuk semua instrumen keuangan dimana nilai wajar ditentukan oleh referensi harga kuotasi secara eksternal atau input yang dapat diobservasi yang digunakan di dalam model, penentuan dan validasi harga independen digunakan. Pada pasar yang tidak aktif, Bank akan mencari informasi pasar alternatif untuk melakukan validasi terhadap nilai wajar dari instrumen keuangan, dengan menekankan pada informasi yang dianggap lebih relevan dan andal.

**5. USE OF ESTIMATES AND JUDGMENTS
(continued)**
**a. Key sources of estimation uncertainty
(continued)**
**a.1. Allowances for impairment losses of
financial assets (continued)**

For homogenous groups of loans that are not considered individually significant, the Bank utilises statistical modeling of historical trends of the probability of default, assessed at each time period for which the customer's contractual payments are overdue. The determination of collective impairment losses also takes into consideration other historical data and evaluation of current economic conditions.

a.2. Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3a.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**b. Critical accounting judgments in applying
the Bank's accounting policies**

Critical accounting judgments made in applying the Bank's accounting policies include:

b.1. Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in Note 3a.6.

Valuation framework

Fair values are subject to a valuation framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted price or observable pricing inputs to model, independent price determination or validation is utilized. In inactive market, the Bank will search alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

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**5. PENGGUNAAN TAKSIRAN DAN PERTIMBANGAN
(lanjutan)**
**b. Sumber akuntansi yang penting dalam menerapkan kebijakan akuntansi Bank
(lanjutan)**
b.1. Penilaian instrumen keuangan (lanjutan)
Kerangka penilaian (lanjutan)

Untuk menentukan kualitas dari input data pasar, faktor-faktor seperti sejauh mana harga bisa diharapkan untuk mewakili harga jual-beli sesungguhnya atau harga dimana instrumen dapat diperjualbelikan, tingkat keserupaan antar instrumen keuangan, tingkat konsistensi antar sumber yang berbeda, proses yang digunakan oleh *pricing provider* untuk memperoleh data, jarak antara tanggal data pasar terkait dan tanggal neraca serta bagaimana data tersebut diperoleh harus dipertimbangkan.

Untuk nilai wajar yang ditentukan melalui model penilaian, kerangka penilaian dapat berupa pengembangan atau validasi terhadap logis di dalam model penilaian oleh bagian pendukung yang independen, input untuk model dan beberapa penyesuaian yang dibutuhkan di luar model penilaian. Model penilaian dikaji secara berkala untuk memastikan bahwa hasil penilaian mencerminkan harga pasar.

Perubahan nilai wajar secara umum dimasukkan ke dalam proses analisa laba dan rugi. Proses ini memisahkan perubahan dalam nilai wajar ke dalam tiga kategori; (i) perubahan portofolio, seperti transaksi baru atau transaksi yang jatuh tempo, (ii) perubahan pasar, seperti perubahan kurs mata uang asing, dan (iii) lainnya, seperti perubahan penyesuaian nilai wajar.

Bank mengukur nilai wajar menggunakan hierarki di bawah ini:

- Level 1: Kuotasi harga pasar: instrumen keuangan yang diukur dengan menggunakan harga kuotasian (tanpa disesuaikan) dalam pasar aktif untuk instrumen yang identik.
- Level 2: Teknik penilaian menggunakan input yang dapat diobservasi: instrumen keuangan yang diukur dengan menggunakan harga kuotasian untuk instrumen serupa dalam pasar aktif atau harga kuotasian untuk instrumen serupa atau identik dari pasar yang dipertimbangkan sebagai kurang aktif dan instrumen keuangan yang diukur menggunakan model dimana seluruh *input* signifikan dapat diobservasi secara langsung maupun tidak langsung dari data pasar.

**5. USE OF ESTIMATES AND JUDGMENTS
(continued)**
b. Critical accounting judgments in applying the Bank's accounting policies (continued)
**b.1. Valuation of financial instruments
(continued)**
Valuation framework (continued)

To determine the quality of the market data inputs, factors such as the extent to which prices may be expected to represent genuine traded or tradeable prices, the degree of similarity between financial instruments, the degree of consistency between different sources, the process followed by the pricing provider to derive the data, the elapsed time between the date to which the market data relates and the balance sheet date and the manner in which the data was sourced are taken into consideration.

For fair values determined using valuation models, the valuation framework may include development or validation by independent support functions of the logic within valuation models, the inputs to those models and any adjustments required outside the valuation models. Valuation model is regularly reviewed to ensure that the result of the valuation reflects the market prices.

Changes in fair value are generally subject to a profit and loss analysis process. This process disaggregates changes in fair value into three high level categories; (i) portfolio changes, such as new transactions or maturing transactions, (ii) market movements, such as changes in foreign exchange rates, and (iii) other, such as changes in fair value adjustments.

The Bank measures fair values using the following hierarchy:

- Level 1: Quoted market price: financial instruments with quoted prices (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation technique using observable inputs: financial instruments valued using quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in the markets that are considered less than active and financial instruments valued using models where all significant inputs are directly or indirectly observable from market data.

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**5. PENGGUNAAN TAKSIRAN DAN PERTIMBANGAN
(lanjutan)**
**b. Sumber akuntansi yang penting dalam menerapkan kebijakan akuntansi Bank
(lanjutan)**
b.1. Penilaian instrumen keuangan (lanjutan)
Kerangka penilaian (lanjutan)

Bank mengukur nilai wajar menggunakan hierarki di bawah ini: (lanjutan)

- Level 3: Teknik penilaian menggunakan input signifikan yang tidak dapat diobservasi: instrumen keuangan dinilai menggunakan teknik penilaian dimana satu atau lebih input signifikan tidak dapat diobservasi. Kategori ini termasuk instrumen yang diukur berdasarkan harga kuotasi untuk instrumen serupa dimana penyesuaian atau asumsi signifikan yang tidak dapat diobservasi diperlukan untuk mencerminkan perbedaan diantara instrumen tersebut.

Nilai wajar aset dan liabilitas keuangan yang diperdagangkan di pasar aktif didasarkan pada harga kuotasi pasar atau harga kuotasi dari *dealer*. Untuk instrumen keuangan lainnya, Bank menentukan nilai wajar dengan menggunakan teknik penilaian.

Teknik penilaian termasuk nilai kini bersih dan model arus kas yang didiskonto, perbandingan dengan instrumen serupa dimana harga pasar yang dapat diobservasi tersedia dan model penilaian lainnya. Asumsi dan input yang digunakan dalam teknik penilaian termasuk bunga bebas risiko dan bunga acuan (*benchmark*), margin kredit dan premi lainnya yang digunakan untuk melakukan estimasi suku bunga diskonto, harga obligasi, nilai tukar valuta asing dan volatilitas dan korelasi harga yang diharapkan.

Tujuan dari teknik penilaian adalah menghasilkan penentuan nilai wajar yang mencerminkan harga dari instrumen keuangan pada tanggal pelaporan, yang mana akan ditentukan oleh pelaku pasar secara wajar (*arm's length*).

**5. USE OF ESTIMATES AND JUDGMENTS
(continued)**
b. Critical accounting judgments in applying the Bank's accounting policies (continued)
**b.1. Valuation of financial instruments
(continued)**
Valuation framework (continued)

The Bank measures fair values using the following hierarchy: (continued)

- Level 3: Valuation techniques using significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable. This category includes instrument that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines the fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which the market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rate, credit spreads and other premiums used in estimating discount rates, bond prices, foreign currency exchange rates and expected price volatilities and correlations.

The objective of valuation technique is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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**5. PENGGUNAAN TAKSIRAN DAN PERTIMBANGAN
(lanjutan)**
**b. Sumber akuntansi yang penting dalam menerapkan kebijakan akuntansi Bank
(lanjutan)**
b.1. Penilaian instrumen keuangan (lanjutan)
Kerangka penilaian (lanjutan)

Bank menerapkan model penilaian yang secara umum digunakan untuk menentukan nilai wajar instrumen keuangan yang umum dan tidak kompleks seperti kontrak berjangka valuta asing yang hanya menggunakan data pasar yang dapat diobservasi dan hanya memerlukan sedikit pertimbangan dan estimasi manajemen. Harga yang dapat diobservasi dan *input* dalam model biasanya tersedia di pasar untuk obligasi yang terdaftar di bursa. Ketersediaan harga pasar yang dapat diobservasi dan *input* dalam model mengurangi kebutuhan untuk pertimbangan dan estimasi manajemen, dan juga mengurangi ketidakpastian yang terkait dengan penentuan nilai wajar. Ketersediaan harga pasar dan *input* bervariasi tergantung pada produk dan pasar, dan sangat dipengaruhi oleh perubahan berdasarkan kejadian tertentu dan kondisi umum pasar keuangan.

Instrumen keuangan yang diukur pada nilai wajar

Tabel di bawah ini memberikan analisa instrumen keuangan yang diukur pada nilai wajar pada akhir periode pelaporan, berdasarkan hirarki nilai wajar:

**5. USE OF ESTIMATES AND JUDGMENTS
(continued)**
b. Critical accounting judgments in applying the Bank's accounting policies (continued)
**b.1. Valuation of financial instruments
(continued)**
Valuation framework (continued)

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like foreign exchange forward contracts that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Financial instruments measured at fair values

The table below analyses financial instruments measured at fair value at the end of the reporting period, based on fair value hierarchy:

2017						
Catatan/ Notes	Level 1	Level 2	Level 3	Jumlah/ Total		
Aset yang diukur pada nilai wajar melalui laba rugi	11	1.691	5.208.199	132.997	5.342.887	Assets at fair value through profit or loss
Efek-efek untuk tujuan investasi	10	-	13.703.861	-	13.703.861	Investment securities
		1.691	18.912.060	132.997	19.046.748	
Liabilitas yang diukur pada nilai wajar melalui laba rugi	11	(1.278)	(520.586)	(5.173)	(527.037)	Liabilities at fair value through profit or loss
2016						
Catatan/ Notes	Level 1	Level 2	Level 3	Jumlah/ Total		
Aset yang diukur pada nilai wajar melalui laba rugi	11	64	2.016	-	2.080	Assets at fair value through profit or loss
Efek-efek untuk tujuan investasi	10	-	3.723.413	-	3.723.413	Investment securities
		64	3.725.429	-	3.725.493	
Liabilitas yang diukur pada nilai wajar melalui laba rugi	11	(95)	(2.600)	-	(2.695)	Liabilities at fair value through profit or loss

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**5. PENGGUNAAN TAKSIRAN DAN PERTIMBANGAN
(lanjutan)**
**b. Sumber akuntansi yang penting dalam menerapkan kebijakan akuntansi Bank
(lanjutan)**
b.1. Penilaian instrumen keuangan (lanjutan)
Instrumen keuangan yang diukur pada nilai wajar (lanjutan)

Tabel berikut memperlihatkan rekonsiliasi dari saldo awal ke saldo akhir melalui pengukuran nilai wajar pada level 3 hirarki nilai wajar untuk tahun 2017:

	Aset yang diukur pada nilai wajar melalui laba rugi/ Assets at fair value through profit or loss
2017	
Saldo 1 Januari	-
Pembelian	126.871
Pengalihan sehubungan dengan integrasi usaha	6.126
Saldo 31 Desember	<u>132.997</u>

Total laba atau rugi yang termasuk dalam laba rugi tahun berjalan pada tabel di atas disajikan dalam laporan laba rugi sebagai berikut:

	Aset yang diukur pada nilai wajar melalui laba rugi/ Assets at fair value through profit or loss
2017	
Total laba selama periode yang termasuk dalam laba rugi atas aset dan liabilitas yang dimiliki pada akhir tahun pelaporan: Pendapatan bersih transaksi perdagangan	6.126

Pada tahun 2016, Bank tidak memiliki aset dan liabilitas keuangan dengan pengukuran nilai wajar pada level 3.

**5. USE OF ESTIMATES AND JUDGMENTS
(continued)**
b. Critical accounting judgments in applying the Bank's accounting policies (continued)
**b.1. Valuation of financial instruments
(continued)**
Financial instruments measured at fair values (continued)

The following table shows a reconciliation from the beginning balance to the ending balances for fair value measurements in level 3 of the fair value hierarchy for 2017:

	Liabilitas yang diukur pada nilai wajar melalui laba rugi/Liabilities at fair value through profit or loss	
2017		2017
		Balance at 1 January
		Purchases
		Transfer in relation to business integration
		Balance at 31 December

Total gains or losses included in profit or loss for the year in the above table are presented in the statement of profit or loss as follows:

	Liabilitas yang diukur pada nilai wajar melalui laba rugi/Liabilities at fair value through profit or loss	
2017		2017
		Total gains for the year included in profit or loss for assets and liabilities held at the end of the reporting period:
		Net trading income

In 2016, the Bank does not have financial assets and liabilities with fair value measurements in level 3.

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**5. PENGGUNAAN TAKSIRAN DAN
PERTIMBANGAN (lanjutan)**
b. Sumber akuntansi yang penting dalam menerapkan kebijakan akuntansi Bank (lanjutan)
b.1. Penilaian instrumen keuangan (lanjutan)
Penyesuaian nilai wajar

Penyesuaian atas nilai wajar diterapkan ketika Bank mempertimbangkan bahwa terdapat faktor-faktor tambahan yang dipertimbangkan oleh pelaku pasar tapi tidak terdapat di dalam teknik penilaian. Tingkat penyesuaian atas nilai wajar tergantung pada banyak faktor yang spesifik terhadap entitas, sejauh Bank berkeyakinan bahwa pelaku pasar pihak ketiga akan mempertimbangkan hal-hal tersebut dalam menentukan harga transaksi.

Instrumen keuangan yang tidak diukur pada nilai wajar

Pada 31 Desember 2017 dan 2016, nilai wajar dari instrumen keuangan yang tidak diukur pada nilai wajar dikategorikan sebagai level 2 dalam hirarki nilai wajar, kecuali untuk kredit yang diberikan kepada nasabah, wesel ekspor, pinjaman, dan pinjaman subordinasi dikategorikan sebagai level 3 dalam hirarki nilai wajar.

Nilai wajar dari instrumen keuangan yang tidak diukur pada nilai wajar dijelaskan pada Catatan 24.

b.2. Klasifikasi aset dan liabilitas keuangan

Kebijakan akuntansi Bank memberikan acuan untuk menetapkan aset dan liabilitas keuangan ke dalam berbagai kategori pada saat pengakuan awal sesuai dengan standar akuntansi yang berlaku berdasarkan kondisi tertentu.

5. USE OF ESTIMATES AND JUDGMENTS (continued)
b. Critical accounting judgments in applying the Bank's accounting policies (continued)
b.1. Valuation of financial instruments (continued)
Fair value adjustments

Fair value adjustments are adopted when the Bank considers that there are additional factors that would be considered by a market participant that are not incorporated within the valuation model. The magnitude of fair value adjustments depends upon many entity-specific factors, to the extent that the Bank believes that a third party market participants would take them into account in pricing a transaction.

Financial instruments not measured at fair values

As of 31 December 2017 and 2016, the fair value of financial instruments not measured at fair value is categorised as level 2 in the fair value hierarchy, except for loans to customers, export bills, borrowing and subordinated debt are categorized as level 3 in the fair value hierarchy.

Fair value of financial instruments not measured at fair value are explained in Note 24.

b.2. Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

6. KAS

	2017	2016
Rupiah	407.590	479.156
Valuta asing	173.951	88.396
Jumlah	581.541	567.552

Saldo kas dalam mata uang Rupiah termasuk jumlah kas pada ATM masing-masing sebesar Rp 37.905 dan Rp 27.705 pada tanggal 31 Desember 2017 dan 2016.

6. CASH

	2017	2016
Rupiah	407.590	479.156
Foreign currencies	173.951	88.396
Total	581.541	567.552

Total cash in Rupiah currency included cash in ATMs amounting to Rp 37,905 and Rp 27,705 as of 31 December 2017 and 2016, respectively.

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7. GIRO PADA BANK INDONESIA

	2017	2016
Rupiah	3.458.313	1.252.456
Valuta asing	3.296.902	269.450
Jumlah	6.755.215	1.521.906

Saldo giro pada Bank Indonesia disediakan untuk memenuhi persyaratan giro wajib minimum (GWM) dari Bank Indonesia.

Giro Wajib Minimum (GWM) dalam mata uang Rupiah dan valuta asing pada tanggal 31 Desember 2017 dan 2016 adalah:

	2017	2016
Rupiah		
- GWM Primer	7,85%	7,97%
- GWM Sekunder	42,22%	24,42%
- GWM Rasio Kredit terhadap Pendanaan	-	-
GWM valuta asing	8,04%	8,62%

GWM Primer adalah simpanan minimum yang wajib dipelihara oleh Bank dalam bentuk saldo Rekening Giro pada Bank Indonesia, sedangkan GWM Sekunder adalah cadangan minimum yang wajib dipelihara oleh Bank berupa Sertifikat Bank Indonesia, Sertifikat Deposito Bank Indonesia, dan Surat Utang Negara (SUN).

Pada tanggal 31 Desember 2017, GWM Bank telah sesuai dengan PBI No. 19/6/PBI/2017 yang berlaku efektif 1 Juli 2017 di mana GWM Primer, GWM Sekunder, dan GWM LFR minimum masing-masing sebesar 6,5%, 4%, dan 0% serta valuta asing sebesar minimum 8%. Pada tanggal 31 Desember 2016, GWM Bank telah sesuai dengan PBI No. 18/3/PBI/2016 tanggal 10 Maret 2016 tentang perubahan ketiga atas PBI No.15/15/PBI/2013 tanggal 24 Desember 2013 tentang GWM Bank Umum dalam Rupiah dan valuta asing bagi Bank Umum Konvensional yang berlaku efektif 16 Maret 2016 di mana GWM Primer, GWM Sekunder, dan GWM LFR minimum masing-masing sebesar 6,5%, 4%, dan 0% serta valuta asing sebesar minimum 8%.

GWM LFR adalah tambahan simpanan minimum yang wajib dipelihara oleh Bank dalam bentuk saldo Rekening Giro pada Bank Indonesia. Sesuai dengan perubahan terakhir PBI No. 19/6/PBI/2017, besaran dan parameter yang digunakan dalam perhitungan GWM LFR ditetapkan batas bawah LFR target 80% dan batas atas LFR target 92% serta KPMM insentif 14%. Batas atas LFR target Bank sebesar 94% dalam hal Bank memenuhi rasio kredit UMKM lebih cepat dari target waktu tahapan pencapaian rasio kredit UMKM, memenuhi rasio NPL total kredit secara bruto kurang dari 5%, dan memenuhi rasio NPL kredit UMKM secara bruto kurang dari 5%.

7. DEMAND DEPOSITS WITH BANK INDONESIA

Demand deposits with Bank Indonesia are provided to fulfill Bank Indonesia's minimum statutory reserve requirements (GWM).

The Minimum Statutory Reserves (GWM) in Rupiah and foreign currencies as at 31 December 2017 and 2016 are:

	Rupiah	Foreign currencies
Primary GWM -		
Secondary GWM -		
Loan to Funding Ratio GWM -		
Foreign currencies GWM		

Primary Statutory Reserve is a minimum reserve that should be maintained by Bank in the Demand Deposits with Bank Indonesia, while Secondary Statutory Reserve is a minimum reserve that should be maintained by Bank which comprises of Bank Indonesia Certificates, Bank Indonesia Deposit Certificates, and Government Debenture Debt (SUN).

As at 31 December 2017, Bank's minimum statutory reserves complies with BI regulation No. 19/6/PBI/2017 which effective since 1 July 2017 with minimum Primary Statutory Reserve, Secondary Statutory Reserves, and LFR Statutory Reserve of 6.5%, 4%, and 0%, respectively, and foreign currencies of minimum 8%. As at 31 December 2016, Bank's minimum statutory reserves complies with BI regulation No. 18/3/PBI/2016 dated 10 March 2016 regarding third amendment of PBI No.15/15/PBI/2013 dated 24 December 2013 regarding Minimum Statutory Reserves in Rupiah, and foreign currencies for Conventional Commercial Banks which effective since 16 March 2016 with minimum Primary Statutory Reserves, Secondary Statutory Reserves, and LFR Statutory Reserves of 6.5%, 4%, and 0%, respectively, and foreign currencies of minimum 8%.

LFR Statutory Reserve is the additional reserve that should be maintained by the Bank in the form of Demand deposits with Bank Indonesia. In accordance with the latest amendment in PBI No. 19/6/PBI/2017 the amount and parameters used for LFR Statutory Reserve calculation is set at the minimum target of LFR at 80% and maximum target of LFR at 92%, and incentive CAR at 14%. The maximum target of LFR of the Bank is 94%, if Bank has met lending ratio to Micro, Small and Medium Loan Ratio (UMKM) faster than the requirement, total gross NPL ratio below 5%, and total gross NPL UMKM ratio below 5%.

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7. GIRO PADA BANK INDONESIA (lanjutan)

Bank telah memenuhi Peraturan Bank Indonesia yang berlaku tentang GWM Bank Umum Konvensional pada tanggal 31 Desember 2017 dan 2016.

7. DEMAND DEPOSITS WITH BANK INDONESIA (continued)

The Bank has fulfilled the prevailing Bank Indonesia's Regulation regarding GWM for Conventional Banks as at 31 December 2017 and 2016.

8. GIRO PADA BANK-BANK LAIN**8. DEMAND DEPOSITS WITH OTHER BANKS**

	2017	2016	
Rupiah	14.538	16.083	Rupiah
Valuta asing	1.851.485	294.408	Foreign currencies
Jumlah giro pada bank-bank lain	<u>1.866.023</u>	<u>310.491</u>	Total demand deposits with other banks

Pada tanggal 31 Desember 2017 dan 2016 seluruh giro pada bank-bank lain tidak mengalami penurunan nilai.

As of 31 December 2017 and 2016 all demand deposits with other banks were not impaired.

Manajemen Bank berkeyakinan bahwa tidak ada penyisihan kerugian penurunan nilai giro pada bank-bank lain yang perlu diakui pada tanggal 31 Desember 2017 dan 2016.

The Bank's management believes that there was no allowance for impairment losses on demand deposits with other banks to be recognised as of 31 December 2017 and 2016.

9. PENEMPATAN PADA BANK-BANK LAIN**9. PLACEMENTS WITH OTHER BANKS**

Penempatan pada bank-bank lain berdasarkan jenis dan mata uang adalah sebagai berikut:

Placements with other banks by type and currency were as follows:

	2017	2016	
Rupiah	-	100.000	Rupiah
Valuta asing	6.353.055	1.077.800	Foreign currencies
Jumlah penempatan pada bank-bank lain	<u>6.353.055</u>	<u>1.177.800</u>	Total placements with other banks

Pada tanggal 31 Desember 2017 dan 2016, seluruh penempatan pada bank-bank lain tidak mengalami penurunan nilai.

As of 31 December 2017 and 2016, all placements with other banks were not impaired.

10. EFEK-EFEK UNTUK TUJUAN INVESTASI**10. INVESTMENT SECURITIES**

Pada tanggal 31 Desember 2017 dan 2016, seluruh efek-efek untuk tujuan investasi diklasifikasikan sebagai tersedia untuk dijual kecuali untuk investasi dalam obligasi pemerintah-sukuk, dimana diklasifikasikan sebagai diukur pada nilai wajar melalui penghasilan komprehensif lain. Rincian efek-efek untuk tujuan investasi berdasarkan jenis adalah sebagai berikut:

As of 31 December 2017 and 2016, all investment securities were classified as available-for-sale except for investment in government bonds-sukuk which are classified as fair value through other comprehensive income. Details of investment securities by type were as follows:

	2017	2016	
Sertifikat Bank Indonesia	7.329.704	146.953	Certificates of Bank Indonesia
Obligasi pemerintah	5.121.236	1.724.055	Government bonds
Obligasi pemerintah - sukuk	931.935	1.656.970	Government bonds - sukuk
Surat Perbendaharaan Negara (SPN)	320.986	195.435	Treasury bills
Jumlah	<u>13.703.861</u>	<u>3.723.413</u>	Total

Pada tanggal 31 Desember 2017 dan 2016, semua efek-efek untuk tujuan investasi merupakan transaksi dengan pihak ketiga.

As of 31 December 2017 and 2016, investment securities were all made with third parties.

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10. EFEK-EFEK UNTUK TUJUAN INVESTASI (lanjutan)

Manajemen Bank berkeyakinan bahwa seluruh efek-efek untuk tujuan investasi tidak mengalami penurunan nilai dan tidak ada penyisihan kerugian penurunan nilai yang perlu diakui pada tanggal 31 Desember 2017 dan 2016.

Surat Perbendaharaan Negara (SPN) yang dimiliki oleh Bank merupakan *zero-coupon bonds* yang diterbitkan oleh Pemerintah Republik Indonesia.

Obligasi pemerintah - sukuk yang dimiliki oleh Bank merupakan obligasi yang diterbitkan Pemerintah Republik Indonesia dan Perusahaan Penerbit SBSN (Surat Berharga Syariah Negara) berdasarkan prinsip syariah dengan pembayaran bagi hasil tetap.

Perubahan laba yang belum direalisasi dari perubahan nilai wajar efek-efek untuk tujuan investasi selama tahun yang berakhir tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

	2017	2016
Saldo 1 Januari - sebelum pajak penghasilan tangguhan	9.311	(32.585)
Penambahan laba yang belum direalisasi selama tahun berjalan, bersih	(10.055)	41.896
Jumlah - sebelum pajak penghasilan tangguhan	(744)	9.311
Pajak penghasilan tangguhan (Catatan 31)	186	(2.328)
Pengalihan dari IMO sehubungan dengan integrasi usaha	54.306	-
Saldo 31 Desember - bersih	<u>53.748</u>	<u>6.983</u>

10. INVESTMENT SECURITIES (continued)

The Bank's management believes that all investment securities were not impaired and there was no allowance for impairment losses on investment securities to be recognised as of 31 December 2017 and 2016.

Treasury bills held by the Bank are zero-coupon bonds issued by the Government of Republic of Indonesia.

Government bonds - sukuk held by the Bank are the bonds issued by the Government of Republic of Indonesia and Perusahaan Penerbit SBSN (Surat Berharga Syariah Negara) under sharia principal with fixed revenue sharing payment.

The movement of unrealised gain from the change in fair value of investment securities during the years ended 31 December 2017 and 2016 was as follows:

Balance - 1 January before deferred income tax
Addition of unrealised gain during the year, net
Total - before deferred income tax
Deferred income tax (Note 31)
Transfer from IMO in relation to business integration
Balance 31 December - net

11. ASET DAN LIABILITAS YANG DIUKUR PADA NILAI WAJAR MELALUI LABA RUGI**a. Aset yang diukur pada nilai wajar melalui laba rugi**

Aset yang diukur pada nilai wajar melalui laba rugi terdiri dari:

	2017	2016
Efek-efek	5.026.762	-
Aset derivatif	189.255	2.080
Kredit yang diberikan kepada nasabah	126.870	-
	<u>5.342.887</u>	<u>2.080</u>

11. ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**a. Assets at fair value through profit or loss**

Assets at fair value through profit or loss consist of the following:

Securities
Derivative assets
Loans to customers

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**11. ASET DAN LIABILITAS YANG DIUKUR PADA NILAI
WAJAR MELALUI LABA RUGI (lanjutan)**
a. Aset yang diukur pada nilai wajar melalui laba rugi (lanjutan)
a.1. Efek-efek

	2017	2016
Obligasi pemerintah	4.725.173	-
Surat Perbendaharaan Negara	301.589	-
	<u>5.026.762</u>	<u>-</u>

a.2. Aset derivatif

	2017	2016
Kontrak <i>cross currency swap</i>	101.863	1.857
Kontrak valuta berjangka	41.068	159
Kontrak <i>swap</i> suku bunga	44.633	-
Kontrak tunai valuta asing	1.691	64
	<u>189.255</u>	<u>2.080</u>

a.3. Kredit yang diberikan kepada nasabah

Termasuk di dalam kredit yang diberikan kepada nasabah pada tanggal 31 Desember 2017 adalah pinjaman sindikasi sebesar Rp 126.870 yang ditujukan untuk dijual oleh Bank.

b. Liabilitas yang diukur pada nilai wajar melalui laba rugi

Liabilitas yang diukur pada nilai wajar melalui laba rugi terdiri dari:

	2017	2016
Liabilitas derivatif:		
Kontrak <i>cross currency swap</i>	264.705	2.517
Kontrak valuta berjangka	233.168	83
Kontrak <i>swap</i> suku bunga	27.882	-
Kontrak tunai valuta asing	1.278	95
Kontrak <i>currency option</i>	4	-
	<u>527.037</u>	<u>2.695</u>

12. TAGIHAN DAN UTANG AKSEPTASI

	2017	
	Tagihan akseptasi/ Acceptance receivables	Utang akseptasi/ Acceptance payables
Rupiah	394.938	(394.938)
Valuta asing	1.432.796	(1.432.796)
Jumlah	<u>1.827.734</u>	<u>(1.827.734)</u>

Pada tanggal 31 Desember 2017 dan 2016, seluruh tagihan akseptasi tidak mengalami penurunan nilai dan manajemen Bank berkeyakinan bahwa tidak ada penyisihan kerugian nilai atas tagihan akseptasi yang perlu diakui.

**11. ASSETS AND LIABILITIES AT FAIR VALUE
THROUGH PROFIT OR LOSS (continued)**
a. Assets at fair value through profit or loss (continued)
a.1. Securities

Government bonds
Treasury Bills

a.2. Derivative assets

Cross currency swap contracts
Currency forward contracts
Interest rate swap contracts
Currency spot contracts

a.3. Loans to customers

Included in loans to customers as at 31 December 2017 are the syndicated loans of Rp 126,870 which held for sell by the Bank.

b. Liabilities at fair value through profit or loss

Liabilities at fair value through profit or loss consist of the following:

Derivative liabilities:
Cross currency swap contracts
Currency forward contracts
Interest rate swap contracts
Currency spot contracts
Currency option contracts

12. ACCEPTANCE RECEIVABLES AND PAYABLES

	2017		2016		
	Tagihan akseptasi/ Acceptance receivables	Utang akseptasi/ Acceptance payables	Tagihan akseptasi/ Acceptance receivables	Utang akseptasi/ Acceptance payables	
Rupiah	394.938	(394.938)	274.868	(274.868)	Rupiah
Valuta asing	1.432.796	(1.432.796)	428.148	(428.148)	Foreign currencies
Jumlah	<u>1.827.734</u>	<u>(1.827.734)</u>	<u>703.016</u>	<u>(703.016)</u>	Total

As of 31 December 2017 and 2016, all acceptance receivables were not impaired and the Bank's management believes that there was no allowance for impairment losses on acceptance receivables to be recognised.

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13. KREDIT YANG DIBERIKAN KEPADA NASABAH

Kredit yang diberikan kepada nasabah pada biaya perolehan diamortisasi:

a. Berdasarkan jenis kredit

	2017	2016
Rupiah		
Modal kerja	20.441.556	12.553.739
Investasi	4.651.294	3.030.391
Konsumsi	4.291.012	81.901
Karyawan	824.924	177.341
Jumlah - Rupiah	30.208.786	15.843.372
Valuta asing		
Modal kerja	22.253.390	2.017.899
Investasi	8.048.824	743.350
Konsumsi	23.766	-
Jumlah - valuta asing	30.325.980	2.761.249
Jumlah kredit yang diberikan kepada nasabah	60.534.766	18.604.621
Penyisihan kerugian penurunan nilai	(2.583.319)	(561.774)
Jumlah kredit yang diberikan kepada nasabah - bersih	57.951.447	18.042.847

b. Berdasarkan sektor ekonomi

	2017	2016
Rupiah		
Jasa-jasa usaha	2.576.484	1.522.028
Jasa-jasa sosial dan masyarakat	130.369	164.633
Konstruksi	2.696.726	761.877
Pengangkutan, pergudangan dan jasa komunikasi	1.768.339	619.750
Perdagangan, restoran dan hotel	10.067.952	6.989.029
Perindustrian	7.442.334	5.376.352
Pertambangan	23.163	25.283
Listrik, gas dan air	8.347	16.423
Pertanian, perkebunan dan sarana perkebunan	379.136	70.513
Lainnya	5.115.936	297.484
Jumlah - Rupiah	30.208.786	15.843.372
Valuta asing		
Jasa-jasa usaha	1.563.289	178.857
Jasa-jasa sosial dan masyarakat	9.874	3.907
Konstruksi	2.416.640	416.701
Pengangkutan, pergudangan dan jasa komunikasi	2.322.831	53.502
Perdagangan, restoran dan hotel	5.011.054	793.299
Perindustrian	15.272.623	1.139.286
Pertambangan	3.106.729	137.349
Pertanian, perkebunan dan sarana perkebunan	599.173	38.348
Lainnya	23.767	-
Jumlah - valuta asing	30.325.980	2.761.249
Jumlah kredit yang diberikan kepada nasabah	60.534.766	18.604.621
Penyisihan kerugian penurunan nilai	(2.583.319)	(561.774)
Jumlah kredit yang diberikan kepada nasabah - bersih	57.951.447	18.042.847

13. LOANS TO CUSTOMERS

Loans to customers at amortised cost:

a. By type of loan

Rupiah
Working capital
Investment
Consumer
Employee

Total - Rupiah

Foreign currencies
Working capital
Investment
Consumer

b. By economic sector

Rupiah
Business services
Social and public services
Construction
Transportation, warehousing and communication
Trading, restaurant and hotel
Industry
Mining
Electricity, gas and water
Agriculture, plantation and plantation improvement
Others

Total - Rupiah

Foreign currencies
Business services
Social and public services
Construction
Transportation, warehousing and communication
Trading, restaurant and hotel
Industry
Mining
Agriculture, plantation and plantation improvement
Others

Total - foreign currencies

Total loans to customers
Allowance for impairment losses

Total loans to customers - net

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**13. KREDIT YANG DIBERIKAN KEPADA NASABAH
(lanjutan)**
c. Berdasarkan klasifikasi Bank Indonesia

	2017	2016
Rupiah		
Lancar	28.070.713	14.642.255
Dalam perhatian khusus	438.752	237.270
Kurang lancar	265.633	93.030
Diragukan	113.206	42.446
Macet	1.320.482	828.371
Jumlah - Rupiah	30.208.786	15.843.372
Valuta asing		
Lancar	28.668.837	2.352.381
Dalam perhatian khusus	770.603	246.661
Kurang lancar	9.710	-
Diragukan	89.123	133.614
Macet	787.707	28.593
Jumlah - valuta asing	30.325.980	2.761.249
Jumlah kredit yang diberikan kepada nasabah	60.534.766	18.604.621
Penyisihan kerugian penurunan nilai	(2.583.319)	(561.774)
Jumlah kredit yang diberikan kepada nasabah - bersih	57.951.447	18.042.847

d. Kredit modal kerja terdiri dari pinjaman rekening koran dan pinjaman dengan surat promes.

Kredit investasi adalah pemberian fasilitas kepada debitur yang tujuan penggunaannya untuk investasi dan jangka waktunya disesuaikan dengan jangka waktu investasinya. Kredit investasi diberikan dalam bentuk *term-loan*.

Kredit konsumsi terdiri dari kredit pemilikan rumah, kredit kendaraan bermotor, *personal loans*, dan kartu kredit.

e. Kredit sindikasi merupakan kredit yang diberikan kepada debitur di bawah perjanjian pembiayaan bersama dengan bank-bank lain. Partisipasi Bank dalam pinjaman sindikasi adalah berkisar antara 1,00% - 69,82% dan 30,00% masing-masing pada tanggal 31 Desember 2017 dan 2016.
f. Selama tahun yang berakhir tanggal 31 Desember 2017 dan 2016, Bank melakukan negosiasi kembali kredit dengan perpanjangan jangka waktu.
Berdasarkan jenis kredit:

	2017	2016
Investasi	1.772.909	638.190
Modal kerja	441.638	567.914
Konsumsi	37.651	-
	2.252.198	1.206.104
Penyisihan kerugian penurunan nilai	(1.320.795)	(320.890)
Jumlah kredit yang telah dinegosiasikan kembali - bersih	931.403	885.214

13. LOANS TO CUSTOMERS (continued)
c. By Bank Indonesia classification

Rupiah	
Pass	
Special mention	
Substandard	
Doubtful	
Loss	
Total - Rupiah	
Foreign currencies	
Pass	
Special mention	
Substandard	
Doubtful	
Loss	
Total - foreign currencies	
Total loans to customers	
Allowance for impairment losses	
Total loans to customers - net	

d. Working capital loans consist of demand deposits loans and loans with promissory notes.

Investment loans are the facilities given to debtors for investment purposes with terms depend on the investment period. Investment loans consist of term-loans.

Consumer loans consist of housing, motor vehicles ownership loans, personal loans, and credit card.

e. The syndicated loans represent loans granted to debtors under syndicated loan agreements with other banks. The Bank's participation in syndicated loans is ranging between 1.00% - 69.82% and 30.00% as of 31 December 2017 and 2016, respectively.
f. For the years ended 31 December 2017 and 2016, the Bank renegotiated loans through extension of period.
By type of loans:

Investment	
Working capital	
Consumer	
Allowance for impairment losses	
Total of renegotiated loans - net	

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13. KREDIT YANG DIBERIKAN KEPADA NASABAH
(lanjutan)

13. LOANS TO CUSTOMERS (continued)

- f. Selama tahun yang berakhir tanggal 31 Desember 2017 dan 2016, Bank melakukan negosiasi kembali kredit dengan perpanjangan jangka waktu. (lanjutan)

- f. For the years ended 31 December 2017 and 2016, the Bank renegotiated loans through extension of period. (continued)

Berdasarkan klasifikasi Bank Indonesia:

By Bank Indonesia classification:

	2017	2016	
Lancar	389.731	269.104	Pass
Dalam perhatian khusus	423.179	171.687	Special mention
Kurang lancar	584	81.585	Substandard
Diragukan	107.560	172.080	Doubtful
Macet	1.331.144	511.648	Loss
	2.252.198	1.206.104	
Penyisihan kerugian penurunan nilai	(1.320.795)	(320.890)	Allowance for impairment losses
Jumlah kredit yang telah dinegosiasikan kembali - bersih	931.403	885.214	Total of renegotiated loans - net

- g. Pada tanggal 31 Desember 2017 dan 2016, Bank telah memenuhi ketentuan Batas Maksimum Pemberian Kredit (BMPK), baik untuk pihak berelasi maupun untuk pihak ketiga.

- g. As of 31 December 2017 and 2016, the Bank complied with Legal Lending Limit (LLL) requirements for both related parties and third parties.

- h. Pada tanggal 31 Desember 2017 dan 2016, rincian kredit bermasalah menurut sektor ekonomi adalah sebagai berikut:

- h. As of 31 December 2017 and 2016, details of impaired loans based on economic sector were as follows:

	2017		2016		
	Kredit bermasalah/ Non-performing loans	Penyisihan kerugian penurunan nilai/ Allowance for impairment losses	Kredit bermasalah/ Non-performing loans	Penyisihan kerugian penurunan nilai/ Allowance for impairment losses	
Perindustrian	896.889	(467.582)	399.364	(108.815)	Industry
Perdagangan, restoran dan hotel	822.287	(529.980)	182.579	(70.286)	Trading, restaurant and hotel
Konstruksi	264.977	(183.562)	235.283	(98.238)	Construction
Pertambangan	242.448	(234.238)	-	-	Mining
Jasa-jasa usaha	218.092	(79.821)	160.735	(36.057)	Business services
Pengangkutan	48.720	(29.651)	143.558	(88.043)	Transportation
Lainnya	92.448	(30.015)	4.535	(34)	Others
Jumlah - Rupiah	2.585.861	(1.554.849)	1.126.054	(401.473)	Total - Rupiah

- i. Rasio non-performing loan (NPL) pada tanggal 31 Desember 2017 dan 2016 masing-masing adalah sebagai berikut:

- i. As of 31 December 2017 and 2016, the non-performing loan (NPL) ratios were as follows:

	2017	2016	
NPL bruto	4,27%	6,06%	Gross NPL
NPL neto	1,70%	3,90%	Net NPL

- j. Pada tanggal 31 Desember 2017 dan 2016, kredit yang diberikan yang dijamin dengan jaminan tunai sebesar Rp 7.679.718 dan Rp 301.275.

- j. As of 31 December 2017 and 2016, loans collateralised by cash collateral amounted to Rp 7,679,718 and Rp 301,275.

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**13. KREDIT YANG DIBERIKAN KEPADA NASABAH
(lanjutan)**
13. LOANS TO CUSTOMERS (continued)

k. Perubahan penyisihan kerugian penurunan nilai kredit yang diberikan kepada nasabah adalah sebagai berikut:

k. The movement of allowance for impairment losses on loans to customers was as follows:

	2017			
	Rupiah	Valuta asing/ Foreign currencies	Jumlah/ Total	
Penyisihan kerugian penurunan nilai kolektif:				Collective allowance for impairment losses:
Saldo, 1 Januari	108.976	19.035	128.011	Balance, 1 January
Penambahan/(pemulihan) penyisihan	174.037	(99.140)	74.897	Additions/(reversal) of the allowance
Efek diskonto	(1.514)	-	(1.514)	Effect of discounting
Penghapusan kredit	(250.281)	-	(250.281)	Write-offs
Penerimaan atas kredit yang telah dihapusbukukan	71.480	-	71.480	Recovery of loans previously written-off
Selisih kurs	-	11.937	11.937	Exchange rate difference
Pengalihan sehubungan dengan integrasi usaha	456.022	367.699	823.721	Transfer in relation to business integration
Saldo, 31 Desember	558.720	299.531	858.251	Balance, 31 December
Penyisihan kerugian penurunan nilai spesifik:				Specific allowance for impairment losses:
Saldo, 1 Januari	408.281	25.482	433.763	Balance, 1 January
Penambahan penyisihan	538.979	178.897	717.876	Additions of the allowance
Efek diskonto	(63.411)	(40.289)	(103.700)	Effect of discounting
Penghapusan kredit	(212.221)	(129.773)	(341.994)	Write-offs
Penerimaan atas kredit yang telah dihapusbukukan	10	-	10	Recovery of loans previously written-off
Selisih kurs	-	36.103	36.103	Exchange rate difference
Pengalihan sehubungan dengan integrasi usaha	209.877	773.133	983.010	Transfer in relation to business integration
Saldo, 31 Desember	881.515	843.553	1.725.068	Balance, 31 December
Jumlah penyisihan kerugian penurunan nilai	1.440.235	1.143.084	2.583.319	Total allowance for impairment losses
	2016			
	Rupiah	Valuta asing/ Foreign currencies	Jumlah/ Total	
Penyisihan kerugian penurunan nilai kolektif:				Collective allowance for impairment losses:
Saldo, 1 Januari	115.793	21.105	136.898	Balance, 1 January
Pemulihan penyisihan	(6.817)	(1.478)	(8.295)	Reversal the allowance
Selisih kurs	-	(592)	(592)	Exchange rate difference
Saldo, 31 Desember	108.976	19.035	128.011	Balance, 31 December
Penyisihan kerugian penurunan nilai spesifik:				Specific allowance for impairment losses:
Saldo, 1 Januari	297.521	77.350	374.871	Balance, 1 January
Penambahan penyisihan	150.103	72.070	222.173	Additions of the allowance
Efek diskonto	(39.573)	(3.750)	(43.323)	Effect of discounting
Penghapusan kredit	-	(118.504)	(118.504)	Write-offs
Penerimaan atas kredit yang telah dihapusbukukan	230	-	230	Recovery of loans previously written-off
Selisih kurs	-	(1.684)	(1.684)	Exchange rate difference
Saldo, 31 Desember	408.281	25.482	433.763	Balance, 31 December
Jumlah penyisihan kerugian penurunan nilai	517.257	44.517	561.774	Total allowance for impairment losses

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**13. KREDIT YANG DIBERIKAN KEPADA NASABAH
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Manajemen Bank berkeyakinan bahwa penyisihan kerugian penurunan nilai yang dibentuk adalah cukup untuk menutupi kemungkinan penurunan nilai kredit yang diberikan kepada nasabah.

13. LOANS TO CUSTOMERS (continued)

The Bank's management believes that the allowance for impairment losses provided is adequate to cover any possible impairment on loans to customers.

14. ASET LAIN-LAIN

	2017	2016
Transaksi dalam proses penyelesaian	620.671	3.813
Pendapatan yang masih akan diterima	531.630	73.624
Pajak dibayar dimuka (lihat Catatan 31a)	496.460	311
Beban dibayar dimuka	145.332	62.751
Aset yang dimiliki untuk dijual	110.724	87.650
Persediaan hadiah	48.347	851
Uang muka	35.994	32.783
Transaksi dalam proses penyelesaian dengan bank lain	28.235	1.487
Lainnya	583.822	17.676
Jumlah	<u>2.601.215</u>	<u>280.946</u>

14. OTHER ASSETS

Transaction in process of settlement	
Accrued income	
Prepaid tax (refer to Note 31a)	
Prepayments	
Assets held for sale	
Gift inventories	
Advances	
Transaction in process of settlement with other banks	
Others	
Total	

15. SIMPANAN DARI NASABAH

Simpanan dari nasabah pada tanggal 31 Desember 2017 dan 2016 terdiri dari:

15. DEPOSITS FROM CUSTOMERS

Deposits from customers as of 31 December 2017 and 2016 consisted of the following:

	2017	2016
Rupiah		
Giro	15.457.678	2.238.616
Tabungan	5.409.026	3.943.394
Deposito berjangka dan <i>deposits on call</i>	<u>13.749.968</u>	<u>9.953.305</u>
	34.616.672	16.135.315
Valuta asing		
Giro	10.117.616	795.737
Tabungan	7.720.879	1.162.181
Deposito berjangka dan <i>deposits on call</i>	<u>4.477.506</u>	<u>1.017.859</u>
	22.316.001	2.975.777
Jumlah	<u>56.932.673</u>	<u>19.111.092</u>

Rupiah	
Demand deposits	
Saving accounts	
Time deposits and deposits on call	

Foreign currencies	
Demand deposits	
Saving accounts	
Time deposits and deposits on call	

16. SIMPANAN DARI BANK - BANK LAIN

Simpanan dari bank-bank lain pada tanggal 31 Desember 2017 dan 2016 terdiri dari:

16. DEPOSITS FROM OTHER BANKS

Deposits from other banks as at 31 December 2017 and 2016 consisted of the following:

	2017	2016
Rupiah		
Giro	4.673.077	8.783
Deposito berjangka	<u>2.000.000</u>	<u>80.000</u>
	6.673.077	88.783
Valuta asing		
Giro	<u>1.904.242</u>	<u>716</u>
	1.904.242	716
Jumlah	<u>8.577.319</u>	<u>89.499</u>

Rupiah	
Demand deposits	
Time deposits	

Foreign currencies	
Demand deposits	

Total

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17. BEBAN AKRUAL DAN PROVISI

	2017	2016
Beban yang masih harus dibayar	439.381	53.875
Bunga yang masih harus dibayar	88.974	49.736
Provisi pemutusan hubungan kerja (Catatan 3s.4)	709	175.477
Jumlah	<u>529.064</u>	<u>279.088</u>

Accrued expenses
Accrued interest expenses
Termination provisions (Note 3s.4)
Total

18. LIABILITAS LAIN-LAIN

	2017	2016
Uang jaminan	669.673	131.559
Pendapatan ditangguhkan	542.689	15.360
Transaksi dalam proses penyelesaian	513.197	-
Rekening <i>suspense</i>	259.695	1.005
Utang pajak lainnya	187.783	25.485
Transfer, inkaso, dan kliring	43.792	24.541
Lain-lain	466.502	4.939
Jumlah	<u>2.683.331</u>	<u>202.889</u>

Security deposits
Deferred income
Transaction in process of settlement
Suspense accounts
Other tax liabilities
Transfers, collection and clearing
Others
Total

Uang jaminan termasuk uang yang diberikan oleh nasabah kepada Bank sebagai jaminan atas L/C impor masing-masing sebesar Rp 595.954 dan Rp 130.196 pada tanggal 31 Desember 2017 dan 2016.

The security deposits included deposits from customers for and import L/C of Rp 595,954 and Rp 130,196 as of 31 December 2017 and 2016, respectively.

19. PEMBAYARAN BERBASIS SAHAM

Bank tidak memiliki program imbalan kerja berbasis saham tersendiri dan berpartisipasi dalam program dari HSBC. Program ini ditujukan kepada karyawan tertentu tanpa terkait dengan kinerja. Saham diberikan kepada karyawan dalam tiga tahun dengan komposisi yang sama di setiap tahunnya dengan syarat karyawan tetap bekerja dalam grup HSBC selama periode *vesting*.

Pada tanggal 31 Desember 2017 dan 2016, saham yang masih beredar masing-masing sejumlah 558.300 (nilai penuh) dan 230.907 (nilai penuh) lembar.

Selama tahun-tahun yang berakhir 31 Desember 2017 dan 2016, Bank mengakui beban masing-masing sebesar Rp 19.216 dan Rp 3.929 dalam laporan laba rugi terkait dengan pembayaran imbalan kerja berbasis saham.

Harga pasar rata-rata tertimbang dari saham yang diberikan pada tahun yang berakhir pada 31 Desember 2017 dan 2016 masing-masing senilai Rp 122.757 dan Rp 104.503 (dalam Rupiah penuh).

19. SHARE-BASED PAYMENT

The Bank has no specific share-based compensation plan of its own and participates in HSBC share plan. The plan is made to certain employees with no associated to performance conditions. Shares are released to employees over three years in equal portion for each year, provided the employees remain continuously employed within HSBC group during the vesting period.

As of 31 December 2017 and 2016, the outstanding number of shares was 558,300 (in full amount) and 230,907 (in full amount), respectively.

During the years ended 31 December 2017 and 2016, the Bank recognised an expense of Rp 19,216 and Rp 3,929, respectively, to the profit or loss in respect of share-based payment compensation plan.

The weighted average fair value of share awarded in the years ended 31 December 2017 and 2016 was Rp 122,757 and Rp 104,503, respectively (in Rupiah full amount).

20. LIABILITAS IMBALAN PASCA-KERJA

Liabilitas imbalan kerja pada tanggal 31 Desember 2017 dan 2016 terdiri dari:

	2017	2016
Liabilitas imbalan kerja jangka pendek	389.077	71.881
Liabilitas imbalan pasca-kerja	301.628	133.887
Liabilitas imbalan kerja	<u>690.705</u>	<u>205.768</u>

Short-term employee benefits obligations
Post-employment benefits obligations
Employee benefits obligations

20. POST-EMPLOYMENT BENEFITS OBLIGATION

Employee benefits obligation as of 31 December 2017 and 2016 consisted of the following:

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20. LIABILITAS IMBALAN PASCA-KERJA (lanjutan)

Sejak Januari 2017, Bank menyelenggarakan program pensiun iuran pasti untuk seluruh karyawan tetapnya dan dikelola serta diadministrasikan oleh Dana Pensiun Lembaga Keuangan Manulife Indonesia. Iuran untuk dana pensiun dihitung berdasarkan persentase tertentu dari gaji pokok karyawan.

Sebagai setoran awal, Bank menempatkan dana sebesar Rp 61.430 pada DPLK Manulife Indonesia yang dicatat sebagai beban tunjangan DPLK. Atas perubahan program pensiun ini, Bank mengakui keuntungan atas penyelesaian sebesar Rp 106.809 yang diakui langsung pada laporan laba rugi tahun berjalan.

Sesuai dengan Undang-Undang Republik Indonesia No. 13/2003 tentang ketenagakerjaan, Bank wajib memberikan imbalan pasca-kerja manfaat pasti kepada karyawannya pada saat pemutusan hubungan kerja atau pada saat karyawan menyelesaikan masa kerjanya. Imbalan pasca-kerja ini diberikan terutama berdasarkan masa kerja dan kompensasi karyawan pada saat pemutusan hubungan kerja atau selesainya masa kerja.

Dengan demikian Bank mencatat liabilitas yang mencerminkan imbalan pasca-kerja yang diwajibkan oleh Undang-Undang No. 13/2003.

Tabel berikut menyajikan perubahan nilai kini kewajiban dan liabilitas imbalan pasca-kerja Bank yang tercatat di laporan posisi keuangan pada tanggal 31 Desember 2017 dan 2016, dan perubahan liabilitas imbalan pasca-kerja dan beban yang diakui dalam laporan laba rugi dan penghasilan komprehensif lain untuk tahun yang berakhir tanggal 31 Desember 2017 dan 2016:

	2017	2016
Nilai kini liabilitas pada awal tahun	133.887	172.992
Biaya jasa kini	26.238	21.173
Biaya bunga	15.526	14.891
Kerugian aktuarial	42.760	21.592
Kurtailmen	-	(84.566)
Pengalihan sehubungan dengan integrasi usaha	213.096	-
Keuntungan atas penyelesaian	(106.809)	-
Imbalan yang dibayar	(23.070)	(12.195)
Liabilitas imbalan pasca-kerja	<u>301.628</u>	<u>133.887</u>

20. POST-EMPLOYMENT BENEFITS OBLIGATION (continued)

Since January 2017, the Bank has a defined contribution pension plan that covers all permanent employees and managed by Dana Pensiun Lembaga Keuangan Manulife Indonesia. The contribution for pension plan is computed based on certain percentage of employees' basic salary.

As initial funding, the Bank placed funds amounting to Rp 61,430 in DPLK Manulife Indonesia which is recorded as expense for DPLK allowance. In relation with the changes in pension plan, the bank recognised settlement gain amounting to Rp 106,809 which was directly recognised in statement of profit and loss for the year.

In accordance with Law of the Republic of Indonesia No. 13/2003 relating to labor regulations, the Bank is required to provide post-employment defined benefits plans to its employees when their employment is terminated or when they retire. These benefits are primarily based on years of service and the employees' compensation at termination or retirement.

Therefore the Bank recorded a liability which represents post-employment benefits as required by Law No. 13/2003.

The following table presents the movement in the present value of obligation and the post-employment benefits obligation of the Bank as recorded in the statement of financial position as of 31 December 2017 and 2016, and movement in obligation and expenses recognised in the statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016:

Present value of obligation at the beginning of year
Current service cost
Interest cost
Actuarial loss
Curtailments
Transfer in relation to business integration
Settlement gain
Benefits paid
Post-employment benefits obligation

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20. LIABILITAS IMBALAN PASCA-KERJA (lanjutan)

Tabel berikut menyajikan perubahan nilai kini kewajiban dan liabilitas imbalan pasca-kerja Bank yang tercatat di laporan posisi keuangan pada tanggal 31 Desember 2017 dan 2016, dan perubahan liabilitas imbalan pasca-kerja dan beban yang diakui dalam laporan laba rugi dan penghasilan komprehensif lain untuk tahun yang berakhir tanggal 31 Desember 2017 dan 2016 (lanjutan):

	2017	2016
Biaya jasa kini	26.238	21.173
Biaya bunga	15.526	14.891
Efek kurtailmen	-	(84.566)
Keuntungan atas penyelesaian	(106.809)	-
Jumlah pendapatan yang diakui	(65.045)	(48.502)
	2017	2016
Liabilitas imbalan pasca-kerja, 1 Januari	133.887	172.992
Beban imbalan pasca-kerja tahun berjalan	41.764	36.064
Efek kurtailmen	-	(84.566)
Kerugian aktuarial tahun berjalan	42.760	21.592
Pembayaran imbalan pasca-kerja selama tahun berjalan	(23.070)	(12.195)
Keuntungan atas penyelesaian	(106.809)	-
Transfer sehubungan dengan Integrasi usaha	213.096	-
Liabilitas imbalan pasca-kerja, 31 Desember	301.628	133.887

Perhitungan liabilitas imbalan pasca-kerja pada tanggal 31 Desember 2017 dan 2016 dilakukan berdasarkan laporan aktuaris independen (PT Towers Watson Purbajaga) tanggal 2 Maret 2018 dengan menggunakan asumsi utama sebagai berikut:

	2017
Tingkat diskonto	6,25%
Kenaikan gaji	6,50%
Metode aktuarial	Projected unit credit
Umur pensiun normal	55 tahun/years
Tingkat kematian	Tabel Mortalitas Indonesia 2011 (TMI 2011)/ Indonesian Mortality Table 2011 (TMI 2011)
Tingkat cacat	10% dari TMI 2011/ 10% of TMI 2011
Tingkat pengunduran diri	15% per tahun pada usia 20 dan menurun secara linear sampai 0% per tahun pada usia 55/ 15% p.a. at 20 and reducing linearly to 0% p.a. at age 55

20. POST-EMPLOYMENT BENEFITS OBLIGATION (continued)

The following table presents the movement in the present value of obligation and the post-employment benefits obligation of the Bank as recorded in the statement of financial position as of 31 December 2017 and 2016, and movement in obligation and expenses recognised in the statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016 (continued):

Current service cost
Interest cost
Curtailment effect
Settlement gain
Total recognised income
Post-employment benefits obligation, 1 January
Post-employment benefits expense for the year
Curtailment effect
Actuarial loss during the year
Payments of post-employment benefits during the year
Settlement gain
Transfer in relation to business integration
Post-employment benefits obligation, 31 December

The calculation of post-employment benefits obligation as of 31 December 2017 and 2016 was done based on the independent actuary report (PT Towers Watson Purbajaga) dated 2 March 2018 using major assumptions as follows:

	2016
Discount rates	7,75%
Salary increases	7,00%
Valuation cost method	Projected unit credit
Normal retirement age	55 tahun/years
Mortality rates	Tabel Mortalitas Indonesia 2011 (TMI 2011)/ Indonesian Mortality Table 2011 (TMI 2011)
Disability rates	10% dari TMI 2011/ 10% of TMI 2011
Resignation rates	18% sampai dengan umur 25 dan menurun dengan garis lurus 0% pada umur 55/ 18% up to age 25 and decreasing linearly to 0% at age 55

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20. LIABILITAS IMBALAN PASCA-KERJA (lanjutan)

Tabel-tabel dibawah menunjukkan sensitivitas atas kemungkinan perubahan tingkat kenaikan gaji dan tingkat diskonto terhadap kewajiban imbalan pasca kerja pada 31 Desember 2017 dan 2016:

	2017		2016		
	Peningkatan/ Increase by 100 bps	Penurunan/ Decrease by 100 bps	Peningkatan/ Increase by 100 bps	Penurunan/ Decrease by 100 bps	
Tingkat diskonto	(16.039)	17.632	(15.744)	17.298	Discount rates
Kenaikan gaji	38.958	(32.487)	38.014	(31.795)	Salary increases

Durasi rata-rata tertimbang dari liabilitas program pensiun imbalan pasti pada tanggal 31 Desember 2017 dan 2016 masing-masing adalah 5,75 dan 6,82 tahun.

20. POST-EMPLOYMENT BENEFITS OBLIGATION (continued)

The following tables represent the sensitivity analysis of a reasonably possible change in salary increase and discount rate of obligation to post-employment benefit obligation as of 31 December 2017 and 2016:

The weighted average duration of the defined benefit pension obligation at 31 December 2017 and 2016 is 5.75 and 6.82 years, respectively.

Analisis jatuh tempo yang diharapkan dari manfaat pensiun adalah sebagai berikut:

Expected maturity analysis of pension benefits are as follows:

	2017	2016	
Dalam 10 tahun kedepan	506.975	241.137	Within next 10 years
Dalam 10 sampai 20 tahun kedepan	358.525	271.591	Within next 10 to 20 years
Dalam 20 sampai 30 tahun kedepan	48.206	121.287	Within next 20 to 30 years
Dalam 30 sampai 40 tahun kedepan	218	3.184	Within next 30 to 40 years

21. MODAL SAHAM

Pada tanggal 20 Oktober 2008, HSBC Asia Pacific Holdings (UK) Limited (HAPH) menandatangani *Conditional Sale and Purchase Agreement* dengan beberapa pemegang saham utama untuk mengakuisisi 88,89% kepemilikan saham Bank. Berdasarkan perjanjian tersebut, HAPH mengakuisisi 38,84% kepemilikan saham dari PT Lumbung Artakencana, 38,60% dari PT Alas Pusaka dan 11,45% dari beberapa pemegang saham individu. Akuisisi ini berlaku efektif pada saat terjadinya penutupan transaksi.

21. SHARE CAPITAL

On 20 October 2008, HSBC Asia Pacific Holdings (UK) Limited (HAPH) entered into a *Conditional Sale and Purchase Agreement* with several major shareholders to acquire 88.89% share ownership of the Bank. Under the terms of the agreement, HAPH acquired 38.84% stake from PT Lumbung Artakencana, 38.60% from PT Alas Pusaka and 11.45% from several individual shareholders. The acquisition became effective upon closing of the transaction.

Pada tanggal 22 Mei 2009, terjadi penutupan transaksi penjualan dan pembelian saham sehingga akuisisi tersebut menjadi efektif.

On 22 May 2009, the shares sale and purchase transactions were completed and thus, the acquisition became effective.

Sesuai dengan Peraturan Bapepam-LK tentang Pengambilalihan Perusahaan Terbuka, akuisisi oleh HAPH di atas dianggap sebagai pengambilalihan perusahaan terbuka yang menyebabkan HAPH harus melaksanakan penawaran tender atas maksimum 270.000.000 saham yang dimiliki oleh pemegang saham publik yang mewakili 10,11% dari seluruh modal disetor dan ditempatkan penuh Bank. Penawaran tender dilaksanakan sesuai dengan syarat-syarat dan ketentuan Pernyataan Penawaran Tender yang dinyatakan efektif oleh Bapepam-LK.

In accordance with Bapepam-LK rule regarding Take-Over of Public Companies, the above - mentioned acquisition by HAPH constitutes a take-over of a public listed company which resulted in HAPH having to conduct a tender offer for a maximum of 270,000,000 shares held by the public shareholders representing 10.11% of the total issued and fully paid-up capital of the Bank. The tender offer was conducted with terms and conditions of the Tender Offer Statement which was declared effective by Bapepam-LK.

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21. MODAL SAHAM (lanjutan)

Penawaran tender dilaksanakan sejak tanggal 24 Juni 2009 hingga 23 Juli 2009 dengan harga penawaran tender sebesar Rp 2.652 (dalam Rupiah penuh) per saham. Selama penawaran tender, sebanyak 269.012.500 saham ditawarkan untuk dibeli sesuai dengan syarat-syarat dan ketentuan Pernyataan Penawaran Tender.

Penawaran tender yang diwajibkan Bapepam-LK diselesaikan pada tanggal 12 Agustus 2009. Pembayaran kepada pemegang saham dilakukan pada tanggal 4 Agustus 2009. Setelah penyelesaian penawaran tender, HAPH memiliki 2.642.312.500 saham di Bank yang mewakili 98,96% dari seluruh modal ditempatkan dan disetor penuh Bank.

Sehubungan dengan privatisasi, HAPH melakukan penawaran tender yang dimulai pada tanggal 2 Juli 2015 dan berakhir pada tanggal 4 Agustus 2015. Melalui penawaran tender, HAPH membeli sebanyak 1.619.000 lembar saham dari Pemegang Saham Publik sebesar Rp 10.000 (dalam Rupiah penuh) per saham. Selanjutnya saham tersebut dijual kepada PT Bank Central Asia Tbk.

Pada bulan November 2015, Bank merubah nilai nominal saham dari Rp 100 (seratus Rupiah) menjadi Rp 1.000 (seribu Rupiah) serta meningkatkan modal dasar dari sebesar Rp 800.000.000.000 (dalam Rupiah penuh) menjadi sebesar Rp 3.000.000.000.000 (dalam Rupiah penuh), dengan modal ditempatkan dan disetor dari sebesar Rp 267.000.000.000 (dalam Rupiah penuh) menjadi sebesar Rp 1.586.394.997.000 (dalam Rupiah penuh). Peningkatan modal tersebut dilakukan dengan menerbitkan saham baru sebanyak 1.319.394.997 lembar saham dengan nominal masing-masing saham sebesar Rp 1.000 (seribu Rupiah).

Perubahan modal saham tersebut di atas dituangkan dalam Akta No. 97 tanggal 16 November 2015 yang dibuat di hadapan DR. Irawan Soerodjo, S.H., M.Si., notaris di Jakarta, mengenai perubahan Anggaran Dasar Bank dan disahkan oleh Menteri Hukum dan Hak Asasi Manusia Republik Indonesia dengan Surat Keputusan No. AHU-0946124.AH.01.02. Tahun 2015 tanggal 17 November 2015.

Lebih lanjut, HSBC Asia Pacific Holdings (UK) Limited, PT Bank Central Asia Tbk dan pemegang saham lainnya melakukan penambahan modal ditempatkan dan disetor sebesar Rp 1.319.395.

Pada bulan November 2016, Bank mengeluarkan saham baru sebanyak 1.000.000.000 lembar saham dengan nominal Rp 1.000 (seribu Rupiah). Penambahan modal ini telah dituangkan dalam Akta No. 64 tanggal 9 November 2016 yang dibuat di hadapan DR. Irawan Soerodjo, S.H., M.Si., notaris di Jakarta, mengenai perubahan Anggaran Dasar Bank dan disahkan oleh Menteri Hukum dan Hak Asasi Manusia Republik Indonesia dengan Surat Keputusan No. AHU-AH.01.03-0097602 tanggal 10 November 2016. Penambahan modal ini menyebabkan modal ditempatkan dan disetor menjadi Rp 2.586.395.

21. SHARE CAPITAL (continued)

The tender offer was conducted from 24 June 2009 until 23 July 2009 with tender offer price at Rp 2,652 (in Rupiah full amount) per share. During the tender offer, the shares being offered were 269,012,500 shares in accordance with the terms and conditions of the Tender Offer Statement.

The tender offer required by Bapepam-LK was completed on 12 August 2009. The payment to the shareholders was made on 4 August 2009. After completion of the tender offer, HAPH owns 2,642,312,500 shares of the Bank representing 98.96% of the total issued and fully paid-up capital of the Bank.

Related to privatisation, HAPH performed the tender offer which was started on 2 July 2015 and expired on 4 August 2015. Through tender offer, HAPH acquired about 1,619,000 shares from Public Shareholders by Rp 10,000 (in Rupiah full amount) per share. Subsequently, those shares were sold to PT Bank Central Asia Tbk.

In November 2015, Bank amended the par value from Rp 100 (one hundred Rupiah) to Rp 1,000 (one thousand Rupiah) and increased the authorized capital from Rp 800,000,000,000 (in Rupiah full amount) to Rp 3,000,000,000,000 (in Rupiah full amount), with issued and fully-paid up capital from Rp 267,000,000,000 (in Rupiah full amount) to Rp 1,586,394,997,000 (in Rupiah full amount). The increased in shared capital was performed by issuing new shares by 1,319,394,997 shares with par value of Rp 1,000 (one thousand Rupiah).

The above changes of share capital stated in notarial deed No. 97 dated 16 November 2015 of DR. Irawan Soerodjo, S.H., M.Si., notary public in Jakarta, concerning the changes and restatement of the articles of association and was approved by the Minister of Law and Human Rights of the Republic of Indonesia in the Decision Letter No. AHU-0946124.AH.01.02. Tahun 2015 dated 17 November 2015.

Furthermore, HSBC Asia Pacific Holdings (UK) Limited, PT Bank Central Asia Tbk and other shareholders increased the issued and paid-up capital by Rp 1,319,395.

In November 2016, the Bank issued new shares by 1,000,000,000 shares with nominal value of Rp 1,000 (one thousand Rupiah). The increase of share capital has been stated in notarial deed No. 64 dated 9 November 2016 of DR. Irawan Soerodjo, S.H., M.Si., notary public in Jakarta, concerning the changes and restatement of the articles of association and was approved by the Minister of Law and Human Rights of the Republic of Indonesia in the Decision Letter No. AHU-AH.01.03-0097602 dated 10 November 2016. This increase caused the share capital become Rp 2,586,395.

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21. MODAL SAHAM (lanjutan)

Pada bulan April 2017, Bank meningkatkan modal dasar dari sebesar Rp 3.000.000.000.000 (dalam Rupiah penuh) menjadi sebesar Rp 20.000.000.000.000 (dalam rupiah penuh), dengan modal ditempatkan dan disetor dari sebesar Rp 2.586.394.997.000 (dalam Rupiah penuh) menjadi sebesar Rp 10.586.394.997.000 (dalam Rupiah penuh). Peningkatan modal ini dilakukan dengan menerbitkan saham baru sebanyak 8.000.000.000 lembar saham dengan nominal masing-masing saham sebesar Rp 1.000 (seribu Rupiah).

Perubahan modal saham tersebut di atas dituangkan dalam Akta No. 57 tanggal 12 April 2017 yang dibuat di hadapan Dr. Irawan Soerodjo, S.H., M.Si., notaris di Jakarta, mengenai perubahan Anggaran Dasar Bank yang disahkan oleh Menteri Hukum dan Hak Asasi Manusia Republik Indonesia dengan Surat Keputusan No. AHU-0008618.AH.01.02. Tahun 2017 tanggal 13 April 2017.

Komposisi pemegang saham Bank pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

21. SHARE CAPITAL (continued)

In April 2017, the Bank increased the authorized capital from Rp 3,000,000,000,000 (in Rupiah full amount) to Rp 20,000,000,000,000 (in Rupiah full amount), with issued and fully paid-up capital from Rp 2,586,394,997,000 (in Rupiah full amount) to Rp 10,586,394,997,000 in Rupiah full amount). The increased in share capital was performed by issuing new shares by 8,000,000,000 shares with par value of Rp 1,000 (one thousand Rupiah).

The above changes of share capital stated in notarial deed No. 57 dated 12 April 2017 of Dr. Irawan Soerodjo, S.H., M.Si., notary public in Jakarta, concerning the changes and restatement of articles of association and was approved by the Minister of Law and Human Rights of the Republic of Indonesia in the decision Letter No. AHU-0008618.AH.01.02. Year 2017 dated 13 April 2017.

The composition of the Bank's shareholders as of 31 December 2017 and 2016 was as follows:

2017				
	Jumlah saham/ Number of shares	Persentase kepemilikan/ Percentage of ownership	Jumlah modal disetor dengan nilai nominal Rp 1.000 (dalam Rupiah penuh) per saham/ Total paid-up capital at nominal value of Rp 1,000 (in Rupiah full amount) per share	
HSBC Asia Pacific Holdings (UK) Limited	10.473.719.274	98.94%	10.473.719	HSBC Asia Pacific Holdings (UK) Limited
PT Bank Central Asia Tbk	112.653.737	1.06%	112.654	PT Bank Central Asia Tbk
Lainnya	21.986	0.00%	22	Others
Jumlah	10.586.394.997	100.00%	10.586.395	Total
2016				
	Jumlah saham/ Number of shares	Persentase kepemilikan/ Percentage of ownership	Jumlah modal disetor dengan nilai nominal Rp 1.000 (dalam Rupiah penuh) per saham/ Total paid-up capital at nominal value of Rp 1,000 (in Rupiah full amount) per share	
HSBC Asia Pacific Holdings (UK) Limited	2.558.866.842	98.94%	2.558.867	HSBC Asia Pacific Holdings (UK) Limited
PT Bank Central Asia Tbk	27.517.161	1.06%	27.517	PT Bank Central Asia Tbk
Lainnya	10.994	0.00%	11	Others
Jumlah	2.586.394.997	100.00%	2.586.395	Total

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22. TAMBAHAN MODAL DISETOR – BERSIH

Bank melakukan penawaran umum perdana atas 270.000.000 saham Bank kepada masyarakat pada tanggal 8 Januari 2008 dengan nilai nominal Rp 100 (dalam Rupiah penuh) per saham dengan harga penawaran sebesar Rp 1.080 (dalam Rupiah penuh) per saham. Jumlah yang diterima dari penawaran umum adalah sebesar Rp 291.600.

Rincian tambahan modal disetor - bersih dari penawaran umum perdana saham Bank per tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

Jumlah yang diterima dari penerbitan 270.000.000 saham	291.600
Jumlah yang dicatat sebagai modal disetor	(27.000)
	264.600
Beban emisi saham	(6.990)
	257.610

23. CADANGAN UMUM DAN WAJIB

Cadangan umum dan wajib dibentuk sesuai dengan Undang-Undang Republik Indonesia No. 1/1995 sebagaimana telah diubah dengan Undang-Undang No. 40/2007 tentang Perseroan Terbatas yang berlaku efektif sejak 16 Agustus 2007 yang mengharuskan Perseroan membentuk cadangan umum dengan jumlah minimum 20% dari modal saham yang ditempatkan dan disetor. Tidak ada batas waktu dalam pembentukan cadangan ini. Pada tanggal 31 Desember 2017 saldo cadangan umum adalah Rp 3.648 (2016: Rp 3.398).

Berdasarkan Rapat Umum Pemegang Saham Tahunan Bank yang dinyatakan dalam Surat Keterangan dari Notaris Dr. Irawan Soerodjo, S.H., M.Si., Nomor 325/S1/Not/V/2016 tanggal 11 Mei 2016, para pemegang saham Bank menyetujui pembentukan cadangan umum sebesar Rp 250 dari saldo laba tahun 2015.

Berdasarkan Rapat Umum Pemegang Saham Tahunan Bank yang dinyatakan dalam Surat Keterangan dari Notaris Dr. Irawan Soerodjo, S.H., M.Si., Nomor 162/S1/Not/III/2017 tanggal 16 Maret 2017, para pemegang saham Bank menyetujui pembentukan cadangan umum sebesar Rp 250 dari saldo laba tahun 2016.

24. ASET KEUANGAN DAN LIABILITAS KEUANGAN

Pada tabel di bawah ini, instrumen keuangan telah dikelompokkan berdasarkan klasifikasi masing-masing. Kebijakan akuntansi yang penting di Catatan 3a menjelaskan bagaimana kategori aset keuangan dan liabilitas keuangan tersebut diukur dan bagaimana pendapatan dan beban, termasuk laba dan rugi atas nilai wajar (perubahan nilai wajar instrumen keuangan), diakui.

22. ADDITIONAL PAID-IN CAPITAL – NET

The Bank issued 270,000,000 shares with par value of Rp 100 (in Rupiah full amount) per share, through initial public offering on 8 January 2008 with offering price of Rp 1,080 (in Rupiah full amount) per share. Total proceeds from the public offering amounted to Rp 291,600.

Details of additional paid-in capital – net from initial public offering as at 31 December 2017 and 2016 were as follows:

Proceeds from the issuance of 270,000,000 shares	Amount recorded as paid-in capital
Share issuance costs	
Amount recorded as additional paid-in capital	

23. GENERAL AND LEGAL RESERVES

The general and legal reserve was provided in relation with the Law of Republic Indonesia No. 1/1995 which has been replaced with the Law No. 40/2007 effective on 16 August 2007 regarding the Limited Liability Company which requires a Company to set up a general reserve amounting to at least 20% of the issued and paid up share capital. There is no timeline over which this amount should be provided. As at 31 December 2017, the amount of general reserves is Rp 3,648 (2016: Rp 3,398).

Based on the Annual General Meeting of the Bank's Shareholders as stated in reference letter No. 325/S1/Not/V/2016 dated 11 May 2016 of Dr. Irawan Soerodjo, S.H., M.Si., notary public in Jakarta, the shareholders approved the appropriation of the Bank's 2015 retained earnings amounting to Rp 250.

Based on the Annual General Meeting of the Bank's Shareholders as stated in reference letter No. 162/S1/Not/III/2017 dated 16 March 2017 of Dr. Irawan Soerodjo, S.H., M.Si., notary public in Jakarta, the shareholders approved the appropriation of the Bank's 2016 retained earnings amounting to Rp 250.

24. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In the below table, financial instruments have been allocated based on their classification. The significant accounting policies in Note 3a describe how the categories of the financial assets and financial liabilities are measured and how income and expenses, including fair value gains and losses (changes in fair value of financial instruments), are recognised.

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**24. ASET KEUANGAN DAN LIABILITAS KEUANGAN
(lanjutan)**

Aset keuangan telah dikelompokkan ke dalam aset keuangan yang diperdagangkan, pinjaman yang diberikan dan piutang serta aset keuangan yang tersedia untuk dijual. Sama halnya dengan aset keuangan, tiap kategori liabilitas keuangan telah dikelompokkan ke dalam liabilitas keuangan yang diperdagangkan dan liabilitas keuangan yang dicatat pada biaya perolehan diamortisasi lainnya.

Nilai wajar yang diungkapkan di bawah ini adalah berdasarkan informasi relevan yang tersedia pada tanggal laporan posisi keuangan dan tidak diperbaharui untuk mencerminkan perubahan dalam kondisi pasar yang terjadi setelah tanggal laporan posisi keuangan.

Tabel di bawah menyajikan nilai tercatat dan nilai wajar aset dan liabilitas keuangan Bank pada tanggal 31 Desember 2017 dan 2016.

24. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial asset classes have been allocated into trading, loans and receivables, and available-for-sale. Similarly, each class of financial liability has been allocated into trading and other amortised cost.

The fair values are based on relevant information available as at the statement of financial position date and have not been updated to reflect changes in market condition after the statement of financial position date.

The table below sets out the carrying amount and fair values of the Bank's financial assets and liabilities as of 31 December 2017 and 2016.

2017						
Diperdagangkan/Trading	Pinjaman yang diberikan dan piutang/Loans and receivables	Tersedia untuk dijual/Available-for-sale	Biaya perolehan diamortisasi lainnya/Other amortised cost	Jumlah nilai tercatat/Total carrying amount	Nilai wajar/Fair value	
Aset keuangan						Financial assets
Kas	-	581.541	-	581.541	581.541	Cash
Giro pada Bank Indonesia	-	6.755.215	-	6.755.215	6.755.215	Demand deposits with Bank Indonesia
Giro pada bank-bank lain	-	1.866.023	-	1.866.023	1.866.023	Demand deposits with other banks
Penempatan pada bank-bank lain	-	6.353.055	-	6.353.055	6.353.055	Placements with other banks
Penempatan pada Bank Indonesia	-	1.249.637	-	1.249.637	1.249.637	Placements with Bank Indonesia
Aset yang diukur pada nilai wajar melalui laba rugi	5.342.887	-	-	5.342.887	5.342.887	Assets at fair value through profit or loss
Wesel Ekspor	-	1.218.778	-	1.218.778	1.218.778	Export Bills
Tagihan akseptasi	-	1.827.734	-	1.827.734	1.827.734	Acceptance receivables
Kredit yang diberikan kepada nasabah-bersih	-	57.951.447	-	57.951.447	58.029.467	Loans to customers-net
Efek-efek yang dibeli dengan janji dijual kembali	-	500.000	-	500.000	505.849	Securities purchased with agreement to resell
Efek-efek untuk tujuan investasi	-	-	13.703.861	13.703.861	13.703.861	Investment securities
Aset lain-lain	-	531.630	-	531.630	531.630	Other assets
	5.342.887	78.835.060	13.703.861	97.881.808	97.965.677	
Liabilitas keuangan						Financial liabilities
Simpanan dari nasabah	-	-	(56.932.673)	(56.932.673)	(56.932.673)	Deposits from customers
Simpanan dari bank-bank lain	-	-	(8.577.319)	(8.577.319)	(8.577.319)	Deposits from other banks
Liabilitas yang diukur pada nilai wajar melalui laba rugi	(527.037)	-	-	(527.037)	(527.037)	Liabilities at fair value through profit or loss
Utang akseptasi	-	-	(1.827.734)	(1.827.734)	(1.827.734)	Acceptance payables
Beban akrual dan provisi	-	-	(88.974)	(88.974)	(88.974)	Accruals and provisions
Liabilitas lain-lain	-	-	(713.465)	(713.465)	(713.465)	Other liabilities
Pinjaman	-	-	(13.363.988)	(13.363.988)	(13.363.988)	Borrowings
Pinjaman subordinasi	-	-	(1.017.563)	(1.017.563)	(1.017.563)	Subordinated debt
	(527.037)	-	(82.521.716)	(83.048.753)	(83.048.753)	

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**24. ASET KEUANGAN DAN LIABILITAS KEUANGAN
(lanjutan)**

Tabel di bawah menyajikan nilai tercatat dan nilai wajar aset dan liabilitas keuangan Bank pada tanggal 31 Desember 2017 dan 2016. (lanjutan)

**24. FINANCIAL ASSETS AND FINANCIAL
LIABILITIES (continued)**

The table below sets out the carrying amount and fair values of the Bank's financial assets and liabilities as of 31 December 2017 and 2016. (continued)

2016						
Diperdagangkan/Trading	Pinjaman yang diberikan dan piutang/Loans and receivables	Tersedia untuk dijual/Available-for-sale	Biaya perolehan diamortisasi lainnya/Other amortised cost	Jumlah nilai tercatat/Total carrying amount	Nilai wajar/Fair value	
Aset keuangan						Financial assets
Kas	-	567.552	-	567.552	567.552	Cash
Giro pada Bank Indonesia	-	1.521.906	-	1.521.906	1.521.906	Demand deposits with Bank Indonesia
Giro pada bank-bank lain	-	310.491	-	310.491	310.491	Demand deposits with other banks
Penempatan pada bank-bank lain	-	1.177.800	-	1.177.800	1.177.800	Placements with other banks
Aset yang diukur pada nilai wajar melalui laba rugi	2.080	-	-	2.080	2.080	Assets at fair value through profit or loss
Wesel Ekspor	-	9.203	-	9.203	9.203	Export Bill
Tagihan akseptasi	-	703.016	-	703.016	703.016	Acceptance receivables
Kredit yang diberikan kepada nasabah-bersih	-	18.042.847	-	18.042.847	18.008.280	Loans to customers-net
Efek-efek untuk tujuan investasi	-	-	3.723.413	3.723.413	3.723.413	Investment securities
Aset lain-lain	-	73.624	-	73.624	73.624	Other assets
	<u>2.080</u>	<u>22.406.439</u>	<u>3.723.413</u>	<u>26.131.932</u>	<u>26.097.365</u>	
Liabilitas keuangan						Financial liabilities
Simpanan dari nasabah	-	-	(19.111.092)	(19.111.092)	(19.111.092)	Deposits from customers
Simpanan dari bank-bank lain	-	-	(89.499)	(89.499)	(89.499)	Deposits from other banks
Liabilitas yang diukur pada nilai wajar melalui laba rugi	(2.695)	-	-	(2.695)	(2.695)	Liabilities at fair value through profit or loss
Utang akseptasi	-	-	(703.016)	(703.016)	(703.016)	Acceptance payables
Beban akrual dan provisi	-	-	(49.736)	(49.736)	(49.736)	Accruals and provisions
Liabilitas lain-lain	-	-	(160.477)	(160.477)	(160.477)	Other liabilities
Pinjaman	-	-	(471.538)	(471.538)	(471.538)	Borrowings
	<u>(2.695)</u>	<u>-</u>	<u>(20.585.358)</u>	<u>(20.588.053)</u>	<u>(20.588.053)</u>	

Nilai wajar aset dan liabilitas yang diperdagangkan dan efek-efek untuk tujuan investasi pada tanggal 31 Desember 2017 dan 2016 adalah berdasarkan harga kuotasi pasar dan teknik penilaian seperti yang dijelaskan dalam Catatan 5b.1.

Nilai wajar kredit yang diberikan kepada nasabah, pinjaman, dan pinjaman subordinasi yang mempunyai risiko nilai wajar ditentukan menggunakan metode diskonto arus kas berdasarkan tingkat suku bunga pasar pada tanggal 31 Desember 2017 dan 2016.

Nilai wajar aset dan liabilitas keuangan selain yang disebutkan di atas mendekati nilai tercatatnya karena memiliki jangka waktu yang pendek dan/atau suku bunganya sering ditinjau ulang.

The fair value of trading assets and liabilities and investment securities as of 31 December 2017 and 2016 were based on quoted market prices and valuation techniques as explained in Note 5b.1.

The fair value of loans to customers, borrowings, and subordinated debt with fair value risk was determined by discounted cash flows method using market interest rates as of 31 December 2017 and 2016.

The fair value of financial assets and liabilities other than those mentioned in the above approximated to the carrying amount because they are short term in nature, and/or the interest rates are reprised frequently.

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24. ASET KEUANGAN DAN LIABILITAS KEUANGAN
(lanjutan)

Saling hapus

Pada 31 Desember 2017 dan 2016, tidak terdapat aset dan liabilitas keuangan yang saling hapus pada laporan posisi keuangan.

Bank memiliki kredit yang diberikan yang dijamin dengan jaminan tunai (Catatan 12j), yang menjadi subyek untuk memenuhi *netting arrangements* dan perjanjian serupa, yang tidak saling hapus pada laporan posisi keuangan.

24. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Offsetting

As at 31 December 2017 and 2016, there is no financial assets and liabilities that are subject to offsetting in the statement of financial position.

The Bank has loans collateralised by cash collateral (Note 12j), which are subject to enforceable netting arrangements and similar agreements that are not set off in the statement of financial position.

25. PENDAPATAN BUNGA BERSIH

25. NET INTEREST INCOME

	2017	2016	
Pendapatan bunga			Interest income
Kredit yang diberikan kepada nasabah	4.114.792	2.198.839	Loans to customers
Efek-efek untuk tujuan investasi	706.573	320.789	Investment securities
Efek-efek yang dibeli dengan janji dijual kembali	91.886	-	Securities purchased with agreement to resell
Penempatan pada Bank Indonesia	73.906	11.382	Placements with Bank Indonesia
Kredit yang diberikan dan penempatan pada bank	9.212	19.010	Loans and advances to banks
Giro pada Bank Indonesia	927	5.027	Demand deposits with Bank Indonesia
Giro pada bank-bank lain	497	84	Demand deposits with other banks
Lain-lain	52.641	-	Others
Jumlah	5.050.434	2.555.131	Subtotal
Beban bunga			Interest expenses
Simpanan			Deposits
Giro	(191.483)	(65.582)	Demand deposits
Tabungan	(97.005)	(202.619)	Saving accounts
Deposito berjangka dan deposits on call	(862.014)	(857.640)	Time deposits and deposits on call
Simpanan dari bank lain	(23.366)	(4.609)	Deposit from other banks
Pinjaman dan pinjaman subordinasi	(221.915)	(12.396)	Borrowings and subordinated debt
Lainnya	(1.633)	(48.885)	Others
Jumlah	(1.397.416)	(1.191.731)	Subtotal
Pendapatan bunga bersih	3.653.018	1.363.400	Net interest income

26. PENDAPATAN PROVISI DAN KOMISI BERSIH

26. NET FEES AND COMMISSIONS INCOME

	2017	2016	
Pendapatan provisi dan komisi			Fees and commissions income
Kartu kredit	379.658	-	Credit cards
Unit trusts	151.027	-	Unit trusts
Asuransi	147.285	13.366	Insurance
Fasilitas kredit	134.851	-	Credit facilities
Ekspor/impor	130.351	26.550	Export/import
Jasa kustodian	108.136	-	Custodial services
Remittance	48.557	4.936	Remittances
Account services	33.911	19.439	Account services
Lain-lain	284.763	19.775	Others
Jumlah	1.418.539	84.066	Subtotal
Beban provisi dan komisi			Fees and commissions expenses
Kartu kredit	(224.086)	(9.245)	Credit card
Scripless kustodian	(25.624)	-	Scripless custodian
Remittance	(543)	-	Remittance
Lain-lain	(104.452)	(7.037)	Others
Jumlah	(354.705)	(16.282)	Subtotal
Pendapatan provisi dan komisi bersih	1.063.834	67.784	Net fees and commissions income

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**27. PENDAPATAN INSTRUMEN
DIPERDAGANGKAN - BERSIH**
YANG**27. TRADING INCOME - NET**

	2017	2016	
Instrumen derivatif	428.598	27.842	Derivative instruments
Instrumen keuangan pendapatan tetap	246.268	-	Fixed income instruments
Jumlah	674.866	27.842	Total

**28. KERUGIAN PENURUNAN NILAI ASET KEUANGAN
- BERSIH**
**28. IMPAIRMENT LOSSES ON FINANCIAL ASSETS -
NET**

	2017	2016	
Kredit yang diberikan kepada nasabah	792.773	213.878	Loans to customers
Komitmen dan kontinjensi	40.585	-	Commitment and contingencies
Jumlah	833.358	213.878	Total

29. BEBAN KARYAWAN**29. EMPLOYEES EXPENSES**

	2017	2016	
Gaji dan bonus	997.254	479.690	Salaries and bonuses
Tunjangan	235.665	35.499	Allowance
Pelatihan	65.980	16.721	Training
Tunjangan terkait pemutusan hubungan kerja	19.663	175.477	Termination benefit
Imbalan pasca-kerja (Catatan 20)	(65.045)	(48.502)	Post-employment benefits obligation (Note 20)
Lain-lain	376.183	34.469	Others
Jumlah	1.629.700	693.354	Total

30. BEBAN UMUM DAN ADMINISTRASI**30. GENERAL AND ADMINISTRATIVE EXPENSES**

	2017	2016	
Komunikasi, listrik dan air	365.605	60.510	Communication and utilities
Sewa	220.715	112.220	Rent
Iklan dan promosi	155.939	999	Advertising and promotion
Jasa profesional	117.574	47.166	Professional fees
Pemeliharaan dan perbaikan	85.071	29.862	Repair and maintenance
Pungutan tahunan OJK perbankan	44.668	13.221	Bank annual OJK levy
Kebersihan dan keamanan	38.949	22.204	Security and cleaning
Perjalanan dinas	28.506	9.047	Travelling
Asuransi	24.037	11.410	Insurance
Alat tulis dan barang cetakan	21.855	4.606	Stationery and office supplies
Jasa layanan kas	6.977	12.770	Cash service
Representasi	5.103	1.167	Representation
Langganan/keanggotaan	2.342	2.047	Customer services/membership
Lain-lain	132.313	27.030	Others
Jumlah	1.249.654	354.259	Total

31. PERPAJAKAN**31. TAXATION**

a. Pajak dibayar dimuka terdiri dari:

a. Prepaid taxes consist of:

	2017	2016	
Pajak penghasilan badan dibayar dimuka	481.348	-	Corporate income prepaid tax
Pajak dibayar dimuka sehubungan dengan pemeriksaan pajak (Catatan 31j)	15.112	311	Prepaid tax in relation with assessment on tax (Note 31j)
	496.460	311	

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31. PERPAJAKAN (lanjutan)**31. TAXATION (continued)**

b. Utang pajak penghasilan terdiri dari:

b. *Income taxes payable consist of:*

	2017	2016	
Pajak penghasilan badan	-	1.691	Corporate income tax
Utang pajak lainnya disajikan dalam liabilitas lain-lain pada catatan 18.			Other tax liabilities presented in other liabilities in note 18.

c. Beban pajak terdiri dari:

c. *Tax expense consisted of the following:*

	2017	2016	
Pajak kini	143.790	34.736	Current tax
Pajak tangguhan:			Deferred tax:
Pembentukan dan pemulihan dari perbedaan temporer	3.013	(182)	Origination and reversal of temporary differences
Surat Ketetapan Pajak	31	-	Tax Assessment Letter
Jumlah	146.834	34.554	Total

d. Sesuai dengan peraturan perpajakan di Indonesia, Bank menghitung dan melaporkan/menyetorkan pajak berdasarkan sistem *self-assessment*. Fiskus dapat menetapkan/mengubah pajak-pajak tersebut dalam jangka waktu tertentu sesuai peraturan yang berlaku.

d. *Under the Indonesian taxation laws, the Bank submits tax returns on a self-assessment basis. The tax authorities may assess/amend taxes within the statute of limitations under prevailing regulations.*

e. Rekonsiliasi antara laba sebelum pajak menurut laporan laba rugi komprehensif dengan laba kena pajak adalah sebagai berikut:

e. *The reconciliation between profit before tax per statement of comprehensive income and taxable income was as follows:*

	2017	2016	
Laba sebelum pajak	1.518.134	135.069	Profit before tax
Perbedaan temporer:			Temporary differences:
Liabilitas imbalan kerja jangka pendek	125.965	3.212	Short-term employee benefits obligation
Penyisihan kerugian penurunan nilai aset keuangan	(759.255)	(145.625)	Allowance for impairment losses from financial assets
Beban imbalan pasca-kerja dan imbalan kerja lainnya	(272.360)	113.623	Post-employment and other benefits expense
Penyusutan aset tetap dan amortisasi aset tak berwujud	(180.401)	29.518	Depreciation of fixed assets and amortisation of intangible assets
Lain-lain	18.168	-	Others
	(1.067.883)	728	
Perbedaan permanen:			Permanent differences:
Rugi atas penerimaan yang sudah dikenakan penghasilan final	106	1.172	Loss related to proceed subject to final income tax
Penyusutan kendaraan non-operasional	48.202	130	Depreciation of non-operational vehicles
Representasi, sumbangan dan denda	44.831	4.155	Representation, donations and penalties
Lain-lain	31.767	(2.308)	Others
	124.906	3.149	
Laba kena pajak	575.157	138.946	Taxable income
Beban pajak kini	143.790	34.736	Current tax expense
Pajak dibayar dimuka	(625.138)	(33.045)	Prepaid tax
Pajak penghasilan badan (dibayar dimuka)/terutang	(481.348)	1.691	Corporate income (prepaid tax)/tax payable

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31. PERPAJAKAN (lanjutan)

- f. Rekonsiliasi antara beban pajak dan hasil perkalian laba akuntansi sebelum pajak dengan tarif pajak yang berlaku adalah sebagai berikut:

	2017	2016	
Laba sebelum pajak	1.518.134	135.069	Income before tax
Tarif pajak yang berlaku	25%	25%	Statutory tax rate
	379.534	33.767	
Penyesuaian pajak tangguhan	(263.957)	-	Adjustment on deferred tax
Perbedaan permanen dengan tarif pajak 25%	31.226	787	Permanent differences at 25% rate
Surat Ketetapan Pajak	31	-	Tax Assessment Letter
Jumlah beban pajak	146.834	34.554	Total tax expense

Jumlah laba kena pajak Bank tahun 2016 telah sesuai dengan Surat Pemberitahuan Tahunan (SPT) tahun 2016. Jumlah laba kena pajak Bank tahun 2017 telah sesuai dengan perhitungan yang akan dilaporkan dalam SPT tahun 2017.

- f. The reconciliation between the total tax expense and the amounts computed by applying the statutory tax rates to income before tax was as follows:

The Bank's 2016 taxable income agreed with total taxable income reported in the Bank's 2016 Annual Corporate Income Tax Return. The 2017 taxable income agreed with the tax valuation which will be reported in the Bank's 2017 Annual Corporate Income Tax return.

- g. Rincian dari aset pajak tangguhan bersih Bank adalah sebagai berikut:

- g. The details of the Bank's net deferred tax assets were as follows:

	31 Desember/ December 2016	Transfer dari IMO/ Transfer from IMO	Diakui pada laba rugi tahun berjalan/ Recognised in current year profit or loss	Diakui pada penghasilan komprehensif lain/ Recognised in other comprehensive income	31 Desember/ December 2017	
Aset pajak tangguhan:						Deferred tax assets:
Penyisihan kerugian penurunan nilai aset keuangan	(35.951)	-	77.547	-	41.596	Allowance for impairment losses on financial assets
Penyusutan aset tetap dan amortisasi aset tak berwujud	7.688	-	(58.811)	-	(51.123)	Depreciation of fixed assets and amortisation of intangible assets
Liabilitas imbalan pasca-kerja dan provisi bonus	100.023	100.605	(26.292)	10.690	185.026	Post-employment benefit and bonus provision
Rugi belum direalisasi dari perubahan nilai wajar efek-efek untuk tujuan investasi	(2.328)	(18.103)	-	2.514	(17.917)	Unrealised loss from changes in fair value of investment securities
Lain-lain	-	(3.810)	4.543	3.810	4.543	Others
Aset pajak tangguhan - bersih	69.432	78.692	(3.013)	17.014	162.125	Deferred tax assets - net

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31. PERPAJAKAN (lanjutan)

- g. Rincian dari aset pajak tangguhan bersih Bank adalah sebagai berikut: (lanjutan)

	31 Desember/ December 2015	Diakui pada laba rugi tahun berjalan/ Recognised in current year profit or loss	Diakui pada penghasilan komprehensif lain/ Recognised in other comprehensive income	31 Desember/ December 2016
Aset pajak tangguhan:				
Penyisihan kerugian penurunan nilai aset keuangan	455	(36.406)	-	(35.951)
Penyusutan aset tetap dan amortisasi aset tak berwujud	309	7.379	-	7.688
Liabilitas imbalan pasca-kerja dan provisi bonus	65.416	29.209	5.398	100.023
Rugi belum direalisasi dari perubahan nilai wajar efek-efek untuk tujuan investasi	8.146	-	(10.474)	(2.328)
Aset pajak tangguhan - bersih	<u>74.326</u>	<u>182</u>	<u>(5.076)</u>	<u>69.432</u>

- h. Manajemen berpendapat bahwa aset pajak tangguhan yang timbul dari perbedaan temporer kemungkinan besar dapat direalisasi pada tahun-tahun mendatang.

- i. Bank menerima Surat Ketetapan Pajak Kurang Bayar (SKPKB) tertanggal 10 Desember 2015 atas PPh Badan tahun pajak 2010 dari Kantor Pelayanan Pajak Wajib Pajak Besar Satu sebesar Rp 9.735 dan telah melakukan pembayaran sebagian sebesar Rp 311 yang dicatat sebagai pajak dibayar di muka. Sehubungan dengan ini, Bank mengajukan keberatan pada tanggal 8 Maret 2016.

Pada tanggal 10 Februari 2017 Direktur Jenderal Pajak menerbitkan Keputusan Keberatan atas keberatan Bank atas Surat Ketetapan Pajak Kurang Bayar (SKPKB) PPh Badan tahun pajak 2010 sebesar Rp 9.735 yang menolak keberatan wajib pajak dan menyetujui hanya sebesar Rp 3 dari Rp 9.735.

Atas Keputusan Keberatan tersebut pada tanggal 8 Mei 2017 Bank telah mengajukan permohonan banding dan hingga Laporan Keuangan ini dikeluarkan, Bank masih menunggu putusan banding di Pengadilan Pajak.

- j. Pada tanggal 28 Oktober 2014, Bank menerima Surat Ketetapan Pajak Kurang Bayar Pajak Penghasilan Final Pasal 4 (2) dari Kantor Pelayanan Pajak Madya Pekanbaru sebesar Rp 4.537 sebagai hasil pemeriksaan pajak untuk tahun fiskal 2012 atas kantor cabang Pekanbaru. Bank telah mengajukan permohonan keberatan atas Surat Ketetapan Pajak Kurang Bayar tersebut pada tanggal 27 Januari 2015. Pada 14 April 2016, Bank telah mengajukan permohonan banding ke Pengadilan Pajak.

31. TAXATION (continued)

- g. The details of the Bank's net deferred tax assets were as follows: (continued)

Deferred tax assets:

Allowance for impairment losses on financial assets
Depreciation of fixed assets and amortisation of intangible assets
Post-employment benefit and bonus provision
Unrealised loss from changes in fair value of investment securities

- h. The management believes that total deferred tax assets arising from temporary differences are probable to be realised in the future years.

- i. Bank received Tax Underpayment Assessment Letter (SKPKB) of Corporate Income Tax dated 10 December 2015 from Large Tax Office 1 amounting to Rp 9,735 and already made partial payment amounting to Rp 311 which recorded as prepaid tax. With this regards, the Bank submitted an objection letter on 8 March 2016.

On 10 February 2017 the Director General of Tax has issued Tax Objection Decision on the Bank's objection on 2010 Corporate Income Tax Under payment Assessment of Rp 9.735 which rejected Bank's objection and agreed only Rp 3 out of total obligation of Rp 9,735.

The Bank has submitted an appeal to the Tax Court on 8 May 2017 and up to the date of the issuance of these financial statements, the Bank is still waiting for the tax appeal decision in Tax Court.

- j. On 28 October 2014, the Bank received Art 4 (2) Final Tax Underpayment Assessment Letter from Pekanbaru Middle Tax Office of Rp 4,537 as the result of 2012 tax audit on Pekanbaru branch. The Bank has submitted Tax Objection on the above mentioned Tax Underpayment Assessment Letter on 27 January 2015. On 14 April 2016 Bank has submitted appeal to the Tax Court.

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31. PERPAJAKAN (lanjutan)

Pada tanggal 17 Mei 2017, Bank menerima keputusan Pengadilan Pajak tentang permohonan banding yang diajukan oleh Bank yang menerima seluruhnya banding atas Keputusan Keberatan atas Surat Ketetapan Pajak Kurang Bayar Pajak Penghasilan Final Pasal 4 (2) dari Kantor Pelayanan Pajak Madya Pekanbaru sebesar Rp 4.537 untuk tahun fiskal 2012.

- k. Pada tanggal 29 November 2017, Bank menerima Surat Ketetapan Pajak Kurang Bayar (SKPKB) Pajak Penghasilan Badan, PPh 21, 23/26 dan PPN sebesar Rp 6.362 sebagai hasil pemeriksaan pajak tahun 2012 dari Kantor Pelayanan Pajak Wajib Pajak Besar Satu. Bank telah mengajukan surat keberatan ke Direktur Jenderal Pajak atas SKPKB tersebut sebesar Rp 6,182 pada tanggal 28 Februari 2018 dan seluruh kurang bayar tersebut telah dilunasi dan dicatat sebagai pajak dibayar di muka.
- l. Pada tanggal 18 Desember 2017, Bank menerima Surat Ketetapan Pajak Kurang Bayar (SKPKB) Pajak Penghasilan Badan, PPh 21 dan 4 (2) sebesar Rp 8.750 sebagai hasil pemeriksaan pajak tahun 2013 dari Kantor Pelayanan Pajak Wajib Pajak Besar Satu. Bank telah mengajukan surat keberatan ke Direktur Jenderal Pajak atas SKPKB tersebut sebesar Rp 8.617 pada tanggal 6 Maret 2018 dan seluruh kurang bayar tersebut telah dilunasi dan dicatat sebagai pajak dibayar di muka.
- m. Sehubungan dengan integrasi usaha, pada tanggal 21 Agustus 2017 Bank telah mengajukan permohonan persetujuan penggunaan nilai buku atas pengalihan harta dalam rangka pengambilalihan usaha. Pada tanggal 9 Oktober 2017, Direktorat Jenderal Pajak telah menerbitkan surat persetujuan No. KEP-164/WPJ.19/2017 untuk menggunakan nilai buku pajak. Perhitungan aset (atau liabilitas) pajak tangguhan mencerminkan posisi tersebut.
- n. Pada tanggal 24 November 2017 Bank menerima Surat Ketetapan Pajak Kurang Bayar (SKPKB) Pajak Pertambahan Nilai (PPN) sebesar Rp 2.300.901 untuk masa pajak April 2017 dari Kantor Pelayanan Pajak Wajib Pajak Besar satu. Bank belum melakukan pembayaran SKPKB PPN tersebut dan telah mengajukan surat keberatan pada tanggal 23 Februari 2018.

32. JASA KUSTODIAN

Divisi Jasa Kustodian Bank mendapatkan izin untuk menyediakan jasa kustodian dari Badan Pengawas Pasar Modal Otoritas Jasa Keuangan berdasarkan Surat Keputusan No. S-05/PM.2/2017 tanggal 20 Januari 2017.

Pada tanggal 31 Desember 2017, aset yang disimpan dan diadministrasikan oleh Divisi Jasa Kustodian Bank terdiri dari saham, obligasi, deposito berjangka, sertifikat deposito, surat-surat berharga dan instrumen pasar modal dan pasar uang lainnya.

Jasa yang ditawarkan oleh Divisi Jasa Kustodian Bank meliputi jasa penyimpanan, penyelesaian dan penanganan transaksi, aksi korporasi, penagihan pendapatan serta jasa-jasa penunjang terkait lainnya.

31. TAXATION (continued)

On 17 May 2017, the Bank has received Appeal Decision from Tax Court which accepts the appeal on Objection Decision on Tax Underpayment Art. 4 (2) Final Income Tax Assessment letter from Pekanbaru Medium Tax Office of Rp 4,537 for 2012 fiscal year 2012.

- k. On 29 November 2017, the Bank has received Tax Underpayment Assessment Letters (SKPKB) on Corporate Income Tax, Art. 21, 23/26 Income Tax and VAT of Rp 6,362 as the result of 2012 Tax audit from Large Tax Office One. The Bank has submitted objection letter on the SKPKB amounting to Rp 6,182 on 28 February 2018 to Director General of Tax and all tax underpayment has been fully paid and recorded as prepaid tax.
- l. On 18 December 2017, the Bank has received Tax Underpayment Assessment Letters (SKPKB) on Corporate Income Tax, Art. 21 and 4 (2) Income Tax of Rp 8,750 as the result of 2013 Tax audit from Large Tax Office One. The Bank has submitted objection letter on the SKPKB amounting to Rp 8,617 on 6 March 2018 to Director General of Tax and all tax underpayment has been fully paid and recorded as prepaid tax.
- m. In relation to the business integration, on 21 August 2017 the Bank has submitted a request for using book value on asset transferred in relation to the business integration. On 9 October 2017, Directorate General of Tax has issued the approval decision No. KEP-164/WPJ.19/2017 for using fiscal book value. The calculation of deferred tax asset (or liabilities) reflects this position.
- n. On 24 November 2017 the Bank has received VAT Underpayment Assessment Letter (SKPKB) of Rp 2,300,901 for April 2017 fiscal period from Large Tax Office One. The Bank has not made any payment on the VAT underpayment assessment and has submitted tax objection letter on 23 February 2018.

32. CUSTODIAL SERVICES

The Bank's Custodial Services Division obtained a license to provide custodial services from the Capital Market Supervisory Agency Division of Financial Service Authority under its Decree No. S-05/PM.2/2017 dated 20 Januari 2017.

As at 31 December 2017, the assets which were maintained and administered by the Bank's Custodial Services Division consisted of shares, bonds, time deposits, certificate of deposits, commercial paper and other capital market and money market instruments.

The services offered by the Bank's Custodial Services Division include safekeeping, settlement and transaction handling, corporate action, income collection and other related supporting services.

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**33. SIFAT HUBUNGAN DAN TRANSAKSI DENGAN
PIHAK BERELASI**

Rincian saldo yang signifikan dengan pihak berelasi pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

	2017	
	Jumlah/ Amount	Persentase/ Percentage ¹⁾
Giro pada bank-bank lain	1.479.493	1,46
Penempatan pada bank-bank lain	6.353.055	6,29
Aset yang diukur pada nilai wajar melalui laba rugi	29.985	0,03
Kredit yang diberikan kepada nasabah	4.332	0,00
Aset lain-lain	89.092	0,09
Simpanan dari nasabah	22.833	0,03
Simpanan dari bank-bank lain	3.914.703	4,54
Liabilitas yang diukur pada nilai wajar melalui laba rugi	196.921	0,23
Utang akseptasi	268.161	0,31
Pinjaman	13.363.988	15,51
Pinjaman subordinasi	1.017.563	1,18
Beban akrual dan provisi	14.465	0,02
Liabilitas lain-lain	58.671	0,07

¹⁾ Persentase terhadap jumlah aset/liabilitas.

Pada tanggal 31 Desember 2017 dan 2016, seluruh aset keuangan dengan pihak berelasi memiliki kualitas lancar.

Pada tanggal 1 Mei 2013, Bank menandatangani perjanjian pinjaman dengan HSBC Corporation Limited untuk fasilitas sebesar USD 150 juta dan tenor pinjaman sampai dengan 3 tahun. Perjanjian pinjaman ini telah diperbaharui pada tanggal 16 Juni 2017. Pada tanggal 31 Desember 2017, saldo terutang atas fasilitas ini adalah sebesar Rp 474.863 (USD 35 juta), yang jatuh tempo pada tanggal 16 Mei 2019. Pinjaman ini memiliki tingkat suku bunga mengambang, yaitu LIBOR 3 bulan ditambah 21 bps (*basis point*). Tidak ada aset yang ditempatkan sebagai jaminan atas pinjaman ini.

Sebagai bagian dari integrasi usaha, terdapat pengalihan fasilitas pinjaman sebesar USD 1.250.000 juta. Jumlah saldo pinjaman yang ditransfer dari IMO kepada Bank pada 17 April 2017 adalah sebesar Rp 9.942.375 (USD 750 juta). Tanggal jatuh tempo pinjaman ini mulai dari 19 Januari 2018 sampai dengan 19 September 2018.

Pada tanggal 10 April 2017, Bank menandatangani perjanjian pinjaman subordinasi dengan HSBC Asia Pacific Holdings (UK) Limited ("HAPH") dan telah menerima dana sebesar USD 75 juta yang jatuh tempo pada tanggal 10 April 2027. Pinjaman subordinasi ini memiliki tingkat suku bunga mengambang, yaitu USD LIBOR 3 bulan ditambah 407 bps (*basis point*). Pada tanggal 31 Desember 2017, saldo terutang atas fasilitas ini adalah sebesar Rp 1.017.563 (USD 75 juta). Pinjaman subordinasi ini ditujukan untuk mendukung Modal Pelengkap (Tier 2).

**33. NATURE OF RELATIONSHIP AND
TRANSACTIONS WITH RELATED PARTIES**

The details of significant balance with related parties as of 31 December 2017 and 2016 were as follows:

	2016	
	Jumlah/ Amount	Persentase/ Percentage ¹⁾
Demand deposits with other banks	294.006	1,11
Placements with other banks	1.077.800	4,06
Assets at fair value through profit or loss	1	0,00
Loans to customers	8.231	0,03
Other assets	37.723	0,00
Deposits from customers	13.230	0,06
Deposits from other banks	343	0,00
Liabilities at fair value through or loss	2	0,00
Acceptance payables	119.589	0,57
Borrowings	471.538	2,24
Subordinated debt	-	-
Accruals and provisions	4.084	0,02
Other liabilities	-	-

¹⁾ Percentage of the total assets/liabilities.

As of 31 December 2017 and 2016, all financial assets with related party are classified as current.

On 1 May 2013, the Bank entered into borrowing agreement with the HSBC Corporation Limited for a facility amounting to USD 150 million and borrowing tenor up to 3 years. This borrowing agreement was renewed on 1 January 2014. As of 31 December 2017, the outstanding amount from this facility was Rp 474,863 (USD 35 million), which maturing on 16 June 2019. This borrowing bears a floating interest rate of 3 month LIBOR plus 65 bps (*basis points*). There is no asset put as collateral for this borrowing.

As part of the business integration, the Bank assumed borrowing facility amounting to USD 1,250,000 million. The total borrowing balances that was transferred from IMO to the Bank as of 17 April 2017 was amounting to Rp 9,942,375 (USD 750 million). Maturity dates of the borrowing balances range from 19 January 2018 to 19 September 2018.

On 10 April 2017, the Bank entered into subordinated loan agreement with the HSBC Asia Pacific Holdings (UK) Limited ("HAPH") and has already received funding amounting to USD 75 million which maturing on 10 April 2027. This subordinated debts bears a floating interest rate of 3 month USD LIBOR plus 407 bps (*basis points*). As of 31 December 2017, the outstanding amount from this facility was Rp 1,017,563 (USD 75 million). The subordinated debts is intended to support Supplementary Capital (Tier 2).

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**33. SIFAT HUBUNGAN DAN TRANSAKSI DENGAN
PIHAK BERELASI**

Rincian transaksi yang signifikan dengan pihak berelasi untuk tahun yang berakhir tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

	2017	
	Jumlah/ Amount	Persentase/ Percentage ²⁾
Pendapatan bunga	52.282	1,04
Pendapatan provisi dan komisi	37.420	2,64
Beban bunga	221.915	15,88
Beban provisi dan komisi	50.189	14,15
Beban umum dan administrasi	258.299	20,67
Pendapatan lainnya	8.021	55,43

²⁾ Persentase terhadap jumlah pendapatan/beban.

Rincian tagihan kontinjensi dengan pihak-pihak berelasi pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

	2017	
	Jumlah/ Amount	Persentase/ Percentage ³⁾
Tagihan kontinjensi : Garansi yang diterima dari bank-bank lain	3.805.883	36,43

³⁾ Persentase terhadap jumlah aset atau liabilitas

Selain transaksi dan saldo di atas, Bank telah melakukan pembayaran sebesar Rp 253.281 dan Rp 15.234 untuk layanan jasa *intragroup* selama tahun berakhir 31 Desember 2017 dan 2016 (Catatan 35).

Rincian sifat hubungan dan jenis transaksi yang signifikan dengan pihak berelasi pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:

Pihak berelasi/Related party	Sifat relasi/Nature of relationship	Jenis transaksi/Type of transaction
HSBC Bank Australia Ltd	Perusahaan afiliasi/Affiliated company	Giro dan transaksi derivatif/Demand deposits and derivative transactions
HSBC Bank Canada	Perusahaan afiliasi/Affiliated company	Giro dan beban provisi dan komisi/Demand deposits and fees and commissions expense
The Hongkong and Shanghai Banking Corporation Limited	Perusahaan afiliasi/Affiliated company	Pinjaman/Borrowing
The Hongkong and Shanghai Banking Corporation Limited, Bangkok branch	Perusahaan afiliasi/Affiliated company	Giro/Demand deposits
The Hongkong and Shanghai Banking Corporation Limited, London branch	Perusahaan afiliasi/Affiliated company	Giro dan akseptasi/Demand deposits and acceptance
The Hongkong and Shanghai Banking Corporation Limited, India branch	Perusahaan afiliasi/Affiliated company	Giro/Demand deposits
The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch	Perusahaan afiliasi/Affiliated company	Giro/Demand deposits
The Hongkong and Shanghai Banking Corporation Limited, Auckland branch	Perusahaan afiliasi/Affiliated company	Giro/Demand deposits
The Hongkong and Shanghai Banking Corporation Limited, Beijing branch	Perusahaan afiliasi/Affiliated company	Akseptasi/Acceptance
The Hongkong and Shanghai Banking Corporation Limited, Guang Zhou branch	Perusahaan afiliasi/Affiliated company	Akseptasi/Acceptance
The Hongkong and Shanghai Banking Corporation Limited, Shanghai branch	Perusahaan afiliasi/Affiliated company	Akseptasi/Acceptance
Hang Seng Bank Ltd	Perusahaan afiliasi/Affiliated company	Akseptasi dan call money/Acceptance and call money

**33. NATURE OF RELATIONSHIP AND
TRANSACTIONS WITH RELATED PARTIES**

The details of significant transactions with related parties for the years ended 31 December 2017 and 2016 were as follows:

	2016		
	Jumlah/ Amount	Persentase/ Percentage ²⁾	
	3.010	0,12	Interest income
	9	0,00	Fees and commission income
	12.396	1,04	Interest expenses
	3.135	19,25	Fees and commission expenses
			General and administrative expenses
	10.754	3,04	
	-	-	Other income - net

²⁾ Percentage of the total income/expenses.

The details of contingent receivables with related parties as at 31 December 2017 and 2016 were as follows:

	2016		
	Jumlah/ Amount	Persentase/ Percentage ³⁾	
	255.670	29,89	Contingent receivables : Guarantees received from other banks

³⁾ Percentage of the total asset or liabilities

In addition of above transactions and balances, the Bank has paid an amount of Rp 253,281 and Rp 15,234 for intragroup services during the years ended 31 December 2017 and 2016, respectively (Note 35).

The details of the relationship and type of significant transactions with related parties as of 31 December 2017 and 2016 were as follows:

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**33. SIFAT HUBUNGAN DAN TRANSAKSI DENGAN
PIHAK BERELASI (lanjutan)**

Rincian sifat hubungan dan jenis transaksi yang signifikan dengan pihak berelasi pada tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut: (lanjutan)

Pihak berelasi/Related party	Sifat relasi/Nature of relationship	Jenis transaksi/Type of transaction
HSBC Bank plc	Perusahaan afiliasi/Affiliated company	Akseptasi dan transaksi derivatif/Acceptance and derivative transactions
The Hongkong and Shanghai Banking Corporation Limited, Singapore branch	Perusahaan afiliasi/Affiliated company	Giro, akseptasi, transaksi derivatif, dan liabilitas lain-lain/Demand deposits, acceptance, derivative transactions, and other liabilities
The Hongkong and Shanghai Banking Corporation Limited, Hong Kong branch	Perusahaan afiliasi/Affiliated company	Giro, simpanan, akseptasi, transaksi derivatif, call money, pinjaman dan jasa komunikasi/Demand deposits, deposits, acceptance, derivative transactions, call money, borrowings and communication services
The Hongkong and Shanghai Banking Corporation Limited, Jakarta branch	Perusahaan afiliasi/Affiliated company	Simpanan dan giro/Deposits and demand deposits
HSBC Trinkaus and Burkhardt AG	Perusahaan afiliasi/Affiliated company	Akseptasi/Acceptance
The Hongkong and Shanghai Banking Corporation Limited, Malaysia branch	Perusahaan afiliasi/Affiliated company	Akseptasi/Acceptance
The Hongkong and Shanghai Banking Corporation Limited, Shenzhen branch	Perusahaan afiliasi/Affiliated company	Akseptasi/Acceptance
HSBC Asia Pacific Holdings (UK) Ltd	Perusahaan induk/Parent company	Liabilitas lain-lain, Pinjaman subordinasi/Other liabilities, Subordinated debt
Dewan Komisaris, Direksi dan keluarga	Manajemen kunci/Key management	Kredit yang diberikan kepada nasabah dan simpanan dari nasabah/Loans to customers and Deposits from customers
HSBC Bank USA	Perusahaan afiliasi/Affiliated company	Giro dan transaksi derivatif/Demand deposits and derivative transactions
HSBC Bank China	Perusahaan afiliasi/Affiliated company	Giro/Demand deposits

Transaksi dengan personil manajemen kunci

Personil manajemen kunci adalah pihak yang memiliki kewenangan dan tanggung jawab untuk mengendalikan aktivitas Bank baik secara langsung maupun tidak langsung.

Personil manajemen kunci termasuk Dewan Komisaris, Direksi dan Kepala Divisi tertentu yang memiliki kewenangan dan tanggung jawab yang signifikan untuk merencanakan, mengarahkan dan mengendalikan kegiatan Bank.

Pada tanggal 31 Desember 2017 dan 2016, kredit yang diberikan kepada personil manajemen kunci dikategorikan sebagai lancar sehingga tidak ada kerugian penurunan nilai individual yang dicatat.

Remunerasi personil manajemen kunci untuk tahun yang berakhir tanggal 31 Desember 2017 dan 2016 terdiri dari:

	2017	2016	
Imbalan kerja jangka pendek	209.663	59.846	Short-term employee benefits
Imbalan pasca-kerja	13.819	5.550	Post-employment benefits
Imbalan kerja jangka panjang lainnya	3.611	-	Other long-term employee benefits
Imbalan kerja berbasis saham	660	1.466	Share-based compensation plan
Rincian gaji, tunjangan dan bonus Dewan Komisaris, Direksi, Komite Audit dan Komite Pemantau Risiko selama tahun yang berakhir tanggal 31 Desember 2017 dan 2016 adalah sebagai berikut:			Details of salaries, allowance and bonuses of the Board of Commissioners, Directors, Audit Committee and Risk Monitoring Committee for the years ended 31 December 2017 and 2016 were as follows:
	2017	2016	
Direksi	28.405	24.728	Directors
Dewan Komisaris	3.241	4.368	Board of Commissioners
Komite Audit dan Komite Pemantau Risiko	779	1.206	Audit Committee and Risk Monitoring Committee
Jumlah	32.425	30.302	Total

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34. KOMITMEN DAN KONTINJENSI**34. COMMITMENTS AND CONTINGENCIES**

	2017	2016	
Komitmen			Commitment
Kewajiban komitmen			Committed liabilities
L/C yang tidak dapat dibatalkan	(2.307.855)	(625.178)	Irrevocable L/C
Fasilitas kredit yang belum digunakan - <i>committed</i>	(2.202.919)	(245.625)	Unused credit facilities - committed
Jumlah kewajiban komitmen	<u>(4.510.774)</u>	<u>(870.803)</u>	Total committed liabilities
Kontinjensi			Contingency
Kewajiban kontinjensi			Contingent liability
Bank garansi yang diterbitkan	(10.447.404)	(855.414)	Bank guarantees issued
Jumlah kewajiban kontinjensi	<u>(10.447.404)</u>	<u>(855.414)</u>	Total contingent liability

Bank garansi diterbitkan atas nama nasabah dalam rangka penjaminan pembayaran kredit dan pelaksanaan proyek.

Bank guarantees are issued on behalf of customers for credit repayment and project implementation purposes.

Pada tanggal 31 Desember 2017 dan 2016, semua L/C dan bank garansi diterbitkan untuk pihak ketiga.

As of 31 December 2017 and 2016, all L/C and bank guarantees were issued to third parties.

Pada tanggal 31 Desember 2017 dan 2016, Bank memiliki sejumlah kewajiban sewa operasi yang tidak dapat dibatalkan atas aset tetap dimana pembayaran minimum sewa diperpanjang selama beberapa tahun.

As of 31 December 2017 and 2016, the Bank was obligated under a number of non-cancellable operating leases for assets which the future minimum lease payments extend over a number of years.

Komitmen sewa operasi yang tidak dapat dibatalkan adalah sebagai berikut:

The non-cancellable operating lease commitments were as follows:

	2017	2016	
Hingga 1 tahun	(122.569)	(34.815)	Up to 1 year
1 - 5 tahun	(161.127)	(35.839)	1 - 5 years
	<u>(283.696)</u>	<u>(70.654)</u>	

Pada tanggal 31 Desember 2017, terdapat beberapa tuntutan hukum, pengurusan administrasi dan klaim yang belum terselesaikan dalam kegiatan usaha Bank. Tidak mungkin untuk memastikan apakah Bank akan memenangkan masalah atau tuntutan hukum tersebut, atau dampaknya jika Bank kalah. Namun demikian, manajemen Bank yakin bahwa hasil keputusan masalah atau tuntutan hukum tersebut tidak akan membawa dampak yang signifikan pada hasil usaha, posisi keuangan maupun likuiditas Bank.

As at 31 December 2017, there are several legal actions, administrative proceedings and claims in the ordinary course of the Bank's business. It is not possible to predict with certainty whether or not the Bank will ultimately be successful in any of these legal matters or, if not, what the impact might be. However, the Bank's management does not expect that the results in any of these proceedings will have a material adverse effect on the Bank's results of operations, financial position or liquidity.

Bank tidak memiliki liabilitas kontingen yang signifikan pada tanggal 31 Desember 2017 dan 2016.

The Bank has no significant contingent liability as of 31 December 2017 and 2016.

35. PERJANJIAN PENTING**35. SIGNIFICANT AGREEMENT****Management support agreement****Management support agreement**

Dalam rangka membantu Bank untuk memperluas, mengembangkan dan meningkatkan bisnis dan operasinya dan untuk memastikan bahwa Bank memiliki tata kelola perusahaan yang sesuai dengan standar internasional, manajemen Bank telah meminta The Hongkong and Shanghai Banking Corporation Limited (HBAP) untuk memberikan beberapa bantuan manajemen yang dibutuhkan dan untuk melaksanakan alih pengetahuan di bidang perbankan dan tata kelola yang baik kepada Bank.

In order to assist the Bank to expand, develop and improve its business and operations and to ensure that the Bank has a corporate governance regime which corresponds with the best international standards, the Bank's management has requested The Hongkong and Shanghai Banking Corporation Limited (HBAP) to provide certain agreed management services and to facilitate the transfer of banking knowledge, expertise and best practices to the Bank.

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35. PERJANJIAN PENTING (lanjutan)**Management support agreement (lanjutan)**

Untuk tujuan tersebut, pada tanggal 25 Mei 2009, Bank telah menandatangani *Management Services Agreement* dengan HBAP, berdasarkan mana HBAP telah setuju untuk memberikan, atau menyebabkan untuk diberikannya oleh HSBC Holdings plc atau salah satu perusahaan yang dimiliki oleh HSBC Holdings plc kepada Bank jasa manajemen tertentu.

Selanjutnya, *Management Services Agreement* telah diubah dan dinyatakan kembali oleh Bank dan HBAP dengan menandatangani *Amendment and Restatement Management Services Agreement* ("Management Support Agreement atau MSA") pada tanggal 10 Mei 2012.

Berdasarkan MSA ini, HBAP telah setuju untuk memberikan, atau memastikan bahwa anggota yang relevan dari HSBC Grup harus memberikan bantuan manajemen kepada Bank. Bantuan manajemen yang dimaksud berupa:

- (i) Bantuan manajemen dan teknis (tidak termasuk pengaturan konsultasi dalam jenis apapun),
- (ii) Berbagai pengetahuan perbankan yang dimiliki dan akan diberikan oleh HBAP (atau anggota dari HSBC Holding plc) kepada Bank, dan
- (iii) Bantuan lain yang telah disetujui secara tertulis yang akan disediakan oleh HBAP kepada Bank dari waktu ke waktu.

Perjanjian layanan jasa antargrup - HBAP

Pada tanggal 31 Maret 2017, Bank telah menandatangani Perjanjian Layanan Jasa Antargrup dengan The Hongkong and Shanghai Banking Corporation Limited (HBAP), dimana HBAP telah setuju untuk memberikan jasa-jasa yang berkaitan dengan pemberian bantuan teknis untuk bidang-bidang sesuai dengan kesepakatan para pihak.

Perjanjian layanan jasa antargrup - IMO

Dalam rangka membantu The Hongkong and Shanghai Banking Corporation Limited – Cabang Indonesia (IMO) untuk melanjutkan operasinya setelah integrasi, Bank telah menandatangani Perjanjian Layanan Jasa Intra-grup dengan IMO dimana Bank telah setuju untuk memberikan jasa-jasa yang berkaitan dengan manajemen resiko, tata kelola, operasional usaha, pelaporan serta jasa lainnya sebagaimana disetujui kedua belah pihak.

Integrasi usaha

Sehubungan dengan integrasi usaha dan operasi antara Bank dan The Hongkong and Shanghai Banking Corporation Limited (HBAP) - Cabang Indonesia yang dikenal sebagai *Indonesian Management Office* (IMO), Bank telah menandatangani perjanjian-perjanjian berikut ini:

- Perjanjian Kerangka Kerja antara The Hongkong and Shanghai Banking Corporation Limited dan PT Bank HSBC Indonesia Untuk Melaksanakan Integrasi Usaha Perbankan di Indonesia tertanggal 18 Oktober 2016 dan perjanjian pernyataan kembali dan perubahannya tertanggal 13 April 2017;
- Akta pengalihan tertanggal 18 Oktober 2016; dan
- Akta Novasi tertanggal 18 Oktober 2016.

Secara keseluruhan, perjanjian di atas membentuk Perjanjian Integrasi.

35. SIGNIFICANT AGREEMENT (continued)**Management support agreement (continued)**

For this purpose, on 25 May 2009, the Bank and HBAP signed a *Management Services Agreement*, in which HBAP has agreed to provide, or cause to be provided by either HSBC Holdings plc or one of the group companies owned by HSBC Holdings plc to the Bank certain management services.

Subsequently, the *Management Services Agreement* was changed and restated by the Bank and HBAP through the signing of the *Amendment and Restatement Management Service Agreement* ("Management Support Agreement or MSA") on 10 May 2012.

Based on this MSA, HBAP has agreed to provide, or to ensure that a relevant member of the HSBC Group shall provide the management's support to the Bank. The management's support includes:

- (i) Management and technical support (not a consultancy arrangement in any kind),
- (ii) The sharing of Banking Know How by HBAP (or any other member of the HSBC Holding plc) to the Bank, and
- (iii) Any other support in writing to be provided by HBAP to the Bank from time to time.

Intra-group service agreement - HBAP

On 31 March 2017, the Bank and The Hongkong and Shanghai Banking Corporation Limited (HBAP) have signed the *Intra-Group Service Agreement*, in which HBAP agrees to provide technical assistance for subjects that are mutually agreed by both parties.

Intra-group service agreement - IMO

In order to assist the The Hongkong and Shanghai Banking Corporation Limited – Cabang Indonesia (IMO) to continue in operation post integration, the Bank has signed an *Intra-Group Service Agreement* with IMO in which the Bank agrees to provide services relating to risk management, corporate governance, business operation, reporting and other services as mutually agreed by both parties.

Business integration

In connection to the integration of business and operations between the Bank and The Hongkong and Shanghai Banking Corporation Limited (HBAP) - Indonesian branches known as *Indonesian Management Office* (IMO), the Bank signed the following agreements:

- Framework Agreement Between The Hongkong and Shanghai Banking Corporation Limited and PT Bank HSBC Indonesia to Implement the Integration of The Banking Business in Indonesia dated 18 October 2016 and its restatement and amendment agreement dated 13 April 2017;
- Deed of assignment dated 18 October 2016; and
- Deed of Novation dated 18 October 2016.

Collectively, the above agreements form the *Integration Agreement*.

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35. PERJANJIAN PENTING (lanjutan)**Integrasi usaha (lanjutan)**

Selain Penjanjian Integrasi, informasi integrasi juga dimuat dalam Akta No. 34 tertanggal 13 April 2017 (Akta Integrasi) yang dibuat di hadapan Mala Mukti, S.H., LL.M., notaris di Jakarta.

Setelah penyelesaian integrasi, sampai sejauh bahwa bisnis tertentu, aset dan liabilitas IMO tidak dapat dialihkan kepada Bank karena pembatasan berdasarkan hukum dan praktik yang berlaku, maka akan ada bisnis cabang IMO yang tersisa selama masa transisi sampai seluruh hak dan kewajiban dari IMO dapat diselesaikan menurut hukum yang berlaku.

Bank mengakui dan menyetujui bahwa dalam menerima pengalihan aset dan liabilitas, Bank akan menerima pengalihan bisnis sebagai *going concern*.

Total perhitungan untuk pengalihan Bisnis (bersama-sama dengan Aset dan Liabilitas yang Diterima) merupakan suatu jumlah yang sama dengan nilai buku bersih Bisnis (lihat Catatan 1c). Pada tanggal Penyelesaian Integrasi, Bank atau HBAP, sebagaimana yang berlaku, melunasi atas nama pihak lainnya Perhitungan Bisnis Awal sebesar nilai aset bersih yang dialihkan.

Dalam periode yang telah ditentukan, Bank dan HBAP telah melakukan finalisasi jumlah aset-aset dan kewajiban-kewajiban dalam lingkup Integrasi dan telah menyetujui jumlah nilai buku bersih final dimana tidak terdapat selisih antara nilai final dan Perhitungan Bisnis Awal.

36. REKLASIFIKASI AKUN

Beberapa akun dalam laporan posisi keuangan pada tanggal pada 31 Desember 2016 telah direklasifikasi agar sesuai dengan penyajian laporan posisi keuangan pada tanggal dan untuk tahun yang berakhir pada 31 Desember 2017.

	Sebelum reklasifikasi/ <i>Before</i> <i>reclassifications</i>	Reklasifikasi/ <i>Reclassifications</i>	Setelah reklasifikasi/ <i>After</i> <i>reclassifications</i>	
Laporan posisi keuangan				Statement of financial position
Aset				Assets
Wesel ekspor	-	9.203	9.203	Export bills
Kredit yang diberikan kepada nasabah	18.052.050	(9.203)	18.042.847	Loans to customers
Pajak dibayar dimuka	311	(311)	-	Prepaid income tax
Beban dibayar dimuka	62.751	(62.751)	-	Prepayments
Aset lain-lain	217.884	63.062	280.946	Other assets
Liabilitas				Liabilities
Liabilitas imbalan kerja jangka pendek	71.881	(71.881)	-	Short-term employee benefit obligation
Liabilitas imbalan pasca-kerja	133.887	(133.887)	-	Post-employment benefit obligations
Liabilitas imbalan kerja	-	205.768	205.768	Employee benefit obligations

35. SIGNIFICANT AGREEMENT (continued)**Business integration (continued)**

In addition to Integration Agreement, information on integration is also documented in Deed No. 34 dated 13 April 2017 (Integration Deed) which effected by Mala Mukti, S.H., LL.M., a public notary in Jakarta.

Following the completion of the integration, to the extent that the certain business, assets and liabilities of IMO cannot be transferred to the Bank due to limitation under applicable law or practice, there will be IMO residual branch business for a transitional period of time until all right and obligations of IMO can be wound down in accordance with applicable law.

The Bank acknowledges and agrees that in accepting the transfer of the assets and assuming liabilities, the Bank will be accepting the transfer of the business as a going concern.

The total consideration for the transfer of the Business (together with the Assumed Assets and Liabilities) is an amount equal to the Business Net Asset Value (refer to Note 1c). On date of Integration Completion, the Bank or HBAP, as applicable, has settled in favor of the other party the Initial Business Consideration which equal to the transferred net asset value.

Within the agreed period, the Bank and HBAP have finalized the amount of assets and liabilities within the scope of the Integration and had mutually agreed to the final Business Net Asset Value where the final amount does not differ with the Initial Business Combination.

36. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the statement of financial position as of 31 December 2016 have been reclassified to conform with the presentation of the statement of financial position as of and for the year ended 31 December 2017.

2017

Laporan Tahunan
Annual Report



PT Bank HSBC Indonesia



World Trade Center 1,
Jl. Jenderal Sudirman Kav. 29-31, Jakarta 12920



www.hsbc.co.id



Contact Centre

64722

(dari telepon genggam di Indonesia)
(from Indonesia)

(+6221) 5291 4722

(dari luar negeri)
(from Abroad)

Atau 1500 700 (Premier), 1500 808 (Signature, Platinum,
Cashback)