

RISK MANAGEMENT IMPLEMENTATION REPORT
FOR INTEREST RATE RISK IN THE BANKING BOOK

Bank Name : PT Bank QNB Indonesia Tbk (individual)

Reporting Period : June 2020

Qualitative Analysis	
1.	<p>Explanation of how Bank defines IRRBB for risk measurement and control</p> <p>IRRBB refers to the risk to the bank's capital and earnings arising from adverse movements in interest rates in the market. Bank QNB Indonesia (QNBI) categorises IRRBB into three sub risk types:</p> <p>a) Gap Risk Risk arises from the difference (gap) in contractual maturity and/or repricing maturity between assets and liabilities (including off-balance sheet items) in the banking book.</p> <p>b) Basis Risk Risk arises the difference between interest rate basis used to price assets and liabilities.</p> <p>c) Option Risk Risk arises from optional elements embedded in assets, liabilities and/or off-balance sheet items, where customers can alter the level and timing of the cash flows.</p>
2.	<p>Explanation of risk management and risk mitigation strategies for IRRBB</p> <p>In carrying out risk management and risk mitigation for IRRBB, QNBI takes the following approaches:</p> <p>a) Gap Risk Management QNBI actively maintains the maturity gap and composition of interest rates charged on assets and liabilities in the banking book. If interest rates are projected to rise, QNBI increases the composition of assets with floating interest rates and funding with fixed interest rates, <i>vice versa</i>. If interest rates are projected to fall, QNBI increases the composition of assets with</p>

	<p>fixed interest rates and funding with floating interest rates.</p> <p>b) Basis Risk Management</p> <p>QNBI mostly uses benchmark interest rates such as JIBOR and LIBOR to price large-scale corporate loans. However, funding for such loans are not priced based on the benchmarks, and therefore exposed to basis risk. To mitigate the basis risk, QNBI regularly evaluates funding interest rates to keep it in line with recent market developments.</p> <p>c) Option Risk Management</p> <p>QNBI mitigates option risk by applying penalty for early redemption of fixed-rate time deposits. An early withdrawal results in a significant penalty that deducts certain portion of the principal amount.</p>
<p>3.</p>	<p>Periodisation of Bank IRRBB calculation and explanation of specific methods used by the bank to measure the sensitivity to IRRBB</p> <p>QNBI performs monthly IRRBB calculations as a part of interal monitoring. In addition, QNBI also performs quarterly IRRBB calculations in accordance with OJK Circular Letter No.12/SEOJK.03/2018 regarding Guidelines on the Standardised Approach for Measuring Interest Rate Risk in Banking Book for Commercial Banks.</p>
<p>4.</p>	<p>Explanation of the interest rate shock and stress scenarios used by the Bank for IRRBB calculation using EVE and NII methods</p> <p>QNB uses 6 (six) standardised interest rate shock scenarios EVE calculation and 2 (two) parallel shock scenarios for NII calculation in accordance with OJK Circular Letter No. 12/SEOJK.03/2018.</p>
<p>5.</p>	<p>Explanation of modelling assumptions used in the Bank's Internal Measurement System (IMS) that are different from modelling assumptions used in IRRBB calculation with a standardised approach</p> <p>QNBI uses standardised modelling assumptions according to OJK Circular Letter No. 12/SEOJK.03/2018. QNBI does not have any assumptions other than those stated in the regulation.</p>

6.	<p>Explanation of how Bank hedges IRRBB, including its accounting treatment</p> <p>QNBI performs natural hedging by maintaining the maturity gap of assets, liabilities, and off-balance sheet items in the banking book; interest rate levels; and types of interest rates charged on assets and liabilities in the banking book.</p>
7.	<p>Comprehensive explanation of primary modelling and parametric assumptions used in calculating ΔEVE and ΔNII</p> <p>a) In calculating ΔEVE, the commercial margins and other spread components have already been included in the calculation of principal and interest of assets and liabilities. Because they are already being part of the cash flow, commercial margins and spread components are no longer added to the discount rate.</p> <p>b) QNBI performs behavioural analysis using normal distribution method to estimate the timing of withdrawal from non-maturity deposit (NMD) according to each product type (current accounts, savings accounts, etc.) Each type of NMD will be slotted into a time bucket according to the estimated withdrawal timing.</p> <p>c) QNBI does not estimate loan prepayment rate, time deposit early withdrawal rate, or automatic interest rate option embedded in corporate customers. Early repayments or withdrawals made by customers with fixed interest rates are charged with significant penalty and therefore can be classified as assets or liabilities Amenable to Standardisation.</p> <p>d) At the moment, QNBI does not have methodology to aggregate and measure correlation between interest rates of significant currencies.</p>
8.	<p>Other information</p> <p>The ΔEVE calculation as of June 2020 is 3.38% from Tier I capital, which is below QNBI's internal limit of 10%. According to market risk assessment result, the QNBI's ΔEVE exposure is categorised as low risk. The ΔEVE to Tier I capital ratio increased by 1.51%, almost double from previous period's position at 1.87%. The largest exposure comes from "parallel shock up" scenario which shows the value of IDR -91.413 million, fell significantly from previous period</p>

	<p>at IDR 21.512 million. The decline was due to the following reasons:</p> <p>a) Between May to June 2020, QNBI purchased Indonesian Government Bonds amounted to IDR 380 billion to be placed in the Available for Sale (AFS) book. From the amount, IDR 240 billion have remaining maturity of more than 5 years, with IDR 140 billion is a variable-coupon bond with next interest adjustment date in 1 month since the report date. The AFS bond purchase was funded by reallocating some portion of liquid assets (i.e., part of OJK’s relaxation on minimum reserve requirement) as well as proceeds from loans. Because there was no liabilities funding used to purchase the bonds, the gap between assets and liabilities –particularly in more than 5 years bucket– increased significantly.</p> <p>b) QNBI Tier I capital as of June 2020 decreased by Rp 437 miliar compared to the previous period.</p>
Quantitative Analysis	
1.	<p>Average repricing maturity period for NMDs</p> <p>The average repricing maturity period for NMDs as of June 2020 is 12.62 days for IDR and 19.69 days for USD.</p>
2.	<p>The longest repricing maturity period for NMDs</p> <p>The longest repricing maturity period for NMDs as of June 2020 is 1.5 years.</p>

IRRBB CALCULATION REPORT

Bank Name : PT Bank QNB Indonesia Tbk (individual)
 Reporting Period : June 2020
 Currencies : Rupiah (IDR), United States Dollar (USD)

In IDR Millions	ΔEVE		ΔNII	
	T	T-1	T	T-1
Parallel up	-91,413	21,512	15,208	16,685
Parallel down	14,174	-35,614	-91,810	-91,533
Steeper	-74,010	-49,177		
Flattener	543	17,201		
Short rate up	-21,561	26,053		
Short rate down	8,691	-58,862		
Maximum Negative Value (Absolute)	91,413	58,862	91,810	91,533
Tier I Capital (for ΔEVE) or Projected Income (for ΔNII)	2,707,526	3,144,603	656,308	613,506
Maximum Value divided by Tier I Capital (for ΔEVE) or Projected Income (for ΔNII)	3.38%	1.87%	13.99%	14.92%