

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

Bank Name : PT Bank QNB Indonesia Tbk (individual)

Reporting Period : June 2021

<b>Qualitative Analysis</b>	
1.	<p><b>Explanation of how Bank defines IRRBB for risk measurement and control</b></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><b>Explanation of risk management and risk mitigation strategies for IRRBB</b></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>
3.	<p><b>Periodisation of Bank IRRBB calculation and explanation of specific methods used by the bank to measure the sensitivity to IRRBB</b></p> <p>QNBI performs monthly IRRBB calculations as a part of internal 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>
4.	<p><b>Explanation of the interest rate shock and stress scenarios used by the Bank for IRRBB calculation using EVE and NII methods</b></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>
5.	<p><b>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</b></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><b>Explanation of how Bank hedges IRRBB, including its accounting treatment</b></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><b>Comprehensive explanation of primary modelling and parametric assumptions used in calculating <math>\Delta</math>EVE and <math>\Delta</math>NII</b></p> <p>a) In calculating <math>\Delta</math>EVE, 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><b>Other information</b></p> <p>The <math>\Delta</math>EVE calculation as of June 2021 is 1.82% of Tier I capital, which is below QNBI's internal limit of 10%. According to market risk assessment result, the QNBI's <math>\Delta</math>EVE exposure is categorised as low risk. The <math>\Delta</math>EVE to Tier I capital ratio increased by 0.06% from previous period's position at 1.76%. The largest exposure comes from "steepener" shock scenario which shows the value of IDR -49,007 million, lower compared to the same scenario in the previous period of</p>

	<p>IDR -53,776 million. This is mainly due to decreasing gap in the overnight – 1 month bucket as a result of higher interbank borrowing amount by IDR 143 billion. However, the decline in shock exposure was followed by lower Tier I capital amount. Total Tier I capital as of June 2021 was at IDR 2,694,156 million, decreased compared to previous period’s position at IDR 3,053,820 million, hence increasing the <math>\Delta</math>EVE ratio.</p>
<b>Quantitative Analysis</b>	
1.	<p><b>Average repricing maturity period for NMDs</b></p> <p>The average repricing maturity period for NMDs as of June 2021 is 20.85 days for IDR and 37.48 days for USD.</p>
2.	<p><b>The longest repricing maturity period for NMDs</b></p> <p>The longest repricing maturity period for NMDs as of June 2021 is 1.5 years.</p>

## IRRBB CALCULATION REPORT

Bank Name : PT Bank QNB Indonesia Tbk (individual)  
 Reporting Period : June 2021  
 Currencies : Rupiah (IDR), United States Dollar (USD)

In IDR Millions	ΔEVE		ΔNII	
	T	T-1	T	T-1
Parallel up	-23,492	-39,948	3,733	13,755
Parallel down	25,278	25,735	-64,054	-67,780
Steepener	-49,007	-53,776		
Flattener	1,358	2,387		
Short rate up	-14,385	-13,983		
Short rate down	-13,732	-2,119		
Maximum Negative Value (Absolute)	49,007	53,776	64,054	67,780
Tier I Capital (for ΔEVE) or Projected Income (for ΔNII)	2,694,156	3,053,820	656,308	613,506
Maximum Value divided by Tier I Capital (for ΔEVE) or Projected Income (for ΔNII)	<b>1.82%</b>	<b>1.76%</b>	<b>9.76%</b>	<b>11.05%</b>