

KEB



PT. Bank KEB Indonesia

Good Corporate Governance 2008

TABLE OF CONTENT

GENERAL	3
GOOD CORPORATE GOVERNANCE IMPLEMENTATION	3
THE BOARD OF COMMISSIONERS ("BOC") AND THE BOARD OF DIRECTORS ("BOD")	3
COMMITTEES	11
THE IMPLEMENTATION OF COMPLIANCE FUNCTION, INTERNAL AUDIT AND EXTERNAL AUDIT	14
RISK MANAGEMENT AND INTERNAL CONTROL	16
FUND PROVISION TO RELATED PARTY AND LARGE EXPOSURES	18
BANK'S STRATEGIC PLAN	20
TRANSPARENCY OF FINANCIAL AND NON-FINANCIAL CONDITION	20
SHARES OPTION	21
SALARY RATIO	22
INTERNAL FRAUD	22
LEGAL PROBLEM	22
CONFLICT OF INTEREST	23
BUY BACK SHARES OF KEBI AND BUY BACK BONDS ISSUED BY KEBI	23
FUND PROVISION FOR SOCIAL AND POLITICAL ACTIVITIES	23

GENERAL

PT. Bank KEB Indonesia (“KEBI” or the “Bank”) realizes that Good corporate governance is vital to the business integrity of the Bank and therefore the Board of Commissioner, the Board of Directors and the staff are committed to exercising good corporate governance practices in full compliance with regulations applicable to KEBI.

Throughout 2008, KEBI continued to make concerted effort to improve the quality of implementation of good corporate governance by establishing necessary infrastructure for good corporate governance and sound management practices. In general, KEBI has complied with the prevailing governance code and prevailing regulations, despite of identified gaps which are being addressed properly.

This strong commitment to the implementation of good corporate governance principles in every aspect of KEBI’s operations, by the Board of Commissioners, the Board of Directors and all employees is a mandate to assure the development of a competitive organization, empowered by qualified people who respect the values of integrity, professionalism and leadership.

GOOD CORPORATE GOVERNANCE IMPLEMENTATION

THE BOARD OF COMMISSIONERS (“BOC”) AND THE BOARD OF DIRECTORS (“BOD”)

BOC and BOD play a crucial role in the management of KEBI. Duties and responsibilities of BOC and BOD are in principle stipulated in the Company Law, Bank Indonesia Regulation, Articles of Associations of the Bank as well as in the Bank’s internal bylaws.

Duties and Responsibilities of the Board of Commissioners

KEBI’s Articles of Association, stipulated that BOC provides oversight on BOD in managing the Bank and gives advice to the BOD, as well as performs other duties as specified in the Articles of Association and as decided from time to time by the General Meeting of Shareholders. In performing its duties, BOC is assisted by Audit Committee, Risk Monitoring Committee and Remuneration and Nomination Committee.

Internal policy of KEBI concerning BOC spell out its duties and responsibilities among others as follows:

- Perform supervisory function on the implementation of the tasks and responsibilities of BOD and provide advice to BOD. In this regard, BOC shall direct, monitor, and evaluate the implementation of Bank's strategic policies.
- Ensure the implementation of good corporate governance in each bank business activities on all organizational level.
- BOC are prohibited from being involved in decision making related to bank operational activities, except:
 - Provision of funds to related parties as stipulated in Bank Indonesia regulation concerning Commercial Bank Legal Lending Limit.
 - Other matter as stipulated in the Bank's Articles of Association or prevailing laws and regulations.
- Decision making by BOC as refer to in the above paragraph shall not erase the responsibilities of BOD in performing the Bank management function.
- Ensure whether BOD has taken follow up actions on audit findings and recommendations from KEBI's SKAI, external auditor, Bank Indonesia supervision result and/or other authorities' supervision result.
- BOC shall inform Bank Indonesia no later than 7 business days upon the finding on:
 - A violation of financial and banking laws and regulations
 - A Condition or condition predicted to endanger Bank's business continuity.
- The members of BOC are prohibited from using the Bank for self, family and other party's interest which may cause a loss to or decrease the profit of the Bank.
- The members of BOC are prohibited from taking and/or receiving a personal gain from the Bank other than remuneration and other facilities decided by the General Meeting of Shareholders.

Members of BOC are nominated and elected at the General Meeting of Shareholders ("**GMS**") for a term that ends on the third GMS from the date of their appointment and can be reappointed. Shareholders may however, remove any commissioner prior to the expiration of his or her office through the resolution of a General Meeting of Shareholders.

Composition of BOC membership was change in 2008. Extraordinary General Meeting of Shareholders (“**EGMS**”) held in October 2008 appointed Moon Seung Chan as a member of BOC following the resignation of Yun Ho Sun as the President Commissioner of the Bank. Moon Seung Chan passed fit and proper test in December 2008.

Composition of the Board of Commissioners at 31 December 2008

As at 31 December 2008, the Board of Commissioners consists of 3 (three) members: the President Commissioner, Vice President Commissioner (who also serves as Independent Commissioner) and an Independent Commissioners.

Detail of the member of the Board of Commissioners at 31 December 2008, are as follows:

Moon Seung Chan, President Commissioner (Non-independent Commissioner)

Moon Seung Chan joined KEBI as member of BOC in 2008. He graduated from Korea University, Seoul, South Korea. He started his career with Korea Exchange Bank, Seoul, South Korea in 1984.

Outside of KEBI, currently, Moon Seung Chan is the General Manager of Korea Exchange Bank Singapore Branch.

A. Wahab Sjachroni, Vice President Commissioners (Concurrently serve as Independent Commissioner)

A. Wahab Sjachroni joined KEBI as member of BOC in 2006. Before joining KEBI he worked for Bank Indonesia from 1978 to 2005. He graduated from IPWI post graduate program, Jakarta.

A. Wahab Sjachroni is also chairman of Audit Committee and Remuneration and Nomination Committee. Outside KEBI, A. Wahab Sjachroni engages a position as Managing Director of PT. JBI consultant and training.

Achmad Effendy Abdurachman (Independent Commissioner)

A. Effendy Abdurachman joined KEBI as a member of BOC 2007 as Independent Commissioner. He graduated from Asian Institute of Management,

Manila, Philippine. Before joining KEBI he worked for Bank Indonesia from 1989 to 2003.

He is also chairman of Risk Monitoring Committee. Outside KEBI, A. Effendy Abdurrachman engages as Managing Director of APRACA Consultancy Services Foundation (ACS), Jakarta, a non-profit organization.

Meetings of the Board of Commissioners

According to KEBI's internal regulation as well as Bank Indonesia regulation, BCO meeting shall be held periodically at least 4 (four) times a year with a physical meeting minimum twice. KEBI's Board of Commissioners during 2008 has conducted 4 meetings among which 3 (three) times were physically attended by members of the Board of Commissioners,

Details of attendance to the meetings are as follows:

Name	The Board of Commissioners' Meeting	
	Attended physically	By Written Resolution
Yun Ho Sun / Moon Seung Chan	3	1
A. Wahab Sjachroni	3	1
A. Effendy Abdurachman	3	1

Method of Resolution

BOC shall adopt a resolution by unanimous consent principle. In case of unanimous consent cannot be reached, the decision shall be done by way of majority voting. Any dissenting opinion in BOC meeting must be written clearly in the minutes of meeting together with the reason of the dissenting opinions. When BOC adopts a resolution, members with a special interest in the relevant agenda may state their opinion, but may not participate in adopting a resolution. If it is inevitable, the members may participate in the resolution or deliberation of BOC by using means of communications and also by letter or telephone, etc.

Minutes of the Board of Commissioners' Meetings

Minutes of BOC's Meetings shall be prepared by and will include all proceedings undertaken by the BOC. Minutes of BOC's Meeting shall contain the agenda, a statement of substance of the proceedings and the result thereof, including the names of objectors, and the reasons for objection. The members present at BOC's meeting shall write their names and affix their seal or signatures thereon for preservation

Duties and Responsibilities of the Board of Directors

KEBI's Articles of Association stipulates that as specified in all prevailing regulations in Indonesia, BOD is fully responsible for performing its duties in managing KEBI to achieve its goals and objectives. For that reason, the BOD reserves the rights to represent KEBI in and off the legal court for every encountered case, to establish binding agreements between KEBI and other parties as well as to take any action necessary in accordance to its authority.

The member of BOD has undertaken not to assume any position outside KEBI.

KEBI's internal policy specifies main duties and responsibilities of BOD as follows:

- Manage the Bank in accordance with its authority and responsibilities as stipulated in the Articles of Association and prevailing laws and regulations
- Implement Good Corporate Governance principles in each of the Bank's business activity for all organizational level.
- Follow up audit findings and recommendations from the Bank's Internal Audit Team, external auditor, Bank Indonesia's supervisory result and/or other authorities' supervision result.
- Establish the policy concerning internal control for the soundness of the bank business management and create a controlled environment while it shall assume the final responsibility for building and operating the internal control inclusive, but limited to the risk management, etc.
- Directors shall participate in decision-making for the bank business management through BOD's meetings.
- Directors shall exert their utmost efforts to activate BOD, to protect the interest of shareholders, and to ensure the soundness of the bank business management.
- Members of BOC are prohibited from using the Bank for self, family and other party's interest which may cause a loss to or decrease the profit of the Bank.
- Members of BOC are prohibited from taking and/or receiving a personal gain from the Bank other than remuneration and other facilities decided by the General Meeting of Shareholders.

- Members of BOC are prohibited from extending a general power of attorney to other parties which will result in transfer of the tasks and functions of BOD.

- BOC are prohibited from having an individual advisor and /or professional service as a consultant unless if the following requirements are met:
 - A project with special characteristics
 - Based on a clear contract covering at least works scope, responsibilities, work period and fee involved.
 - The consultant shall be an independent party having a qualification to work on a project with special characteristics.
- Board of Directors shall provide accurate, relevant and timely data and information to Board of Commissioners.

Composition of the Board of Directors

As at 31 December 2008, BOD consists of 3 (three) members: President Director, Deputy President Director and Compliance Director.

Detail of the member of the BOD at the end of December 2008, are as follows:

Cho Chong Soo, President Director.

Cho Chong Soo joined KEBI as member of BOD in 2005 as Deputy President Director and in 2006 was appointed as the President Director. He graduated from Sogang University, South Korea and joined Korea Exchange Bank (“KEB”), Seoul, South Korea in 1980. Before joining KEBI he has assumed various positions in KEB, including assignment to KEBI (formerly KEBD) from 1993 to 1996.

Cho Yong Woo, Deputy President Director.

Cho Chong Woo joined KEBI as members of BOD in 2006 He graduated from Sogang University, South Korea and joined Korea Exchange Bank (“KEB”) Korea in 1984. Before joining KEBI he has assumed various positions in KEB and assigned locally and KEB overseas branch.

Efdinal Alamsyah, Compliance Director.

Efdinal Alamsyah joined KEBI as members of the Board of Directors in 2006 as Compliance Director. He graduated from Atma Jaya University Post Graduate Program, Jakarta. He started career in Banking with the Bank of Tokyo, Ltd. Jakarta in 1990 and joined KEBI in 1994. During 2003 – 2006 he worked with Bank BNP Paribas Indonesia.

Meetings of Board of Directors

BOD shall be convened at least once a month. However, the meeting can be

conducted at any time at request of any Director, if it is deemed necessary, at written request of any BOC member or at written request of any Shareholder. Each strategic policy and decision shall be made in BOD meeting. The decision in BOD meeting shall be made under unanimous consent principle. In case of unanimous consent cannot be reached; the decision shall be made by way of majority voting. The result of BOD meeting shall be stated in a minute of meeting and documented well. Any dissenting opinion in BOD meeting must be clearly stated in the minutes of meeting together with the reason of the dissenting opinion.

The following matters shall be resolved by BOD if provided that such matters are beyond the scope of authorities prescribed in the laws, regulations of supervision institution and the Articles of Association.

- Matters regarding the general meeting of shareholders
- Principal matters regarding the formulation of basic management policies and business operation;
 - Basic policies, plans, and evaluation of business management;
 - Budget and settlement of accounts including remuneration of employees.
- Matters regarding the organization and internal bylaws;
- Matters regarding the capital;
- Important matters regarding performance of duties;
 - Carrying out litigation of important matters: Budget and settlement of accounts including remuneration of employees.
 - Entering into an important contract; provided, however, that entering into contracts to carry out normal duties and customary contracts, and the extension of existing contracts shall be excluded.
- Other matters
 - Matters requiring the resolution of the Board of Directors pursuant to the relevant laws and regulations or the rules of the supervisory organizations.
 - Matters delegated by the general meeting of shareholders.
 - Matters of appointment of representatives or proxies of providing the authorizations as set forth in a power of attorney.
 - Other matters deemed necessary in the opinion of the President Director.
- If President Director deems it urgent in respect of the matters of resolution referred to in the above paragraph hereof, such matters may be carried

out in advance provided that such matters shall be subsequently ratified by the Board of Directors.

Method of Resolution

BOD's meeting shall constitute a quorum with attendance of 2 (two) members of BOD and adopt the resolution by an affirmative vote of the directors attending. The Chairman of the Meeting of BOD shall adopt a resolution in the event of tied vote. When BOD's meeting adopts a resolution, members with a special interest in the relevant agenda may state their opinion, but may not participate in adopting a resolution. All decision by BOD made in accordance to the work guideline and procedure shall be binding on and become the responsibilities of all members of BOD.

Minutes of Meetings

Minutes of BOD's meetings shall be prepared by and will include all proceedings undertaken by the BOD. Minutes of BOD's Meeting shall contain the agenda, a statement of substance of the proceedings and the result thereof, including the names of objectors, and the reasons for objection. The members present at the BOD's meeting shall write their names and affix their seal or signatures thereon for preservation

Shares ownership by the Board of Commissioners and the Board of Directors

None of BOC and BOD member who has ownership of shares more than 5% of paid up capital at KEBI, other Bank, other non-bank financial institution and other companies in Indonesia or abroad.

Financial and Family Relationship of the Board of Commissioners and the Board of Directors.

None of the members of BOC and BOD has any financial and family relationship with other members of BOC, other members BOD and/or controlling shareholders of the Bank.

Remuneration and other facilities of the Board of Commissioners and the Board of Directors.

Remuneration and other facilities of the members of BOC and BOD are determined by the General Meeting of Shareholders or by BOC upon delegation from GMS.

Details of remuneration and other facilities of BOC and BOD are described in the below table.

No.	Type of Remuneration and other facilities	Amount Received in One Year			
		BOC		BOD	
		No. of person	Amount (IDR million)	No. of Person	Amount (IDR million)
1	Remuneration (salary, bonus, fixed allowances, incentive and other facilities in cash)	3	370	3	3,392
2.	Other facilities in form of non-cash (housing, transportation, medical insurance, etc	3	-	3	993
	a. Can be kept	-	-	-	-
	b. Can not be kept	-	-	-	993

Total Cash Remuneration per Person in a Year	Number of the Board of Directors	Number of the Board of Commissioners
Above Rp 2 Billion	-	-
Above Rp 1 Billion up to Rp 2 Billion	2	-
Above Rp 500 Million up to Rp 1 Billion	-	-
Below Rp 500 Million	1	2

COMMITTEES

BOC has established Audit Committee, Risk Monitoring Committee and Remuneration and Nomination Committee and the members of these committees have been appointed by BOD based on recommendation from BOC.

Audit Committee

Audit Committee member was appointed based on the Resolution of the Board of Commissioners Meeting on 31 July 2007 and its subsequent amendments.

Composition of the Audit Committee

1. A. Wahab Sjachroni – Independent Commissioners, as the Chairman.
2. Abdussalam Konstituanto – Independent Party, as a member
3. Seung Ick Bae – Independent Party, as a member

Duties and Responsibilities of Audit Committee

A KEBI internal policy specifies duties and responsibilities of Audit Committee among other as follows:

- Perform monitoring and evaluation of audit planning and implementation as well as monitoring audit result follow up actions in order to assess the adequacy of internal audit, including adequacy of financial reporting process.
- To implement the above task (in order to give recommendation to the Board of Commissioners), the Audit Committee must at least perform the monitoring and evaluation of:
 - Implementation of the tasks of Internal Audit Work Unit.
 - Consistency between audit implementation by Public Accountant Office with prevailing audit standards
 - Consistency between the financial report with prevailing accounting standards
 - Implementation of follow up action by the Board of Directors on findings by the Internal Audit Work Unit, public accountant, and Bank Indonesia supervision result.
- Give recommendation on the appointment of Public Accountant and Public Accountant Office to the Board of Commissioners to be submitted to the General Meeting of Shareholders.

These duties of KEBI's Audit Committee were conducted through close interaction with the Board of Directors, the Bank's Internal Auditors as well as the External Auditors. The Audit Committee doesn't duplicate their work, but fully relies on the information provided by them. The Audit Committee discusses and reviews the Internal Auditors and the External Auditors' audit plan and if necessary discusses their findings, in particular those that are related to the three main roles of the Audit Committee as mentioned above.

Meetings of Audit Committee

Audit Committee Meeting, in principle, shall be convened every quarter, otherwise provided that the Chairman of the Audit Committee deems necessary, it may be convened as the occasion arises. The meeting may only

be held if attended by no less than 51% of the number of members and shall include an independent commissioners and an independent party. During 2008, Audit Committee held 12 meetings which were attended by all independent parties.

Method of Resolution

Audit committee shall adopt a resolution by unanimous consent principle. In case of unanimous consent cannot be reached, the decision shall be done by way of majority voting. Any dissenting opinion in the Audit Committee meeting must be written clearly in the minutes of meeting together with the reason of the dissenting opinions. When the Committee adopts a resolution, members with a special interest in the relevant agenda may state their opinion, but may not participate in adopting a resolution. If it is inevitable, the members may participate in the resolution or deliberation of the Committee by using means of communications and letter.

Risk Monitoring Committee

Risk Monitoring Committee members was appointed based on the decision of the Board of Commissioners' meeting on 31 July 2007 and its subsequent amendments.

Composition of the Risk Monitoring Committee

1. A. Wahab Sjachroni – Independent Commissioners, as the Chairman.
2. Abdussalam Konstituanto – Independent Party, as a member
3. Seung Ick Bae – Independent Party, as a member

The Risk Monitoring Committee is established by BOC with the responsibility for providing advice to the Board on risk management issues; evaluating the risk management and internal control systems and providing information to BOC pertaining issues to anticipate risks.

KEBI's internal policy and procedures specifies duties and responsibilities of Risk Monitoring Committee i.e. to give recommendation to BOC, by among others as follows:

- Evaluating whether risk management implementation is consistent with risk management policy.
- Monitoring and evaluate the implementation of duties and responsibility of risk management committee and risk management team.

Meetings of Risk Monitoring Committee

Meeting of Risk Monitoring Committee, in principle, shall be convened every quarter, otherwise provided that the Chairman of the Risk Monitoring Committee deems necessary, it may be convened as the occasion arises. The meeting may only be held if attended by no less than 51% of the number of members and shall include an independent commissioners and an independent party. During 2008, Risk Monitoring Committee held twelve meetings which were attended by all independent members.

Method of Resolution

The committee shall adopt a resolution by unanimous consent principle. In case of unanimous consent cannot be reached, the decision shall be done by way of majority voting. Any dissenting opinion in the Risk Monitoring Committee meeting must be written clearly in the minutes of meeting together with the reason of the dissenting opinions. When the Committee adopts a resolution, members with a special interest in the relevant agenda may state their opinion, but may not participate in adopting a resolution. If it is inevitable, the members may participate in the resolution or deliberation of the Committee by using means of communications and letter.

THE IMPLEMENTATION OF COMPLIANCE FUNCTION, INTERNAL AUDIT AND EXTERNAL AUDIT

KEBI has maintained its compliance to prevailing laws and regulations as well as other compliance standards issued by KEBI. However, there are still rooms for improvements related to employees' know-how and discipline, as well as control system over the implementation of prevailing regulations. Therefore, the continuous improvements are still ongoing to ensure that the GCG principles and compliance practices become an inherent part of the Bank's daily activities.

KEBI always strives to comply with any prevailing regulation to maintain its image by building a compliance culture within the organization. KEBI aims to minimize compliance risk, to sustain the bank's image as a responsible company.

KEBI's compliance standards encompass:

1. Compliance to all prevailing laws and regulations;
2. Compliance to the industry standards, market practice and accounting standards;
3. Compliance to GCG principles and policies;

4. Compliance to KEB's standard of ethics;
5. Compliance to all commitments with third parties;
6. Compliance to KEBI's internal policies and procedures.

In general the Bank's compliance management follows the following steps:

- Develop the Bank's compliance policies, procedures, working methods and evaluation systems;
- Provide and distribute compliance references;
- Proactively review policies and monitor their implementation;
- Organise training sessions to ensure employees' awareness on the Bank's compliance standards and to develop their capabilities to perform transactions in accordance with the prevailing law and regulations;
- Support and develop a positive working environment that respects the principles of compliance;
- Avoid making recommendations and decisions that run against the prevailing law and regulations

The duties of compliance management shall be performed by all employees. Compliance Director and Compliance Team are the parties charged with ensuring consequent implementation compliance practices, the development of comprehensive policies, compliance programs and their comprehensive measurement mechanisms as well as the monitoring of the implementation.

To maintain its independency, the Compliance Director is a non-voting member of BOD although the Director reserves the right to veto any policy and banking transaction that run against KEBI's compliance standards. Compliance Department shall also ensure that every transaction and policy issued by KEBI is in compliance with the regulations. .

The Bank's overall compliance management is also supported by the Internal Auditors as well as the External Auditor that through its auditing and assessment services provide inputs on violation findings and/or violation potentials of prevailing regulations.

The Role of Compliance Director

According to Bank Indonesia's regulation No. 1/6/PBI/1999 regarding assignment of Compliance Director and implementation of internal audit function standard for commercial bank, the responsibility of Compliance Director is to construct and socialize the compliance policy, monitor and report the implementation to the President Director and BOC.

To run his duty, the Compliance Director has to create and manage all resources, organisation, and commitment from related parties. The Compliance Director continuously monitors the implementation of compliance principle, including enforcement of necessary correction actions. To build commitments to the implementation of compliance principle, Compliance Director held meetings with BOD and Head of related unit, including communicating and socialising the prevailing laws, regulations, and new standards to employees.

The highlights of Compliance activities in 2008 include:

- Socialization of external regulations
- Reviews all new policies of the Bank.
- Reports on suspicious transactions.
- KYC-AML training.
- Participated in the compliance forum of FBAI, FKDKP, and so on.
- Etc.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

The Bank continues to strengthen and improve the implementation of risk management in all organizations level. The role of Risk Monitoring Committee and Risk Management Committee continues to strengthen with increased emphasis on aspects of the supervision of policy, strategy and methods based on risk management.

PT. Bank KEB Indonesia in implementing the risk management process still stand on the essence of risk management consists of:

1. Credit Risk
Identification, measurement, monitoring and controlling credit risk is done by analyzing the ratio of CAR, BMPK, NPL and gross and net exposure of each industry and country. Limitation of exposure is done as much as two (2) times during the year 2008.
2. Market Risk
Identification, measurement, monitoring and controlling market risk is done by reviewing the interest sensitivity gap ratio and maximum / minimum long (short) position. Bank transactions were not complicated and not increase the level of market risk in year 2008.

3. Liquidity Risk

Identification, measurement, monitoring and controlling liquidity risk is done by reviewing the liquidity gap ratio, maturity mismatch ratio and the composition of Bank's capital. The Bank has a commitment line with KEB, Seoul and other local banks as the mitigation of liquidity risk.

4. Operational Risk

Identification, measurement, monitoring and controlling operational risk is done by reviewing the issues / information on Monthly Officer's Meeting and the findings of internal and external auditors. BOD constantly focuses on follow-up all the findings in order to improve performance and reduce operational risks in Bank.

5. Compliance Risk

Identification, measurement, monitoring and control of risk conducted with adherence to the regulations of Bank Indonesia and other related institutions and increase the supervision of each report submitted. There are no significant issues in the year 2008 which increase the risk of adherence to the Bank.

Risk Profile of the Bank related to the five main types of risk, namely credit risk, market risk, liquidity risk, operational risk and compliance risk. Risk profiles are measured quarterly, quantitative and qualitative in the form of a table with parameters and formulas used in the assessment of the level of inherent risk and risk control system. The framework is based on the basic principles of risk management that apply across the scope of business activities and are evaluated periodically and if necessary.

In 2008, the Bank carries out some improvement in assessing risk inherent in business activities. Refinement is meant to get a detailed and clear explanation about the Bank's risk profile by using the Key Risk Indicator is appropriate and relevant to the complexity Bank. These are also reviewed by the Risk Monitoring Committee and acquire approval of BOD and BOC prior to use.

Internal Control Function

To ensure the implementation of risk management, internal control and good corporate governance process by the management, it is necessary to operate an independent and objective control function. This role is performed by KEBI's Internal Audit Team (SKAI) that reports to the President Director and the Audit Committee.

The control function should be able to ensure that:

- All banking risks are properly identified and managed.
- All material financial, managerial and operational information are presented accurately and timely.
- All banking activities are in compliance with the prevailing policies, standards, procedures and prevailing regulations.
- All programs, plans and objectives of KEBI are achieved in effective and efficient manner.
- The adequacy of internal control system is well maintained.

The role of SKAI is performed through a systematic audit method utilizing the risk based approach. Through this approach, the function puts priority on processes and units with larger risk exposure.

The audit activities performed by SKAI entail assurance and consulting activities. These two activities are performed independently and objectively to ensure they contribute added value and improve the operation of the Bank. In the end, the main function of control activities is to assist the management in meeting the Bank's objectives. To ensure optimum control activities, SKAI performs ongoing development programmes to enhance its audit methodology, audit management system as well its human resources.

SKAI has performed its control duties through onsite and off-site audits. Audit results that include findings and recommendations have been accepted and properly followed-up by the management. To continue enhancing its efficiency, SKAI constantly coordinated with the external auditor and supervisory authorities.

FUND PROVISION TO RELATED PARTY AND LARGE EXPOSURES

Fund provision to related party in 2008 is an outstanding balance of loans granted to a member of BOD in the preceding years which is given based on

approval from the General Meeting of Shareholders. Meanwhile, related to large exposures, KEBI identify the business opportunities, determine risk appetite, establish policies and procedures, educate its employees, develop the administration and accounting systems and establish the supervision of the funds provision. Every data obtained on loans and fund disbursements is verified. The loan decision is made based on approval authority.

Every loan approval shall qualitatively and quantitatively consider the customers' capabilities to meet its financial obligations. KEBI will not provide funds in cases where the Bank has doubts on the customers' integrity, business experience, future prospects, cash flow and financial condition. Every KEBI's loan portfolio is protected with sufficient collateral to ensure high probability of its return.

Periodically, the credit portfolio will be reviewed by Risk Management Team who also receives inputs from the internal and external audit reports. Any deviation in credit issuance and/or fund disbursement shall be reported by the business unit to the General Manager in charge, Internal Auditors, the Compliance Department and BOD.

The Internal Audit function and the General Manager in charge of Credit Department shall ensure that none of the fund disbursement transaction is linked to conflicts of interest.

Bank Indonesia regulates the Loan Legal Lending Limit (BMPK) as well as the loan disbursement procedures to related parties. In 2008 KEBI did not violate legal lending limit provisions as well as regulations pertaining loan disbursements to affiliated parties.

Fund provision to related party as of 31 December 2008 is presented in the below table.

No.	Fund Provision	Amount	
		Debtor	Nominal (Rp. million)
1.	Related Party	1	568
2.	Core Debtor		
	a. Individual Borrower	15	848,881
	b. Group of Borrower	-	-

Compliance to Regulations as of 31 December 2008 among others:

- Capital Adequacy Ratio (CAR). KEBI's CAR was 48.11% decreased from 77.57% at the end of 2007, but it is still significantly above Bank Indonesia's minimum requirement of 8%.
- Net Open Position KEBI's Net Open Position was 0.04% slightly lower from 0.07% at the end of 2007, but still very much below Indonesia's maximum requirement at 20% from capital.
- Legal Lending Limit. KEBI noted that there was no violation on Legal Lending Limit provision related to credit to related party or non-related party (individual or group) during 2008.
- Non Performing Loans (NPL) NPL ratio was 0.23% (gross) further down from 0.86% (gross) at the end of 2007 and 0.11% (net) also down from 0.41% (net) at the end of 2007.
- Loan to Deposit Ratio. KEBI's Loan to Deposit ratio was 75.02% slightly decreased from 88.90% at the end of 2007.
- Established provision for loan losses to obligatory provision for loan losses was 105.49% down from at the end of 2008, which was 166.16% but still higher than minimum requirement of Bank Indonesia regulation.
- Audit result from Financial Transaction Reports and Analysis Centre / INTRAC (PPATK) on KYC-AML implementation was very good.
- KEBI showed its compliance to fulfil reporting obligations with complete information.

BANK'S STRATEGIC PLAN

KEBI has formulated its business plan completely and realistically according to prevailing regulations and therefore, most of the realization of the plan are excellent and in accordance with the established targets.

TRANSPARENCY OF FINANCIAL AND NON-FINANCIAL CONDITION

KEBI formulates and presents the report in accordance with procedures, types and scope as stated in BI regulation concerning Transparency of bank's financial condition and submitted at least to Indonesian Consumer Protection Foundation, Indonesia Bank Association, and other institutions mentioned in BI regulations. KEBI applies transparency on bank's product information in accordance with BI regulation concerning Bank's Product Information and the Usage of Customers Data. Brochure on bank products and services are available in the counter free or charges.

In relation with GCG implementation, KEBI has formulated a report with contents and scope at least in accordance with prevailing regulation which is reflect a true condition of the Bank. This report submitted to all the institution as required by BI regulations. KEBI has a sufficient management information system and supported by competent human resource which is capable of providing an accurate, up-to-date, whole and on time internal reporting

SHARES OPTION

At 31 December 2008, none of members of BOC, BOD as well as Executive Officer has option to purchase KEBI's shares as a part of compensation given to BOC, BOD and Executive Officer decided by the General Meeting of Shareholders.

Details/ Name		Number of Shares Owned	Number of Share Option		Share Option Price (Rp)	Tenor
			Given (pcs)	Exercised (pcs)		
The Board of Commissioners	Yun Ho Sun	-	-	-	-	-
	A. Wahab Sjachroni	-	-	-	-	-
	A. Effendy Abdurrachman	-	-	-	-	-
The Board of Directors	Cho Chong Soo	-	-	-	-	-
	Cho Yong Woo	-	-	-	-	-
	Efdinal Alamsyah	-	-	-	-	-
Executive Officer	8 people	-	-	-	-	-
Total	-	-	-	-	-	-

SALARY RATIO

The following table shows the salary ratio as of December 2008. The amount of salary for this purpose consisted of monthly salary and fixed allowances received by related individual.

Detail	Ratio
Employee's highest salary to the lowest	1,079.21%
The highest salary of the member of Board of Directors to the lowest	207.925
The highest salary of the member of Board of Commissioners to the lowest	133.34%
The highest salary of the member of Board of Directors to the highest salary of employee	128.02%

INTERNAL FRAUD

During 2008, there is no case of internal fraud in KEBI, whether committed by the Management and employees, as shown in the following table.

Internal Fraud in a Year	Number of Cases Committed by					
	Management		Permanent Employee		Non-permanent Employee	
	A Year Before	This Year	A Year Before	This Year	A Year Before	This Year
Total Fraud	-	-	-	-	-	-
Settled	-	-	-	-	-	-
In process of settlement internally by Bank	-	-	-	-	-	-
Settlement process has not yet started	-	-	-	-	-	-
Has been followed through legal process	-	-	-	-	-	-

LEGAL PROBLEM

During 2008, there is no lawsuit against KEBI either under civil law or criminal law presented to state court as presented in the below table.

Legal Problem	Number of Cases	
	Civil Case	Criminal Case
Has been settled (having a binding legal force)	-	-
In the process of settlement	-	-

CONFLICT OF INTEREST

During 2008, there is no case of conflict of interest. If the Bank has case of conflict of interest, it will certainly be disclosed in all decision and properly documented, as shown in the following table.

No.	Name and Position of the Office having Conflict of Interest	Name and Position of the Officer who Make Decision	Type of Transactions	Amount of Transaction	Remark
-	-	-	-	-	-

BUY BACK SHARES OF KEBI AND BUY BACK BONDS ISSUED BY KEBI

KEBI has no case on buy back shares and bond issued by KEBI.

FUND PROVISION FOR SOCIAL AND POLITICAL ACTIVITIES

KEBI always believes that it can have a direct impact on the environment by playing an active role in this matter. In 2008, working together with our parent company, Korea Exchange Bank, South Korea, KEBI continued to participate in community development through various activities in the areas of education, religion, social, health care, etc. KEBI ongoing engagement in education sector, for example, is based on its deep conviction on the importance of education for the future of this country. KEBI believes in the importance of investing in the future generation to build a stronger and self sustaining society.

Korea Exchange Bank through KEBI continued to offer scholarship programs to University Student from various universities in Jakarta. In 2008, KEB through KEBI give scholarship to 40 (in 2007: 30 students) students from University of Indonesia (UI), Atma Jaya University, Jakarta, State University of Jakarta (UNJ) and Bogor Agriculture Institute (IPB).

KEBI has never made any contribution or donation to any political party in Indonesia or abroad.

OUTLINE OF IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE IN PT. BANK KEB INDONESIA

Good corporate governance is vital to the business integrity of PT Bank KEB Indonesia (KEBI or the “Bank”), therefore members of the Board of Commissioners and Board of Directors, and its employees are committed to exercising good corporate governance practices which emphasize ethical and moral principles, as well as transparency in full compliance with regulations applicable to KEBI.

The rapidly changing business environment and global competition greatly affect the way KEBI manages its operations and consequently we continuously adapt in order to remain at the forefront of competition.

In implementing good corporate governance it is important for KEBI to continuously ensure it has the capability to adapt and make key improvements. This strong commitment to the implementation of good corporate governance principles in every aspect of KEBI's operations, by Boards and all employees is a mandate to assure the development of a competitive organization, empowered by qualified people who respect the values of integrity, professionalism and leadership.

Composite Rating and Grade

KEBI composite rating based on GCG self assessment worksheet is the same as previous year's 1.55. In accordance with the matrix given by Bank Indonesia (“BI”), it means that KEBI composite rating is classified as Good (Composite Rating more or equal than 1.5 and less or equal than 2.5)

Individual Rating of Each Factor

No.	Factor	Rating
1	Performance of duties and responsibilities by the Board of Commissioners	2
2	Performance of duties and responsibilities by the Board of Directors	2
3	Establishment of committees and performance of duties by committees.	2
4	Conflict of Interest management	1
5	Implementation of compliance function	2
6	Implementation of Internal Audit functions	3
7	Implementation of External Audit functions	1
8	Risk Management including Internal Control	1
9	Fund provision to related party and large exposures	1
10	Transparency of Financial and Non-financial Conditions, GCG implementation reports and internal reports	1
11	Bank strategic plan	1

Strengths and Weaknesses Implementation of Good Corporate Governance, Cause of Weaknesses and Corrective Action Plan.

The Board of Commissioners (“BOC”). Member of the Board of Commissioners by end of December 2008 consisted of three person and not more than the numbers of members of the Board of Directors (“BOD”). There are two commissioners or 66.67% domicile in Indonesia and they are Independent Commissioners.

Commissioners have adequate integrity, competency and financial reputation, in according with fit and proper test requirements because they all have very long experience in banking and spent most of their career in banking industry.

None of the commissioner has double functions as commissioner, director or other executive officer at another bank, with the exception of stipulated by PBI regarding GCG Implementation for Commercial banks.

During 2008, the President Commissioner, Yun Ho Sun, non-independent commissioner, was resigned from his position due to taking new assignment in Korea. General Meeting of Shareholders has appointed Moon Seung Chan as his replacement, which approval was obtained from Bank Indonesia in January 2009. Moon Seung Chan is concurrently also holds a position as General Manager of Korea Exchange Bank (“KEB”) Singapore Branch. A. Wahab Sjachroni, Independent Commissioner, hold a position as Managing Director at a training institution. Meanwhile, A. Effendy Abdurachman, Independent Commissioner, hold a managing

director position at a non-profit organization.

None of the member of BOC has family relationship with other members of BOC and BOD and BOC does not involve in decision making of Bank's operational activities except in providing fund to related party.

BOC has performed its duties independently and ensured that BOD has followed up the findings and recommendations from Bank's internal Audit, external audit, BI supervision and/or other findings from other authority supervision.

To perform their duties and responsibilities effectively, BOC has established guidelines and codes of conduct that regulates working ethics and meetings. During 2008, BOC conducted meeting more than four times in a year which two times attended physically by members of BOC. Decision making in BOC meeting have been done unanimously and this meeting is documented properly.

BOC has never used bank for personal, family, and/or other party's advantage that would have negative effects toward bank or reduced bank's profit and has never taken or received personal gains from the bank other than remunerations and other facilities as decided by the General Shareholders Meeting.

As for the weaknesses, there were some commitment to Bank Indonesia related to its audit findings which was failed to be met in accordance with time frame given to Bank Indonesia.

The Board of Directors ("BOD"). Members of BOD by end of December 2008 consisted of three persons and all them domicile in Indonesia. President Director is independent from controlling shareholder in compliance with Bank Indonesia regulations concerning Good Corporate Governance.

Members of BOD have sufficient integrity, competency and financial reputation in accordance with requirement of fit and proper test. All of members of BOD have enough experience in banking. Most of them spend most of their career in banking industry with a minimum 18 years of experience.

None of BOD members has double position as commissioner, director or any other executive officer at other bank, company and/or other institutions. Members of BOD, individually or as a group does not own more than 25% of the paid up capital at the bank or other companies.

None of BOD members have no family relationship with other BOD and/or BOC member and has never given a general power of attorney to other party that could result in transfer of duties and functions of a director.

BOD holds regular and irregular meeting, if needed, where all decisions are made in this meeting. All decision in BOD meeting has been taken unanimously and result of BOD meeting is documented in minutes of meeting.

BOD has never used bank for personal, family, and/or other party's advantage that would have negative effects toward bank or reduced bank's profit and has never taken or received personal gains from the bank other than Remuneration and other facilities decided at General Shareholders Meeting.

As for the weaknesses, for instance related to reporting for the transfer of knowledge from expatriate staff to local staff in the Bank Business Plan Realization Report at the end of 2008.

Committees. KEBI has established Audit Committee, Risk Monitoring Committee and Remuneration and Nomination Committee. Members of these committees have been complied with Bank Indonesia regulations regarding Good Corporate Governance.

Members of Audit Committee consisted of an independent commissioner, an independent party who has skills in finance or accounting and an independent party who has skills in law or banking. Audit Committee is chaired by Independent Commissioners and majority of the members are independent party, as follows:

1. Wahab Sjachroni, Independent Commissioners, Chairman
2. Abdussalam Konstituanto, independent party
3. Bae Seung Ick, Independent Party

Audit Committee monitors and evaluates the audit planning and its implementation and reviews the follow up of audit result, measure internal control adequacy including adequacy of financial reporting processes. Audit committee gives recommendation for the appointment of public accountant to Shareholders Meeting through BOC.

Audit committee reviews performance of Internal Auditor duties conformity of audit with audit standard, conformity of financial report with generally accepted accounting standard and implementation of following up by BOD on the finding of internal auditor, public accountant and BI supervision results.

As for the weaknesses, for instance the Audit Committee failed to follow up some audit finding from Bank Indonesia audit team in 2008 in accordance the time frame given to Bank Indonesia.

Risk Monitoring Committee is consisted an Independent Commissioner, an Independent Party which has expertise in finance, and an independent party which has expertise in risk management. Risk Monitoring Committee is chaired by Independent

Commissioners and majority of Risk Monitoring Committee members are independent party, as follows:

1. Effendy Abdurrahman, Independent Commissioner, Chairman.
2. Abdussalam Konstituanto, Independent Party.
3. Bae Seung Ick, Independent Party.

Risk Monitoring Committee has monitored and evaluated policies and implementation of risk management and also performance of duties of risk management committee in order to give recommendations to BOC

Remuneration and Nomination Committee is consisted of Independent Commissioner, an non-Independent Commissioner and an Executive Officer in charge of Human Resources Management and is chaired by Independent Commissioners as follows:

1. A. Wahab Sjachroni, Independent Commissioner, Chairman.
2. Moon Seung Chan, non-Independent Commissioner
3. Leny Darsojo, Executive Officer

Remuneration and Nomination Committee has give recommendation of candidate for member of the Board of Directors and his remuneration packaged to be submitted to General Meeting of Shareholders.

Members of the above committees have excellent integrity, ethics and morals. Committee meetings are held monthly and all the meetings are attended by at least 100% of committee members including independent commissioner and parties.

Decisions or the meeting are taken by unanimously and minutes of meetings are well documented.

Conflict of Interest. During 2008, there is no case of conflict of interest. If the Bank has case of conflict of interest, it will certainly be disclosed in all decision and properly documented.

Compliance. KEBI ensures its compliance to Bank Indonesia and other prevailing regulations by establishing a compliance department which is independent from other operation department.

BOD approves KEBI's compliance policies and communicates compliance policies to all level in the Bank.

KEBI's compliance functions have qualified resources to handle its jobs effectively and Compliance Director is appointed according to BI regulations. Compliance Director

monitors and maintains bank's compliance to all agreements and commitments with BI. He also reports performance of his duties and responsibilities periodically to President Director with copy to BOC

Every Semester, the Bank submits reports to BI on the implementation of Compliance Director's duties.

As for the weaknesses, related to implementation of IT audit by regional office which is not yet comply with prevailing regulations.

Internal Audit and External Audit. KEBI has implemented audit functions effectively on all aspects and activities of the bank and appointed public accountant office listed in BI to do audit on bank's financial report.

Internal Audit Department is independent from other operational work unit and it performs its functions independently and with sufficient scope of work and in line with audit plan.

Internal Audit Department reported all findings in according with prevailing regulations, i.e. to President Director and to Bank Indonesia

Internal Audit Department monitors and analyzes and also reports the progress of improvements that have been done by the auditee. Internal Audit Department has established and updated its working guidelines, systems, and procedures periodically.

As for the weaknesses, for instance Internal Audit Team have not yet performed a review ion nternal control system in the implementation of KYC principles.

The Bank also assigns an independent public accountant office to review the effectiveness performance of duties and responsibilities of Internal Audit Department and its compliance to SPFAIB periodically, i.e. every 3 years.

KEBI has always assigned a public accountant office which belongs to top five firm in the world and in Indonesia which listed in Bank Indonesia. Therefore, there is no question about of its capacity. Assignment of public accountant office always done by signing appropriate work agreement which covering audit scope, etc.

Appointment of Public Accountant and Public Accountant Office is approved by Shareholders Meeting based on recommendation from by Audit Committee

Risk Management and Internal Control System. KEBI has implemented risk management effectively, in line with objective business policy, size and complexity of

bank's business and ability. BOC and BOD are capable of doing supervising actively on implementation of risk management policy and strategy.

KEBI has had policy, procedure and risk limit establishment and capable to effectively identify, measure, monitor and control risks and also has sufficient risk management information system.

In general, the Management's active supervision, policies and establishment of limit, procedure, report, management information system, risk monitoring are effective to maintain bank's sound internal bank condition.

Any weaknesses in implementation of internal control can be soon corrected so that it would not cause significant effect to the bank's condition

Fund Provision to Related Party and Large Exposures. In relation with provision of fund to related party and/or large exposure, it is already been conducted in accordance with BI regulation concerning LLL and taking into account prudential principles.

Ratio of credit distribution to core debtor (15 big borrowers) to total credit is still considered high, i.e. 47.43%. This ratio decreased from 52.25% by end of December 2007. Despite of this ratio is still relatively high, most those loans were secured by Standby L/C from other bank. Risk of the loan portion secured by Standby L/C is nearly zero. Therefore, if the amount of fund provision secured by standby LC is excluded, the ratio will be down significantly. Going forward, KEBI continue to pay serious attention to this mater.

Transparency of Financial and Non-financial Conditions, GCG Report and Internal Report. KEBI formulates and presents the report in accordance with procedures, types and scope as stated in BI regulation concerning Transparency of bank's financial condition and submitted at least to Indonesian Consumer Protection Foundation, Indonesia Bank Association, and other institutions mentioned in BI regulations.

KEBI applies transparency on bank's product information in accordance with BI regulation concerning Bank's Product Information and the Usage of Customers Data. Brochure on bank products and services are available in the counter free or charges.

In relation with GCG implementation, KEBI has formulated a report with contents and scope at least in accordance with prevailing regulation which is reflect a true condition of the Bank. This report submitted to all the institution as required by BI regulations.

There is a sufficient management information system and supported by competent human resource which is capable of providing an accurate, up-to-date, whole and on

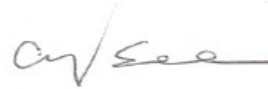
time internal reporting

Bank's Strategic Plan. KEBI has formulated its business plan completely and realistically according to prevailing regulations and therefore, most of the realization of the plan are excellent and in accordance with the established targets.

Jakarta, 14 May 2009



Moon Seung Chan
President Commissioner



Cho Chong Soo
President Director