other financial information review

Analysis on Ability to Repay Debts and Loans Collectability

Ability to Repay Debts

Ability to repay debts can be measured by several ratios, including liquidity ratio, solvency ratio and profitability ratios. These ratios provide the benchmarks for Bank Mandiri in calculating the possibility of emerging risks affecting its operations. In addition, Pefindo, in its Letter under document number: No. 1240/PEF-Dir/X/2015 dated October 1, 2015 awarded idAA+ ratings (Double A plus; Stable Outlook) for the period of 1 October 2015 to 1 October 2016. This demonstrates the Bank's ability to meet its long-term financial commitments is relatively superior when compared to other Indonesian obligors.

Bank Liquidity

Bank liquidity is influenced by funding structure, assets liquidity, liability to counterparties and loan commitments to borrowers. Total current assets of the Bank added up to IDR 147,561 billion, declined from IDR 161,421 billion in 2014. Total current assets at the end of 2015 stood at 16.2% of the total assets, or 21.8% from total non-bank deposits, which are also good liquidity indicators.

The Bank manages liquidity risks by calculating the size of the liquidity controlled by the Bank. To assess the magnitude of the liquidity risk, the Bank uses a variety of indicators, including the Primary Reserve Ratio (the ratio of Statutory Reserve and Cash), Secondary Reserve Ratio (liquidity reserves) and Loan to Deposit Ratio (LDR).

As of December 31,2015, the Primary Statutory Reserve in Rupiah stood at 7.50% of total Rupiah-denominated third-party funds, in line with the mandatory limit, whilst the LFR Statutory Reserve stood at 0.00% as there was no infringements to the LFR limits set by Bank Indonesia and Secondary Rupiah Statutory Reserve stood at 14.35% of total Rupiah third-party funds. As for foreign currency, the Bank maintained a Statutory Reserve of 8.50% of total foreign currency third-party funds in accordance with the mandatory limits.

Secondary reserves (liquidity reserves) are the Bank's liquid assets that function to support the primary reserves in respect of unscheduled funding requirements. In managing its secondary reserves, the Bank maintains a liquidity reserve safety level based on projection of liquidity reserves for the next three months. As of December 31, 2015, the Bank's liquidity reserves were above the safety level.

LDR is the ratio between loans to third parties and deposits denominated in Rupiah and foreign currency. LDR is used to identify the proportion of the Bank's funds derived from customer deposits, which are generally placed with the Bank on a short-term contractual basis, that are used to finance assets in the form of loans, which in general are illiquid. As of

December 31,2015, Bank Mandiri's consolidated LDR stood at 87.68%, categorized as "highly liquid" in the assessment of Bank Soundness. Bank Mandiri's LDR is within the LDR range set by Bank Indonesia at 78% to 92%, which indicate financial soundness of the Bank.

To support liquidity and increase earning assets, the Bank also secured funding through Collateral Fund Borrowing. In addition, cash flows from third-party funds also significantly influenced the liquidity position of the Bank.

Bank Mandiri's Liquidity Position in 2013-2015

	2013	2014	2015
Current assets[1]	IDR 135,269 billion	IDR 161,421 billion	IDR 147,561 billion
Government bonds at fair value of income statement and available for sale	IDR 55,680 billion	IDR 64,082 billion	IDR 77,003 billion
Loan to Deposit Ratio/LDR[2]	84.46%	82.86%	87.68%
Current Assets to Total Assets Ratio	18.5%	18.9%	16.2%
Current Assets to Deposits Ratio	24.3%	25.4%	21.8%

Notes:
1) Current assets consist of cash, demand deposits at Bank Indonesia, placements with Bank Indonesia, and other banks and financial institutions, and marketable securities (excluding government bonds) in portfolio assessed at fair market value
2) Deposits exclude deposits by other banks

Bank Solvency

Bank Mandiri measures solvency through its capital ratio. Bank Mandiri applies prudent capital policies by diversifying sources of capital in line with the long-term strategic plan, and allocates capital efficiently to business segments that provide optimal risk-return profile potentials, including placements and investments in subsidiaries, to meet the expectations of stakeholders, including investors and regulators.

Bank Mandiri ensures that it has adequate capital to cover its credit risks, market risks and operational risks, as reflected in the Bank's Capital Adequacy Ratio (CAR). The Capital Adequacy Ratio is the ratio of capital to risk-weighted assets (RWA). Based on Bank Indonesia regulations, the ratio of capital to credit risk consists of core capital ("Tier I") and Supplementary Capital ("Tier II"), less investments in subsidiaries. In order to calculate market risks, the Bank may also include Additional Supplementary Capital ("Tier III"), which is short term subordinated loans short that meet certain criteria as capital components. Bank Mandiri's Capital Adequacy Ratio (Bank only) is as follows:

Capital Adequacy Ratio (Bank Only), 2013-2015 (%)

	2013	2014	2015
CAR for Tier I	13.40	15.35	16.15
CAR for credit risks	16.99	19.20	21.57
CAR for credit and operating risks	14.99	16.66	18.63
CAR for credit and market risks	16.92	19.12	21.53
CAR for credit, operating and market risks	14.93	16.60	18.60

Bank Mandiri's capital adequacy ratio (Bank only) as at December 31, 2015, taking into account credit, operational and market risks, stood at 18.60%. This level is within the threshold of CAR and CAR incentive, which is stipulated by Bank Indonesia at 15%.

Bank Profitability

The consolidated profitability of the Bank is measured using the following ratios:

Profitability Ratios 2013-2015 (%)

	2013	2014	2015
ROE	22.23	20.95	18.33
ROA	3.54	3.39	2.99
NIM	5.74	5.97	6.08
CER	44.08	44.91	43.00
BOPO	67.66	70.02	74.28

In 2015, Bank Mandiri recorded Return on Equity at 18.33%, lower than 20.95% in 2014. Return on Asset in 2015 was recorded at 2.99%, dropped slightly from 2014 which was 3.39%. Net Interest Margin rose to 6.08% from 5.97% in 2014. Based on this NIM level, Bank Mandiri is one of the Banks with highest profitability level.

Cost Efficiency Ratio for the Bank in 2015 stood at 43.00%. This shows the success of the Bank in implementing strategies to boost operational efficiency and effectiveness, increase lending and expand operations. Operating Expenses to Operating Income (BOPO) ratio rose to 74.28% from 70.02% in 2014. This was due to different growth rate in operating income and expenses. Still, this ratio indicates the success of management in maintaining operating efficiency and effectiveness.

Taken together, the above ratios show that the bank has the capacity to generate profit and high efficiency level in its operations.

Loan Collectability

Loan Collectability at Bank Mandiri is reflected from the total non-performing loans (NPLs). The NPL of the Bank remained under control at around 2.60% or IDR 15.5 trillion. This is significantly below the NPL ceiling set by Bank Indonesia, which is 5%, meaning that bad loans are well under control.

Loan Collectability, 2013-2015 (IDR billion)

	2013	2014	2015
Loan	472,435	529,973	595,458
Current	445,659	495,606	552,863
Special mention	17,755	22,958	27,078
Substandard	1,222	2,231	3,280
Doubtful	1,061	2,239	2,557
Lost	6,738	6,940	9,680
NPL	9,021	11,410	15,517
NPL (%)	1.90%	2.15%	2.60%

Capital Structure

Besides minimum capital adequacy requirements according to the risk profile, Bank Mandiri is required to establish an additional capital as a buffer in the form of:

1. Capital Conservation Buffer, an additional capital that serves as a buffer in the event of a loss during the period of crisis.
2. Countercyclical Buffer, an additional capital that serves as a buffer for anticipated losses in the event of excessive credit growth and thus potentially disrupting the stability of the financial system.
3. Capital Surcharge for Domestic Systemically Important Banks (D-SIB), an additional capital that serves to reduce negative impacts on the stability of the financial system and economy in the event of bank failure that has a systemic impact through an increase in the Bank's ability to absorb losses.

Banks' obligation to establish a Capital Conservation Buffer came into effect as of January 1, 2016 in stages as follows:

1. 0.625% (zero point six two five percent) of Risk Weighted Assets (RWA) as of January 1, 2016
2. 1.25% (one point two five percent) of RWA as of January 1, 2017
3. 1.875% (one point eight seven five percent) of RWA as of January 1, 2018
4. 2.5% (two point five percent) of RWA as of Tuesday, January 1, 2019

Countercyclical Buffer is set out by Bank Indonesia under Bank Indonesia Regulation (PBI) No. 17/22/PBI/2015 on the Requirement for Establishing Countercyclical Buffer. Banks' obligation to set up Countercyclical Buffer was effective as of January 1, 2016 with the effective bucket ranging from 0% to 2.5% of the RWA.

Capital Surcharge for D-SIB D-SIB is regulated by the Financial Services Authority (OJK) under OJK Regulation No. 46/POJK.03/2015 on Establishment of Systemically Important Bank and Capital Surcharge. Banks' obligation to establish Capital Surcharge came into force as of January 1, 2016 with the effective bucket of 0-2.5% of the RWA. The OJK shall notify the designated SIB in writing and the amount of Capital Surcharge requirement for an SIB.

Core capital in 2015 (Bank Mandiri only) reached IDR 93,253 billion, or rose by 17.96% from IDR 79,052 billion in 2014, due to additional capital derived from retained earnings. Supplementary capital in 2015 (Bank Mandiri only) grew by 119.90% to IDR 14,135 billion from IDR 6,428 billion recorded the year before.

Capital Structure (Bank Only) in 2013-2015 (IDR billion)

	2013	2014	2015
Capital:			
Tier I	65,854	79,052	93,253
Tier II	7,491	6,428	14,135
Total capital for credit risks, operational risks and market risks	73,345	85,480	107,388
Credit Risk Weighted Assets	431,633	445,254	497,913
Operational Risk Weighted Assets	57,671	67,787	78,628
Market Risk Weighted Assets	1,972	1,863	805
Total RWA for credit risks, operational risks and market risks	491,276	514,904	577,346

Capital Structure (Bank Only) in 2013-2015 (IDR billion)