

Bank Mandiri's Transformation

1. History of Bank Mandiri

Bank Mandiri was formed on October 2, 1998 as part of the Government of Indonesia's bank restructuring program. In July 1999, four state-owned banks - Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia and Bank Pembangunan Indonesia – amalgamated to become Bank Mandiri. Each of the four legacy banks played an integral and essential role in the development of the Indonesian economy. Today, Bank Mandiri continues the more than 140-year tradition of contributing to the banking industry and the Indonesian economy.

Immediately following the merger, Bank Mandiri embarked on a comprehensive process of consolidation. Among the first steps were to close 194 branches that were in proximity to each other, and to reduce the number of Mandiri employees from 26,600 to 17,620. The Bank Mandiri brand was rolled out across the entire network through an advertising and promotional campaign. In addition, Bank Mandiri successfully implemented its new, integrated core banking system to replace the core banking systems of the four legacy banks.

From the year 2000 through 2004, Bank Mandiri's performance remained on a continuously upward trajectory, as shown by an increase in profit from Rp 1.18 trillion in 2000 to Rp 5.3 trillion in 2004. In addition, Bank Mandiri also marked an important milestone on July 14, 2003 by successfully conducting an initial public offering of 20% of its shares (4 billion shares).

In 2005, Bank Mandiri encountered a number of setbacks that resulted in a decline in profitability. One of these setbacks was a rise in non-performing loans, as shown by an increase in the net consolidated Non Performing Loan (NPL) ratio from 1.60% in 2004 to 15.34% in 2005. This had a direct and dramatic impact on the bank's profit, which slumped by 80% from Rp 5.3 trillion in 2004 to Rp 603 billion in 2005. In response, the bank's share price slid from Rp 2,050 in January 2005 to Rp 1,110 in November 2005.

II. Transformation – Stage I

The year 2005 marked a turning point for Bank Mandiri when it resolved to focus on becoming a Regional Champion Bank. To do so, the Bank formulated a comprehensive Transformation Program consisting of four principal strategies, namely:

1. The inculcation of a new corporate culture through performance-based organizational restructuring, overhaul of the existing performance-based evaluation system, development of leadership and talent, and training and hiring staff to meet strategic needs.
2. Aggressive containment of Non-Performing Loans, with emphasis on the resolution of toxic loans and strengthening of the risk management system.
3. Accelerating business expansion so as to exceed average market growth through distinctive strategies and value propositions in each segment.
4. Developing alliances between directorates and business units so as to optimize customer service, and explore all available business opportunities related to existing customers and their value chains.

In order to achieve its goal of becoming a Regional Champion Bank, Bank Mandiri conducted its Transformation Program in three phases, namely:

1. Phase One – "Back on Track" (2006-2007): During this phase, the focus was placed on restructuring and laying the foundations for Bank Mandiri's future growth;
2. Phase Two – "Outperform the Market" (2008-2009): During this period, the emphasis was on expanding the Bank's business to ensure significant growth in all segments and a level of profitability that exceeded the market average;
3. Phase Three – "Shaping the End Game" (2010): During this phase, Bank Mandiri aims to become a Regional Champion Bank, through the consolidation of the financial services business and emphasis on strategic non-organic growth opportunities. This includes the strengthening of subsidiaries' performance and acquisition of a bank or other financial company that can create added-value to Bank Mandiri.

The changes brought about by the Transformation Program between 2005 and 2010 have resulted in a consistent strengthening of Bank Mandiri's performance, as reflected by various financial parameters. Non-performing loans fell significantly, as shown by a decline in the net consolidated NPL ratio from 15.34% in 2005 to 0.62% in 2010, while the Bank's net profit soared from Rp 0.6 trillion in 2005 to Rp 9.2 trillion in 2010.

In line with the transformation of its business, Bank Mandiri has also undergone a cultural transformation based on a reformulation and reinvigoration of its key values. In doing so, the Bank identified five core corporate cultural values,

which are conveniently referred to by the acronym "TIPCE", which stands for Trust, Integrity, Professionalism, Customer Focus and Excellence.

Bank Mandiri significantly improved its level of quality in providing service to its customers. For six consecutive years (2007, 2008, 2009, 2010, 2011 and 2012), Bank Mandiri has been named a service leader among domestic banks based on a Marketing Research Indonesia (MRI) survey. In addition, the Bank's achievements in instituting good corporate governance have also been widely recognized.

Bank Mandiri's consistently improving performance has elicited a positive response from investors, as shown by a significant increase in the Bank's share price from a nadir of Rp 1,110 on November 16, 2005 to Rp 7,850 at December 31, 2013. Within a period of less than nine years, Bank Mandiri's market capitalization soared eight-fold from only Rp 21.8 trillion to Rp 183.2 trillion.

III. Transformation – Stage II

Bank Mandiri is now embarked on the second stage of its transformation process for the 2010-2014 period, during which time the Bank has revitalized its vision "To be Indonesia's most admired and progressive financial institution." Based on this vision, by 2014 Bank Mandiri intends to achieve a market capitalization of Rp 225 trillion, a market revenue share of 16%, a ROA of around 2.5%, and an ROE of around 25%, while at the same time maintaining asset quality as reflected in a gross NPL ratio of under 4%. By the end of 2014, Bank Mandiri is determined to be among the Top 5 banks in ASEAN, while by 2020 Bank Mandiri expects to be among the Top 3 in ASEAN in terms of market capitalization, and to be a major regional player.

In order to realize this vision, Bank Mandiri's business transformation during the 2010-2014 period will focus on the following three business areas:

1. Wholesale Transaction: Bank Mandiri is consolidating its leadership position by offering comprehensive financial transaction solutions and developing a holistic relationship approach in serving its corporate and commercial customers in Indonesia.
2. Retail Deposit & Payment: Bank Mandiri is determined to become the consumer's bank of choice in the retail deposit market by providing a unique and superior banking experience.
3. Retail Financing: Bank Mandiri's goal is to become the No. 1 or 2 bank in the retail financing segment by leading in the mortgage, personal loan, and credit card markets, and by becoming a major player in the micro banking segment.

Besides focusing on these three strategic areas, Bank Mandiri is also strengthening its organizational structure and infrastructure (branch, IT, operations, risk management) to provide more integrated service solutions. In seeking to achieve its goals, Bank Mandiri benefits from the support of its human resources, technology, prudential risk management, and good corporate governance.

One of the key milestones towards realizing Bank Mandiri's vision during the second stage of the transformation process was the successful completion of a rights issue in February 2011 to strengthen our capital base. And as of full year 2013, the Bank's total equity has reached Rp 88.8 trillion to become the first bank in Indonesia to win the title of International Bank according to the Indonesian Banking Architecture criteria. Mandiri is the largest financial institutions in Indonesia with assets of Rp 733.1 trillion, the largest lender with loans outstanding of Rp 472.4 trillion, and the largest depository with Rp 556.3 trillion in third party funds. Bank Mandiri maintains strong asset quality, as the gross and net NPL ratio's stand at 1.90% and 0.58% respectively.

As of the full year 2013, Bank Mandiri employed 33,982 employees and operates 2,050 branches across Indonesia and 6 overseas branches/representatives offices/subsidiaries. In addition, Bank Mandiri has a network of more than 230,000 Electronic Data Capture units as well as various and comprehensive electronic channels which include Mandiri Mobile, Internet Banking, SMS Banking and Call Center 14000. Bank Mandiri is well supported by its six subsidiaries operating in shariah banking, capital market, multi finance, life insurance, general insurance, as well as a niche bank focusing in the micro lending segment.