

and Spirit Memakmurkan Negeri. The Culture Program of Satu Hati Satu Mandiri is the translation for the main value TRUST, meaning that all Insan Mandiri must continue to contribute optimally in achieving the performance of Bank Mandiri realized with collaboration and openness. The second program is Mandiri Tumbuh Sehat which is the translation for the main value of INTEGRITY and PROFESSIONALISM, meaning that all Insan Mandiri must maintain a balance between growth and quality.

The last Culture Program is Spirit Memakmurkan Negeri which is the translation for the main value of CUSTOMER FOCUS and EXCELLENCE, in which Insan Mandiri must provide the best services and products for customers and the people of Indonesia, including running the role as the Agent of Development so that Bank Mandiri can be the best bank of the main choice and pride of Indonesia.

## 6. Increase in the Number of Shares Trading Transactions

In order to prompt trade transactions while increasing the demand for shares, especially those from domestic retail investors, stock splits had been executed with a ratio of 1: 2 (one in two) so that the initial share value of Rp500 (full amount) became Rp250 (full amount).

Bank Mandiri's stock market price after the stock split on 13 September 2017 was listed on the Indonesia Stock Exchange that valued at Rp6,700 which on the last day before the entry into effect of stock split, it was listed on the stock market that valued at Rp13,400. At the end of 2017, the value of Bank Mandiri's shares was recorded at Rp 8,000 resulting in an increase of approximately 19.40% of the initial stock split price. In addition, Bank Mandiri's market capitalization value also increased by 38.23 % from Rp270.08 Trillion in 2016 to Rp373.33 Trillion in 2017. The volume of stock transactions also increased approximately 105.8%, which in 2016 the number of stock transactions was 1,268,503,900 shares compared to the volume of stock transactions in 2017 which reached 2,611,076,700 shares.

## Bank Mandiri's Performance in 2017

In addition to the growth in loans above the market growth, the volume of Third Party Funds (DPK) compiled by Bank Mandiri also increased, reaching Rp815.8 trillion, or grew 7.0% over the previous year amounting to Rp762.5 trillion. The growth of depositor funds during 2017 was driven more by the achievement of low-cost funds (savings and demand deposits) of Rp540.3 trillion or 10.4% growth and deposits of Rp275.5 trillion. With the growth portion, the composition of low-cost funds of Bank Mandiri was still maintained at 66.2% of total deposits in 2017 or an increase by 2% from the last year. The growth of the low-cost funds was driven mainly by savings that increased

significantly by 11.4% yoy to Rp336.9 trillion. The relatively good growth boosted the market share of Bank Mandiri's national savings in December 2017 to 19.80% from 19.48% in the same position in the previous year. Meanwhile, reviewed from the number of savings accounts of Bank Mandiri, there was also an increase reaching 21.9 million or successfully growing by 23.4% yoy (Bank only).

The growth in business volume was also supported by Bank Mandiri's relatively solid equity of Rp170.0 trillion, an increase of 10.8% and was the largest in national banking in 2017.

Bank Mandiri had a consolidated net profit (after tax) of Rp20.64 trillion, growing by 49.5% from 2016. Profitability was not separated from the success of credit quality improvement as reflected by the decrease in the cost of Provision of Impairment Loss (CKPN) of 35.3%, operational cost control and FBI increase of 16.4% compared to the previous year. In line with the increase in profit, the Return On Equity (ROE) ratio had increased from 9.66% in 2016 to 12.90% in 2017. The minimum capital adequacy ratio or CAR (bank-only) after taking into account credit, market and operational risks was also maintained above the minimum required ratio of 21.64%, an increase of 28 bps from the previous year.

The achievement of other financial ratios was generally still positive and was within the established target; Net Interest Margin (NIM) could be maintained at 5.87%, Cost to Income Ratio (CIR) was also managed at 45.43%, Provision to NPL increased by 10.63% from 124.46% to 135.09% and Loan to Funding Ratio (LFR) was still within the sound range of 87.16%.

Bank Mandiri had also expanded its network of offices and services, i.e., with the increasing number of offices and micro networks of Bank Mandiri respectively reaching 2,631 units and 2,312 units, while the ATM networks reached 17,766 units or increased by 305 units. The addition of networks also increased banking transactions, especially through digital-based services that reached 3,067 million transactions or grew by 10.5% annually.

Bank Mandiri affirmed its role as the Agent of Development by continuously actively participating in the government program activities through the support of credit channeling in the infrastructure sector which reached Rp141 trillion and KUR distribution of Rp13.3 trillion in 2017.

Meanwhile from the non-financial side, there were commitment and hard work of Board of Commissioners, Board of Directors and Bank Mandiri employees obtaining several prestigious awards at both national and international levels, among them the "Best Bank Service Excellence" award for 10x times in a row from Infobank Magazine, The Best Bank in Indonesia by The Asian Banker, "Best Bank in Indonesia" from Alpha Southeast Asia, and "The Most Trusted Companies" from Indonesia Institute for Corporate Governance (IICG) and SWA magazine.

The significant appreciation of stakeholders in Bank Mandiri's performance in 2017 was also reflected in the market capitalization of Bank Mandiri which reached Rp 373.3 trillion or increased 38.2% yoy, with Earning per Share reaching Rp442.28 per share by the end of 2017 from the previous year which was Rp295.85 per share.

## Achievement of 2017 Targets

Bank Mandiri's consolidated performance in 2017 had shown satisfactory results. Bank Mandiri was able to achieve the performance targets that had been set throughout 2017. The current year's profit grew significantly by 49.5% YoY to Rp 20.64 trillion, far exceeding that target has been set at Rp 19.06 Trillion. The profit growth driven by the improvement of FBI which successfully grown by 16.4% towards Rp23.3 trillions, operational cost control, and CKPN cost reduction of 35.3% YoY in line with the improved credit quality owned by Bank Mandiri.

In terms of business volume, Bank Mandiri's annual credit grew by 10.2% to Rp729.5 trillion, slightly below the target in line with weak national banking credit growth and ongoing consolidation process of credit quality improvements in the Commercial segment and Small Medium Enterprise (SME) segments that were still ongoing. In line with the effort to improve credit quality, Bank Mandiri's NPL managed to fall at 51 bps to 3.45% by the end of 2017 better than the target set at 3.63%, with coverage ratio maintained at 135.09% level. In terms of fundraising, Bank Mandiri's deposits grew 7.0% year-on-year to Rp815.8 trillion, driven by the growth of low-cost funds by 10.4% to Rp540.3 trillion, with low-cost funds reaching 66.2% of total DPK. It was in line with Bank Mandiri's strategy to lower cost of funds (CoF) and manage margins in order to maintain profitability.

## Challenges faced

In conducting business activities, Bank Mandiri was inseparable from challenges throughout 2017, including limited credit growth, yield pressure as the implementation of single digit rate policy, credit quality in the Commercial and SME segments, and aggressive competitors as well as development of fintech-based enterprises.

The implementation of a single digit interest rate policy in the last two years also contributed to a decrease in net interest margin of the banks. This is also indicated by the continued pressures due to increased competition in the market. To anticipate the potential decline in margins, Bank Mandiri had proactively taken various strategic measures, including lowering cost of funds (CoF), managing the composition of credit portfolio to obtain optimal yields, increasing the contribution of fee income (non-interest income), and improving operational efficiency.

NPL pressure particularly from credit quality decline in some business segments such as Commercial and SME segments was still continuing in 2017. Therefore, to maintain the achievement of business growth targets, the reallocation of targets to segments that were still able to grow relatively well and maintain the quality such as Corporations and Consumers. While in the business segment that experienced a decrease in asset quality, efforts were focused on consolidation

and strengthening of risk management so that the NPL level could decrease. Efforts included improving the credit process supported by targeting the right market and better portfolio mix management.

The technological and financial sectors that were increasingly advanced, complex, and in touch with the banking business model were also a challenge in 2017. It was also evidenced by the increasing number of fintech-based companies in the Indonesian financial industry whose impact had kept the FBI from banking transactions on pressure. To address these challenges, Bank Mandiri continued to optimize the role of subsidiary company i.e., Mandiri Capital Indonesia (MCI) as a bridge between investors and entrepreneurs in the fast growing fintech industry in order to maintain the sustainability of the banking business.

## Business Outlook

Amid the high optimism at the end of 2017, there were still global economic challenges and risks in 2018 due to direction changes of monetary policy in some major countries. Although, the prospect of commodity prices in 2018 was projected to improve, the national economy in 2018 is estimated to grow 5.3%, better than the previous year which was 5.07%. It was expected to boost credit growth and credit quality improvement. Bank Mandiri was quite optimistic that the credit could grow in the range of 10-11% in 2018, from the previous 7.5-8.5% in 2017. However, the high portion of credit restructuring and loan at risk remained a challenge in the future due to the addition of non-performing loans. Directors were optimistic that business prospects in 2018 would be better than the previous year. This optimism is underpinned by the advantages possessed by the Company as follows:

1. The service of one stop financial solutions through Mandiri Group synergy
2. Strong capital reached Rp170.0 trillion and a capital ratio of 21.64% in December 2017, so as to sustain sustainable credit growth.
3. Relatively large customer base (Account DPK reached 21.9 million accounts and Credit reached 1.8 million accounts)
4. The vast network of offices as well as digital services spread throughout Indonesia reached 2,631 branches, 2,312 micro networks, 17,766 ATM machines, and 253,046 EDC machines.
5. Human Resources that were supported by 38,307 employees who have good capabilities and working culture.

## Risk Management

In order to increase the added value before of the stakeholders, Bank Mandiri is consistently managing the risk management system based on the regulations and laws applicable in Indonesia. In its implementation, Bank Mandiri always prioritized caution principles in managing all types of risks as a form of Bank Mandiri's commitment in conducting good corporate governance practices. Bank Mandiri's risk management framework and governance used the Three Layers of Defense Approach, namely: