

Global and Indonesian economic improvements have also affected the development of the stock market, reflected in the performance of the Jakarta Composite Index (IHSG), which by 2017 rose 20% to a record high of 6,355.7.

The improvements in Indonesia's economic condition provided space for Bank Indonesia (BI) to ease the monetary policy by lowering the key interest rate by 25 bps in August and September 2017 to 4.25%. However, the easing of the policy had not given a significant impact on the growth of bank credit. Up to November 2017, the national banking credit only grew 7.5% on a year-on-year basis, which was lower than the credit growth in 2016 of 7.9%.

This is mainly due to the credit quality of the banking industry that has not fully improved. NPLs of banking is still relatively high at 2.89% in November 2017. In addition, the still weak credit demand is also reflected in the increase of undistributed credit facilities (undistributed loans), amounting to Rp 31.1 Tn, increased by 71.9% YoY.

Meanwhile, the Third Party Fund (DPK) of banks was able to grow better, which in December 2017, it grew 9.4%, which was higher than the growth of DPK 2016 reaching 9.6%. It prompted the improvement of liquidity in the banking sector, as reflected in the decline in the Loan To Deposit Ratio/Loan To Funding Ratio from 90.70% in 2016 to 90.04% in December 2017. In addition, the national banks recorded a good profitability, reflected in the increase in net profit by 23.1% YoY and Return on Asset (ROA) ratio of 2.45% in December 2017 and supported by relatively strong national banking capital condition with the minimum capital adequacy ratio (CAR) of 23.187%.

## Strategic Policies

The Company continuously evaluated the strategic policies to achieve every opportunity and potential. Toward the end of the third quarter of 2016, Bank Mandiri set strategic policies adjusting to the national economic condition by aligning its Corporate Plan defined as Corporate Plan Restart 2016-2020, which furthermore became the basis for the preparation of business strategy in 2017. The key strategies conducted in 2017 were as follows:

### **1. Credit growth focused on the core segment (corporate ) and the new core segment (consumer and payroll business)**

Bank Mandiri conducted portfolio rationalization by reallocating business volume targets in a segment that is relatively still able to grow well with quality maintained. Therefore, credit volume growth in 2017 was directed to the Corporate/Corporate Banking segment as the existing core, and the Consumer and Payroll business segments as the new core (Home Ownership Loan (KPR), Loan Without Collateral (KTA), Auto, Credit Card, and Micro Credit KSM) as a driver of credit growth.

Throughout the year 2017, Bank Mandiri's corporate credit was mostly channeled to infrastructure, plantation, mineral and mining sectors by continuing to integrate Bank Mandiri product and service offerings as a banking product providing integrated solutions for specific sectors through value chain solutions, syndicated loans and structured-finance financing. While for the new core segment, which was consumer credit, was focused on credit financing associated with Micro Credit KSM payroll, such as Micro Credit KSM, Housing Loan (KPR), and Loan Without Collateral (KTA), prioritized on the financing of first-home ownership.

### **2. Improved credit quality to reduce NPL and Cost of Credit**

Bank Mandiri continued to consolidate credit quality improvements to reduce NPL levels and lower cost of credit, among others, by accelerating restructuring, reviewing debtors after restructuring, conducting corrective measures in the pattern and marketing strategies of non-performing loans, issuing letters of legal warning, executing credit collateral, performing legal action on non-prospective and uncooperative debtors, and making other improvements in the credit process at every stage of the front, middle, and back office.

### **3. Transactional Business Development to encourage the growth of low-cost funds and fee-based income.**

Bank Mandiri continued to increase its low-cost funds and fee-based income (FBI) through enhancing transactional business, among others, by increasing utilization of Mandiri Cash Management (MCM), conducting acquisition of new customers with MCM focusing on customers from industry sectors, enhancing product holding and e-channel activities for individual customers and corporate customers. To support the development of transactional business, Bank Mandiri also continued to strengthen the supporting infrastructure of digital-based Information Technology (IT).

### **4. Operation Cost Control through Digital Banking and Increased Productivity**

Along with the changing pattern of customer transactions from conventional transactions in branches to digital transactions, the allocation of costs in 2017 was more focused on the purpose of digital-based business development that ultimately could reduce the operational costs of the Company. In addition, Bank Mandiri also added service networks of IT-based Automated Teller Network (ATM), Electronic data Capture (EDC), and internet banking (Mandiri Online).

### **5. Sharpening the Main Values of Work Culture**

In order to support the achievement of the vision/aspiration of the Company, Bank Mandiri conducted sharpening of the core values of TIPCE (Trust, Integrity, Professionalism, Customer Focus, Excellence), through the implementation of 3 Cultural Programs, namely Satu Hati Satu Mandiri, Mandiri Tumbuh Sehat,

and Spirit Memakmurkan Negeri. The Culture Program of Satu Hati Satu Mandiri is the translation for the main value TRUST, meaning that all Insan Mandirian 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 Mandirian 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 Mandirian 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.