The global and regional economic conditions have impacted Indonesia's economy. With relatively strong fundamentals, the Indonesian economy is still able to grow compared to other countries. Indonesian Economy 2016 is still under pressure, but it is still optimistic due to trends of improvement. Indonesia's economy has shown positive performance as supported by domestic demands. Bank Indonesia predicted that Indonesia's economic growth in 2016 will reach 5.0% YoY, an increase from 4.9% in 2015. Meanwhile, the inflation rate was relatively stable. Throughout the 2016 inflation was recorded at 3.0%, a drop due to the inflation in 2015 which was 3.5% YoY, and was at the lower limit of the inflation target range of Bank Indonesia at 4 ±1%. Though domestic economy recorded improved performance in 2016, The Rupiah exchange rate against the US Dollar was still experiencing the volatility into weakening direction against the US Dollar. Rupiah throughout 2016 has moved within the range of Rp12,955 - Rp13,964 against the US Dollar and closed at Rp13,473 against the US Dollar. The fluctuating exchange rate movement was caused by the global financial market turmoil.

In the midst of improving economic conditions and interest rate cuts of BI, the national banks' loan growth rate continued to slow even though the overall national financial system remained stable with the managed resilience of the banking system. Until end of November 2016, bank loans grew by only 7.9% YoY, lower than the growth of bank loan in 2015 which was 10.4%. Deceleration of loan was part of the national backing sector effort to consolidate in anticipating the level of non-performing loans. However, the Third Party Funds (DPK) fund has succeeded to grow. In the same period, DPK growth has increased to 9.6% from 7.3% YoY in 2015.

However, amid a slowdown in credit growth, with the implementation of "prudent" policy and strengthening fundamentals that were conducted by authorities, national banks are still able to record a good profit, although not as high as the previous years. This was reflected in the ratio of return on assets (ROA) which slightly decreased from 2.99% at the end of 2015 to 1.96% in 2016. It was indicated by a slightly increase in the ratio of operating costs to operating income (BOPO) of 74.28% at the end of 2015 to 83.5% in 2016.

Measurement of the Company and Board of Directors Performance

Macroeconomic condition significantly impact the operational and financial performance of Bank Mandiri. When seen from the consolidated financial position statement, the Board of Commissioners measured that Bank Mandiri has recorded an increase in total assets of Rp1,038.7 trillion, a hike of 14.1% compared to the previous year which was Rp910.1 trillion. The assets increment was mainly supported by loan increment of 11.2% from Rp595.5 trillion in 2015 to Rp662.0 trillion in 2016.

Bank Mandiri's capital looks stronger with total equity out of non-controlling interests grew by 28.5% from Rp117.1 trillion to Rp150.5 trillion. By having strong capital base, Bank Mandiri had sufficient ability to absorb various risks that may occur. The implementation of more conservative asset quality assessment was considered as an appropriate management policy by the Board of Commissioners. Through this conservative assessment (based on three pillars), the assets quality recorded a significant decline with an increase in NPL of 140 bps from 2.60% to 4.00% and back up costs rose by 113.8%.

Meanwhile, in the consolidated income statement, Bank Mandiri recorded an increase interest in income and premiums (net) in 2016 of 12.3% or became Rp54.5 trillion from the previous year's record of Rp48.5 trillion. Although numerous financial indicators have declined, Bank Mandiri was able to record a net profit of Rp13.8 trillion. The net profit have decreased by 32.1% YoY driven by an increased in provisioning costs which in consolidated basis hikes by 113.8%, to became Rp24.9 billion in 2016. Aside from the temporary performance declining in 2016, it was expected that the revenue will sustain in the future by the decreased NPL and increased profit. The Board of Commissioners understands the increased reserve costs occurred was the right management policy in order to improve prudence and anticipation of asset quality conditions.

A cumulative of third party funds which consist of giro, savings, and time deposits, on a consolidated basis in 2016 has reached Rp762.5 trillion or an increase of 12.7% compared to 2015. From the total DPK, giro recorded big increment of 8.6% to become Rp187.1 trillion, savings increased by 11.3% to become Rp302.3 trillion, while deposits increased by 17.5% to become Rp273.1 trillion. The fund management strategies have been carried out progressively to increase the cost of funds in all segments.

The realization of credit consolidated in 2016 has reached Rp662.0 trillion in 2016. The financing in the infrastructure sector in 2016 has increased, with a limit of financing reached to Rp104.6 trillion or up by 47.5% YoY. The funded sectors included the development of airports, seaports and railways with a limit of financing of Rp38.2 trillion. Other infrastructure projects that received funding from Bank Mandiri were electricity projects with a limit financing of Rp39.3 trillion, the construction of toll roads with a limit of financing of Rp14.5 trillion and telecommunications sectors of Rp12.6 trillion.

Throughout 2016, the retail segment loans grew by 12%, from Rp175.2 trillion to Rp196.2 trillion which was supported by the loan growth in the segment of Small, Medium and Micro Enterprises (SMMEs). Until the end of December 2016, Bank Mandiri has increased its SMME loan disbursement up to 6.0% or Rp80.3 trillion. The SMME loan disbursement was distributed to 952,248 debtors or increased by 12.8% compared to previous year which was dominated by the Trade and Agriculture sector.

The loan disbursements are part of Bank Mandiri's commitment to contribute to the realization of the government's Nawacita programs, especially in the creation of Indonesia's economic independence which in turn may increase the value to the company, the interests of the nation and society.

The Bank's minimum capital adequacy ratio (Bank only) on December 31, 2016 by calculating loan risk, operational, and market was recorded at 21.4%. The CAR value was still above the limit of banking CAR and incentive Car set by Bank Indonesia at 15%. Meanwhile, the level of the Loan to Funding Ratio (LFR) of Bank Mandiri in 2016 was recorded at 85.4%. For that, it has fulfilled the criteria of "very liquid" in the bank rate as determined by Bank Indonesia with a maximum of LFR ratio at the level of 92%.

The Board of Commissioners also supports the steps that have been taken by the Board of Directors to perform various improvements and adjustment of Bank Mandiri to be more agile and anticipatory in facing the dynamics of macroeconomic developments and business climate. BOC contends that the Board of Directors has sought to maintain the growth of the Bank in a healthy and sustainable pace through the increase of loan disbursement in a more selective way and to continue to monitor the target growth according to the business plan, the quality of potential debtors , business sector condition and customers' business value chain also control the overhead costs through budget priority according to the business needs. The Board of Directors also considered to have actively restructured loans for debtors who are experiencing difficulties more aggressively recovered the debtors write-off and improved the monitoring of loan management in anticipation of asset quality deterioration.

The Board of Commissioners assessed that the Board of Directors has been able to manage risks proactively through stress-testing, intensive monitoring of each business segment, granular and specific portfolio management to every segment and in every region and a contingency plan. It was related to the implementation of credit policy, operational policy and a comprehensive and measured internal control system. Information Technology (IT) plays a very important role in the banking industry. In this case, the Board of Directors has demonstrated its capabilities to continuously modernize and improve its information technology infrastructure in order to advance it operational excellence internally while providing service to the customers, operational efficiency, and cross-selling transactions support.

The Board of Directors also considered to have applied a precautionary principle in order to encourage non-organic business growth in accordance with the input from the Board of Commissioners so that it can contribute optimally to the performance of Bank Mandiri.

The Board of Commissioners was also proud of the recognition from the public as shown from the various awards received by Bank Mandiri in 2016, namely the event of Banking Service Excellence (BSE) Award, which received the 1st Best Overall Performance for commercial bank category, Best Security Guard, Best Teller, Best ATM, to the Best Telephone. However, Bank Mandiri's proudest moment was being the recipient of the two highest awards given in the event which were The Most Consistence Excellence Award and Best Golden Thropy for Best Overall Performance 2009-2016.

The Board of Commissioners also appreciated the Board of Directors for the well-managed of Mandiri Group. Currently, Bank Mandiri has become a leading financial institution in Indonesia with the support of 11 subsidiaries with a variety of financial products in order to add values for Bank Mandiri's customers. Revenue contribution from the subsidiaries also continued to increase, driven by synergies between the Bank and its subsidiaries or between subsidiaries. Through increased synergies and adjustments to be more agile and anticipative in facing dynamic macro economy and business. Revenue contribution from its subsidiaries increased from 13.2% in 2015 to 14.3% in 2016. The contribution was expected to continuously increase at least up to 20% from total revenue of Mandiri Group in 2020.

This remarkable achievement has made us the catalyst to continue to work better moving forward to become a reputable and reliable Bank for the Indonesian people.

The Board of Commissioners believes that the success happened due to great synergy with other State-owned Enterprises. The Board of Commissioners expects that the well-established synergies will be maintained to optimize support to the national economic development which hopefully will deliver double impact in the future.