

# Operational Review

In general, Bank Mandiri's business activities focused on the public fund collection and redistribution in the form of credit and financing in addition to other banking service procurement. Bank Mandiri had determined the appropriate strategies marked by the significant increase of its performance.

## COMPANY STRATEGY

During 2019, Bank Mandiri was in the final phase of the Phase III transformation to achieve aspirations in 2020 to Indonesia's Best, ASEAN Prominent. In challenging economic conditions and an increasingly fierce competition map, Bank Mandiri conducts a number of business strategies with a focus on:

**a. Strengthening business lines which are the initial core competencies**, namely by:

1. Growing wholesale credit above market growth with a focus on penetration in anchor customers and selected industry sectors.
2. Increasing fee based income and wholesale CASA through improvements to transaction banking services, cash management, foreign exchange, and capital markets.

**b. Building and strengthening new core competencies**, namely by:

1. Encouraging the growth of retail CASA through e-channels and Bank At Work initiatives by

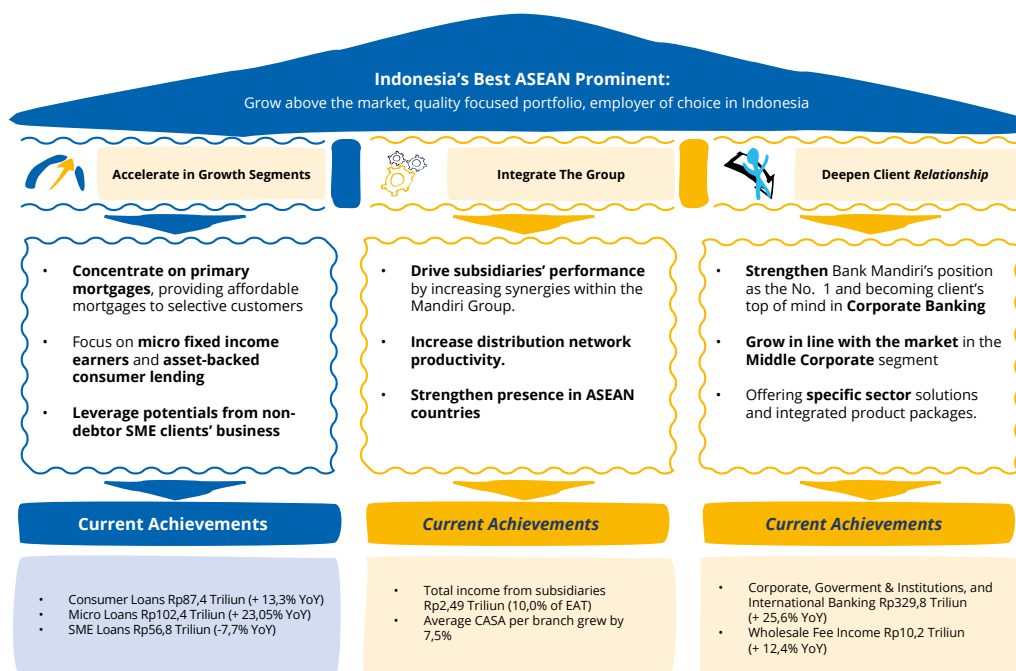
utilizing the power of relationships, value chains, and derivatives from wholesale customers.

2. Accelerating growth in the consumer lending business, particularly in mortgages and auto loans through streamlining business processes and cross-selling.
3. Increasing the penetration of Micro Credit especially KSM based on payroll loans and productive microcredit such as KUM and KUR.
4. Maintaining market share in the Small and Medium Enterprises (SME) segment.
5. Credit Card expansion through increasing the number of new cards, streamlining business processes and product bundling.

**c. Strengthening Fundamental**, namely by:

1. Reducing the cost efficiency ratio through digitization.
2. Increasing network productivity through improving business processes and utilizing analytics.
3. Reducing the level of NPL through strengthening the early warning system, managing problem loans, and credit business processes.

The various strategies above are manifestations of 3 (three) main strategies, namely to sharpen the wholesale business by intensifying wholesale segment wallet customers (deepen client relationship), to accelerate expansion in the retail segment (accelerate in growth segment), and to strengthen the integration of Mandiri Group (integrating the group), with the following explanation:



### 1. Deepen Client Relationship Strategy

- a. Encouraging the corporate business as the main aggressively-growing competencies and appearing as the most potential market figure in terms of quality improvement as well as transactional product and treasury reliability.
- b. Improving the fee-based income contribution portion in the corporate and commercial segments.
- c. Increasing share of wallet on top anchor clients.
- d. Developing innovative structured lending products that can be replicated to a variety of wholesale customers such as cross border loans, M&A financing, and sell-down portfolio.
- e. Developing holistic sector solutions, through product offerings and specific financial solutions.
- f. Encouraging consolidation and strengthening of the commercial segment so that it continues to grow in line with the market.

### 2. Accelerate The Growth Segment Strategy

- a. The focus is to drive the growth of payroll-based New Multipurpose Micro Loan (KSM) by dominating the fixed income segment with 5 (five) million payroll accounts by targeting employees from Corporate and Commercial customers.
- b. Focusing on growing Primary Home Ownership Loan (KPR) products through offering affordable mortgage products with selective target customers.
- c. Encouraging bank at work in a value chain through customers who are part of Wholesale customer business processes to expand retail distribution.
- d. The focus is on improving the lives of micro entrepreneurs by continuing to grow selectively at Micro KUM to safeguard NPLs and the success of government programs in the distribution of People's Business Loan (KUR).

In order to implement the accelerate in growth segment strategy, there are several strategic initiatives that will be implemented, including:

- Making improvements to the distribution network through the implementation of the retail ready branch concept, developing a distribution network strategy for the long term, and developing Bank at Work solutions through developing retail product packages to wholesale and retail customers.
- Conducting improvements to business models in mortgages, motor vehicle loans and personal loans.
- Improving micro and SMEs business models.

### 3. Integrate The Group

Integrating the group strategy aims to improve synergy between work units at Bank Mandiri including its subsidiaries so that they can support one another and increase productivity.

- a. Encouraging the performance of the subsidiary entity through the synergy of Mandiri Group.
- b. Improving the productivity of Bank Mandiri's networks through the business process reengineering and data analytics.
- c. Strengthening Bank Mandiri's presence in ASEAN communities.

### Strengthening Enablers

In addition to the above strategies, Bank Mandiri also prepares enablers or other bankwide strategic support to achieve business targets.

- a. Transformation of service model through digitization to improve efficiency, as indicated by the decreasing efficiency ratio.
- b. Organizational rearrangement to better reflect the business focus and to be responsive to market conditions safely, quickly, and productively.
- c. Alignment of risk management to balance growth and quality.
- d. Development of human resources to cultivate the leader and entrepreneurship characteristics.
- e. Encouraging work culture synergy (values, work ethics, mindset) in Mandiri Group.

## IMPLEMENTATION OF CORPORATE PLAN RESTART 2016 - 2020

In order to support the achievement of the Corporate Plan Restart target 2016-2020, Bank Mandiri has had 21 Board of Director (BOD) program levels as the main strategic initiative. The programs that have been developed must meet the objectives of the Corporate Plan, which are focusing on the development of the existing and new cores. In addition, the scope of the program should also include the implementation phase and, finally, should be able to have significant business impact and measurable metrics. In order to ensure that all strategies and initiatives are implemented and working as expected, each initiative has a Sponsor Director who becomes a sponsor to encourage the implementation of the initiative assisted by a Project Management Officer (PMO) who has dedication to carry out the initiative.



One of strategy implementations of the Corporate Plan is (i) the alignment of distribution network organization that is an advanced process of Distributions Network Transformation (DNT). This organization alignment initiative aimed at 2 (two) main things, namely organizations that encourage strengthening risk management and control as well as organizations that focus on 2016-2020 Corporate Plan Restart strategy. (ii) The establishment of growth targets in several segments that become a backbone of Bank Mandiri's business growth. (iii) Striving to overcome NPL problems, including:

1. Accelerating the restructuring for debtors who still have good business prospects and intention. This includes the efforts to find investors who can continue the debtors' businesses.
2. A more intensive billing to litigation actions against uncooperative debtors, and or misuse of loans.
3. Establishing and monitoring credit growth based on the predetermined portfolio mix target (sectoral, industry, product, debtor segment).
4. Establishing credit monitoring functions throughout the region to ensure the crediting processes are in accordance with the established regulations and policies.
5. Controlling the potential of credit quality reduction, both current debtors (watchlist) and ex-restructuring (post-restructuring supervision) to conduct restructuring actions in a timely manner.

## PERIOD OF 2016 - 2018

The stagnant economic growth affected the business and credit quality growth, thus encouraged Bank Mandiri to expand its credit prudently. Within the challenging working climate, Bank Mandiri is fully committed in reaching its long-term visions. By considering the volume gap of its business and credit quality in the respective segments to the targets, Bank Mandiri rationalized its portfolios by reallocating its business volume target at the relatively-well-growing segments through the quality maintenance. The credit volume growth was directed at the corporate segment of the existing core competence in addition to the retail segment as the new core of credit growth booster. Meanwhile, the credit quality improvement at the Middle Corporate segment and SME was gradually pursued by boosting selective and sustainable growth.

- a. As the efforts to strengthen the business that becomes the existing core competence, the corporate segment's credit strategy are as

follows:

- Business intensification in selected anchor clients including its business ecosystem through alternative financing, transaction banking optimization and value chain solutions
  - Diversification through financing expansion in the industry sector that is still prospective and approach to new debtors in accordance with Bank Mandiri Risk Appetite.
  - Encouraging collaboration with Mandiri Group to provide innovative financing, value chain solutions and retail products.
  - Active participation in syndicated financing and structured finance including agency services.
  - Strengthening and discipline of pipeline management execution and credit monitoring discipline.
- b. To strengthen the new core, the retail segment will continue to grow aggressively until 2020, especially for micro loans and consumer loans.
    - Micro loan growth can be achieved through strategies including digital platform development by creating platform engines or collaborating with fintech, developing KSM onboarding online, implementing Business Process Reengineering for KSM Micro products, KSM Acquisition through leading programs and collaboration with Institutional Relations, Corporate Banking segments, and Commercial Banking and optimization of KUR distribution through the Corporate Banking and Commercial Banking value chains.
    - Consumer loan growth was achieved through strategies such as improving business credit reengineering, expanding the target market, optimizing new credit card acquisition strategies by sharpening the acquisition channel, improving sales incentives schemes and focusing on sales in the "Product Champion Bank". In addition, consumer loans also focus on developing marketing programs, especially for the debtor segment that has good quality, such as payroll customers and wholesale managed companies, as well as simplification and improvement of risk acceptance criteria (RAC) / product features according to the profile (prospective) debtors and competitive interest rates for face competition with competitors.
    - SMEs loan growth was achieved through strategies including: focus on lending to the target market of PRIMA customers, value chains, and cooperatives which are existing customers who actively transact at Bank Mandiri, focus on growth in non-revolving /

aflopend and transactional credit products in order to increase credit average balance, and to implement NICE tools to accelerate and improve the quality of the credit underwriting process.

## 2. Improving Credit Quality to Suppress NPL and Cost of Credit

Credit quality since 2016 until now continues to show improvement marked by a decrease in the level of Non-Performing Loans (NPLs) and cost of credit implemented through the following strategies:

- a. Whole account assessment of performing loans (collectibility 1 and 2) included in the watchlist category is followed by mapping / zoning to project debtors who still perform and potentially downgrade.
- b. Make efforts to accelerate the restructuring of debtors who still have business prospects.
- c. Conduct reviews of debtor accounts after restru, including assessing debtor business while taking into account market conditions and the economic sector of the debtor's business.
- d. Marketing collateral for problem loans debtors, to be able to accelerate the sale of collateral to maximize collection and recovery of problem loans.
- e. Perform debtor collateral execution.
- f. Carry out legal action on debtors who are not prospects and are not cooperative.
- g. Improve coordination and cooperation with third parties to handle problem loans including the Attorney General's Office or legal consultants.
- h. Strengthen the assets tracing function, and
- i. Building cooperation with strategic investors.

## PERIODE OF 2018-2019

In addition to continuing to carry out 2 (two) main strategies in the previous period, in this period Bank Mandiri focused on increasing low-cost funds that were more sustainable and empowering Micro, Small and Medium Enterprises (MSMEs).

### 1. Maintaining CASA sustainability rate

In 2019, cheap funds fund-raising strategies (CASA - current accounts and savings accounts) were carried out with the aim to gain cheap funds growth, more stable and sustainable deposition of funds. Several strategies used in collecting current accounts and savings are as follow:

- a. Improving and maximizing the utilization of

- Mandiri Cash Management (MCM) by customers.
- b. MCM user customers Acquisition, especially for those who are from potential industrial sectors.
- c. Adding product holding and e-channel transaction volume.
- d. Program collaboration between segments as an effort of integrated business penetration, and
- e. Loyalty (fiestapoin) program development.

## 2. Empowerment of Micro, Small and Medium Enterprises (UMKM)

Bank Mandiri has a role in increasing Indonesia's economic growth through the strategy of empowering MSMEs entrepreneurs including by:

- a. Focus on increasing the capabilities (expertise, knowledge, and technology) of marketers in terms of cross selling products.
- b. Increase labor productivity (marketing) through improving employee compensation schemes and career paths.
- c. Optimization of integrated marketing to improve the performance of the MSME sector and market penetration to identify new business potentials.
- d. Marketing and onboarding financing via fintech peer to peer lending and e-commerce platforms.

## PERIODE OF 2019-2020

In this period, Bank Mandiri continued the strategy that was carried out in the 2016-2018 and 2018-2019 periods and made efforts to improve cost efficiency, increase productivity, and increase income through improved fee-based income composition.

### 1. Control of Operating Costs

With an orientation towards long-term business growth, controlling operational costs is one of the top priorities of the Corporate Plan. The use of costs will be more focused on developing service networks that support transaction growth and developing more efficient digital-based infrastructure by:

- b. Prioritization
 

Prioritize the use of funds for strategic initiatives that are in line with the long-term strategy and able to produce added value for Bank Mandiri.
- c. Efficiency
 

In an economic condition that is full of uncertainties, technological disruptions, and financial services, the implementation of an efficiency program needs to be carried out so that operational costs are kept under control and bank profits can be achieved along with the expectations.



## 2. Improvement of Fee Based Income (FBI) Composition

Along with the reduction in Bank Indonesia's benchmark interest rate (7 days repo rate) which is predicted to continue until 2020, it is estimated that it will reduce the growth of Net Interest Margin (NIM), so that Bank Mandiri will try to encourage growth of non-interest income (FBI) to maintain total revenue and profits to keep growing through:

### a. Encouraging the growth of recurring FBI:

- Increasing Cash Management revenue through integration and optimization of H2H services for e-commerce customers and selected ecosystems.
- Optimizing e-channels with a focus on channel intensification and extensification through increased sales volume and transactions
- Enhancing partnerships with the fintech industry and strategic solutions

### b. Increase intensification of existing customers and focus on top players in each industry, including:

- Creating customer-based products to produce customized solutions for customers for hedging, structured funding, and other customer needs related to treasury transactions through Client Advisory Sales.
  - Encouraging derivative transactions both in the context of hedging and investment with the Call Spread, IRS, CCS and Deposit Swap instruments.
  - Increasing the intensification of trade products in Corporate and Commercial anchor customers and develop structured solutions to meet their trade needs.
- ### c. Increasing the intensification of e-channel productivity both ATM, EDC, as well as Mobile and Internet Banking (Mandiri Online) through enhancements to ATM features that include developing company needs to encourage increased fee-based income and customer satisfaction and operational excellence.



## MARKETING ASPECT

Marketing aspect is an important factor that can be Bank Mandiri's key of success in mapping market share. In addition, by recognizing the aspect bank Mandiri can also analyze market needs so that the marketing strategy runs successfully. The marketing strategy and market share carried out by Bank Mandiri are described as follows.