

## INVESTOR QUARTERLY REPORT

3<sup>rd</sup> QUARTER 2012 HIGHLIGHTS**Bank Andara Achieves Profitability**

Bank Andara achieved its first profitable month of IDR 157 million in the month of July 2012 and its first profitable quarter with a total of IDR 1,419 million in profits before tax on a quarterly basis in the period July – September 2012, with a total loan disbursement in the third quarter of IDR 208.65 billion. The Bank expects for continuous upward trend and portfolio quality in the next quarter. *See p.3 for details.*

**Decreasing Monthly Burn Rate**

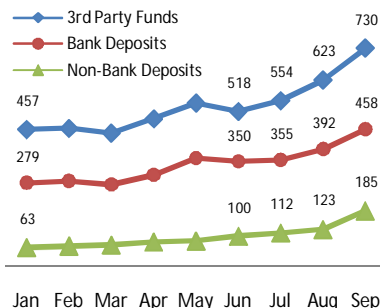
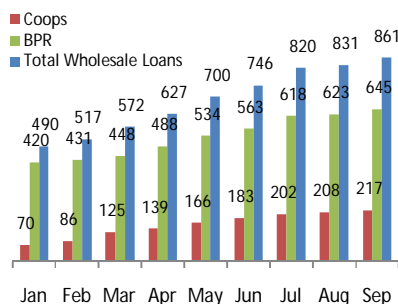
As business grows, the Bank's continues to decrease its Operating Expenses during the third quarter. During the period, the Bank Operating Expenses was decreased IDR 1.1 billion from the end of the second quarter of IDR 5.09 billion. This is slightly better than plan, but the market conditions and our pace of growth will require significant efforts to continue the trend into the 4<sup>th</sup> quarter. *See p.3 for details.*

**1<sup>st</sup> Tranche CITI Loan Disbursed**

In September 28, 2012 Bank Andara disbursed the first tranche of two tranches USD 18.5 million loan from CITI Indonesia. The USD 9.25 million credit facilities, guaranteed by OPIC (Overseas Private Investment Corporation) an agency of the U.S government, is dedicated to support the Bank's plan to increase lending disbursements to micro finance institutions, in line with its strategic focus as champion of micro finance institutions in Indonesia. The signing event was held on 2 October 2012, which was well covered in the local and international media on the same day. The first tranche of this 7.1% 5 year fixed term loan will help improve our funding maturity profile even further.

**Loan Disbursement and Third Party Funds shows Positive Growth**

Bank Andara recorded increased loan disbursements with total wholesale loans of IDR 861.4 billion in the third quarter of 2012. Meanwhile Deposit from other banks was increased from IDR 350.2 billion in June 2012 to IDR 458.3 billion in September 2012, mainly caused by an increased liquidity in some large MFIs that deposit their fund in Bank Andara. Time deposit from non-bank was increased 85% due to the significant growth of deposits from individual clients as well as corporation. *See p.4 for details.*

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**Our issue this quarter**

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**About Bank Andara**

Bank Andara is a wholesale banking institution with a social and a financial bottom line. We opened for business in April 2009, and currently serve as a strategic banking partner to the Indonesian microfinance sector, providing loans and services to MFIs. Established by a trusted international investment consortium, Bank Andara's shareholders include Mercy Corps, IFC, KfW, Hivos-Triadodos Fond, and Developing World Markets, a global investor in microfinance. The bank currently works with more than 600 MFIs throughout Indonesia and hopes to reach 1,400 MFIs in the next three years. The microfinance sector in Indonesia is among the world's largest, with an estimated 40,000 MFIs operating in the country.

**Vision**

Alleviating poverty through the sound and profitable operation of a wholesale banking institution supporting MFIs to provide the poor with access to financial products and services.

**Mission**

To be the premier, pioneering financial partner of the Indonesian microfinance sector, promoting innovation and massive outreach to those lacking access to financial services.

## From the CEO desk

Dear Friends of Bank Andara,

We are pleased to present the highlights of Bank Andara's second quarter of 2012 performance.

First of all, allow us to convey our heartfelt thank you to all our stake holders for your continuing support in growing Bank Andara. For the first time, we are proud to announce that Bank Andara achieved its first profitable month of IDR 157 million in the month of July 2012 and its first profitable quarter with a total of IDR 1,419 million in profits before tax on a quarterly basis in the period July – September 2012. Also, the Bank's also continues to decrease its Operating Expenses during the third quarter. During the period, the Bank Operating Expenses was decreased IDR 1.1 billion from the end of the second quarter of IDR 5.09 billion.

As we ended the third quarter this year, Bank Andara continued to develop our wholesale loan portfolio business pipeline effectively and our third party funds attractively with an increase of IDR 115 billion and IDR 212 billion respectively from the end of last quarter figures. Through partnership that has expanded to almost 700 MFIs this quarter, Bank Andara expects that the upward trend will continue to improve the lives of millions of low-income Indonesians by enabling access to a wide range of financial services through productive partnership with Indonesian microfinance institutions on a responsible and financially sustainable basis.

Focus on growth, we are pleased to report that Bank Andara have disbursed the first tranche of two tranches USD 18.5 million loan from CITI Indonesia. The USD 9.25 million with 7.1% 5-year fixed term loan facilities, guaranteed by the US government agency OPIC (Overseas Private Investment Corporation), is dedicated to support the Bank's plan to increase lending disbursements to micro finance institutions, in line with our strategic focus as champion of micro finance institutions in Indonesia. The signing event which was held on 2 October 2012 was well covered in the local and international media on the following day, resulted in another media exposure of Bank Andara following the Bank Ekonomi deal in June 2012. In addition to this event, we are also pleased to continue our relationship with Developing World Markets (DWM) through a 1-year loan extension and a new senior unsecured 2-year term loan to the Bank amounting USD 3 million and USD 4 million respectively.

On the technology-based product front, AndaraLink network has grown to 345 active MFIs in September 2012, a 72% increased from December 2011 or 11% increased from June 2012 joining MFIs. In the transaction side, the impact of system stability and reliability experienced during second quarter 2012 has been slightly recovered in September 2012 with moving our server to external site.

In the next quarter, despite of the lending peak season already behind us and the competition from other banks is increasing, we planned to continue our efforts in building and deepening long-term relationships with MFIs and individual clients, focusing on high quality service tailored to client needs, pursuing at best price to meet MFIs' commercial needs, and bundled with the bank's fee-based products and MFI training programs.

Once again, we thank you all for your continuing support of the development of Bank Andara. We will continue to focus on improving the Bank's performance, profitability and human impact, as well as strengthening our organization and human resources as a strong platform for future growth.

If you would like to become more directly involved, please e-mail our Investor Relations Officer at [investorrelations@bankandara.co.id](mailto:investorrelations@bankandara.co.id).

Sincerely,

**David Yong**

## Finance and Operations

### Finance

- During these months, total loans have increased in line with the growth in total interest revenue, with positive monthly Net Income.

| <b>BALANCE SHEET (IDR million)</b>     | <b>30-Jun</b>  | <b>31-Jul</b>  | <b>31-Aug</b>    | <b>30-Sep</b>    |
|--|----------------|----------------|------------------|------------------|
| <b>ASSETS</b>                          |                |                |                  |                  |
| Cash & Short-term Investment           | 112,899        | 95,745         | 153,479          | 318,420          |
| Marketable Securities                  | 5,713          | 5,730          | 5,730            | 5,730            |
| Total Loans (Net)                      | 737,941        | 810,985        | 822,178          | 851,635          |
| Fixed Assets (Net)                     | 15,710         | 15,369         | 15,018           | 14,649           |
| Other                                  | 34,383         | 35,097         | 36,291           | 36,499           |
| <b>TOTAL ASSETS</b>                    | <b>906,646</b> | <b>962,926</b> | <b>1,032,696</b> | <b>1,226,934</b> |
| <b>LIABILITIES</b>                     |                |                |                  |                  |
| Third Party Funds                      | 517,633        | 553,742        | 622,994          | 729,625          |
| Fund Borrowings                        | 157,893        | 155,916        | 155,063          | 242,556          |
| Other Liabilities                      | 60,894         | 16,856         | 17,559           | 17,027           |
| <b>TOTAL LIABILITIES</b>               | <b>736,419</b> | <b>726,514</b> | <b>795,616</b>   | <b>989,208</b>   |
| <b>EQUITY</b>                          |                |                |                  |                  |
| Total Paid Up Capital                  | 263,812        | 263,812        | 263,812          | 329,825          |
| Other Comprehensive Income             | 178            | 195            | 230              | 246              |
| Advance for future shares subscription | -              | 66,012         | 66,012           | -                |
| Retained Earnings                      | (93,764)       | (93,607)       | (92,974)         | (92,345)         |
| Revaluation Fixed Assets               | -              | -              | -                | -                |
| <b>TOTAL EQUITY</b>                    | <b>170,226</b> | <b>236,412</b> | <b>237,080</b>   | <b>237,726</b>   |
| <b>TOTAL LIABILITIES &amp; EQUITY</b>  | <b>906,646</b> | <b>962,926</b> | <b>1,032,696</b> | <b>1,226,934</b> |
| <b>TIER 1 CAPITAL</b>                  | <b>146,473</b> | <b>212,641</b> | <b>213,275</b>   | <b>213,903</b>   |

| <b>INCOME STATEMENT (IDR million)</b> | <b>30-Jun</b> | <b>31-Jul</b> | <b>31-Aug</b> | <b>30-Sep</b> |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Total Interest Revenue                | 8,450         | 9,539         | 10,069        | 10,208        |
| Total Interest Expense                | 3,802         | (4,501)       | (5,165)       | (5,712)       |
| Interest Income - Net                 | 4,648         | 5,038         | 4,904         | 4,496         |
| Total Other Operating Revenues        | 155           | 98            | 111           | 67            |
| Total Operating Expenses              | 5,090         | (5,084)       | (4,380)       | (3,946)       |
| Net Operating Income/Loss             | (287)         | 52            | 635           | 617           |
| Net Non Operating Revenue/Expense     | 30            | 105           | (1.4)         | 12            |
| EBIT                                  | (257)         | 157           | 633           | 629           |
| Tax Benefit/ Expense                  | -             | 0             | 0             | 0             |
| <b>NET INCOME (LOSS)</b>              | <b>(257)</b>  | <b>157</b>    | <b>633</b>    | <b>629</b>    |

- The Bank managed to continue the positive trend, from IDR 157 million in July 2012 to IDR 629 million in September 2012, through a decrease in Operating Expense growth (Operating Expense to Operating Income (monthly) ratio from 103.34% in July 2012 to 93.99% in September 2012). However, with the lending peak season behind us, it will require us to continue to ensure that the loan quality and margins remain. The competition from other banks is increasing.

| RATIOS                            | 30-Jun  | 31-Jul  | 31-Aug  | 30-Sep  |
|-----------------------------------|---------|---------|---------|---------|
| Capital Adequacy Ratio (CAR)      | 19.40%  | 25.68%  | 25.41%  | 24.64%  |
| Loan Deposit Ratio (LDR)          | 144.17% | 148.10% | 133.45% | 118.06% |
| Loan to Total Funding             | 110.47% | 115.56% | 106.86% | 88.60%  |
| Return on Assets (ROA)            | -1.69%  | -1.37%  | -1.05%  | -0.79%  |
| Return on Equity (ROE)            | -7.86%  | -6.23%  | -4.73%  | -3.66%  |
| NIM                               | 5.58%   | 5.73%   | 5.76%   | 5.58%   |
| Op Expense to Op Income (Monthly) | 103.34% | 99.46%  | 93.77%  | 93.99%  |
| Op Expense to Op Income (YTD)     | 115.23% | 112.45% | 109.52% | 107.40% |
| Yield on Lending                  | 13.40%  | 13.30%  | 13.21%  | 13.13%  |
| COF (Cost of Fund)*               | 6.34%   | 6.75%   | 7.60%   | 7.68%   |
| <b>PAR</b>                        |         |         |         |         |
| >30 days (excl. old BSP loans)    | 0.00%   | 0.00%   | 0.00%   | 0.00%   |
| >30 days (incl. old BSP loans)    | 0.02%   | 0.02%   | 0.02%   | 0.01%   |

## Notes:

\* Lower COF in June and July was a result of a decrease in Demand Deposit cost of fund as well as a MFI Deposit cash back expense. Demand Deposit outstanding amount was decreased significantly in June and July but increased in the following months.

## Operations

The following is the current position of our staff:

| Operations  | 30-Jun | 31-Jul | 31-Aug | 30-Sep |
|-------------|--------|--------|--------|--------|
| Offices     | 2      | 2      | 2      | 2      |
| Total Staff | 148    | 149    | 151    | 151    |
| BOD         | 3      | 4      | 4      | 4      |
| Jakarta     | 83     | 85     | 87     | 86     |
| Bali        | 62     | 60     | 60     | 61     |
| AO          | 28     | 28     | 30     | 30     |
| FO          | 8      | 8      | 8      | 8      |
| BO          | 6      | 6      | 7      | 7      |

## Loan and Deposit Portfolio

- New loans signed continued to grow through September 2012. From July to September 2012, 135 new loans have been signed with total disbursements amount of IDR 208.65 billion.
- Time deposit from non-bank was increased 85% due to the significant growth of deposits from individual clients as well as corporation.
- Deposit from other banks was increased 31% from IDR 350.2 billion in June 2012 to IDR 458.3 billion in September 2012, mainly caused by an increased liquidity in some large MFIs that deposit their fund in Bank Andara.

| <b>Cumulative Loan &amp; Deposit Portfolio</b>      | <b>30-Jun</b> | <b>31-Jul</b> | <b>31-Aug</b> | <b>30-Sep</b> |
|---|---------------|---------------|---------------|---------------|
| Amount of Loans Outstanding (IDR million)           | 745,723       | 819,560       | 830,906       | 860,901       |
| Amount of Monthly Loan Disbursement (IDR million)   | 73,450        | 102,950       | 43,000        | 62,700        |
| Number of Deposits Account                          | 1,351         | 1,398         | 1,436         | 1,538         |
| Amount of Third Party Funds (IDR million)           | 517,633       | 553,742       | 622,994       | 729,625       |
| Non-Bank Deposits Outstanding (IDR million)         | 100,279       | 112,106       | 123,252       | 185,487       |
| % of Non-Bank Deposits Outstanding                  | 19.37%        | 20.25%        | 19.78%        | 25.42%        |
| Bank Deposits Outstanding (IDR million)             | 350,209       | 354,668       | 391,502       | 458,262       |
| % Bank Deposits Outstanding                         | 67.66%        | 64.05%        | 62.84%        | 62.81%        |
| <i>Andara Bersama BPR (ABB) participating MFIs*</i> | 191           | 194           | 194           | 196           |
| Number of MFIs Borrower                             | 359           | 412           | 423           | 433           |
| Number of MFIs Depositor                            | 587           | 655           | 673           | 692           |
| Andara Link Installed to MFIs                       | 251           | 325           | 328           | 345           |
| Number of MFIs served                               | 592           | 660           | 675           | 693           |

Notes:

\* Pooled liquidity management facility with 1:1 fund matching from Bank Andara, currently implemented with BPRs in Bali and Greater Jakarta. Currently, Bank Andara puts short-term liquidity fund placements with approximately 25 of the participating BPRs of IDR 150 million each on average

## Pro-poor Information

### Social Deposit

This quarter, Bank Andara is actively looking for private or state-owned company to join the Social Deposit through their CSR fund. Bank Andara have been visiting and sending proposals to several private companies such as SOS International, Sophie Paris, HOLCIM Cement Indonesia and also NGOs such as Indonesia Netherland Association (INA) and Horticulture Partnership Support Program (HPSP).

Currently, Bank Andara continues to offer Social Deposits to potential corporate clients that have a keen interest in social activities ranging from oil, mining, insurance companies, and so forth. In addition, a joint assessment is currently being conducted by Bank Andara and one of the state-owned corporation in the implementation of community development program by providing specialized loan products to small and micro businesses as well as empowering the institutions.

### Emergency Liquidity Fund

Along with the implementation of the emergency liquidity fund with Mercy Corps and MICRA, number of microfinance institutions (MFIs) joined have increased into 39 MFIs located in Padang, Jogjakarta, Jakarta and Central Java.

Some MFIs incorporated in the program have also begun to developed special products such as savings and loan. For example *Kredit Mulia Cooperative* in Jogjakarta developed savings and loan products dedicated to disaster preparedness. The products started with 10 clients participated, currently have reached 220 clients. In addition, in Padang West Sumatra, 19 MFIs have established an association and have developed mutual savings dedicated solely to help MFI clients that affected by disaster.

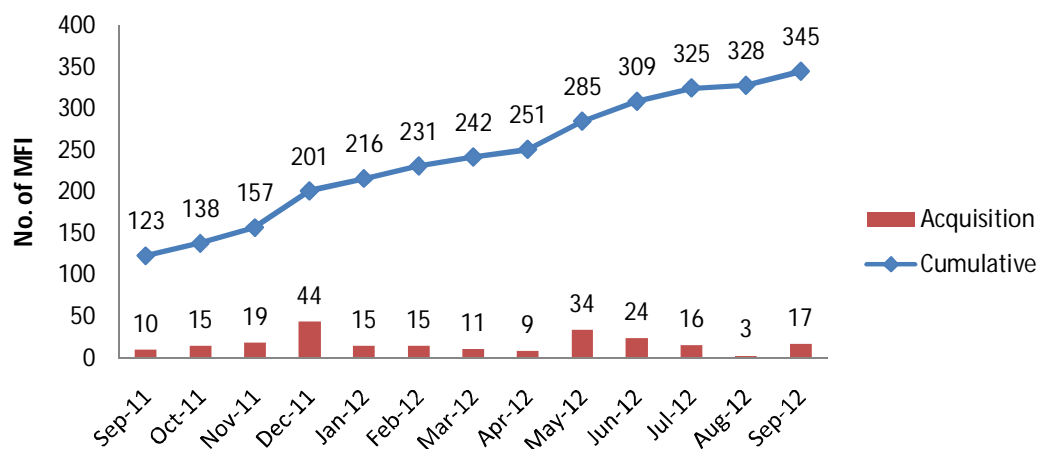
| Coverage and Pro-Poor Portfolio                             | 30-Jun | 31-Jul | 31-Aug | 30-Sep |
|---|--------|--------|--------|--------|
| <b>Geographic Coverage</b>                                  |        |        |        |        |
| Sumatra   | 37     | 40     | 40     | 43     |
| Jakarta & Banten  | 18     | 20     | 20     | 21     |
| West Java   | 87     | 87     | 88     | 92     |
| Central Java  | 60     | 64     | 67     | 66     |
| Jogjakarta  | 5      | 5      | 5      | 5      |
| East Java   | 64     | 68     | 74     | 76     |
| Sulawesi  | 30     | 37     | 37     | 39     |
| Bali, NTB (West Nusa Tenggara),<br>NTT (East Nusa Tenggara) | 86     | 91     | 92     | 92     |
| <b>Pro-Poor Portfolio</b>                                   |        |        |        |        |
| Number of Pro-Poor Lending MFI                              | 174    | 176    | 182    | 183    |
| Number of Non Pro-Poor Lending MFI                          | 213    | 236    | 241    | 250    |
| Pro-Poor Percentage   | 45%    | 43%    | 43%    | 42%    |

## Technology-based Products

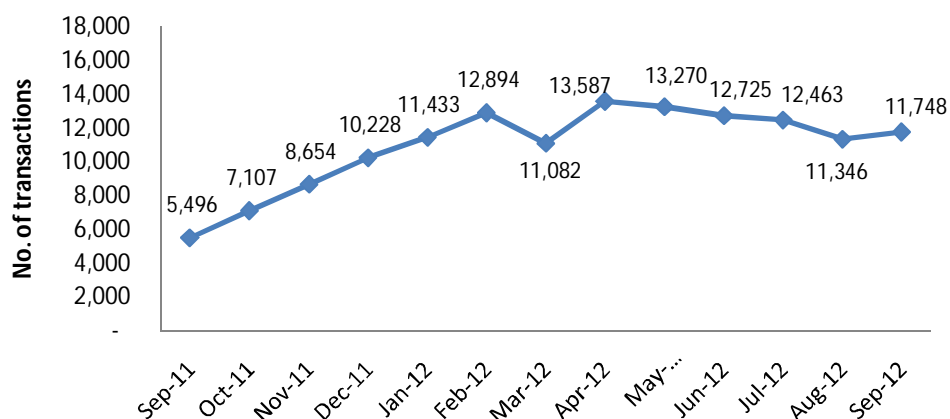
### Andara-Link Payment Hub

AndaraLink network has grown to 345 active MFIs in September 2012, an 11.65% increase from June 2012 joining MFIs. While in the transaction side, the impact of technical issues during second quarter 2012 has been slightly recovered in September 2012. Even though, system stability and reliability is kept under concern to maintain trust among MFI members.

### Growth of MFI Joining AndaraLink



## Growth of Transaction Volume



In the development, the feature of international remittance through partnership with Bank BNI 46 is currently on the testing phase, which took a longer process to make sure the quality of system implementation. In parallel, Bank also started the development for microinsurance project, which in this early stage the agreement with PT. Equity Life Insurance (ELI) is to provide insurance premium payment for "PitraYadnya Plus" (ELI's whole-life insurance product) through AndaraLink channels, which covers web portals and later the Android-based mobile devices. Bank also expands its use as a collection tools for MFI field officers in getting their customer savings with reduced fraud risks through Android-based mobile devices, which currently engaged a pilot with BPR Subang in West Java and BPR Artharindo in Jakarta. These three features are expected to start generate live transactions by end October to November 2012.

The development of proper system for MFIs as part of Bank's mission, which runs pilot at BPR Artharindo in Jakarta and BPR Darmawan in Bekasi, is currently enhanced for the second stage which involves ATM implementation. The progress will require finalized ATM implementation at Bank first, which connected to Bank's savings products, which later will be co-branded for MFI use. Since the regulatory procedures may took longer process, in parallel the systems are being improved to meet the standards required.

## Corporate Governance

### 1. BANK INDONESIA ANNUAL AUDIT

BI Annual audit was performed from July to September 2012 and awaiting for the exit meeting schedule in October. This particular audit also embarks the new BI Supervisory in Jakarta which reflected by having additional three special teams of BI auditors participated in this activity. Each of these team is specializing in Treasury & Liquidity, Information Technology [IT] and last but not least BPR's regulatory team.

### 2. COMPLIANCE DIRECTOR FIT AND PROPER PROCESS

Fit & Proper Test proposal for Compliance Director candidate has been submitted to BI on September 27, 2012.

### 3. NEW BRANCH OFFICES PROPOSAL

As the transition period of BI's supervisory changes ended in September 2012, the new branches proposal will no longer under the domain of BI Denpasar. Therefore, Bank Andara is preparing the submission of new branch offices proposal package to DPIP (License Directorate in JKT).

#### **4. SOP ADEQUACY AND RISK ASSESSMENT PROJECT**

The SOP Update and Adequacy Identification have been completed on June 20, 2012 with results of 32 inputs. During the identification process, Bank Andara has completed 5(five) new SOPs amendments: Anti Fraud Strategy Policy, Outsourcing Policy, Time Deposit Procedure, Checking Account Procedure, and Credit Risk Review (New Format). In addition to that, Bank Andara have established operational & compliance internal risk limits on four areas as the result of operational and compliance risk assessment: Accounting, Loan Admin, AndaraLink (IT Operation and Back Office Operation), and Treasury.

#### **5. DWM New Loan Facility Approved**

BI approved new offshore loan from DWM with additional comments on amongst others, related to pricing relative to domestic levels.