

INVESTOR QUARTERLY REPORT

3rd QUARTER 2013 HIGHLIGHTS**Adverse Economic Conditions**

Macro-economic conditions are affecting loan disbursement, characterized by slower growth, increasing inflation, and tighter funding conditions from commercial banks. The MFI's end-clients felt the brunt of increasing inflation that reduce their borrowing, thus this situation drives to the decreased loan proposal received during July-August. Although the September's figure was the lowest, we have reached 91,3% of the 2013's loan disbursement target. We decide to use this "slow" season to test our new scoring method for Cooperatives, as our effort to increase the loan quality.

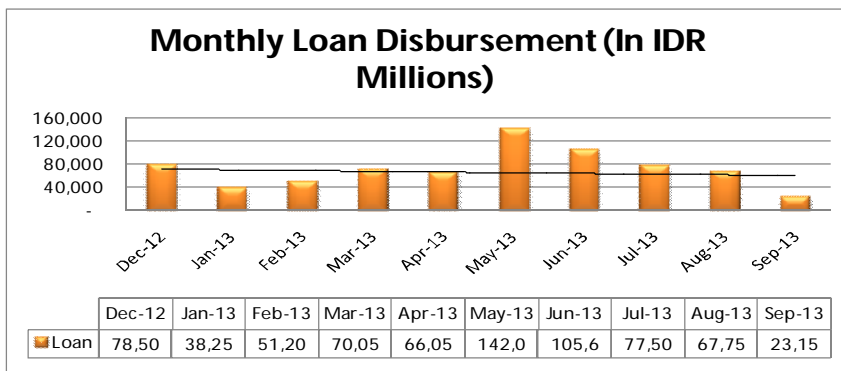


Table.1

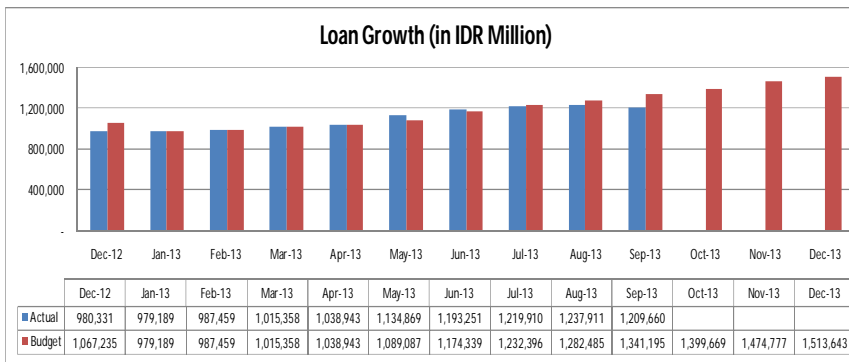


Table.2

Profitability

The operations income is in-line with the projection however, the increased of loan loss provisions has greatly affected the profitability as it causes a loss over the 3rd Quarter.

Funding Improvement

The earlier efforts to diversify sources of funding start to take effect. New clients' acquisition is on the rise with stronger and more experienced funding team in Head office and branches.

Impact of Bank Indonesia Statutory Reserve (GWM)

As one of the measure to curb inflation, Bank Indonesia imposes new parameter of statutory reserve and LDR. The first was a hike from 2,5% to 3% on September and 0,5% monthly rise to 4% at end of 2013. To slower the pace of loan growth, the new LDR will be maximum 98% at the end of 2013. The new LDR will be applied to bank with CAR below 11%, thus will not be imposed to Bank Andara with CAR above 32%.

Investor Relations

Plaza Bapindo Citibank Tower 28th Floor
Jl. Jend. Sudirman Kav.54-55
Jakarta 12190
Tlp: +62-21-526-0707
Fax: +62-21-526-6003
Email: investorrelations@bankandara.co.id
Website: www.bankandara.co.id

Our issue this quarter

From the CEO's desk	2
Finance and Operations	3
Loan and Deposit Portfolio	5
Pro-poor Information	6
Electronic Banking Service	7
Corporate Governance	7

About Bank Andara

Bank Andara is a wholesale banking institution with social and financial bottom line. Bank Andara obtained BI's approval to run the business in January 2009, and currently serves as a strategic banking partner to the Indonesian microfinance sector (MFI) in providing loans and services. Established by a trusted international investment consortium, Bank Andara's shareholders are Mercy Corps, IFC, KfW, Hivos-Triadods Funds, and Developing World Markets Fund S.C.A – SICAV SIF, global investors in microfinance. The Bank currently works with more than 700 MFIs throughout Indonesia and intends to reach 1,200 MFIs in the next 3 (three) years. The microfinance sector in Indonesia is one of the world's largest, with estimated of 40,000 MFIs operating in the country.

Vision

As a catalyst to large scale outreach to millions of Indonesian who have no access to financial sector by providing innovative financial products and services to and through microfinance institutions.

Mission

To improve millions of low-income Indonesian livelihood by enabling access to a wide range of financial services through productive partnership with Indonesian microfinance institutions on a responsible and financially sustainable basis.

Dear friends of Bank Andara,

We are pleased to present the highlights of Bank Andara's third quarter 2013's performance.

Bank Andara has demonstrated its resilience towards changing and challenging market environment. Sudden reversal of macro-economic conditions has forced us to review and revise the budget for 2nd Semester of 2013 in June. US Federal Reserve intention to slow down Quantitative Easing was the culprit of funds outflow from developing nations, including Indonesia.

To defend the currency, Bank Indonesia has increased BI rate several times from 5.75% to 7.25% (May - September), thus tightened liquidity in the market and increased competition for deposits in the market. With our current size and financial performance, the Bank has to compete fiercely for funding as well. We have tough choices either to maintain prudential level of liquidity versus resume loan disbursement, and we decide to put safety first. In spite of having a healthy pipeline, the chosen strategy has caused significant slowing down in lending this period. The tightened liquidity has been the biggest main cause of the Bank's slowed lending.

As a compensation for the slow lending in 3rd Quarter of 2013, we will make extra efforts to disburse more by end of year whilst we are working on 2 new lending deals to fund loans, and boosting deposit acquisition in October and November.

Our aim to accelerate loan disbursement will not lower our standards; however, origination of quality loans has become high priority. Learning from our experience, we have taken measures to improve our collateral mix. The cash and fixed assets collateral will be the ideal goal as we found that it was not so easy to recover the client's account receivables as the number of delinquent loans increased during the 3rd quarter.

In order to reach more of our new challenging target of full year profitability, we shall intensify our communication with our clients. This is particularly important because we are re-pricing existing loans as well as adjusting prices for new loans. We believe that our clients understand that an interest rate hike is inevitable, and we also try to explain to our good clients the rationale of the increase is in line with the market condition.

Other area needs to be closely monitored is the expense control aspect. The plan to relocate Jakarta's branch and the opening of Makassar's new branch are subject to Bank Indonesia's approval. The cost has to be followed by higher revenue and better monitoring of our clients.

The current outlook remains uncertain, amplifying our efforts at more prudence in the way we manage our existing and new clients, especially approaching the year of the President's election.

Once again, we thank you for your continued support towards Bank Andara. We will maintain our focus on improving the Bank's performance, profitability and successful financial inclusion, as well as strengthening our organization and human resources as a strong platform for future growth.

If you would like to involve directly, please drop your e-mail to our Investor Relations officer at investorrelations@bankandara.co.id.

Warm Regards,

David Yong

Finance and Operations

Finance

BALANCE SHEET (IDR million)	Dec-12	Mar-13	Jun-13	Jul-13	Aug-13	Sep-13
ASSETS						
Cash & Short-term Investment	195,480	161,842	76,881	87,412	65,285	133,711
Marketable Securities	5,551	5,551	23,971	25,653	25,655	23,049
Total Loans (Net)	970,227	1,003,767	1,179,254	1,205,703	1,222,787	1,190,728
Fixed Assets (Net)	15,313	14,741	13,448	13,083	13,545	14,066
Other	34,156	36,017	32,508	34,918	36,281	35,201
TOTAL ASSETS	1,220,727	1,221,918	1,326,062	1,366,769	1,363,553	1,396,755
LIABILITIES						
Third Party Funds	745,585	699,919	749,263	797,107	799,957	844,440
Fund Borrowings	218,236	264,717	320,016	313,362	308,138	302,198
Other Liabilities	16,947	16,256	16,107	16,151	15,307	16,106
TOTAL LIABILITIES	980,768	980,892	1,085,386	1,126,620	1,123,402	1,162,744
EQUITY						
Total Paid Up Capital	330,080	330,080	330,080	330,103	330,103	330,103
Other Comprehensive Income	115	167	221	221	221	(2,366)
Retained Earnings	(90,236)	(89,221)	(89,625)	(90,175)	(90,173)	(93,726)
TOTAL EQUITY	239,959	241,026	240,676	240,149	240,151	234,011
TOTAL LIABILITIES & EQUITY	1,220,727	1,221,918	1,326,062	1,366,769	1,363,553	1,396,755
TIER 1 CAPITAL	217,320	217,827	217,625	217,373	217,373	213,852

Lower loan disbursement due to interest rate hike, and also the Bank's risk management policy to maintain higher liquidity position have increased the cash and short term Investments. The macro economic conditions have also made MFIs for not taking up new loan after they complete one cycle. This leads to lower loan portfolio in September.

The marked-to-market valuation on marketable securities used as borrowing collaterals has decreased the value as the government bond prices plunges by 20% compared to June 2013. Improving confidence towards monetary measures may boost the price towards end of year.

Third party funds grow as the Funding Team succeeds in expanding network and trust of financial markets, corporations well as wealthy individuals.

Declining in fund borrowings is due to scheduled partial principal payments, and rolled over of matured borrowing from other bank. Currently, we are waiting on 2 large new lending to strengthen our balance sheet.

INCOME STATEMENT (IDR million)	Dec-12	Mar-13	Jun-13	Jul-13	Aug-13	Sep-13
Total Interest Revenue	11,662	11,737	12,910	13,892	13,805	13,285
Total Interest Expense	(7,336)	(5,569)	(6,988)	(7,990)	(8,239)	(8,079)
Interest Income - Net	4,326	6,168	5,922	5,902	5,566	5,206
Total Other Operating Revenues	2,873	67	109	102	93	99
Total Operating Expenses	(4,505)	(6,193)	(5,638)	(6,584)	(5,676)	(8,800)
Net Operating Income/Loss	2,694	42	393	(580)	(17)	(3,495)
Net Non Operating Revenue/Expense	(271)	35	13	30	19	(58)
EBIT	2,423	77	406	(550)	2	(3,553)
Tax Benefit/ Expense	(1,045)	-	-	-	-	-
NET INCOME (LOSS)	1,378	77	406	(550)	2	(3,553)

RATIOS	Dec-12	Mar-13	Jun-13	Jul-13	Aug-13	Sep-13
Capital Adequacy Ratio (CAR)	40.88%	38.79%	34.22%	33.71%	33.41%	33.60%
Loan to Deposit Ratio (LDR)	131.48%	145.07%	159.26%	153.04%	154.75%	143.25%
Loan To Total Funding	101.71%	105.26%	111.59%	110.85%	112.73%	107.37%
ROA	-0.33%	0.32%	0.10%	0.01%	0.01%	-0.36%
ROE	-1.77%	1.87%	0.57%	0.05%	0.04%	-2.16%
NIM	5.30%	5.68%	5.71%	5.67%	5.62%	5.52%
Ops Expense to Ops Income (YTD)	102.04%	97.41%	100.04%	100.70%	100.62%	103.67%
Yield Of Lending	12.95%	12.75%	12.61%	12.62%	12.44%	12.17%
COF (Cost Of Fund)	6.39%	6.06%	6.78%	6.77%	6.85%	7.49%
PAR						
>30 days	0.16%	0.62%	0.85%	1.27%	1.24%	1.69%

CAR is still adequate to propel growth with borrowings. The Bank is still under-leveraged and needs to be more active to pursue domestic as well as overseas funding.

Lower LDR and Loan to Total Funding is the result of lower loan portfolio versus higher third party deposits. Improvement of LDR will be achieved with the development of funding teams and better presence in several areas.

The Operating Expenses mostly increase due to bigger provisions to loan loss provisions. During July-September 2013, the Bank has to provide more provisions as the problems exist. Necessary actions are to be taken to reduce these outstanding. One of the strategies is by executing the collaterals (accounts receivables which still in current conditions are offered to potential buyers, along with disposal of fixed assets). To prevent additional non performing loans, the Bank is increasing closer monitoring and intensifying communication with clients. This is to have early detection on problem signs and take necessary actions to mitigate the risk. The Bank continues to get better insights of client's conditions and assist them during the crisis where possible.

With the lower yield on lending and increased cost of fund, the only way to keep afloat is grow the volume. The volumes are shorted of due to tightened underwriting criteria, high interest rate as well as low funding volume. This will support the growth and reduce the percentage of overhead costs. One overseas funding is in final step of term sheet negotiation, and it simultaneously subject to Bank Indonesia's approval.

Portfolios

<i>Cumulative Loan & Deposit Portfolio</i>	Dec-12	Mar-13	Jun-13	Jul-13	Aug-13	Sep-13
Amount of Wholesale Loans (IDR million)	979,926	1,014,877	1,192,658	1,219,352	1,237,379	1,209,105
Amount of Monthly Loan Disbursement (IDR million)	78,500	70,050	105,600	77,500	67,750	23,150
Number of Deposits Account	1,680	1,656	1,740	1,776	1,814	1,834
Amount of Third Party Funds (IDR million)	745,585	699,919	749,263	797,107	799,957	844,440
Non-Bank Deposits Outstanding (IDR million)	189,102	202,493	167,033	160,202	159,415	164,806
% of Non-Bank Deposits Outstanding	25.36%	28.93%	22.29%	20.10%	19.93%	19.52%
Bank Deposits Outstanding (IDR million)	534,736	478,108	563,688	616,831	617,439	657,413
% Bank Deposits Outstanding	71.72%	68.31%	75.23%	77.38%	77.18%	77.85%
<i>Andara Bersama BPR (ABB) participating MFIs*</i>	199	203	207	207	207	208
Number of MFIs Borrower	479	492	520	526	533	539
Number of MFIs Depositor	736	753	740	748	754	769
Andara Link Installed to MFIs	366	380	403	413	417	426
Number of MFIs served	737	755	749	749	763	769

In line with the increasing interest rates, the demand for loan also declined. Coupled with the Bank's higher interest rate due to higher cost of funds, some of clients decide not to renew their loans. This led to lower portfolio of loans. The disbursed loan will be normal again once the clients are calibrated to the new macro-economic conditions and equilibrium.

The Bank succeeds in attracting new depositors. New account consists primarily on non BPRs. Although the nominal is still small, this is a start of building exposure from additional channels. The overall amount of funding received in this period is the highest. The Funding Team will be expanded to diversify sources of funds.

In respect with Andara Bersama BPR (ABB), the Bank obtains approval letter from Bank Indonesia stating that Bank Andara may act as regional APEX bank in areas where our branches domicile. In fact, at APEX bank review meeting in September organized by Bank Indonesia, Bank Andara is one of the only two banks that meet APEX's full requirements. The other 9 banks only partially fulfil APEX requirements. The Bank is in the process of reviewing and implementing Standard Operating Procedures of a regional APEX bank with several DPD Perbarindo (regional BPR association). With the acknowledgement of DPP Perbarindo (Central BPR association) and regional BI offices, Bank Andara expects to sign MoU to formally execute APEX services before end of 2013.

Bank Andara also improves the AndaraLink Services by having dedicated officers, better hardware and communication with users are aimed to increase the number of transactions and MFIs served.

Operations

The following is the current position of our staff:

Operations	Dec-12	Mar-13	Jun-13	Jul-13	Aug-13	Sep-13
Offices	2	4	4	4	4	4
Total Staff	160	206	220	217	219	221
BOD	3	3	3	3	3	3
Head Office	-	-	107	104	105	106
Jakarta	91	125	26	25	25	24
Bali	66	44	44	45	45	45
Semarang	-	19	21	21	21	21
Surabaya	-	15	19	19	20	22
AO	29	27	32	32	32	30
FO	11	10	11	10	11	10
BO	6	6	6	6	6	5

The new Head of Human Resources Division has joined Bank Andara in mid-August. The timing can't be better, the Bank obtained grant from NMI and KfW to conduct trainings for MFIs as well as the Bank's staff.

Pro-poor Information

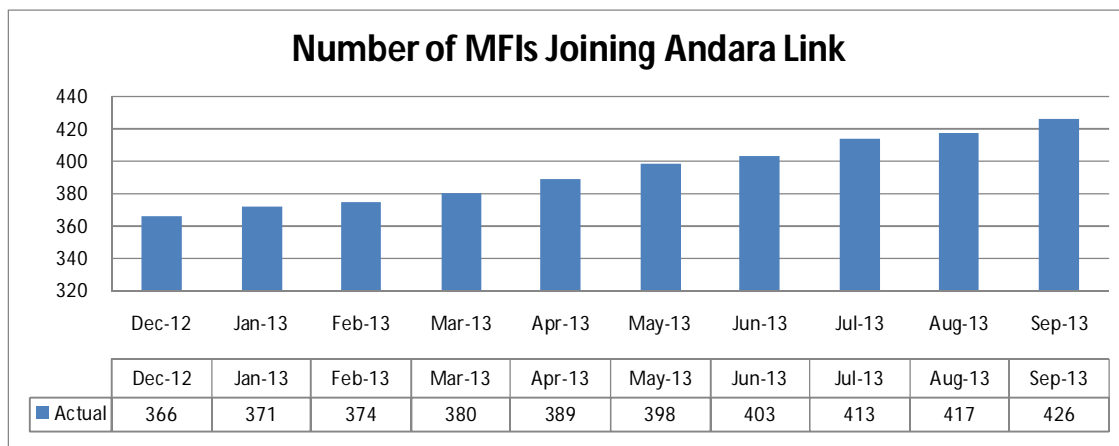
Coverage and Pro-Poor Portfolio	Dec-12	Mar-13	Jun-13	Jul-13	Aug-13	Sep-13
Geographic Coverage						
Sumatra	46	50	50	51	52	52
Jakarta & Banten	21	20	23	23	22	22
West Java	95	97	97	97	98	99
Central Java	71	71	70	70	72	73
Jogjakarta	8	9	9	9	10	10
East Java	92	95	110	115	116	120
Sulawesi	48	52	57	57	58	58
Bali, NTB (West Nusa Tenggara), NTT (East Nusa Tenggara)	98	98	103	103	104	104
Kalimantan	0	0	1	1	1	1
Pro-Poor Portfolio						
Number of Pro-Poor Lending MFI	228	256	292	298	305	309
Number of Non Pro-Poor Lending MFI	251	236	228	228	228	230
Pro-Poor Percentage	48%	52%	56%	57%	57%	57%

Agriculture financing sector is largely underdeveloped in Indonesia. The farmers need cheaper working capital and knowledge to improve their crop. Their current dependency to loan shark and inefficient agriculture process prevent them to improve their livelihood.

The Bank will expand the agriculture financing scheme through MFIs, hand in hand with providers of agricultural supplies (fertilizers, pesticides, seeds etc), the off-takers and local government to ensure a mutually beneficial scheme. The farmers received good quality agricultural supplies, trainings on how to do effective-efficient farming, affordable loan from BPRs funded by Bank Andara. The harvest then will be sold to the off-takers with a premium over highest market price, in which the proceeds will go into BPRs to repay Bank Andara.

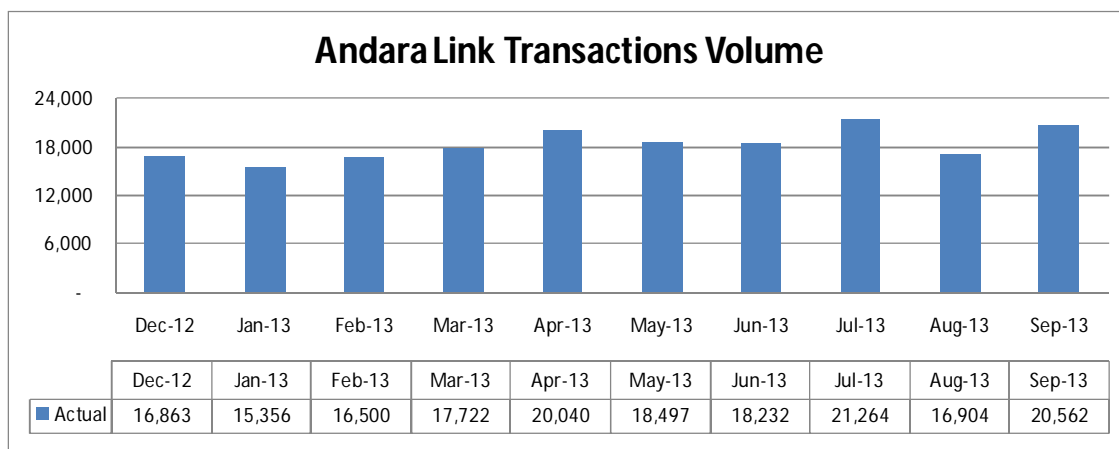
Andara-Link Payment Hub

AndaraLink network has grown from 413 active MFIs in July 2013 to 426 MFIs in September 2013. New clients acquisition mostly because of referral from existing user. The breakthrough in using android-based tablet which simplifies the process in payment collection (minimize fraud and increase productivity).



Growth of Transaction Volume

As continuing plan to increase volume transaction of AndaraLink features from MFI to their clients, Bank Andara increases the number of visits to MFI who has less frequent transaction to understand the problem faced by the clients, and provides technical assistance to solve their problem.



Corporate Governance

Bank Andara strengthens all aspects in Risk Management. The internal control organization and staffing is being completed and many gaps identified and filled.

As a confirmation to Bank Andara’s effort for continuous improvement, Economic Review (a prominent think tank of economist and financial practitioners) jointly with Perbanas Institute (Indonesian Banking Association Institute) bestow Bank Andara with ‘Good Corporate Governance and Information Technology Usage Award’ for Banks with lesser than IDR 1 Trillion equity.