

## INVESTOR QUARTERLY REPORT

4<sup>th</sup> QUARTER 2012 HIGHLIGHTS**Bank Andara Profitability Increases**

Bank Andara experienced increased profits while maintaining excellent portfolio quality in the last quarter of 2012. Quarterly Net Income which was 1.419 billion in Q3, increased to 3.689 billion in Q4. See [p.3](#) for details.

**Increasing Interest Revenue**

As business grows, the Bank continued to increase its Interest Revenue during the fourth quarter. During the period, Bank Interest Revenue increased from IDR 29.816 billion in the third quarter to IDR 34.009 billion in Q4. This is slightly better than plan, in line with a healthy growth of loans disbursed. See [p.4](#) for details.

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

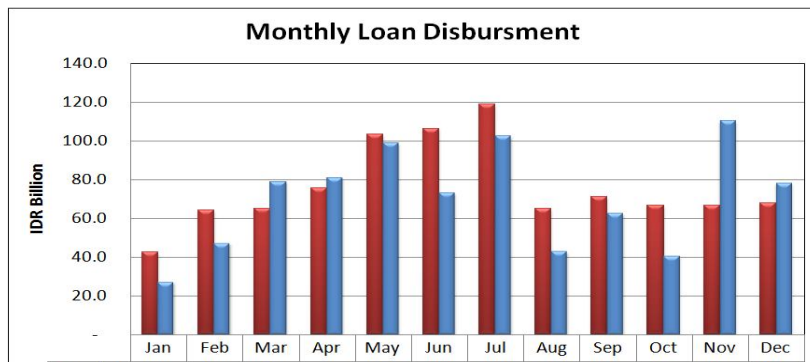
Bank Andara signed a fixed interest 5 year USD 18.5 million loan on 2 October 2012 with Citibank N.A, Indonesia branch and guaranteed by OPIC (US Government Overseas Private Investment Corporation) at relatively very favorable pricing. This loan is split in two equal tranches, with a drawdown of the 2nd tranche expected in April or May 2013. This particular loan is part of the ongoing effort of the Bank to improve its funding maturity profile and reducing its dependency on foreign sources of funding since the start of 2012.

**DWM's SNS I and SNS II Fund Loan Disbursed**

In October 23, 2012 SNS I and SNS II Fund under the management of DWM disbursed IDR 38.268 billion (equivalent USD 4 million) for 24 months, extendable to 36 months. This borrowing is dedicated to support the Bank's plan to increase loan disbursements to micro finance institutions, in line with its strategic focus as champion of micro finance institutions in Indonesia. The loan's medium-term maturity will also contribute to the Bank's already-improving funding maturity profile.

**Loan Disbursement shows Positive Growth**

Despite the so-called 'low' lending season and increased competition, the Bank managed to disburse a record IDR 110 billion in November. Overall, the Bank disbursed IDR 229 billion in the 4<sup>th</sup> quarter against a budget (target) of IDR 201 billion. See [p.4](#) for details.

**Investor Relations**

Plaza Bapindo Citibank Tower 28<sup>th</sup> Floor  
Jl. Jend. Sudirman Kav. 54-55  
Jakarta 12190  
Tlp: +62-21-526-0707  
Fax: +62-21-526-6003  
Email: [investorrelations@bankandara.co.id](mailto:investorrelations@bankandara.co.id)  
Website: [www.bankandara.co.id](http://www.bankandara.co.id)

**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 obtained BI approval to open for business in January 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-Triodos Fond, and Developing World Markets, a global investor in microfinance. The Bank currently works with more than 700 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**

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

**Mission**

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.

## From the CEO's desk

Dear Friends of Bank Andara,

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

First of all, allow us to convey a heartfelt "thank you" to all our stakeholders for your continuing support in growing Bank Andara. We have finished strong despite all the challenges we encountered in 2012. Many improvements have been achieved in 2012, such as improving our local funding sources and the Bank's maturity profile while continuing to grow a high-quality loan portfolio to local microfinance institutions. There are still many challenges ahead, not the least of which is the changing regulatory landscape which will start taking effect in early 2013. These will present us with interesting strategic options for taking the Bank to a new level in service and performance, which we will be discussing with our shareholders and stakeholders over the next several months.

As we ended the fourth quarter this year, Bank Andara continued to develop wholesale loan portfolio business pipeline effectively. Although in October the increase in loan portfolio slowed temporarily to only IDR 7.2 billion, we boosted our performance in November (increase of IDR 87 billion) and in December (IDR 35 billion). Increased competition in the 4<sup>th</sup> quarter saw a number of new commercial bank entrants supporting larger community banks (BPRs) as they, too, searched for a safe means of increasing their lending.

Through partnership that has expanded to 737 MFIs by December, Bank Andara expects that the upward trend will continue to improve the lives of millions of low-income Indonesians through productive partnership with Indonesian microfinance institutions.

To support diversification and articulation of our mission, we are pleased to report that Bank Andara has disbursed a new type of working capital loan which is agricultural loan in Sulawesi, as part of a pilot providing working capital to smallholder cocoa farmers. Bank Andara, in cooperation with a BPR in Kolaka, Southeast Sulawesi and a fertilizer distributor, are financing 500 farmers with maximum limit IDR 5 million per farmer. Bank Andara is now making plans to expand cooperation in both partners and working areas after positive pilot results are confirmed.

The AndaraLink network has grown to 366 active MFIs by December 2012, a 6 % increase compared to September figures. On the transaction side, the impact of new service (SolusiSetoran – Pick up Service) was a major booster in transactions in October 2012 and beyond. Increased marketing efforts and continuous improvement in service quality will be required in 2013 to further increase transaction numbers and realize revenue growth.

In the next quarter, despite its being a traditionally "low" season for lending to MFIs and the prospect of growing competition from other banks, we are confident that we will continue to build and deepen long-term relationships with MFIs and individual clients, focusing on high quality service tailored to client needs. Compared to last year, the Bank is now in a better position to offer the right financing products at competitive prices to meet MFIs' commercial needs, and to bundle-financing with the bank's fee-based products and MFI training programs. To continue our momentum, though, we will need to strengthen the skills of our team members as well as implement plans to improve efficiency, processes and controls. Investments will be needed to allow the bank to effectively support its growing size in the next few years.

The macro-economic environment will also provide challenges for 2013 with growth rates expected to be slightly less than they were in 2012. The situation in Europe and US will continue to affect the business climate in South-East Asia, in particular Indonesia which has enjoyed restoration of its investment grade status since December 2012.

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

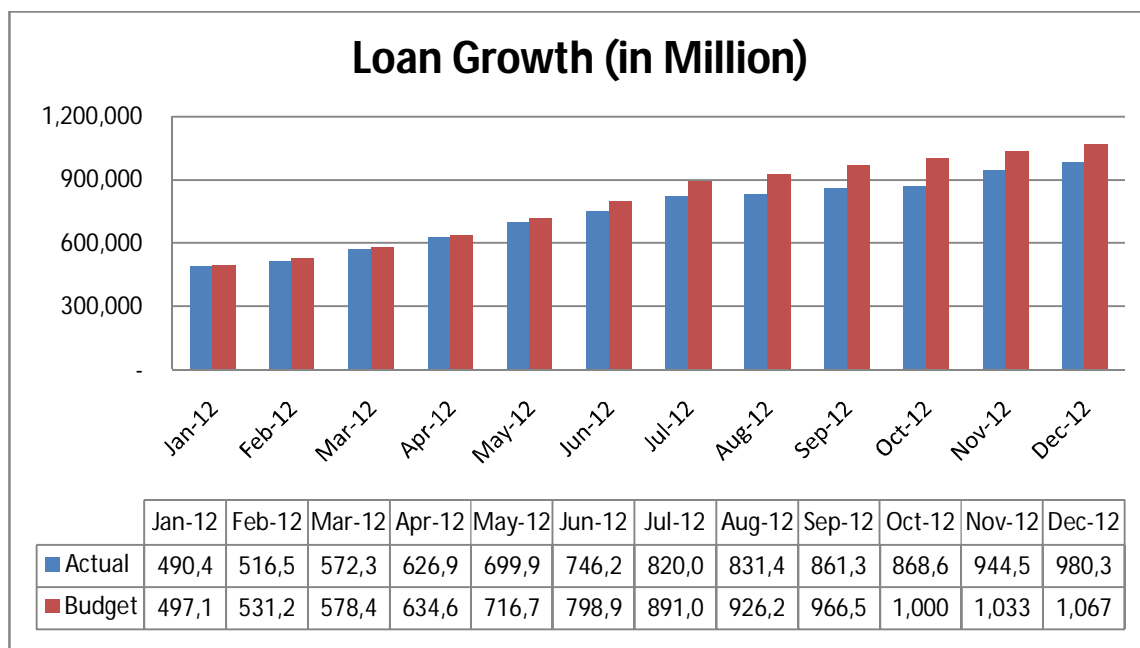
## Finance and Operations

### Finance

BALANCE SHEET (IDR million)	31-Mar	30-Jun	30-Sep	31-Dec
<b>ASSETS</b>				
Cash & Short-term Investment	123.850	112.899	318,420	195,494
Marketable Securities	5.730	5.713	5,730	5,730
Total Loans (Net)	565.778	737.941	851,635	970,477
Fixed Assets (Net)	16.696	15.710	14,649	14,510
Other	35.662	34.383	36,499	36,361
<b>TOTAL ASSETS</b>	<b>747.716</b>	<b>906.646</b>	<b>1,226,934</b>	<b>1,222,572</b>
<b>LIABILITIES</b>				
Third Party Funds	445.414	517.633	729,625	745,585
Fund Borrowings	113.812	157.893	242,556	218,236
Other Liabilities	16.207	60.894	17,027	17,284
<b>TOTAL LIABILITIES</b>	<b>575.433</b>	<b>736.419</b>	<b>989,208</b>	<b>981,105</b>
<b>EQUITY</b>				
Total Paid Up Capital	263.812	263.812	329,825	329,825
Other Comprehensive Income	144	178	246	299
Advance for future shares subscription	-	-	0	0
Retained Earnings	(91.674)	(93.764)	(92,345)	(88,657)
Revaluation Fixed Assets	-	-	-	-
<b>TOTAL EQUITY</b>	<b>172.283</b>	<b>170.226</b>	<b>237,726</b>	<b>241,467</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>747.716</b>	<b>906.646</b>	<b>1,226,934</b>	<b>1,222,572</b>
<b>TIER 1 CAPITAL</b>	<b>148.563</b>	<b>146.473</b>	<b>213,903</b>	<b>216,757</b>

The market conditions in this quarter was very liquid. Bank Indonesia's decision to buy Government Bonds added liquidity to the market that was already flooded with IDR. The over-liquid conditions of Bank Andara in September were getting worse in October, when the delayed disbursement of the new borrowing finally materialise. In response to this high liquidity condition, the Bank took the opportunity to selectively decrease deposit rates and repay high-interest borrowings, resulting in a more balanced liquidity position by December. The bank's liquidity balance was also helped by the surge in new lending experienced in November and December

Total loan outstanding increased slowly in October (IDR 7 billion or 0.8%), followed by much stronger growth in November (IDR 76.9 billion or 8.96%) and a moderate increase (IDR 34,7 billion or 3.7%) in December. Loan growth was due to increases in loans to BPRs as well as lending to Cooperative MFIs. Despite strong year-end growth, annual loan reached only 92% of the target, due mainly to missed opportunities during "peak" lending months caused by funding constraints.



From the funding side, during the last quarter of the year the composition of third party funds (including BPRs) against fund borrowings stayed around 75%-25%. We have a pool of loyal depositors, shown by the finding that reduced deposit interest rates in November did not cause third party funds to drop significantly.

#### INCOME STATEMENT (in million IDR)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
<b>Total Interest Revenue</b>	<b>20,414</b>	<b>23,949</b>	<b>29,816</b>	<b>34,009</b>
<b>Total Interest Expenses</b>	<b>11,290</b>	<b>12,074</b>	<b>15,378</b>	<b>20,219</b>
<b>Interest Income - Net</b>	<b>9,124</b>	<b>11,875</b>	<b>14,438</b>	<b>13,790</b>
<b>Total Other Operating Revenues</b>	<b>356</b>	<b>345</b>	<b>275</b>	<b>3,019</b>
<b>Total Operating Expenses</b>	<b>14,176</b>	<b>14,389</b>	<b>13,410</b>	<b>14,079</b>
<b>NET OPERATING REVENUE/EXPENSE</b>	<b>(4,696)</b>	<b>(2,169)</b>	<b>1,304</b>	<b>2,729</b>
<b>Net Non-Operating Revenue/Expense</b>	<b>57</b>	<b>79</b>	<b>115</b>	<b>125</b>
<b>PROFIT/LOSS BEFORE INCOME TAX</b>	<b>(4,640)</b>	<b>(2,090)</b>	<b>1,419</b>	<b>2,854</b>
<b>Tax Benefit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>835</b>
<b>NET INCOME</b>	<b>(4,640)</b>	<b>(2,090)</b>	<b>1,419</b>	<b>3,689</b>

Although the bank showed strong revenue growth each quarter, interest expense also remained high until the very end of the year, when the Bank began to be able to take advantage of its stronger funding teams, improved financial condition and increased media exposure to begin decreasing the premium that the Bank pays for deposits compared to larger, better-known banks.

RATIOS	31-Mar	30-Jun	30-Sep	31-Dec
Capital Adequacy Ratio (CAR)	25,06%	19,40%	22.54%	22.06%
Loan Deposit Ratio (LDR)	128,49%	144,17%	118.06%	131.48%
Loan to Total Funding	102,34%	110,47%	88.60%	101.71%
Return on Assets (ROA)	-2,46%	-1,69%	-0.79%	-0.25%
Return on Equity (ROE)	-10,75%	-7,86%	-3.66%	-0.79%
NIM	5,15%	5,58%	5.58%	5.22%
Op Expense to Op Income (Monthly)	117.48%	103.34%	93.99%	85.42%
Op Expense to Op Income (YTD)	122,61%	115,23%	107.40%	102.52%
Yield on Lending	13,78%	13,40%	13.13%	12.95%
COF (Cost of Fund)*	7,30%	6,34%	7.68%	6.39%
<b>PAR</b>				
>30 days (excl. old BSP loans)	0,00%	0,00%	0.00%	0.15%
>30 days (incl. old BSP loans)	0,03%	0,02%	0.01%	0.16%

Notes:

\* Lower COF was a result of a decrease in funds borrowing cost of fund as well as the amount. Decreasing MFI Deposit cash back expense also helps.

## Operations

The following is the current position of our staff:

Operations	30-Sep	31-Oct	30-Nov	31-Dec
Offices	2	2	2	2
Total Staff	150	154	155	159
BOD	3	3	3	3
Jakarta	86	90	90	90
Denpasar	61	61	62	66
AO	30	29	29	29
FO	8	11	11	11
BO	7	6	6	6

In the last quarter of 2012, five vacant division heads positions were filled, namely Compliance, Institutional Banking, Legal-Corporate Secretary, Human Resource and Corporate Communications.

The preparation for opening new branches in Semarang and Surabaya went well. The inspection from Bank Indonesia indicated that we are ready to commence operation in both cities as soon as the formal approval obtained.

## Loan and Deposit Portfolio

- New loans signed continued to grow through December 2012. From end-September to end-December 2012, 154 new loans have been signed with total disbursements amount of IDR 229.6 billion.
- Time deposits from non-bank customers as well as community banks (BPRs) increased slightly by around 3 billion and 31 billion respectively. With the low lending season and the flush liquidity of the bank, we chose to focus more on reducing interest costs than on attracting new deposits.

<i>Cumulative Loan &amp; Deposit Portfolio</i>	<b>31-Mar</b>	<b>30-Jun</b>	<b>30-Sep</b>	<b>31-Dec</b>
Amount of Loans Outstanding (IDR million)	571.692	745.723	860,901	979,926
Amount of Monthly Loan Disbursement (IDR million)	79.250	73.450	62,700	78,500
Number of Deposits Account	1.184	1.351	1,538	1,680
Amount of Third Party Funds (IDR million)	445.414	517.633	729,625	745,585
Non-Bank Deposits Outstanding (IDR million)	71.392	100.279	185,487	188,227
% of Non-Bank Deposits Outstanding	16,03%	19,37%	25.42%	25.25%
Bank Deposits Outstanding (IDR million)	272.377	350.209	458,262	489,234
% Bank Deposits Outstanding	61,15%	67,66%	62.81%	65.62%
<i>AndaraBersama BPR (ABB) participating MFIs*</i>	178	191	196	199
Number of MFIs Borrower	348	387	433	479
Number of MFIs Depositor	553	610	692	736
Andara Link Installed to MFIs	242	308	345	366
Number of MFIs served	565	622	693	737

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 continues its efforts to develop Social Deposits through CSR funds of large corporations. The potential corporate clients are those who have a keen interest in social activities ranging from oil, mining, insurance companies, and so forth. In addition, a joint assessment is still underway by Bank Andara and a province-owned corporation in the implementation of community development program by providing specialized loan products to small and micro businesses as well as empowering local microfinance institutions.

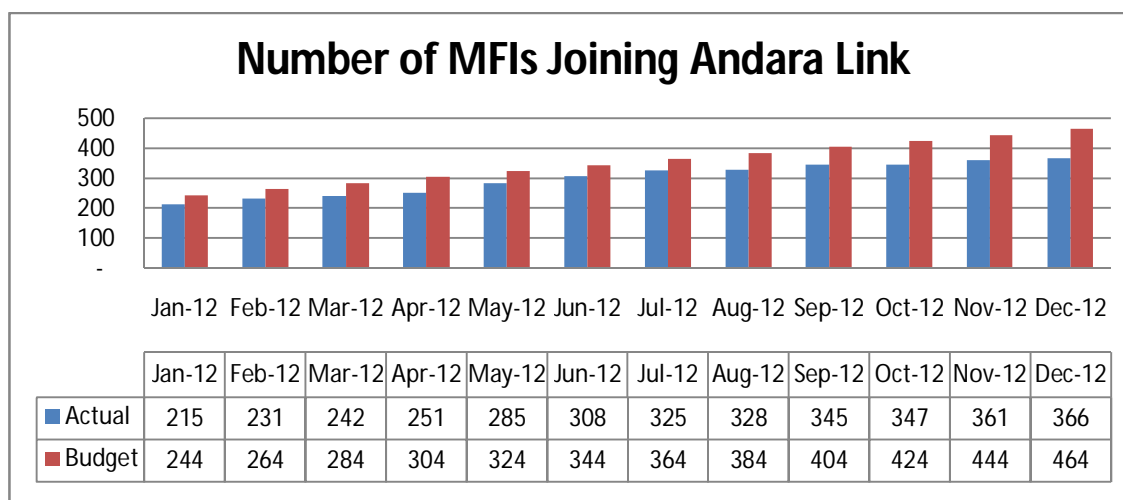
<i>Coverage and Pro-Poor Portfolio</i>	<b>31-Mar</b>	<b>30-Jun</b>	<b>30-Sep</b>	<b>31-Dec</b>
<b>Geographic Coverage</b>				
Sumatra	30	37	43	46
Jakarta & Banten	17	18	21	21
West Java	87	87	92	95
Central Java	56	60	66	71
Jogjakarta	5	5	5	8
East Java	51	64	76	92
Sulawesi	13	30	39	48
Bali, NTB (West Nusa Tenggara), NTT (East Nusa Tenggara)	140	86	92	98
<b>Pro-Poor Portfolio</b>				
Number of Pro-Poor Lending MFI	160	167	183	228
Number of Non Pro-Poor Lending MFI	186	220	250	251
Pro-Poor Percentage	46%	43%	42%	48%

Geographic coverage of Bank Andara is still growing, although the Bank continues to work strategically across regions. We will try not to compete in well-saturated area (Jakarta, West Java and Bali-Nusa Tenggara) and focus more on the areas that still offer the potential for high growth.

## Online Banking

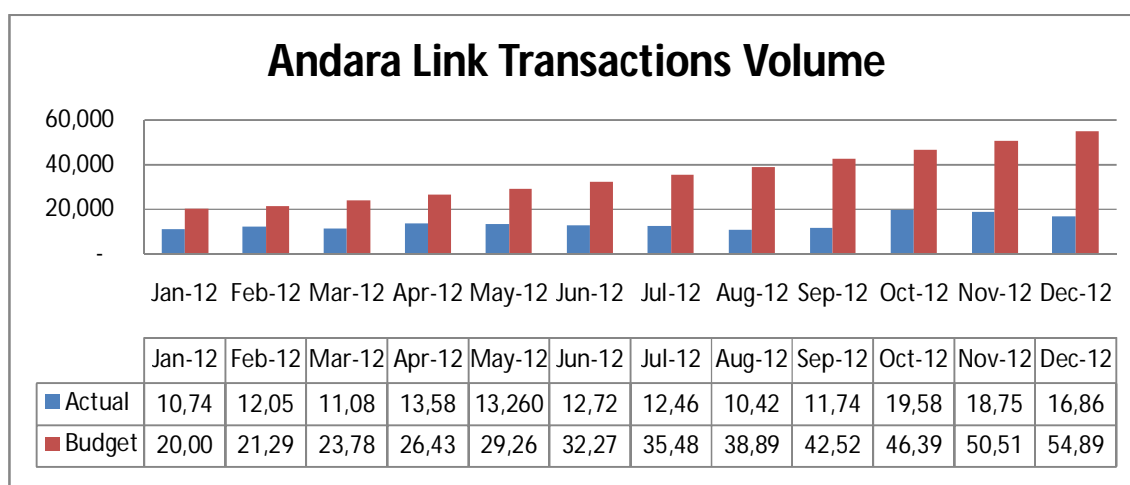
### Andara-Link Payment Hub

AndaraLink network has grown to 366 active MFIs in December 2012, a 6,38% increase from September 2012 joining MFIs. The speed of acquisition was lower in this quarter, due to our focus in attracting current users of AndaraLink to use in-the-field installment payment and deposit service feature (SolusiSetoran, or "Deposit Solution"). The pilot for new services ("SolusiSetoran" Service) conducted with BPR Subang in West Java and BPR Artharindo in Jakarta went well. This new feature was the driver of increasing transactions in October 2012. The decrease in November and December was due to adjustment in the system, and it is expected to be running smoothly onwards beginning in January 2013.



### Growth of Transaction Volume

AndaraLink is the tool for BPRs in providing better service to their clients. For Bank Andara, this feature also acts as a 'sweetener' for acquiring deposits from BPR. From the commencement of this service in 2010, total funds deposited in Bank Andara linked to this service have reached IDR 29.65 billion. AndaraLink also contributed 26.325 billion of loans disbursed to the user. In generating other source of non-interest funding, AndaraLink generated IDR 896 million of floating funds.





## Corporate Governance

### 1. BANK INDONESIA ANNUAL AUDIT

BI Annual audit was performed from August to September 2012 and the exit meeting scheduled in October went well. We have performed improvement on almost all aspects of bank management, and managed to meet the targeted December requests for improvements from Bank Indonesia. BI's audit results illustrate both the progress of the Bank and the need to focus on improving the Bank's operational, risk management, and internal control systems in 2013.

### 2. COMPLIANCE DIRECTOR

Fit & Proper Test proposal for Compliance Director candidate has been submitted to BI on September 27, 2012, the approval for Chisca Mirawati was obtained on 19 December 2012.

### 3. TREASURY FUNCTION

Treasury function which was previously done through Denpasar office was consolidated in the head office (Jakarta) since November 2012. Additional staff is hoped to strengthen the role of Treasury Division in expanding Bank Andara.

### 4. DWM New Loan Facility Disbursed

BI approved new offshore loan from DWM (SNS Fund I and II) with additional comments on amongst others, related to pricing relative to domestic levels. The loan is in IDR, using JIBOR as reference rate plus margin, tenure 24 months extendable to 36 months. Disbursement was made on 23 October 2012.

### 5. HUMAN RESOURCES

In area of human resources development Bank Andara implement a framework called SOHIB meaning best friend, incorporate to the vision for the mission of the bank to be a friend to all stakeholders as well as to improve the quality workforce starting from recruitment, training, organization development, HR system development and retention program.

Bank gradually improve the process, capacity planning, succession plan, talent development, automation and leverage the compensation and benefits along with employee facilities to grow to their maximum potential hand in hand with the business and social mission of the bank