

# INVESTOR QUARTERLY REPORT

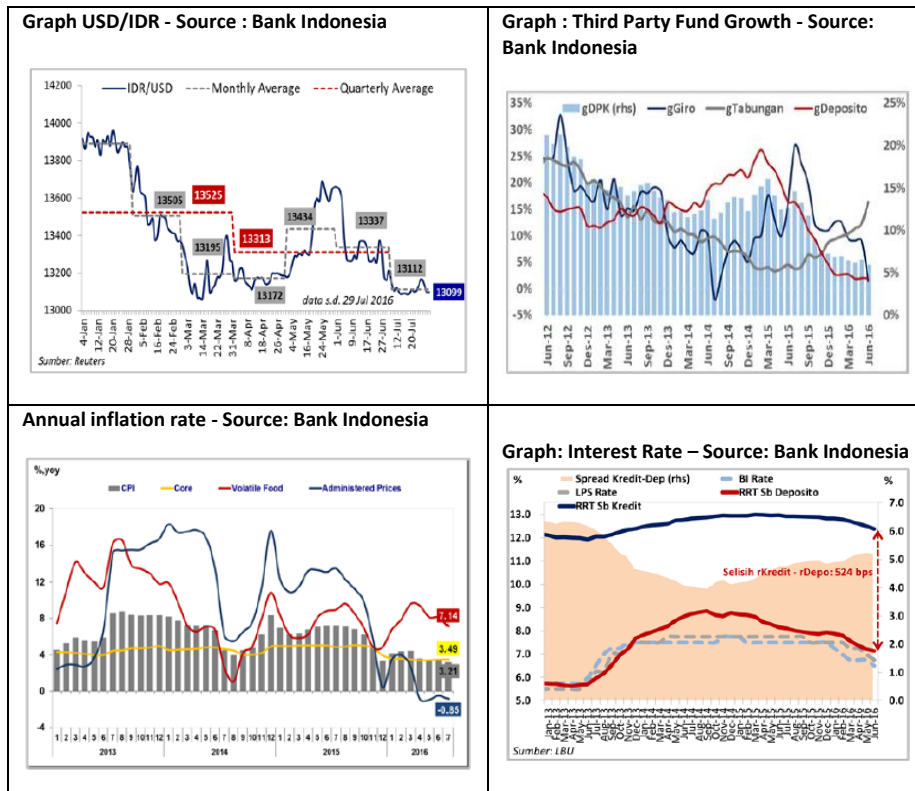


## 2<sup>st</sup> QUARTER 2016 HIGHLIGHTS

### Indonesia Macro Economy

- Monetary easing continued through the second quarter of 2016, as reflected by the decline in June 16 BI Rate by 25 bps to 6.50%
- Bank deposit interest rate down, responding stance of monetary policy easing. Compared to the first quarter of 2016, the weighted average (RRT) in deposit rates in the second quarter 2016 decreased by 43 bps to 7.14%.
- Bank lending rates recorded in the second quarter 2016 decreased compared to the previous quarter. Indonesia's economic growth increased in the second quarter of 2016, although growth was not evenly distributed spatially and by sector. Economic growth in the second quarter of 2016 reached 5.18% (yoy), higher than the previous quarter amounting to 4.91% (yoy).
- During the second quarter, the rupiah strengthened by 1.59% and reached the level of USD 13,313 per US dollar, although initially the IDR was temporally depressed due to the affect of the The UK referendum.
- Liquidity conditions in the money market were maintained. Interbank rates O / N in the second quarter 2016 decreased from 5.26% in the first quarter of 2016 into 4.88% in the second quarter.
- Growth in Third Party Funds (TPF) in the second quarter 2016 was recorded at 5.9% (Yoy), down compared to the previous quarter growth of 6.5% (yoy) (Graph B).
- Credit growth in the second quarter 2016 was still limited. credit growth was recorded at 8.9% (yoy), up from the previous quarter growth of 8.7% (yoy) (Graph C).

Source: [www.bi.go.id](http://www.bi.go.id)



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### About Bank Andara

Bank Andara is a wholesale banking institution with social and financial bottom lines. 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-TriodosFonds, 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 50,000 MFIs operating in the country.

### Vision

*To serve as catalyst to reach millions of Indonesians that lack access to the financial sector by providing financial products and services through financial institutions as well as through direct means.*

### Mission

*To provide access to wide-ranging financial services directly or through financial or non-financial institutions in a sustainable and accountable manner.*

**From the CEO's desk**

Dear Friends of Bank Andara,

The acquisition process started last year is finally seeing daylight. We are happy to announce that on June 10, 2016 Bank Andara received approval from OJK for the planned acquisition by Apro Financial Co Ltd.

To prepare for the Eid celebration and school holiday season, Bank Andara also prepared several new initiatives, such as channeling program to BPRs, and SME lending to align the Bank's strategy and resources in order to achieve our target for 2016.

In accordance with our new motto "Andara Baru Andara Maju" (New Andara, Andara Moving Forward), the bank has started to build a new business team to strengthen non BPR lending.

After experiencing slower growth in Q1 2016, the economy started to rise in Q2 although growth has not been evenly distributed. Slowdown in the economy and increasing credit risk experienced by the industry has dampened lending. The government is working to improve business conditions by pushing for lower interest rates and by capping deposit rates for major banks.

In Q2 2016, total assets of Bank Andara grew by 2% from the Q1 2016 Rp1.006,6billion to Rp1.024,4trillion. Total loans increased by approximately 30% from Q1 2016, Rp606,3billion to Rp794,1billion.

Total Deposits decreased 0.98% due to the holiday season and preparation for Eid celebration from Rp717,5billion to Rp701,7billion. In terms of operations, the Bank is still focusing on optimizing its branch network (4 Branches).

Andaralink value-added services have shown good progress with the number of mobile devices in use increasing from 149 units at June 2015 to 236 units by end of June 2016. Number of transactions by June 2016 reached 234,532 transactions per month, or 32% increase from June 2015. The total volume of transactions in Q2 2016 reached 32 % of the total volume of transactions in all of 2015. The addition of some device units derived from the Optima 2 program which began to show results in increased usage after the launch in Q1. In Q2, the Bank focused on developing the service with the pattern of deposit solutions group. Expected development of these services can impact significant increases in Q3 - Q4 2016.

In Q2 2016, we also amplified our efforts to improve the capacity and the capability of our team. On board in Q2, we have recruited new personnel for several key positions to help us prepare for future growth, especially in the field of SME, credit review and business development.

Although 2016 will continue to be a very challenging year for the banking industry, we believe that this is the year for Andara to turnaround and excel. On behalf of all members of management, we would like to convey our greatest appreciation to our shareholders, board of commissioners, business partners, consultants, employees, and the entire community for the trust given to Bank Andara.

Enclosed you will find the highlights of Bank Andara's first quarter 2016 performance. If you would like more information, please e-mail : [deasy.wulaningsih@bankandara.co.id](mailto:deasy.wulaningsih@bankandara.co.id).

Warm Regards,

**Darwin Wibowo**

## Finance and Operations

## Finance

BALANCE SHEET (IDR million)	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
<b>ASSETS</b>						
Cash & Short-term Investment	232,149	211,132	221,791	165,595	106,796	124,731
Marketable Securities	143,880	145,189	174,059	202,378	176,232	104,894
Total Loans (Net)	653,339	603,809	582,850	595,317	647,592	767,750
Fixed Assets (Net)	5,701	5,832	4,851	4,635	4,394	4,207
Other	24,459	23,938	23,058	22,357	23,414	22,770
<b>TOTAL ASSETS</b>	<b>1,059,529</b>	<b>989,899</b>	<b>1,006,611</b>	<b>990,282</b>	<b>958,428</b>	<b>1,024,353</b>
<b>LIABILITIES</b>						
Third Party Funds	760,668	704,216	717,514	703,586	688,175	736,725
Fund Borrowings	77,198	66,165	66,174	66,182	55,148	55,155
Other Liabilities	70,364	68,393	69,954	69,053	67,769	86,011
<b>TOTAL LIABILITIES</b>	<b>908,231</b>	<b>838,774</b>	<b>853,642</b>	<b>838,821</b>	<b>811,093</b>	<b>877,891</b>
<b>EQUITY</b>						
Total Paid Up Capital	330,103	330,103	330,103	330,103	330,103	330,103
Other Comprehensive Income	(9,709)	(8,380)	(4,490)	(2,737)	(4,506)	(2,090)
Retained Earnings	(169,096)	(170,598)	(172,644)	(175,904)	(178,262)	(181,551)
<b>TOTAL EQUITY</b>	<b>151,298</b>	<b>151,124</b>	<b>152,969</b>	<b>151,462</b>	<b>147,335</b>	<b>146,462</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,059,529</b>	<b>989,899</b>	<b>1,006,611</b>	<b>990,282</b>	<b>958,428</b>	<b>1,024,353</b>

Cash and short term Investment was maintained at IDR 124billion. The placement of money market funds amounted to IDR 104billion decrease IDR 70billion compare to March 2016 due to the maturity of NCDs and sale some Government Bonds.

In June 2016, the Bank's loan portfolio closed at IDR 766billion. The NPL gross ratio was maintained at 2.89%, and NPL net ratio was 0.07%. With tight monthly monitoring and watchlist report, the Loan Loss Provision has been maintained at IDR 26.4bio.

Third party funds acquisition was maintained at IDR701billion. During this time, the bank was able to maintain the cost of funds for time deposits at 7.3% (excluding fund borrowing).

## Financial highlights:

- YTD Net Loss June 2016 is IDR 13.85bio compared to a budgeted loss of IDR 22.08bio. Budget loss includes an expected expense of IDR 12bio related to the Bank's acquisition which has not yet been incurred.
- YTD Net Interest Income for June 2016 is IDR 22bio, lower than budget IDR 24bio.
- YTD OPEX (personnel and other operating expense) as of June 2016 is IDR 36.9bio, lower than budget IDR 47.2bio (include new hire and retirement package for some employees which incurred in Q2 2016).
- YTD Loan loss Provision Expenses for June 2016 is IDR 6.9bio compared to budget IDR 6.7bio.
- Net Interest margin 4.61% increase from Mar 2016 at 4.42%.
- OEOI ratio as of June 2016 is 124.52 %, it's lower than budget June 2016 at 131.05%. In Q2 2016 the retirement package cost.
- NPL gross as of June 2016 is maintained at 2.89% due to stable loan asset quality with no additional NPL in Q2.

INCOME STATEMENT (IDR million)	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Total Interest Revenue	10,188	9,037	9,298	9,023	8,937	9,270
Total Interest Expense	(6,344)	(5,674)	(5,837)	(5,600)	(5,253)	(5,040)
Interest Income - Net	3,845	3,363	3,461	3,423	3,684	4,230
Total Other Operating Revenues	213	341	142	91	86	97
Total Operating Expenses	(5,468)	(5,217)	(5,644)	(6,756)	(6,125)	(7,674)
Net Operating Income/Loss	(1,411)	(1,513)	(2,042)	(3,243)	(2,355)	(3,347)
Net Non Operating Revenue/Expense	14	11	(5)	(17)	(3)	58
EBIT	(1,396)	(1,502)	(2,046)	(3,260)	(2,358)	(3,289)
Tax Benefit/ Expense	-	-	-	-	-	-
<b>NET INCOME (LOSS) MTD</b>	<b>(1,396)</b>	<b>(1,502)</b>	<b>(2,046)</b>	<b>(3,260)</b>	<b>(2,358)</b>	<b>(3,289)</b>
NET INCOME (LOSS) YTD	(1,396)	(2,898)	(4,945)	(8,204)	(10,562)	(13,851)

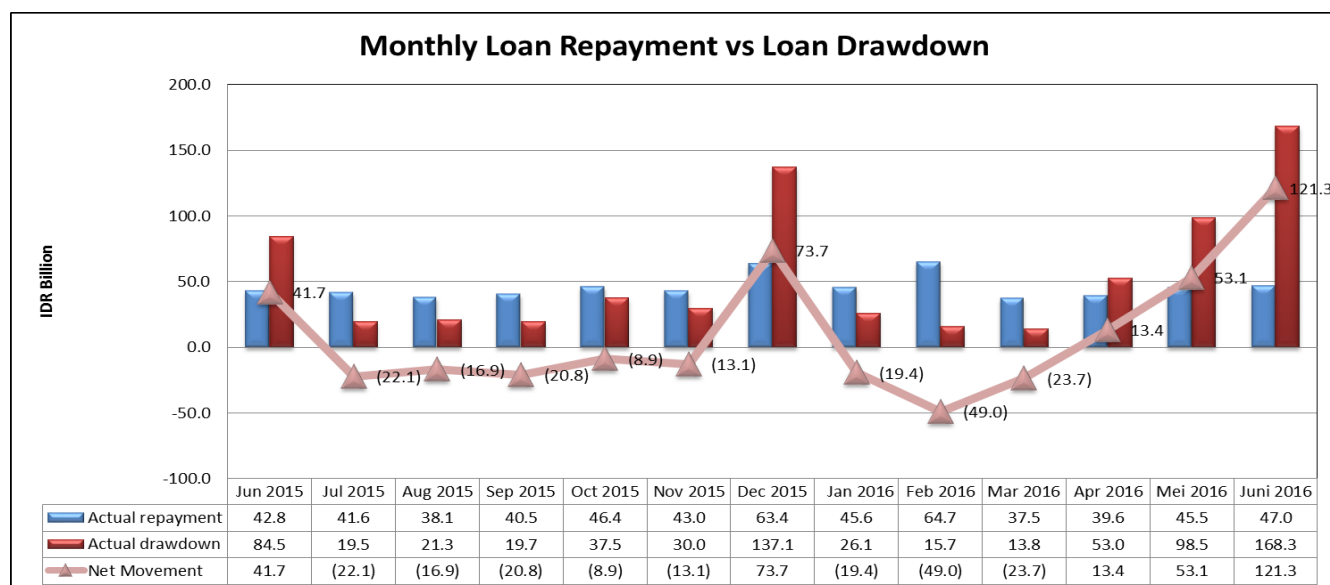
RATIOS	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Capital Adequacy Ratio	29.24%	30.65%	30.58%	29.69%	28.47%	25.67%
Loan to Deposit Ratio (LDR)	89.27%	89.47%	84.51%	88.08%	97.77%	113.17%
Loan To Total Funding	81.05%	81.78%	77.37%	80.51%	90.51%	104.92%
ROA	-1.59%	-1.70%	-1.95%	-2.45%	-2.57%	-2.76%
ROE	-12.89%	-12.60%	-15.00%	-17.72%	-18.32%	-21.03%
NIM	4.60%	4.46%	4.42%	4.17%	4.22%	4.61%
Ops Expense to Ops Income	113.56%	114.78%	116.88%	121.41%	122.31%	124.52%
Yield Of Lending	13.73%	13.54%	13.60%	13.64%	13.05%	13.18%
COF (Cost Of Fund)	8.23%	8.19%	8.40%	8.03%	7.57%	7.28%
PAR						
>30 days	3.41%	3.67%	3.86%	3.75%	3.44%	2.96%

The Early Warning report (Watch List) is produced on a monthly basis to notify the problem alerts and take necessary actions to mitigate credit risk. The Bank continues its efforts and priorities to obtain better insights into client's conditions and assists them during difficulties where possible.

### Portfolios

Cumulative Loan & Deposit Portfolio	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Amount of Wholesale Loans (IDR million)	677,938	697,331	677,938	618,740	671,801	793,245
Amount of Monthly Loan Disbursement (IDR million)	26,111	15,685	13,828	52,971	90,069	168,322
Number of Deposits Account	1,290	1,248	1,260	1,206	1,186	1,161
Amount of Third Party Funds (IDR million)	760,668	704,216	717,514	703,586	688,175	736,725
Non-Bank Deposits Outstanding (IDR million)	114,858	112,346	86,973	85,171	84,843	97,617
% of Non-Bank Deposits Outstanding	15.10%	15.95%	12.12%	12.11%	12.33%	13.25%
Bank Deposits Outstanding (IDR million)	636,861	583,092	620,104	606,732	591,719	627,703
% Bank Deposits Outstanding	83.72%	82.80%	86.42%	86.23%	85.98%	85.20%
Andara Bersama BPR (ABB) participating MFIs*	204	203	201	201	202	201
Number of MFIs Borrower	335	321	299	297	274	258
Number of MFIs Depositor	699	690	687	672	664	663
Andara Link Installed to MFIs	458	461	461	467	469	469
Number of MFIs served	699	690	687	672	665	663

Lending increased during the second quarter of 2016, due mainly to Eid celebration and school holiday season. June 2016 disbursement reached the peak performance of the year. 65% of the lending disbursed to BPR and 35% disbursed to SME, Multifinance and Channeling.



## Operations

The following is the current headcounts of our permanent staff:

Operations	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Offices	5	5	5	5	5	5
Total Staff	142	142	143	142	150	131
BOD	3	3	3	3	3	2
Head Office	75	74	75	75	81	76
Jakarta	17	18	18	18	19	14
Bali	21	21	21	22	22	15
Semarang	12	12	12	12	13	11
Surabaya	14	14	14	12	12	13
AO	20	20	20	20	23	18
FO	12	12	13	13	13	5
BO	0	0	0	0	0	0
outsourcing + contract						

In the first quarter 2016 there were no changes in the Bank's Organizational Structure. The Bank is still using the organizational structure from May 5, 2015 with changes in the organizational structure of the Division of Risk Management since November 1, 2015.

In Semester 1 2016, there were new 22 ( Twenty two ) employees joining the Bank, in Q1 2016, there were new 7 ( seven ) employees joining the Bank and in Q2, there were new 15 (fifty) employees joining the Bank, consisting of 2 ( two ) Division Head in Head Office, 1 (one) Area Manager in Denpasar, 4 (four) Relationship Manager SME, 1 (one) Assistant Relation Manager Lending, 2 (two) Teller, 1 (one) Senior Reviewer, 1 (one) Treasury Officer, 1 ( one) Customer Service, 1 (one) Operation Officer and 1 (one) Business Development Officer. These 6 (six) employees are to replace resigned employees and 9 person to fill employee headcount of the Bank organizational development plan. The position of Compliance Division Head has been filled and will join in October 2016.

As of Semester 1, 2016 the Bank has conducted 13 (thirteen) trainings. There were 7 trainings in Q1 2016 related to the Risk Management, Remuneration Socialization, Asset Valuation Socialization Training, Identification of Suspicious Transactions, seminar of secretary. There were 6 trainings in Q2 2016 consist of Risk Management, Ethical Hacking & Perimeter Defence, and Role in Preventing Crime Bank Banking Through an Integrated Internal Control Training.

#### Pro-poor Information

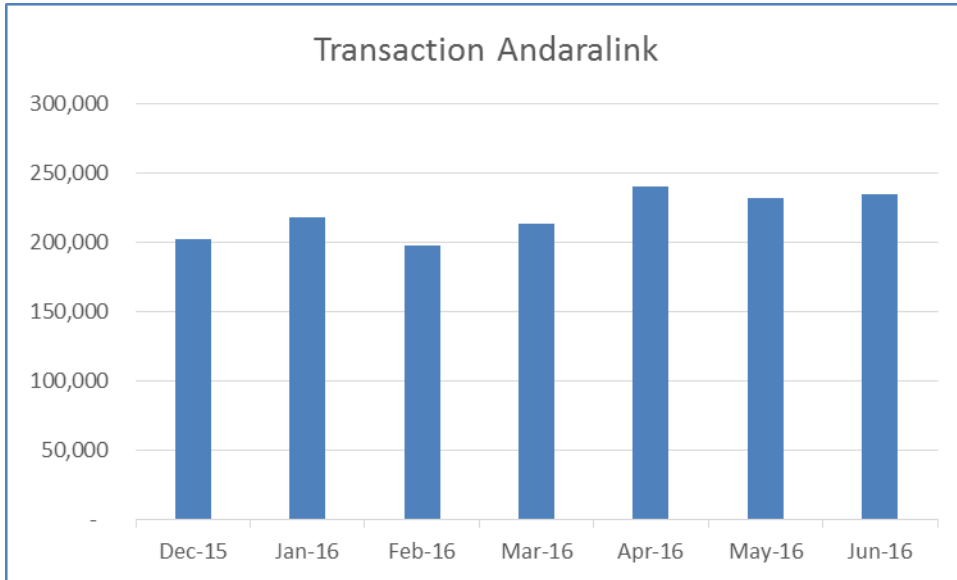
<i>Coverage and Pro-Poor Portfolio</i>	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
<b>Geographic Coverage</b>						
Sumatra	22	18	16	16	14	11
Jakarta & Banten	64	63	57	61	64	224
West Java	56	55	51	52	49	46
Central Java	50	48	47	47	40	36
Jogjakarta	5	5	5	5	5	5
East Java	85	79	73	71	68	63
Sulawesi	33	33	27	25	23	22
Bali, NTB (West Nusa Tenggara), NTT (East Nusa Tenggara)	75	74	70	69	63	63
Kalimantan	1	1	0	0	0	0
<b>Pro-Poor Portfolio</b>						
Number of Pro-Poor Lending MFI	204	204	184	183	165	152
Number of Non Pro-Poor Lending MFI	137	137	121	120	118	118
Pro-Poor Percentage	60%	60%	60%	60%	58%	56%

#### Growth of Transaction Volume of AndaraLink

The volume of transactions in Q2 2016 increased 20 thousand transactions when compared to the end of Q1 2016. This is because the success of the Optima 2 program, which aimed to maximize the level of users/MFIs. The addition of device units derived from Optima 2 program and is beginning to show results in usage after the launch in Q1 2016.

In Q2, the Bank focused on developing the service to lending group using new deposit solutions. Expected development of these services can impact were significant increases in Q3 - Q4 2016.

MONTH	2012	2013	2014	2015	2016
	#TRX	#TRX	#TRX	#TRX	#TRX
JANUARI	10,750	15,354	21,405	84,660	217,649
FEBRUARI	12,056	16,538	23,840	101,035	197,981
MARET	10,994	17,825	30,569	136,711	213,486
APRIL	13,718	19,528	19,313	158,797	239,955
MAY	13,238	18,766	26,869	161,119	231,939
JUNI	12,725	18,062	31,439	178,101	234,532
JULI	12,460	21,273	27,533	128,756	214,269
AGUSTUS	10,423	16,904	34,008	191,992	390,132
SEPTEMBER	11,748	20,568	39,081	202,255	
OKTOBER	19,251	19,578	43,784	203,991	
NOVEMBER	18,866	18,037	63,808	210,008	
DESEMBER	17,089	16,325	75,803	202,023	
<b>Total</b>	<b>163,318</b>	<b>218,758</b>	<b>437,452</b>	<b>1,959,448</b>	<b>1,939,943</b>



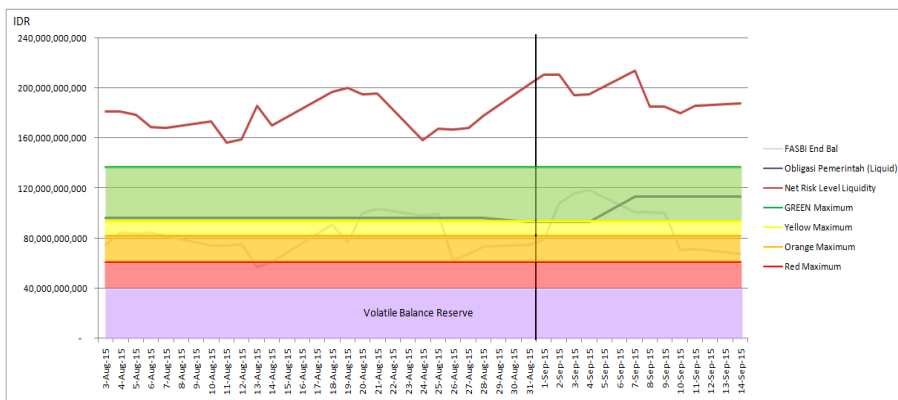
**Corporate Governance and Risk Management**

The Bank is working to strengthen all aspects of risk management. In Q2 2016, the Bank continued to improve the implementation of the watchlist, and reviewed its credit risk limits policy/procedure. The Bank also worked to develop improved policies and procedures in Risk Management and Liquidity Risk Management as well as improved tools and templates for loan proposals, review and risk scoring.

In June 2016 the Bank started to implement another liquidity tools ie. LCR (Liquidity Coverage Ratio) required by regulator. The LCR refers to highly liquid assets held by financial institutions to meet short-term obligations. The liquidity coverage ratio is designed to ensure financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions.

To maintain liquidity and market risk at levels approved by the Bank’s ALCO, the Bank continued implementation of liquidity monitoring by utilizing daily liquidity policy zones (red: up to IDR21bio, orange: IDR21bio – 42bio, yellow: IDR43bio – 54 bio, green: IDR54bio – 97bio) and limits on liquidity and market risk maturity gaps.

The Q2 2016 risk composite rating is moderate, no changes from the previous quarter.



**Note:**

- Volatile Balance Reserve IDR 40 Bio.
- Maximum Green Zone IDR 97 Bio, Maximum Yellow Zone IDR 54 Bio, Maximum Orange Zone IDR 42 Bio and Maximum Red Zone IDR 21 Bio (All maximum levels are in addition to the Volatile Balance Reserve.)