

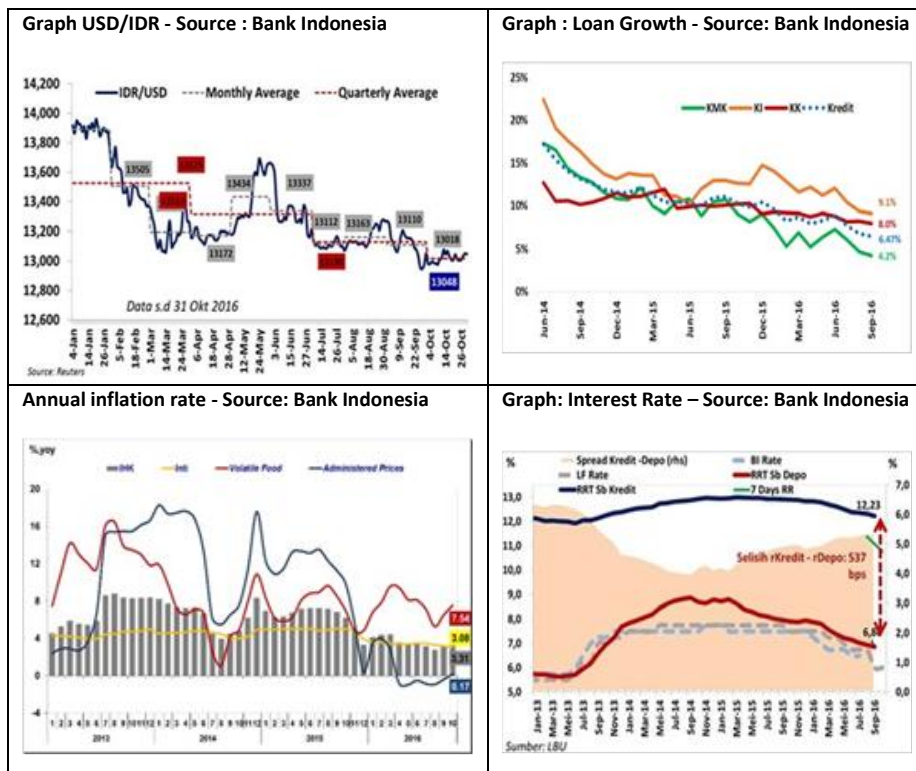
# INVESTOR QUARTERLY REPORT

## 3<sup>rd</sup> QUARTER 2016 HIGHLIGHTS

### Indonesia Macro Economy

- Monetary easing continued through the third quarter of 2016, Bank Indonesia lowered the BI 7-day Reverse Repo Rate (BI 7-day Rate RR) in September 2016 by 25 bps to 5.00% followed by a decrease in deposit interest rates Facility (DF) to 4.25% and Lending Facility (LF) to 5.75%.
- Bank deposit interest rate decreased, responding stance of monetary policy easing. Compared to the second quarter of 2016, the weighted average (RRT) in deposit rates in the third quarter 2016 decreased by 8 bps to 6.86%. For the year-to-date (ytd), average interest rates on deposits in the third quarter of 2016 have decreased by 108 bps compared to the second quarter of 2016.
- In line with deposit rates, bank lending rates in the third quarter 2016 recorded a decrease. Compared to the second quarter of 2016, lending rates in the third quarter 2016 fell by 15 bps to 12.23%. For the year to date (ytd), lending rates in the third quarter of 2016 decreased by 60 bps, slower than the decline in the average interest rate on deposits.
- During the third quarter, the rupiah strengthened by 1.39% and reached the level of USD 13,130 per US dollar, supported by positive sentiment on the domestic and external, but halted after the US elections in November.
- Liquidity conditions in the money market were maintained. Interbank rates O / N in the third quarter 2016 decreased from 4.88% in the second quarter of 2016 to 4.76% in the third quarter.
- Growth in Third Party Funds (TPF) in the third quarter 2016 was recorded at 3.2% (Yoy), down compared to the previous quarter growth of 5.9% (yoy).
- Credit growth in the third quarter 2016 was still not optimal. Credit growth was recorded at 6.5% (yoy), lower than previous quarter growth of 7.9% (yoy).

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,

In the midst of economic conditions that are still slow, in 2016 Bank Andara gradually began to show increasingly positive developments, as indicated by the improved financial performance and increased lending to more diverse business segments. As of September 2016 the position of Bank Andara's loan portfolio grew 18.35% compared to the position in December 2015. At the same time, the Bank also reduced dependence on the BPR and micro-finance institution segments, as of Sep 2016 the total credit portfolio for BPR segment accounted for 68% from the total loan portfolio.

With this performance improvement, the Bank has successfully turned losses of about 1.5 billion per month into a profit since July 2016, or two months earlier than previously projected in the RBB. The Bank also has posted a profit in the third quarter of 2016. Although the profit achieved is still relatively small, the increase is very encouraging. This improved performance was achieved before the implementation of additional capital injection that is in progress.

In Q3 2016, total assets of Bank Andara were maintained at Rp947,3billion. Total loans reached Rp826,7billion, increasing 4.1% compared to the Q2 2016 level of Rp794,1billion.

Total Deposits decreased 6.94% due to the tightening of liquidity from Rp736,7billion to Rp685,5billion. In terms of operations, the Bank is still focusing on optimizing its branch network (4 Branches).

Andaralink volume of transactions in Q3 2016 increased by 146 thousand transactions when compared to the end of Q2 2016. This is because of the success of the Optima 2 program and Andaralink features developed for group loans through cooperation with BPR Parasahabat. Through this cooperation, the daily number of transactions is expected to increase significantly, and the number of Andaralink-enable mobile devices used by MFIs is expected to reach 500 units by the end of the year.

In Q3 2016, we also amplified our efforts to improve the capacity and the capability of our team. In Q3, we have recruited our new Compliance Director, Mr. Efdinal Alamsyah, to replace the previous director, Mrs. Chisca Mirawati, Mr. Efdinal has effectively worked in Bank Andara since August 19, 2016, and we also welcome several other new personnel to help us prepare for future growth, especially in the field of business development.

The Bank will focus on finalizing the acquisition process, which is expected to be completed by the end of November 2016. With the implementation of the capital increase by a strategic investor, the Bank will develop much faster than would otherwise be possible, in accordance with the Indonesian Banking Architecture.

Enclosed you will find the highlights of Bank Andara's third 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)	Dec-15	Mar-16	Jun-16	Sep-16
<b>ASSETS</b>				
Cash & Short-term Investment	216,971	221,791	124,731	52,816
Marketable Securities	142,430	174,059	104,894	67,215
Total Loans (Net)	673,622	582,850	767,750	800,298
Fixed Assets (Net)	5,623	4,851	4,207	4,748
Other	22,439	23,058	22,770	22,234
<b>TOTAL ASSETS</b>	<b>1,061,084</b>	<b>1,006,611</b>	<b>1,024,353</b>	<b>947,312</b>
<b>LIABILITIES</b>				
Third Party Funds	763,735	717,514	736,725	685,505
Fund Borrowings	77,189	66,174	55,155	44,133
Other Liabilities	68,938	69,954	86,011	67,070
<b>TOTAL LIABILITIES</b>	<b>909,862</b>	<b>853,642</b>	<b>877,891</b>	<b>796,708</b>
<b>EQUITY</b>				
Total Paid Up Capital	330,103	330,103	330,103	330,103
Other Comprehensive Income	(11,180)	(4,490)	(2,090)	1,719
Retained Earnings	(167,700)	(172,644)	(181,551)	(181,218)
<b>TOTAL EQUITY</b>	<b>151,223</b>	<b>152,969</b>	<b>146,462</b>	<b>150,604</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,061,084</b>	<b>1,006,611</b>	<b>1,024,353</b>	<b>947,312</b>

Cash and short term Investment were maintained at IDR 53billion, a significant decrease from the level of the previous quarter. The placement of money market funds amounted to IDR 67billion, a decrease IDR 37billion compared to June 2016, due to the maturity of NCDs and sale of Government Bonds SUN FR0064 21.9bio and Repo SBB FR0068 20bio.

In Sept 2016, the Bank's loan portfolio closed at IDR 827billion. The gross NPL ratio was maintained at 2.78%, and NPL net ratio was 0.07%. With tight monthly monitoring and watchlist reporting and follow up, the Loan Loss Provision has been maintained at IDR 26.4bio.

Third party funds acquisition was maintained at IDR686billion, a decrease of approximately IDR50bio from the previous quarter. During this time, the bank was able to maintain the cost of funds for time deposits at 7.26% (excluding fund borrowing).

**Financial highlights:**

- YTD Net Loss September 2016 is IDR 13.52bio compared to a budgeted loss of IDR 20.74bio. 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 Sept 2016 is IDR 36bio, lower than budget IDR 46bio.
- YTD OPEX (personnel and other operating expense) as of Sept 2016 is IDR 51.9bio, lower than budget IDR 69.6bio.
- YTD Loan loss Provision Expenses for Sept 2016 is IDR 7.6bio compared to budget IDR 9.7bio.
- Net Interest margin 4.94% increase from Jun 2016 at 4.61%.
- OEOI ratio as of Sept 2016 is 115.42 %, it's lower than budget Sept 2016 at 121.60%.
- NPL gross as of Sept 2016 is maintained at 2.78% due to stable loan asset quality with no additional NPL in Q3.

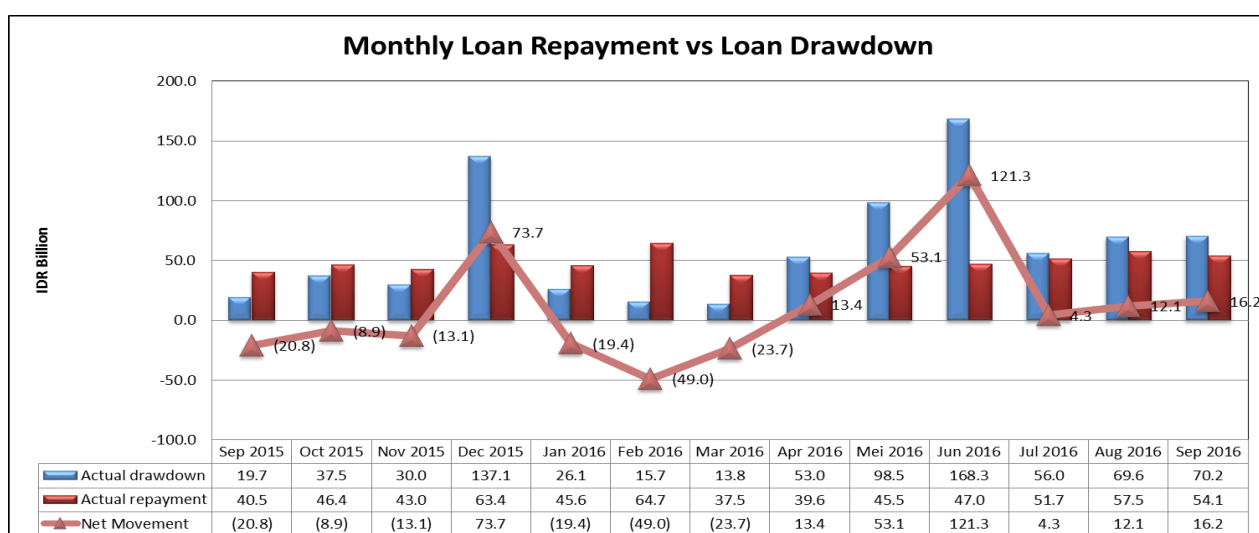
INCOME STATEMENT (IDR million)	Dec-15	Mar-16	Jun-16	Sep-16
Total Interest Revenue	9,856	9,298	9,270	9,686
Total Interest Expense	(6,013)	(5,837)	(5,040)	(4,719)
Interest Income - Net	3,843	3,461	4,230	4,966
Total Other Operating Revenues	309	142	97	118
Total Operating Expenses	(7,690)	(5,644)	(7,674)	(4,918)
Net Operating Income/Loss	(3,538)	(2,042)	(3,347)	167
Net Non Operating Revenue/Expense	(259)	(5)	58	(3)
EBIT	(3,797)	(2,046)	(3,289)	164
Tax Benefit/ Expense	-	-	-	-
<b>NET INCOME (LOSS) MTD</b>	<b>(3,797)</b>	<b>(2,046)</b>	<b>(3,289)</b>	<b>164</b>
<b>NET INCOME (LOSS) YTD</b>	<b>(19,172)</b>	<b>(4,945)</b>	<b>(13,851)</b>	<b>(13,518)</b>

RATIOS	Dec-15	Mar-16	Jun-16	Sep-16
Capital Adequacy Ratio	28.38%	30.57%	25.67%	25.22%
Loan to Deposit Ratio (LDR)	91.46%	84.51%	113.17%	120.60%
Loan To Total Funding	83.07%	77.37%	104.92%	113.30%
ROA	-1.95%	-1.95%	-2.76%	-1.80%
ROE	-12.37%	-14.27%	-20.11%	-13.05%
NIM	4.50%	4.28%	4.41%	4.94%
Ops Expense to Ops Income	120.44%	116.99%	124.52%	115.83%
Yield Of Lending	13.34%	13.60%	13.18%	12.97%
COF (Cost Of Fund)	8.13%	8.05%	7.28%	7.26%
PAR				
>30 days	3.32%	3.86%	2.96%	2.42%

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

Lending increased during the third quarter of 2016, 58% of the new lending was disbursed to BPRs, and 42% was disbursed to SME, Multifinance and Channeling.



## Operations

The following is the current headcounts of our permanent staff:

<b>Operations</b>	<b>Dec-15</b>	<b>Mar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>
Offices	5	5	5	5
<b>Total Staff</b>	<b>143</b>	<b>143</b>	<b>131</b>	<b>138</b>
BOD	3	3	2	3
Head Office	76	75	76	81
Jakarta	17	18	14	14
Bali	21	21	15	15
Semarang	12	12	11	11
Surabaya	14	14	13	14
AO	17	20	18	20
FO	9	13	5	4
BO	5	0	0	0

In Q3, there was a change in the Organizational Structure of the Bank, aligned with business needs; namely the addition of the Division for Business Development and SME Business. Changes in the Bank's organizational structure were effective on July 26, 2016.

In third quarter 2016, 12 ( twelve ) new employees joined the Bank, consisting of two (2) BPR & MFI Lending RMs, 1 (one) Non BPR & Non MFI Lending RM, 1 (one) Business Development Officer, 1 (one) Strategy Development Officer, 1 (one) Operations Officer, 1 (one) Customer Care Staff, 1 (one) Teller, 1 (one) Financial Institutions Officer, 1 (one) Credit Reviewer, 1 (one) Funding Product Development, and 1 (one) Branch-level Legal Staff. Of these, 9 (nine) are replacements for an employee who has resigned, and three (3) people to meet the needs of an employee headcount of the Bank organizational development plan. Bank also has received the Head of Compliance Division who joined the Bank in the fourth quarter 2016 on October 3.

Additionally in the third quarter 2016, the new Compliance Director, Mr. Efdinal Alamsyah (replacing Mrs. Chisca Mirawati) has effectively worked in Bank Andara as at August 19, 2016.

As of third quarter, 2016 the Bank has conducted 5 (five) trainings, consisting of Test Preparation Training for Risk Management Certification Level 1, Taxation Training Brevet C, Training for CPSAK Review, Training for Risk Management Certification Level 2, and Identification of Suspicious Financial Transactions Batch 6.

## Pro-poor Information

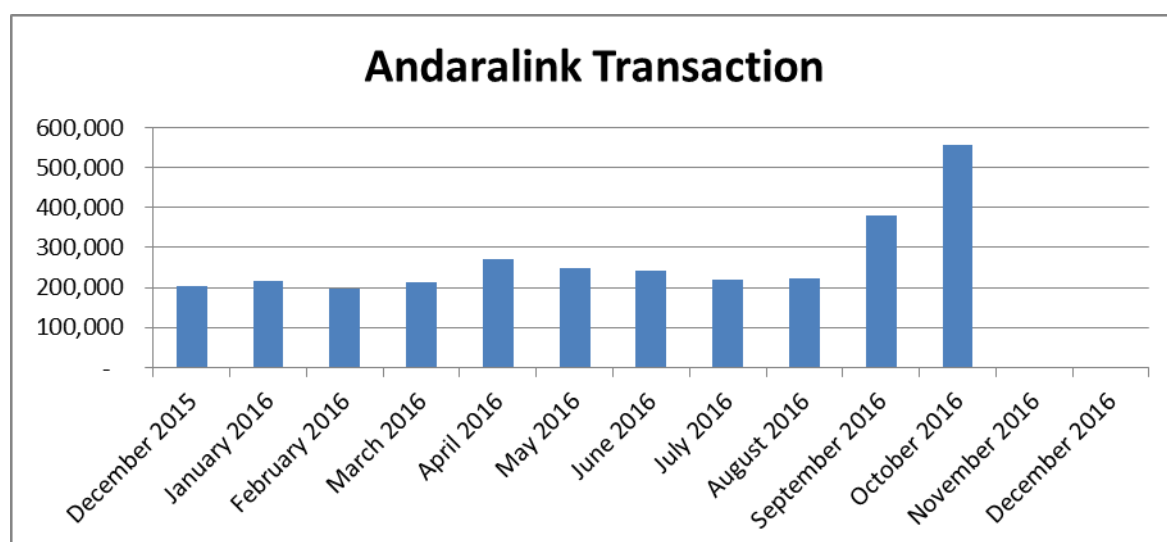
<b>Coverage and Pro-Poor Portfolio</b>	<b>Dec-15</b>	<b>Mar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>
<b>Geographic Coverage</b>				
Sumatra	24	16	11	10
Jakarta & Banten	63	57	224	191
West Java	57	51	46	140
Central Java	51	47	36	33
Jogjakarta	6	5	5	4
East Java	86	73	63	53
Sulawesi	34	27	22	21
Bali, NTB (West Nusa Tenggara), NTT (East Nusa Tenggara)	76	70	63	63
Kalimantan	1	0	0	0
<b>Pro-Poor Portfolio</b>				
Number of Pro-Poor Lending MFI	210	184	152	138
Number of Non Pro-Poor Lending MFI	139	121	118	121
Pro-Poor Percentage	60%	60%	56%	53%

### Growth of Transaction Volume of AndaraLink

The volume of transactions in Q3 2016 increased by 146 thousand transactions when compared to the end of Q2 2016. This is because the success of the Optima 2 program and Andaralink features developed for group loans through cooperation with BPR Parasahabat.

Through this cooperation, the daily number of transactions is expected to increase significantly and the number of mobile devices is expected to reach 500 units by the end of the year.

MONTH	2012	2013	2014	2015	2016
	#TRX	#TRX	#TRX	#TRX	#TRX
Jan	10,750	15,354	21,405	84,660	217,649
Feb	12,056	16,538	23,840	101,035	197,981
Mar	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
June	12,725	18,062	31,439	178,101	234,532
July	12,460	21,273	27,533	128,756	214,269
Aug	10,423	16,904	34,008	191,992	390,132
Sep	11,748	20,568	39,081	202,255	381,488
Oct	19,251	19,578	43,784	203,991	555,268
Nov	18,866	18,037	63,808	210,008	
Dec	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>2,876,699</b>



### Corporate Governance and Risk Management

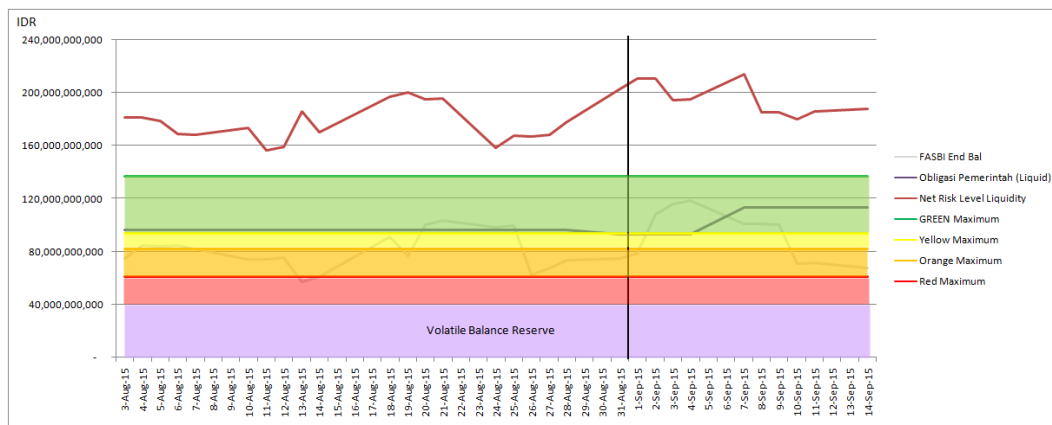
The Bank is working to strengthen all aspects of risk management. In Q3 2016, the Bank continued to improve risk tools and processes for credit risk. The Bank also worked to develop improved policies and procedures in Risk Management and Liquidity Risk Management as well as improved templates for loan proposals, review and risk scoring.

Overall, The Bank risk composite rating for Q3 2016 has been changed to *Low to Moderate* from *Moderate* in the previous quarter. Improvements to the Inherent Risk Rating and the Application of Risk Management cause

the level of risk in some types of risk to improve. The level of Credit Risk, Market Risk, and Compliance Risk improved to *Low to Moderate* from *Moderate* on the previous quarter. Meanwhile, the level of strategic risk has improved to a *moderate* from *moderate* to high on previously.

In June 2016 the Bank started to implement another liquidity ratio ie. LCR (Liquidity Coverage Ratio) required by the 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 that 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.



**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.)