

GIRAFE

Rating

A+	Good
A	Sophisticated and efficient procedures, long term evolution perspectives. Some improvements could be made. Long-term risks are identified in the strategic plan.
A-	
B+	
B	
B-	
C+	
C	
C-	
D	
E	

Trend

Positive	Positive performance trend; no major risk identified in the short term.
Stable	
Uncertain	
Negative	

Performance indicators

(K USD, unless otherwise stated)

	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
ACTIVITY				
Total number of staff	16	16	29	34
Total assets (K PEN)	894	965	1,395	2,202
Loan portfolio	3,263	3,525	5,009	7,168
Outstanding deposits	706	821	1,088	1,785
Active borrowers	-	-	-	-
Number of savers	1,076	1,380	2,748	4,247
APR ⁽¹⁾	-	-	-	-
PAR 31-365	4.2%	6.5%	5.6%	3.7%
PAR > 365	0.0%	0.0%	0.0%	1.3%
Write-off ratio	0.0%	1.8%	2.2%	0.0%
Risk coverage ratio	112%	114%	123%	114%
PERFORMANCE				
ROE	5.4%	9.3%	5.3%	24.4%
Liabilities / Equity	76.8%	71.1%	102%	146%
ROA	5.1%	7.7%	5.4%	10.8%
OSS	115%	121%	114%	131%
FSS	111%	121%	114%	132%
Portfolio Yield	73.3%	50.9%	58.4%	51.4%
Operating expense ratio	47.2%	29.4%	38.5%	30.8%
Staff productivity	67	86	95	125
Funding expense ratio	6.0%	6.0%	6.2%	5.8%
GROWTH				
Loan portfolio growth	-	16.2%	30.4%	48.7%
Savings portfolio growth	-	-	-	-
Assets growth	-	8.0%	42.1%	43.1%
1 USD= xx PEN	3.65	3.59	3.29	3.26

(1) See Institutional Presentation

EDPYME Alternativa, Peru

June 2005

TRANSLATED FROM ORIGINAL SPANISH VERSION

■ Description of the institution

EDPYME Alternativa (EA), a microfinance institution, was created in September 2001 by the Lambayeque Chamber of Trade and Production (LCTP) in the North of Peru. As an EDPYME, it has a private company status and is regulated by the General Law of the Financial System and of the Insurance System (GLFSIS). As of June 2005, EA has an outstanding portfolio of 1.7 M USD and 4,247 clients in the city of Chiclayo and other rural areas of the department of Lambayeque. EA provides various individual loan products to its clients from its only branch located at the HQ.

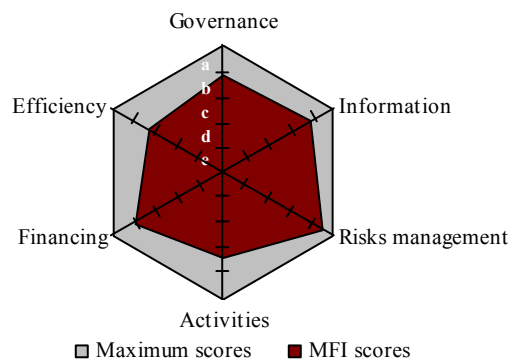
■ Rating summary

EA has been assigned a global rating of “B+”, linked to excellent operational and financial performance based on steady growth of the portfolio and strong internal controls. The MFI benefits from good management information, skilled management team and a solid financing structure. Operating in a competitive market, EA has been able to develop a market niche that can be further enhanced through strengthening of the planning process and tools for products development, for example.

This rating has been given with a Positive trend, due to the economies of scale the MFI has already been able to generate in just 4 years of operations, having a positive impact on the financial ratios.

■ Financing needs

EA anticipates funding needs of up to 1 M USD to finance its operations next year. Planet Rating believes that this amount is consistent with EA debt absorption capacity, as shown by its efficient management of funds in previous years and the potential of its market niche. EA is a profitable institution with strong internal processes and with the capacity to manage commercial debt.



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■ Microfinance sector

The Peruvian microfinance sector is among the most dynamic in Latin America. The free market policies of the early 1990s and the crisis generated by hyperinflation in the 1980s led to a reshaping of the financial system, that reduced the supply of financial services to low-middle classes (four development banks, two commercial banks and various cooperatives were shut down). As a response to this crisis, the Government established a policy conducive to the development of microfinance, through an adequate legal framework and the set up of funding mechanisms.

The formal microfinance sector, supervised by the *Superintendencia de Banca y Seguros* (SBS) and regulated by the Peruvian Central Bank of Reserves (BCR), includes various types of legal structures:

- Small and Micro Enterprise Development Companies (EDPYMEs), created in the mid-1990's through the SBS decree N° 897-94, to enable the formalization of microfinance NGOs or commercial companies through many incentives (no VAT, savings collection if some conditions are met).
- Savings and Loans Municipal Cooperatives (CMACs), created with the support of the German Cooperation at the beginning of the 1980's. They belong to local authorities and are designed in principle to respond to savings and credit needs outside Lima.
- Savings and Loans Rural Cooperatives (CRACs), created at the beginning of the 1990's after the closure of the Agrarian Bank, managed by local entrepreneurs and specialized in financial services for the agricultural sector.

The microfinance landscape of Peru is completed by some banks that downscaled their operations over the last few years (MiBanco, Banco de Crédito, Banco del Trabajo) and by a broad sector of non-regulated NGOs, serving poorer segments of the population.

Type of institution	Number of institutions	Portfolio (M USD)
Banks ⁽¹⁾	10	467.6
EDPYMEs	14	117.8
CMACs	14	664.2
CRACs	12	131.3
NGOs ⁽²⁾	19	20.8

Figures as of dec. 04 according to COPEME and SBS

(1) "Microenterprise" portfolio according to SBS

(2) NGOs reporting to COPEME

The sector has been favored by the availability of funding from donors, from international investors and from the Development Financial Corporation (COFIDE), an apex local financial institution dedicated to refinance local MFIs. It has also benefited from the development of sector-wide tools such as credit bureaus and professional networks.

Peruvian MFIs loan disbursements have grown at a pace of 30% per year, even during the economic slowdown of 1998-2001 when total disbursements of the financial sector fell by 24%. MFIs have been able to respond to productive micro-credit demand in the main urban areas of the country. However, the sector still faces major challenges: outreach in rural areas is weak; interest rates are high¹; over-indebtedness is increasing due to a high competition in urban microfinance markets combined with the development credit institutions offering consumption loans. Therefore, there might be a restructuring of the sector in the following years leading to stronger MFIs with competitive cost structures, high funding capacities and market niches.

■ Political/economic environment

Peru is a middle-income country, with a GDP per capita of 2,349 USD. The country benefits from important natural resources (gas, gold, copper, silver). Its main exports have been concentrated in mining even though over the last years there has been an important diversification and growth of sectors such as textile, agro-exporting (asparagus, mango, coffee) and tourism. After the economic slowdown of the end of the 1990's, the Peruvian economy experienced a clear recovery, which makes it one of the most dynamic countries of the region. It has accumulated net international reserves representing more than a year of imports, inflation is under control, local currency is stabilized and for the first time in many years, there has been a surplus in the trade balance.

Despite this growth and recent public investments, the country still suffers from high unemployment and poverty (54% of population). The economy is divided between a modern urban sector, and a subsistence sector in the countryside. Poverty is highly concentrated in rural areas (75% of rural population). Official unemployment is around 9.5%, and underemployment at around 30% in Lima. Peru holds the 85th position among 177 in the Human Development Index of the 2004 Human Development Report of the UNDP.

	Dec. 02	Dec. 03	Dec. 04
GDP/capita (USD)	2,112	2,247	2,349
Inflation	1.5	2.5	3.5
Coface rating			B
S & P			BB/Estable/B

Source: Coface / FMI / BCR / www.oanda.com

¹ Average portfolio yield is 45.8% as of November 2002, according to "Estructura de Mercado y Competencia en el microcrédito", Felipe Portocarrero and Guillermo Byrne, in *Economía y Sociedad* n°52, CIES, 2004.

■ Institutional presentation

Networks

EA is a member of the Peruvian Association of EDPYMEs (ASEP).

Ownership

EA is controlled by its main shareholder, LCTP, that owns 99% of capital. LCTP leads the Shareholders Assembly, which includes two other shareholders holding each 0.5% of capital (Otto Zoeguer Navarro and Franco Carpio Guerrero). The Assembly is the main governing body. It approves all key decisions about ownership and capital structure and ratifies decisions taken at the Board level.

Board Composition	Function	Present Job	Entry date
Otto Zoeguer Navarro	President	Entrepreneur	30/03/2004
Daniel Hurtado de Mendoza Chau	Vice-President	CESEM ² Manager	30/03/2004
Franco Carpio Guerrero	Director	Entrepreneur	30/03/2004
Hugo Barandiarán Ferre	Director	Entrepreneur	30/03/2004
Wilfredo Baca Reaño	Director	Lawyer	30/03/2004

The Board is in charge, per Statutes, of supervising the global performance of EA, of approving the implementation of policies and procedures, of nominating the General Manager and of approving the Business Plan. Its members are elected by the Shareholders Assembly (2 representatives of LCTP and 3 independent members, among which an individual shareholder), for a 2 years term.

LCTP is a Civil Association (not for profit) that groups individuals and institutions of the commercial, industry, tourism, agriculture and service sectors. Its aim is to favor the competitive development of entrepreneurs in the department of Lambayeque. It is not exposed to political influences.

Management team

The management team includes the General Manager and two department heads of the Credit Department and the Administration and Finance Department. There is also a Risks Management section, an Internal Auditor, a MIS Analyst and a Legal Adviser. The Management Team has extensive experience in microfinance: the General Manager came from a microfinance program of LCTP in partnership with the IADB³; the Administration and Finance Manager has previous experience in COFIDE; the Credit Manager has experience in various savings and loans institutions and

MFIs, has benefited from trainings and has carried out consultancies with the GTZ.

Donations

EA, as a private company, has not received any donations in any form.

Legal form, supervision and audit

EA was created in September 2001 as a Small and Micro Enterprise Development Company or EDPYME, under the GLFSIS, and is supervised by the SBS. The GLFSIS regulates all institutions within the Peruvian financial intermediation system. Minimum capital requirements for EDPYMEs are lower, at 200,000 USD, as opposed to 4.5 M USD for banks and 1.2 M USD for CMACs. Otherwise the rules apply to all financial intermediaries in the same way.

The law N° 26702 created a modular scheme through which EDPYMEs can offer new services subject to meeting adequate levels of capitalization, having an external rating of A or B and obtaining the approval of the SBS. This is particularly interesting for MFIs wanting to collect savings, although so far none of the 14 existing EDPYMEs has obtained such authorization.

EA is audited every year by the external auditor Muñoz y Asociados, based in Lima, who carries out a financial, portfolio and internal controls audit. Muñoz y Asociados has an extensive experience in the microfinance sector. It has audited various CMACs, NGOs and EDPYMEs all over Peru, including the Lambayeque department.

Organization

Please refer to the organizational chart in annexes

EA operates a single branch from its HQ in the city of Chiclayo. The HQ hosts the Management Team (General Manager, Administration and Finance Department, Credits Department, Risks Management, MIS and Internal Audit) and is also the place for evaluation, approval, disbursement and payment of loans. There is also a special office in Chiclayo dedicated only to marketing and loan applications evaluation, but not to disbursements. All loans must be approved by a Credit Committee according to their amount: Executive Committee for amounts higher than 8,000 PEN (2,500 USD) and Credit and Recovery Committee for the rest (see "R").

Market penetration

EA only operates in the department of Lambayeque from its HQ in the city of Chiclayo.

² Centro de Servicios Empresariales

³ InterAmerican Development Bank

Area of operations of EA



Products and services

A detailed description of these products is provided in annexes.

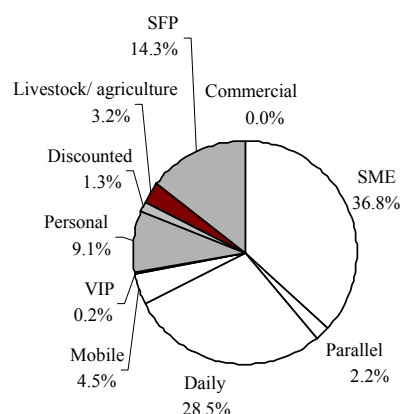
EA offers loan services through a wide range of different individual-based products. Depending on the target population, the products offered can be divided into:

- **SME Loans** (Commercial Loan, SME Loan and Parallel Loan, the last one disbursed simultaneously with another product for a maximum amount of 600 USD): they finance small and middle-size businesses with loans ranging from 500 PEN (150 USD) to 52,500 PEN (16,000 USD), repayable in weekly, twice-monthly or monthly instalments, and in some cases, with a grace period of one or two months. Their Annual Effective Rate (APR) is 41% on average.
- **Daily Loans** (Daily and Mobile; the last one finances the transport sector): their distinctive feature is EA collecting daily repayments from client's workplace. Loan sizes range from 200 PEN (60 USD) to 5,000 PEN (1,500 USD), average term of three months, mostly daily repayments, although they can also be weekly or every two weeks. Their average APR is 102.5%.
- **Consumption Loans** (Sobregiro VIP, Personal Loan, and Discounted Loan): financing LCTP's associates, permanent employees of private and public companies, disbursed on an individual basis or through an institutional alliance. The loan size ranges from 500 PEN (150 USD) to 52,500 PEN (16,000 USD), the average term is one month for Sobregiros VIP and a year for the rest. The collateral is a mortgage for Personal Loans over 8,000 PEN (2,500 USD); for the rest it is directly negotiated with the company (deduction of repayments from the worker-borrower's salary). The APR ranges from 41% for those with weekly repayments (4%

nominal per month) and 75% for monthly repayments (6% nominal per month).

- **Agriculture/Livestock Loans** (Standardized Financial Product –SFP- and Farming Loans): The Farming Loans finance farm production, the average loan size is 3,000 PEN (900 USD), maximum term of 12 months with monthly repayments and an APR of 41%. The SFP finances COFIDE productive chains for qualified farmers. The credit risk is assumed by COFIDE and EA receives an intermediation commission of 4% of the loan value.

Outstanding loan portfolio by product
June 2005



Governance

Governance and Decision Making is rated "b"

Decision-making

EA's Board is an effective governance body, which approves the strategic plan and controls EA's overall performance. The capital concentration in the main shareholder LCTP is diluted thanks to a clear definition of the Board's responsibilities, as defined in the EA's creation rules. The LCTP is represented in the Board by two members. The remaining three members are elected by the Shareholder's Assembly among influential people in the Lambayeque entrepreneurial community. All members hold the same voting rights applying the rule one man one vote despite LCTP's preponderant ownership. All Board members (4 entrepreneurs and 1 lawyer) have an extensive knowledge of EA's history and of the socioeconomic context of the region, although their inputs could still be further enriched with specific trainings in microfinance as EA is gradually targeting lower income populations. The Board members are given a small compensation for each attendance at Board meetings. The Board meetings take place once a month as it is specified in the GLFSIS.

EA's representative governance structure ensures a decision-making process consistent with its mission. Its vision is shared by its main shareholder (the LCTP), that is, to promote Lambayeque's economic development through the financing of SMEs. The LCTP is not planning to increase its capital investment. There exists a tacit agreement of not distributing profits as dividends, but to capitalize the institution. As EA is facing lenders' demands to increase its capitalization (see "F"), it is studying the possibility to expand its capital base by inviting in new shareholders. Both, the Board and the LCTP agree on the necessity to protect social objectives over this process. The LCTP does not plan to loose its controlling position in the short term.

The management information presented to the Board is extensive and of good quality, although it could still be improved by a more concise presentation of some key monitoring indicators, as well as the standardization of the terms used to name the products by different EA's departments.

Planning

EA has established a Strategic Plan covering 2005-2008, which has been translated into an annual Operational Plan revised every three months. The Strategic Plan states coherent profitability goals, although it still lacks some clarity on the strategic axes needed to reach those objectives. The Plan's main axes are interest rate flexibility, funding sources diversification, productivity increase through incentives to staff members and market risk diversification. There is a need to better define the strategy regarding portfolio diversification, which is particularly important given the large variety of products with different characteristics, the geographical expansion and the capitalization strategy through new shareholders.

Even if it has not been yet specified in the Strategic Plan, over the last year EA has started a shift in its portfolio composition towards the Daily Loan (it represented 23.8% of the total portfolio end of 2004 and 28.5% in June 2005). This shift has been beneficial at two different levels: on the one hand, the higher turnover of this type of loans reduced the liquidity pressure that EA is facing (see "F"), and on the other hand, it has helped to better define EA's strategic market position (it targets a market niche which still is not being served by the intense competition in the region⁴). Thus, EA's strategy of adapting its initial focus (SME businesses) towards a lower income market is relevant and it has already turned out into positive results, as reflected in

⁴ EA's competitors, both commercial banks and CMACs, have not yet targeted micro-entrepreneurs with funding needs below 3,000 PEN (900 USD).

its good financial performance over the first semester of 2005 (see "E").

EA elaborates a detailed annual budget, which is revised monthly by the Administration and Finance Manager. EA receives technical assistance from the Microfinance Consulting Institute (MCI) to produce the financial plans. This might reduce EA's flexibility to update its own variables given that the tools used to generate the projections are kept by MCI. Over the first semester of 2005, there have not been any important gaps between projections and the real accomplishments.

Management team

The team is young and committed, and counts on good microfinance experience, which could still be enhanced with more advanced planning skills. The General Manager worked previously in the microfinance program of the LCTP in agreement with the IADB, that initiated the idea of EA's creation; this transition contributed to the stability of the institution.

The flexible hierarchical structure and the frequent informal communication help to quickly transmit important information throughout EA allowing the management team to secure a broad vision of the institution and to reduce key person risk. The core management team meets frequently, although the meeting minutes are not kept nor formalised in order to do a better follow-up of the decisions adopted.

Human resources management

The person in charge of the human resources management, the Finance and Administration Manager, has a clear vision of the role played by human resources in connection with the strategic plan. EA has standardised and appropriate recruitment and induction policies, which guarantee the selection of the right staff and high motivation among workers. There is a continuous training plan for every LO with the training for the rest of the staff based on individual needs.

EA salaries are comparable to those of the sector's averages, although they are slightly lower than those paid by the CMACs. This could eventually represent a risk of LOs leaving, as they are very well trained by EA and their contract length is short (it is a general rule that LO contracts are of a maximum length of three months, and six months for the rest of the team although renewable).

	Dec. 2002	Dec. 2003	Dec. 2004	May. 2005
Number of employees	16	16	29	34
% LO	44%	38%	62%	62%
Staff turnover	13%	19%	18%	6%

Note: Loan assistants and debt collectors are recruited on an outsourcing basis and they have been included in the turnover ratio calculation.

■ Information

Information and equipment is rated “a”

Description of the MIS

Equipment	<ul style="list-style-type: none">25 computers in the HQ and 3 in the special office.Two servers in HQ and a printing server.Modern equipment, software Windows 98 with licences.High speed Internet connection
Accounting	<ul style="list-style-type: none">Integrated system “El Cautivo”, developed by a Peruvian developer; based on Visual Basic with an Oracle database.Accounting is centralised in HQ, as it is for the moment the only location for accounting.Monthly banking reconciliations after recovering bank account’s statements.Monthly financial statements.
Portfolio information	<ul style="list-style-type: none">Integrated system “El Cautivo”.All loans are approved, disbursed, repaid and accounted for in the HQ.Consolidated management reports, available on a monthly basis, contain global performance indicators that are manually generated.

Management Information System (MIS) and equipment

EA has a solid MIS that incorporates several security measures which guarantee information integrity (defined user rights to access the system, daily back-ups, antivirus). The integrated system is decentralized and includes user-friendly automated functions (e.g. provisions and depreciation). It is a flexible software as new products and branches can easily be integrated.

EA depends on the external system designer for modifying the system’s options as it does not have the source codes. The response to this kind of requests usually does not take more than a week and they are provided at a reasonable cost. The person in charge of the MIS department sometimes develops parallel programs which generate reports from the data base not automatically produced by the system.

Information on activities

Information on activities is reliable, updated and available according to users needs. Useful information to carry out detailed analysis, such as disbursements by type of activity/product or geographical area, is available on demand. Nonetheless, the MIS does not have yet certain modules which could be useful for better monitoring the portfolio such as the registration of potential clients, automated loan analysis and delinquent clients’ follow-up.

Financial and accounting information

Accounting information is reliable, complete and updated. It is sent to the SBS on a monthly basis. Although most of the accounting procedures are automated, it is necessary to carry out manual work to calculate the additional amount of

provisions needed according to the SBS loan classification⁵ requirements, which is then added to the automatically generated provision amounts according to EA’s internal delinquency process (provision alignment). This is nonetheless a compulsory measure to which all regulated entities are subjected to and it does not affect the accounting information quality.

Financial analysis is carried out by the Finance and Administration Manager. It covers all the main performance ratios, but it could still be enhanced with a profitability and efficiency monitoring differentiated by product and sectors covered, in order to facilitate planning activities given the wide variety of products offered by EA.

■ Risk

Risk Management is rated “a”

Procedures and internal controls

As an entity regulated by the SBS, and despite its small size, EA is subject to demanding requirements regarding internal controls (formalisation of control policies and procedures). All procedures are well documented in frequently updated manuals available online (e.g. general and different products credit, market risks, liquidity management, administration, internal audit and MIS manuals).

The lending process incorporates relevant and adequate levels of control with clear segregation of duties and multiple checks: loan analysis performed by LOs, approved in Credit Committee, loan files prepared and verified by loan assistants, and disbursements done by cashiers. Nonetheless, these controls could still be improved by having the LOs visiting the clients after disbursements in order to check the fund use and the evolution of the client’s activities.

There are two levels of loan approval depending on the amount, which contribute to reinforce the segregation of duties:

- Executive Committee (two Board representatives and the General Manager) for loans higher than 8,000 PEN (2,500 USD) and refinanced loans. All decisions concerning write offs are taken by the Board.
- Credit and Recovering Committee (General Manager, Operations Manager and the LO) for the rest of loans below 8,000 PEN. In the case of Daily Loans, a credit line is approved so that the LO is allowed to approve new

⁵ EA sends portfolio data on a monthly basis to SBS which compiles then shares such information of the whole sector. If arrears increase for the whole sector, SBS assumes that the credit risk will also increase at EA which will then be required to make more loan loss provisioning consistent with the rest of the sector.

amounts and loan renewals within the limits without passing by the Committee.

Cash security is properly guaranteed: money from loan repayments is kept in a safe and there is security personnel presence for all trips to banks to make deposits and for debt collectors of daily loans. The maximum amounts allowed to remain in the office have been established according to the amounts covered by insurance (3,500 USD at the cashier's desk and 20,000 USD in the safe).

Internal audit

Risks control culture is driven by the regulatory framework, which is costly and strict, but efficient. EA has two different structures of risk identification:

- Internal Auditor, reporting to the Board. His manuals, working plan and reports are reviewed by the SBS. He covers all management levels including MIS and sporadic visits to clients. The Internal Auditor is also in charge of monitoring the implementation of the external auditor and SBS's recommendations. Additionally, there is an Audit Committee composed by EA's President, the General Manager and the Internal Auditor.
- Risk Department (Global Risk Management), whose responsibilities are also defined by the SBS: credit risks (client's classification, review of loan requests over 3,000 USD and client's visits after loan disbursement); operational risks (internal controls, MIS risks, etc.); financial and market risks (competitor's analysis, interest rates studies, etc.). It reports to the General Manager and its working plan must be approved by the Board. There is a Risk Committee composed by the President, the General Manager and the Risk Manager, whose meetings are held twice a month.

Two more external supervision structures reinforce the internal ones:

- External auditors auditing EA for the past three years. They carry out a financial, portfolio and internal controls audit. Their annual reports are very detailed and include a follow-up of their previous recommendations' implementation.
- Annual SBS inspection, which covers general risks, financial, administrative, accounting issues, guidelines implementation and judgements about different levels of internal and external controls.

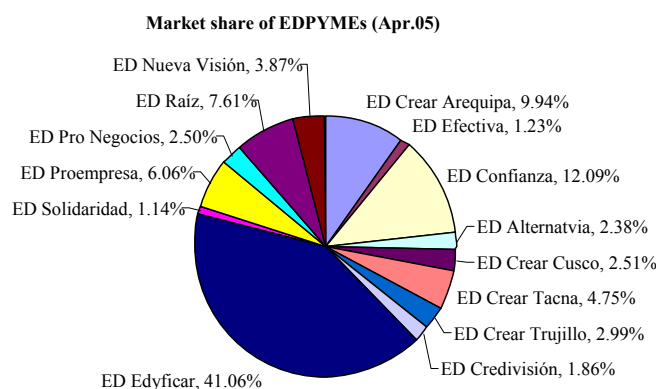
Activities

Activities: products and services is rated "b"

USD, unless otherwise stated	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
Loan portfolio	706,545	834,966	1,187,926	1,785,466
Loan portfolio (PEN)	2,578	2,997	3,908	5,811
Evolution	-	16.2%	30.4%	48.7%
Average outstanding loan	353,272	800,320	897,845	1,606,678
Number of active borrowers	1,076	1,380	2,748	4,247
Evolution	-	28.3%	99.1%	54.5%
Average outstand. loan /client	657	605	432	416
% of GDP per capita	78.8%	67.6%	42.0%	38.3%
Average amount disbursed	906	885	426	365
% of GDP per capita	108.6%	98.9%	41.4%	33.6%
PAR 31-365	4.2%	6.5%	5.6%	3.7%
PAR > 365	0.0%	0.0%	0.0%	1.3%
Write-off ratio	0.0%	1.8%	2.2%	0.0%

Marketing and competition

Competition in the region has increased significantly in the last years, the main competition in the region of Lambayeque for EA coming from another EDPYME (EDPYME Solidaridad), 2 CMACs (Caja Municipal de Trujillo and Caja Municipal de Piura), 1 CRAC (Caja Rural Cruz de Chalpón) and 2 banks (Banco del Trabajo and MiBanco). Among the 14 EDPYMEs of the country, EA belongs to the group of smaller institutions, holding only 2.38% of the global loan portfolio of EDPYMEs as of April 2005, according to SBS data.



Faced to an intensification of competition, EA conducted in 2004 a positioning analysis that made the institution modify its products range and design: shorter terms, more services, progressive amounts and more flexibility for some clients (petty trade, transportation); it was also decided to reduce the weight of Commercial Loans in order to face the expansion of banks. Marketing has been conditional to funding; it is carried out directly by agents that charge a fee per first loan disbursed. Some marketing campaigns are also implemented together with institutions with a similar social mission, such as MaxSalud⁶.

⁶ Private Company with social mandate that offers health services to poor populations. Its President is one of the small shareholders of EA.

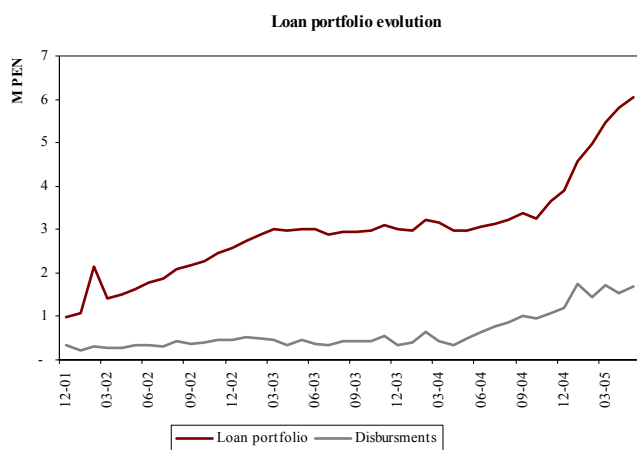
EA products offer competitive advantages that need to be differentiated even more in terms of interest rates, in particular with good clients, in order to face competition. Clients do appreciate that loan applications can be processed in less than 3 days despite a higher interest rate for SMEs. But this might not be enough in the near future. For Daily Loan the service of collection of payments at home is valued since it means no queues and transportation for clients; there is also a good perception of the possibility to increase the loan amount at the middle of the cycle within the limits of the approved credit line.

Credit methodology

The credit methodology is formalized, adapted to the populations served and allows for an appropriate control of credit risk. However, the administrative recovery process and post-disbursement control could be strengthened:

- LOs all have university degrees and good skills due to a complete and permanent training process, strengthened with their participation to Credit Committees.
- Selection of clients is rigorous and based on a detailed credit manual for each product. The consultation of 2 credit bureaus (SBS and CERTICOM) is compulsory.
- Payment capacity is based on an adequate cash flow analysis of the family and production units. It considers the specific cycles of each product to establish terms and payment frequency.
- However, after loan disbursement there is neither follow up of the use of the amount nor risk monitoring.
- Payment default follow up is carried out by LOs through an updated portfolio at risk report, but they do not have a specific monitoring tool and there are no minutes of recovery visits done. All default cases older than 120 days are transferred to an internal lawyer who continues the extrajudicial recovery process and takes to court all loans with real guarantees.

Evolution and composition of portfolio



EAs portfolio has increased significantly during the last semester (49%). In the past 6 months, growth has been higher than during the previous 3 years. This was possible thanks to a higher availability of funding since December 2004 and to the introduction of the SFP with COFIDE funds the same year.

This growth has also meant a radical change in portfolio composition: the Daily Loan product has contributed dramatically to loan portfolio growth in absolute terms, followed by the SFP.

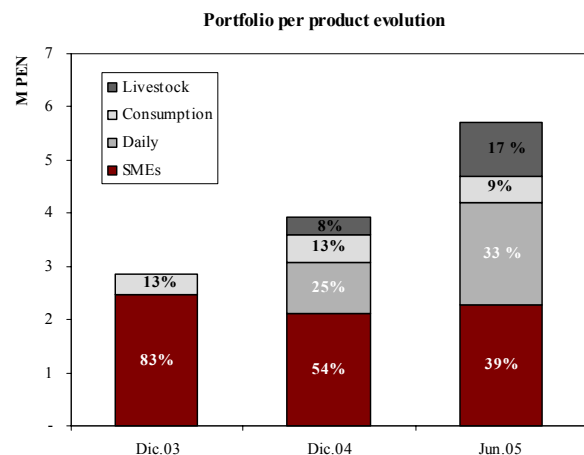
Portfolio quality

EA has an acceptable loan portfolio quality (PAR > 30 at 5% as of June 2005). It has improved during the last years (6.5% as of December 2003 and 5.6% as of December 2004). This improvement has taken place as the SME Loan weight in the loan portfolio diminishes (PAR > 30 at 9% in June 2005) while Daily Loan grows (PAR > 30 at 3.5%). The bad quality of SME Loan is linked to the economic recession the region suffered in 2004 (see Presentation); most trials for this product are from old loans and not from loans disbursed in recent months.

However PAR < 30 for Daily Loan is high (10.6% as of June 2005) given that the penalties policy starts from the 8th day of default (penalties start to be charged and administrative recovery processes are intensified). Although this does not lead to a degradation of the loan portfolio of EA, it has an opportunity cost in terms of liquidity and cash flow forecasts, and higher operating costs linked to the control and recovery processes.

The write off ratio has been low during the last years (1.8% in 2003 and 2.2% in 2004), and inexistent in June 2005. All write offs must be approved by the Credit Committee, only if loans have more than 180 days of default and after having used all recovery processes.

Portfolio diversification



EA is conscious of the need to diversify its credit risks, as shown by the permanent monitoring of sectors at risk by the Risks Manager and his strategy to develop daily products in global portfolio. This strategy responds to the will to distribute credit risks in an optimal way so that portfolio quality and profitability increase.

Credit risk coverage

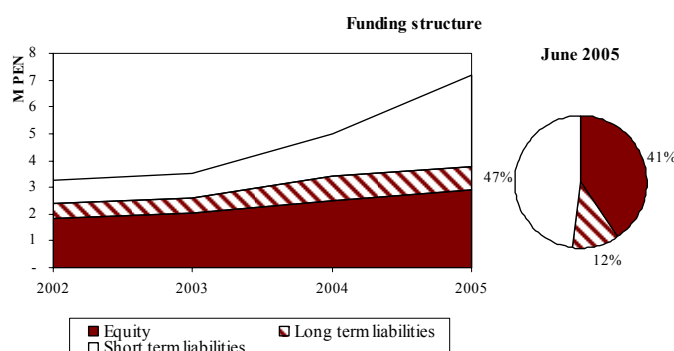
	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
Risk coverage ratio	111.7%	113.6%	123.3%	114.5%
PAR 31 net of loan loss provision / Equity	(0.7%)	(1.3%)	(2.1%)	(1.4%)

EA covers satisfactorily its credit risk with high provisions (risk coverage ratio at 114.5% as of June 2005) that follow entirely SBS rules.

Credit risk coverage with provisions is complemented with a conservative guarantees policy: all loans higher than 4,000 PEN (1,200 USD) are guaranteed with notarized hypothecs although not registered; from 8,000 PEN (2,200 USD) they are registered. Hypothecs cover in average 5.6 times the loan they guarantee. Recovery of bad loans through trials is efficient: as of June 2005 there were 49 trials, for periods of up to 6 months each. 70% of cases are resolved before reaching a final judgment.

Financing and liquidity

Financing and liquidity is rated "a"



EA equity comes mainly from capital investments of LCTP (99%) and its two minority shareholders (0.5% of capital each). Its liabilities are still concentrated in its main lender, COFIDE, representing 46% of all debts of EA as of June 2005 (350,000 USD for loan portfolio and 345,000 USD for the SFP).

	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
Liabilities / Equity	0.77	0.71	1.02	1.46

Financing strategy

EA has a solid funding structure based on an adequate capitalization (leverage of 1.5 as of June 2005) that allows for more debt absorption. Its assets weighted by credit risk

are only 2.5 times higher than EA's effective equity as of June 2005, still very far from the limit of 11 established by the GLFSIS regulation⁷. However this capitalization has not been considered sufficient by many local lenders, among which the main one, COFIDE: its financing policy requires a relationship of one-to-one between the amount lent and equity. Therefore EA has initiated an active fundraising drive that has generated its first results by the end of 2004: a loan from the Banco Financiero (60,000 USD), at a nominal interest rate of 16%; a credit line with Agrobanco of 500,000 PEN (150,000 USD) of which EA has used 300,000 PEN (60,000 USD) at an interest rate of 9%; a loan from MaxSalud for 350,000 PEN (100,000 USD) at an interest rate of 14%; and finally in 2005, 800,000 PEN (240,000 USD) from CMAC of Santa at an interest rate of 17%.

The access to these new funds will accelerate growth, even though this is still not enough given the growth forecasts of EA: its funding needs estimates for 2005 are 3,330,000 PEN (1 M USD). These new funds are also mainly short term and do not fit EA needs in the long run⁸. In previous years, EA growth has been hampered by the lack of financing. Access to "soft" funds is therefore the great challenge of EA, even if its financial structure allows for commercial financing, as it is the case with all recent loans.

Asset/Liability Management (ALM)

EA must monitor closely a potential maturity risk due to short term funding through debt. The MFI is shielded from an imminent risk given the clear reduction of the average term of loans with the development of Daily Loan (as of June 2005 only 6.4% of loans disbursed are more than one year long) and the solid equity structure (41% of its funding). However it needs to be very careful with the matching of its assets and liabilities. EA is not exposed to other financial risks: interest rate risk is controlled by the high differential of interest rates; there is no FX risk but as the MFI obtains funding in foreign currency, it will need to establish mechanisms to monitor these kinds of risks.

Liquidity management

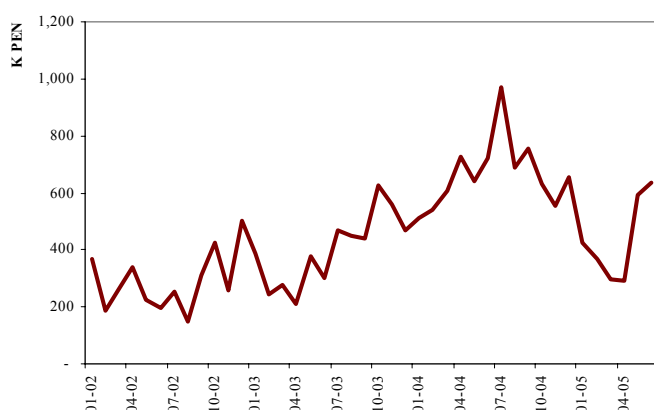
EA cash flow projections mechanism is simple but efficient. As funding sources and loans characteristics are diversified, EA will need to face the challenge of adapting its liquidity forecasts tools. Cash flows are checked weekly by the Administration and Finance Director based on forecasts, default and repayments. EA has managed to keep its idle liquidity levels low; by the end of 2004 its liquidity on banks increased after accessing new credit lines (see

⁷ Article 199 of GLFSIS: "the amount of weighted assets for credit risk cannot exceed 11 times its effective equity for covering credit risk."

⁸ As of June 2005, 80% of EAs funding by debt is short term, the only long term loan being the LCTP one for a total amount of 550,00 PEN, for an undetermined term.

next graph). The loan from CMAC del Santa, disbursed on a single transfer, was invested on an Interbank fund that generates an interest of 4.5% approximately, given that it was not possible to deploy it immediately in loan portfolio. Some investors like COFIDE require the constitution of a liquid guarantee of restricted funds for up to 10% of the loan disbursed (35,000 USD as of June 2005, that is 18% of cash in banks), that EA invests in deposit accounts and have an impact in its liquidity levels.

Evolution of cash balance



Efficiency and Profitability

Efficiency and Profitability is rated “b”

Profitability analysis	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
ROE	5.4%	9.3%	5.3%	24.4%
Liabilities / Equity	76.8%	71.1%	102.0%	146.4%
ROA	5.1%	7.7%	5.4%	10.8%
Profit generation				
Operational self-sufficiency	114.6%	121.4%	113.8%	132.1%
Portfolio Yield	73.3%	50.9%	58.4%	51.4%
Operating expense ratio	47.2%	29.4%	38.5%	30.8%
Staff productivity ⁽¹⁾	67	86	95	125
Loan officer productivity ⁽²⁾	154	230	153	202
Average outstanding loan per client (USD)	657	605	432	420
Funding expense ratio	6.0%	6.0%	6.2%	5.8%
Cost of liabilities	8.4%	12.7%	10.0%	9.2%
Loan Loss Provision expense ratio	8.7%	5.4%	4.0%	2.5%
PAR 31-365	4.2%	6.5%	5.6%	3.7%
Write-off ratio	0.0%	1.8%	2.2%	0.0%
Asset management				
Outstanding Loan Portfolio / Assets	75.3%	78.7%	72.6%	76.4%
Non-portfolio income as a % of financial revenues	0.0%	0.3%	0.4%	0.4%

(1) Includes Daily Loan collectors hired through fees.

(2) Includes Loan Assistants hired through fees.

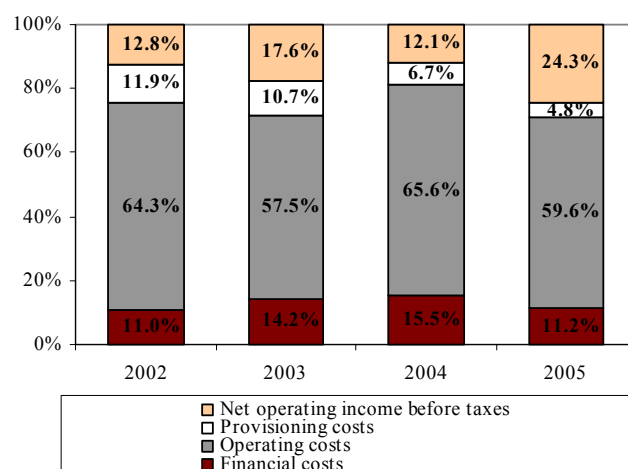
Overview of the profitability

EA is a profitable institution before and after adjustments (ROA grew from 5.4% to 10.8% and ROE from 5.3% to 24.4% during first semester 2005). In 2004 profitability

indicators decreased compared to 2003 due to the economic crisis that led to less disbursements and higher portfolio-at-risk. EA resumed with the positive profitability trend in 2005 reaching an operating self-sufficiency of 132.1% as of June 2005. The institution had already covered its costs since the first year of operations.

The profitability increase during the last semester is based on an increase of yield ratios of new loans; an improvement of portfolio quality, in particular with recent loans, and a natural reduction of provisioning costs (from 4% to 2.5% in June 2005); and finally a productivity increase that allows for economies of scale.

Cost structure in % of financial income



Portfolio yield

The portfolio yield at 51.4% as of June 2005 compared to 58.4% in 2004 and 51.0% in 2003 is coherent with the evolution of the loan portfolio structure by product. The high portfolio yield in 2004 is related to the increase of the share of Daily Loan in the loan portfolio (the product with the highest APR, 102.5%), while in 2005 the SFP share increased more rapidly (APR at 41%).

Operating expense ratio

The operating expense ratio has experienced a dramatic decrease during the last semester (from 38.5% in December 2004 to 30.8% in June 2005) for various reasons:

- Strong portfolio growth of about 50% in 6 months, that has generated economies of scale;
- Productivity increase (staff productivity has gone from 95 to 125). EA still has a strong potential for productivity gains as experienced LOs can manage portfolios of more than 400 clients, while the average number of clients per LO is only of 202;
- The average outstanding portfolio per client has remained stable (432 USD in December 2004 and 420 in June 2005), despite higher disbursements of little amounts through the Daily Loan product. The growth of SFP during the last semester, with a high average outstanding

loan per client (4,700 USD), has permitted such stabilization.

Funding expense ratio

The funding expense ratio has slightly decreased during the last semester from 6.2% to 5.8% thanks to the growth of SFP: the interest rate COFIDE charges for this product, 14.5%, is lower than the market rate. However, this ratio might increase in the following years due to difficult access to “soft” funds and to restrictions in SFP growth related to the policy of COFIDE not to go over the one-to-one ratio of funding to equity.

Asset management

EA has improved its assets management during the last semester, managing to increase the percentage of assets invested in portfolio from 72.6% in December 2004 to 76.4% in June 2005. The relative percentage of portfolio had decreased in 2004 due to the purchase of the HQ of EA, making the percentage of fixed assets increase from 2.3% of total assets in 2003 to 8.7% in 2004. The purchase of this building led to a temporary shortage of liquidity for portfolio, but it is expected to be used in the near future as a real guarantee to access new funding. As of June 2005 the percentage of liquidity in banks remains low, representing 8.8% of total assets, including the liquidity margin of 10% required by COFIDE for its loans (see “F”).

Adjusted performance

Details concerning the specific adjustments are included in the annexes

The adjustment expense ratio is immaterial (0.1% as of June 2005): it was only necessary to perform an adjustment for cost of funds in 2005, given that EA finances itself through equity and quite expensive loans. There were not adjustments for inflation given that the MFI already makes them. Adjustments for provisions were not necessary as loan loss reserves already provisioned by EA are sufficient for the GIRAFE methodology. EA has not received donations so adjustments for in-kind donations were not necessary. This leads to a high financial self-sufficiency of 132% as of June 2005, with a positive trend.

	Dec.02	Dec.03	Dec.04	Jun.05
Adjustment expense ratio	2.0%	0.0%	0.0%	0.1%
AROE	1.9%	5.0%	0.5%	24.2%
AROA	2.7%	5.3%	2.8%	10.7%
Financial self-sufficiency	111.1%	121.4%	113.8%	131.9%

Profitability outlook

EA is a profitable institution with the potential to keep the positive trend of its financial performance. This should come together with a concentration in the market niche of Daily Loan, a product that has a high portfolio yield and in which EA has developed a particular know-how and a

unique presence. Even if the operating expense ratio could still decrease due to the existing margin for productivity gains, a decrease as clear as in previous years is not expected given that SFP growth (main factor of portfolio growth during the last semester together with Daily Loans) is constrained by funding restrictions. Thus portfolio growth will be limited and the average outstanding loan per client too. Additionally, financial costs might experience an increasing trend as EA becomes more mature and absorbs more commercial funds.

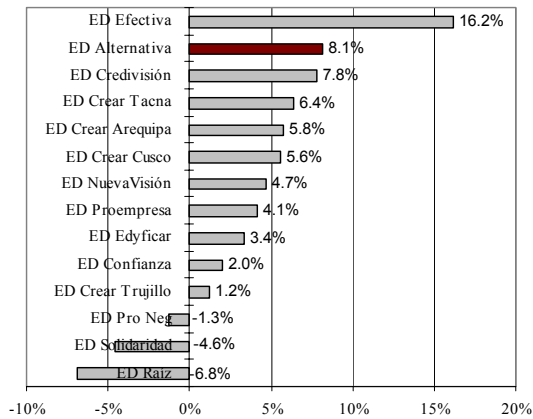
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

▪ Benchmarking

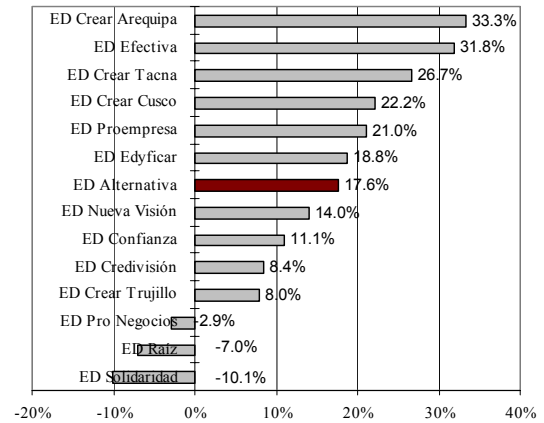
MBB classification

Area	Latin America
MBB peer group	Latin America Small Broad
Maturity	Young (4 years of operation)
Scale	Small (1.8 M USD portfolio)
Target Clientele	Broad (average outstanding loan: 40.4% of GDP per cap.)

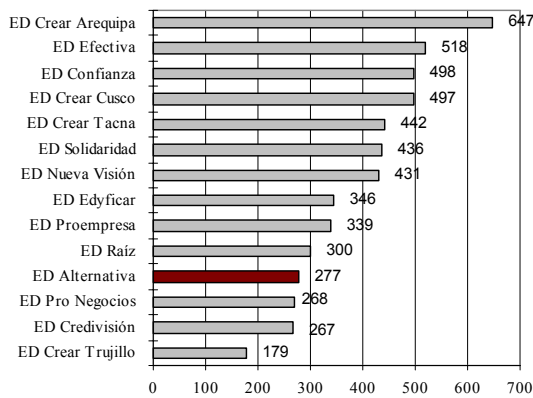
ROA



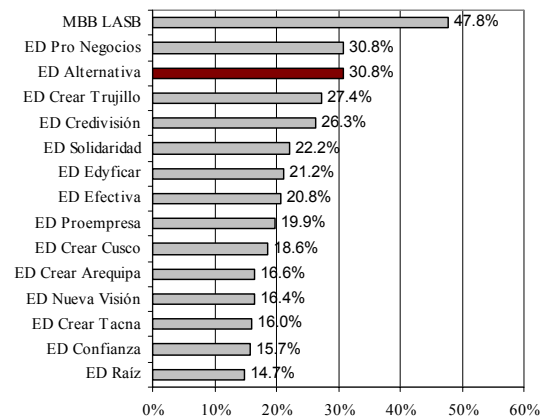
ROE



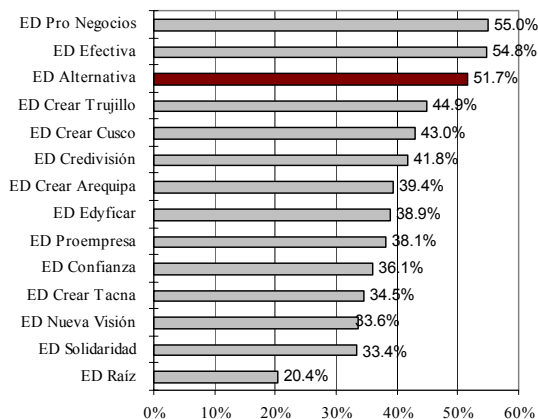
Staff productivity



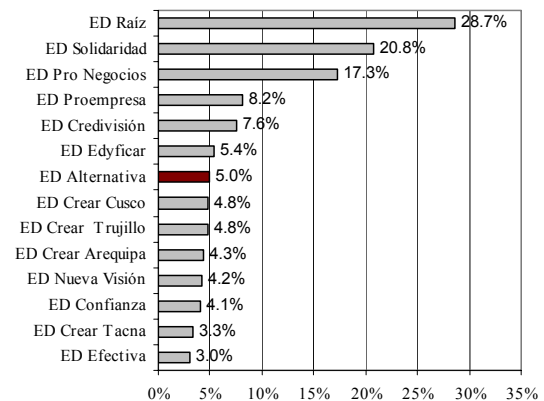
Operating expense ratio



Financial income / Average productive assets



PAR > 30



Annexes

Acronyms

APR	Actual Percentage Rate
ASEP	Peruvian Association of EDPYMEs
CGAP	Consultative Group to Assist the Poor
CMAC	Savings and Loans Municipal Cooperatives
COFIDE	Development Financial Corporation
COPEME	Consortium of Private Organizations for the Promotion of Small and Micro Enterprises
CRAC	Savings and Loans Rural Cooperatives
EA	EDPYME Alternativa
EDPYME	Small and Micro Enterprise Development Companies
GDP	Gross Domestic Product
GLFSIS	General Law of the Financial System and of the Insurance System
IMF	International Monetary Fund
K	Thousands
LCTP	Lambayeque Chamber of Trade and Production
LO	Loan Officer
M	Millions
MBB	MicroBanking Bulletin
MFI	Microfinance Institution
MIS	Management Information System
NA	Not Available
NGO	Non Governmental Organization
PAR	Portfolio at Risk
PEN	New Peruvian Soles
ROA	Return on Assets
ROE	Return on Equity
SFE	Standardized Financial Product
SME	Small and Medium Enterprises
SA	Shareholders Assembly
SBS	Superintendencia de Banca y Seguros
USD	US Dollars
VAT	Value Added Tax

Formulas and ratios

- Personnel productivity: Active borrowers / Total personnel (end of period)
- Loan officer productivity: Active borrowers / Total Loan Officers (end of period)
- Return on assets ROA: Net operating income before donations / Average assets
- Adjusted return on assets: AROA: Adjusted net operating income before donations / Average assets
- Return on equity: ROE: Net operating income before donations / Average equity
- Adjusted return on equity: AROE: Adjusted net operating income before donations / Average equity
- Leverage: Debt (savings + debts) / equity (end of period)
- Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio
- Operating expense ratio: Operating expense / 13-month average gross outstanding portfolio
- Funding expense ratio: Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
- Cost of funds ratio: Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
- Loan loss expense ratio: Net loan loss expense / 13-month average gross outstanding portfolio
- Adjustment expense ratio: Total adjustments / 13-month average gross outstanding portfolio
- Net portfolio as a % of assets: Net outstanding portfolio / total assets (end of period)
- Operational self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense)

- Financial self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
- Risk coverage ratio: Loan loss reserves / Portfolio at risk (31-365 days)
- Write-off ratio: Loans written off / 13-month average gross outstanding portfolio

Notes to the financial statements

General notes to financial statements per CGAP Disclosure Guidelines

0 The MFI does not follow the CGAP disclosure guidelines since it has to follow SBBS standards.

1 The Financial Statements presented include a balance sheet, income statement, a net equity changes statement and accompanying notes. Financial statements have been audited until 2004. Audit is performed by the Peruvian firm Muñoz y Asociados. Data of Jan-Jun 2005 are non audited financial statements which nonetheless validated by the SBS through the data validation module called SUCAVE.

2 The institution only provides financial services.

3 Donations: EA has not received any donation since inception.

4 Portfolio items accounting:

Provisioning methodology			
Days of default	Table 1	Table 2	Table 3
Normal (< 8 days)	1%	1%	
Potential problems (8-30 days)	5%	2.5%	1%
Deficient (30-60 days)	25%	12.5%	1.5%
Doubtful (60-120 days)	60%	30%	6.25%
Loss (>120 days)	100%	60%	15%
Write-off	Any loan with arrears higher than 180 days and fully provisioned is written off with a previous check by the Credit Committee.		

NOTE: Table 2 applies for loans with "preferred" guarantees and Table 3 for those with "preferred" guarantees with a high conversion degree.

4.1 Expenses related to credit risk (provisions, write offs) are presented separately from other expenses in the income statement.

4.2 Provision expenses are inputted monthly in the income statement and are added or subtracted from the loan loss reserve in the balance sheet. Write-offs are subtracted from loan loss reserve.

4.3 Loan loss reserve movements:

In PEN	Dec. 2002	Dec. 2003	Dec. 2004
Loan loss reserve, January 1st	9,753	122,177	222,270
+ Loan loss provision expense for the year	9,753	112,781	161,906
- Provision reversal			2,443
- Loans written off during the year		523	61,813
Loan loss reserve, December 31st	19,506	234,435	319,920
Loans written off without going through LLR	-	-	-

(1) The differences between loan loss reserves as of January 1st and December 31 of the previous year are related to the actualization of financial statements for inflation.

4.4 Interests are accrued for up to 30 days arrears.

4.5 Other financial income is separated from portfolio generated income.

5 Portfolio quality

5.1 Indicators: Portfolio quality and the calculations of such are displayed in the tables in section A and I.

5.2 Any rescheduled loan must go through Credit Committee and is analyzed according to its specifics. From 2005 EA does not reschedule loans.

5.3 EA does not allow employees to borrow funds.

6 Details of liabilities:

6.1 Details of funding through debt:

Source	Interest rate	Initial amount	Outstanding amount 31/12/2004	Conditions
COFIDE, Credit line	VAC+6%	1,160,00	1,000,123	- 1.5 years term - Grace period of 6 months - Quarterly payments
COFIDE, SFP	VAC+6%	-	851,517	- 7 months term - Only for Productive Chains
MaxSalud	14%	350,000	237,133	- 1 year term - Grace period of 6 months - Quarterly payments
Agrobanco	9%	300,000	300,000	- 1 year term - Grace period of 9 months - Quarterly payments - Credit line of 500,000 PEN
LCTP	12%	550,000	550,000	- Undetermined term - Payment of interests twice a year
CMAC del Santa	17%	800,000	800,000	- 1.5 years term - Quarterly payments
Banco Financiero	17%	200,000	108,291	- 1 year term - Monthly payments

6.2 The institution is not allowed to collect savings

7 Other accounting rules:

7.1 Incomes and expenses are accrued.

7.2 Inflation and exchange rate gains or losses are registered according to SBS norms.

7.3 EA is not exposed to FX risk.

8 Other out of balance sheet items:

8.1 Number of loans disbursed is indicated in section A.

Specific notes to the financial statements

Balance sheet

- Includes cash in hands in local currency and foreign currency, fix funds, cash in banks in current accounts (national currency and foreign currency) and the savings accounts (national currency and foreign currency). It includes the guarantee fund required by COFIDE, amounting to 10% of all loans disbursed by this institution.
- Includes normal loans, rescheduled loans, defaulting loans and loans in judicial recollection process.
- Interests accrued by normal loans to which are added accrued interests of rescheduled loans. When a loan is rescheduled accrued interests are capitalized and must be subtracted from accrued interests.
- Various accounts receivable (to staff and clients). It is subtracted from the loan loss reserve created from September 30, 2004.
- Auctioned assets, depreciated intangible assets (software), operations to liquidate.
- Includes taxes to pay, holidays and salaries to pay.
- The loan of 550,000 from LCTP is considered long term, given that its term is undetermined and EA only makes payments of interests every 6 months.
- Issued capital and additional capital, that is capital not yet formalized.
- Retained earnings from previous years are transferred directly to social capital.
- It includes the legal reserve: 10% of dividends of each FY, less income taxes, until they amount the fifth part of capital.

Income statement

- Income from assets receivable.
- Fees, consultants, transportation, rent, alarm, surveillance, energy, water, car rentals, supplies.
- Income taxes include the pay out of 5% of dividends to workers.
- Recovery of written off loans.
- Difference between the provision of a loan with real guarantee or hypothec and the income generated by the selling of the asset after a judicial process. In 2003 it also includes the losses from a robbery non covered by the insurance.

Adjustments

Data in PEN	Dic.2002	Dic. 2003	Dic. 2004	Jun. 2005
Adjustment for the cost of funds = (a*b)-c	12,084	-	-	1,983
Average amount of borrowings (a)	683,510	1,363,439	1,895,871	3,227,508
Shadow price of borrowings (b)	10.2%	9.3%	9.3%	9.3%
Interest expense on borrowings (c)	57,361	173,023	189,317	148,096
Adjustment for inflation = (d-e)*f	-	-	-	-
Avg. Equity (d)	-	-	-	-
Average fixed assets (e)	-	-	-	-
Inflation rate (f)	0%	0%	0%	0%
Adjustment for in-kind donations	-	-	-	-
Staff and technical assistance	-	-	-	-
Other	-	-	-	-
Adjustments for provisions	13,855	-	-	-
Loan losses	13,855	-	-	-
Other risks	-	-	-	-
Other adjustments	-	-	-	-
Total adjustments	25,939	-	-	1,983
Net income before donations	89,399	180,797	119,989	328,211
Adjusted net income before donations	63,460	180,797	119,989	326,229
Adjusted net income before donations (USD)	17,386	50,361	36,471	101,946

EDPYME Alternativa		PEN						USD						Evolution		
Balance sheet	Notes	Dic.2002	Dic. 2003	Dic. 2004	Jun. 2005	Dic.2002	Dic. 2003	Dic. 2004	Jun. 2005	Dic.2002	Dic. 2003	Dic. 2004	Jun. 2005	2002/2003	2003/2004	2004/2005
ASSETS		3,263,196	3,525,730	5,009,100	7,168,941	894,026	982,097	1,522,523	2,202,440	8.0%	9.2%	8.0%	2,202,440	8.0%	42.1%	43.1%
Short Term Assets		3,054,884	3,334,756	4,490,108	6,446,928	836,955	928,901	1,364,774	1,980,623	9.2%	9.2%	9.2%	1,980,623	9.2%	34.6%	43.6%
Cash and Due from Banks	1	500,657	467,204	655,170	628,873	137,166	130,140	199,140	193,202	(6.7%)	(6.7%)	193,202	(6.7%)	40.2%	(4.0%)	
Short Term financial assets		-	-	-	105,628	-	-	-	32,451	-	-	-	32,451	-	-	-
Short Term Net Loan Portfolio		2,456,712	2,775,257	3,636,970	5,480,022	673,072	773,052	1,105,462	1,683,571	13.0%	13.0%	1,683,571	13.0%	31.0%	50.7%	
Short Term Gross Loan Portfolio	2	2,578,889	2,997,527	3,908,277	5,811,692	706,545	834,966	1,187,926	1,785,466	16.2%	16.2%	1,785,466	16.2%	30.4%	48.7%	
(Loan Loss Reserve)		122,177	222,270	271,307	331,670	33,473	61,914	82,464	101,896	81.9%	81.9%	101,896	81.9%	22.1%	22.2%	
Interest Receivable		58,107	69,639	64,166	129,371	15,920	19,398	19,503	39,745	19.8%	19.8%	39,745	19.8%	(7.9%)	101.6%	
On loan portfolio	3	58,107	69,639	64,166	123,169	15,920	19,398	19,503	37,840	19.8%	19.8%	37,840	19.8%	(7.9%)	92.0%	
On investments		-	-	-	6,202	-	-	-	1,905	-	-	-	1,905	-	-	-
Accounts receivable and other assets	4	39,408	22,656	133,802	103,034	10,797	6,311	40,669	31,654	(42.5%)	(42.5%)	31,654	(42.5%)	490.6%	(23.0%)	
Long term assets		208,312	190,974	518,992	722,013	57,072	53,196	157,748	221,817	(8.3%)	(8.3%)	157,748	(8.3%)	171.8%	39.1%	
Long term financial assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		98,372	90,510	435,358	526,423	26,951	25,212	132,328	161,727	(8.0%)	(8.0%)	161,727	(8.0%)	381.0%	20.9%	
Other Long Term Assets	5	109,940	100,464	83,634	195,590	30,121	27,984	25,421	60,089	(8.6%)	(8.6%)	60,089	(8.6%)	(16.8%)	133.9%	
LIABILITIES AND EQUITY		3,263,196	3,525,730	5,009,100	7,168,940	894,026	982,097	1,522,523	2,202,439	8.0%	8.0%	2,202,439	8.0%	42.1%	43.1%	
Liabilities		1,417,218	1,465,205	2,528,849	4,259,709	388,279	408,135	768,647	1,308,666	3.4%	3.4%	1,308,666	3.4%	72.6%	68.4%	
Short term liabilities		867,218	915,205	1,598,375	3,415,700	237,594	254,932	485,828	1,049,370	5.5%	5.5%	1,049,370	5.5%	74.6%	113.7%	
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	809,858	1,501,410	3,193,369	-	-	-	-	(0.9%)	(0.9%)	-	(0.9%)	85.4%	112.7%	
Interest payable		817,020	-	-	-	223,841	225,587	456,356	981,066	-	-	981,066	-	-	-	-
Other Short Term Liabilities	6	-	105,347	96,965	222,331	-	-	-	-	109.9%	109.9%	-	109.9%	(8.0%)	129.3%	
Long term liabilities		50,198	550,000	930,474	844,009	13,753	29,345	29,473	68,305	0.0%	0.0%	68,305	0.0%	69.2%	(9.3%)	
Long Term Time Deposits		550,000	-	-	-	150,685	153,203	282,819	259,296	-	-	259,296	-	-	-	-
Long Term Borrowings	7	-	550,000	930,474	829,762	-	-	-	-	0.0%	0.0%	-	0.0%	69.2%	(10.8%)	
Other Long Term Liabilities		550,000	-	-	14,247	150,685	153,203	282,819	254,919	-	-	254,919	-	-	-	-
Equity		-	2,060,525	2,480,251	2,909,231	-	-	-	4,377	11.6%	11.6%	4,377	11.6%	20.4%	17.3%	
Paid-In Capital	8	1,845,978	1,873,700	2,355,321	2,538,040	505,747	573,962	753,876	893,773	2.5%	2.5%	893,773	2.5%	25.7%	7.8%	
Donated equity		1,828,259	-	-	-	500,893	521,922	715,903	779,736	-	-	779,736	-	-	-	-
Retained earnings without donations and reserves	9	-	177,786	96,798	333,380	-	-	-	-	903.4%	903.4%	-	903.4%	(45.6%)	244.4%	
Current year		17,719	177,786	96,798	333,379	4,855	49,523	29,422	102,421	98.9%	98.9%	102,421	98.9%	(45.6%)	244.4%	
Other equity accounts	10	89,399	9,039	28,132	37,812	24,493	49,523	29,422	102,420	-	-	102,420	-	211.2%	34.4%	

EDPYME Alternativa	PEN					USD			Evolution		
	Notes	Dic.2002	Dic. 2003	Dic. 2004	Jun. 2005	Dic. 2003	Dic. 2004	Jun. 2005	2002/2003	2003/2004	2004/2005
Income Statement											
Financial Revenue (a)		946,107	1,493,221	1,890,828	1,349,998	259,207	415,939	414,746	57.8%	26.6%	(28.6%)
Financial Revenue from Loan Portfolio		944,543	1,488,294	1,883,825	1,344,553	258,779	414,567	413,073	57.6%	26.6%	(28.6%)
Interest on Loan Portfolio		944,543	1,488,294	1,789,445	1,344,553	258,779	414,567	413,073	57.6%	20.2%	(24.9%)
Fees and Commissions on Loan Portfolio				94,380			28,687		-	-	(100.0%)
Penalty Revenue on Loan Portfolio									-	-	-
Financial Revenue from Investments			4,645	6,890	4,900	1,294	2,094	1,505	-	48.3%	(28.9%)
Other Operating Revenue	11	1,564	282	114	545	428	79	168	(82.0%)	(59.6%)	378.9%
Financial Expense (b)		103,935	211,861	293,983	151,534	28,475	59,014	46,554	103.8%	38.8%	(48.5%)
Interest paid on borrowings		57,361	173,023	189,317	148,096	15,715	48,196	45,498	201.6%	9.4%	(21.8%)
Interest paid on deposits									-	-	-
Net Inflation Adjustment Expense		26,911	36,784	94,756							
Other Financial Expenses		19,663	2,054	9,910	3,437	5,387	572	1,056	(89.6%)	382.5%	(65.3%)
Financial income [c=a-b]		842,172	1,281,360	1,596,845	1,198,465	230,732	356,925	368,192	52.1%	24.6%	(24.9%)
Net Loan Loss provision expense (d)		112,781	159,062	127,376	65,289	30,899	44,307	20,058	41.0%	(19.9%)	(48.7%)
Loan loss provision expense and write-off		112,781	159,062	127,376	65,289	30,899	44,307	20,058	41.0%	(19.9%)	(48.7%)
Recovery from Loans written off									-	-	-
Operating expense (e)		608,747	859,321	1,240,558	804,964	166,780	239,365	247,301	41.2%	44.4%	(35.1%)
Personnel Expense (includes fringe)		393,819	538,373	656,078	431,985	107,896	149,965	132,714	36.7%	21.9%	(34.2%)
Administrative Expense (non-staff operating expenses)		214,928	320,948	584,480	372,979	58,884	89,401	114,587	49.3%	82.1%	(36.2%)
Depreciation and amortization		7,013	45,427	68,219	46,885	1,921	12,654	14,404	547.8%	50.2%	(31.3%)
Gastos por servicios	12	207,915	275,521	516,261	326,094	56,963	76,747	100,183	32.5%	87.4%	(36.8%)
Net Operating Income Before Taxes and Donations [f=c-d-e]		120,644	262,977	228,911	328,211	33,053	73,253	100,833	118.0%	(13.0%)	43.4%
Income Taxes (g)	13	31,245	82,180	108,922	8,560	22,891	33,107		163.0%	32.5%	(100.0%)
Net Operating Income Before Donations [h=f-g]		89,399	180,797	119,989	328,211	24,493	50,361	100,833	102.2%	(33.6%)	173.5%
Non Operating Revenue (i)	14		11,366	11,649	39,584	3,166	3,541	12,161	-	2.5%	239.8%
Costos no operativos (incluidos impuestos relacionados) (j)	15		14,377	34,839	34,417	4,005	10,589	10,574	-	142.3%	(1.2%)
Net Income Before Donations [k=h+i-j]		89,399	177,786	96,798	333,379	24,493	49,523	102,420	98.9%	(45.6%)	244.4%
Donations (l)									-	-	-
Net Income (after Taxes and Donations) [m=k+l]		89,399	177,786	96,798	333,379	24,493	49,523	102,420	98.9%	(45.6%)	244.4%

Description of loan products

	Commercial Loan	SME Loan	Parallel Loan	Daily Loan	Mobile Loan	VIP overdraft	Personal Loan	Salary Loan	Agriculture/ Livestock	SFP
Type of clients	Individual person or company: trade, production or services.	Rural, urban, trade, production or services.	Rural, urban, trade, production or services.	Retailers of markets or shopkeepers	Transportation sector: associations or independent workers	Members of LCTP	Dependent workers of public or private companies	Dependent workers of public or private companies through partnerships	Rural: purchase, breeding, and selling of livestock	Rural: Farmers certified by COFIDE through Productive Chains
Authorized loan size	PEN 500 to PEN 52,500	PEN 500 to PEN 52,500	According to repayment capacity	PEN 200 to PEN 5,000	PEN 200 to PEN 5,000	According to authorized credit line	PEN 500 to PEN 52,500	According to repayment capacity	PEN 200 to PEN 52,500	PEN 1,500 to PEN 98,000
Average loan size	PEN 2,500	PEN 2,500	PEN 2,000	PEN 740	PEN 800	PEN 3,000	PEN 2,000	PEN 1,500	PEN 3,000	PEN 19,737
Authorized loan terms (minimum and maximum)	Minimum: 1 month Maximum: - 18 months for working capital - 36 months for fixed assets	Minimum: 1 month Maximum: - 18 months for working capital - 36 months for fixed assets	Minimum: 1 month Maximum: 6 months	Minimum: 30 days- Maximum: 120 days (up to 3,000 PEN), 180 days (from 3,001 PEN to 5,000 PEN)	Minimum: 30 days- Maximum: 120 days (up to 3,000 PEN), 180 days (from 3,001 PEN to 5,000 PEN)	Up to 30 days	Minimum 1 month Maximum: up to 24 months and can be up to 36 months with hypothec	Minimum 1 month - Maximum 36 months	Minimum 1 month - Maximum 12 months	8 months
Average length of loans	10 Months	10 Months	3 Months	60 Days	60 Days	30 days	12 months	12 months	12 months	8 months
Grace period	1 - 2 Months	1 - 2 Months	2 Months	0	0	1 month	0	0	1 month	
Collateral requirements and other conditions	Hypothec for loans higher than 8,000 PEN	Hypothec for loans higher than 8,000 PEN	Hypothec for loans higher than 8,000 PEN	For loans higher than 3,000 PEN, solidarity guarantee. Fixed selling point required.	For loans higher than 3,000 PEN, solidarity guarantee. Property of vehicle required	Contract	Hypothec for loans higher than 8,000 PEN. At least 6 months working.	Agreement authorizing repayment from salaries	Hypothec for loans higher than 8,000 PEN	
Repayment Schedule	Monthly	Weekly, bi-weekly, monthly	Monthly	Daily, weekly	Daily, bi-weekly, monthly	Monthly	Monthly	Monthly	Monthly	At harvest
Flat or decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing
APR	41.00%	41.00%	41.00%	102.50%	102.50%	Between 41% y 75%	Between 41% y 75%	Between 41% y 75%	41.00%	41.00%
Fees and penalties	Fix penalty of 15 PEN at 8 days of default	Fix penalty of 15 PEN at 8 days of default	Fix penalty of 15 PEN at 8 days of default	Fix penalty of 4 PEN at 8 days of default	Fix penalty of 4 PEN at 8 days of default	Fix penalty of 15 PEN at 8 days of default	Fix penalty of 15 PEN at 8 days of default	Fix penalty of 15 PEN at 8 days of default	Fix penalty of 15 PEN at 8 days of default	Fix penalty of 15 PEN at 8 days of default

Organizational chart

