

## GIRAFE

### Rating

A+  
A  
A-  
B+  
B  
**B-**  
C+  
C  
C-  
D  
E

### Good

Sophisticated and efficient procedures, long-term evolution perspective. A few improvements could be made. Certain long-term risks are not identified in the strategic plan.

### Tendency

Positive

**Stable**

Uncertain  
Negative

The organization has shown an important improvement in its risk control mechanisms and information quality; however it must strengthen its financing sources and put its current capacity to better use.

### Performance Indicators

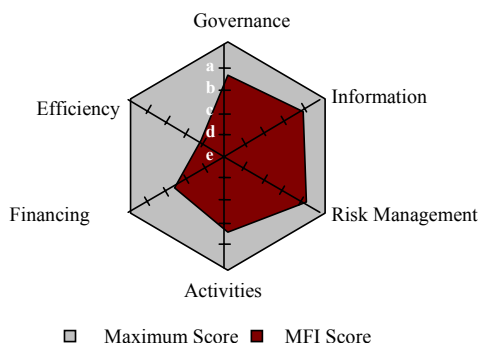
(K USD, unless indicated otherwise)

	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006
<b>ACTIVITY</b>				
Total # of employees	131	113	118	112
Total Assets	4,601	4,614	3,901	4,728
(K PEN)	15,925	15,135	13,377	15,129
Loan Portfolio	6,318	4,241	4,053	4,061
N° of Active Clients	30,277	14,857	15,222	14,371
Overall Effective Interest Rate	50.0%	48.6%	53.3%	55.3%
PAR 31-365 <sup>(1)</sup>	38.2%	8.0%	8.6%	2.1%
PAR > 365 <sup>(1)</sup>	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	37.6%	1.5%	6.5%
Risk Coverage Ratio <sup>(2)</sup>	101%	111%	110%	136.5%
<b>PERFORMANCE</b>				
ROE	(30%)	(27%)	(28%)	0.4%
Debt/Net Worth	0.25	0.31	0.52	1.0
ROA	(22%)	(21%)	(20%)	0.2%
OSS	56.9%	62.1%	65.6%	100.5%
FSS	56.1%	60.4%	62.9%	93.3%
Portfolio Yield	28.3%	29.4%	38.5%	43.0%
Operational Expense Ratio	45.4%	46.6%	59.0%	44.2%
Staff Productivity	231	131	129	128
Funding Expense Ratio	0.9%	1.0%	1.2%	1.5%
<b>GROWTH</b>				
Loan Portfolio Growth	8.7%	(33%)	(4.4%)	0.2%
Asset Growth	(37%)	0.3%	(16%)	21.2%
<b>PEN/USD</b>	<b>3.46</b>	<b>3.28</b>	<b>3.43</b>	<b>3.20</b>

(1) Does not include renegotiated loan portfolio

(2) Includes renegotiated loan portfolio

## Microfinance Dept. of PRISMA, Peru December, 2006



### TRANSLATED FROM ORIGINAL SPANISH VERSION

#### ■ Description of the Institution

PRISMA, one of the largest Peruvian NGOs, launched its microcredit activities in 1994 as part of its food security program and with funding from USAID. In December 2003, the different microfinance programs implemented by PRISMA were consolidated into a single Microfinance Department. As of October 2006, the Microfinance Department of PRISMA (MDP) had an outstanding portfolio of 4.1 M USD and has 14,371 active clients in 14 branches and 5 satellite offices across the country. MDP offers loans under the village bank, solidarity group, and individual loan methodologies.

#### ■ Rating summary

**MDP has been assigned a global rating of "B-".** This rating reflects its solid credit procedures, operational risk control, and information systems. However, the organization still needs to diversify its products, increase the productivity of its employees and, above all, find new sources of funding - a key factor in its growth and consolidation.

**This grade has been given with a "Stable" trend.** The organization has shown an important improvement in its risk control mechanisms and information quality, but must work to strengthen its funding sources and make better use of its established capacity.

#### Financing Needs

MDP anticipates funding needs from 2007 – 2008 of 1 M USD annually, which will be used to increase its loan disbursements and to a lesser degree substitute expensive liabilities. Planet Rating believes that MDP has the capacity to absorb these resources without creating major risks, considering that its growth projections of 20% annually are operationally viable.

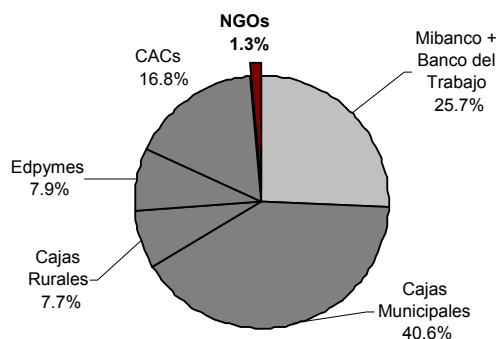
## Microfinance Sector

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, which reduced the supply of financial services to the low and middle classes (four development banks, two commercial banks and various cooperatives were shut down). As a response to this crisis, the Peruvian government established a policy to support the development of microfinance, through an adequate legal framework and the establishment of various funding mechanisms.

Today, Peru's microfinance sector is made up of regulated and unregulated institutions. The latter of the two represented only 1.3% of the microfinance loan disbursements as of June, 2006, and includes NGOs dedicated to microcredit activities. Regulated institutions represent 98.7% of MFI loan disbursements, and are comprised of organizations supervised and not supervised by the Peruvian Bank Superintendent (SBS):

- 164 Savings and Loan Rural Cooperatives (CAC), but only 112 of these institutions are authorized to mobilize member deposits, and are supervised by the National Peruvian Cooperative Federation (FENACREP), but regulated by the SBS. CACs represent 16.8% of MFI loan disbursements.
- Savings and Loan Municipal Cooperatives (CMACs) were created with the support of the German Cooperation at the beginning of the 1980's. CMACs are designed to promote regional development through savings and loan services, and represent 40.6% of loan disbursements.
- Small and Micro Enterprise Development Companies (EDPYMES), created in the mid-1990's through the SBS decree N° 897-94, permitting microfinance NGOs to become regulated and offering various incentives (exemption from sales tax, ability to mobilize savings if they comply with certain conditions). EDPYMEs represent 7.9% of loan disbursements.
- Savings and Loan Rural Cajas (CRACs), created at the beginning of the 1990's after the close of the Agrarian Bank, managed by local entrepreneurs and specialized in assisting agricultural areas. CRACs represent 7.7% of loan disbursements.
- Banks specialized in microfinance, including *MiBanco* (created in 1998) and *Banco del Trabajo* (1994), targeting their services to small business owners, who make up 70% and 42% of their portfolio respectively; these represent 25.7% of loan disbursements.

Participation in Peruvian Microfinance Market – June 2006



After a long period of rapid expansion through 2004, when the microfinance sector experienced a sustained growth of 30%, the sector has arrived at a period of maturity. It has observed greater competition not only from non-bank microcredit institutions (CMACs, CRACs, Cooperatives and EDPYMES), but also from the banking system which after the explosive growth of CMACs, realized that loans to the Small and Microenterprises (PYMES) could be highly profitable and had great potential. For this very reason, after a period when only MiBanco participated in this sector, Banco del Trabajo joined at the beginning of this decade. From 2004 on, other banking institutions have also entered the microcredit sector such as the *Banco Financiero* (with its *Solife* department), the *Banco de Crédito* (who absorbed *Financiera Solución*) and recently Scotiabank (before called *Banco Sudamericano* and *Banco Wiese Sudameris*). The high level of competition within the microfinance sector has led to over-indebtedness of microcredit clients, and a tendency to lower interest rates.

Type of Entity	Number of Entities	Regulated / Supervised SBS	Portfolio (M USD)
Banks <sup>(1)</sup>	9	Yes / Yes	720.9
CACs	164	Yes / No	385.6
EDPYMEs	14	Yes / Yes	182.1
CMACs	14	Yes / Yes	933.3
CRACs	12	Yes / Yes	176.0
NGOs <sup>(2)</sup>	21	No / No	30.8

Statistics through June 06 according to COPEME, FENACREP and SBS

(1) Portfolio identified as "small business" by the SBS

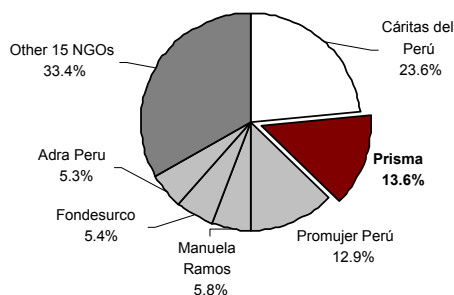
(2) NGOs that report to COPEME

The sector of NGOs with loan programs is made up by NGOs that have opted to not change their legal status to be governed by the Law of Banks, or the resulting regulations established by the SBS<sup>1</sup>.

<sup>1</sup> In mid-1990s, 9 microcredit NGOs converted to EDPYMEs.

To date, 21 of these NGOs are associated with COPEME's Microfinance Initiative, which has assisted 137,608 clients through June 2006, the majority of whom are small business owners located in the Andes and jungle areas of the country. This sector is very concentrated, with the three principal NGOs holding 50.1% of loan disbursements, and the first six 66.6%.

**Participation in the NGO disbursements in Peru – June 2006**



In general terms, the NGOs have not benefited significantly from the growth in the Peruvian microfinance sector, and are handicapped by the high taxes that decrease the competitiveness of their services<sup>2</sup>. They also have limited capacity to obtain new funding, principally commercial financing that is normally available for regulated entities. Oftentimes their current funding sources demand that they provide microcredit services in distant areas, with a limited potential for economic growth.

## Political and Economic Environment

Peru's economic growth continues to be among Latin America's highest and, buoyed by robust domestic and foreign demand, rests on solid foundations. A slight downturn should nonetheless develop in 2007 amid a less brisk export growth (particularly minerals) and restrictive monetary policy, intended to keep inflation at moderate levels.

Centre-left President Alan Garcia, in office since July 2006, should pursue a prudent economic policy with IMF backing, expected to result in a limited fiscal deficit. Most public debt, however, remains denominated in foreign currency, which constitutes a source of vulnerability. The prospect of a free trade agreement with the United States coming into force in 2007 augurs increased exports and a continuing slight external account surplus, with foreign direct investment expected to cover all Peru's modest financing needs. Foreign debt ratios have moreover

<sup>2</sup> Although NGOs are exempt from taxes on profits, their interest and commission-based income are subject to the Sales Tax (IGV) which is 19%.

continued to improve thanks to early repayment of Paris Club creditors in 2005 and the dynamism of raw material exports. The good level of foreign currency reserves has made it possible to substantially mitigate liquidity crisis risk. In this generally favourable context, payment experience, with companies has been relatively satisfactory, with the mining, civil engineering, and textile sectors the most dynamic.

Peru is, however, still exposed to a sudden downturn of world prices for raw materials, and despite its consolidation, the banking system has remained weakened by the extent of dollar-denominated deposits and loans. Insufficient economic diversification and marked inequalities continue to constitute a risk for the nation's cohesiveness, epitomized by the support for indigenous populism in Andean regions.

### Strengths:

- Peru boasts abundant mineral wealth (gold, copper, zinc) that has allowed it to benefit from buoyant raw material prices.
- It also enjoys extensive energy, agricultural, and fishing resources and an exceptional national heritage.
- Fiscal and monetary policies have been prudent.
- Foreign debt ratios have been improving amid sensible management of public finances and GDP and export growth.
- Foreign currency reserves have been at comfortable levels in terms of months-of-imports.

### Weaknesses:

- The country has been vulnerable to exogenous shocks (a downturn of world raw material prices, adverse weather conditions).
- Dualism continues to mark the economy with an ethnic cleavage echoing the sharp contrast between a relatively modern sector in the coastal plains and mining areas and an inland subsistence sector.
- The poverty affecting half of the population has constituted a source of political instability epitomised by the rise of 'indigenist' populism in the Andean regions.
- Fiscal revenues have not sufficed to meet social and infrastructure needs
- The banking system's extensive dollarization could jeopardise its stability in case of a crisis of confidence.

COFACE Country Rating B: An unsteady political and economic environment is likely to affect further an already poor payment record.

(USD Billion)	2003	2004	2005e	2006p
Economic Growth (%)	3.8	4.8	6.7	5.0
Inflation (%)	2.5	3.5	1.5	3.0

Public Sector Balance (% GNP)	-1.7	-1.1	-0.4	-0.7
Exports	9.1	12.6	17.2	18.5
Imports	8.3	9.8	12.1	12.9
Commercial Balance	0.8	2.8	5.2	5.6
Checking Account Balance (% GNP)	-0.9	0	1	0.7
External Debt (% GNP)	-1.5	0	1.3	0.8
Debt Service (% Exports)	48.8	45.3	36.5	35.6
International Reserves (months of imports)	26.4	22.6	31.6	18.3

Source: COFACE's Country Risk Ratings Guidebook 2006. The data from 2005 and 2006 correspond to estimates and projections, respectively.

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## ■ Institutional Presentation

### Networks

The Microfinance Department of PRISMA (MDP) is a member of the Consortium of Private Organizations for the Promotion of the Small and Micro Enterprise (COPEME) and the Consortium of Microfinance Institutions that have developed the village bank methodology (PROMUC). Internationally, it is a member of the International Network of Alternative Microfinance Institutions for Latin America (INAFI-LA) and the Latin American Fund for Development (FOLADE). MDP is a member of the cooperative ETIMOS in Italy and Fortalecer in Peru. It is also a member of Lima's Chamber of Commerce.

### Ownership

MDP is not an independent legal entity, due to the fact that it legally depends on PRISMA, one of the most important Peruvian NGOs. PRISMA maintains nearly twenty programs, principally related to health and food security. MDP is the most important program with over half of the institution's staff.

At the end of 2002, in order to improve the control mechanisms and decision-making, a Consultative Committee (CC) was established with its own internal rules in order to complete the functions of a Board of Directors.

Members of the CC		Function	Current Job	Entry Date
Jorge Vásquez	Mansilla	President	Estudio Canessa	11/2002
Manuel Prato	Cardenal	Vice-president	CFO Grupo Carsa	02/2005
Diego Concha Murazzi	Fernández	Secretary	A.B. PRISMA	06/2003
Delia Ginhoven	Haustein van	Member	A.B. PRISMA	11/2002
Milka Olivares	Dinev	Member	Peru and Ecuador representative of Pathfinder International	12/2006

As established in its internal regulations, the CC is responsible for supervising the development of MDP's operations, approving policies and procedures, designating the director, and approving the strategic plan. Its members are designated by PRISMA's Board of Directors for the renewable period of two years. Since December, 2006, it has five members<sup>3</sup> (two from PRISMA and three outside) and two consultants (one financial and one legal), who are not formal members.

### Management Team

The management team includes the Executive Director, an Administration and Finance Manager, an Operations Manager, and an Internal Auditor. Their work depends on several other managers: Treasury, Accounting, IT, Human Resources<sup>4</sup>, Collections, Education, and Supervision. The members of the management team have profiles according to the work that they are responsible for. They have complemented their undergraduate studies with postgraduate degrees as well as trainings in team development. They also have a wide range of experience in the microfinance field and especially in NGO-run microcredit programs.

In mid-2002, the management team was completely renewed with people from within and outside of PRISMA, but unrelated to the previous microcredit program. This is the case of the Director, Diego Fernández Concha, who before joining the microcredit department at the end of 2003 had worked in various PRISMA programs since its foundation in 1986. He holds a certificate from the Boulder Microfinance Training Program.

### Donations

MDP has received 43.5 M PEN (13.6 M USD) in donations and technical assistance since its inception, including those received from various microfinance programs before consolidating into one Microfinance Department. Its resources have come primarily (99%) from USAID and, to a lesser degree, the Fondo Contravalor Peru - Canada and the Spanish Agency for International Development (AECI)

### By-laws, Supervision, and Audits

MDP is part of and supervised by PRISMA. As an NGO, PRISMA is not subject to financial and banking regulations, however MDP voluntarily follows the self regulation guidelines established by COPEME.

<sup>3</sup> Previously these were 4 members, with 2 external members.

<sup>4</sup> The HR department is run by PRISMA's payroll manager, who reports to MDP's Administration and Finance Manager.

PRISMA and MDP are together audited annually, most recently in the year 2004. MDP's audit in 2004 and 2005 was carried out by Portal Brown and Associates, an affiliate of Solaris International. According to the latest audit report, the financial statements do not indicate any great difference from the institution's present financial situation. The most recent audit process has included the audit of MDP's financial statements, loan portfolio (with a sample of 51%), fideicomiso program, and a progress report, as established in COPEME'S Microfinance Initiative.

### Organization

MDP's headquarters is located in Lima, on one of the floors of PRISMA's office in the district San Miguel. The managers, executives, and the organization's administrative departments work in the headquarters.

As of December, 2006, MDP had a network of 14 branches and 5 satellite offices distributed in 12 regions (11 ex departments and the Constitutional Province El Callao) across the country. While the first have a Branch Manager (BM), the satellite offices depend on the agencies and do not have BMs but rather Loan Officers (LOs). The previous branch-agency model was eliminated in December, 2003 in order to decrease operational costs. The BM's job is both administrative and business-oriented, as they are required to report to both areas within MDP. Each branch has an Administrative Assistant (AA) to assist with administrative tasks.

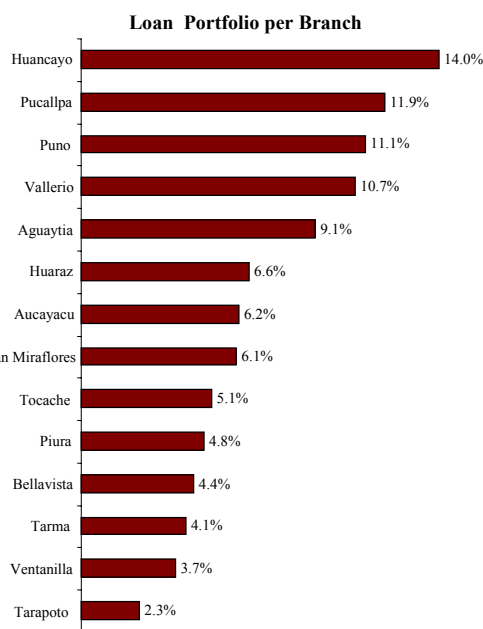
Loan approval takes place in the branch offices, and the loan committee is given autonomy up to 10 K PEN (3.1 K USD). While the village bank and Solidarity Group loan committees are made up of only the BM and the LO in charge of the operation, the individual loan committee is made up of all of the agency's LOs, where the LO in charge of the loan makes up only one part.

Before and after loan approval, the AA reviews loan documentation and assures that the loan has been entered in the system. The AA then sends the results of the loan committee to headquarters, where it is revised and the COO gives his approval for loan disbursement. The institution's policies do not allow it to renegotiate loans, except in specific cases that are approved at headquarters.



### Market Penetration

MDP has national coverage, even though it is concentrated primarily in the Amazon region (Ayacucho, Cusco, Huanuco, San Martín and Ucayali) as a result of USAID funds directed toward financing alternative development. It also is present in rural areas and some semi-urban areas in the departments of Ancashi, Junín, Lima, Piura and Puno. As part of its consolidation process over the past three years, MDP closed its branches in Ayacucho, Cajamarca and Huancavelica as well as 17 satellite offices that held a small portfolio with a large portion of loans undergoing legal recuperation.



Geographically speaking, the portfolio is concentrated in the Aguaytía-Pucallpa, Huancayo-Tarma, Puno y San Francisco (Ayacucho) branches, together representing 60.9% of the portfolio; this has increased in the past two years to 51.9% in December, 2004 as the result of a limited loan access in these areas. The geographical diversification allows MDP to act in various economic sectors and finance a greater variety of crops.

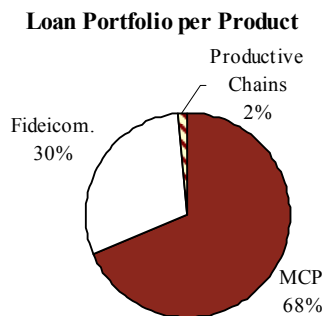
### Products and Services

*Detailed description in appendixes.*

The MDP offers three loan products directed towards financing productive activities in rural and semi-urban areas.

- Microcredit Program of PRISMA (MCP): loans financed with MDP's own resources with the village bank and Solidarity Group (SG) methodologies (designed only for clients that have graduated from village banks). These products have loan terms from 6-8 months, and loan

amounts from 300PEN (94 USD) to 3,500 PEN (1,094 USD) for village banks and 5,000 PEN (1,563 USD) for SGs. Various payment plans are available, the most common being the payment of capital at loan maturity (36% of loan portfolio) – loans used to finance productive activities, and the other being monthly payments – used to finance commercial activities. APR varies from 36.5% to 75.8%, with an average of 60.1% (without Sales Tax).



- Individual Loan – Fideicomiso: individual loans financed with USAID resources through a trust fund managed by PRISMA (since 2006), deposited at the EDPYME Confianza and operated by MDP. Loan terms vary from 3 – 12 months, with bullet payments during the loan cycle (multicrédito) or at the end (*crediacopio*). Loan amounts vary between 500 PEN (156 USD) and 6,000 PEN (1,875 USD). APR is 44.2%<sup>5</sup> (not subject to sales tax).
- Productive Chains: loans given through a trust (fideicomiso) and not with MDP’s resources to small farmers who hold purchasing contracts with larger companies (who also provide partial financing to MDP) and include technical assistance paid for by the farmers and provided by another organization. Loan terms are from 3 – 12 months, with an average of 8 months with payment at the end of the cycle. The loan amounts vary between 1,000 PEN (313 USD) and 10,000 PEN (3,125 USD). APR is 55.9%.

Since the last quarter of 2006, MDP provides a new type of loan called a “Parallel Loan” that is directed at the best clients of village banks. This product is offered as a limited-time loan, in addition to its loans given under the village bank modality. These loans require a guarantee and a restriction placed on internal savings, and reach 4,000 PEN (1,250 USD) with a loan tenure of up to 12 months. APR is 73% (without sales tax).

### The Fraud

Between November 2001 and March 2002, MDP suffered a fraud of 7 M PEN (2.2 M USD), organized by a group of employees from the Cajamarca and Piura branches, as well as an HQ employee (all of them are currently on trial). To do so, the employees created ghost borrowers on the back

<sup>5</sup> New clients are charged a nominal, monthly interest rate of 4%, as opposed to the 3.5% charge to existing clients. The APR is 50.2%.

of weak MIS and deficient internal controls. In November 2002, these loans were written off.

To date, PRISMA and MDP have been able to capitalize the loans received from USAID through 2003, despite the fact that USAID had initially asked for these funds to be paid in full after the fraud (see details in section F).

## ■ Governance

**Governance and decision-making** receive the grade “b”

### Decision-Making

Because the MDP is not legally separate from PRISMA, it has no legal governance structure. However the Consultative Committee serves as an effective decision-making body, with stable membership, fulfilling the responsibilities of a normal board of directors. MDP’s mission is shared at all levels of the organization and is understood to have a strong social component especially with people living in rural areas. However, financial self sustainability is also an important criterion. The CC members are committed and their experience ensures valuable inputs. Although the external members have wide knowledge of finance and administration, the CC would be strengthened with the inclusion of someone with specific experience in the microfinance sector.

The governance structure is simple, but functional. Decision-making procedures are formalized in internal rules and regulations that delegate strategic approval and supervision of operations to the CC. PRISMA’s Executive Director participates in the CC as a member, supervises MDP’s activities, but does not have additional powers. CC’s complete, up-to-date information comes from MDP’s intranet, which allows for adequate monitoring and good decision-making.

The CC is professionally run, but could be improved through the implementation of sub-committees to focus on specific issues. There is currently just one sub-committee that deals with audits. Its work and responsibilities would be strengthened with more frequent meetings.

### Strategic Planning

In the past few years, MDP has developed only short-term strategic plans because of its overarching concentration on short-term survival. Nonetheless, the current strategic plan (2005-2006) was a collaborative effort at all levels of the MDP and is well thought out. The end result has been a good institutional diagnostic that adequately identifies the important steps to ensure the institution’s survival (cost and

branch reduction, process standardization, and new sources of funding). These factors are broken down in an operational plan (with a timeline and list of responsible parties) for each area and branch.

The strategic plan 2007-2010 is overdue and is currently limited to financial projections. These projections require a more in-depth analysis per product as well as indicators to assure that goals are met for the plan to be useful. The MDP is still missing a plan that identifies weaknesses and potential opportunities in order to effectively plan the financial services that it will offer. The preference for expansion in rural areas also creates a new set of risks, such as the income/expense profile, relatively tight margins and risk mitigation in agricultural areas, that have not been sufficiently considered.

The increased presence of financial NGOs, the process of downscaling initiated by regulated entities, and the recent introduction of Banco Agrario's first tier credit operations (offering loans with subsidized interest rates) could limit MDP's growth projections in the medium term. In order to increase its competitiveness, MDP has contemplated the change to a regulated institution (most likely a CRAC) in 2009. Although MDP's systems and risk policies have been refined, the organization still needs to develop more competitive products and a solid financing structure.

The 2007-2010 plan should give priority to developmental and institutional reinforcement issues that were sidelined in previous planning processes following the fraud. The most pressing areas are the establishment of a risk department, special training courses for the staff, development of new products, and the establishment of guarantee structures in order to ensure loan recovery.

Despite its lack of planning, MDP has continued to look for new sources of financing and improve its information systems. Its 2006-2010 financial projections indicate a portfolio growth between 17% and 25% annually, which are within its reaches if the planned funding is available. Such rates of growth could be threatened by the increased competition and the increase in the institution's interest rates. The lack of financing in 2005 meant that the organization could not reach its goal (real growth was null despite projections of 21%).

The organization's budgeting process is complete, and its monitoring frequently helps to reduce costs. However the financial planning process has become outdated as a result of the lack of financing. MDP planned on reaching

operational sustainability<sup>6</sup> in 2005 and is close to its goal before adjustments (see "E").

In the event of a profound financial crisis, MDP could be face a high level of risk due to the lack of PRISMA resources and the absence of an external supporting institution.

### **Management Team**

The institutional crisis caused by the fraud has led to a complete change in the management team that brought in young professionals who are well trained, committed, and knowledgeable about the microfinance sector. The team's strength can be seen in its efficient informal communication, frequent meetings, and the Program Director's dynamism and leadership. The team is increasingly focused on management issues, and has been able to decentralize operational tasks to the agencies, although budget follow-up is weak and still requires special attention.

The organizational structure is currently being improved, especially in areas such as product development (established in the 2007 organizational chart). These areas are essential considering MDP's plans for a larger and more dynamic microfinance institution that plans to be regulated in 2009.

The Program Director has played a vital role in reengineering the institution after the fraud. The key-person risk is diluted by the active participation of upper management and the CC in strategic and operational areas, as well as by the stability of CC member in their positions.

### **Human Resource Management**

The organization's HR policies are simple and have been improved in recent years, although they tend to deal with administrative, and not strategic, issues. There is no plan for HR development. A person has been recently integrated into this role and is adapting himself to HR management for MDP and PRISMA's other programs.

Policies are in place and are periodically revised for the hiring, selection, and support of the staff. DMP has an established evaluation system that allows it to evaluate each staff member's performance. It is important to reinforce training procedures (currently the depend on the initiative of the person directly responsible), as well as activities to integrate the staff throughout Peru to strengthen their identification with Prisma.

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<sup>6</sup> The financial plan estimates operational self sufficiency for October 2005.

As a result of good HR management, MDP's staff is highly trained and motivated. Its BMs assist three training courses annually, and the LO's are trained at least once a year.

The staff is motivated by its acceptable remuneration package and the positive work atmosphere. Salaries are around average in the NGO sector, however below those of regulated financial institutions. This is increasingly important as regulated MFIs continue to downscale and open operations in urban areas, which could potentially cause a high level of personnel rotation. In the past two years, MDP has seen a lower rotation of personnel, despite the fact that the rotation still remains high as a result of several office closings, the reduction in number of collection officers and the option of higher salaries from other institutions.

## ■ Information

**Information and Systems** receives the grade "b"

### Description of Information System

Equipment	<ul style="list-style-type: none"> <li>▪ 124 Pentium IV computers with MS Office and Windows 2000 Professional with licenses.</li> <li>▪ 4 servers in HQ: 1 for the database, 1 for the intranet, and 2 contingency servers (one for HQ and another for the agencies).</li> <li>▪ The offices are not interconnected, each has one Server. All of the agencies have access to the Internet except for two that have contracts with public telephone booths due to lack of access in the area</li> <li>▪ 80% of the equipment has been renovated in the past two years</li> </ul>
Accounting	<ul style="list-style-type: none"> <li>▪ Integrated "El Cautivo" system version 7.0, Developer in Visual Basic in Peru with a database in Oracle 9i. It is adapted to the SBS's requirements.</li> <li>▪ ACL Software to detract data for accounting analysis.</li> <li>▪ Decentralized accounting by agency. Daily bank conciliations, 9 out of 14 agencies work with the online system "Credipago". The other 5 work with a system similar to that of Banco de la Nación.</li> <li>▪ Financial statements are emitted each month with a lag of 10 days.</li> </ul>
Data Production Process	<ul style="list-style-type: none"> <li>▪ Integrated "El Cautivo" system, version 7.0</li> <li>▪ Loans approved in the system by the BM and transfer is authorized in HQ</li> <li>▪ Reports generated monthly and upon request of the manager</li> </ul>

### Management Information System (MIS) and Equipment

MDP has a solid MIS infrastructure with modern hardware that are adequate for its current operations. The lack of interconnection between offices has not been a problem, because MDP has an effective consolidation process that results in timely information<sup>7</sup>. The process is made even

<sup>7</sup> All branches email their backups daily to HQ, which are automatically consolidated.

more agile by the integration and decentralization of the portfolio and accounting modules<sup>8</sup>.

The software "El Cautivo" is user-friendly and easy for the personnel to use. It uses security measures to minimize risks and information loss, such as user-dependent access levels, periodic password changes, backups inside and outside of the institution, firewalls, and an antivirus.

The information systems staff is competent, has a good understanding of software and can make some improvements despite lacking the source code. The MIS provider is accessible, and has not caused any major delays in the information systems area.

	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006
Number of Employees	131	113	118	112
% Loan Officers	63%	50%	52%	54%
Rate of Staff Rotation	62%	43%	13%	13%

### Information on Activities

The portfolio statistics are reliable and distributed amongst personnel without significant delays. The system produces the necessary reports for quick follow up in the field: lists of clients per LO, product, and branch, with risk indicators per section. Report generation could be made easier; the current system requires portfolio reports to be done with the help of excel and is therefore a lengthy process.

### Financial and Accounting Information

MDP's integrated and decentralized software generates quality financial information. The balance sheets are produced monthly and provide detail per branch or product, allowing for intricate profit analysis. However, the branches still do not have the capacity to carry out a fine-tuned analysis of their branch as a business unit<sup>9</sup>. MDP has not established criteria to track HQ expenses within the agencies, which limits analytical precision<sup>10</sup>.

## ■ Risks

**Risks: analysis and control** receives the grade "a"

### Procedures

MDP has standardized its loan processes, reducing the chance of fraud. However, the policies included in the Credit Manual have not been recently revised, resulting in

<sup>8</sup> Portfolio information is available for PAR > 1 day, and global financial statements PAR > 10 days.

<sup>9</sup> In order to decentralize accounting, branch managers must perform better analyses, and need training in accounting and budgeting. From September on, branches will report monthly to HQ with portfolio statistics and financial statements.

<sup>10</sup> Overhead is only distributed in the same proportion for each branch.

requests for exceptions that could reduce the effectiveness of credit risk control policies, especially due to the limited collateral of the solidarity group and village bank products.

As a result of improvements in the internal loan process control system, and the MIS system that reinforces internal controls, it is not likely that a fraud of similar magnitude of the one in 2001-2002 could be repeated. The approval procedures include a separation of tasks and various verification levels (including verifications in the credit bureau).

The broad availability of manuals and loan procedures amongst all staff members through the intranet, along with the system characteristics, help to enforce established internal controls (automatic generation of contracts and receipts, controls on interest rates, parameters for the minimal and maximum loan amounts, etc.).

Although MDP operates primarily in rural areas or in small cities with limited communication channels, its money is securely managed. MDP attempts to minimize the management of cash to decrease the risk of robbery. Loans are disbursed by checks and repayments are made in nearby banks by the clients themselves for 90% of the branches. The branches keep small amounts of cash on hand and maintain a policy to directly deposit all payments daily in a bank. Cash on hand is kept in a safe box under key (usually under the control of two people, the Branch Manager and Administrative Assistant).

There is still a risk that the loan collectors and loan officers that work in rural areas and visit village banks will mishandle the cash payments collected in the weekly meetings. However, the risk is reduced by the use of numbered receipts and efficient loan collection when fraud has been detected.

The branch security mechanisms are limited (safes and alarms) but sufficient for the amount of cash that MDP branches manage. The institution has robbery and employee theft insurance.

#### Internal audit.

After the fraud, MDP carried out a deep review of existing operational risks, which led to the establishment of control procedures, generating a culture of risk control within the institution.

The audit procedures are organized, appropriate and broad-reaching. The auditors and controllers have sufficient resources to properly review MDP's operations. The situation will improve with the unification of Internal Audit

and Internal Control areas, which both carry out similar tasks. This should increase the breadth of the the audit universe, which is even more important given the decentralization of credit approvals.

The internal auditors tasks are formalized in a detailed work plan. However, there are no standard procedures to make observations, and sanctions have not been put in place when these parameters are not met. The audit's reach is complete, including various surprise visits to the agencies at least once a year and two for those with a higher default rate. These visits include client verifications in the field, as random process audits.

The internal audit area has the support of the Consultative Committee in its work, however the CC's subcommittee should be strengthened with more meetings (they currently meet every three to four months) to ensure more permanent audit revisions.

The Internal Control area has a rotating team of a Branch Managers, Loan Officers and Administrative Assistants who occupy other positions and additionally carry out internal control tasks. When they finish an assignment, they are required to submit a report with their findings.

## ■ Activities

Activities: products and services receive the grade "b"

K USD or local currency if specified	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006
Portfolio	6,317.6	4,241.3	4,052.9	4,061.3
Portfolio (PEN)	21,865.3	13,911.6	13,897.6	12,996
Evolution	8.7%	(36.4%)	(0.1%)	(6.5%)
Average portfolio end of period	6,064.5	5,453.8	4,022.0	4,183.7
Number of Active clients	30,277	14,857	15,222	14,371
Evolution	2.7%	(50.9%)	2.5%	(5.6%)
Average portfolio per client	209	285	266	283
% of GDP per inhabitant	14.5%	18.1%	16.7%	16.6%
Average disbursed loan	303	357	307	387
% of GDP per inhabitant	21.0%	22.6%	19.3%	22.7%
PAR 31 - 365 days	38.2%	8.0%	8.6%	2.1%
PAR > 365 days	0.0%	0.0%	0.0%	0.0%
Write-off rate	0.0%	37.6%	1.5%	6.5%

#### Marketing and Competition

MDP distinguishes itself as one of the NGOs with greatest nationwide presence, even though many of its branches closed after the fraud. To date, MDP works in rural, urban, and suburban areas located in 12 regions in Peru, with a network of 14 agencies. In the short term, the organization does not have any plans for expansion, but rather plans to consolidate the existing branch network (with specific output) in the areas with greater economic activity.

MDP faces intense competition in the urban areas, with banks (*MiBanco, Banco del Trabajo, Banco de Crédito* and *Scotiabank*) and non-banks with wide regional presence such as CMACs, CRACs, and EDPYMEs. In many urban areas, clients are over indebted, despite the fact that MDP has been tracking its clients' level of indebtedness. MDP distinguishes itself as the NGO that shares the lowest percent of its clientele with the formal financial sector<sup>11</sup>. In more rural areas, MDP's competition tends to diminish; however NGOs dedicated to providing loans under the village bank methodology continue to appear (*Caritas, Manuela Ramos, FINCA, ProMujer, etc.*).

MDP has positioned itself as a rural entity<sup>12</sup>, with market interest rates, minimal requirements, and personalized attention; these are not great advantages over their competitor NGOs, however, who often share these characteristics in suburban areas. As compared to other NGOs, however, MDP demonstrates a high level of flexibility with its village banks and the administration of their internal account<sup>13</sup>.

The variety of products that MDP provides is not very different from those of its competitors, except for the "productive chain" and the recently implemented "loan with education", in which health courses are given during village bank meetings. However, both of these products are in their trial phase; the first is being gradually reduced since the program's restructuring at the beginning of 2006, and the second is still in its first stages, and therefore it would be premature to call it a competitive advantage<sup>14</sup>. The organization has still not created a formal strategy to maintain client loyalty. For the moment, MDP plans to maintain the previous interest rates for those clients who have been working with the organization for three or more rotations (despite a pending interest rate increase).

MDP's services are primarily marketed by word of mouth of its clients or with the help of the LOs in the field. This

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<sup>11</sup> According to a 2005 GRADE (Andean group for Development) study 2005.

<sup>12</sup> For this reason, the Rural Savings Bank (CRAC) legal status is the most appropriate if the institution plans to be regulated in the long term.

<sup>13</sup> ACPD members can deposit savings in the financial entity of their choosing, and can use them from the second cycle on.

<sup>14</sup> The program "credit with education" includes 20 minute health modules during the ACPD meetings. To date, MDP has carried out pilot programs in Huancayo, Pampas, Jauja and Tarma with funds from Freedom from Hunger. They plan to expand the program to the other areas, and train the LOs. It should be mentioned that FINCA and EDPYME Confianza follow the same program. The project's objective is to reach 100,000 people by the end of 2008.

strategy has produced satisfactory results. The organization has not done further marketing due to the lack of resources for increased loan disbursements.

### **Portfolio Management**

The loan methodology has been consolidated with greater formalities and a constant focus on refining the evaluation, disbursement, follow-up, and collecting stages of the process.

- All clients and their spouses are evaluated in the credit bureau Equifax before their loan is approved.
- The analysis of payment capacity for individual loans is complete and detailed, taking into account qualitative and quantitative aspects (level of indebtedness and coverage). With group methodologies, the stages of selection and training are filters that identify good clients, translating to a low default level for village banks. The inclusion of a parallel loan for good village bank clients requires an analysis of payment capacity and a more rigorous guarantee analysis than that of the village bank methodology.
- Loan committees are frequent and participatory, with a double verification from HQ<sup>15</sup>.
- The portfolio is continuously monitored thanks to reports made available by the LOs or branches, allowing clients to be identified as soon as they are in arrears. The LO's routing sheet does not just include clients in arrears, but also clients whose loans are about to come due as a preventative measure.
- The collections department complements the effort with the implementation of advisory letters that both exert pressure and speed up client response.

The LO team has been reinforced in areas with poor portfolio results (Piura, Huaraz, Caraz, Vallerio). In other areas, LO profiles are based on the type of client that they work with (agronomists, accountants), which means that the majority of LOs are able to competently manage their portfolio. LO salary is similar to the market's, and is based on an incentive scheme (PAR > 20 days can not exceed 3%) and knowledge of loan methodologies.

### **Portfolio Quality**

The portfolio quality has improved after three write-offs in the past five years (PAR > 30 days went from 38.2% in Dec. 2003 to 2.1% in October, 2006)<sup>16</sup>. The effects of the fraud were mostly fixed by 2004, however new loans have been written off in areas where MDP is closing offices

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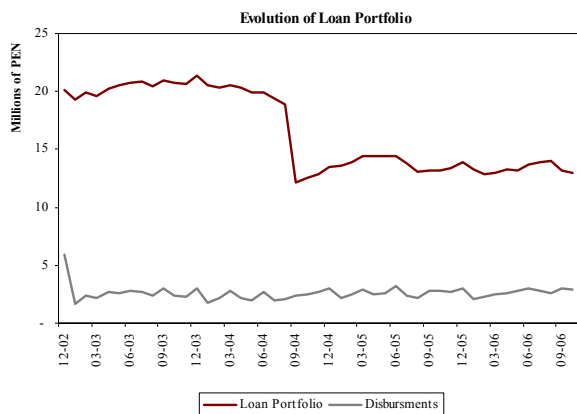
<sup>15</sup> Based primarily in a requirement "check list" of those who should have an approved loan. At the same time, client loan records are verified.

<sup>16</sup> From 2004 on, the policy has been to write off loans with PAR > 360 days.

(Huancavelica, Cajamarca, Ayacucho, Tocache, rural areas of Bellavista, etc). Areas such as Piura, Huaraz, and Caraz have also produced a default portfolio that represented 41% of total write-offs in Oct.2006 (MCP loans and productive chains). These loan amounts have been passed over from 2004 and 2005.

The PAR > 30 per product shows that the fideicomiso and productive chains represent the highest level of portfolio at risk. The portfolio at risk of the fideicomiso product is influenced by its geographic location in drug producing areas of the jungle, and their focus on alternative development. In the case of productive chains, the portfolio quality is affected by a lack of communication between MDP and PRISMA's commercialization managers<sup>17</sup>. There has been a significant improvement with the product MCP (PAR > 30 dropped from 41.4% in dec.2003 to 0.9% in oct.06) and fideicomiso (PAR > 30 dropped from 15.5% in dec.03 to 3.3% in oct.06), while the portfolio at risk for productive chains rose significantly (PAR > 30 reached 27.9% in oct.06) as a result of a reduction in lending after the program's restructuring and the hangover effects of portfolio problems related to rice crops from 2005's harvest (the area of the lands financed by MDP fell 77%, from 1,000 to 286 hectares). This type of loan is seasonal, meaning that when activity drops at the end of the year, portfolio at risk rises. The unification of the programs under one manager has meant structural changes, such as a shift of focus to products with a sure demand in order to improve the portfolio quality.

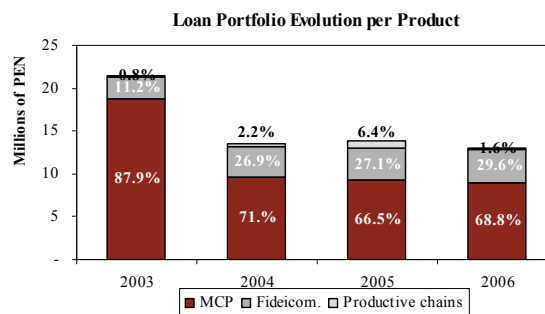
### Portfolio Evolution and Diversification



The portfolio has not yet taken off as hoped after the internal restructuring and the renegotiation of funds from USAID – MDP's principal provider through 2003. However, the situation was improving at the end of 2006

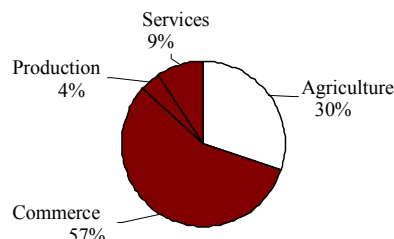
<sup>17</sup> In Piura for example, MDP Works with PRISMA's Commercialization Manager, giving emphasis to area coverage than to client quality.

(See "F"), and portfolio growth is projected at 25% for 2007.



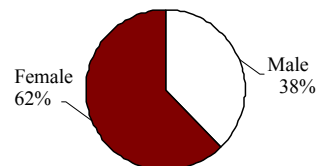
MCP is by far the lead product, followed by fideicomiso; both increased their portion of the portfolio with the decline of productive chains. Being a low-risk and high-profit product, MCP will continue to be the principal product. The mix of these products has not been formalized. However, the general manager has encouraged agencies to diversify their portfolio towards clients with less risky activities, or complementary sources of income.

### Distribution of Portfolio According to Economic Activity oct. 06



The portfolio does not present any major concentration risks. In relation to loan amounts, the 50 largest loans represent 3.14% of the total, and the 10 largest 1.11% of the total to oct.06. The primary activities financed by MDP are commerce and agriculture, with a lesser participation of services and production activities. The portfolio is highly geographically diversified, with a slight concentration in the jungle compared to the coast and Sierra.

### Distribution of Portfolio According to Sex oct. 06



### Credit Risk Coverage

MDP's provisioning policy is conservative, thanks to the SBS regulations that it adheres to (with a generic 1% reserve). Despite last year's high write-off (6.5% of portfolio), the coverage ratio has tended to increase, with October of 2006's result of 136.5% drawing closer to the

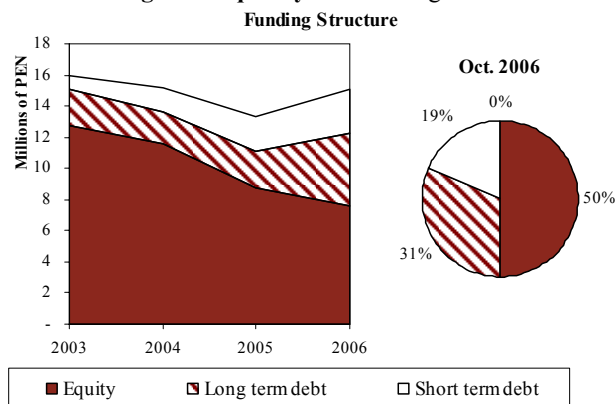
industry's standard (100.4% for NGOs and 149% for Latin-American MFIs to dec.05). Gradual portfolio improvement will lead to lower provisions in the next few years, as long as the coverage ratio is not substantially increased.

The institution also benefits from additional coverage such as joint-liability guarantees within village banks (the internal savings account can also mitigate the risk of nonpayment) and SGs, and fideicomiso guarantees (guarantees and promissory notes). Productive chain loans require collateral, which can be a plot of land or an agricultural pledge, as well as a contingency fund for climate risk, paid at the beginning of the loan.

USD	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006
Risk Coverage	101.2%	111.3%	110.2%	136.5%
PAR > 31 net of loan loss provisions/equity	(0.8%)	(1.1%)	(1.4%)	(1.3%)

## ■ Financing and Liquidity

Financing and Liquidity receive the grade "c"



MDP's financing structure is based on diversified liabilities with an adequate balance of liability loan terms (financing 50% of portfolio), provided principally by USAID (administrated via the trust fund EDPYME Confianza for 3.8 M PEN) and to a lesser degree institutions dedicated to working with microenterprises such as ECLOF, and funds specialized in financing MFIs, such as ETIMOS and Micro Credit Enterprises, who lend at commercial interest rates.

The institution's equity plays an important role in financing its operations (50%), and is composed principally of capitalized grants from USAID. The role of equity is important in looking for other financing sources, given that the organization is not a prime candidate for high-cost funding due to its low profitability. Its profitability indicators limit MDP's financing possibilities via commercial debt.

	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006
Debt / Equity	0.25x	0.31x	0.52x	1.00x

### Financing Strategy

Until the end of 2004, MDP did not have a financing strategy nor real debt, given its dependence on financing and donations from USAID until 2003. The search for financing was complicated by problems stemming from credibility issues following the fraud, negative financial returns, and financial administration deficiencies. These factors led to delays in loan disbursement until 2006.

In the past two years, the financial administration and the search for funding have been significantly strengthened; MDP's financing needs for the next six months are covered. The director, with the support of the CC, has been leading the effort to diversity and strengthen the funding structure. They have done this in two ways: first with the negotiation with USAID for the capitalization of loans received through 2003, and the second being the search for new financing sources in order to meet growth projections. Today, MDP has a stronger negotiating position with funders, but it will be difficult to meet the 25% growth projected for 2007, of at least 1 M USD, in the absence of the possibility to receive funds from USAID either directly or through a trust.

Negotiations with USAID have been fruitful; of the 2.02 M USD that PRISMA acquired through MDP, 1.59 M USD were returned at the beginning of negotiations when PRISMA was able to demonstrate that it had obtained equity and other capital for projects with similar objectives to those of USAID (Public Law 480 Title II). According to an August 2006 report, USAID agreed to capitalization of the remaining resources and forgiveness of all outstanding debts, effectively ending the negotiation process.

The search for new funding sources has produced positive results, although the institution continues to face a lack of funding that limits loan disbursement. Funds have been obtained through investment funds such as ECLOF (50 K USD, 14.2% annual for 3 years), ETIMOS (100 K USD, 10% annually for 3 years), and Micro Credit Enterprises (300 K USD, 10% for 3 years). In addition, MDP has received back-to-back loans from the Banco de Crédito del Peru (200 K USD, 5.5% for one year) and a loan for productive chains from the textile firm Creditex (226 K USD, 8.5% annually for 9 months). As of October, 2006, MDP had approved but pending disbursements with Oikocredit for 300 K USD and FOLADE for 100 K USD (received on dec.06), as well as an agreement for technical assistance and a donation from Freedom for Hunger for 160 K USD (disbursing 82 K USD in dec.06).

MDP's projected growth requires at least an additional 1 M USD annually for 2007 and 2008. The idea of transformation to a Rural Savings Cooperative (CRAC) being evaluated for 2009, would allow the organization to increase its funding sources and reduce the average cost of its funds.

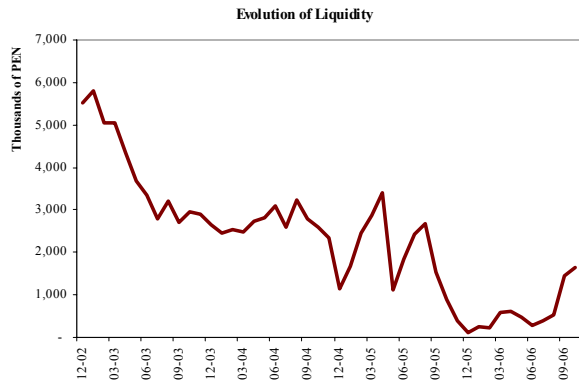
### Asset Liabilities Management (ALM)

MDP is highly exposed to monetary exchange risk, given that its liabilities are assumed in USD, while 100% of its income and loans are in PEN. It has not yet implemented the necessary financial measures to reduce this risk, but has been in conversations with Peru's Banco de Crédito to arrange forward operations.

The maturity risk is null, given that the average term of its loans is 4 months, while its obligations have tenures of 2 years. Risk is also reduced as a result high proportion of MDP's portfolio financed by equity (50%).

In the absence of variable interest rate loans, the interest rate risk for MDP is non-existent.

### Liquidity Management



The institution's liquidity is centrally and efficiently administered from HQ, allowing it to reduce the impact of resource limitation on loan disbursement. This process is made easier by the existing liquidity management instruments (daily bank account information). MDP has implemented a system with the Banco de Crédito and Banco de la Nación that consolidates account balances per branch, allowing the organization to optimize the use of funds per branch.

MDP's liquidity is directly linked to its loan terms, agricultural cycles, and high demand during commercial periods.

The institution still has yet to establish minimal liquidity policies, such as those established by the SBS.

## Efficiency and Profitability

Efficiency and Profitability receive the grade "d"

Profit Matrix	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006
ROE	(30.0%)	(27.0%)	(27.5%)	0.4%
Liabilities / Equity	0.25	0.31	0.52	1.00
ROA	(21.9%)	(21.1%)	(19.7%)	0.2%
<b>Profit Generation</b>				
Operational Self-sufficiency	56.9%	62.1%	65.6%	100.5%
Portfolio Yield	28.3%	29.4%	38.5%	43.0%
Operating Expense Ratio	45.4%	46.6%	59.0%	44.2%
Staff Productivity	231	131	129	128
Loan Officer Productivity	365	261	250	240
Average Outstanding	209	285	266	283
Loan per Client (USD)				
Funding Expense Ratio	0.9%	1.0%	1.2%	1.5%
Cost of Liabilities	0.0%	0.0%	1.2%	2.6%
Loan Loss Provision	2.4%	(2.6%)	(1.0%)	(1.8%)
Expense Ratio				
PAR 31 - 365 days	38.2%	8.0%	8.6%	2.1%
Write-off Ratio	0.0%	37.6%	1.5%	6.5%
<b>Asset Management</b>				
Outstanding Loan	85.4%	84.0%	94.1%	83.5%
Portfolio / Assets				
Non-portfolio Income as % of Financial Revenues	0.6%	0.2%	0.1%	0.1%

### Profitability Overview

In 2006, MDP has significantly improved its results with relation to the previous three years', but without the necessary portfolio growth to generate greater income and economies of scale. The organization has slightly increased its interest rates and commissions on loans. More importantly, MDP has been able to drastically reduce its operational expenses (with the close of 15 offices from December 05 to October 06). Taking into account the provision rate as 1% of the portfolio (excluding the effect of the recovery of the provision expense for write offs of interest), MDP is very close to reaching equilibrium point (96.3%).

MDP's profitability indicators through October, 2006 were positive, with a ROE of 0.4% and a ROA of 0.2%, figures still below the industry's benchmarks but remarkable considering the financial crisis that the institution has been through. There is not a wide gap between ROA and ROE, given that the organization currently finances itself through debt donations.

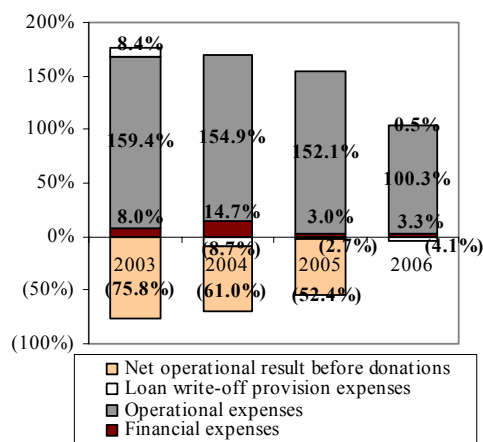
### Portfolio Yield

The 43% yield as of October 2006 is above industry benchmarks in December 2005 (33.6% for Latin America and 37.6% for NGOs). This is the result of an increase in interest rates for new fideicomiso loans, as well as

commissions that have been implemented for all products; however neither measure is sustainable in a market with increasing competition. The gap between a portfolio yield of 43% and the theoretic rate of 55.3% is explained by the default rate, the total or partial interest write-off in the case of negotiations with clients who are in arrears > 120 days, and loans written off in 2006.

### Operating Expense Ratio

Cost Structure as a % of Financial Income



Operating expenses have decreased by nearly 15 percentage points as a portion of the gross portfolio in the last year (operating expense ratio dropped from 59% in December 2005 to 44.2% in October 2006), as a result of agency closings and the readjustment of PRISMA's overhead expenses. However, the costs are still quite elevated in terms of percentage of average portfolio (20.6% in Latin America and 27.9% for NGOs as of December 2005), given the stagnation in portfolio growth, which has not allowed PRISMA to reach economies of scale nor improve LO productivity. Although the staff productivity is within industry standards, that of the LOs is low, leaving a margin for improving internal capacity if personnel are distributed equally between administrative personnel (50%) and field workers (50%). As MDP increases the scale of its portfolio with a more consolidated office network, operational expenses will gradually decrease, although perhaps remain above industry benchmarks, given that the institution works in rural areas where follow-up costs and client management expenses are high.

PRISMA's overhead expenses have been reduced in the past year, given that these were a major cost burden for MDP. In April, 2006, overhead lowered from 12% of operative expenses (which in 2005 represented 269.8 K USD), to a fixed amount of 36 K USD (approximately 2% of operative expenses). Given that MDP operates nearly independently of PRISMA, this type of reduction is a

reasonable sum with respect to the limited services that the organization receives from PRISMA (principally human resources and executive planning).

### Funding Expense Ratio

Since diversifying its funding sources, MDP's financial costs have gradually increased, but continue to be low (the funding expense ratio went from 0.9% in dec.03 to 1.5% in oct.06). This cost will continue to rise, given that the organization has begun to sustain its growth with commercial credit lines, local as well as external, as we have seen in the second half of 2006.

### Loan Loss Provision Expense Ratio

During the last year, this ratio was negative as the result of interest write-off (for loans over 120 days). In 2006, the ratio was much lower than the industry's (1.7% for Latin America and 1.6% for NGOs), due to the good coverage and improvement in portfolio quality.

### Asset Management

MDP has improved the use of its assets (the Portfolio/Asset ratio went from 79.5% in dec.03 to 83.5% in oct.06), putting it above the industry median (80.2% for Latin America and 82.2% for NGOs). The ratio dropped from 2005 to 2006 given that in September MDP received 300 K USD from MCE, which increased the account's final balance. The liquidity surplus obtains greater profit in overnight deposits in the BCP and less so in accounts in two CRACs<sup>18</sup>.

### Adjusted performance

*Details concerning specific adjustments are included in the annexes*

MDP is not profitable after adjustments, although there is a notable improvement in the indicators in the past year, given that the adjusted cost ratio is relatively low. The principal adjustments are related to funding costs (compared to the average interbank interest rate in the US financial sector), inflation, and expenses paid to COPEME for technical assistance. The adjustment ratio has increased in the past two years (from 0.7% in dec.03 to 3.6% in oct.06) given that since 2005, an adjustment was added for inflation that Peruvian institutions are no longer obligated to make. The adjustment for provisions does not impact the adjusted performance as the SBS provision policy followed by MDP is more conservative than that of the GIRAFE adjustment methodology.

	Dec.2003	Dec.2004	Dec.2005	Oct. 2006
Adjustment Expense Ratio	0.7%	1.4%	2.6%	3.4%
ARO	(30.9%)	(29.0%)	(31.0%)	(5.2%)

<sup>18</sup> Caja Rural San Francisco (Ayacucho) and Caja Rural San Martín.

AROA	(22.6%)	(22.7%)	(22.1%)	(3.0%)
Financial Self-sufficiency	56.1%	60.4%	62.9%	93.3%

### Profitability Outlook

MDP has established the necessary bases for orderly growth, and strengthened risk control, process standardization, and a better institutional image.

The key factor for MDP in the next few years will be growth. As MDP receives financing to support the expansion of its operations, it could achieve economies of scale (thereby absorbing increased financial costs) in an environment with better credit risk control. Given that there are no expansion plans in the short term (rather, there are plans to close several offices), MDP will not require significant expenses in institutional reinforcement and, consequently, next year's operational expenses should decrease as the organization is able to exploit the actual potential of its field workers. The good risk coverage position, improved portfolio management and enhanced efforts to maintain a healthy portfolio will lead to loan provision levels near those in the industry (1-2%), thereby maintaining an expected level of portfolio revenue. It is expected that MDP will reach adjusted profitability by 2007, as its loan portfolio increases. If this does not occur, the operational expense burden will continue to affect the organization's level of profitability.

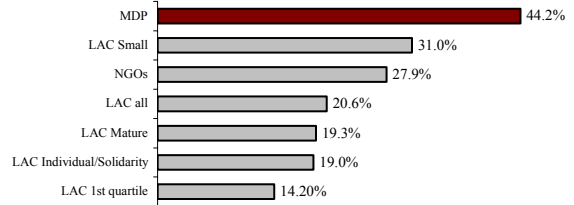
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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

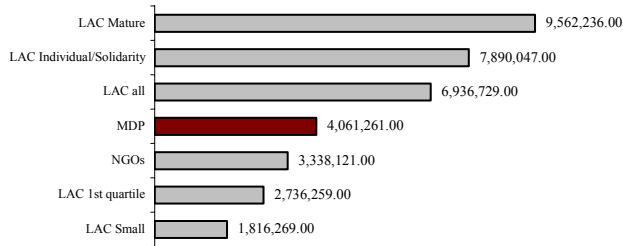
Classification According to MBB Criteria	
Area	LAC
MBB Group	NGOs – Individual, Solidarity, and Community Bank
Maturity	Mature (over 8 years)
Size	Medium (portfolio greater than 4 M USD and less than 15 M USD)
Target Clients	Low (portfolio per client is 54.6% of GNP per capita)

MDP’s benchmarking has been carried out with peer groups published by the MIX, with statistics through December, 2005: LAC 2005, NGOs, LAC first quartile, LAC mature, small scale, and with the individual, solidarity group, and Community Bank loan methodology.

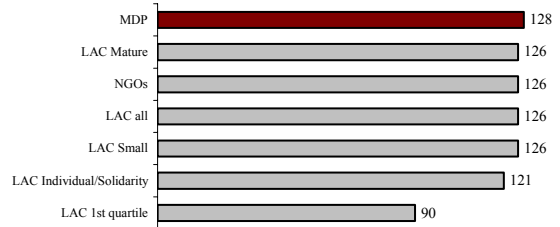
**Operational Expense Ratio**



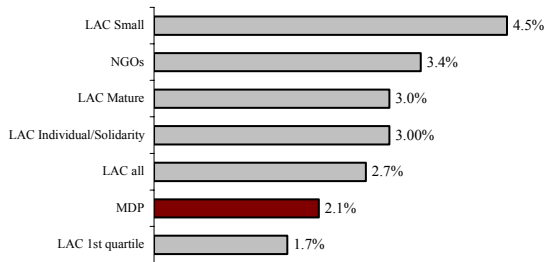
**Portfolio USD**



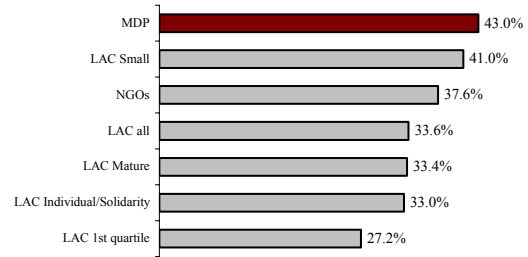
**Staff Productivity**



**PAR > 30 days**



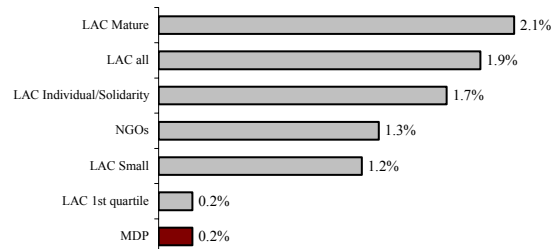
**Portfolio Yield**



**Operational Self-Sufficiency**



**ROA**



## Appendixes

### Acronyms

ALM	Asset Liability Management
BCP	Banco de Crédito del Perú
BCR	Peruvian Central Bank of Reserves
BM	Bank Manager
CC	Consultative Committee
CMAC	Savings and Loans Municipal Cooperatives
COFIDE	Development Financial Corporation
CRAC	Savings and Loans Rural Cooperatives
EDPYME	Small and Micro Enterprise Development Companies
FOLADE	Latin American Fund for Development
GA	General Assembly
GDP	Gross Domestic Product
ITF	Financial Transactions Tax
K	Thousands
LO	Loan Officer
M	Millions
MBB	MicroBanking Bulletin
MCP	Microcredit Program of PRISMA
MDP	Microfinance Department of PRISMA
MFI	Microfinance Institution
MIS	Management Information System
NA	Not Available
NGO	Non Governmental Organization
PEN	New Peruvian Soles
SBS	Superintendencia de Banca y Seguros
SG	Solidarity Group
SMEs	Small and Medium Enterprises
USD	United States Dollar
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, but it follows SBS accounting norms.

**1** The Financial Statements presented include a balance sheet, income statement, and accompanying notes. The financial statements from 2004 and 2005 hold the signature of Portal Brown & Associates. Previously, individual audits have been carried out for PRISMA's Microcredit Program, fideicomiso, and productive chains, but not in a consolidated form. The data from the period October, 2006 come from unaudited financial statements. PRISMA's microcredit programs, fideicomiso, and productive chain product have been audited independently.

**2** The institution only offers financial services.

**3** Donations

**3.1** Revenue from donations is shown separately from income generated by operations in the income statement (operating grants) and in the balance sheet (portfolio and investment grants).

**3.2** The following table shows all grants received by the MFI:

Donor	Amount K PEN	Conditions and Comments
USAID (1994-2003)	40,575	Given for loan portfolio for the amount of 31.4 M PEN and operational costs for 9.2 M PEN.
PROPERU (1994-2002)	104.8	
USAID-Chemonics (2004-2006)	2,691.7	
AECI (2005)	130.3	
BID-CGAP (2005)	26.3	Donation of 80% for the institutional rating.
Freedom From Hunger (2006)	4.7	
FOLADE (2006)	1.5	
INAFI (2006)	1.8	

**3.3** Donations accounting methodology: All donations are computed in financial statements. Grants for operations are recorded in the income statement. Grants for fixed assets or portfolio are recorded directly in equity.

**3.4** Through 2003 the institution had received donations for 39,786.6 K PEN from USAID.

**4** Accounting of portfolio elements: Loan loss provision expenses according to SBS norms.

#### Provisioning Methodology

Days of Default	Table 1	Table 2	Table 3
Normal (to 8 days)	1%	1%	1%
Potential Problems (up to 30 days)	5%	2.5%	1.5%
Deficient (up to 60 days)	25%	12.5%	6.25%
Doubtful (up to 120 days)	60%	30%	15%
Loss (from 120 days)	100%	60%	30%
Write-off	Any loan with arrears higher than 360 days is written off after having used all judicial procedures to recover the amount.		

Note: The MDP applies Table 1. Table 2 is applied to loans with preferred guarantees and Table 3 for those who have preferred, liquid guarantees.

4.1 Expenses related to actual or anticipated loan losses (provisions, write-offs) are shown separately from other expenses in the income statement.

4.2 Loan loss provision expenses are registered monthly in the income statement and added to the loan loss reserve in the balance sheet. Write-offs are subtracted from loan loss reserve.

4.3 Since 2006, all loans in arrears over 360 days are written off, as long as there has been a collection process and the loan is covered 100% in provisions.

4.4 Reserve variation for overdue portfolio:

Data in K PEN	Dec. 03	Dec. 04	Dec. 05	Oct. 06
Reserve January 1	7,017.1	8,264.4	1,201.1	1,314.2
+ Costs of provision	563.1	351.4	322.1	2.3
- Provision reversal	115.7	680.9	6	85.0
- Loans written off		6,733.9	208.9	867.5
<b>Reserve on Dec.31 (1)</b>	<b>8,264.4</b>	<b>1,201.1</b>	<b>1,314.2</b>	<b>364.0</b>
<b>Loans written off without going through LLR</b>	-	-	-	-

4.5 Interests are accrued for up to 30 days arrears.

4.6 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 Loans are not rescheduled or refinanced.

5.3 The MFI does allow employees to borrow funds. Conditions: loans given for up to two years. For permanent PRISMA employees amount disbursed for up to 2 salaries; for staff with tenure, amount disbursed for up to 4 salaries. APR is 11% in USD. Authorization made by MDP director and Administration and Finance Manager.

6 Details of liabilities:

6.1 Details of funding by debt in USD:

Source	Interest Rate	Line of Credit	Outst.debt Oct.2006	Conditions
ECLOF	14.2%	50,000	48,076	09/27/05: 36 months, 9 months of grace. Guarantee with loan portfolio. Commission for disbursement of 2 K USD.
ETIMOS	9.5% 10%	50,000 50,000	48,830 61,037	2installments in March and April of 2006, with 9 months, 7 months of grace. Letter of guarantee for 120 K USD.
Creditex	8.5% 8.5%	113,000 113,000	53,910 120,570	07/13/06: 12 months without grace period. Back to back with PRISMA. 09/29/06: 32 months with 18 month grace period.
BCP	5.5%	200,000	165,049	No guarantees.

12 months, 12 months of grace

MCE 10% 300,000 367,479

Investors 12% 90,900 99,685

6.2 The institution is not authorized to capture public savings.

7 Other accounting rules

7.1 Income and expenses are accrued.

7.2 Inflation and exchange rate gains or losses are registered according to SBS norms. National institutions do not have to make adjustments for inflation.

8 Other out of balance sheet items

8.1 Number of loans disbursed is indicated in section "A".

8.2 Number of voluntary savings accounts indicated in section "A"

### Specific notes to the financial statements

- Includes SBS provision and contingency fund of 1% per disbursement in Productive Chains
- Includes loans from BCP, ETIMOS, ECLOF, Creditex, investors and other supply providers.
- In all years includes the fideicomiso fund, for 2006 includes MCE loans in addition to the balance over a year from ECLOF and ETIMOS.
- Includes taxes to pay and labor compensations.

### Income Statement

- Interests from savings accounts and savings in financial institutions, as well as overnight deposits in the BCP
- From 2005 on, no adjustment has been made for inflation.
- In 2003 and 2004, operational expenses for technical assistance related to productive chains are reported in the next period.
- In 2005 includes income from PRISMA's technical assistance area to cover operational expenses for approximately 289 K PEN, as well as overhead charged by PRISMA in the previous period for 95.6 K PEN.
- In 2003 includes 57 K PEN in expenses for insurance and 338.5 K PEN from last year's fideicomiso expenses. In 2005 includes 98 K PEN for labor regulation expenses.
- In 2005, includes a donation from Chemoncis for 1.07 K PEN and 130.2 K PEN from ECI to finance operational expenses related to the productive chain product for 211,258 K PEN. The rest corresponds to Freedom from Hunger, FOLADE and INAFI.

### Adjustments

	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006
<b>Adjustment for funding expense = (a*b)-c</b>	<b>111,095</b>	<b>205,492</b>	<b>203,193</b>	<b>255,478</b>
Average loan amount (a)	1,190,727	2,214,354	2,513,728	4,587,952
Hidden loan cost (b)	9.3%	9.3%	9.3%	9.3%
Interests paid on loans (c)	-	-	30,081	99,324
<b>Inflation Adjustment = (d-e)*f</b>	<b>-</b>	<b>-</b>	<b>151,099</b>	<b>121,783</b>
Average equity (d)	15,156,167	12,144,660	10,169,488	8,171,929
Average net fixed assets (e)	680,126	83,957	57,719	53,033
Inflation (f)	0.0%	0.0%	1.5%	1.5%
<b>Adjustment for in-kind donations</b>	<b>41,883</b>	<b>38,383</b>	<b>-</b>	<b>1,750</b>
Personnel and TA	41,883	38,383	-	1,750
Others	-	-	-	-
<b>Adjustments for Provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
For uncharged accounts	-	-	-	-
For other risks	-	-	-	-
<b>Other adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total adjustments</b>	<b>152,978</b>	<b>243,875</b>	<b>354,292</b>	<b>379,011</b>

PRISMA Balance Sheet	Notes	USD								Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006	2004/2003	2005/2004	2006/2005
<b>ASSETS</b>		<b>15,925,486</b>	<b>15,135,049</b>	<b>13,377,196</b>	<b>15,129,136</b>	<b>4,601,412</b>	<b>4,614,344</b>	<b>3,901,195</b>	<b>4,727,855</b>	<b>(5.0%)</b>	<b>(11.6%)</b>	<b>13.1%</b>
<b>Short-term Assets</b>		<b>15,827,704</b>	<b>15,025,586</b>	<b>13,300,989</b>	<b>14,968,825</b>	<b>4,573,159</b>	<b>4,580,971</b>	<b>3,878,970</b>	<b>4,677,758</b>	<b>(5.1%)</b>	<b>(11.5%)</b>	<b>12.5%</b>
Cash and Due from Banks		1,657,701	1,086,340	122,860	1,652,903	478,966	331,201	35,830	516,532	(34.5%)	(88.7%)	1,245.4%
Short term net financial assets		-	-	10,287	20,702	-	-	3,000	6,469	-	-	101.2%
Short-term net loan portfolio		13,600,884	12,710,465	12,583,425	12,632,022	3,929,756	3,875,142	3,669,707	3,947,507	(6.5%)	(1.0%)	0.4%
Short-term gross loan portfolio		21,865,305	13,911,551	13,897,626	12,996,037	6,317,626	4,241,327	4,052,968	4,061,261	(36.4%)	(0.1%)	(6.5%)
(Loan Loss Reserve)	1	8,264,421	1,201,086	1,314,201	364,015	2,387,871	366,185	383,261	113,755	(85.5%)	9.4%	(72.3%)
Interest Receivable		-	361,526	291,372	230,596	-	110,221	84,973	72,061	-	(19.4%)	(20.9%)
On loan portfolio		-	361,526	291,372	230,596	-	110,221	84,973	72,061	-	(19.4%)	(20.9%)
On Investments		-	-	-	-	-	-	-	-	-	-	-
Other Short Term Assets		569,118	867,255	293,045	432,602	164,438	264,407	85,461	135,188	52.4%	(66.2%)	47.6%
<b>Long Term Assets</b>		<b>97,782</b>	<b>109,463</b>	<b>76,207</b>	<b>160,311</b>	<b>28,252</b>	<b>33,373</b>	<b>22,224</b>	<b>50,097</b>	<b>11.9%</b>	<b>(30.4%)</b>	<b>110.4%</b>
Lon Term Net Financial Assets		-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		97,782	70,133	45,305	60,760	28,252	21,382	13,212	18,988	(28.3%)	(35.4%)	34.1%
Other Long Term Assets		-	39,330	30,902	99,551	-	11,991	9,012	31,110	-	(21.4%)	222.2%
<b>LIABILITIES AND EQUITY</b>		<b>15,925,486</b>	<b>15,135,049</b>	<b>13,377,196</b>	<b>15,129,136</b>	<b>4,601,412</b>	<b>4,614,344</b>	<b>3,901,195</b>	<b>4,727,855</b>	<b>(5.0%)</b>	<b>(11.6%)</b>	<b>13.1%</b>
<b>Liabilities</b>		<b>3,197,182</b>	<b>3,574,033</b>	<b>4,599,235</b>	<b>7,563,239</b>	<b>923,774</b>	<b>1,089,644</b>	<b>1,341,276</b>	<b>2,363,512</b>	<b>11.8%</b>	<b>28.7%</b>	<b>64.4%</b>
Short Term Liabilities		815,728	1,526,779	2,252,293	2,830,657	235,691	465,481	656,837	884,580	87.2%	47.5%	25.7%
Sight Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Loans	2	-	-	857,749	1,808,485	-	-	250,146	565,152	-	-	110.8%
Interest Payable		-	-	-	-	-	-	-	-	-	-	-
Other Short Term Liabilities		815,728	1,526,779	1,394,544	1,022,172	235,691	465,481	406,691	319,429	87.2%	(8.7%)	(26.7%)
Long Term Liabilities		2,381,454	2,047,254	2,346,942	4,732,582	688,083	624,163	684,439	1,478,932	(14.0%)	14.6%	101.6%
Long Term Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Loans	3	2,381,454	2,047,254	2,122,453	4,387,218	688,083	624,163	618,971	1,371,006	(14.0%)	3.7%	106.7%
Other Long Term Liabilities	4	-	-	224,489	345,364	-	-	65,468	107,926	-	-	53.8%
<b>Equity</b>		<b>12,728,304</b>	<b>11,561,016</b>	<b>8,777,961</b>	<b>7,565,897</b>	<b>3,677,638</b>	<b>3,524,700</b>	<b>2,559,919</b>	<b>2,364,343</b>	<b>(9.2%)</b>	<b>(24.1%)</b>	<b>(13.8%)</b>
Social Capital		-	-	-	-	-	-	-	-	-	-	-
Donations		17,651,123	14,821,443	10,941,322	7,478,208	5,100,007	4,518,733	3,190,820	2,336,940	(16.0%)	(26.2%)	(31.7%)
Retained Earnings without Donations		-	(3,260,428)	(2,163,360)	87,688	(1,422,369)	(994,033)	(630,901)	27,403	(33.8%)	(33.6%)	(104.1%)
Current Year		(4,922,819)	(3,260,428)	(2,163,360)	87,688	(1,422,369)	(994,033)	(630,901)	27,403	(33.8%)	(33.6%)	(104.1%)
Other Equity Accounts		-	-	-	-	-	-	-	-	-	-	-

PRISMA Income Statement	Notes	PEN				USD				Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Oct. 2006	2004/2003	2005/2004	2006/2005
<b>Financial Revenue (a)</b>		<b>5,981,940</b>	<b>5,375,633</b>	<b>5,348,618</b>	<b>4,919,519</b>	<b>1,728,385</b>	<b>1,638,913</b>	<b>1,559,819</b>	<b>1,537,350</b>	<b>(10.1%)</b>	<b>(0.5%)</b>	<b>(8.0%)</b>
Financial Revenue from Loan Portfolio		5,946,198	5,262,176	5,306,152	4,791,804	1,718,058	1,604,322	1,547,434	1,497,439	(11.5%)	0.8%	(9.7%)
Interest on Loan Portfolio		5,946,198	5,262,176	5,195,891	4,623,769	1,718,058	1,604,322	1,515,279	1,444,928	(11.5%)	(1.3%)	(11.0%)
Fees and Commissions on Loan Portfolio		-	-	110,261	168,036	-	-	32,156	52,511	-	-	52.4%
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments	5	35,742	11,579	6,584	2,480	10,327	3,530	1,920	775	(67.6%)	(43.1%)	(62.3%)
Other Operating Revenue		-	101,879	35,882	125,234	-	31,061	10,464	39,136	-	(64.8%)	249.0%
<b>Financial Expenses (b)</b>		<b>480,840</b>	<b>791,114</b>	<b>158,900</b>	<b>162,181</b>	<b>138,931</b>	<b>241,193</b>	<b>46,340</b>	<b>50,682</b>	<b>64.5%</b>	<b>(79.9%)</b>	<b>2.1%</b>
Interests Paid on Loans		-	-	30,081	99,324	-	-	8,773	31,039	-	-	230.2%
Interests Paid on Deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	6	291,782	614,496	-	-	-	-	-	-	110.6%	(100.0%)	-
Other Costs Related to Financial Services		189,058	176,618	128,819	62,857	54,625	53,847	37,568	19,643	(6.6%)	(27.1%)	(51.2%)
<b>Financial Income [c=a-b]</b>		<b>5,501,100</b>	<b>4,584,520</b>	<b>5,189,718</b>	<b>4,757,338</b>	<b>1,589,454</b>	<b>1,397,719</b>	<b>1,513,479</b>	<b>1,486,668</b>	<b>(16.7%)</b>	<b>13.2%</b>	<b>(8.3%)</b>
<b>Net Loan Loss Provision Expense (f)</b>		<b>505,144</b>	<b>(466,879)</b>	<b>(142,046)</b>	<b>(202,848)</b>	<b>145,953</b>	<b>(142,341)</b>	<b>(41,425)</b>	<b>(63,390)</b>	<b>(192.4%)</b>	<b>(69.6%)</b>	<b>42.8%</b>
Loan loss provision expense and write-off		505,144	(321,983)	278,084	(85,013)	145,953	(98,165)	81,098	(26,566)	(163.7%)	(186.4%)	(130.6%)
Recovery from Loans written off		-	144,897	420,130	117,835	-	44,176	122,523	36,824	-	190.0%	(72.0%)
<b>Operational Expenses (d)</b>		<b>9,532,808</b>	<b>8,329,038</b>	<b>8,133,238</b>	<b>4,934,734</b>	<b>2,754,351</b>	<b>2,539,341</b>	<b>2,371,898</b>	<b>1,542,104</b>	<b>(12.6%)</b>	<b>(2.4%)</b>	<b>(39.3%)</b>
Personnel Expense (includes fringe)		5,629,928	4,669,125	4,954,109	3,186,142	1,626,677	1,423,514	1,444,768	995,669	(17.1%)	6.1%	(35.7%)
Other Operational Expenses		3,902,879	3,659,913	3,179,130	1,748,592	1,127,674	1,115,827	927,130	546,435	(6.2%)	(13.1%)	(45.0%)
Depreciation and amortization		30,320	33,735	62,399	11,752	8,760	10,285	18,198	3,673	11.3%	85.0%	(81.2%)
Service Expenses		2,223,184	1,969,929	1,605,494	1,061,521	642,353	600,588	468,211	331,725	(11.4%)	(18.5%)	(33.9%)
Taxes		77,770	104,378	68,305	53,575	22,470	31,823	19,920	16,742	34.2%	(34.6%)	(21.6%)
Overhead		923,199	729,951	792,131	250,444	266,743	222,546	231,009	78,264	(20.9%)	8.5%	(68.4%)
Various Administrative Expenses		504,180	655,282	650,800	371,300	145,675	199,781	189,793	116,031	30.0%	(0.7%)	(42.9%)
Others	7	144,226	166,638	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>(4,536,852)</b>	<b>(3,277,639)</b>	<b>(2,801,474)</b>	<b>25,452</b>	<b>(1,310,850)</b>	<b>(999,280)</b>	<b>(816,995)</b>	<b>7,954</b>	<b>(27.8%)</b>	<b>(14.5%)</b>	<b>(100.9%)</b>
Revenue Tax (h)		-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [i=g-h]</b>		<b>(4,536,852)</b>	<b>(3,277,639)</b>	<b>(2,801,474)</b>	<b>25,452</b>	<b>(1,310,850)</b>	<b>(999,280)</b>	<b>(816,995)</b>	<b>7,954</b>	<b>(27.8%)</b>	<b>(14.5%)</b>	<b>(100.9%)</b>
Non Operating Revenue (i)	8	10,461	17,212	758,738	74,627	3,022	5,247	221,271	23,321	64.5%	4,308.3%	(90.2%)
Non Operating Expense (including related taxes) (j)	9	396,428	-	120,624	12,390	114,541	-	35,178	3,872	(100.0%)	-	(89.7%)
<b>Net Income Before Donations [l=i+j-k]</b>		<b>(4,922,819)</b>	<b>(3,260,428)</b>	<b>(2,163,360)</b>	<b>87,688</b>	<b>(1,422,369)</b>	<b>(994,033)</b>	<b>(630,901)</b>	<b>27,403</b>	<b>(33.8%)</b>	<b>(33.6%)</b>	<b>(104.1%)</b>
Donations (m)	10	874,410	1,422,509	1,227,349	219,283	252,647	433,692	357,932	68,526	62.7%	(13.7%)	(82.1%)
<b>Net Income</b>		<b>(4,048,409)</b>	<b>(1,837,918)</b>	<b>(936,012)</b>	<b>306,972</b>	<b>(1,169,722)</b>	<b>(560,341)</b>	<b>(272,969)</b>	<b>95,929</b>	<b>(54.6%)</b>	<b>(49.1%)</b>	<b>(132.8%)</b>

## Description of loan products

Product Name	MCP	FIDEICOMISO	PRODUCTIVE CHAINS
Date of Creation	jun-97	mar-02	dec.02
Type of Client (urban, rural, commerce)	Urban, rural	Urban, rural	Rural (producers with less than three productive hectares)
Authorized Loan Size (minimum and maximum)	Village Banks: minimum PEN 300; maximum PEN 3,500 Solidarity Groups: minimum PEN 300; maximum PEN 5,000	PEN 500 - PEN 4,000 for Crediacopio. PEN 500 - PEN 6,000 for Multicredito. Loans higher than PEN 6,000 are disbursed upon approval of Director	Minimum: PEN 1,000; Maximum: PEN 10,000 Multicredito: up to 80% of the production cost and Crediacopio up to 90% of the selling cost
Average Size of Loans	1,006.56 PEN	3,285.29 PEN	1,180.81 PEN
Authorized Loan Terms (minimum and maximum)	Commerce Village Banks: minimum: 6 months; maximum: 8 months GS: minimum: 6 months; maximum: 8 months	Minimum: 3 months Maximum: 12 months	Minimum: 3 months Maximum: 12 months
Average Loan Term	6 months	12 months	8 months
Grace Period	6 months, only for rural Village Banks	0 months	According to the crop (minimum 3 months, maximum 10 months)
Collateral Requirements and Other Conditions	Solidarity group guarantee.	Property Titles	Fixed assets, renting contracts. Conditioned to the approval of the loan request and the ownership of the land by the client. Approved after the technical evaluation of the crop and the quality of land.
Repayment Schedule (ex. weekly, monthly)	Monthly: urban Solidarity Groups and Village Banks. End of cycle: rural Village Banks.	Monthly	End of cycle.
Nominal Interest Rate	From 3.53% to 4%, depending on the area	4% for new clients and 3.5% from the third loan on	Multicredito: 4% monthly. Crediacopio 8% annually.
Flat or Decreasing Commissions and Penalties	Depends on Area Commissions: 1.00% upon disbursement Penalties: 4.00% monthly.	Flat Commissions: 1.00% upon disbursement Penalties: 4.0% monthly	Flat Commission of 15 PEN and 1% penalty
Major Changes Since Creation (rate, size, terms)	Financial conditions have changed (loan amount and interest rate). Presently Solidarity Groups are graduations from Village Banks.	None	Changes in loan size and interest rate increase (before it was 2.5%). For crediacopio interest rate increased from 1% to 8% per year.

## Organizational chart

