

GIRAFE

Rating

A+	
A	Insufficient: procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
A-	
B+	
B	
B-	
C+	
C	
C-	

D

E

Trend

Positive

Stable	The positive trend is underpinned by several recent measures taken (e.g. strengthened management team, development of the new MIS and formalization of lending procedures and controls).
Uncertain	
Negative	

Performance indicators

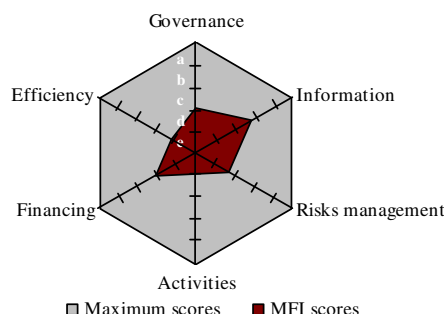
(K USD, unless otherwise indicated)

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
ACTIVITY				
Total number of staff	12	22	27	46
Assets	805	962	929	1,735
Assets (K PHP)	42,758	53,474	52,293	95,589
Loan portfolio	491	610	577	1,144
Active borrowers*	393	653	705	2,063
APR	N/A	N/A	N/A	47.4%
Number of savers	0	0	0	3,385
PAR 31-365	9.3%	18.0%	10.3%	10.0%
PAR > 365	4.7%	5.5%	5.7%	6.4%
Write-off ratio	0.0%	0.8%	10.0%	5.8%
Risk coverage ratio	15.1%	18.8%	24.4%	12.0%
PERFORMANCE				
ROE	(11.1%)	(7.0%)	(40.8%)	(16.3%)
Liabilities / Equity	19.6%	31%	401.7%	523.8%
ROA	(9.9%)	(5.5%)	(9.0%)	(4.4%)
OSS	62.7%	74.9%	69.1%	82.2%
FSS	56.0%	48.5%	59.0%	59.4%
Portfolio Yield	24.5%	25.7%	29.1%	30.0%
Operating expense ratio	31.3%	23.9%	26.6%	27.2%
Staff productivity	33	30	26	45
Funding expense ratio	6.2%	6.7%	6.5%	6.9%
GROWTH				
Portfolio growth	43.7%	30.0%	(4.1%)	94.0%
Asset growth	50.5%	25.1%	(2.2%)	82.8%
USD/PHP	53	56	56	55

* Group solidarity loans are counted active loans, not group members that use these loans.

ECLOF-Philippines

April 2006



Description of the institution

The Ecumenical Church Foundation, Inc. Philippines (ECLOF-P) is a non-stock and non-profit corporation established in 1973 by The National Council of Churches of Philippines to provide loans to church and church-related institutions. From 2001, it started to provide microfinance services to the entrepreneurial poor and microenterprises. Since 1995, ECLOF-P is registered with the Philippines Securities and Exchange Commission. ECLOF-P is affiliated with Geneva-based ECLOF International (ECLOF-I) which provides loan fund, subsidies, technical assistance and oversight/regulation. Headquartered in Quezon City, ECLOF-P had a portfolio of 1.1 M USD covering 2,063 active loans (5,986 borrowers) as of December 31, 2005 through a network of 4 branches and 1 satellite office.

Rating summary

The MFI has been assigned a global rating of **D**. This rating underlines the existing structural weaknesses in the areas of governance, management and controls which handicapped ECLOF-P's capacity to manage fast growth witnessed in the past few years. This rating also reflects weak operational and financial performance of ECLOF-P which continues to rely heavily on ECLOF-I support and funding. Areas for improvement include capacity building for the Board members, adoption of a market-relevant Strategic Plan, more efficient MIS, better application and compliance of lending procedures, formalization of internal controls and diversification of funding.

This grade has been given with a **Positive** trend. This trend is underpinned by ECLOF-P's hiring of two experienced managers to strengthen its management team, developing a new MIS to better track its activities and formalizing many operational procedures. It is hoped that these measures will result in better portfolio quality and lead ultimately to break-even. It is understood that discussions are underway to get ECLOF-I represented on ECLOF-P's Board and potentially convert the ECLOF-I loans into equity.

Financing needs

ECLOF-P anticipates fresh funding needs of 32.5 M PHP (591 K USD) for 2006. ECLOF-I is expected to fund at least 1/3 of these needs and guarantee at least another 1/3 through local sources.

Planet Rating

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▪ **Microfinance sector**

With 26.5 million Filipinos considered poor out of the overall population of 85.2 million (many more are considered vulnerable poor), the Philippines is one of Asia's largest microfinance markets. Certain market studies show that microfinance services are delivered to only one third of the total poor households in the Philippines. The untapped market is therefore large. The three major current providers of microfinance services are NGOs, rural/thrift banks and cooperatives. It is estimated that 300 NGOs, 195 rural banks and 4,579 cooperatives are engaging in some forms of microfinance services. NGOs are not regulated despite being registered with the Securities and Exchange Commission (SEC) and having to file annual audited financial statements and general information sheets to the SEC. The rural banks are regulated by the Bangko Sentral ng Pilipinas (BSP-the Central Bank) whereas the cooperatives are technically regulated by the Cooperative Development Authority.

Most prominent and largest microfinance NGOs are members of either the Microfinance Council of the Philippines or the Alliance of Philippine Partners for Enterprise Development Network (spearheaded by Opportunity International). Many started out using and adapting either the Grameen or the ASA group lending methodologies. Among the rural/thrift banks, 8 stand out including CARD Bank and Opportunity Microfinance Bank. The rural banks are grouped under the Rural Bankers Association. The cooperatives, some of them affiliated with the National Confederation of Cooperatives, tend to have smaller and localized outreach with the largest microfinance cooperative being the CCT Credit Cooperative. As of December 31, 2005, the top 12 microfinance providers (all categories) served about 800,000 clients. Three MFIs that serve more than 100,000 clients each are all NGOs: TSPI, TSKI and CARD NGO.

Filipino microfinance providers count on a network of funding and supporting organizations. Four government apex financial institutions are the largest providers of financing or refinancing. The largest apex institution is the People's Credit and Finance Corporation (51.5 million USD of microfinance loan portfolio) following by the Land Bank of the Philippines, the Development Bank of the Philippines and Small Business Corporation. Many other foreign organizations are active in the Philippines providing both technical assistance and financing including USAID, AUSAID, UNDP, WB, ADB-IFAD, EU, Oikocredit, CARE, CRS, Opportunity, World Vision...etc.

Source: The Philippine Country Profile on Microfinance by TSPI, BWTP & MCPI.

▪ **Political and economical environment**

Economic growth has been in a slowdown phase due mainly to the high level of oil prices, which has had a substantial impact on a very energy-consuming industry. Household consumption, buoyed by massive private transfers, has continued to underpin the economy. The payment experience registered by COFACE has remained good and companies have been relatively transparent. The volatile economic environment has weakened smaller companies with the electronics and textile sectors apt to suffer from Chinese competition. The government's financial situation has remained shaky with the large public debt vulnerable to market variations. Sovereign risk has nonetheless tended to ease progressively: the public sector debt burden has been declining and the government has been pursuing relatively tight fiscal policy.

The external financial situation has been very steady with the country continuing to run large current account surpluses. Debt ratios have been coming down and the level of foreign currency reserves has been improving. President Gloria Arroyo has successfully deflected impeachment proceedings. She continues to enjoy the backing of the religious hierarchy and military establishment with the opposition proving unable to mobilize the people. The weakness of her position will nonetheless make it difficult to implement tax and banking reforms. However, only those reforms could prop up investor confidence and ultimately make economic results less volatile.

Strengths:

- The economy is very specialized in electronics (nearly 70% of sales abroad).
- The country's competitiveness has been holding up, particularly in special economic regions.
- The workforce's skills, productivity, and adaptability have been assets, particularly for international companies.
- External accounts have benefited from remittances from expatriate workers comprising one of the world's largest expatriate communities.

Weaknesses:

- Inequalities and demographic growth have undermined economic performance.
- The country is distinctive in Asia for its low level of domestic savings, which makes it dependent on financial markets.
- The banking system has remained in poor shape with the sector lacking reforms and supervision.

COFACE Country Rating: B (Under positive watch list) - An unsteady political and economic environment is likely to affect further an already poor payment record.

USD millions	2003	2004	2005p	2006p
Economic growth (%)	4.6	6	4.6	4.4
Inflation (%)	3.9	8.6	6.4	6
Public sector balance (%GDP)	-4.8	-4	-3.4	-2.2
Exports	35.3	38.8	40.1	41.6
Imports	40.8	44.5	46.9	49.9
Trade balance	-5.5	-5.8	-6.8	-8.2
Current account balance (%GDP)	1.4	2.7	3.2	3.3
Foreign debt (%GDP)	1.80%	3.30%	3.30%	3.10%
Debt service (%Exports)	78.7%	72.4%	63.0%	57.9%
Foreign exchange reserves (import months)	17.7%	14.8%	14.0%	14.0%

Source: COFACE's Country Risk Ratings Guidebook 2006. 2005 and 2006 data represents projections. Data is provided with authorization from COFACE - a shareholder of Planet Rating.

Notes: On May 24, 2006, Moody's raised the Philippines's foreign-currency country ceilings from "B1" to "Ba3" reflecting its revised methodology. The Philippines has a "BB-/Stable" long-term foreign-currency rating by Standard & Poor's.

■ Institutional presentation

Networks

ECLOF-Philippines (ECLOF-P) is a member of the ECLOF International (ECLOF-I) Network of National ECLOF Committees (NECs), with its head office in Geneva.

Ownership

Created in 1973 as a local NGO, ECLOF-P has no formal owners. Its founder is the National Council of Churches of Philippines (NCCP) and its churches members. Since 1995, it is registered with the SEC as a non-profit NGO affiliated to ECLOF-I whose mission is to "provide fair credit for human development and sustainable communities, in witness to the Christian Faith".

The Board of Trustees (BOT) is composed of seven members¹: three church representatives, three NGO representatives and one representative of the NCCP. BOT members are elected by the 21-member General Assembly of the ECLOF-P. As the governing body, the BOT validates annual reports, budgets, operational plans and all strategic decisions (e.g. appointment of Executive Director, approval of larger loans, adoption of new procedures...etc.). There are two BOT subcommittees: the Personnel and Finance Committee (PFC) and the Projects Committee (PC). The PC is set up to authorize larger loans, especially those to church and church-related organizations.

¹ Members have legal, accounting and social affairs backgrounds.

Management team

The management team includes the Executive Director (ED), the Operations Manager (OM) and the Finance Manager (FM)². Apart from the ED, the OM and FM are newly hired staff present in the institution for less than a year. The ED, Mr Lauro Chee Millan, has been leading ECLOF-P since 2001. He is a private entrepreneur (in family-related businesses) and had teaching experience in History and Law. His previous experience in microfinance consisted in being Manager/CEO of Direct Access Lending Investor, a local microcredit services provider, for 7 years. Both OM and FM have prior microfinance experience at prominent local MFIs such as TSPI and ABS-CBN Bayan Foundation.

Donations

Since 2002, ECLOF-P has received about 1.7 M USD in donations and technical assistance.

Legal form, supervision and audit

ECLOF-P started as a program managed by the NCCP for church-based lending. In order to professionalize its operations, ECLOF-P officially separated from the NCCP on November 1995. It established itself as an independent entity with its own statutes, governance and management structures. On 22nd January 1996, the institution registered as a non-profit local NGO with the SEC. ECLOF-P is not submitted to any bank regulation, but its SEC registration implies reporting of financial and portfolio information on an annual basis.

Since 2004, the accounts of ECLOF-P have been audited by Diaz Murillo Dalupan and Co. a local correspondent firm of HLB International and Moores Rowland International. This firm has auditing experience with many other MFIs in the Philippines. It performs its audit using some bank audit guidelines in the absence of specific microfinance standards. The auditors have always certified the accounts without reserve.

Organization

- The headquarters (HQ) in Quezon City centralize all management and administrative functions (general, credit, finance and human resources management).
- Operations are managed from 4 branches. Each of them is responsible for one office or satellite office when applicable.
- Branch Managers (BM) are in charge of the branch general portfolio management: loan validation process, monitoring of portfolio performance, Loan Officer (LO) work and market evaluations. They can approve loans up to 50,000 PHP (909 USD). Bigger loans require HQ

² An executive assistant is in charge of general administration and human resources management despite not formally being part of management.

clearance and approval. Church and church-related loans are processed directly at the HQ.

- All loan disbursements are made through local partner banks. Loan repayments are made either at banks or to the branches' cashiers.
- Client data are directly entered by loan officers and disbursement and repayment data is entered by the bookkeepers at the branch. These information are consolidated at HQ on a monthly basis.

Market penetration

ECLOF-P targets the entrepreneur poor and the marginalized in addition to continuing to finance church programs and infrastructure projects. Three of ECLOF-P's 4 branches are located in Luzon Island, except for the Puerto Princesa branch located on Palawan Island. In addition, one satellite office is attached to the Benguet branch and one orientation desk located in Taytay market is attached to the Antipolo branch.



Products and services

A detailed description of products is provided in Annexes. From its inception and for many years, ECLOF-P had only one loan product/program: the General Capital Loan financing the building and the renovation of churches or church-related institutions such as schools and hospitals. A second product called the Development Capital Loan was

added in 1998. 2001 saw the introduction of a new micro solidarity loan inspired by the Grameen Bank group lending methodology. ECLOF-P launched an agricultural loan product in 2002 distributed mainly in Benguet, Antipolo and Palawan branches. A micro individual loan came in 2003 targeted individuals with trade activities. The product range was completed in 2005 by the launch of a SME loan. Productive loans disbursed averages range from 16,000 PHP (290 USD) for micro-agriculture loans to 137,000 PHP (24,909 USD) for SME loans with average loan tenors of between 4 and 12 months. General Capital and Development Capital loans destined to church and church-related institutions averaged around 4,000 USD despite their 50,000 USD maximums. These loans have longer tenors of up to 5 years. Nominal interests range between 12% for church loans to 30% for productive loans. Product APRs range from 22.3% to 60.8% with variation among the same product depending on loan amortization schedules.

■ Governance

Governance and Decision Making is rated « c »

Decision-making

BOT composition is dominated by church and socially-oriented representatives reflecting ECLOF-P religious and social roots. This BOT is in tune with the institution's mission to provide "fair credit" to its target clientele, but the BOT's commitment to financial sustainability is not as evident despite the latter being one of the 4 goals of the proposed Draft Strategic Plan. While ECLOF-P has evolved operationally over the years to become a financial institution within the increasingly commercialized microfinance market in the Philippines, the BOT has not evolved by the same degree in its composition, mindset and decision making. It is not clear whether the BOT sees ECLOF-P as a financial institution. Current BOT functions normally, does meet on a regular basis and tries its best to support management, but their input has not been material in the capacity building and development of ECLOF-P.

Despite BOT members' commitment to ECLOF-P, the current governance structure presents some key structural weaknesses typical of volunteer Boards (e.g. availability /attendance, BOT deferring to management for initiatives, members are not aware of latest or best microfinance practices, members are not sufficiently knowledgeable of microfinance financial analysis...etc.). Another key weakness is the non-representation of ECLOF-I on the BOT despite it being the main funder. ECLOF-I influence is being felt however through formal/informal pressure, funding, BOT trainings and exposure trips. ECLOF-I is considered likely to step in to help ECLOF-P if needed (in cases of financial difficulty) given the potential negative reputation risks on the overall network.

Another issue quite unique to ECLOF-P and other NECs of the ECLOF-I network is the fact that its core funding comes from Geneva in form of loans instead of equity. This fact resulted in both weak capitalization and limited control/oversight (also attributed to lack of BOT representation and the large distance between Geneva and the Philippines) despite required regular reporting. Various discussions have been taking place and are still on-going on if and how to transform ECLOF-I loans into equity and how to strengthen oversight and control. Finally having some BOT members coming from different sectors with financial and technical profiles would greatly enhance BOT's capacity to guide ECLOF-P forward. These outsiders could bring fresh perspectives and business thinking into the decision-making process.

Planning

Planning process and capability at ECLOF-P is weak. The new Draft Strategic Plan displays good adherence to ECLOF-P main mission and values, but lacks clear market and competitive strategies, financial projections and other key elements typically found in a Strategic Plan. The Plan lacks details and financial depth and does not clearly and effectively address the critical issues to ECLOF-P development: credit risk management, market positioning and expansion, staff capacity building, execution challenges...etc. Many stated goals are well-intentioned (e.g. providing the clients with holistic product experience), but they are vague and not "priced" to figure out whether the institution can afford to undertake such goals. Existing proposals to improve BOT and management effectiveness are much welcomed, but it remains to be seen how and how fast such proposals will actually be implemented.

Short term and basic budget planning process exists but needs to be improved with better planning tools and practices. Similarly long-term rolling financial projections (e.g. for the next three years) would allow better anticipation of operational needs and constraints. Now that the new FM is in place (ECLOF-P never had a stand-alone finance manager position), its financial planning processes and capability should be improved as she has the qualifications and experience to perform them. Better planning and budgeting processes will ensure that certain crucial decisions (e.g. geographic expansion, new product launch) are properly considered (e.g. the opening of the Palawan Branch very far away from HQ has resulted in poor oversight and subsequently caused bad portfolio problems in addition to draining management resources of other branches).

Management team

Under strong encouragement and pressure from ECLOF-I, ECLOF-P recruited one OM and one FM – both positions paid by ECLOF-I for a limited period. Until the

appointments of the new OM and FM, there was no real management team to speak of at ECLOF-P. Its ED was practically running every managerial aspects and key-person risk was high. Despite the fact that the team is now stronger and more broader-based, there is still key-person risk at the ED level. The effectiveness as the current management team is a work-in-progress. It is noted that both OM and FM have good experience in management and in microfinance. Generally HQ staff displays good spirits and the new management team shows good cohesion. ECLOF-P secures IT and legal services from external consultants/parties.

Outside the HQ, the experience layer is thin on the ground. The experience and skills of BMs are quite uneven due to rapid promotions caused by high turnover and rapid branch expansion. ECLOF-P often pulls good (but not always very experienced) resources from one branch to staff other branches resulting in an overall weakness. While these inter-branch transfers presented as promotions can enhance motivation, it is sometimes risky due to the lack of experience or management skills and due to the fact that these appointments could be interpreted as "parachutes" making difficult for new transfers and existing staff alike. HQ managers and BMs meet monthly at the HQ to compare performance and discuss issues/problems allowing sharing of information and best practices. A key challenge is to secure additional management skills (e.g. IT and internal audit skills), which is constrained by ECLOF-P's weak capacity to compete on salaries.

Human resource management

ECLOF-P is an open-minded and willing-to-learn organization, but it needs further strengthening its technical and financial management knowledge completed by a proper application of new HR procedures/policies to remedy existing HR weaknesses. Fast growth of the last few years underlined a historical under-investment in human resources and skills development. As a result, ECLOF-P management capability has not followed its rapid growth and has engendered a number of issues witnessed in the past 12 months: Palawan Branch mis-management, difficult changing of the FM, high turnover...etc. High turnover in 2005 was due to both voluntary departures and firing of bad staff due to mis-management.

Additionally, several other HR challenges have to be addressed: development of new BM leadership and personnel management skills, staff coaching and retention, team building and motivation due to recent high turnover. Required tools for a proper HR management are in place: formalized procedures and policies, standard LO's selection, recruitment and training process completed by a new incentive policy. However, the implementation of these tools is too new to evaluate its effectiveness.

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Total number of staff	12	22	27	46
% Credit officers	50%	45%	44%	65%
Turnover	10%	6%	8%	44%

■ Information

Information and equipment is rated « c »

Description of the MIS

Equipment	<ul style="list-style-type: none"> ▪ 27 computers, Windows 2000 ▪ Internet connection available in HQ and all branches except for the Benguet branch
Accounting	<ul style="list-style-type: none"> ▪ DAC EASY software ▪ Centralized accounting, monthly reconciliation with bank statements and loan tracking system. ▪ Financial statements by branch and consolidated, including provisions and depreciation are generated annually by HQ.
Portfolio information	<ul style="list-style-type: none"> ▪ Loan tracking done on Excel spreadsheets. ▪ Data are recorded daily in branch level and sent monthly to HQ for consolidation and production of monthly reports.

Management Information System (MIS) and equipment

ECLOF-P has a basic, but functioning MIS that allows adequate loan tracking and update of financial information despite some structural weaknesses mostly related to the fact that its loan database is domiciled on Excel spreadsheets with limited functionality, flexibility, scalability, and security. Currently, the MIS is not effectively protected against data loss or manipulation risks:

- No password is required to enter the MIS. Modification of loans details for a loan is possible for any staff.
- No back-up of consolidated data on external drives or CDs, however there is back up of branch data at HQ and storage of valuable documents.

Both accounting system (DAC EASY) and loan tracking system (Excel spreadsheets) are easy to use and well mastered by the staff. However the two systems are not integrated which require tedious manual operations to transfer and consolidate data between the two systems (reconciliation of discrepancies are however facilitated). Being aware of these limitations, ECLOF-P is developing a new integrated MIS through a partnership with a local consultant. He will be in charge of the maintenance and the monitoring of the system after its implementation. There are inherent risks associated with self-developed systems, which, among the risks, the availability of long-term technical and programming support by the software developer. Currently there is no internal staff with IT technical or programming capability and MIS maintenance is outsourced. Having an internal IT resource is crucial to ECLOF-P's long-term development (i.e. reduce dependence on external IT expertise).

Information on activities

Despite MIS issues, portfolio information seems relatively timely, detailed and generally reliable since beginning of 2005. All necessary information for an appropriate portfolio follow up such as clients, loan details, PAR, written off loans and productivity per LO are available and discussed during the monthly management meetings. Well designed and detailed management reports are produced by each branch every month, even if they are not standardized and some contain repetitive data. These reports need however more qualitative analysis for a better understanding of the situation. Basic portfolio information is well disseminated both internally (e.g. in staff meetings) and externally (ECLOF-I reports, SEC reports...etc.).

Financial and accounting information

Financial and accounting data is generally accurate and timely. Accounting and financial processes are centralized at the HQ with monthly accounting data entry done at the branches. More frequent reconciliations and better MIS would enhance data quality. Despite having small and reasonably simple operations, ECLOF-P would benefit greatly if more in-depth financial and profitability analysis could be done to yield better understanding and quicker reactivity. More regular and systematic tracking of budgets by branches would enhance oversight. The new FM possesses good budgeting and accounting skills and experience, but she still grows in her roles and confidence. External auditors have always certified the accounts without reserves.

■ Risk

Risk Management is rated « d »

Procedures and internal controls

Basic procedures and internal controls are now in place. Historically, many procedures did not exist or are not formalized. Application, compliance and enforcement of these procedures have not been uniform or systematic throughout the institution. ECLOF-P has improved on this compliance front since the past year, but there is still more to be done.

- New comprehensive and formalized operating, financial and HR manuals have been adopted but their full implementation is still in progress.
- Basic audit procedures have been introduced but they have to be further elaborated and formalized.
- Segregation of duties can be enhanced at branches (e.g. loan data entry be done by non-LO staff).

Internal audit

This is a key weakness area for ECLOF-P as control functions have been mostly absent. While there is a heightened awareness and understanding of operational

risks, there is not yet a specific department/person to identify, monitor and control key risks. The Internal Audit (IA) function is being done on an ad hoc or “whenever-time-allow” basis by HQ managers and BMs. With 4 branches and 6 products, operational risks are large enough to require that the IA function be formalized and applied (e.g. an Annual Audit Plan approved by the BOT and someone specifically designated to internal audit functions even if not on a full-time basis).

Fraud cases have happened (most notably in the Palawan branch) mostly due to lack of formal controls. Significant fraud risk is present until a formal and systematic internal audit process is implemented. The Finance Department has taken some initiatives to implement some portfolio and client controls. These controls are only effective if they are frequent and systematic. A local external audit firm performs annual audits of ECLOF-P using prevailing accounting standards. ECLOF-I staff occasionally performs control visits of ECLOF-P.

■ Activities

Activities: products and services are rated « e »

USD, unless otherwise stated	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Loan portfolio	491,321	610,143	577,662	1,144,622
Loan portfolio (PHP)	26,089,131	33,905,661	32,505,031	63,052,634
Evolution	43.7%	30.0%	(4.1%)	94.0%
Average outstanding loan	416,662	539,813	590,107	867,350
Number of active borrowers	393	653	705	2,063
Evolution	195.5%	66.2%	8.0%	192.6%
Average outstanding loan per client	1,250	934	819	555
% of GDP per capita	121.4%	86.5%	70.0%	49.9%
Average amount disbursed	1,862	1,550	1,240	1,013
% of GDP per capita	180.8%	143.5%	106.0%	91.1%
PAR 31-365	9.3%	18.0%	10.3%	10.0%
PAR > 365	4.7%	5.5%	5.7%	6.4%
Write-off ratio	0.0%	0.8%	10.0%	5.8%

Marketing and competition

Market competition is intense in the areas where MFIs are highly concentrated, mostly in urban areas of Metro Manila, Central Luzon and Southern Tagalog. Outside these areas, competition is either mild or low with sufficient untapped market still unserved. A growing number of microfinance providers such as other NGOs, rural banks and cooperatives are entering other geographical areas already served by existing MFIs heightening market competition for all. Over-indebtedness is becoming a worrisome issue for MFIs in the urban areas as clients also have access to informal money lenders. BSP and the

National Credit Council are trying to create a credit bureau to service MFIs. In the mean time, MFIs try to differentiate themselves from other MFIs by offering additional products and services to clients including savings, microinsurance, agriculture loans and client training or livelihood skills development.

Strongest microfinance competitors are the 12 largest NGOs and rural/microfinance banks who have both scale and resources or connections to secure additional technical assistance and funding enabling them to develop new products/services and to strengthen their institutional capacity. True microfinance competition only exists among these 12 players. NGOs charge interests between 24-40% p.a. flat. Rural banks charge similar rates between 24-36% p.a. flat whereas cooperatives charge their members lower rates between 18-24% p.a. flat. All MFIs charge an upfront fees ranging from 1.5% to 5%. According to the TSPI/BWTP/MCPI study, the competition in the Philippines is not yet that cutthroat as interest rates have yet to drop significantly despite increased competition over the past few years.

ECLOF-P does not really compete head-to-head with the top-tier MFIs due to its small market presence and weak institutional capacity. It does not have clear and sustainable competitive advantages, exception made of church-related financing where its interest rates are significantly below market. Program marketing policies rely mostly on word-of-mouth, church referrals and distribution of brochures. Despite ECLOF-P’s weak institutional capacity, it managed to introduce a number of products (e.g. SME, agriculture) over the years. However these products came more through a “trial-and-error” process driven by client request/demand rather than a proactive or scientific market research and product development process. Its 5 non-church products are adapted to its target clientele, but the offering is limited compared to those available at leading MFIs. ECLOF-P interest rate of 2.5% flat per month and processing fee of 3% are within the industry ranges.

Credit methodology

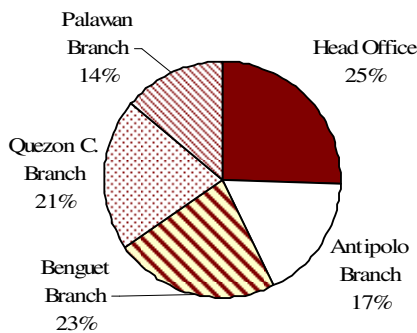
Basic lending procedures, tools and approval processes are in place and are now generally being applied and enforced. Many of the portfolio management procedures and policies described below are only recently done in a more systematic and consistent manner.

- Clients’ selection process is standardized, loan application forms are simple and basic loan assessment is made based on simple cash flow projections. At branches, loan approval process is efficiently managed.
- Its micro-solidarity product requires smaller groups of about 3 to 5 members. These smaller groups are considered to be more accountable and mostly easier to mobilize than 20 to 30 members encountered in similar

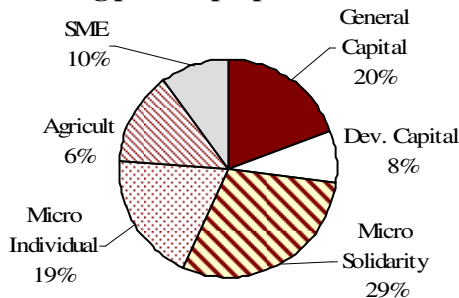
groups organized by other MFIs. More efforts and care are now given (compared to previously) to group formation and training to ensure group cohesiveness.

- LOs are now informed about client delinquency within 24 hours and perform relatively efficient follow-up and recovery measures. In addition, a recovery officer based in the HQ is in charge of following up on late repayment management by LOs. ECLOF-P has also becoming tougher with defaulted clients by initiating legal proceedings and foreclosure.
- Rescheduled loans are permitted, in particular for loans to church related organisations with approval of HQ. Loan written-offs are done for loans over two years past due.
- Implementation of relevant loans approval authorization levels and mandatory co-signatories for funds disbursement ensure a good control of cash outflows.
- Only university graduates are hired as LOs. They now receive more systematic training and field experience than before. Basic credit risk assessment skills are present, but LOs need both refresher training and additional skills to assess specific risks (e.g. agriculture and SME lending), especially when these products are introduced to new branches.
- The LO ranks are young and often new to ECLOF-P. New LOs seem committed and motivated. Their salaries are on par with the market and a relatively good bonus scheme is being set up to increase their motivation.

Outstanding portfolio per branch Dec. 2005



Outstanding portfolio per product Dec. 2005



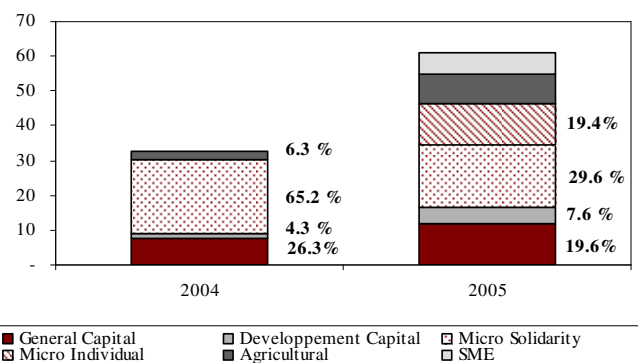
Church and church-related loan applications are assessed and approved exclusively in HQ by the BOT Projects

Committee (PC) as they are often of larger amounts. It is noted that conflict of interest exists as some PC members are church members who, on occasions, approve loans to their own churches and/or church-related projects. While their professionalism is not called into question, it is preferable to have clear rules and limits that follow best practices regarding conflict of interests while respecting ECLOF-P religious roots. It is expected that loans to churches and related organizations will continue to form a substantial part of the portfolio going forward given the continuing funding and influence of religious organizations within ECLOF-P.

Evolution of the portfolio

Overall portfolio has been growing reasonably fast since 2002 and almost doubled between 2004 (577.7K USD) and 2005 (1.1 M USD). After a 30% growth between 2002 and 2003, the loan portfolio experienced a decrease of 4.1% at the end of 2004 on the back of repayment difficulties at the Palawan Branch. Starting 2005, fast growth resumed with an increase of 87% mainly driven by the development of micro-individual and agriculture loans (their shares rose sharply from 0.6% and 6.3% in 2004 to 19.4% and 13.8% in 2005, respectively).

Outstanding portfolio by product



From 2005, the micro-solidarity loans tumbled to 29.6% of the total portfolio compared to 65.2% previously (although the dollar amount has dropped much less). This is partially caused by the popularity of the micro-individual loans cannibalizing existing micro-solidarity clients preferring the perceived freedom associated with individual loans. The big micro-solidarity portfolio share drop was also due to the growth of agriculture loans to rice farmers based on their good repayment track record. The introduction of the SME loan in 2005 further eroded micro-solidarity portfolio share. General and Development Capital loans (often made to church and church-related projects) retained their portfolio shares of about 28%, but it is expected that their share will diminish in percentage to 18% under the new limits proposed in the Draft Business Plan. Looking forward, it is expected that both agriculture and micro-individual loans will become core products in terms of clients and portfolio.

Quality of the portfolio

Although slightly improving, ECLOF-P's portfolio quality is very weak and underperformed its Filipino peers.

- PAR>31 (but under 365 days) dropped from 18% in 2003 to 10.3% in 2004 and stayed at 10% in 2005. This PAR level is very high compared with the industry average of 4.4%³. On the surface it does present itself as an improvement, but the picture becomes mixed when one takes into account PAR>365 (6.4% in 2005) and rescheduled loans (8.9% of gross portfolio in 2005 representing mostly General and Development Capital and micro-solidarity loans).
- The PAR>31 is especially high in micro-solidarity loans⁴; which is very unusual by solidarity lending standards. The reasons were that some groups were hastily formed with weak cohesion and solidarity among members compounded by high turnover of LO staff and their relative inexperience in managing group loans.
- As the agricultural loans are quite new, its portfolio quality analysis is difficult as many of these balloon payment loans are not yet due which will occur after harvests. SME loans are also new. Whether ECLOF-P LOs adequately analyzed the credit risks of these new loan products will only be known for certain until a few loan cycles have been completed.
- ECLOF-P made major write-offs (10% in 2004 and 5.8% in 2005). Total PAR has not budged between 2004 and 2005 (around 16%) despite significant write-offs in both years indicating lingering portfolio management problems. It is noted that ECLOF-P writes off defaulted loans only after 2 years (beside from rescheduled loans).

Portfolio diversification

ECLOF-P does not have formal portfolio diversification policies or targets. The current product range and network of branches bring some natural diversification. In the Draft Strategic Plan, there are certain proposed portfolio limits or targets, but they seem to come from informed guesses or prior field experience rather than from conducting risk and reward scenario analysis to develop prudential diversification targets and to adapt product pricing accordingly. Given the different risk profiles among various loan products (e.g. agriculture loans), it would be useful to conduct a real research and debate on this subject.

Credit risk coverage

USD	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Risk coverage ratio	15.1%	18.8%	24.4%	12.0%
PAR 31 net of loan loss provision / Equity	8.7%	16.0%	(22.6%)	(39.2%)

The current loan loss provisioning policy used by ECLOF-P resulted in very low risk coverage levels which never

³ 2004 Philippines Benchmarking Report from The Mix.

⁴ Despite its 30% portfolio share, micro-solidarity loans represent more than 90% of total portfolio PAR>31 (under 365 days).

exceeded 25% since 2002. This is wholly inadequate in light of portfolio quality problems experienced by ECLOF-P. Its 12% risk coverage ratio as of end 2005 is very low compared to the average of 86.2% among all Filipino MFIs according to the 2004 Philippines Benchmarking Report. ECLOF-P does use various types of collateral and compulsory savings of up to 2% of loan values depending on product types in order to mitigate some of the credit risks, but they do not compensate enough for low provisioning. Tougher recovery measures (including foreclosure) conducted in the past few months have contributed to higher collections and better repayment discipline.

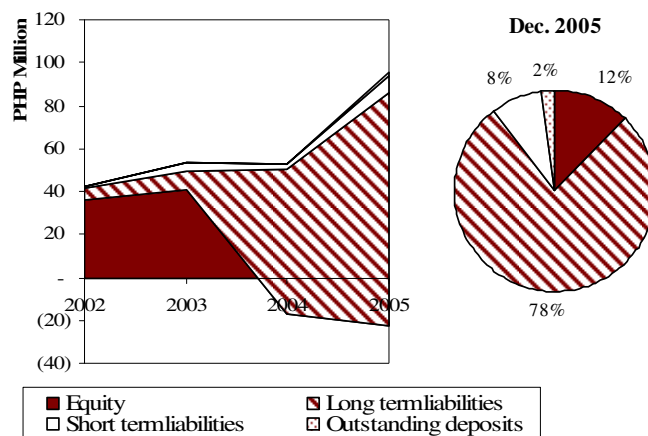
Saving Activities

As a non-regulated MFI, ECLOF-P is not allowed to collect public savings. In the year 2005, the institution started to collect compulsory savings (called CBU) for all its loan products (from 1% to 2% of loan amounts). As of December 31, CBU collected amounted to 1,998,074 PHP (36,328 USD) from 3,385 clients.

Financing and liquidity

Financing and liquidity is rated « c »

Funding Structure



ECLOF-P funds its activities essentially with debt. It is made up of both subsidized loans from ECLOF-I, ICCO, and local church and social-oriented sources (see Annexes for more details). The local loans are either fully secured by a guarantee (mainly from ECLOF-I) or by assignment of loan receivables. Loans from ECLOF-I was considered and accounted as equity capital in years before 2004. From 2004, these amounts were transferred on liabilities in accordance with the real nature of these funds. The remaining equity capital, built from donations, has been eroded over years by repeated operational losses which led to negative equity amounts from 2004.

Solvency risk is technically high given the current negative equity position. This situation is however mitigated by the fact that ECLOF-I debts have quasi-equity characteristics, when combined with ECLOF-I's propensity for support (e.g. it pays the OM and FM's salaries), solvency risk within the next 12-month period is considered low *as long as* ECLOF-P shows improvements.

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Liabilities/equity	0.1	0.31	(4.02)	(5.23)

ALM risks

- **Maturity risk:** as of December 2005, more than 70% of the loan portfolio was short-term (all client loans are less than 1 year, church loans are over 1 year) while close to 90% of funds is made up of long-term loans.
- **FX risk:** ECLOF-P borrows from ECLOF-I in foreign currency (85% of total debts). ECLOF-P assumes full FX risks on its interest payments, but not on principal given these debts' quasi-equity nature. Recently, FX risks have been somewhat mitigated as ECLOF-P started to borrow in PHP backed by offshore guarantees or deposits made by ECLOF-I.
- **Interest rate risk:** ECLOF-P does not borrow on a floating rate basis. Thus, there is no interest rate risk.

Financing strategy

ECLOF-P does not have a formal funding strategy even if its management has been making efforts to raise funds from various organizations. So far it has been successful only with local like-minded (religious or social) organizations with the backing of ECLOF-I. ECLOF-P is very dependent on ECLOF-I for funding (on soft terms) or funding guarantees. As long as ECLOF-I does not clear up its role in ECLOF-P (see "G" section for more details), it would be difficult for ECLOF-P to attract commercial lenders given its present negative equity position and weak operating performance. Commercial funding would imply clear strategic plan, governance structure changes, sensible financial projections and high reporting capability which are not currently in place. If ECLOF-P succeeds to capitalize ECLOF-I debts, its debt capacity would significantly increase by providing more comfort to potential lenders. The refinancing risk of ECLOF-I debts is technically present, but it is considered low for the same reasons given for solvency risk.

Liquidity management

ECLOF-P's liquidity management is simple and basic using short-term projections. As of February 2006, cash and near cash represented 8.68% of total assets⁵ and liquidity projections are normally made for 4 coming weeks. Given constant loan demand and predictable funding sources, ECLOF-P manages adequately its liquidity without having

⁵ 10.65% end of 2005, 5.97% end of 2004 and 8.67% end of 2003.

shortages or idle cash. ECLOF-P uses partner banks for all loan disbursements but repayments can be done directly at the branch cashier, bank teller or collected by LOs. The latter constitutes a significant cash handling risk in the absence of formalised internal controls and given the new management at many branches/offices.

▪ Efficiency and Profitability

Efficiency and Profitability is rated « d »

Profitability analysis	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
ROE	(11.1%)	(7.0%)	(40.8%)	(16.3%)
Liabilities / Equity	19.6%	31.8%	(402.7%)	(523.8%)
ROA	(9.9%)	(5.5%)	(9.0%)	(4.4%)
Profit generation				
Operational self-sufficiency	62.7%	74.9%	69.1%	82.2%
Portfolio Yield	24.5%	25.7%	29.1%	30.0%
Operating expense ratio	19.6%	20.0%	30.5%	27.2%
Staff productivity	33	30	26	45
Loan officer productivity	66	65	59	69
Average outstanding loan per client (USD)	1,250	934	819	555
Funding expense ratio	6.2%	6.7%	6.5%	6.9%
Cost of liabilities	44.4%	24.3%	5.7%	3.6%
Loan Loss Provision expense ratio	11.4%	3.2%	9.3%	4.1%
PAR 31-365	9.3%	18.0%	10.3%	10.0%
Write-off ratio	0.0%	0.8%	10.0%	5.4%
Asset management				
Outstanding Loan Portfolio / Assets	59.7%	60.6%	59.7%	64.7%
Non-portfolio income as a % of financial revenues	2.4%	0.8%	0.6%	0.9%

Overview of the profitability

ECLOF-P is still a loss-making institution as its lack of scale and bad portfolio quality overwhelmed the positive yield impact from many increases in loan interest rates. ROA dropped from -5.5% in 2003 to -9% in 2004 caused by a big increase in loan loss provision expenses rising from 3.2% in 2003 to 9.3% in 2004 (particularly due to portfolio problems at the Palawan Branch). From 2004 to 2005, ROA reversed its trend establishing at -4.4% thanks to lower loan loss provision expenses and better staff productivity. ROE followed the similar patterns.

Portfolio yield and effective interest rate

Portfolio yield has increased from 24.5% to 30%⁶ during the past 4-year period, due mainly to interest hikes, but also due to the higher portfolio share of business loans which have higher interest rates than church-related loans. This ratio would go quite higher if church-related loans were to be priced on market terms as they represent over 27.1% of the 2005 portfolio and tend to have longer repayment terms (implied lower asset turnover) than business loans. For instance, average APRs for business loans (60.8% on a

⁶ Compared to its Filipino peers' portfolio yield of 42.2%, ECLOF-P still has a low portfolio yield mostly due to low priced church-related loans.

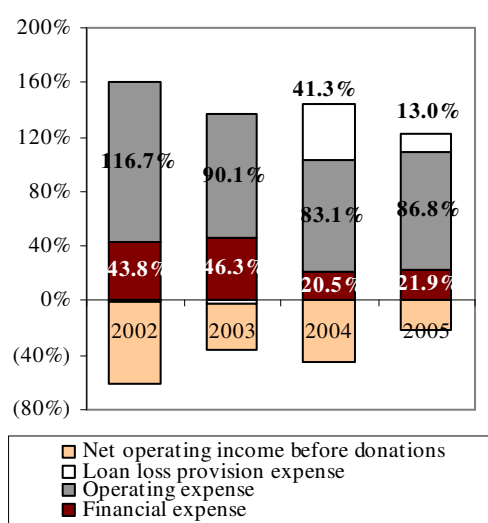
weekly repayment basis) is more than 2 times higher than APRs of the General and Development Capital loans (25.4% in a monthly repayment basis). In addition, average APR of agricultural loans is 33.7% (with a balloon repayment upon harvest) is quite low given the credit risk inherent with harvest financing. There is a significant yield gap between blended 2005 portfolio APR of 47.7% and actual portfolio yield of 30% which is fully explained by the poor quality of ECLOF-P portfolio. This yield gap can only be narrowed if ECLOF-P can effectively address portfolio quality problems of its micro-solidarity loans.

Operating expense ratio

After a continued growth before 2004, the operating expense ratio dropped from 30.5% in December 2004 to 27.2%⁷ in December 2005 thanks mainly to the portfolio growth. The ratio could fall further under the combined impact of a growing portfolio and better staff productivity.

- Staff productivity has slowly improved to 45 clients in 2005. LOs productivity followed the same trend to 69 clients per LO in 2005. These levels would however be higher as many solidarity loans are counted as one even if the money is used by many members in the groups. ECLOF-P can significantly improve productivity by having LOs work more on new loans rather than recovery and by reducing high LO turnover.
- The average outstanding loan per client has decreased from 1,250 USD in 2002 to 555 USD in 2005. This is due to the growth of new business products (much lower average loan disbursed than church-related loans) in the global portfolio (more than 70% in December 2005). Church-related loans represented more than 90% of the total portfolio in 2002 compared to only 27.1% in 2005.

Cost structure in % of financial income



Funding expense ratio

Funding expense ratio has been rather stable over the 4-year period around the 6-7% range. Interest expenses are essentially made up of interest payments to ECLOF-I (1/3 of collected financial income), but also those made to other local lenders. This relatively low ratio is largely due to the soft ECLOF-I loans forming the largest share of the funding mix of ECLOF-P. The institution is accessing some “commercial” financing from Oikocredit Philippines which proposed higher interest rate around 10%. This ratio is not expected to rise significantly due to the continued preponderant funding share of ECLOF-I and local churches and social oriented institutions.

Loan loss provisioning

Loan loss provisioning rates (see Annexes for details) adopted by ECLOF-P have been and continue to be too low to build sufficient loan loss reserves in light of portfolio quality problems and repeated write-offs. ECLOF-P is aware of this issue, but it is not clear whether the institution will make a significant policy change in the near future.

Asset management

Loan portfolio increased steadily as a percentage of the total assets. From 59.7% in 2002, the outstanding portfolio represented 64.7% of total assets in December 2005. This asset deployment ratio can still be much improved as many financial NGOs typically have this ratio over 80%.

Profitability outlook

ECLOF-P is clearly not yet a profitable and self-sustaining institution. If the portfolio growth continues in the coming years (especially the business-related loan products), ECLOF-P will be able to generate better economies of scale and narrow losses. In order to break-even, portfolio growth alone is not sufficient. It must be accompanied by a rigorous cost control program, a much better portfolio quality level, a tighter management of the branch network, a successful implementation of the new MIS and a more dynamic funding strategy. The outlook is positive if the new management team manages to carry out many reforms and initiatives mentioned above while keeping all its stakeholders on board. The challenges are plenty, but ECLOF-P looks motivated to make progress.

Adjusted performance

Details concerning the specific adjustments are included in the annexes
Adjustment for expense ratio has decreased over the period and reaches 14.7% in December 2005. Adjustments for inflation are computed for all over the period because of its high average rates in Philippines (e.g. 8.6% in 2004 and 6.4% in 2005). There are adjustments for provision in 2002, 2003 and 2005 because provisioning policy of ECLOF-P is less conservative than GIRAFE provisioning policy. Adjustments for in-kind donation are made for salaries of OM and FM paid by ECLOF-I. Also the cost of IT

⁷ Average of small Philippines MFIs is 15.7%.

consultant's free work was estimated and added on expenses to better reflect true expenses of ECLOF-P.

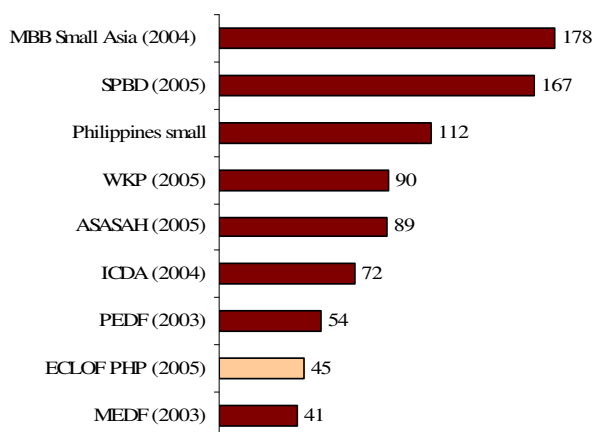
	Dec. 2003	Dec. 2004	Dec. 2005
Adjusted expenses ratio	19,2%	7,9%	14,7%
AROE	(22,1%)	(63,3%)	51,5%
AROA	(17,5%)	(13,9%)	(13,9%)
Financial Self-sufficiency	48,5%	59,0%	59,4%

Benchmarking

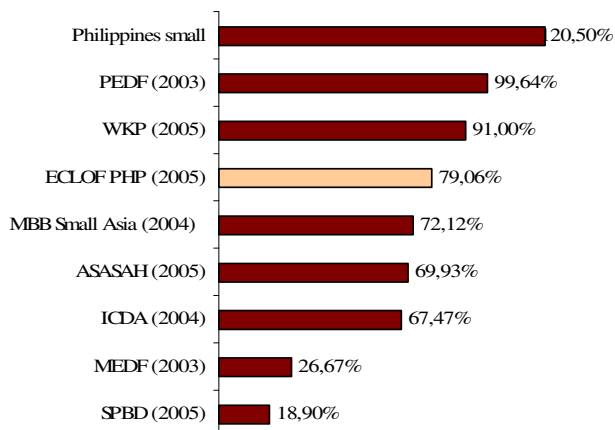
Classification based on MBB criteria

Area	East and South Asia
MBB peer group	AMK, Asasah, ASHI, Bandhan, CEVI, CREDIT MFI, DAMEN, ECLOF - PHL, FCBF, Grameen Koota, JVOFI, KK, Milamdec, Norfil, OMB, Orix Leasing, PALFSI, SED, SAFWCO, SPBD, Sungi, VFC
Maturity	Mature (> 8 years)
Scale of operations	Small (number of borrowers < 10,000)
Target population	Broad: average loan outstanding represents 49,9% of GDP per capita in December 2005

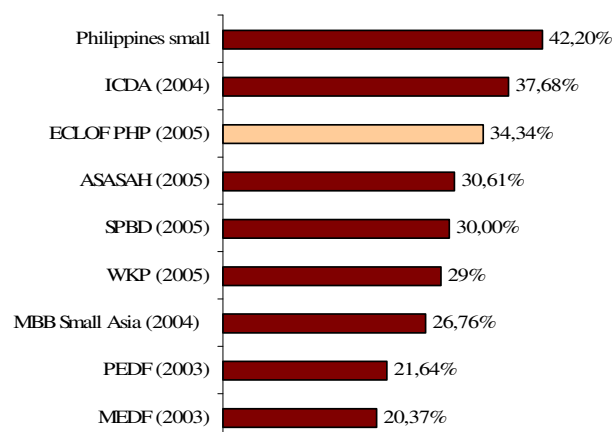
Staff Productivity



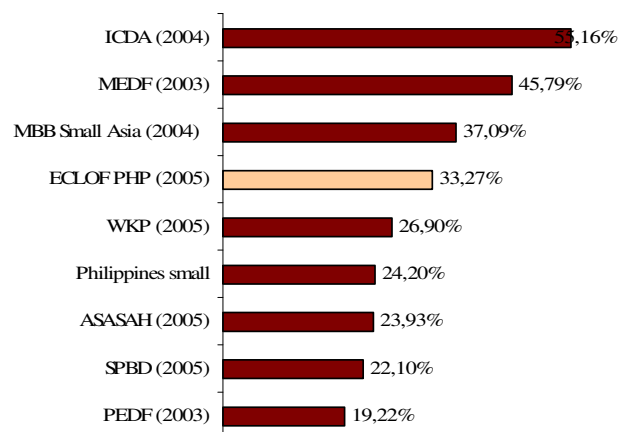
Operational Self-Sufficiency



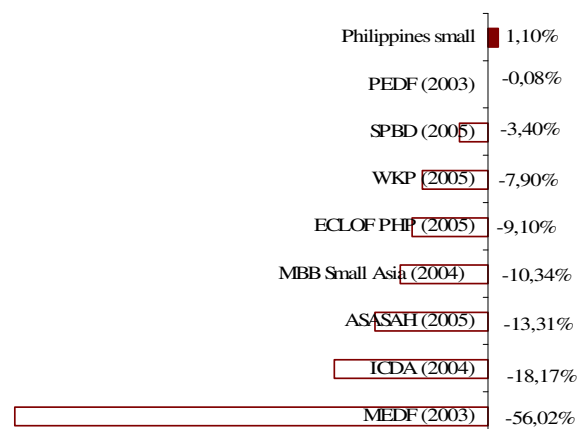
Portfolio Yield



Operating Expense ratio



ROA



Annexes

Acronyms

ALM	Asset/Liability Management
BOT	Board of Trustees
CEO	Chief Executive Officer
EIR	Effective interest rate
FY	Fiscal Year
HQ	Headquarters
HR	Human Resources
GNP	Gross National Product
GDP	Gross Domestic Product
IAS	International Accounting Standards
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IT	Information technology
LO	Loan officer
LTS	Loan Tracking System
MBB	MicroBanking Bulletin
MIS	Management Information System
MFI	Microfinance institution
NA	Not Applicable
NGO	Non Governmental Organization
PAR	Portfolio at risk
ROA	Return on assets
ROE	Return on equity
SME	Small and medium sized enterprise
USD	United States Dollar

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.
- 1 The Financial Statements presented include a balance sheet, income statement, and accompanying notes.
- 2 The financial statements provided include 4 years of data.
- 3 Segment Reporting for Multiservice Microfinance Institutions: if the MFI offers. Both financial and non-financial services, say whether the non-financial services are included in this statement.
- 4 Portfolio reporting
 - 4.1 Loan loss provision expense: expenses related to actual or anticipated loan losses are shown separately from other expenses in the income statement ("loan loss expense").
 - 4.2 The loan loss reserve is shown as a negative asset in the balance sheet. It is calculated each December by the finance manager according to the methodology described in the table.

Provisioning methodology

Provision	0% on healthy portfolio, 31 to 60 days 5%, 61 to 90 days is 10% 91 to 180 days 15% 181 to 365 days 20% and Over 365 days 25%
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Write-off Loans are written off after 2 to 3 years late

- 4.3 Loans are written off every December from the loan loss reserve and the loans outstanding.

- 4.4 The following table reconciles these movements:

K, in PHP	Dec. 2002	Dec. 2003	Dec. 2004	Sept. 2005
Loan loss reserve, January 1st	849.9	553.2	1,505.1	1,264.0
+ Loan loss provision expense	2,592.5	1,181.5	3,076.2	2,565.1
- Provision reversal	-	-	-	-
- Loans written off during the year	-	229.5	3,317.3	2,577.4
Loan loss reserve, year end	3,442.5	1,550.1	1,264.0	640.0

- 4.5 Accrual vs. Cash accounting: the MFI recognizes interest on a cash basis and therefore does not accrue interest.

5 Portfolio quality

5.1 Indicators: Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).

5.2 Renegotiation of loans: the MFI does refinance/reschedule loans. Such loans are not tracked separately in the loan software.

5.3 Insider loans: the MFI does allow employees to borrow funds. Loans to employees are formalized in a contract between the MFI and the employee that states the amount granted and repayment schedule. Loans repayments are automatically withdrawn from salary. Employee loans are non-interest bearing. This amount is not a material percent of the outstanding portfolio.

6 Donations

6.1 Revenue from donations is shown separately from income generated by operations in the income statement.

6.2 Current period donations:

6.3 Donations accounting methodology: Grants for operations to be used in the current operating period are recorded in the income statement. Grants for fixed assets were recorded directly in the balance sheet with amortization of such assets passing through the income statement. Grants for loan funds are recorded directly in the balance sheet. Please note that the financial statements disclosed in this report have been modified for presentation to better reflect donations.

6.4 In-kind donations: Please refer to the Appendix on Adjustments for details on in-kind donations that Planet Rating has identified.

6.5 Cumulative amount of all prior period donations: The amount is estimated at 1.7 M USD since inception.

7 Details of liabilities

7.1 Loans that account for more than 10% of total liabilities are listed in a table at the end of the report

7.2 Deposits: Please refer to the presentation of the institution for more details on the savings products offered by the MFI.

8 Other significant Accounting Policies

8.1 Accrual or deferral income/expense accounting: none.

8.2 Depreciation of fixed assets: The depreciation of fixed assets on a flat basis using the following schedule:

8.3 Inflation accounting: none

8.4 Currency mismatch: please refer to the F area for more information on potential mismatch.

Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: none.

Specific notes to the financial statements

Balance sheet

1. Interest receivable on loans are not accounted since 2003
2. The accounts receivable correspond to staff asset loans, program advances, due from Geneva and other prepayments (interests are included in 2004 and 2005)
3. Amounts of LT loans are estimation in percentage of total loans (30%)
4. ECLOF P started to require compulsory savings on its credits only on the year 2005. It represents from 1% to 2% of the loan amount.
5. Before the year 2004, ECLOF P accounted funds received from ECLOF I as equity. From the year 2004, these amounts are transferred and accounted as liabilities

Income statement

6. Other operating expenses correspond to project visitations and monitoring performed by ECOF P to certain clients
7. The non operating expenses correspond to interest capitalized to cover inflation

Adjustments	Data in KPHP			
	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Adjustment for the cost of funds = (a*b)-c	-	-	1,721.1	5,873.4
Average amount of borrowings (a)	2,860.4	7,218.9		90,175.2
Shadow price of borrowings (b)	8.9%	9.5%	10.2%	10.2%
Interest expense on borrowings (c)	1,270.2	1,755.3	2,170.6	3,279.3
Adjustment for inflation = (d-e)*f	747.8	1,440.9	891.5	(1,393.5)
Avg. Equity (d)	31,797	38,159	11,650	(19,914)
Average fixed assets (e)	467	111	180	818
Inflation rate (f)	1,885.4	1,211.4	1,283.0	1,858.6
	2.5%	3.9%	8.6%	6.4%
Adjustment for in-kind donations	386.0	-	-	386.0
Staff and technical assistance	-	-	-	386.0
Other	-	-	-	-
Adjustments for provisions	-	4,332.5	-	2,138.1
Loan losses	-	4,332.5	-	2,138.1
Other risks				
Other adjustments				
Total adjustments	1,133.8	5,773.5	2,612.6	7,004.1
Net income before donations	(3,531.4)	(2,665.9)	(4,756.9)	(3,254.1)
Adjusted net income before donations	(4,665.3)	(8,439.5)	(7,369.6)	(10,258.2)
Adjusted net income before donations (USD)	(87.8)	(151.8)	(130.9)	(186.2)

ECLOF PHILIPPINES		PHP				USD				Evolution		
Balance sheet	Notes	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	2003/2002	2004/2003	2005/2004
ASSETS		42 758 789	53 474 145	52 293 351	95 589 616	805 250	962 284	929 329	1 735 280	25,1%	(2,2%)	82,8%
Short Term Assets		27 698 865	28 717 034	28 335 389	64 547 909	521 636	516 772	503 561	1 171 766	3,7%	(1,3%)	127,8%
Cash and Due from Banks		7 490 305	4 709 773	3 125 114	10 182 578	141 060	84 754	55 538	184 849	(37,1%)	(33,6%)	225,8%
Short Term Investments		1 153 028	436 471	350 000	5 977 700	21 714	7 854	6 220	108 516	(62,1%)	(19,8%)	1 607,9%
Short Term Net Loan Portfolio		17 709 163	21 828 233	22 730 158	46 156 319	333 506	392 806	403 948	837 896	23,3%	4,1%	103,1%
Short Term Gross Loan Portfolio		18 262 392	23 333 390	23 994 242	47 357 560	343 925	419 892	426 413	859 702	27,8%	2,8%	97,4%
(Loan Loss Reserve)		553 229	1 505 157	1 264 084	1 201 241	10 419	27 086	22 465	21 807	172,1%	(16,0%)	(5,0%)
Interest Receivable	1	539 189	465 316	-	-	10 154	8 374	-	-	(13,7%)	(100,0%)	-
On loan portfolio		539 189	465 316	-	-	10 154	8 374	-	-	(13,7%)	(100,0%)	-
On investments		-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	2	807 180	1 277 241	2 130 117	2 231 312	15 201	22 984	37 855	40 506	58,2%	66,8%	4,8%
Long term assets		15 059 924	24 757 111	23 957 961	31 041 707	283 614	445 512	425 768	563 514	64,4%	(3,2%)	29,6%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio	3	7 826 739	10 572 271	8 510 789	15 695 074	147 396	190 251	151 249	284 919	35,1%	(19,5%)	84,4%
Net Fixed Assets		1 120 795	1 302 065	1 264 080	2 453 181	21 107	23 431	22 465	44 534	16,2%	(2,9%)	94,1%
Other Long Term Assets		6 112 390	12 882 775	14 183 092	12 893 452	115 111	231 830	252 054	234 060	110,8%	10,1%	(9,1%)
LIABILITIES AND EQUITY		42 758 789	53 474 145	52 293 351	95 589 616	805 250	962 284	929 329	1 735 280	25,1%	(2,2%)	82,8%
Liabilities		7 016 943	12 897 769	69 569 368	118 143 234	132 146	232 099	1 236 349	2 144 705	83,8%	439,4%	69,8%
Short term liabilities		1 298 726	4 178 027	1 754 011	9 858 111	24 458	75 185	31 171	178 959	221,7%	(58,0%)	462,0%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	4	-	-	-	1 998 075	-	-	-	36 272	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	-	-	4 250 000	-	-	-	77 152	-	-	-
Interest payable		(12 889)	1 593 122	-	-	(243)	28 669	-	-	460,3%	(100,0%)	-
Accounts Payable and Other Short		1 311 615	2 584 905	1 754 011	3 610 036	24 701	46 516	31 171	65 535	97,1%	(32,1%)	105,8%
Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Long term liabilities		5 718 217	8 719 742	67 815 357	108 285 123	107 688	156 915	1 205 178	1 965 747	52,5%	677,7%	59,7%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		5 718 217	8 719 742	67 815 357	108 285 123	107 688	156 915	1 205 178	1 965 747	52,5%	677,7%	59,7%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Equity		35 741 846	40 576 376	(17 276 017)	(22 553 618)	673 104	730 185	(307 020)	(409 426)	13,5%	(142,6%)	30,5%
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-
Donated equity	5	42 178 701	49 340 731	-	-	794 326	887 902	-	-	17,0%	(100,0%)	-
Retained earnings without donations and reserves		(6 436 855)	(8 764 355)	(17 276 017)	(22 553 618)	(121 221)	(157 717)	(307 020)	(409 426)	36,2%	97,1%	30,5%
Current year		(3 531 467)	(2 665 978)	(4 861 169)	(3 763 131)	(66 506)	(47 975)	(86 390)	(68 314)	(24,5%)	82,3%	(22,6%)
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-

ECLOF-PHILIPPINES Income Statement	Notes	PHP				USD				Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	2003/2002	2004/2003	2005/2004
Financial Revenue (a)		5 944 090	7 955 627	10 612 797	14 982 033	111 941	143 164	188 605	271 975	0	33,4%	41,2%
Financial Revenue from Loan Portfolio		5 419 156	7 707 779	9 649 840	14 357 236	102 056	138 704	171 492	260 633	42,2%	25,2%	48,8%
Interest on Loan Portfolio		3 609 532	5 137 353	6 452 335	9 772 353	67 976	92 448	114 667	177 402	42,3%	25,6%	51,5%
Fees and Commissions on Loan Portfolio		702 523	1 563 877	1 801 310	3 268 939	13 230	28 142	32 012	59 342	122,6%	15,2%	81,5%
Penalty Revenue on Loan Portfolio		1 107 101	1 006 549	1 396 195	1 315 945	20 849	18 113	24 812	23 889	(9,1%)	38,7%	(5,7%)
Financial Revenue from Investments		141 447	62 563	67 415	138 419	2 664	1 126	1 198	2 513	(55,8%)	7,8%	105,3%
Other Operating Revenue		383 487	185 285	895 542	486 377	7 222	3 334	15 915	8 829	(51,7%)	383,3%	(45,7%)
Financial Expense (b)		2 605 951	3 687 139	2 170 690	3 279 361	49 076	66 351	38 576	59 532	41,5%	(41,1%)	51,1%
Interest paid on borrowings		1 270 261	1 755 386	2 170 690	3 279 361	23 922	31 589	38 576	59 532	38,2%	23,7%	51,1%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		1 240 461	1 684 401	-	-	-	-	-	-	-	-	-
Other Financial Expenses	6	95 229	247 352	-	-	1 793	4 451	-	-	159,7%	(100%)	-
Financial income [c=a-b]		3 338 139	4 268 488	8 442 108	11 702 671	62 865	76 813	150 029	212 444	27,9%	97,8%	38,6%
Net Loan Loss provision expense (d)		(64 543)	(233 855)	4 380 248	1 953 373	(1 215)	(4 208)	77 843	35 460	3	(20)	(1)
Loan loss provision expense and write-off		-	-	4 380 248	1 953 373	-	-	77 843	35 460	-	-	(55,4%)
Recovery from Loans written off		64 543	233 855	-	-	1 215	4 208	-	-	262,3%	(100%)	-
Operating expense (e)		6 934 149	7 168 321	8 818 790	13 003 453	130 587	128 996	156 723	236 057	0	0	0
Personnel Expense (includes fringe)		2 227 524	3 070 678	4 391 169	7 522 332	41 950	55 258	78 037	136 556	37,9%	43,0%	71,3%
Administrative Expense (non-staff operating expenses)		4 706 625	4 097 643	4 427 621	5 481 120	88 637	73 738	78 685	99 501	(12,9%)	8,1%	23,8%
Depreciation and amortization		2 928 210	1 591 927	658 787	678 430	55 145	28 647	11 708	12 316	(45,6%)	(58,6%)	3,0%
Consulting fees		-	-	-	-	-	-	-	-	-	-	-
Notarial/legal fees/Doc/R&D/Net/Audit/Promotion		446 282	581 728	702 498	731 758	8 405	10 468	12 484	13 284	30,3%	20,8%	4,2%
Organisation/Taxes&Licences/Representation/Meetings/Consultation		22 956	53 671	250 413	80 441	432	966	4 450	1 460	133,8%	366,6%	(67,9%)
Office Rent/Supplies/Books/ etc.		158 097	200 604	222 604	317 146	2 977	3 610	3 956	5 757	26,9%	11,0%	42,5%
Postage/telephone/Transportation		510 906	862 004	1 200 457	1 987 274	9 622	15 512	21 334	36 076	68,7%	39,3%	65,5%
Repairs/Maintenance		243 710	346 215	701 489	706 896	4 590	6 230	12 466	12 833	42,1%	102,6%	0,8%
Governance		86 615	79 379	152 590	166 591	1 631	1 428	2 712	3 024	(8,4%)	92,2%	9,2%
Others		254 330	272 416	438 650	677 449	4 790	4 902	7 795	12 298	7,1%	61,0%	54,4%
Net Operating Income Before Taxes and Donations [f=c-d-e]		(3 531 467)	(2 665 978)	(4 756 930)	(3 254 154)	(66 506)	(47 975)	(84 538)	(59 074)	(24,5%)	78,4%	(31,6%)
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		(3 531 467)	(2 665 978)	(4 756 930)	(3 254 154)	(66 506)	(47 975)	(84 538)	(59 074)	(24,5%)	78,4%	(31,6%)
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	7	-	-	104 239	508 977	-	-	1 852	9 240	-	-	388,3%
Net Income Before Donations [k=h+i-j]		(3 531 467)	(2 665 978)	(4 861 169)	(3 763 131)	(66 506)	(47 975)	(86 390)	(68 314)	(24,5%)	82,3%	(22,6%)
Donations (l)		157 250	363 689	-	-	2 961	6 545	-	-	131,3%	(100%)	-
Net Income (after Taxes and Donations) [m=k+l]		(3 374 217)	(2 302 289)	(4 861 169)	(3 763 131)	(63 545)	(41 430)	(86 390)	(68 314)	(31,8%)	111,1%	(22,6%)

Loan Products Description

Name of the product	General Capital	Development Capital	Micro Solidarity	Micro Individual	Agricultural	SME
Creation Date	1972	1998	2001	2003	2002	2005
Client type (rural, urban, etc.)	Rural and urban	Rural and urban	Rural and urban	Rural and urban	Rural	Rural and urban
Authorized loan size	Up to 50,000 USD	Up to 50,000 USD	Up to 50,000 PHP/ member	Up to 150,000 PHP	Up to 150,000 PHP/ member	Up to 750,000 PHP
Average disbursed loan size	213,000 PHP	277,955 PHP	20,000 PHP	45,000 PHP	16,000 PHP	137,000 PHP
Authorized loan length (minimum and maximum)	Up to 5 years	Up to 5 years	Up to 6 month	Up to 1 year	Per cropping cycle	Up to 3 years
Average loan length (months)	36 months	36 months	4 months	5 months	6 months	12 months
Grace period	None	None	None	None	Balloon payment upon harvest	None
Collateral requirements and other conditions	Real Estate or Chattel mortgage/ and Post dated checks	Real Estate or Chattel mortgage/ and Post dated checks	Real Estate or Chattel mortgage/ Business Inventories and Post dated checks	Real Estate or Chattel mortgage/ Business Inventories and Post dated checks	Real Estate or Chattel mortgage/ Business Inventories and Post dated checks	Real Estate or Chattel mortgage/ Business Inventories and Post dated checks
Repayment Schedule	Quarterly/ Monthly	Quarterly/ Monthly	Weekly/ semi-monthly	Weekly/ semi-monthly	Balloon payment upon harvest	Weekly/ semi-monthly/ Monthly
Nominal annualized interest rate	12%	12%	30%	30%	30%	30%
Flat or declining?	Flat and declining	Flat and declining	Flat	Flat	Flat	Flat
APR	25.4% (monthly basis)	25.4% (monthly basis)	60.8% (weekly basis)	60.8% (weekly basis)	33.6% (6 months)	60.8% (weekly basis)
APR	22.3% (quarterly basis)	22.3% (quarterly basis)	59.7% (semi-monthly basis)	59.7% (semi-monthly basis)	33.7% (3 months)	59.7% (semi-monthly basis)
Fees and penalties	2% processing fee/ 2% CBU / 5% penalty per month	2% processing fee/ 2% CBU / 5% penalty per month	3% processing fee/ 1% CBU / 5% penalty per month / 5% per month rebates	3% processing fee/ 1% CBU / 5% penalty per month / 5% per month rebates	3% processing fee/ 1% CBU / 5% penalty per month / 5% per month rebates	3% processing fee/ 1% CBU / 5% penalty per month / 5% per month rebates
Major changes since creation	Requirement of CBU/ insurance and processing fee/ increase interest rate/ elimination of grace period	Requirement of CBU/ insurance and processing fee/ increase interest rate / elimination of grace period	Requirement of CBU/ insurance and processing fee/ increase interest rate	Requirement of CBU/ insurance and processing fee/ increase interest rate	Requirement of CBU/ insurance and processing fee/ increase interest rate	Requirement of CBU/ insurance and processing fee/ increase interest rate

Financing sources

Name	Amount	Loan term	Currency	Rates	Disbursement date	Repayment terms
Federation of People's Sustainable Development Cooperative (FPSDC)	1 666 666	3 years	PHP	12 % pa	31-mars-05	Quarterly
(FPSDC)	416 666	3 years	PHP	12 % pa	20-mai-05	Quarterly
(FPSDC)	2 625 000	3 years	PHP	12 % pa	21-mai-05	Quarterly
(FPSDC)	750 000	3 years	PHP	12 % pa	27-oct-05	Quarterly
Episcopal Church in the Philippines (ECP)	5 000 000	5 years	PHP	12 % pa	11-juil-05	Principal due upon maturity, , interest payable Quarterly
Episcopal Church in the Philippines Pension Fund (ECPFF)	5 000 000	5 years	PHP	12 % pa	11-juil-05	Principal due upon maturity, , interest payable Quarterly
Foundation for a Sustainable Society, Inc. (FSSI)	1 500 000	3 years	PHP	8.6% pa	03-nov-05	Quarterly
(FSSI)	2 000 000	3 years	PHP	8.6% pa	09-nov-05	Quarterly
(FSSI)	1 500 000	3 years	PHP	8.6% pa	09-déc-05	Quarterly
National Council of Churches in the Philippines (NCCP)	1 000 000	3 years	PHP	9% pa	25-nov-05	Principal due upon maturity, , interest payable semi annual
Iglesia Evangelica Metodista En Las Islas Filipinas (IEMELIF)	1 000 000	3 years	PHP	9% pa	13-juil-05	Principal due upon maturity, , interest payable semi annual
Total	22 458 332					

Organizational chart

