

GIRAFE

Rating

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

Good

Sophisticated and efficient procedures developed with an awareness of long term growth goals. Some improvements can be made. Risks for the medium term are identified in the strategic plan.

Trend

Positive
Stable
Uncertain
Negative

Stable

Downward pressure on interest rates combined with the costs of expansion make an increase in profitability unlikely in the short term.

Performance indicators

(K USD, unless otherwise indicated)

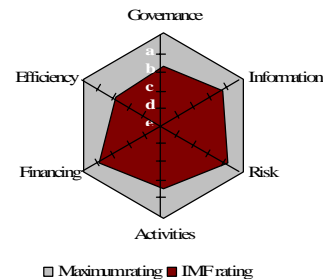
	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
ACTIVITY				
Total number of staff	19	29	46	67
Total assets	965.9	1,395.3	3,572.9	5,104.9
Loan portfolio	821.2	1,088.7	2,434.5	3,623.1
Active borrowers	1,380	2,748	5,691	9,324
APR ⁽¹⁾	NA	NA	NA	NA
PAR 31-365	6.5%	5.6%	3.4%	3.7%
PAR > 365	0.0%	0.0%	0.0%	0.0%
Reprogrammed portfolio	0.3%	0.8%	0.2%	0.3%
Write-off ratio	2.0%	2.3%	1.6%	0.0%
Risk coverage ratio	113.6%	123.3%	128.2%	131.7%
			%	%
PERFORMANCE				
ROE	9.1%	4.3%	13.4%	20.8%
Liabilities/ Equity	0.71x	1.02x	3.01x	3.30x
ROA	5.2%	2.3%	4.3%	5.0%
Operational self sufficiency	121.1%	112.2%	124%	113%
Financial self sufficiency	121.1%	112.2%	122%	113%
Portfolio yield	50.9%	58.4%	58.2%	59.4%
Operating expense ratio	29.9%	39.6%	35.8%	35.3%
Staff productivity	86	95	124	139
Funding expense ratio	6.0%	6.2%	9.4%	14.2%
GROWTH				
Loan portfolio growth	16.2%	30.4%	105%	47.2%
Assets growth	8.0%	42.1%	135%	41.1%

(1) The APR varies depending on the product: 41% for *Créditos Pecuarios*, 48% for *PYMES*, 60.6% for *Crédito Diario* and 41% for *Crédito al Consumo* with monthly payments and 78% for the same product with weekly payments.

EDPYME Alternativa, Perú

July, 2006

TRANSLATED FROM THE ORIGINAL SPANISH VERSION



Description of the institution

EDPYME Alternativa (EA) was created in March 2000 by the Lambayeque Chamber of Commerce and Production (*Cámara de Comercio y Producción de Lambayeque CCPL*) as a for-profit institution. It obtained the authorization of the SBS to operate as a Small and Micro Enterprise Development Company (EDPYME) in September 2001 and is regulated by the *Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica (LGSFSS)*. In June 2006, EA had a loan portfolio of 3.6 M USD, and served a total of 9,324 active borrowers in the city of Chiclayo and the semi-urban areas of the departments of Lambayeque and La Libertad. It operates from one central office and two branches. EA offers nine credit products all utilizing the individual credit model.

Rating summary

EA has been assigned a global rating of “B”. Despite a very competitive environment, EA has undergone remarkable growth in the last fiscal year, controlling their levels of operational and financial risk. The increase in competition in their market demands more finely tuned planning processes that should establish a clearer strategy for sustainability in the medium term. The considerable growth in the volume of portfolio has absorbed the growth of financial costs caused by the diversification of their liabilities through new access to commercial lines of credit. However, the high costs of implementation of the “daily credit” product (*crédito diario*) and the delays in generation of information caused by an MIS that cannot keep pace with the growth of the loan portfolio, contribute to an overall high operating cost structure that could make it difficult for EA to respond to downward pressure on interest rates without sacrificing profitability.

This rating has been assigned with a trend of “Stable.” The strong competitive pressure to lower interest rates, combined with the investments required by geographic expansion, make large increases in profitability unlikely in the short term.

Financing needs

EA expects its funding needs to be 1.5 M USD for the rest of 2006. Planet Rating estimates that EA has the necessary capacity, sufficient controls and the appropriate range of products to absorb this amount without increasing risk in the short and medium term.

■ Microfinance sector

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

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

- Small and Micro Enterprise Development Companies (EDPYMEs) were created in the mid-1990s through SBS decree No. 897-94, to encourage the formalization of microfinance NGOs or commercial companies through various incentives (no VAT, the authorization to mobilize deposits if some conditions are met).
- Municipal Savings and Loans Banks (CMACs) were created with the support of the German Cooperation at the beginning of the 1980s. They belong to local municipal authorities and are designed in principle to respond to credit and savings needs outside Lima.
- Rural Savings and Loan Banks (CRACs) were created at the beginning of the 1990s after the closure of the Banco Agrario, and are managed by local entrepreneurs and specialize in financial services for the agricultural sector.

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

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

Figures as of Dec. 2004 according to COPEME and SBS

(1) "Micro-enterprise" portfolio according to SBS

(2) NGOs reporting to COPEME

The microfinance sector has benefited from the availability of funding, notably from international donors and from the Development Finance Corporation (COFIDE), a second-tier local financial institution that finances local MFIs. It has also benefited from the development of sector-wide tools such as credit bureaus and professional networks.

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

■ Political/economic environment

Following the strong economic expansion of 2005, Peru's economic growth is expected to remain steady, sustained by the stability of both exports and domestic demand.

Government authorities continue to implement a cautious fiscal policy backed by the International Monetary Fund. However, national debt (40% of GDP) held principally in USD has been a source of vulnerability. Given the continued consolidation of its external accounts the country has not had difficulty in finding financing especially in the form of direct foreign investment. Indicators of external debt have continued to improve because of the early payment made to the creditors of the Paris Club in 2005.

The high level of international reserves significantly reduces the risk of a liquidity crisis. The country remains exposed to a reversal in confidence in the international markets and a fall in the world prices of raw materials. Additionally, despite considerable improvements, the banking system remains vulnerable because of the continued importance of deposits and loans in dollars.

The Peruvian political situation is marked by the rise of populist movements that oppose the improvements in economic and financial conditions because they have not resulted in a subsequent reduction in poverty. Even so, Peru's economic policy is not expected to undergo fundamental changes after the June 2006 election of ex-president Alan García (center-left).

Strengths:

- Perú has large mineral reserves (gold, copper, zinc), which has allowed it take advantage of high raw material prices.

¹ Average portfolio yield is 45.8% as of November 2002, according to "Estructura de Mercado y Competencia en el microcrédito", Felipe Portocarrero and Guillermo Byrne, in *Economía y Sociedad* no.52, CIES, 2004.

- The country also possesses abundant energy resources, hydro and agricultural; as well as an impressive cultural heritage.
- Fiscal and monetary policies are conservative.
- Ratios of external debt have improved due to GDP and export growth.
- International monetary reserves have grown considerably (now valued at close to 10 months of imports).

Weaknesses:

- The country is vulnerable to external shocks such as decreases in the prices of raw materials or climate changes.
- The economy is still marked by the contrast between a relatively modern sector on the coast and a subsistence sector in the interior of the country (mountains and jungle).
- Even though debt indicators have fallen, they continue to be high.
- Even as the banking sector has begun to grow rapidly, extensive dependence on the dollar is a threat to stability.
- The large space between the pragmatism of government policy and the expectations of a population largely excluded from benefits of economic growth poses an important risk.

COFACE Country Rating **B**: the political climate and economic uncertainty could affect the historically mediocre payment records of the country.

(USD Billions)	2003	2004	2005e	2006p
Economic growth (%)	3.8	4.8	6.7	5
Inflation (%)	2.5	3.5	1.5	3
Balance of the Public Sector (%GDP)	-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
Trade balance	0.8	2.8	5.2	5.6
Checking account Balance (%GDP)	-0.9	0	1	0.7
External Debt (%GDP)	-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 figures from 2005 and 2006 are estimations and projections respectively.

Authorization of Use: The information presented in this section originates from COFACE Ratings, which has given its authorization. COFACE is one of the investors in Planet Rating.

▪ Institutional presentation

Networks

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

Ownership

Through its holding of 99% of EA's capital, the CCPL exercises absolute control over EA and presides at the General Investors' Meeting (GIM). The remaining 1% of the capital is controlled by two independent investors: Otto Zoeguer Navarro and Franco Carpio Guerrero, who control

0.5% of the capital each, the latter is also a member of the CCPL. The GIM is the governing body that makes decisions regarding the ownership and structure of the capital, chooses the members of the board of directors and approves its decisions. In 2006 an agreement was made to increase capital by 40% in order to diversify ownership and include new investors (see "G"). In keeping with the LGSFSS and the *Ley General de Sociedades* (LGS) the GIM should meet at least once a year to approve the financial statements.

Members of Board of Directors	Function	Present job	Date of selection	Represents
Otto Zoeguer Navarro	President	Entrepreneur	30/03/2004	Otto Zoeguer
Daniel Hurtado de Mendoza Chau	Vice-president	Head of CESEM ²	30/03/2004	Independent
Franco Carpio Guerrero	Director	Entrepreneur	30/03/2004	CCL
Hugo Barandiarán Ferrer	Director	Entrepreneur	30/03/2004	CCL
Wilfredo Baca Reaño	Director	Lawyer	30/03/2004	Independent

The Board of Directors supervises the activities of EA, approves the implementation of policies and procedures, hires the General Manager and approves the Strategic Plan. In accordance with the LGSFSS, the minimum number of members is five and they meet at least once a month. Its members are chosen by the GIM (two representatives from the CCPL and three independent members, among them an individual investor –the President), for terms of two years. The Board of Directors also contains two committees: auditing and risk.

The CCPL is a Civil Association without political affiliation or agenda whose members work in all sectors of commerce (e.g. tourism, agricultural and service) and whose objective is to promote the competitive integration of business in the department of Lambayeque. Its principal sources of incomes are (in order of importance) the membership fees of its members, revenue from EA (dividends and interest³) and payments for services it offers.

Management team

The management team is composed of the General Manager (GM) and three other managers: the Credit Manager, and the Administration and Finance Manager and the Risks Manager. EA also contains three other areas: internal auditing, systems, and legal advising. The management team has extensive experience in microfinance: the GM has previously worked on a different CCPL microfinance project in cooperation with the Inter-

² Centro de Servicios Empresariales.

³ The CCPL has given a loan to EA for 550 K PEN (170,000 USD) with an interest rate of 12% annually and an undetermined loan period.

American Development Bank, the Administration and Finance Manager has experience in COFIDE and the Manager of Credit has experience in various savings institutions and MFIs as well as training and specialized consultancy experience with Germany's Technical Cooperation - GTZ.

Subsidies

EA, like S.A., has not received any donations of any type.

Legal form, supervision, and audit

EA was created in March 2000 as corporation and authorized to operate as a Small and Micro Enterprise Development Company (EDPYME) in 2001. It is governed by the norms of the LGSFSS and supervised by the *Superintendencia de Banca y Seguros* (SBS). The LGSFSS regulates the entire Peruvian system of financial intermediation: with the exception of the low minimum levels of capital required for the EDPYMEs and the disabled functions to realize (200,000 USD, opposite to 4.5M USD for the banks and 1.2M USD for the CMACs), all other provisions apply equally to all financial institutions, regardless of type.

Law N° 26702 created a system which allows MFIs to offer certain new services if they show higher levels of capitalization, and an external credit rating of A or B, as well as obtaining a favorable evaluation from an authorized inspector. This is of special interest to the EDPYMEs that want to mobilize deposits, although none of the 14 have yet received authorization to open savings accounts.

EA is audited annually by the Lima firm of Muñoz & Associates. They perform a financial audit, an audit of the loan portfolio and an internal control audit that cover the entire year. Muñoz & Associates has extensive experience in the microfinance sector, having audited various CMACs, NGOs and EDPYMEs in Lambayeque itself and across the rest of the country.

Organization

See organizational chart in annexes

EA offers its services from three agencies: one in its headquarters and two other branches, one in the city of Chiclayo and the other in the town of Chepén⁴ (one hour from Chiclayo). The offices of the main leadership (General Manager, Managers of Administration and Finances, Credit, Risks, Systems, and Internal Audit) are in the headquarters. All operations (credit information, issuing of loans, and payments) take place in the branches. Branch administrators can approve loans up to 3,000 PEN (923

USD). Larger amounts must be approved by management in headquarters.

All loans are disbursed in cash in the branches by employees. Payments are made directly at EA's branches or through the bank accounts of EA with subsequent verification by EA. In the case of *crédito diario*, payments are made directly to the EA payment collector.

Market penetration

EA operates in the departments of Lambayeque and La Libertad from the cities of Chiclayo and Chepén. Over the last year EA has expanded its geographical coverage and hopes to begin operations in the department of Cajamarca by year's end.

Geographic coverage of EA



Products and services

Detailed product descriptions in annexes

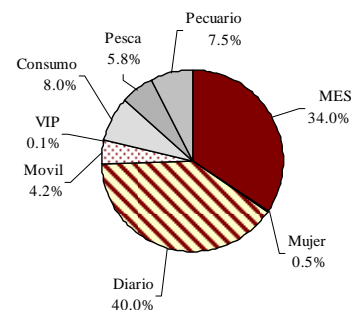
The activity of EA centers on issuance of credit. It offers three principal products (daily credits, monthly credits, and credit for consumption), that also include various sub-products:

■ Créditos diarios

(daily credits) (includes the sub-products "Daily" and "Mobil"; the latter intended for the transportation sector): characterized by payments made to an EA payment collector in the client's place of work. Amounts vary between 200 PEN (60 USD) and 8,000 PEN (2,480 USD), with an average loan period of two months. Most payments are made daily; however some clients pay weekly, bi-weekly or monthly. The APR is 60.6%.

■ **Crédito Mes** (monthly credits) (sub-products: *Crédito PYME*, *Crédito Mujer* (Credit for Women), *Crédito Pesca* (Credit for Fisherman) y *Crédito Pecuario* (Credit for Livestock)): intended to finance small and micro businesses in operation for at least six months. Amounts vary from 200 (PEN) to 55,500 PEN (17,000 USD), with an average loan period of 12 months. Payments are made weekly, bi-weekly, or monthly in some cases, with a

Outstanding portfolio per product
Jun. 05



⁴ This agency covers all the localities of Chepén, Guadalupe y Pueblo Nuevo.

grace period of one or two months. The average APR is 48.6%.

- **Crédito al Consumo** (*Credit for Consumption*) (sub-products: Paycheck discounting and VIP overdrafts, the latter for members of CCPL only): finances public and private employees, individually or through an agreement with their employer. Amounts vary between 200 PEN (60 USD) and 55,000 PEN (17,000 USD), with average loan periods of one month for *VIP Overdrafts* and one year for the others. Payments are made monthly. Property must be pledged as a guarantee for individual loans of more than 8,000 PEN (2,500 USD), with a co-signer. For other loans the guarantee is negotiated with the company discounting the client's monthly salary. The APR varies between 41% for monthly payments and 78.2% for weekly payments.

■ Governance

Governance and Decision Making is rated "b"

Decision making

Decision making at EA is democratic and balanced even though 99% of the capital continues to be concentrated in one investor for whom EA represents an important source of income and whose financial solvency is delicate⁵. The CCPL is officially enabled to make decisions at EA in its own interest, but a tacit agreement exists to maintain balance within the governance of the institution. Although the CCPL owns almost all of EA's capital it only holds two of the five seats on the Board of Directors. The Board of Directors, under the leadership of a President committed to responsible governance, has achieved the following safeguards to CCPL dominance:

- The CCPL understands the necessity of independent decision making power to achieve EA's objectives of impact and profitability, both of which are in line with the objectives of the CCPL itself.
- EA has capitalized 100% of the profit until 2005 and plans to capitalize 75% from 2006 on, allowing EA to increase its equity.
- Since March of 2006, the GIM has agreed to increase and diversify the composition of the investors which will allow EA to reduce the current risks associated with the extreme concentration of capital.
- The Board of Directors has, importantly, been able to defeat CCPL proposals that are not in line with the interests of EA⁶.

⁵ The CCPL's investments allow them to cover their costs, allowing operational self-sufficiency, but they have a debt with late payments to the IBD for 500K USD. CCPL does not have the necessary available funds to immediately pay off this debt.

⁶ At the beginning of 2006, the CCPL asked for the early termination of part of the loan that they had issued to EA, and also for an increase in the present interest rate (12% annually).

The Board of Directors is strongly supported in the making of strategic decisions by the management team. The Board of Directors has a strong commitment to the institution, reflected in frequent and participatory meetings, and the continuing interest in the quality of EA. However, the lack of specialized knowledge about microfinance has resulted in a strong dependence on the management team for support. The extensive information shared with the Board of Directors, allows for their high degree of participation in the organization.

Strategic planning

The strategic planning process presents some weaknesses because the growth and geographic expansion of EA demand a more certain view of its future position in the market than EA currently possesses. The current development model has allowed EA to reach high levels of growth and profitability while controlling its main risks and maintaining a high quality loan portfolio. Despite its success to date, the model could present limitations in the medium and long term:

- The potential for expansion of EA's main product and for an increase in profitability is limited. EA's success has led to extensive imitation by its competitors resulting in market saturation in EA's current areas of operation. In addition, EA's cost structure limits its ability to take advantage of economies of scale (the loan officers of this product have reached their productivity limits—see "E"—which indicates a future deterioration in this portfolio).
- EA is losing its market niche of lending to micro businesses because of the increased competition for these clients: more than half of the clients also have a loan with another institution, indicating a saturation of the urban market in Lambayeque.
- The main comparative advantage of EA (better and faster customer service) is not exclusive (it can be easily imitated by the competition), and is difficult to sustain while expanding.
- Because of the increase in competition, interest rates are becoming more and more the central element on which potential clients base their decisions on where to borrow, and the interest rates the EA offers remain above average.

EA recognizes the limitations of their model and has begun to develop and implement a strategy to diversify both its range of products and the areas in which it operates. The lack of detail in the current strategic plan does not allow conjecture about the potential successes of these initiatives. Although the proposed principles are not well shaped in EA's strategic plan (which will make measurement and monitoring difficult) EA is aware of the following:

- Access to rural areas is more costly. EA hopes to reduce some of these increased costs through the shared use of the bank windows at Banco de la Nación.

- Loans for agriculture and livestock are more risky and the clientele cannot pay high interest rates.
- Costs of infrastructure and the development of new credit technology will increase during the process of geographic and loan portfolio diversification.

The process of writing the Strategic Plan and its projections has been outsourced to a consultancy, which is financed by the management, making it an unreliable performance management tool. However, this is compensated by the production of a complete annual budget that includes detailed procedures that allows for better monitoring of expenditures in the short term.

Management team

EA has taken the positive initiative of promoting its area leaders to the management team, which has allowed for a higher level of dedication to strategic reflection. However, the promotion of the area bosses is not fully completed: operational tasks have still not been delegated to other employees and consequently the managers still spend an important percentage of their time on operational tasks. The empowerment of the managers will come from the strengthening of competition in the areas of planning.

The high degree of commitment and stability in the management team has been without a doubt an extremely positive factor in the expansion of EA. The high level of knowledge that all the managers have of the institution and the impressive transparency fostered by its reduced size and frequent meetings, has allowed EA to reduce “key-person” risk. The strong institutional culture based on hard work and dedication to the client has been transmitted in a commendable manner by the management team to the rest of the institution.

José Gonzales Tapia, General Manager since September 2001 has more than 10 years of experience in microfinance. He started first as loan officer and later became Executive Coordinator of the Convenio BID-CCPL between 1995 and 2001. When EA was created in 2001 he became its General Manager. He holds a degree in Business Administration and is currently finishing a law degree.

Management of human resources

The effective management of human resources at EA is a key factor EA’s performance. The importance of human resources for EA is evident in its decision to create a separate human resources department in the second half of 2006 and relieve the administration and finance department of these duties.

Human resource policies are clear and allow EA to hire and keep capable, trained employees. Recruitment and evaluation processes are complete and formalized, training

depends on the needs of every employee, and promotions are made in a fully transparent manner. However, EA still has not implemented procedures to evaluate current employees. A competitive salary scale and complete package of social benefits make EA a competitive institution in the regional microfinance labor market. Because of this, the employees are motivated and turnover is low, even in light of the high number of jobs available in Chiclayo’s microfinance sector.

	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
N° of employees	16	29	46	67
% Loan Officers	38%	72%	50%	45%
Employee turnover rate	19%	18%	11%	0%

The incentive system is attractive to the field employees, but it is not completely effective as a planning tool. The lack of incorporation of indicators that reflects the institutions strategic vision, such as the number of clients, decouples operations from strategy.

Information

Information and systems is rated “b”

Description of MIS

Equipment	<ul style="list-style-type: none"> ▪ 60 PC’s operating with Windows XP or 98 and Office 2000. ▪ 4 servers: for email and web pages, databases, VPN and Cautivo. ▪ Modern machines with access to the internet ▪ All branches are connected with headquarters is real time.
Accounting	<ul style="list-style-type: none"> ▪ Integrated system “Cautivo”, a program designed by a Peruvian provider based on VisualBasic with an Oracle database. ▪ Accounting centralized in headquarters. ▪ Monthly banking reconciliation through receipt of account statements. ▪ Monthly financial statements, consolidated and by agency.
Information on Activities	<ul style="list-style-type: none"> ▪ Integrated system “Cautivo.” ▪ Daily information gathering through the receipt of deposit receipts from the payment collectors or faxed copies of bank deposit slips from the clients. ▪ Consolidated monthly reports.

Management information system (MIS) and equipment

EA’s hardware is modern and configured for internet access. The integration of the systems for accounting and loan portfolio management facilitates the consolidation process and allows for the immediate availability of information from all branches. The MIS system Cautivo is an easy to use and is currently sufficient for EA’s volume of operations. However, its usefulness as EA continues to grow is limited: the high number of operations registered daily requires personnel exclusively dedicated to the entry of data, the relative low quality of the servers results in delays during peak hours, reduced capacity to produce consolidated reports will require the addition of annex programs. Moreover, the system makes it difficult to

change product characteristics: one must create both sublines within a product and different condition for the outstanding loans, which creates delays in the process of consolidation.

Security measures are sufficient although they still present certain risk to information security. The system has the parameters necessary for the entering the information and different levels of access determined by user profile with frequent password changes, however the branches do not have antivirus programs and monthly CD backups are stored only at headquarters.

Because EA does not have the Cautivo source code, it is dependent on the provider for system improvements and modifications. EA has attempted to decrease this dependence by strengthening their MIS team, which has written annex programs to produce consolidated reports by products and agency that are not provided by Cautivo itself.

Portfolio information

The portfolio information is trustworthy, up to date, and widely distributed among all employees. Reports on operations procedures are completed and available daily, allowing for rapid reaction by the credit officer to delays in payment. The inability of the system to produce consolidated reports by product delays the availability of management reports. The creation of numerous sub-products has not been accompanied by a clear standardization of the reports, which has created confusion over aggregate amounts and makes management analysis difficult.

Financial and accounting information

The integration of the accounting and portfolio information systems guarantees high quality information without delay. Financial reports, both consolidated and by branch, are available monthly, allowing for a fast evaluation of overall performance and branches a cost units. Financial analysis is done monthly and covers the principal financial ratios. An individual analysis for each product is not done, although this is increasingly necessary as the range of products offered by EA continues to grow.

The financial statements have been audited for three consecutive years by the firm Muñoz & Associates in compliance with the LGSFSS, resulting in high confidence in the quality and veracity of these reports.

■ Risks

Risk management is rated “a”

Procedures

EA has created a culture of risk control by forming a risk management committee on the Board of Directors. EA relies on internal procedures and controls outlined in clearly written manuals that allow them to reduce the principle operation risks and possibilities of fraud. The present system is adequate for the size of the operation, but due to the rapid growth rate of the organization, adaptations will need to be made in the long run in order to preserve its effectiveness.

This control system forms an adequate separation of tasks in the credit process, daily review of balances in both the headquarters and in the branches allows for immediate identification of irregularities and rapid follow-up on defaulting clients in order to identify possible cases of fraud by managerial personnel (mainly managers, supervisors, and internal auditors). EA’s comparatively small size of operations allows them to prioritize customer service. They only have to make a few concessions that do not currently affect the integrity of the chain of controls. These concessions, however, may pose operational risks if the organization grows:

- Although authorized by the manual, the clients’ option to pay the EA bill in other financial institutions can occasionally cause confusion because the client may delay payment or forget to pay.
- The acceptance of some off-schedule payments highlights the credit or recuperations officer’s poor handling of the clients.
- The high rate at which *crédito diario*⁷ is approved and disbursed makes EA vulnerable to the omission of some clients’ financial information, that, when analyzed closely, would show that those clients lack the ability to pay off their loan.

EA’s generally responsible practices guarantee cash security: checks must have two signatures, cash withdrawals are made in the presence of security personnel, cash at the branches is kept in a safe with a double key and the money is tallied daily (and deposited in the bank) in order to avoid information crossing. The loan payment officers make a deposit in the bank half-way through their day. Furthermore, EA has insurance that covers up to 20,000 USD in the case of robbery.

⁷ The Credit Committee for less than 4.000 PEN notes that between only the head of the branch and the credit officer, there should be an average of at least 5 minutes spent on each credit request.

Internal audit

EA's effective formalization of the internal audit process by means of manuals and detailed plans is guaranteed by the requirements of the LGSFSS to hire an Internal Auditor who makes frequent reports. Due to his presence and his growing importance according to the Board, the Auditor is gaining the autonomy and support to necessary to perform his required tasks.

The Auditor's work encompasses checks on both the headquarters and the individual branches. He also looks at individual portfolios and checks in on administrative processes. The small number of agencies also allows for a higher frequency of visits and a large number of unexpected visits to clients. He follows-up by reviewing and correcting observations made by the external auditors.

■ Activities

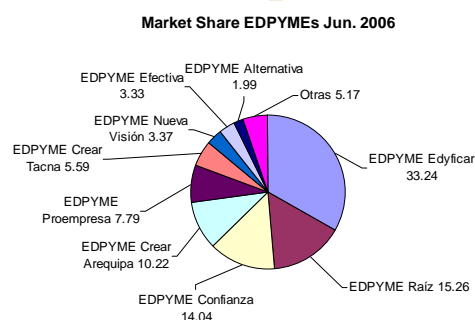
Activities: Products and services is rated "b"

USD, unless otherwise stated	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
Loan portfolio (K USD)	821.24	1,088.66	2,434.46	3,623.07
Loan portfolio (K PEN)	2,997.53	3,908.28	8,009.37	11,793.10
Evolution	16.2%	30.4%	104.9%	47.2%
Average outstanding loan (K USD)	800.32	897.85	1,792.65	3,012.94
Number of active borrowers	1,380	2,748	5,691	9,324
Evolution	28.3%	99.1%	107.1%	63.8%
Average outstanding loan/client	595	396	428	389
% of GDP per capita	43.6%	27.4%	25.8%	23.2%
Average amount disbursed	870	390	419	489
% of GDP per capita	63.7%	27.0%	25.3%	29.2%
PAR 31- 365 days	6.5%	5.6%	3.4%	3.7%
PAR > 365 days	0.0%	0.0%	0.0%	0.0%
Restructured portfolio	0.3%	0.8%	0.2%	0.3%
% of portfolio written off	2.0%	2.3%	1.6%	0.0%

Marketing and competition

EA operates in an extremely competitive market that stretches the limits of saturation and perpetuates the mimicry of successful loan methodologies (if financial innovations succeed they are quickly copied by competitors). In the urban zones of Chiclayo and the surrounding areas there are many operating EDPYMEs (Raíz, Efectiva y Solidaridad), Cajas Rurales (Caja NorPerú y Cruz de Chalpón), Cajas Municipales (Sullana, Piura y Trujillo) and new banks continue to open in the area (such as Solife-Banco Financiero, MiBanco, and Banco del Trabajo). It is true that all of the banks do not serve the same population of micro-entrepreneurs, but the majority issue loans of 400 USD (the average loan size as of June 2006 for an EA client was 389 USD). EA's direct

competition in the urban areas - EDPYME Solidaridad and CMAC Trujillo - has copied EA's *crédito diario* methodology. Although there are fewer competitors in number in the rural area where EA operates, the competitive pressure is equally strong. The majority of these institutions are larger than EA and therefore more diversified (EA is depicted in the group of medium Peruvian EDPYMEs- see diagram).



Source: SBS

Although EA offers comparatively high interest rates, it has continued to increase its market share by focusing on more personalized attention to its clients and quicker disbursement of loans (on average, *crédito diario* is approved within one day). It also has innovative and aggressive marketing strategies⁸. EA is in constant search of ways to reach the client by means of advertising, good customer service and diversification of their range of products⁹. With these strategies EA has achieved high retention rates (approximately 70%). Although these strategies are effective, they are not exclusive, and can easily be imitated by the competition that is also trying to recruit new customers. In a market that is gradually becoming more saturated, interest rates will increasingly become a determining factor in clients' final decisions.

Credit methodology

The solid credit methodology (equally strong in both *crédito diario* and *crédito MES*) has allowed for rapid growth while also controlling levels of default:

- The approval of *crédito diario* prioritizes clients who are established and have businesses with available cash security in industries with a high turn over rate. Together, these two factors are considered vital in the punctuality of loan payments.
- The Credit Committee is comprised of experienced personnel, but due to the rapid process in which the client

⁸Besides working with 15 independent credit officers that charge 2% commission on credit paid out to new clients, EA uses "mobile stands" every month (mobile units that can issue loans).

⁹If the methodology and the interest rate of the sub-products are very similar, the name and the payment schedule have a positive effect in the client's identification of the product with EA.

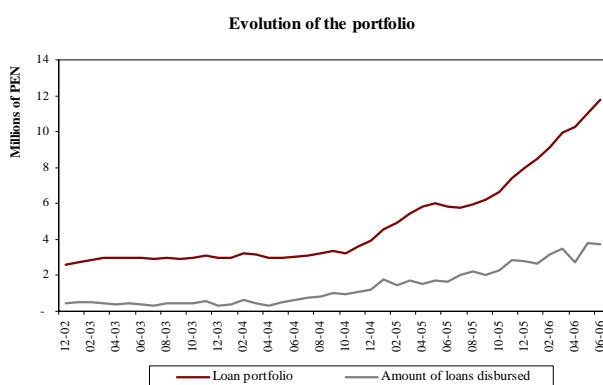
is evaluated, there are sometimes errors of omission in the credit evaluation.

- There is immediate activation of procedures for clients in default, by way of the daily portfolio reports and reinforced by the management's demand for rigorous collection processes (visits to the defaulting clients are obligatory starting on the ninth day of default, and the payment officer makes daily visits to *Crédito Diario* clients).
- The people working in the field are motivated and also very well trained to successfully do their jobs.

The degree of market indebtedness, however, implies a high risk that can weigh negatively on the levels of default. Despite the credit evaluation, it is difficult to determine if a client has other contracted debts that may affect her ability to pay. The analysis of the ability to pay is not completely accurate if many of the client's bills are lines of open credit with other institutions that can be used to pay off the EA debt.

Evolution of the portfolio

The portfolio has experienced strong growth (it grew 105% between 2004 and 2005 and 47% in the first semester of 2006). At the same time, EA has maintained and even decreased the average loan size per client (between Dec. 04 and Dec. 05 it grew from 396 to 428 and then dropped to 389 in Jun. 06). The reduction in average loan size in the last six months is due to the termination of the PFE product¹⁰.



Thanks to the high client retention rate, EA's loan portfolio has grown at a constant rate, in spite of the low average loan period of the *crédito diario*, which could allow for seasonal variations in the portfolio. Nevertheless, EA's portfolio does not vary seasonally, although in the last months of the year they generally see higher demand.

¹⁰ The PFE (Producto Financiero Estandarizado-Standard Financial Product) are credit lines for farmers financed by COFIDE, who assumes the credit risk.

Portfolio Quality

The global portfolio at risk ratio¹¹ has remained stable at 4% with a slight increase in the last six months (it went from 6.4% in Dec. 04 to 3.6% in Dec. 05, but then went back up to 4% in Jun.06). Although the nature of the global portfolio has not varied significantly, the quality of the portfolio by product has seen movement in the last year:

- The quality of the *crédito mes* portfolio has improved considerably because of the write-off of 3% of its portfolio in 2005 (its PAR30 went from 10.9% in 2005 to 5.2% in Jun.06)
- The quality of the *crédito diario* portfolio has worsened in the last six months, rising from 1.9% in Dec. 05 to 3.8%¹² in Jun. 06, sending a warning sign regarding the growth process of this product and its possibilities for expansion. The reduction in quality is, in part, due to the likelihood that the loan officers have reached their maximum level of productivity (see "E"), but it is also due to the high levels of indebtedness in this segment of the market.

Because of the reduction in the older portfolio, the write-off index subsequently has fallen from 3.8% in 2003 to 1.5 % in 2005¹³.

Portfolio diversification¹⁴

The compositional structure of the portfolio by type of product has remained stable in the last six months, the exception is the increase in *crédito mes* and the corresponding disappearance of the PFE product from the portfolio¹⁵. It is worth noting that because of the similar methodologies of the different sub-products, variations in portfolio composition do not affect the structure of the profitability and risk. The exceptions are *crédito diario* and *consumo* because of their higher interest rates and also *pecuario* or *pesca*, due to their different risk profiles. EA has established limits on the proportions of the portfolio

¹¹ All of the figures for this factor include the reprogrammed portfolio.

¹² The portfolio includes *crédito diario* and mobile loans with the same methodology and rates.

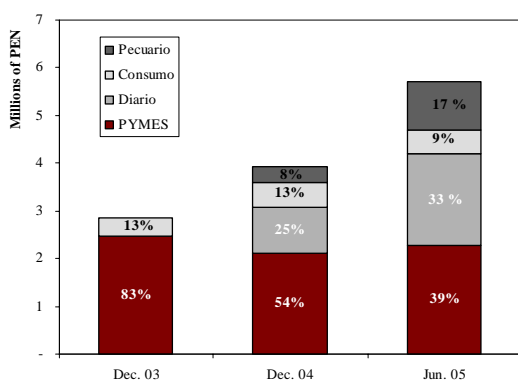
¹³ EA does not have determined reduction policies: reduced loans are approved individually in a way that has always exhausted the possibility of recuperations and that has made them 100% provisional.

¹⁴ For clarity effect, in the graphics, the different symbols of sub-products have been grouped according to methodology, destination and rates. "Daily" includes daily and mobile; "Cattle" includes cattle and fish; "Consumption", VIP and Descuento por Planilla; and PFE is considered separately (it disappeared in 2005).

¹⁵ The negotiations with COFIDE to resume the credit lines are currently on hold until a judicial resolution has been made regarding the personal loan to the President of EA from this institution (COFIDE will not grant loans to institutions that have a member of the Board or of the GIM with pending financial payments).

these products can occupy: the *crédito diario* should not exceed more than 40% of the portfolio, and *crédito al consumo* should be no more than 10%. Given these growth limitations for the daily loans (see “G”) and the increasing competition in the monthly credit market, EA should put more emphasis on its line of cattle, fish and, eventually, its agricultural loans. With this pretext, it will not only surpass the growth limitations of its current products, but it will also diversify the risk of geographic concentration, as it is now exclusively operating in urban zones (80% of the portfolio is located in the urban and semi-urban zones of Chiclayo).

Outstanding portfolio per product



Given the small sizes of loans distributed, there is not a concentration risk. The risk of the concentration by activity is also low, and it is decreasing due to the appearance of cattle and fish loans: although 87% of the credit goes to finance trade, the great variety of commercial activities carried out by the clients, has assuaged the risk in case of a crisis in one sector of commerce.

Credit risk coverage

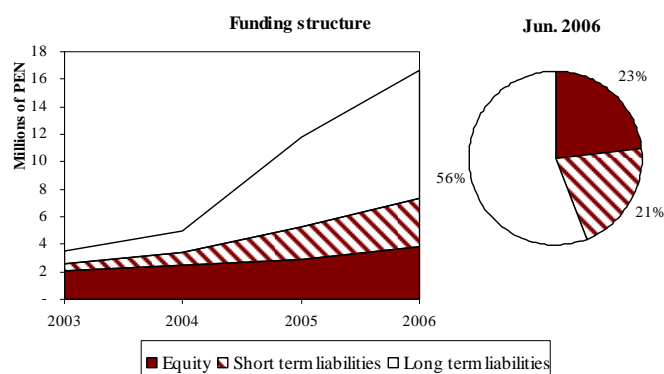
The provision policies are correctly pegged to the norm established by the SBS and permit total portfolio risk coverage. The ratio of provisions to portfolio at risk, however, has increased slightly in the last fiscal year due to the impact of the alignment of SBS's provisions¹⁶ (that went from 113.6% in Dec. 03 to 131.7% in Jun.06). Aside from the provisions, there was a large degree of extra coverage by means of the real guaranties above certain amounts. The degree of recovery of lost loans that are brought to court is approximately 70%. Additionally, EA had a line of governmental credit with FOGAPI that had a flat rate of payment. This insured the credit risk of the loans distributed using that line of credit (a total of 2% of the portfolio).

USD	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
Ratio of coverage to risk	113.6%	123.3%	128.2%	131.7%

¹⁶ Provisions conform to the degree of default of EA's clients with other institutions.

Financing and liquidity

Financing and liquidity is rated "a"



EA has financed its robust growth by additional injections of equity, and an increase in its debt (the ratio of financial leverage went from 1 in Dec.04 to 3.3 in Jun.06) from its lenders. EA finances its activity mainly with its own resources and debt with local and foreign financial institutions (public and private):

- EA's own resources are comprised of the initial contributions from its shareholders, plus the accumulated interest that form part of the equity. The accumulated capital represents approximately 25% of the total equity.
- EA's debts are mainly commercial debts, and the majority has a short loan period (56% will be paid off by Jun.06). The average interest rate on these loans is 11.5% annually, the lowest rate is 9% annually (Consortio ETIMOS) and the highest rate is 17% annually (Peruvian CMACs). EA's local financiers are: AGROBANCO, various CMACs (Del Santa, Huancayo, Ica), Banco Financiero, Caja Metropolitana de Lima (among the private lenders), and COFIDE y FONCODES (among the leading public lenders). In the last year, EA also attained important international loans: BlueOrchard, ETIMOS y Symbiotics, are among principal lenders.

	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
Debt / Equity	0.71x	1.02x	3.01x	3.30x

Financial strategy

In the last year, EA has undertaken a very active search for new financing that has allowed them to diversify and expand their sources of financing with both local and international resources. Access to these new sources has allowed them to sustain strong growth, and to reduce the risk and liability they incur when they have a large number of government loans¹⁷.

The success in obtaining new lines of credit has contributed to EA's healthy financial situation and its solid repayment history; without a doubt, the relationship with new

¹⁷ In Dec.05, 46% of EA's financing came from COFIDE, a second-tier Peruvian Bank.

financers, and above all, international financers, has been based on conservative criteria and new loans have been granted for short periods and with relatively high interest rates. The idea is to improve conditions by first securing a relationship between EA and the lender. The weighted cost of the debt has increased by nearly 3 points in the last six months and the percentage of resources with a short maturity has grown from 26% in Dec.03 to 55.8% in Jun.06. EA has covered its financial needs until the third quarter of 2006, and has almost ensured the growth of credit lines with FONCODES, LACIF and Symbiotics. These would cover EA's financial needs until the end of 2006.

The possible growth and diversification of investors due to the decision of the Board in March of 2006, marks an important step for securing the entrance of new investors, in terms of both debt and capital. EA has created an underwriting contract with AgroBanco for 200,000 PEN (61,500 USD), and its loan term will not begin until the end of 2006. EA is looking for patient investors that are prepared to capitalize at least 75% of earnings during the first three years of investment. The CCPL's plan to maintain control of EA could result in a growth limitation for the organization in the future.

Asset and liability management (ALM)

The process of expansion and sophistication of the financial structure has been managed effectively and has not significantly increased financial risks:

- Low maturity risk although monitored: the average duration of the liabilities (14 months) is still greater than the average duration of the portfolio (9 months). EA's intention to diversify its portfolio towards products of longer loan periods (cattle and fish), will require an increase in the average loan period and will also require more refined loan period monitoring tools.
- Controlled exchange risk: all of the loans in foreign currency (21.3% of their debts) are covered by back-to-back operations with local banks that charge EA a premium¹⁸.
- Reduced although latent interest rate risk: 10.13% of the total debts have variable rates¹⁹, while the portfolio total has a fixed rate. EA has not taken any precautions to cover inflation, which might be necessary if there was suddenly an increase in the international interest rate.

Liquidity management

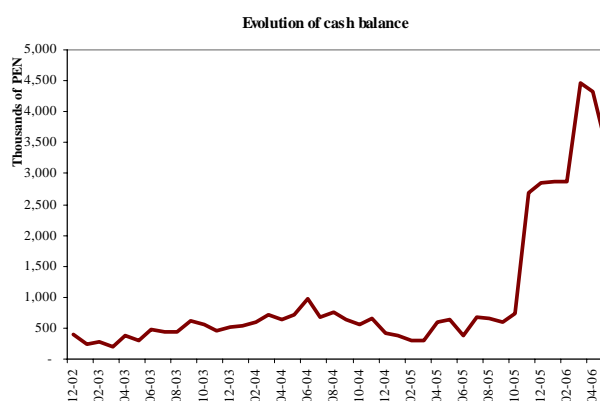
The liquidity management tools are simple yet sufficient for the level of operational decentralization. The central

¹⁸ The loan amount in foreign currency is deposited in a local bank as a fixed term deposit that guarantees a loan for the equivalent amount of local currency at a higher interest rate (the difference in rate is between 2% and 3.5%).

¹⁹ The 150K USD loan from BlueOrchard (LIBOR+7.5%) and the 300K USD loan from (LIBOR+5.25%).

liquidity management at the headquarters allows for the optimization of the available resources, by means of weekly cash flows that adequately cover distribution forecasts, reimbursements, income and operational costs, for both short and long loan periods.

Until Jun.05 EA successfully maintained low levels of dormant liquidity. After receiving more loans in 2005, the cash and bank accounts have grown to represent 23% of the total assets in Dec.05 and 20.6% in Jun.06. This implies opportunity costs given the high cost of the debt. The high demand for loans, however, suggests that these resources will quickly be invested in the portfolio. The high rotation of *crédito diario* means that the portfolio is being consistently renovated. This demands from EA an efficient use of the new revenues in order to the opportunity cost of unproductive liquid assets.



■ Efficiency

Efficiency and Profitability is rated "b"

Profitability analysis	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
ROE	9.1%	4.3%	13.4%	20.8%
Liabilities/Equity	0.71	1.02	3.01	3.30
ROA	5.2%	2.3%	4.3%	5.0%
Profit generation				
Operational self-sufficiency	121.1%	112.2%	124.1%	113.4%
Portfolio yield	50.9%	58.4%	58.2%	59.4%
Operating expense ratio	29.9%	39.6%	35.8%	35.3%
Staff productivity	86	95	124	139
Loan officer liability	230	131	247	311
Average outstanding loan per client (USD)	595	396	428	389
Funding expense ratio	6.0%	6.2%	9.4%	14.2%
Cost of the liabilities	12.7%	10.0%	8.3%	11.5%
Loan provision expense ratio	5.1%	3.6%	2.4%	4.5%
PAR 31 - 365	6.5%	5.6%	3.4%	3.7%
Write-off ratio	2.0%	2.3%	1.6%	0.0%
Asset management				
Outstanding Loan	78.7%	72.6%	65.2%	67.5%
Portfolio/Assets				
Non-portfolio income as a % of financial revenues	0.3%	0.4%	0.2%	1.5%

Profitability overview

EA's profitability has continued to grow in the last few months although their rate of growth has slowed (the ROA went from 2.3% in 2004 to 5% annually in 2006²⁰). Thanks to the increase in financial leverage, the ROE has increased greatly in proportion (from 4.3% en 2004 to 20.8% annually in 2006). The moderated increase in profitability confirms the drop in operational self-sufficiency in the last six months²¹(it dropped from 124.1% in Dec.05 to 113.4% in Jun.06). This reflects the greater proportional increase in expenses as compared to revenues. The increase in financial costs is due to access to more expensive commercial funds. Costs also increased due to small extra expenses, such as minor deteriorations of the portfolio and operational costs. Despite the growth of expenses, these factors have not been compensated for by a proportional increase in the portfolio yield.

Portfolio yield and APR

EA's portfolio yield has increased moderately (it grew from 58.4% in 2004 to 59.4% annually in 2006) and the relative weight of *crédito diario* in the portfolio's composition has also increased. *Crédito diario*'s importance has increased considerably; representing 24.6% of the total portfolio in 2004 to 44.1% in Jun.06. *Credito diario*'s impact on the portfolio was proportionally different when its interest rates were lower at the end of 2005 (the APR went from 102.5% in Jun.05 to 60.6% in Jun.06). It is worth noting that the interest rate of *credito diario* is aligned with the principle competitors in this segment of the business, the rates for the rest of the products are between 0.5% and 1% above the rates of the principle competitors. This creates pressure to lower the interest rate, which would in turn affect portfolio yields in the medium term.

Operating expense ratio

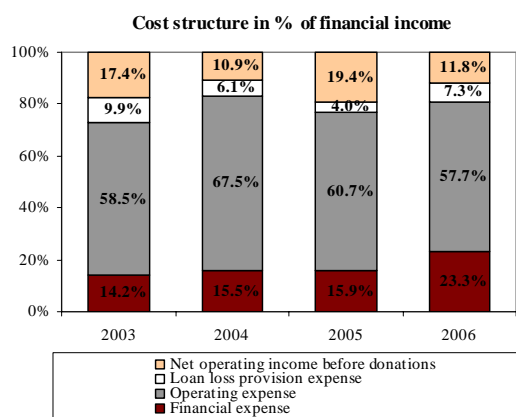
Despite the growth of the portfolio beginning in Dec.04, EA has not successfully benefited from economies of scale, as it has not significantly reduced its operational cost ratio. Operational costs remain at 35% (they dropped from 39.6% in Dec.04 to 35.9% in Dec.05, and only dropped to 35.3% by Jun.06). This is primarily due to EA's investment in institutional reinforcement and expansion (they opened two new branches, created new management positions, and created two new departments). Furthermore, a special emphasis on the politics of personnel satisfaction has

²⁰ This refers to simple annualization (income in June 06 multiplied by two), the assumes that the revenue in the second half of the year will remain in the proportion as in the first half of the year. This annualization does not include the effect of income tax calculated in December. History indicates that the annualized ROA may fall at the end of the year (the annualized ROA of June 2005 was 10.8% while the real ROA in December 2005 was 4.3%).

²¹ The ratio of operative self-sufficiency is not analyzed. This only compares costs to revenue as of Jun.06.

resulted in successive salary increases at the managerial and operational levels.

Personnel productivity has increased: the number of clients per employee has increased from 95 in 2004 to 139 in Jun.06. Meanwhile, the number of clients per credit officer increased from 247 to 311 during the same period²². The proportionally smaller increase in total personnel productivity is explained by inefficient practices at EA's headquarters. The slight decrease in portfolio quality in the last six months suggests that loan officers are reaching the limits of their productivity. This implies that if EA wants to increase their productivity even more, it must be done by improving the loan procedures and increasing administrative productivity, not by increasing the loan officers' load of work.



Financial expense ratio

As a consequence of the increase in financing costs, the financial cost ratio has experienced a large increase (it went from 6% in 2004 to 14.2% in June 2006), which until June 2006 represented 23.3% of the financial revenue. EA has agreed to a number of commercial loans with higher interest rates. These loans will strengthen relations with the lenders and the rates may gradually decrease in the medium term, allowing EA's high cost structure to fall. These assumptions are based on that EA will invest its liquid assets in order to avoid incurring opportunity costs of dormant liquidity.

Provision expense ratio

Provision expenses have increased in the last six months, although they decreased in the preceding period (costs went from 3.6% in Dec.04, to 2.4% in Dec.05, and then to 4.5% in Jun.06). The recent increase is due to the gradual decrease in portfolio quality of the portfolio in the last few months. The SBS has requested additional provisions that

²² Given the characteristics of *crédito diario*, the ratio of credit officer productivity includes the recuperations officers. The ratio increased to 444 in Jun.06, due to individual credit methodology, but this should not be computed.

reflect the high degree of indebtedness in the Lambayeque market.

Asset management

EA maintains very low levels of productive assets as a percentage of total assets (only 67.5% of the assets were in the portfolio in Jun.06). This low percentage is due to the high levels of liquidity that exists in their cash and bank accounts after the recent receipt of the new funding. EA plans to invest more of this credit into their portfolio, in order to optimize their asset structure or at least recreate the historical structure of assets. The portfolio has historically represented about 75% of the assets. This should be done when EA no longer needs to maintain a 10% margin of liquidity on all of COFIDE's loans

Adjusted Performance

Details concerning specific adjustments are included in the annexes.

EA is not subject to any adjustments except for an inflation adjustment for the last six months. This is due to the fact that beginning in 2006, regulated Peruvian financial institutions are not obligated to reevaluate assets according to inflation. Adjustments do not need to be made for EA's cost of funds. EA financial statements do not need to be adjusted for provisions because the SBS provision policy is more demanding than that applied by Planet Rating. Under these standards, EA is financially self-sufficient, although its self-sufficiency ratios have decreased over the last six months. Financial self-sufficiency went from 121% in Dec.05 to 112.6% in Jun.06.

	Dec. 03	Dec. 04	Dec. 05	Jun. 06
Ratio of adjusted costs	0.0%	0.0%	0.9%	0.4%
AROE	4.9%	(0.5%)	(0.2%)	19.7%
AROA	5.2%	2.3%	3.7%	4.7%
Financial self-sufficiency	121.1%	112.2%	121.9%	112.6%

Profitability outlook

The increased growth in the last fiscal year has allowed EA to reach economies of scale that have helped them absorb larger financial costs due to access to commercial credit lines. However, the high fixed costs, (due to the structural organization at the headquarters) makes an increase in profit margins unlikely. Also, the process of geographic expansion requires improvements in the information systems and personnel management. Both changes will demand new investments that could weigh on the cost structure. The pressure to lower interest rates due to competition in the market, would have a negative impact on the portfolio yield. Together these factors make the possibilities of a significant increase in EA's profit margin seem unlikely.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in the case of a major 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/financing based on this report.

Benchmarking

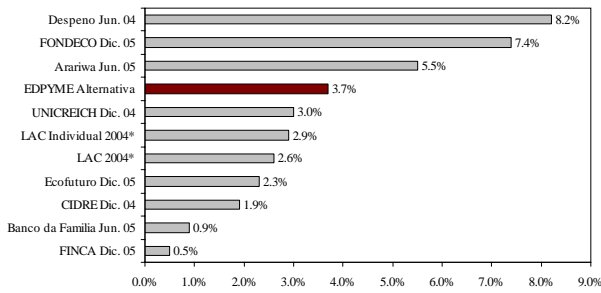
Classification according to MBB's criteria

Zone	LAC
MBB Group	Individual
Maturity	Young (between 5 and 8 years)
Size	Small (portfolio smaller than 4 M USD)
Clientele objective	Broad (portfolio by client from 23.2% of PNB by habitant)

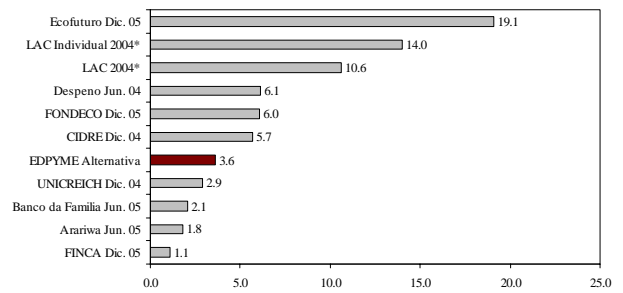
EA's benchmarking has been accomplished by:

- Other MFI ratings by Planet Rating, that use similar credit methods: UNICREICH y DESPENO (México); Ecofuturo, CIDRE y FONDECO (Bolivia); FINCA and Arariwa (Perú); Banco da Familia (Brasil).
- Paired groups Publisher by the MBB with data from Dec.04: all of the MFI in AML (all LAC 2004), and MFIs that use the method of individual credit (LAC Individual 2004).

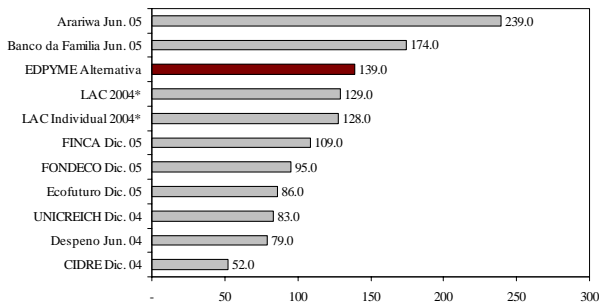
PAR > 30



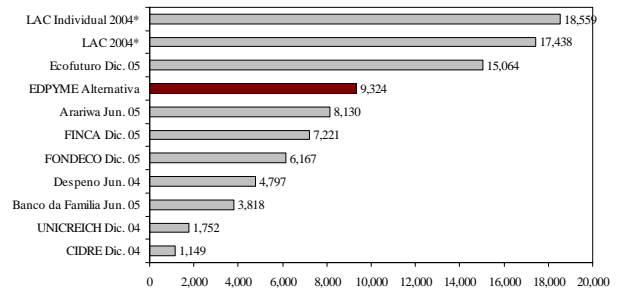
Gross portfolio M USD



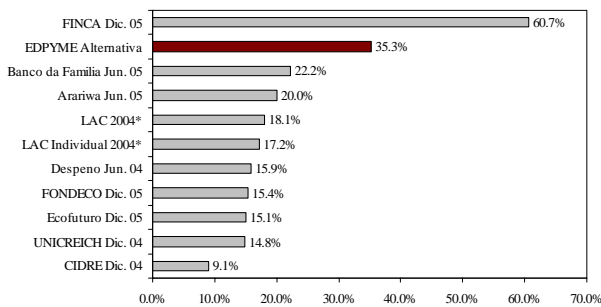
Loan officer productivity



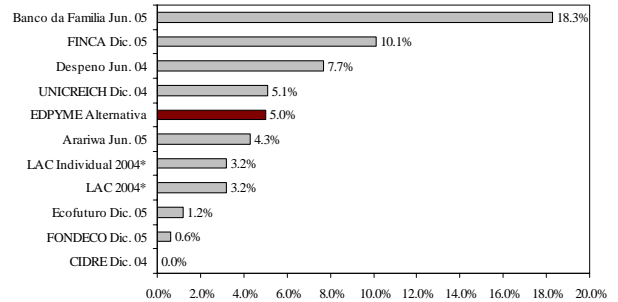
Number of active borrowers



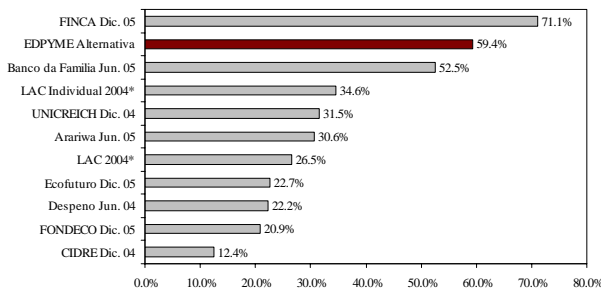
Operating expense ratio



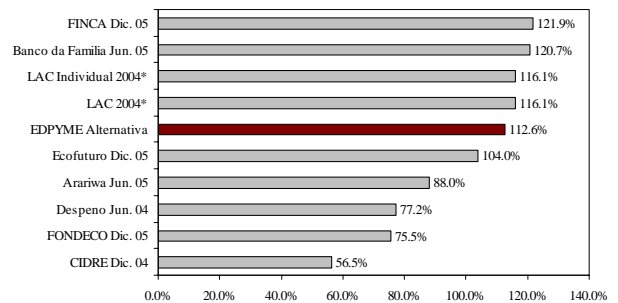
ROA



Portfolio yield



Financial self-sufficiency



Annexes

Acronyms

AG	General Assembly
APR	Annual Percentage Rate
ASEP	Association of EDPYMEs of Perú
BoD	Board of Directors
CCPL	Lambayeque Chamber of Commerce and Production
CGAP	Consultative Group to Assist the Poor
CMAC	Savings and Loan Municipal Cooperative
CO	Credit Officer
COFIDE	Development Financial Corporation
COPEME	Consortium of Private Organizations for the Promotion of Small and Micro Businesses
CRAC	Savings and Loan Rural Cooperative
DPF	Fixed-term deposit
EA	EDPYME Alternativa
EDPYME	Small and Micro Enterprise Development Company
EUR	Euro
GDP	Gross Nacional Product
GIM	General Investors' Meeting
GNP	Gross National Product
GM	General Manager
GRH	Management of Human Resources
IDB	Inter-American Development Bank
K	Thousands
LGSFSS	General Law of Financial and Insurance Systems
LGS	General Law of Societies
M	Millions
MBB	MicroBanking Bulletin
MFI	Microfinance Institution
MIS	Management Information System
MM	Billions
NA	Not Available
NGO	Non Government Organization
PAR	Portfolio at Risk
PEN	Nuevos Soles
PFE	Standarized Finance Product
PME	Small and Micro Enterprises
ROA	Return on Assets
ROE	Return on equity
SBS	Superintendencia de Banca y Seguros
USD	US Dollars

Formulas and ratios

- Personnel productivity: Active borrowers / Total personnel (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 the financial statements per CGAP Disclosure Guidelines

0 The institution does not follow CGAP disclosure guidelines

1 The financial statements presented include a balance sheet, the income statement, the statement of changes in net equity and explanatory notes. The financial statements have been audited up to 2005. The audits were performed by the Peruvian firm Muñoz & Associates.

2 EA only provides financial services.

3 EA has not received any donations.

4 Accounting of the loan portfolio

Provisioning methods			
Days of default	Table 1	Table 2	Table 3
Normal (up 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%
Lost (120 days +)	100%	60%	30%
Written-off loans	All loans with more than 180 days of default and provisions up to 100%, following review by the Committee		

Note: Table 1 applies for those loans with preferred guarantees and Table 3 for those that have fast preferred guarantees.

4.1 The expenses incurred because of credit risk (provisions, written-off loans) are presented separately from other expenses in the income statement.

4.2 The loan loss provision expenses of provisions are included in the income statement every month and they are added or are reduced of from the loan loss reserve in the balance sheet. The write-offs are reduced from the loan loss reserve .

4.3 Variation of reserves for the past due portfolio:

Data in PEN	Dec. 03	Dec. 04	Dec. 05	Jun. 06
Reserves Jan. 1	122,177	222,270	271,307	346,044
+ Loan loss expenses	215,851	204,692	254,657	246,626
- Decrease in the provision	58,824	78,984	85,744	7,224
- Written-off loans	57,042	75,697	92,118	
Reserves, to Dec. 31⁽¹⁾	222,163	272,280	348,101	585,445
Loans written off without passing through the reserve	NA	NA	NA	NA

(1) The differences between the amount in reserve on Jan. 1 and Dec. 31 are due to the correction of the financial statements for inflation.

4.4 The interest on loans is accrued until any loan payment is more than 30 days late.

4.5 Other financial products are presented distinctly from the loan portfolio.

5 Quality of portfolio management

5.1 Indicators: the portfolio quality indicators are described in the areas "I" and "A."

5.2 All refinanced loans must go through the Credit Committee and be revised according to the specifics of each case.

5.3 EA does not authorize loans for its employees.

6 Details of EA's debt:

Institution	Outstanding debt to June 2006(USD)	Conditions
COFIDE Línea de Crédito	227,831	1.5 years, VAC + 6.5%, Quarterly payments
Banco Financiero Línea de Crédito Préstamo Hipotecario	418,526	1 year, 13.00%*, Monthly payments
AGROBANCO	42,963.94	5 years, 13.00%, Monthly payments.
Max Salud	521,632	1 year, 9.00%, Quarterly payments.
CMAC Ica	38,460	1 year, 14.00%, Quarterly payments
CMAC del Santa	92,053	1 year, 17.00%, Quarterly payments
Cooperativa ABACO Línea de Crédito	460,264	2 years, 17.00%, Quarterly payments
Préstamo Vehicular	63,269	2 years, 14.00%, Quarterly payments of capital and interest, Monthly payments of interest.
Cámara de Comercio y Producción de Lambayeque	19,044.00	5 years 7.50%, Monthly payments
CMAC Huancayo	168,763	Indefinite, 12.00%, without guarantee, bi-yearly payments
Blueorchard	122,737	1 year, 17.04%, Quarterly payments
Consorcio Etimos	75,000.00	1 year, 12.15%, bi-yearly payments
Symbiotics	300,000.00	3 years, 9.08%, Quarterly payments
Caja Metropolitana de Lima	250,000.00	1 year, 11.75%, Bi-yearly payments
FONCODES	549,862	3 years, 17.00%, Monthly payments.
FOGAPI	153,421	4 years, 12.68%, Quarterly payments.
Raquel Soifer	80,546	2 years, 14.00%, Quarterly payments.
	5,523	3 months, 10.00%, Quarterly payments

6.1 Detail of financing for loans in the annexes:

6.2 EA is not authorized to accept savings.

7 Other accounting rules

7.1 The institution uses accrual accounting procedures for income and expenses

7.2 EA recognizes the effects of inflation and the differences in exchange rates in accordance with the regulations of SBS.

7.3 EA is not affected by risk incurred by foreign exchange risk.

8 Other information

8.1 The number of loans is reported in section "A."

3. Receivable interest on outstanding loans that there has avoided the income deferred by interests of refinanced credits. When a loan is refinanced, the interests generated to that date become part of the capital of the new loan, from which the deferred income is subtracted.

4. Refers to other accounts receivable net of reserve.

5. Refers to adjudicated properties, intangibles (software) less amortization, un-liquidated operations

6. Includes obligations to loan collection companies, plus outstanding vacations and remunerations.

7. The loan of 550,000 PEN from the CCPL is considered long-term, as its duration is undetermined and EA makes only bi-yearly interest payment

8. Shareholder capital plus additional capital, the latter understood as still un-formalized capital.

9. Income accumulated from previous fiscal years are reclassified as shareholder capital.

10. It includes the legal reserve: it is necessary to constitute a minimum of 10 % of the distributable income of every fiscal year, deducting income tax, up to a total of one fifth of the capital.

Income Statement

11. Refers to accounts receivable.

12. Refers the difference between the provision necessary for a risky loan with collateral and/or mortgage, the sale of adjudicated goods. In 2003, it also included losses from a theft that was not covered by insurance.

13. Consulting, transportation, rent, alarm, security, energy, water, vehicle rental, equipment

14. The income tax includes the distribution of 5% of profits to workers.

Specific notes to the financial statements

Balance Sheet

1. Includes money in national and foreign currency, the fixed-term deposits, checking accounts (in domestic and foreign currency) savings accounts (domestic and foreign currency). Includes the guarantee funds required by COFIDE, constituting 10% of the amount of the loans given out by the institution.

2. Includes outstanding, refinanced, and past-due loans as well as loans in the process of legal collection.

EDPYME Alternativa		USD						Evolution					
Balance Sheet	Notes	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006	2004/2003	2005/2004	2006/2005	
ASSETS		3,525,730	5,009,100	11,754,843	16,616,394	965,953	1,395,292	3,572,901	5,104,883	42.1%	134.7%	41.4%	
Short term assets			4,490,108	10,889,565	15,381,521	913,632	1,250,726	3,309,898	4,725,506	34.6%	142.5%	41.3%	
Cash and due from banks	1	467,204	655,170	2,691,393	3,417,790	128,001	182,499	818,053	1,050,012	40.2%	310.8%	27.0%	
Net short term financial assets			-	173,846	162,550	-	-	52,841	49,939	-	-	(6.5%)	
Net short term portfolio			3,636,970	7,663,322	11,211,021	760,344	1,013,084	2,329,277	3,444,246	31.0%	110.7%	46.3%	
Gross short term portfolio	2	2,997,527	3,908,277	8,009,365	11,793,104	821,240	1,088,657	2,434,458	3,623,073	30.4%	104.9%	47.2%	
(Loan loss reserve)		222,270	271,307	346,044	582,083	60,896	75,573	105,181	178,827	22.1%	27.5%	68.2%	
Interests receivable			64,166	313,167	504,060	19,079	17,874	95,188	154,857	(7.9%)	388.1%	61.0%	
On loan portfolio	3	69,639	64,166	313,167	504,060	19,079	17,874	95,188	154,857	(7.9%)	388.1%	61.0%	
On financial assets			-	-	-	-	-	-	-	-	-	-	
On short term assets	4	22,656	133,802	47,837	86,100	6,207	37,271	14,540	26,451	490.6%	(64.2%)	80.0%	
Long term assets			518,992	865,279	1,234,873	52,322	144,566	263,003	379,377	71.8%	66.7%	42.7%	
Net long term financial assets			-	21,300	20,239	-	-	6,474	6,218	-	-	(5.0%)	
Net long term portfolio			-	-	-	-	-	-	-	-	-	-	
Net fixed assets		90,510	435,358	793,330	895,058	24,797	121,270	241,134	274,980	381.0%	82.2%	12.8%	
Other long term assets	5	100,464	83,634	50,648	319,576	27,524	23,296	15,395	98,180	(16.8%)	(39.4%)	531.0%	
LIABILITIES AND EQUITY			5,009,100	11,754,852	16,616,395	965,953	1,395,292	3,572,903	5,104,883	42.1%	134.7%	41.4%	
LIABILITIES		1,465,205	2,528,849	8,825,131	12,756,056	401,426	704,415	2,682,411	3,918,911	72.6%	249.0%	44.5%	
Short term liabilities			1,598,375	6,527,963	9,267,617	250,741	445,230	1,984,183	2,847,194	74.6%	308.4%	42.0%	
Short term deposits		-	-	-	-	-	-	-	-	-	-	-	
Compulsory deposits		-	-	-	-	-	-	-	-	-	-	-	
Short term deposits		-	-	-	-	-	-	-	-	-	-	-	
Short term loans		809,858	1,501,410	6,160,133	9,013,719	221,879	418,220	1,872,381	2,769,192	85.4%	310.3%	46.3%	
Interests receivable		-	-	-	-	-	-	-	-	-	-	-	
Other short term liabilities	6	105,347	96,965	367,830	253,897	28,862	27,010	111,803	78,002	(8.0%)	279.3%	(31.0%)	
Long term liabilities			930,474	2,297,167	3,488,439	150,685	259,185	698,227	1,071,717	69.2%	146.9%	51.9%	
Long term deposits		-	-	-	-	-	-	-	-	-	-	-	
Long term loans	7	550,000	930,474	2,286,767	3,477,145	150,685	259,185	695,066	1,068,247	69.2%	145.8%	52.1%	
Other long term liabilities			-	10,400	11,294	-	-	3,161	3,470	-	-	8.6%	
EQUITY		2,060,525	2,480,251	2,929,721	3,860,339	564,527	690,878	890,493	1,185,972	20.4%	18.1%	31.8%	
Paid-in capital	8	1,873,700	2,355,321	2,538,040	3,433,284	513,342	656,078	771,441	1,054,772	25.7%	7.8%	35.3%	
Donated equity		-	-	-	-	-	-	-	-	-	-	-	
Retained earnings without donations and reserves	9	177,786	96,798	353,870	353,857	48,708	26,963	107,559	108,712	(45.6%)	265.6%	(0.0%)	
Current year			96,798	361,277	353,857	48,708	26,963	109,811	108,712	(45.6%)	273.2%	(2.1%)	
Other equity accounts	10	9,039	28,132	37,812	73,199	2,476	7,836	11,493	22,488	211.2%	34.4%	93.6%	

EDPYME Alternativa Income statement	Notes	PEN				USD				Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006	2004/ 2003	2005/ 2004	2006 /2005
Financial revenue (a)		1,493,221	1,890,828	3,480,677	3,001,690	409,102	526,693	1,057,956	922,178	26.6%	84.1%	(13.8%)
Financial revenue from loan portfolio		1,488,294	1,883,825	3,430,310	2,912,302	407,752	524,742	1,042,648	894,717	26.6%	82.1%	(15.1%)
Interest on loan portfolio		1,488,294	1,789,445	3,430,310	2,912,302	407,752	498,453	1,042,648	894,717	20.2%	91.7%	(15.1%)
Fees and commissions on loan portfolio		-	94,380	-	-	-	26,290	-	-	-	(100.0%)	-
Penalty revenue on loan portfolio		-	-	-	-	-	-	-	-	-	-	-
Financial revenue from investments		4,645	6,890	8,129	46,035	1,273	1,919	2,471	14,143	48.3%	18.0%	466.3%
Other operating revenue	11	282	114	42,238	43,353	77	32	12,838	13,319	(59.6%)	36,996%	2.6%
Financial expenses (b)		211,861	293,983	553,154	698,263	58,044	81,889	168,132	214,520	38.8%	88.2%	26.2%
Interests paid on loans		173,023	189,317	453,487	600,563	47,404	52,735	137,838	184,505	9.4%	139.5%	32.4%
Interests paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net inflation adjustment expense		36,784	94,756	-	-	10,078	23,394	-	-	-	-	-
Other financial expenses		2,054	9,910	99,667	97,700	563	2,760	30,294	30,015	382.5%	905.7%	(2.0%)
Financial income [c=a-b]		1,281,360	1,596,845	2,927,523	2,303,427	351,058	444,804	889,825	707,658	24.6%	83.3%	(21.3%)
Net loan loss provision expense (f)		147,696	115,727	139,433	218,808	40,465	32,236	42,381	67,222	(21.6%)	20.5%	56.9%
Loan loss provision expense and write-off		159,062	127,376	168,912	234,641	43,579	35,481	51,341	72,086	(19.9%)	32.6%	38.9%
Recovery from loans written-off		11,366	11,649	29,480	15,833	3,114	3,245	8,960	4,864	2.5%	153.1%	(46.3%)
Operating costs (d)		873,698	1,275,398	2,112,428	1,730,762	239,369	355,264	642,075	531,724	46.0%	65.6%	(18.1%)
Personnel expenses (including fringes)		538,373	656,078	1,961,907	1,607,185	147,499	182,752	596,324	493,759	21.9%	199.0%	(18.1%)
Other operating costs		335,325	619,320	150,521	123,577	91,870	172,512	45,751	37,965	84.7%	(75.7%)	(17.9%)
Depreciation y amortization		45,427	68,219	82,521	70,317	12,446	19,003	25,082	21,603	50.2%	21.0%	(14.8%)
Others	12	14,377	34,839	2,733	6,873	3,939	9,705	831	2,112	142.3%	(92.2%)	151.5%
Expenses for services	13	275,521	516,261	65,267	46,388	75,485	143,805	19,838	14,251	87.4%	(87.4%)	(28.9%)
Net operating income before taxes and donations [f=c-d-e]		259,966	205,720	675,662	353,857	71,224	57,304	205,368	108,712	(20.9%)	228.4%	(47.6%)
Income tax (h)	14	82,180	108,922	314,385	-	22,515	30,340	95,558	-	32.5%	188.6%	(100.0%)
Net operating income before donations [i=g-h]		177,786	96,798	361,277	353,857	48,708	26,963	109,811	108,712	(45.6%)	273.2%	(2.1%)
Non operating revenue(i)		-	-	-	-	-	-	-	-	-	-	-
Non operating revenue (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
Net income before donations[l=i+j-k]		177,786	96,798	361,277	353,857	48,708	26,963	109,811	108,712	(45.6%)	273.2%	(2.1%)
Donations (m)		-	-	-	-	-	-	-	-	-	-	-
Net income		177,786	96,798	361,277	353,857	48,708	26,963	109,811	108,712	(45.6%)	273.2%	(2.1%)

Description of loan products

Product	MES	PESCA	PECUARIO	VIP	DIARIO	MOVIL	MUJER	CONSUMO
Creation date	September 2001	September 2001	September 2001	2004	February 2004	February 2004	2006	September 2001
Type of clients (rural, urban, commercial)	Urban and rural	Rural	Rural	Urban, members of the Chamber of Commerce	Rural and urban only for commerce	Transport sector, urban	Urban, commercial	Urban
Authorized loan size PEN (minimum and maximum)	min. 200 max. 55,000	min. 200 max. 55,000	min. 500 max. 55,000	max. 3,000	min. 200 max. 8,000	min 200 max. 8,000	min. 200 max.8000	min 200 max. 55,000
Average loan size PEN	3,000	3,000	2,000	3,000	1,200	1,000	600	1,000
Authorized loan period (minimum and maximum)	min. 1 month, max. 36 months	min. 1 month max. 36 months	min. 1 month max. 12 months	1month	max. 180 days	max. 180 days	max. 12 months	Up to 36 months
Average loan period	12 months	12 months	10 months	1 month	60 days	60 days	6 months	12 months
Grace period	to three months	During the prohibited season can be up to 06 months	3 months	-	to 03 days	15 days	-	-
Collateral requirements and other conditions	Co-signer, Collateral, mortgage	Co-signer, Collateral, mortgage	Co-signer, Collateral, mortgage	No collateral	No collateral	Collateral, mortgage	No collateral	Co-signer, Collateral, mortgage
Repayment schedule	Weekly, bi-weekly, monthly	Weekly, bi-weekly, monthly	Weekly, bi-weekly, monthly	Monthly	Daily	Daily, weekly, bi-weekly, monthly	Monthly	Monthly
Flat or decreasing APR	Flat 45.93% - 60.1% TEAMN	Flat 45.93% - 60.1% TEAMN	Flat 45.93% - 60.1% TEAMN	Flat 45.93% - 60.1% TEAMN	Flat 105.82% - 112.91% TEAMN	Flat 45.93% - 112.91% TEAMN	Flat 45.93% - 60.1% TEAMN	Flat 45.93% - 60.1% TEAMN
Fees and penalties	Fees: 15 PEN - Penalties TEAMN 60.1%	Fees: 15 PEN - Penalties TEAMN 60.1%	Fees: 15 SOLES - Penalties TEAMN 60.1%	Fees: 15 PEN - Penalties TEAMN 60.1%	Fees: 4.00 PEN - TEAMN vary between 12.68-42.58%	Fees: 4.00 PEN - TEAMN variable between 12.68%-42.58%	Fees: 15 PEN - Penalties TEAMN 60.1%	Fees: 15 PEN - Penalties TEAMN60.1%
Major changes since creation (interest rate, size, terms)	Preferential rate TEAMN 51.1%	Preferential rate TEAMN 51.1%	Preferential rate 51.1%	Preferential rate TEAMN 51.1%				Preferential rate TEAMN 51.1%

Organization chart

