

## **MiCredito Update (CHISPA Foundation operating as MiCredito in Nicaragua) for 3 months ended Dec. 31, 2009**

**MiCredito continues to face various serious challenges.** The No Pago Movement (No Payment Movement - NPM) continues to advocate non-payment of client loans and as a result Portfolio at Risk (PAR) remains high for all MFIs, including MiCredito (PAR >1 day is now at 15% - negotiations currently underway with the NPM may resolve this problem). Secondly, the Global financial and economic crisis continues to affect Nicaragua. Consequently, micro businesses have suffered from reduced demand and lower prices for their products. Thirdly, a drought in the summer of 2009 impacted rural clients and forced some of them to miss scheduled payments. The combination of these problems has seriously affected MFIs in Nicaragua and shut down funding for from International Funds, forcing MiCredito to shrink its business.

**MiCredito is still valiantly dealing with these problems in various ways.** Firstly, collection efforts continue to be intensified and credit criteria tightened on new loans in an attempt to avoid non-paying clients. Secondly, operating expenses have been significantly reduced by cutting staff and office space. Head office space has been eliminated and its personnel split between the two Managua branches. Thirdly, some defaulted loans have been rewritten in cases of genuine hardship and where it appears sincerity to repay exists. Fourthly, some new products have been introduced such as currency exchange for clients and life insurance on clients covering their loans which are adding revenue, with other new products to be introduced. The overall effect has been that we are generating a modest profit based on the new company balance sheet in spite of above normal loan loss reserves.

**MiCredito continues to inch along on the path to incorporation,** which will hopefully happen by March 1<sup>st</sup>, 2010. The company will then be known as MiCredito S.A. The hope to have it done by January 1<sup>st</sup>, 2010 was not achieved due to government delays in getting the company registered. Sarona has agreed to convert one million dollars of its current loan to

MiCredito into shares and three employees and one shareholder are also converting an additional \$93,000 in loans into shares, with interest being forgone on these amounts back to July 1<sup>st</sup>, 2009. Another investor is giving favorable terms on an existing loan. The result is a reduction in debt with a consequent lower interest cost and, therefore, an increase in profit. While the company is not yet in place, the Dec. 31 financial statements have been prepared to reflect this. The strengthening of the balance sheet is an important factor in closing on financing from one or more of the International MF Funds, whose due diligence is currently underway.

**The option to convert debt to shares on the same terms as Sarona is being offered to all MEDA investors.** Anyone interested will be provided with additional information upon request, including projections.

**A change in management took effect in the New Year** when Veronica Herrera, previously CFO, became the CEO. Octavio Cortes will continue on as a Board Member and part-time consultant. Veronica has been a long term employee of MEDA's MFIs in Nicaragua and has proven she is a capable and aggressive manager in whom we have full confidence to guide MiCredito to profitability and success.

**In summary, actions have been and are being taken that give MiCredito a good chance** to come out of the past trials and be poised for future success as economic conditions in Nicaragua improve.

**Submitted February 8, 2010** on behalf of the Board of Directors CHISPA Foundation ( **MiCredito** )

Fred Wall- Chair

Julie Redfern–Vice Chair

Octavio Cortes – Secretary

Gerhard Pries

Ron Haarer

Dave Guenther

Traugott Horsch

## MiCredito Financial Summary

(No interest accrued on sub. loans in cur. f/y)

	6 mos. ended Dec. 31, 2009 \$US	year ended june 30,2009 \$US	6 mos. ended Dec. 31, 2008 \$US
<b>Balance Sheet</b>			
<b>Assets</b>			
Cash & bank accounts	122,435	153,118	158,124
Gross portfolio	3,787,422	3,813,642	3,855,406
Less: Loan Reserve	<u>-545,557</u>	<u>-359,508</u>	<u>-214,411</u>
Net portfolio	<b>3,241,865</b>	<b>3,454,134</b>	<b>3,640,995</b>
Other current assets	<u>438,262</u>	<u>370,798</u>	<u>372,323</u>
<b>Total current assets</b>	<b>3,802,562</b>	<b>3,978,050</b>	<b>4,171,442</b>
Fixed assets	228,004	228,953	217,754
Depreciation	<u>-142,329</u>	<u>-127,810</u>	<u>-109,798</u>
<b>Fixed assets - net</b>	<b>85,675</b>	<b>101,143</b>	<b>107,955</b>
<b>TOTAL ASSETS</b>	<b>3,888,237</b>	<b>4,079,193</b>	<b>4,279,398</b>
<b>Liabilities</b>			
<b>Short term liabilities</b>			
Accounts payable	97,356	111,529	188,826
Interest payable	239,552	190,467	135,937
Oikocredit	0	50,927	0
Symbiotics	<u>200,000</u>	<u>400,000</u>	<u>0</u>
<b>Total current liabilities</b>	<b>536,908</b>	<b>752,923</b>	<b>324,763</b>
Sarona - A	305,655	305,655	305,655
Sarona - B (MEDA Investors)	1,570,390	1,570,390	1,433,378
Symbiotics	0	0	600,000
Oikocredit	<u>356,489</u>	<u>356,489</u>	<u>458,343</u>
<b>Total Long Term Loans</b>	<b>2,232,534</b>	<b>2,232,534</b>	<b>2,797,376</b>
<b>Total Liabilities</b>	<b>2,769,442</b>	<b>2,985,457</b>	<b>3,122,139</b>
<b>Subordinated loans</b>			
Sarona C - subord. & convert.	1,000,000	1,000,000	1,000,000
CIDA grant (Produmer program)	103,000	103,000	103,000
MiCredito managers - subord. & convert.	23,186	22,341	21,526
<b>Equity</b>			
Operating grant	57,341	58,768	60,208
Shares (1,275,866 shares)	0	0	0
Retained earnings	-88,177	-88,073	-90,229
Profit(Loss)for period	<u>23,445</u>	<u>-2,300</u>	<u>62,754</u>
<b>Total Equity &amp; Subord. Loan</b>	<b>1,118,795</b>	<b>1,093,736</b>	<b>1,157,258</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>3,888,237</b>	<b>4,079,193</b>	<b>4,279,398</b>

	6 mos. ended Dec. 31, 2009 \$US	year ended june 30,2009 \$US	6 mos. ended Dec. 31, 2008 \$US	Variance Y over Y
<b><i>Income statement</i></b>				
<b>Financial income</b>	<b>748,818</b>	<b>1,532,454</b>	<b>783,514</b>	-4.4%
Financial cost	<u>215,628</u>	<u>527,247</u>	<u>262,219</u>	-17.8%
<b>Gross financial margin</b>	<b>533,190</b>	<b>1,005,207</b>	<b>521,295</b>	2.3%
Provision for loan losses	<u>186,319</u>	<u>255,890</u>	<u>64,294</u>	189.8%
<b>Net Financial margin</b>	<b>346,871</b>	<b>749,317</b>	<b>457,002</b>	-24.1%
<b>Operating expenses</b>	<b>331,112</b>	<b>774,164</b>	<b>400,798</b>	-17.4%
<b>Net earnings before taxes</b>	<b>15,759</b>	<b>-24,847</b>	<b>56,204</b>	-72.0%
Total Other Income	<u>7,565</u>	<u>22,491</u>	<u>7,581</u>	-0.2%
<b>Net income</b>	<b>23,324</b>	<b>-2,356</b>	<b>63,785</b>	-63.4%