

MiCredito Update (CHISPA Foundation operating as MiCredito in Nicaragua) for 1st quarter ended Sep.30, 2008

Good news: MiCredito continued to grow in the first quarter of FY09 and ended it with a **gross portfolio of \$3,822,000**, very close to the projected plan. This is compared with \$3,566,000 as of June 30, 2008. The news on the bottom line is also good as it shows a **profit of \$25,395** in the first three months of FY09, compared to a loss of \$56,116 in all of FY08. The improvement was largely due to a lower loan loss reserve, which was caused by an improvement in PaR (Portfolio at Risk - loans in arrears one day or more – not necessarily uncollectible). The improvement in PaR was a result of successful efforts by the whole MiCredito team to reduce delinquent loans.

MiCredito has a professional five-year business plan charting our growth to nine branches from the existing five, and growing our portfolio to over \$13 million by FY 2013. The plan continues to emphasize rural lending, with most of the proposed new branches in northern rural towns. The **fifth branch** was opened in **Esteli**, a city in northern Nicaragua, in April 2008 to serve the urban and surrounding rural market there; it is progressing ahead of projections.

Political and economic conditions in Nicaragua remain reasonably stable for MFIs and are generally expected to continue to be so. However, as reported previously, some criticism of high MFI interest rates by President Ortega earlier this year and the threat the government might start an MFI has contributed to the PaR problem and startled some of the microfinance funds (MFFs).

MFFs are currently advancing virtually no new funds as none have any allocation left for Nicaragua. This is causing MiCredito and many other MFIs a big problem. The reasons vary: Some have used up their allocations earlier. Some have reduced their allocation to Nicaragua because of the perceived increased risk and/or have less investor funds flowing into them as a result of the global financial crisis.

MiCredito is also working at obtaining funds from some Nicaraguan MFFs, but without success so far.

The result is that, in spite of our earlier optimism, we have not been able to source new loans from any of the various MFFs. Several applications are in various stages of the due diligence process, but are currently on hold while the MFFs wait for new allocations and continue to evaluate the risk in Nicaragua. The problem for MiCredito is that we have used up our funds and our projected growth will be sharply curtailed until other sources of capital are found. We remain optimistic that the funds will open up new allocations to Nicaragua in the New Year, but this cash will probably not flow into MiCredito until the third or even fourth quarter of this fiscal year.

MEDA investors are welcome to invest more. Ask us for details on this investment opportunity.

In the future, MiCredito will also require more equity to support the debt level expected to be needed to finance the five-year plan. We plan to offer our investors holding promissory notes the opportunity to convert to shares after the incorporation to a private company is complete. Also under consideration is to partner with other compatible MFIs and become a regulated financial institution.

Any existing and potential investors interested in seeing MiCredito first hand are welcome to call us anytime for assistance with personal tour arrangements. Several groups have already toured and found it interesting and informative.

Submitted Nov 3, 2008 on behalf of the Board of Directors of CHISPA Foundation (MiCredito)

Fred Wall- Chair
Julie Redfern–Vice Chair
Octavio Cortes – Secretary and GM of MiCredito
Gerhard Pries, Ron Haarer, Dave Guenther, Traugott Horsch

MiCredito Financial Summary

3 months Year End
(30-sep-08) (30-Jun-08)

Balance Sheet

Assets		
Cash & bank accounts	<u>73,469</u>	<u>104,400</u>
Gross portfolio	3,821,761	3,566,503
Less: Loan Reserve	<u>-176,724</u>	<u>-172,758</u>
	3,645,037	3,393,745
Other current assets	<u>311,548</u>	<u>293,900</u>
Total current assets	<u>4,030,054</u>	<u>3,792,045</u>
Fixed assets	220,359	217,707
Depreciation	<u>-100,866</u>	<u>-91,895</u>
Fixed assets - net	<u>119,493</u>	<u>125,812</u>
	<u>4,149,547</u>	<u>3,917,857</u>
Liabilities		
Current liabilities		
Accounts payable	126,001	91,887
Interest payable	<u>142,177</u>	<u>78,925</u>
Total current liabilities	<u>268,178</u>	<u>170,812</u>
Produmer (Sesame Project)	0	103,000
MEDA Sarona loan – A	744,365	870,000
MEDA Sarona loan – B (MEDA Investors)	1,459,681	1,184,046
Long term loans (Int'l Funds)	<u>1,058,343</u>	<u>1,100,000</u>
Total long term loans	<u>3,262,389</u>	<u>3,257,046</u>
Total Liabilities	<u>3,530,567</u>	<u>3,427,858</u>
Subordinated loans and equity		
MEDA Sarona loan – C subordinated & convertible	500,000	500,000
CIDA Grant	103,000	0
MiCredito managers - subordinated & convertible	21,130	20,766
Operating grant	60,950	61,703
Retained earnings	<u>-66,100</u>	<u>-92,470</u>
Total Equity & Subord. Loan	<u>618,980</u>	<u>489,999</u>
TOTAL LIABILITIES & EQUITY	<u>4,149,547</u>	<u>3,917,857</u>

Income statement

Financial income	379,222	1,117,225
Financial cost	<u>130,299</u>	<u>378,232</u>
Gross financial margin	248,923	738,993
Provision for loan losses	<u>26,391</u>	<u>169,783</u>
Net Financial margin	222,532	569,210
Operating expenses	200,118	653,690
Net earnings before taxes	22,414	-84,480
Total Other Income	<u>2,971</u>	<u>28,364</u>
Net Income	<u>25,385</u>	<u>-56,116</u>