

ADOPEM

31-Dec-01

HIGHLIGHTS

Consistently and highly profitable
Significantly improved portfolio at risk
More convenient funding structure
Faster growth pace

RISK FACTORS

Weak internal audit function
High operating expense and increasing trend

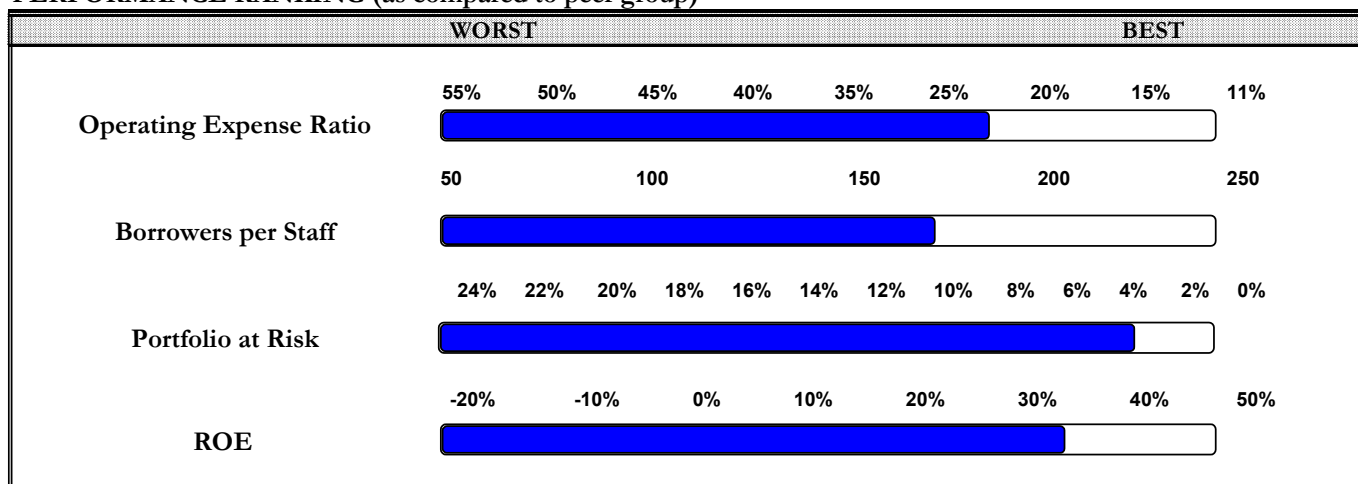
GROWTH INDICATORS

	Dec-00	Dec-01	Growth
Gross Portfolio (\$000')	7,929	9,946	25.4%
Number of Clients	20,511	28,079	36.9%
Staff	135	151	11.9%
Debt/Equity	0.9	1.1	

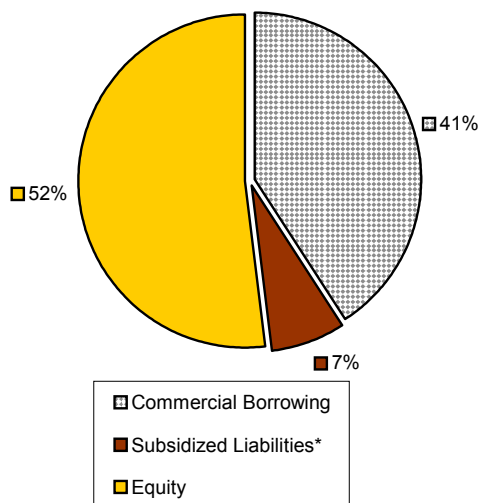
PERFORMANCE INDICATORS

	Dec-00	Dec-01
Portfolio Yield	44.9%	46.3%
Operating Expense Ratio	20.0%	21.9%
Portfolio at Risk	6.2%	3.4%
ROE	28.2%	32.4%

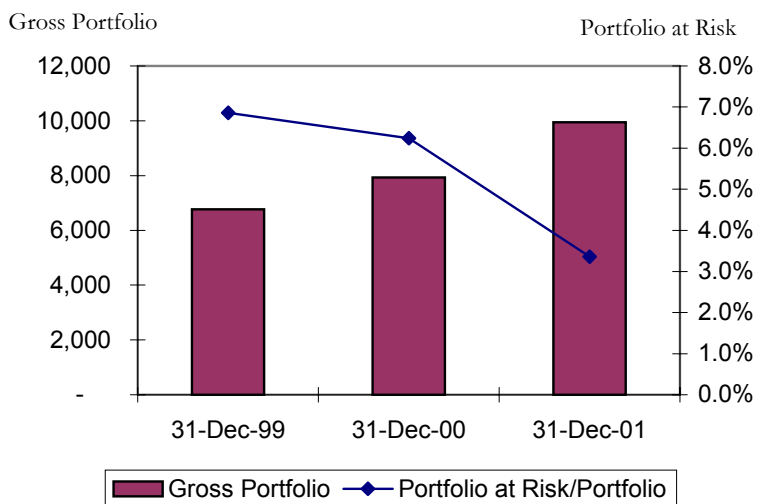
PERFORMANCE RANKING (as compared to peer group)



FUNDING SOURCES: Dec-01



PORTFOLIO AND PORTFOLIO AT RISK



COUNTRY PROFILE	1997	1998	1999	2000	2001
Annual Inflation	8.3%	7.8%	5.1%	9.0%	8.9%
Annual Devaluation	2.2%	9.9%	1.6%	3.9%	2.9%
End of Period Official Exchange Rate / US\$	14.4	15.8	16.0	16.7	17.2
Deposit Rate (Year Average)	13.4%	17.6%	16.1%	18.7%	12.4%
GDP Annual Growth	8.2%	7.5%	8.8%	6.5%	n/a

Source: International Finance Statistics Unless Noted Differently

SUMMARY DESCRIPTION

Founded in 1982, ADOPEM is the Dominican affiliate of Women's World Banking Network. Because of its excellent performance, it is normally grouped with the better known Colombian WWB affiliates. In 2001, it earned the Inter-American Development Bank's "Award in Excellence in Microfinance." With headquarters in Santo Domingo, and a network of 9 branches throughout the country, it manages a portfolio of US\$9.9 million and 28,079 clients. Although considerably smaller than BancoADEMI, the best-known Dominican institution, it is the second largest MFI in the country. ADOPEM, a true micro lender, is known for its market savvy and keen application of its credit methodology. While still an NGO, it is undergoing a formalization process this year to obtain access to cheaper and more diversified funding. Increasingly, it is recognized as one of the leaders of the Latin American microfinance sector.

CREDIT OPINION

ADOPEM is a credit worthy institution due to its low leverage, high profitability, improved portfolio at risk and proven track record as true micro lender.

RECOMMENDED

COMPANY PROFILE (US\$'000)	31-Dec-97	31-Dec-98	31-Dec-99	31-Dec-00	31-Dec-01
Gross Loan Portfolio	\$3,765	\$5,760	\$6,768	\$7,929	\$9,946
<i>Annual Change in Gross Loans</i>	<i>n/a</i>	<i>53.0%</i>	<i>17.5%</i>	<i>17.2%</i>	<i>25.4%</i>
Number of Clients Outstanding	9,009	15,752	17,847	20,511	28,079
<i>Annual Change in Number of Clients Outstanding</i>	<i>n/a</i>	<i>74.8%</i>	<i>13.3%</i>	<i>14.9%</i>	<i>36.9%</i>
Number of Loans Outstanding	9,009	15,752	17,847	20,511	28,079
Average Loan Balance (per client)-Actual Amounts	\$418	\$366	\$379	\$387	\$354
Total Assets	\$4,673	\$6,695	\$8,128	\$9,564	\$14,309
Equity	\$1,937	\$2,372	\$3,575	\$4,913	\$6,827
Net Income	\$329	\$443	\$976	\$1,198	\$1,903
Total Staff	100	102	113	135	151
Return on Average Equity	17.0%	20.6%	32.8%	28.2%	32.4%
Operating Expense / Average Gross Loans	20.7%	19.4%	19.6%	20.0%	21.9%
Portfolio at Risk / Gross Loan Portfolio	7.5%	5.2%	6.9%	6.2%	3.4%
Number of Clients / Credit Officer	196	315	324	329	394
Number of borrowers per staff	90	154	158	151	185
Portfolio Yield	37.9%	44.3%	47.4%	44.9%	46.3%

HIGHLIGHTS***Consistently and Highly Profitable***

ADOPEM posted another profitable year in 2001, achieving profits in excess of US\$1.9 million. Return on equity remained high at 32%, a slight increase from 28% in 2000.

Faster growth during 2001

During 2001, the portfolio growth equaled 25%, up from the 17% shown in 2000.

Significantly improved Portfolio at Risk

As of December 31, 2001, ADOPEM presented a Portfolio at risk greater than thirty days (plus refinanced loans) of 3.4%, a significant reduction from last year's 6.2%.

More Convenient Funding Structure

While leverage remains low at less than 1 to 1, ADOPEM obtained new sources of funding in 2000, diversifying its borrowings to include loans from international lenders. This reduced the cost of funds, from 20% in 2000 to 13% in 2001 and led to longer repayment terms.

Small Average Loan Size

ADOPEM is unique among Dominican micro lenders, attending a low-end market niche with loans of US\$354 on average.

Weak Internal Audit Function

ADOPEM's internal audit area is new and still forming. Given ADOPEM's fast growth and plans to formalize, it is important that internal audit and others internal controls become fully effective.

Relatively High Operating Expenses and Increasing Trend

Although the small average loan-size justifies a higher than normal operating expense ratio, ADOPEM should have been able to become more efficient as it grew. Instead, the operating expense ratio has increased steadily since 1998.

Formalization in 2002

Everything is ready for the institution to formalize into a Development Bank at the closing of 2002, which would allow them to amplify their product line, mobilize deposits and open their capital participation to new investors.

CREDIT OPERATIONS

With an outstanding portfolio of nearly \$10 millions, ADOPEM is the most important micro-lender in the Dominican Republic targeting the market below US\$600 equivalent. Banco ADEMI is the largest "micro" lender, but is not a direct competitor given an average loan size of \$10,000. Banco de la Pequeña Empresa (BPE), has a much smaller portfolio and is not positioned to pose a serious threat. Of the other NGOs involved in micro lending, four are moving down market to a point where ADOPEM management, branch managers and loan officers agree that competitive pressure has increased. ADOPEM continues to have a comparative advantage in agile service and knowledge of its market niche.

Overall portfolio growth in 2001 increased to 25% from 17% in 2000 and 1999. ADOPEM continues to focus the majority of its product line in micro – individual loans, while also offering solidarity loans (1%), small business loans (11%) and consumer loans (0.56%.) Nearly all lending is made to clients in urban settings involved in commerce and services. Production comprises a small portion of the portfolio.

Lending rates in 2001 ranged between 30% and 33% annual nominal interest, plus a 9% fee and a 1% charge for life insurance. Effective yield for 2001 increased slightly as a result of the reduction in portfolio at risk. Lending terms vary between 4- 6 months for groups, 12 months for the small group portfolio, 24-months for individual microenterprise loans and 36 months for small business. Group loans range from US\$25 to US\$1,000, while

individual loans range from US\$50 to US\$30,000. Unlike its WWB sister institutions in Colombia, ADOPEM does not offer parallel (seasonal) loans, pawn loans or automatic loans.

ADOPEM continued its expansion in 2001, with 9 branches and 2 “service centers”¹. Loan officers are assigned specific geographic zones. Credit analysis emphasizes cash flows of both the business and the family unit, and collateral guarantees are included only for their psychological value. ADOPEM uses the services of two credit bureaus to verify the level of indebtedness of its larger clients. Loan officers receive incentive pay in addition to a base salary, and the most efficient triple their base. Each manages 394 clients on average, a significant increase from last year’s 329, turning around loan renewals in 2 to 3 days. This is partly due to having pared loan documentation to a minimum. Although the Board itself still approves loans in amounts greater than US\$1,250, branch managers and two loan officers may authorize lesser amounts. Until 1999, the Board approved all loans. This decentralization of the approval process has yielded efficiency gains, despite the fact that all loan files are held centrally in the main office.

Portfolio at Risk

ADOPEM's portfolio at risk, arrears over 30 days plus refinanced loans, declined sharply in 2001, from 6.2% to 3.4%. As was the case in 2000 and 1999, a majority of ADOPEM's portfolio at risk (72%) is more than 180 days past due. However, this portion of the portfolio at risk was reduced significantly during 2001. Portfolio arrears tends to concentrate in ADOPEM's small business loan portfolio, which had arrears over thirty days of more than 14%. Nonetheless, small business loans carry real guarantees. ADOPEM cleansed this portfolio during 2001, in anticipation of its formalization process, reducing it in 32% and its share in the overall portfolio from 19% in 2000 to 11% in 2001. In its primary micro product line (82% of portfolio) the arrears picture improved dramatically, with portfolio at risk of only 1.95%. These figures indicate that ADOPEM continues to be an excellent micro lender. During the last 2 years provisioning improved, as ADOPEM increased its provision/portfolio at risk coverage ratio from 54.7% in 1999 to 90% in 2001. Write-offs in 2001 equaled 1.7% of the portfolio.

ORGANIZATION

ADOPEM has an active Board (17 members) composed primarily of founding members. They have a keen understanding of microfinance and of their market. Its members include ex-bankers and business people. The wide contacts and respect the Board members have within the business community are valuable assets to the company. This level of access has contributed to ADOPEM's early success in sourcing commercial funds domestically. The Executive Director has been with the organization for ten years. Previously, she worked for the Dominican Central Bank and has taught at different local universities. The area managers are all professionals and have been with the institution five years on average.

Staff increased 11% to 150 in 2001. Credit officers have increased productivity to a high 394 client per officer from 329 in the year 2000. This puts ADOPEM in place among the 29 Latin America MFIs tracked by MicroRate. ADOPEM has an effective incentive system that generates 80% of the analysts' income. In 1999, ADOPEM instituted an internal audit function, which became functional in 2000. This area is weak and still learning its true function. There are internal control concerns, which have not had any consequence yet. However, these concerns are gaining relevance as ADOPEM grows and decentralizes its operations, trying to reach its formalization goal.

Giving ADOPEM growth rate, operating expenses, 22% of the average gross portfolio in 2001, are high, especially when compared to similar institutions like the WWB affiliate of Popayán, Colombia. ADOPEM should have been able to become more efficient as it grew. Instead, the operating expenses ratio has increase steadily since 1998. During 2001, personnel expense grew faster than the portfolio explaining partly the upward trend of this indicator. WWB Popayán caters the same market and has a similar size, however operating expenses are only 13% of the average gross portfolio.

¹ ADOPEM defines “service centers” as a physically separate office that administratively depends from one of the branches while serving a different market.

Since 1998, ADOPEM has been in a process of decentralizing its administrative functions to facilitate growth. The current plans to convert into a formal financial institution have lent new urgency to this effort. A board committee has been founded to oversee formalization and new manuals and procedures are being developed. A changing legal framework complicates the formalization process. A comprehensive overhaul of Dominican banking laws is expected but timing is uncertain – congress has considered the issue for ten years. Under the existing laws, ADOPEM could become a Development Bank, like ADEMI and BPE. The new code will introduce the concept of a Savings and Loans Corporations, which would better suit ADOPEM. Finally, congress is also considering a law, which would authorize NGOs to accept deposits and make loans if they submit to banking supervision. It is not clear which route will be most appropriate for ADOPEM. The institution has received a \$300,000 grant from the IDB-MIF for funding the formalization process.

FINANCIAL CONDITION

ADOPEM posted another highly profitable result in 2001, generating over \$1.9 million in net income. The stability of ADOPEM's primary drivers of profitability in 2001 underscores their mature business model and strong position in the market. There was a slight increase in portfolio yield and drastic reduction of cost of funds, operating cost increased steadily, and portfolio at risk improved considerably, generating more income (ADOPEM only recognizes income when is actually received) and allowing a significant reduction in provision expense.

FINANCIAL RATIOS	31-Dec-97	31-Dec-98	31-Dec-99	31-Dec-00	31-Dec-01
Capital Adequacy					
Debt / Equity	1.4	1.8	1.3	0.9	1.1
Asset Quality					
Portfolio at Risk / Gross Loan Portfolio	7.5%	5.2%	6.9%	6.2%	3.4%
Write-offs / Average gross portfolio	3.1%	2.4%	1.2%	1.5%	1.7%
Loan loss reserves / Portfolio at Risk	25.9%	60.7%	54.7%	75.4%	90.5%
Loan loss provision exp. / Average gross portfolio	3.7%	4.2%	2.4%	3.2%	1.3%
Management					
Operating Expense / Average Gross Loans	20.7%	19.4%	19.6%	20.0%	21.9%
Number of Clients / Credit Officer	196	315	324	329	394
Number of borrowers per staff	90	154	158	151	185
Earnings					
Net income / Average equity	17.0%	20.6%	32.8%	28.2%	32.4%
Net income / Average assets	7.0%	7.8%	13.2%	13.5%	15.9%
Portfolio Yield	37.9%	44.3%	47.4%	44.9%	46.3%
Cost of borrowed funds	9.3%	17.9%	19.8%	20.0%	13.3%
Liquidity					
Current Ratio (Current Assets/Current Liabilities)	1.9	1.6	1.8	3.9	4.4

During 2001, ADOPEM secured over \$3 millions in new of funding. The overall leverage remained low, due to an increase in equity boosted by last year's income of over \$1 million and the reduction of the most expensive local debt. ADOPEM has strong relationships with both local and international lenders. These relationships should serve ADOPEM well when it formalizes and increasingly turns to debt as a source of funds.

International borrowings have increased steadily since 2000, allowing ADOPEM to developed a sounder capital structure. As of 2000, 70% of ADOPEM's debt was local, expensive and short-term. In 2001, only 30% of debt is short term. This new structure presents the added benefit of a strong cost of funds reduction from 20% in 2000 to 13% in 2001, yielding the highest profits in the institution's history. ROE went from 28% in 2000 to 32% in 2001, despite the increase of equity and a provision reserve, which now covers 90% of portfolio at risk; all this while reducing its subsidized liabilities from 35% in 2000 to 9% in 2001. ADOPEM protects itself from currency risk of

increased foreign borrowing by depositing its dollar-denominated funding with the local banks, while using these deposits as collateral for loans, which are denominated in local currency.

When MicroRate first evaluated ADOPEM's, the period ending December 1999, it found a highly profitable institution with an impressive knowledge of its market niche and of its credit methodology; however, one with a somewhat higher than normal portfolio at risk, provisions below international standards, and rather expensive funding. As of December 2001, ADOPEM has dramatically improved its portfolio quality, its provisions reserve and its cost of funds. In two years, ADOPEM has appreciably improved the quality of its asset base and the soundness of its capital structure, while reducing average loan size and maintaining a high level of profitability. During these two years, ADOPEM has come closer than ever to its goal of becoming a true financial intermediary.

MicroRate	ADOPEM				2001
BALANCE SHEET (US\$'000)					
	31-Dec-97	31-Dec-98	31-Dec-99	31-Dec-00	31-Dec-01
ASSETS					
Cash and Banks	66	79	210	159	126
Temporary Investments	-	-	-	-	-
Net Loans	3,692	5,578	6,514	7,556	9,644
Gross Loans	3,765	5,760	6,768	7,929	9,946
<i>Performing Loans</i>	3,482	5,460	6,304	7,434	9,612
<i>Portfolio at Risk</i>	283	300	464	495	334
Loan Loss Reserve	73	182	254	373	302
Interest Receivables	-	-	-	-	-
Other Current Assets	47	54	90	194	428
Current Assets	3,805	5,711	6,815	7,909	10,197
Long Term Investments	414	568	833	1,292	3,485
Property and Equipment	444	410	472	363	628
Other Long Term Assets	10	6	8	-	-
Total Assets	4,673	6,695	8,128	9,564	14,309
LIABILITIES					
Demand Deposits	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-
Short Term Funding Liabilities	1,871	3,312	3,289	1,486	1,121
Other Short Term Liabilities	177	240	426	522	1,178
Current Liabilities	2,048	3,552	3,715	2,008	2,299
Long Term Time Deposits	-	-	-	-	-
Long Term Funding Liabilities	251	373	447	2,266	4,818
Quasi-Capital Accounts	437	397	391	376	366
Other Long Term Liabilities	-	-	-	-	-
Total Liabilities	2,736	4,323	4,553	4,651	7,483
EQUITY					
Capital	52	72	84	108	125
Earnings (Losses) Period	329	443	976	1,198	1,903
Retained Earnings	1,386	1,705	2,264	3,365	4,676
Other Capital Accounts	171	152	251	242	123
Total Equity	1,937	2,372	3,575	4,913	6,827
Total Liabilities & Equity	4,673	6,695	8,128	9,564	14,309
Source of Financial Statements	Audited Statements	Audited reports	Audited Statements	Management reports	Management reports

MicroRate	ADOPEM				2001
INCOME STATEMENT (US\$'000)					
	1997	1998	1999	2000	2001
Interest and Fee Income	1,428	2,108	2,971	3,300	4,136
<i>Cash Interest and Fee Income</i>	1,428	2,108	2,971	3,300	4,136
<i>Accruals (Int.. Receivables)</i>	-	-	-	-	-
Interest and Fee Expense	246	614	841	850	711
Net Interest Income	1,182	1,495	2,131	2,450	3,425
Provision for Loan Loss	138	198	150	236	120
Net Interest Income After Provisions	1,044	1,296	1,981	2,214	3,305
Operating Expense	778	926	1,231	1,472	1,955
<i>Personnel</i>	563	666	708	837	1,173
<i>Other Administrative Expense</i>	215	260	523	635	782
Net Operating Income	266	370	750	742	1,350
Other Income	79	110	275	456	553
<i>Investment Income</i>	55	61	143	136	300
<i>Other Non-Extraordinary Income</i>	23	49	132	320	252
Other Expenses	25	37	48	-	-
<i>MFI's Inflation Adjustment (if any)</i>	-	-	-	-	-
<i>Other Non-Extraordinary Expenses</i>	25	37	48	-	-
Net Not-Operating Income	320	443	976	1,198	1,903
Extraordinary Items	9	-	-	-	-
<i>Extraordinary Income</i>	9	-	-	-	-
<i>Extraordinary Expense</i>	-	-	-	-	-
Net Income Before Taxes	329	443	976	1,198	1,903
Taxes	-	-	-	-	-
Net Income	329	443	976	1,198	1,903
Source of Financial Statements	Audited Statements	Audited Statements	Audited Statements	Management reports	Management reports

Financial Adjustments

The financial and portfolio information in the previous tables is presented in a common format used by MicroRate for the evaluation of all microfinance institutions. This format reclassifies the financial statements of each institution according to generally accepted accounting practices and the emerging norms of microfinance. Gross portfolio, for example, always is expressed prior to the deduction of provisions. Operating expense disaggregates personnel expense from other administrative expense. If the institution receives long-term concessional funding (>20 years), that funding is reclassified as quasi-capital.

The subsequent adjustments to the financial statements allow rational comparison among institutions. The final section, Comparisons, uses adjusted financial information (expressed in US dollars at the IMF end-of-period rate). The adjustments are concentrated in three areas: interest income is recognized only on a cash basis; loan loss provisioning and write-offs are recalculated according to a formula generally accepted as prudent for portfolios with the characteristics typical of MFI²s; funding subsidy is eliminated³. This final adjustment is made by calculating the marginal difference in financial expense and its impact on net income.

ADOPEM does not accrue interest and does not adjust for inflation. MicroRate's inflation adjustment reduced income by \$135,000, \$129,000, and \$345,000 for 1998, 1999 and 2000 respectively. Applying MicroRate's standard provisions increased provision expenses by \$62,000 \$106,000 and \$26,000 over the same periods. Funding subsidy required additional adjustments of \$11,000, \$18,000 and \$81,000. Overall, net income for 1998 was reduced from \$443,000 to \$218,000. Net income for 1999 was reduced from \$976,000 to \$723,000 and net income for 2000 was reduced from \$1,198,000 to \$747,000. For 2001, no adjustment were necessary. The funding subsidy amounted to \$17,000, which was considered immaterial. Similarly, inflation has remained less than 10% in 2001, the level below which MicroRate does no longer perform an inflation adjustment.

² The analyst writes off loans past due more than 180 days and recalculates provisions according to the following formula, unless the MFI's provisioning policy is more conservative:

For Non-Refinanced Loans:	
1 – 30 days	10%
31 – 60 days	30%
61 – 90 days	60%
> 90 days	100%
For Refinanced Loans:	
0 days	50%
>1 days	100%

³ The analyst takes the deposit rate from the International Financial Statistics of the IMF as the minimum market rate for loans in local currency. For dollar denominated loans one-year LIBOR +2% and Prime Rate are taken for short and long term loans, respectively. The difference between the minimum market rate and the rate charged by the fund are then applied to the mid-year average of the fund. This is the adjustment to the cost of funds.

ADJUSTED COMPARISON TABLE (US\$'000)

MFI Name

Country

Period

Except if noted otherwise figures are in:

	ADOPEM Dominican Republic 31-Dec-01 Miles	WVB POPAYAN Colombia 31-Dec-01 Miles	F.J. NIEBOROWSKI Nicaragua 31-Dec-01 Miles	VISION Paraguay 31-Dec-01 Miles	PROEMPRESA Peru 31-Dec-01 Miles
Loan Portfolio					
Gross Loan Portfolio	\$9,706	\$9,594	\$2,906	\$18,741	\$4,809
<i>Annual Change in Gross Loan Portfolio</i>	26.9%	50.9%	56.2%	-7.3%	7.7%
Number of Loans Outstanding	28,079	37,486	4,163	38,375	5,818
<i>Annual Change in Number of Loans Outstanding</i>	36.9%	52.3%	85.3%	25.2%	70.3%
Number of Clients Outstanding	28,079	36,049	n/a	35,057	5,509
<i>Annual Change in Number of Clients Outstanding</i>	36.9%	59.1%	n/a	24.2%	61.3%
Average Loan Balance (per clients)-Actual Amounts	\$346	\$266	\$698	\$535	\$873
Portfolio at Risk (Arrears 30-180 Days)/ Gross Loan Portfolio	1.0%	2.7%	3.9%	7.8%	6.8%
Write-offs / Average Portfolio	4.5%	0.8%	2.3%	5.9%	7.8%
Unadjusted Loan loss reserves / Unadjusted Portfolio at Risk	90.5%	36.7%	38.4%	22.7%	72.7%
Loan loss provision expense / Average portfolio	1.4%	0.8%	0.2%	6.7%	4.3%
Productivity Indicators					
Total operating expense / Average gross portfolio	22.5%	13.7%	16.7%	17.6%	30.0%
Number clients per credit officer	394	690	191	361	240
Number of borrowers per staff	185	296	68	125	104
Portfolio yield	47.7%	36.9%	25.5%	40.1%	47.3%
Personnel Expense/Average Gross Portfolio	13.5%	7.5%	7.5%	7.3%	13.0%
Credit officers / Total personnel	47.0%	42.9%	35.6%	34.6%	43.4%
Incentive Pay as % of Base Salary	80.0%	85.0%	88.0%	22.3%	0.0%
Percent of Staff with MFI < 12 Months	27.8%	14.3%	48.9%	n/a	28.3%
Financial Ratios					
Debt / Equity	0.8	0.5	2.3	6.4	3.7
Equity/Assets	50.3%	65.8%	16.1%	13.2%	20.7%
Net Income / Average equity (ROE)	22.2%	26.4%	17.5%	-24.8%	4.0%
Net Income / Average assets (ROA)	11.6%	18.4%	3.3%	-3.4%	0.8%
Unadjusted Interest expense / Average portfolio	8.2%	4.6%	4.8%	18.9%	12.8%
Unadjusted Interest expense / Average funding liabilities	14.3%	13.6%	7.1%	15.6%	11.9%
Current assets / Current liabilities	4.4	15.9	3.1	1.6	2.8
Absolute Currency Amounts					
Interest and Fee Income	\$4,136	\$2,943	\$608	\$7,812	\$2,191
Net Income	\$1,408	\$1,717	\$112	(\$964)	\$57
Total Assets	\$14,309	\$11,246	\$4,719	\$27,705	\$7,315
Deposits	\$0	\$0	\$0	\$16,706	\$0
Funding Liabilities (excluding Deposits)	\$5,939	\$3,658	\$1,740	\$6,547	\$5,624
Equity	\$7,193	\$7,399	\$758	\$3,651	\$1,514