STANDARD & POOR'S

Microfinance

Taking Root In The Global Capital Markets
Part 2

September 2009

Global Ratings Network

Beijing
Ping Chew
Room 2201, 22nd Floor
China World Tower 1, Chao Yang District
Beijing, China 100004
(86) 10-6535-2908

Boston
Geoffrey Buswick
225 Franklin Street, 15th Floor
Boston, MA 02110-2804
(1) 617-530-8311

Buenos Aires
Marta Castelli
Torre Alem Plaza, Av
Leandro N. Alem 855
C1001AAD, Buenos Aires
(54) 114-891-2128

Chicago
John McGowan
130 East Randolph Street, Suite 2900
Chicago, IL 60601
(1) 312-233-7019

Dallas
Malachy Fallon
Lincoln Plaza
500 North Akard Street, Suite 3200
Dallas, TX 75201
(1) 214-871-1400

Dubai
Jan Willem Plantagie
Dubai International Financial Centre
The Gate Village, Building 5-Level 2
PO Box 506650
Dubai, United Arab Emirates
(971) 0-4-709-6800

Frankfurt
Torsten Hinrichs
Neue Mainzer Strasse 52-58
60311 Frankfurt-am-Main
(49) 69-3399-9110

Hong Kong
Ping Chew
Suite 3003 30th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central, Hong Kong
(852) 2533-3500

Johannesburg
Konrad Reuss
Unit 4, 1 Melrose Boulevard
Melrose Arch
Johannesburg, South Africa
(27) 11-214-1999

Kuala Lumpur
Surinder Kathpalia
17-7, The Boulevard
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia
(60) 3-2284-8668

London
20 Canada Square, Canary Wharf
London E14 5LH
(44) 20-7176-3500

Madrid
Jesus Martinez
Jose Tora
Marques de Villamejor, 5
28006 Madrid
(34) 91-389-6940

Melbourne
John Bailey
Level 45, 120 Collins Street
Melbourne VIC 3000, Australia
(61) 3-9631-2000

Mexico City
Victor Herrera, Jr.
Punta Santa Fe Torre A
Prolongacion Paseo de la Reforma 1015
Col. Santa Fe
Deleg. Alvaro Obregon
01376 Mexico City, C.P.
(52) 55 5081-4400

Milan
Maria Pierdicchi
Vicola San Giovanni sul Muro 1
20121 Milan, Italy
(39) 02-721-11201

Moscow
Alexei Novikov
4/7 Vozdvizhenka Street, Bldg. 2
7th Floor
Moscow 125009, Russia
(7) 095-783-40-12

Mumbai
R. Ravimohan
CRISIL House—Plot No. 121/122
Andheri Kurla Road—Andheri (East)
Mumbai, India, 400 093
(91) 22-56913001

New York
55 Water Street
New York, NY 10041
(1) 212-438-2000

Paris
Carol Sirou
21-25 rue Balzac
75008 Paris
(33) 1-4420-6662

San Francisco
Steven G. Zimmermann
One Market, Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
(1) 415-371-5000

São Paulo
Regina Nunes
Edificio Roberto Sampaio Ferreira
Av. Brigadeiro Faria Lima, No. 201
18th Floor
CEP 05426-100
(55) 11-3039-9770

Seoul
J.T. Chae
9Fl. Seoul Finance Center
84 Taepyungro 1ga, Chung-gu
Seoul, Korea, 100-768
(82-2) 2022-2300

Singapore
Surinder Kathpalia
Prudential Tower, #17-01/08
30 Cecil Street
Singapore 049712
(65) 6239-6363

Stockholm
Mäster Samuelsgatan 6, Box 1753
111 87 Stockholm
(46) 8-440-5900

Sydney
Level 27, 259 George Street
Sydney NSW 2000, Australia
(61) 2-9255-9888

Taipei
Eddy Yang
49F, Taipei 101 Tower
No. 7, Xinyl Road, Sec 5
Taipei, 11049, Taiwan
(866) 2-8722-5800

Tel Aviv
Dorit Salingar
12 Abba Hillel Silver Street
Ramat-Gan 52506
(972) 3-7539700

Tokyo
Yu-Tsung Chang
Marunouchi Kitaguchi Building
27/28 Floor
1-6-5 Marunouchi, Chiyoda-ku
Tokyo, 100-0005
(81) 3-4550-8700

Toronto
Thomas Connell
The Exchange Tower
130 King Street West, Suite 1100
P.O. Box 486
Toronto, ON M5X1E5
(1) 416-507-2501

Ratings Information

Call for ratings on all issues and issuers.

Hong Kong
Cherrie Chui
(852) 2533-3516

London
Angela Barker
(44) 20-7176-7401

Madrid
(34) 91-389-6969

Melbourne
(61) 1300-792-553

Mexico City
Ericka Alcantara
(52) 55 5081-4427

New York
(1) 212-438-2400

Paris
Valerie Barata
(33) 1-4420-6708

Seoul
J.T. Chae
(82-2) 2022-2300

Singapore
Dowson Chan
(65) 6239-6438

Stockholm
(46) 8-440-5900

Tokyo
(81) 3-4550-8711

Fixed-Income Research
Diane Vazza, New York
(1) 212-438-2760

Ratings Services Media Contacts

Frankfurt
Doris Keicher
(49) 69-3399-9225

Hong Kong
Lisa Coory
(852) 2533-3520

London
Matthew McAdam
(44) 20-7176-3541

Melbourne
Sharon Beach
(61) 3-9631-2152

New York
Mimi Barker
(1) 212-438-5054
Jeff Sexton
(1) 212-438-3448
Adam Tempkin
(1) 212-438-7530
David Wargin
(1) 212-438-1579

Paris
John Piecuch
(33) 1-4420-6657

Singapore
Carolyn Sequeira
(65) 6239-6396

Tokyo
Kyota Narimatsu
(81) 3-4550-8588

Toronto
Rachel Shain
(1) 416-507-2528

Seminar Programs

Call for information on seminars and teleconferences.

Hong Kong
Virginia Lau
(852) 2533-3500

London
Fleur Hollis
(44) 20-7176-7218

Melbourne
Michelle Wang
(61) 3-9631-2071

New York
Carla Cunningham
(1) 212-438-6685

Singapore
Carolyn Sequeira
(65) 6239-6396

Tokyo
Toshiya Ishida
(81) 3-4550-8683

Subscriptions and Customer Service

Call with questions on new or existing subscriptions to ratings publications and online products.

Hong Kong
(852) 2533-3535

London
(44) 20-7176-7425

Melbourne
Andrea Manson
(61) 1300-792-553

New York
(1) 212-438-7280

Singapore
Amy Tan-Morel
(65) 6239-6398

Tokyo
Minako Yoneyama
(81) 3-4550-8711

Microfinance

Taking Root In The Global Capital Markets
Part 2

September 2009

A publication of Standard & Poor's

A Note From Standard & Poor's

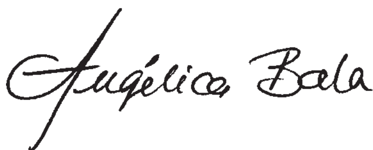
Standard & Poor's Ratings Services is pleased to play a role in enhancing the information and comparative data available to the market and other interested parties about the microfinance industry. We believe that this effort will strengthen the capacity of microfinance institutions (MFIs) to broaden their access to the more diverse sources of capital that many will need to push forward with their lending programs and the provision of other financial services to the world's poorest citizens. During this period of market and economic turmoil, donor agencies have stepped up their contributions to these entities and the MFIs, like many other organizations and enterprises, have reevaluated their strategies and growth objectives. However, we expect a renewed interest among these institutions in increasing their access to private capital as the demand for lending grows and investors' appetite for emerging market and nontraditional investments is restored.

Much of the work reflected in this publication, our second collection on the microfinance industry, was undertaken via collaboration with the Inter-American Development Bank's Multilateral Investment Fund. The first article, "A Pilot Project To Establish A Methodology And Criteria For Rating Microfinance Institutions," outlines our findings derived from a pilot program that included the rating of 10 MFIs in Latin America. Through this exercise, we established globally recognized metrics that we believe will enhance transparency within the microfinance industry and enable investors to compare MFI investment opportunities within and across borders and against other types of investments.

We noted our intention to move forward with the development of an approach to rating MFIs in our June 2007 publication, "*Microfinance: Taking Root In The Global Capital Markets*." The second article in this new publication, "Microfinance Institutions: Methodology And Assumptions: Key Credit Factors," addresses the outcome of this effort. In this piece, we explain the refinements and adaptations that we have made to our bank rating criteria to assess the creditworthiness of MFIs. We highlight the major areas of the financial institutions criteria that we place greater emphasis on when reviewing MFIs.

This book also includes our criteria for rating MFI securitizations and summary analyses of all Standard & Poor's rated MFIs.

We hope that this publication contributes to a better understanding of these important institutions, furthers the development of a secondary market for their debt instruments, and helps to promote the capabilities of domestic markets.



Angelica Bala
Director,
Financial Institutions Ratings, Mexico

Sergio Garibian
Director,
Financial Institutions Ratings, Argentina

Published by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. Executive and Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright © 2009 by Standard & Poor's Financial Services LLC (S&P). All rights reserved.

No part of this information may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P. S&P, its affiliates, and/or their third-party providers have exclusive proprietary rights in the information, including ratings, credit-related analyses and data, provided herein. This information shall not be used for any unlawful or unauthorized purposes. Neither S&P, nor its affiliates, nor their third-party providers guarantee the accuracy, completeness, timeliness or availability of any information. S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such information. S&P, ITS AFFILIATES AND THEIR THIRD-PARTY PROVIDERS DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained herein even if advised of the possibility of such damages.

The ratings and credit-related analyses of S&P and its affiliates and the observations contained herein are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or make any investment decisions. S&P assumes no obligation to update any information following publication. Users of the information contained herein should not rely on any of it in making any investment decision. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a "fiduciary" or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of each of these activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P's Ratings Services business may receive compensation for its ratings and credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge) and www. ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

S&P uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from S&P, its affiliates, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write to us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Customer Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-9823; or by email to: research_request@standardandpoors.com.

The McGraw·Hill Companies

Table of Contents

A Note From Standard & Poor's 3

Commentary and Criteria

A Pilot Project To Establish A Methodology And Criteria For Rating Microfinance Institutions 7
- Standard & Poor's Review 8
- Developing MFI Ratings Criteria 11
- Pilot Rating Program Findings 12
- Banking Industry Country Risk Assessment (BICRA) 13
- Business Profile 13
- Management And Strategy 15
- Ownership, Corporate Governance, And Role Of The Board 16
- Enterprise Risk Management 17
- Financial Profile 18
- Lessons Learned 26

Microfinance Institutions: Methodology And Assumptions: Key Credit Factors 29
- Criteria Summary 29
- Economic And Industry Risk 30
- Corporate Structure 32
- Business Profile 33
- Financial Risk Profile 35

Documentation Requirements For MFI Rating 38
- Disclosure Requirements 38

Methodology And Assumptions: Standard & Poor's Approach To Rating Microfinance Securitizations 41
- Foundations Of Our Rating Methodologies For Microfinance Securitizations 41
- Our Rating Methodology For Multiple-MFI Transactions 42
- Our Rating Methodology For Single-MFI Transactions 45
- Reviewing The Transaction Structure 46
- Legal Opinions 47

Summary Analyses
- ACLEDA Bank PLC 48
- Banco Compartamos S.A. 51
- Banco de Ahorro y Crédito ADOPEM S.A. 53
- Financiera El Comercio 55
- FinComún Servicios Financieros Comunitarios S.A. de C.V. Sociedad Financiera Popular 57
- Fundación Integral Comunitaria A.C. 59
- Visión Banco S.A.E.C.A. 61

Biographies 63

A Pilot Project To Establish A Methodology And Criteria For Rating Microfinance Institutions

Angelica Bala
Mexico City
(52) 55-5081-4405

Sergio Garibian
Buenos Aires
(54) 11-4891-2119

To promote the development of a sound global and local capital market infrastructure for microfinance, and, in particular, to help build a healthy secondary market, the Multilateral Investment Fund of the Inter-American Development Bank (IDB) asked Standard & Poor's Ratings Services to participate in a pilot project to rate microfinance institutions (MFIs). These institutions provide small loans and financial services to low income and/or financially underserved clients. Standard & Poor's believes that globally recognized metrics can enhance transparency within the microfinance industry. These established standards may give investors better tools to use to assess the creditworthiness and performance of a microfinance institution and enable comparisons of microfinance investments opportunities within and across borders and with nonmicrofinance opportunities.

Our role in the pilot project, which began in early 2008, was to evaluate how microfinance institutions fit into Standard & Poor's existing financial institutions rating criteria, making adjustments to fit the special characteristics of MFIs and their weighting and to test the validity of these factors through a pilot rating program. Because the overall pool of rated microfinance institutions was relatively limited (10 in the pilot, plus four previously rated), our findings are specific to the particular MFIs reviewed and do not necessarily apply to the overall sector's performance.

The ratings, some of which are public and some confidential, that we assigned in the pilot program are on our global scale and are intended to be comparable with those of other rated entities worldwide. Standard & Poor's national scale ratings are based on a different scale and not comparable to each other across countries. The global credit rating scale is designed for global comparisons of issuers from different countries, while the national credit rating scale is tailored to meet the specific needs of local and foreign participants in each country's financial markets. The national scale provides more granular ratings across the most relevant spectrum for differentiation of credit risk among local obligors. Rating definitions underscore the national character and focus of the scale, with an emphasis on credit risk relative to other domestic obligors and obligations. The national rating scale excludes certain sovereign risks, such as transfer risk and other systemic risks, which are common for all domestic obligors.

We believe the establishment of a common framework and consistent, accepted standards for evaluating the credit profile of microfinance institutions will enhance transparency,

providing clear information and disclosure benchmarks. In our view, these global standards will also serve as a road map for MFIs to better understand the criteria that may be used by investors when evaluating an investment decision.

Standard & Poor's Review

Using our financial institutions rating criteria and methodology, we analyzed the performance of the institutions based on the following main components:

- Systemwide factors, primarily economic and industry risk (as summarized in our Banking Industry Country Risk Assessments (BICRA)).
- Corporate structure, including group ownership or systemic importance. The higher the level of systemic importance, the more critical the bank is to the functioning of the economy or financial system, and also the more attractive the bank's franchise may be to a potential rescuer.
- Business profile, specifically market position, diversification, management, and strategy.
- Financial risk profile, encompassing credit risk, funding/liquidity risk, earnings, capitalization, and financial flexibility.
- Enterprise risk management, emphasizing the holistic framework for risk management.

BICRA or its equivalent varied significantly

The BICRA score and/or the sovereign ratings affected the MFI ratings to varying degrees. Our Financial Institutions Ratings Group determines the BICRA score under separate methodology (*see "Banking Industry Country Risk Assessments,"* published monthly by Standard & Poor's). This score ranks a country's financial system from strongest (1) to weakest (10) and serves as a guideline for understanding how a country's economy and industry affect the MFIs. We use the BICRA as a benchmark in evaluating the exposure of these institutions to macroeconomic risks. We note that the degree of exposure to country risk factors varies dramatically among MFIs.

The business profiles of the institutions we reviewed were strong compared with those of other MFIs operating in their respective markets. Nevertheless, we believe future growth in their market positions could be severely constrained by the current less-than-benign market environment. Drilling down to more specific business profile factors, we consider this group to have above-average market positions and business diversification within the microfinance segment. These particular institutions rank among the top three in market position in the MFI sector in their respective countries. A few also rank among the top 10 in the banking sector in their countries.

Management's strength, capacity, experience, and business strategies, which are key components of the business profile, vary significantly. While all the management teams are very well versed in the microfinance sector, only a few have the depth of experience needed to manage a more complex financial institution. The rapid growth of these institutions up until this past year is partly responsible for this skills gap. The current difficult economic and financial environment will test the less-seasoned management teams, but we think slower

portfolio and asset growth may provide managers with the time to enhance or acquire the skills to address these challenges.

Enterprise risk management (ERM)

These processes are generally sufficiently sophisticated to address the MFI's business model risks. While we consider these systems to be adequate, we expect them to continue to evolve to meet new challenges facing the industry. Our review of the ERM systems was limited to understanding and evaluating the inherent industry operational risks as they pertain to each MFI's particular business model in addition to looking at the systems' capabilities and shortcomings in allowing management and the board to take timely actions. In our view, the varied levels of transparency in the microfinance sector and increased competition for limited capital underscores the need for a coherent, articulate, and effective method of measuring, managing, and controlling risks. The MFIs we reviewed are from Tier I and II microfinance categories that have better overall systems to support "sound management practices." Tier I consists of the top 150 MFIs that are mature and mostly regulated and financially sustainable. Tier II is made up of smaller MFIs that are approaching positive profitability, many in the process of converting to banks.

The financial profiles of MFIs rated 'BB' or lower on the global rating scale have shown solid performance mostly due to strong growth. However, because of tighter credit markets, the economic downturn in emerging markets, and substantially slower—and occasionally shrinking—loan portfolio growth, these institutions are modifying their growth strategies to avoid deterioration in their operating performance.

We've found that credit, funding, and liquidity risk, along with earnings performance, are the most relevant factors in analyzing the financial profiles of MFIs. Credit risk measured by "portfolio-at-risk" (PAR) for 30 days was healthy in most of the MFIs we analyzed, ranging from less than 2% to 4%, in line with the industry average of about 3%. However, a few of the institutions were outliers that experienced the early effects of the economic downturn in the form of recent asset quality deterioration. This, in turn, affected their loan portfolios and attempts to introduce new products. In the coming year, we expect more of the MFIs we reviewed to exhibit some level of loan asset quality deterioration but we believe the conservative MFIs will show adequate performance.

Similarly, looking at MFI funding and liquidity, we found that most have sufficient funding profiles with adequate asset-liability matches. The majority of the institutions we reviewed are deposit-taking. Both the deposit-taking and non-deposit-taking institutions exhibited solid funding bases. The non-deposit-taking institutions were able to attract significant private capital during the past few years. Yet by the final quarter of 2008, many of the MFIs in the pool saw their cost of funds rising significantly as a result of tighter credit markets. They also were affected by the liquidity squeeze; debt issues were delayed in some cases and new shareholder equity became more difficult to obtain.

We consider the liquidity ratios of this group more than adequate given the nature of their loan portfolios and the longer-term tenure of the credit lines and other borrowings.

In our view, diligent asset-liability management helps MFIs maintain adequate liquidity, even for those deposit-taking institutions with a large portion of short-term funding. MFIs with funding from international sources in hard currencies are exposed to foreign exchange currency risk. However, within this group, the source of hard currency funding is relatively small and well managed, significantly limiting potential threats to the overall liquidity and funding profile.

The profitability and earnings profiles of the pilot MFIs vary significantly depending on business model (for profit/not-for-profit), competitive profile, and the regulatory environment within the country of operation. Within these existing constraints, most of the profitability profiles are adequate to maintain a level of good profit margins and average return on average assets. We expect these MFIs to continue to experience higher operating expenses given economic and financial market conditions; however, various actions management has taken should help the MFIs maintain their current margins closely in line with historical performance levels.

Capital and financial flexibility

The capital adequacy of these institutions is high based on Standard & Poor's capitalization ratios (adjusted total equity) when compared with those of nonmicrofinance financial institutions, reflecting both the nature of the entities and the rapid growth of their portfolios. There are a few exceptions. Standard & Poor's did not focus on the regulatory capital ratios because they are not comparable across countries and not all MFIs in the pool are regulated, and accordingly, such ratios would not be insightful.

Financial flexibility varied significantly. However, it is difficult to ascertain how tighter capital markets will affect MFIs, given the limited amount of and significantly higher cost of available credit. Many of the MFIs with significant deposits will be in a stronger position to weather the crisis in the short term. Yet without a respite in the markets, MFIs will need to explore new capital structures to help them maintain adequate capital and financial flexibility.

The MFI pool

Although the pool of MFIs is relatively small, they are a representative sample of microfinance institutions in the Latin American region. In addition to the 12 Latin American MFIs we've reviewed, we've included data on two other MFIs, one in Asia and one from Eastern Europe, previously rated by Standard & Poor's.

The MFIs in the pilot pool represent a diversity in:

- Geography (within Latin America);
- Portfolio size;
- Type of institution (e.g., banks, nonbank financial institutions, and not-for-profits); and
- Major microfinance networks, as well as unaffiliated entities.

Developing MFI Ratings Criteria

Standard & Poor's published a set of guidelines in June 2007 addressing the possible benefits of a comprehensive MFI ratings methodology to meet the analytical needs of investors *(see "MFI Rating Methodology," published June 5, 2007)*. A working group composed of experts in the microfinance industry and Standard & Poor's analysts developed the methodology *(see "Report Of The Microfinance Rating Methodology Working Group," published June 5, 2007)*. Subsequent to the publication of the guidelines and in support of further refining the draft methodology, Standard & Poor's undertook a review of its relevant criteria in a variety of areas, including financial institutions, health care, nontraditional public finance, affordable housing, and universities. The purpose of the review was to ascertain similarities between these types of entities and the microfinance industry, particularly in relation to the ownership structure of the institutions

Table 1

Summary Of Standard & Poor's Rated MFIs

MFI	Type of institution	Country	Global scale MFI rating	Global scale soveriegn rating
ACLEDA Bank PLC	Bank	Cambodia	B+/Stable	B+/Stable/B
Banco de Ahorro y Crédito ADOPEM S.A.	Bank	Dominican Republic	B-/Stable	B/Stable/B
Financiera El Comercio	Nonbank financial institution	Paraguay	B-/Positive	B/Stable/B
Banco Compartamos S.A.*	Bank	Mexico	N/A	BBB+/Negative/A-2
Fundación Integral Comunitaria A.C.	Nonprofit (NGO)	Mexico	BB-/Stable	BBB+/Negative/A-2
FinComún Servicios Financieros Comunitarios S.A. de C.V. Sociedad Financiera Popular	Nonbank financial institution	Mexico	BB-/Stable	BBB+/Negative/A-2
Partner Mikrokreditna	Nonbank financial institution	Bosnia	NR	B+/Stable/B
Visión Banco S.A.E.C.A.	Bank	Paraguay	B/Stable	B/Stable/B
MFI 1¶		Bolivia		B-/Stable/C
MFI 2¶		Colombia		BB+/Stable/B
MFI 3¶		Colombia		BB+/Stable/B
MFI 4¶		Ecuador		CCC+/Stable/C
MFI 5¶		Peru		BBB-/Stable/A-3
MFI 6¶		Peru		BBB-/Stable/A-3

Ratings as of July 31, 2009. *Compartamos has a national scale rating of 'mxAA-'. National scale ratings are not comparable to global scale ratings. ¶We don't list these MFIs by name because their ratings are confidential. MFI—Microfinance institution. NGO—Nongovernmental organization. N/A—Not applicable. NR—Not rated.

(not-for-profit versus for-profit ownership) and mission execution, as they affect operating and financial performance.

We believe the internal review resulted in a more nuanced approach that better reflects the specialized nature of microfinance institutions and their operations. While we incorporated the characteristic features of the microfinance institutions' model into the evaluation process, the key credit factors include all standard indicators of creditworthiness for financial institutions: economic and industry risk; market position and diversification; management and strategy; ownership and governance; financial reporting; operational, enterprise, credit, and market risk management; earnings and profitability; funding and liquidity; and capitalization. We validated the robustness of these criteria through the pilot ratings program.

Pilot Rating Program Findings

Our sample included MFIs from seven countries in Latin America, one country in Eastern Europe, and one in Asia *(see table 1, page 11)*. Our ratings on the MFIs ranged from a high of 'BB' to a low of 'CCC'. In many instances, the ratings were constrained by the country

Table 2

Governmental Response To Microfinance Industry

Country	BICRA score	Long-term sovereign ratings	Comments
Republic of Bolivia	Group 10	B-/Stable	The government's threat to intervene to stop payment of debt from microfinance borrowers is a concern. However, it has moved away from such interventions.
Republic of Colombia	Group 8	BB+/Stable	The government is actively involved in the microfinance industry. We have concerns about interest rate caps.
Dominican Republic	Group 10	B/Stable	The government has not taken an active role in the microfinance sector.
Republic of Ecuador	Group 10	CCC+/Stable	We are concerned about the government's introduction of interest rate caps.
Republic of Paraguay	—	B/Stable	The government has not taken an active role in the microfinance sector.
Republic of Peru	Group 6	BBB-/Stable	The government is concerned about the microfinance industry and provides certain support to participants.
United Mexican States	Group 4	BBB+/Negative	The government is concerned about the microfinance industry and provides certain support to participants.
Bosnia & Herzegovina	Group 9	B+/Stable	The government is responsive to the sector's needs, but lacks a cohesive approach.
Kingdom of Cambodia	Group 10	B+/Stable	The government is concerned about the microfinance industry and provides certain support to participants.

Note: In terms of regulation, because microfinance is a fairly nascent industry, the level of understanding is limited, in our opinion, resulting in nonexistent, inadequate, unwieldy, or unpredictable regulations. These regimes often make MFIs more vulnerable to regulatory risks and costs.

risk. The financial information presented in this report is as of year-end 2008. All of the MFIs we rated had stable outlooks at the time of the project. The microfinance industry has been hurt by the recent economic and financial crisis and the resulting rise in food and energy prices, tighter credit markets, and liquidity crunch. We think that the credit fundamentals of the MFIs we reviewed have deteriorated somewhat in 2009. However, we believe that traditional financial institutions' fundamentals could deteriorate more significantly.

Banking Industry Country Risk Assessment (BICRA)

Standard & Poor's integrates systemwide factors in analyzing a financial institution's BICRA. The BICRA indicates the strengths and weaknesses of a country's economy and banking industry relative to those of other countries. We use the BICRA as a benchmark in evaluating exposure to macroeconomic risks. Nevertheless, we note that the degree of exposure to country risk factors varies dramatically among MFIs. In the pool of MFIs we reviewed, we used the BICRA assessment as the assessment of each country's banking industry, and applied that within the context of the microfinance sector. Our sovereign ratings were also important considerations in the evaluations and resulted in limiting the rating levels of the MFIs *(see table 2, page 12)*.

Business Profile

Market position and business diversification

The market position of the majority of MFIs we reviewed is very strong within the context of the microfinance market segment. Growth for most MFIs ranged from a low of 30% to a high of 70% annually, although we expect this rate of growth to diminish to more modest levels given current global economic and financial conditions. We note that similar conclusions on growth prospects are indicated in the various benchmarks and indices compiled by Symbiotics, which provides information on MFIs, and a recent survey by the Consultative Group to Assist the Poor (CGAP) *("Impact of the Financial Crisis on MFIs and Their Clients," CGAP Brief May 2009)*. Most of the MFIs we reviewed are among the largest microfinance institutions in their respective countries and, in many cases, are also among the institutions that hold the highest market share position among the financial institutions in those countries.

These entities clearly have pursued very successful growth strategies and have been able to increase their client base significantly in the last few years. The institutions' management teams exhibit a deep understanding of their markets and over the years have fine-tuned their outreach strategies.

MFI product diversity is generally limited, but some are well diversified across their country of operation and have diversified loan portfolios compared with those of other emerging market financial institutions. Many MFIs have developed new product and service offerings in recent years, including microinsurance products, as well as a more varied mix of terms/options for savings and credit products. This is particularly true for the older, more established institutions. Most of the institutions examined generally exhibit a strong

market position and business diversification compared with those of their peers, contributing significantly to recent strong growth rates for assets and liabilities.

Many MFIs are facing increasing competition and eroding margins, particularly in countries with very active microfinance markets such as Peru, Mexico, and Colombia. Some have taken very proactive steps to improve client relationship management, introduce new products after in-depth market surveys, and cross-sell products where appropriate.

We observed a few cases of an overly aggressive approach to gaining market share. This was particularly apparent in countries like Paraguay where the competition for market share is intense and the economic conditions allowed for extreme growth in loan portfolios due in some cases to lax credit standards.

Table 3

Management And Strategy

Classification	Strategy and planning	Implementation
Sound and very comprehensive strategy and implementation	▪ A logical business strategy, incorporating advantages and risks of strategic direction into its analysis ▪ Business model and financing follow business strategy ▪ Risk appetite and complexity of the business model are matched by able ALM, FX, and market risk management ▪ Internal growth plans align with business growth	▪ Very good policies and procedures and well-managed implementation ▪ Strong compliance team, with independence and resources ▪ Very good fraud prevention and sufficient resources to respond to fraud when uncovered ▪ Clear performance benchmarks for staff ▪ Very sound implementation of CRM ▪ Risk policies are clear and regularly reviewed ▪ Origination and collections well staffed and managed by trained, experienced personnel ▪ IT systems support strong internal controls and supervision and accommodate future growth
Adequate strategy and implementation	▪ A logical business strategy, incorporating advantages and risks of strategic direction into its analysis ▪ Internal growth plans aligned with business growth ▪ Understanding of risk appetite and complexity of business adequate and well matched by the ALM, FX, and market risk management strategies	▪ Good policies and procedures and well-managed implementation ▪ Good compliance team ▪ Satisfactory fraud prevention and redress procedures in place or being improved ▪ Adequate HR systems and articulation of staff performance benchmarks ▪ Risk policies are reasonably clear but not updated as frequently ▪ Collections is adequately staffed and managed by experienced personnel ▪ IT upgrades are in process or are required to meet growth ▪ Adequate CRM
Less than adequate strategy and implementation	▪ Acceptable business strategy in place ▪ Understanding and evaluation of risk appetite and complexity of business model are less than adequate. ▪ While currently adequately matched by the ALM, FX and market risk management strategies are not forward-looking ▪ Risk analysis is less apparent in business strategy ▪ Growth may surpass management staff capacity	▪ Historical performance of origination and collections were weak ▪ Lesser compliance ▪ Fraud prevention policies and systems are marginal ▪ Staff objectives are less clear ▪ HR systems need improvement ▪ IT upgrades are in progress or necessary ▪ CRM needs improvement ▪ Risk policies are not clearly articulated nor incorporated into general business processes

ALM—Asset-liability management. FX—Foreign exchange. IT—Information technology. CRM—Credit risk management. HR—Human resources.

These challenges, combined with a global financial and economic crisis, affected microfinance in Latin America in the last quarter of 2008 and first quarter of 2009. While it is too early to clearly quantify the impact, recently published industry surveys and studies and our own research clearly indicate that growth has slowed significantly with a resulting weakening of some of the quantitative measures.

Management And Strategy

We consider management the most critical element in an MFI's success. It is one of the key elements in distinguishing a strong institution from a weak one within this sector. Management's skills in leading the organization through a variety of unpredictable and unforeseen events appear, in this limited sample, to be the most predictive indicator of a stable MFI.

We evaluate management under the following three broad categories:

- Senior management's quality and breadth of experience
- Strategy and planning
- Human resource management

Management quality

The quality and breadth of management experience is very strong in most of the MFIs we reviewed in this asset class. In general, management has been in the microfinance sector for at least 10 years and possesses a very solid understanding of the business sector. However, one area seems to distinguish the strongest managers from those who are considered adequate—the strongest have extensive knowledge of their country's financial systems and environment, and exposure to and experience in broader country and global financial markets. A few institutions have senior managers with more than 15 years working in the broader banking sector. And a senior executive in one MFI is the chairperson of the country's banking association.

This is of particular importance because some of these institutions have in recent years transformed from nongovernmental organizations (NGOs) or nonbank financial institutions to regulated banks, which are significantly more complex organizations. In addition, the current financial environment poses some very serious challenges to the industry, further underscoring the need for skilled, experienced, and sophisticated management.

Strategy and business plan

Another equally important component of our assessment is the planning and execution/implementation of the business strategy. It was clear from our analysis that the pilot MFIs fell into two distinct groups:

- MFIs with basic business models and with limited product lines, focusing on serving the financially underserved.
- MFIs with complex business models, with a wide variety of products and services, and a broader array of clients, including small and medium-size enterprises (SME) and consumer clients (seeking funding for non-revenue-generating pursuits).

In both types of institutions, the analysts observed varying degrees of management competency.

While the pool of MFIs reviewed fall in the 'BB' or lower rating category, the management strategies and implementation of most are generally well tailored to the needs of their business models. Table 3 details Standard & Poor's assessments of the strengths and weaknesses of the institutions' strategies and planning *(see page 14)*.

Human resource management

Another very important component of management strategy is human resource management. In the microfinance sector, the recruitment and training of loan officers, branch managers, and other staff is critical to maintaining strong asset quality and market share growth. Appropriate incentives, training, and employee development are essential in the retention of good staff. The majority of the institutions we rated in this pilot project displayed an awareness of the need for human resource management. Most have put into place organized hiring, training, and promotion processes and offer compensation appropriate to local labor conditions.

Ownership, Corporate Governance, And Role Of The Board

MFI ownership analysis includes corporate governance and the role of management and the board. We expect governance structures and practices to correspond with an MFI's ownership structure, stage of development, social mission, and the regulatory requirements in the country of domicile. The MFIs we reviewed include full-fledged banks, nonbank financial institutions, and NGOs. The ownership structures in these three types of institutions differ, but there are some similarities in corporate governance and board roles. All of the boards have representation from large microfinance networks, multilateral institutions, and other established international development entities. The boards also include key local representatives with differing levels of financial and business acumen, many with tenures in excess of 15 years. The majority of the boards include members with diverse skills and market knowledge that ably support management and, more importantly, provide valuable critical evaluation of management's performance and initiatives.

Board composition and performance mostly differ in the area of board independence and the audit committee's oversight powers. In some cases, the boards are composed of all or a large portion of the senior management. In most well-developed entities outside the MFI sector, independent directors constitute a third of the board. In the case of the MFIs, we consider the MFI's development level in determining the optimal composition of independent members. At a minimum, one independent director should be present irrespective of the developmental stage. This is the case in most of the MFIs we reviewed.

In a number of the MFIs, particularly the smaller institutions by asset size or ones with less complex business models, the boards did not include an audit subcommittee composed of nonstaff board members with full access to the organization's information and the authority to hire or fire the head of the internal audit department.

Enterprise Risk Management

The role ERM plays in an MFI's governance depends on the complexity of its business model. Investors in the sector have recognized the need for added transparency to aid in assessing the risks in this high-growth, dynamic, and evolving market.

Standard & Poor's evaluation of ERM takes into account an institution's efforts to articulate, measure, manage, and control risks. ERM needs to be embedded across the organization as an enterprisewide practice; however, given the risk profile of the MFIs, it is appropriate to primarily focus on operational risks.

Under operational risk, we focus on the following four areas in the context of the microfinance sector business model:

- Policies and procedures
- Technology and systems
- Accounting and financial reporting
- Internal audit functions

Policies and procedures

The origination and collection policies and procedures are clear, comprehensive, and well documented in all the MFIs we looked at. The institutions differed in how they implemented the procedures. Stronger, more sophisticated MFIs use a scorecard for assessing credit risk and collect data methodically, allowing them to measure nonperforming loans (NPLs) weekly. They also have regular asset-liability committees to manage liquidity risks.

A few of the MFIs in the pool did not always consistently implement ERM procedures. For example, one MFI focused on aggressive growth but did not take into account the risks associated with less-than-adequate implementation of origination procedures. In a couple of cases, there have been repeated incidences of fraud, both internal (staff originating loans from nonexistent clients) and external. Experienced management teams were quick to address these issues and had the resources to do so. We believe improvement is still needed in this area; however, not all MFIs have the resources set aside to fully correct the problems.

Technology and systems

Information technology (IT) and management information systems (MIS) are also important elements in our assessment of operational risks. We focus on the accuracy, thoroughness, and timeliness of information generated by the IT systems, as well as management's recognition of the limitations of their systems. The ability of the systems to accurately capture and maintain detailed levels of data and provide regular, timely, comprehensive reports to management is crucial.

In this area, the findings varied significantly. A few MFIs have very advanced IT and MIS systems that keep detailed information and provide comprehensive reports to management. These institutions consistently invest in and upgrade their systems to better reflect the complexity of the data gathered and allow for future growth. A few others started with adequate

systems that had little room for growth. There were also a few MFIs with less-than-adequate systems, with much of the daily activities supported by inefficient manual systems.

Accounting and financial reporting

The accounting and financial reporting methodologies used vary. In general, most of the MFIs use auditors from international audit firms and follow more conservative and rigorous accounting practices than those required by regulators. For example, most MFIs follow the practice of reporting 30-day PAR on delinquencies, even if the regulatory reporting requirements state 60-or 90-day PARs.

Internal audit functions

We expect the internal audit function of a well-run MFI to have an independent internal audit team. We also expect the risk managers to have appropriate training and to report to an independent board member.

Of the MFIs we reviewed, the larger and well-established entities have internal, independent audit functions with regular board audit committee discussions. Senior management from all of the key areas know the status and quality of the reported numbers and concerns to be addressed. In the best MFIs, each branch is subject to regular internal audits.

One MFI is a small, less-sophisticated entity that does not have an internal audit committee, although the heads of each department meet regularly. Given the MFI's business model and the ensuing risks, we consider this level of internal assessment adequate. However, at the time of the rating, this MFI was considering transforming to a for-profit entity. If the institution moves forward with these plans, it will need a much more sophisticated, independent internal auditing function.

Financial Profile

We conducted our ratings assessment under the pilot program in the last quarter of 2008 and the early part of 2009, and in some cases based the ratings on 2008 mid-year numbers.

An MFI's financial profile is a composite of credit risk, market risk, funding and liquidity risks, earnings, and capital and financial flexibility. The weights we gave to those factors varied depending on the type of institution and the specific profile of the MFI. This is particularly relevant because MFIs include NGOs, nonbank financial institutions, banks, and government-supported institutions.

Many top-tier MFIs have historically displayed strong asset quality (with NPLs in the low single digits), high net interest margins (NIMs), high operating costs, and long-term, low-cost funding from development investors. We observed similar characteristics in the rated MFIs in the review period. However, many of the MFIs in economies that are highly integrated globally are facing greater vulnerability from the macroeconomic environment, potentially leading to erosion in their financial positions in 2009.

Many MFIs receive other explicit and implicit subsidies. If the subsidies are material, we consider the impact of their impairment or loss and determine a downside stress scenario to obtain a clearer picture of the MFI's nonsubsidized financial performance. While most of the MFIs received some support in the form of low-cost funding, technical assistance, or tax deferrals (shields) in the case of NGOs, we did not consider this material to their overall performance.

Credit risk

Credit risk is one of the primary factors in our assessment of MFIs because the sustainability of the organization is very tightly linked to the performance of its loan portfolio.

Our analysis of these institutions' credit risks shows the following:

- The majority of the MFIs reviewed exhibit strong asset quality ranging from less than 2% to 4% NPLs to total loans, which is in line with the industry average of about 3% *(see table 4)*. Reserve coverage is, in most cases above 100%.

Table 4

Financial Profile Characteristics

Key indicators	(%)	No. of rated MFIs	Comments
Nonperforming loans (NPL)–PARs 30	< 2.5	10	The majority of the MFIs in the rated pool had very strong asset quality as of 2008 with NPLs below the industry average of 3%. These MFIs experienced tremendous growth rates during this period and were in countries with positive economic trends. The recent economic and financial crisis had not yet affected their portfolio at risk. However, a review of first-quarter 2009 preliminary information is showing only slight to modest deterioration.
	2.5-4	2	Two institutions fall within this range. They experienced upward trends in NPLs paralleling those of regional financial institutions. In one MFI, the increase in NPLs was due to moving into a risky product line. However, the MFI has now discontinued this line and is reviewing the appropriateness of reintroducing a modified form of the product into the ongoing product mix.
	> 10	2	Other MFIs that have experienced very high NPLs are restructuring their portfolios. They are scaling back their product mix and focusing more heavily on the business lines that align better with their strengths.
Net charge-offs/average customer loans	1-3	13	Net charge-offs in the pool also has stayed in line with the industry standards and remained low.
	> 10	1	One MFI has experienced problems. The MFI is addressing this issue with new credit origination practices while also pursuing a restructuring program.

NPLs—Nonperforming loans. PAR—Portfolio at risk. MFI—Microfinance institutions.

- A few of the institutions showed very high NPLs and deteriorating asset quality. However, their management teams were taking proactive steps to address these issues.
- Increased competition in a few of the markets led to aggressive growth strategies by some MFIs, resulting in lower credit standards and a deterioration in asset quality.
- Overall, the management teams have very strong origination and collection practices procedures in place. In instances where the MFIs were facing problems, management was proactive and seemed to be addressing the problems effectively.
- The MFIs with very high NPLs responded appropriately to issues in their origination practices by reestablishing stringent credit standards and lowering growth expectations.
- The charge-off policy of each institution varies and they are not comparable in absolute terms but they provide insight into the management practices.
- There were no indications of inappropriate charge-off practices among the MFIs we reviewed.

Table 5

Funding And Liquidity Risk As A Rating Factor

Key indicators	(%)	No. of rated MFIs	Comments
Asset-liability management: tenor and currency	> 70 in local funding sources	11	A majority of the MFI are funded largely through deposits. Of these institutions a couple had FX exposure. While they had U.S.-dollar-denominated credit lines to avoid a mismatch, we view this as a concern as the cost of the lines are increasing and access is more difficult. The majority of the credit lines in FC were from multilateral organizations
	< 30 in hard currency	11	Most of the MFIs had limited and manageable FX exposure. Four of the MFIs had currency hedges that were costly and could be of concern. One MFI is taking proactive steps to decrease foreign exchange exposure by lowering the amount of borrowings in foreign currency.
Customer deposit/ funding base	N/A	4 non-deposit-taking NGOs	Four of the MFIs are NGOs and do not take deposits. However, their funding bases were stable during the review period. Most of their funding is composed of medium-term debt and long-term debt. While all of the NGOs have strong credit facilities and access to long-term funding, the dependence on external funding is a weakness. The current credit squeeze is definitely affecting both the access to and the cost of funding.
	50-70	4	Of the MFIs that are deposit-taking, four had more than 50% funding from deposits, with one exception, ADOPEM at 30%.
	> 70	5	Of the 10 deposit-taking MFIs, most had deposits representing close to 70% of the funding base, representing a stable and cost-effective source of funding for most of these MFIs.
Total loans/ customer deposits	> 200	2	A very high level of external funding is needed to sustain a high level of loan portfolio growth. Tight credit conditions may have a dampening effect on growth for these entities.
	120-160	5	Most of the MFIs fall into the medium range, reflecting the need for funding from sources other than deposits to sustain growth.
	100-110	3	Reflects a very strong deposit base and ability to support significant amount of lending activity helping to contain cost of funding.

FX—Foreign exchange. MFI—Microfinance institution. FC—Foreign currency. NGO—Nongovernmental organization. N/A—Not applicable.

- As economic conditions deteriorate we are observing an increase in restructurings. Standard & Poor's does not view restructuring as a sound way to manage problematic assets because it could hide problems in the loan portfolio. However, in our view, it may be necessary in the short run to address customer cash flow weakness or to meet competition and maintain client base.

Market risk

Trading risk is typically not revelant for MFIs. We used financial institutions factors in reviewing an MFI's funding and liquidity investment risks and incorporated the constraints they faced in our evaluation. These constraints fall into three areas:

- The legal structure (e.g., regulated versus unregulated) of the MFI and its access to varied funding sources;
- The lack of access to hedging instruments to mitigate the exposure to abrupt currency market fluctuations created by foreign currency funding; and
- The structural interest rate risks because of government-mandated interest rate caps.

Our analysis of market risks shows the following:

- Active asset and liability committees have adequately managed market risk on a regular basis. Some of the more sophisticated institutions evaluate market risk on a daily basis.
- The key market risks the MFIs face are interest rate and foreign currency risk. They are able to manage their interest rate risks because their lending products are short term. This allows for fairly rapid changes to customer borrowing rates to accommodate any increases in the MFIs' medium- to longer-term funding instruments. In most cases, an MFI's existing high margin spreads provide cushion to mitigate this risk. In addition, these institutions' borrowings generally are fixed rate.
- We are concerned about foreign currency exposure in general but more so for dollarized economies. However, the MFIs we reviewed have managed the exposure adequately with matching deposits, lending activities, and credit lines in foreign currency or holding deposit accounts outside their country of domicile.
- Some MFIs in countries such as Ecuador and Colombia are facing potential interest rate risk because of interest rate caps imposed by their countries' regulatory bodies. While the rate caps were high enough so that they did not impede the MFIs' margins at the time of review, we must still weigh this risk because it has the potential to significantly weaken their performance.
- Most of the MFIs do not use complex financial instruments (e.g., derivatives and interest rate swaps); however, a few of them use hedging instruments to minimize their foreign currency exposures. Given the high costs related to these instruments, some of the MFIs are seeking to move away from using such instruments. In general, complex hedging instruments are not readily available in the markets where the MFIs operate. MFIs that do use some form of hedging instrument opt for very simple forms of derivatives that are closely monitored.
- MFIs with a more aggressive approach to investments, including corporate paper, have

begun to reduce their exposure due to the recent volatility in the market. We pay close attention to entities that take an aggressive approach to investments.

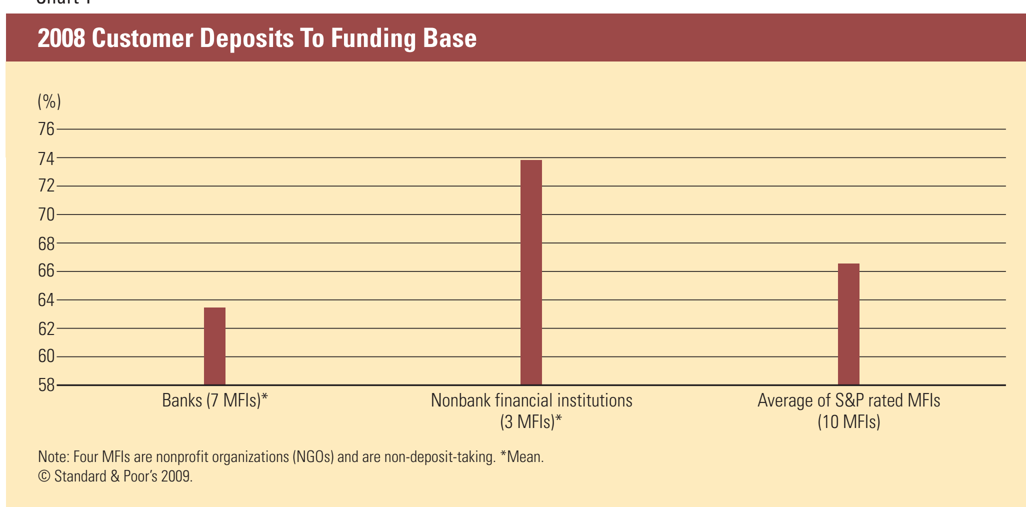
Funding and liquidity risk

This area also warrants significant weight in the analysis. Depending on an MFI's legal structure, it may have a wider range of funding alternatives, including some that are unique to the industry *(see table 5, page 20)*. These include MFI-mandated retail deposits tied to loan products and funding designed specifically to develop MFIs from entities such as government programs and international donors or agencies. Because of the social agenda of many of these funding sources, they tend to offer longer tenors even during times of scarce liquidity, resulting in favorable asset/liability matches. These unique sources of industry funding are generally offered only in hard foreign currencies. Therefore, the analysis must determine how adequately these material foreign currency exposures are identified and managed.

Our analysis of funding and liquidity risks showed the following:

Chart 1

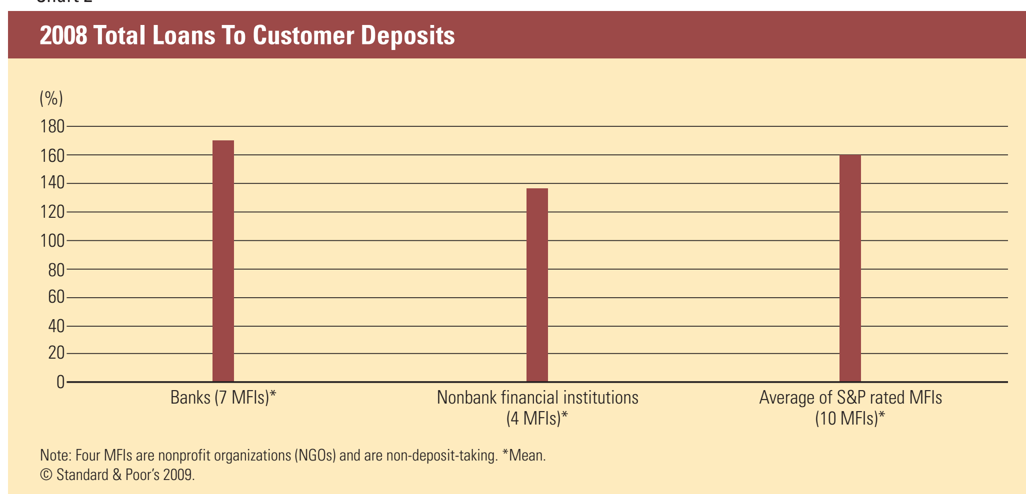
2008 Customer Deposits To Funding Base



Note: Four MFIs are nonprofit organizations (NGOs) and are non-deposit-taking. *Mean.
© Standard & Poor's 2009.

Chart 2

2008 Total Loans To Customer Deposits



Note: Four MFIs are nonprofit organizations (NGOs) and are non-deposit-taking. *Mean.
© Standard & Poor's 2009.

- The majority of the MFIs reviewed have very strong asset liability management procedures in place and have no major liquidity issues in the short run.
- Ten of the MFIs are deposit-taking institutions, therefore, their funding costs are more stable and less likely to be threatened by the liquidity crisis in the short term *(see charts 1 and 2, page 22)*.
- The MFIs that are NGOs depend heavily on external funding in hard currency debt because they are unable to accept deposits. However, most have appropriate systems in

Table 6

Efficiency And Profitability

Key indicators	(%)	No. of rated MFIs	Comments
Noninterest expense to revenue	40-55	6	A significant portion of the MFIs we reviewed manage their operating ratios very closely and are in line with their peers in the region. In a couple of MFIs, very strong interest rate margins and the ability to charge commissions enhance their revenue-generating capacity. A couple of NGOs in the group performed strongly, with one MFI reaching an efficiency ratio of 40% based mostly on a very lean organizational structure, strong margins, and sound asset quality.
	55-70	4	Increasing operating expenses are a significant challenge to a few of the MFIs we rated. Investment in IT systems and branch networks puts pressure on the noninterest expenses in these organizations.
	> 70	4	Some MFIs' operating costs are high partly due to high expenses related to rapid portfolio growth or investment in IT, e.g., ATMs. As deposit-taking institutions, some also incurred higher expenses. Deteriorating asset quality also increased loan loss provisioning, adding to the expenses. One MFI had very high operating ratios due to a restructuring of its portfolio, asset quality deterioration, and negative growth rates.
ROA/core earnings to average assets	> 1	3	These MFIs have very high operating expenses and high provisioning needs due to asset quality deterioration, resulting in lower profitability and ROAs. One MFI also experienced significant deterioration in ROA due to low profitability as a result of a restructuring of the loan portfolio and serious asset quality problems. One of the MFIs in this group had high NIM and strong performance, but its ROA was affected by regulatory changes in provisioning requirements.
	3-5	5	The ROAs of these MFIs are adequate and in line with ROAs of peers. Competition and pressure on asset quality limits their profitability.
	5-10	6	The institutions with above-average ROA also have very strong NIMs. Their performance is strong, with good asset quality, above-average efficiency ratios, and strong funding bases.
Net interest margin	10-25	11	The majority of these MFIs have NIMs that are adequate and standard in the industry. The ability to maintain the spread in the NIM makes it possible for most of the MFIs to remain profitable even with increasing competition, deteriorating economic environments, and other challenging external pressures.
	> 60	3	Three of the MFIs in the pool have very high NIMs, giving them much greater financial flexibility to maintain solid profitability.

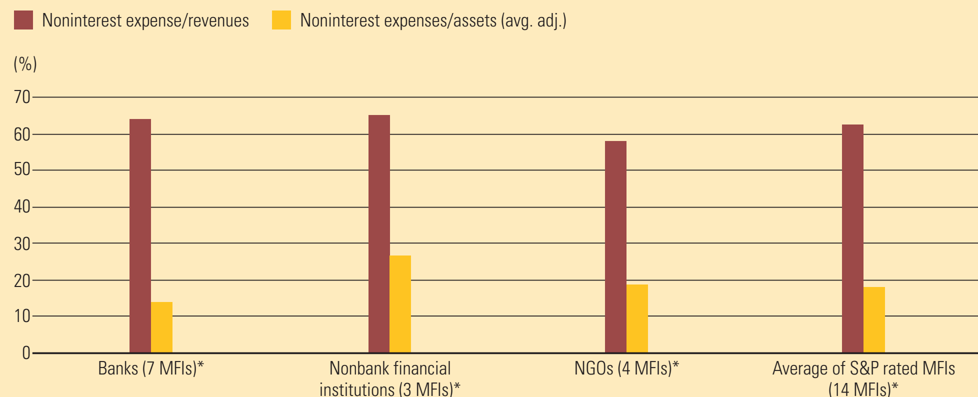
MFI—Microfinance institutions. NGO—Nongovernmental organizations. IT—Information technology. ROA—Return on assets. NIMs—Net interest margins.

place to cover any foreign currency mismatches. A few use hedging instruments to cover their foreign currency exposures, but none use complex derivative instruments. Given the current global credit crunch, weakness in the liquidity and funding structures of these MFIs may seriously impede their growth.

- While MFIs often regard deposits as a low-cost source of funding, those that consider deposit-taking to be too expensive—given the related infrastructure cost—use an alternative strategy to provide savings options to their borrowers and to access direct credit lines for funding purposes. These strategies highlight the creative alternatives proactive management teams develop to manage their liquidity needs in a cost-effective manner.
- Deposits also served as liquid guarantees for credit products, creating a level of stability in asset quality for some MFIs.

Chart 3

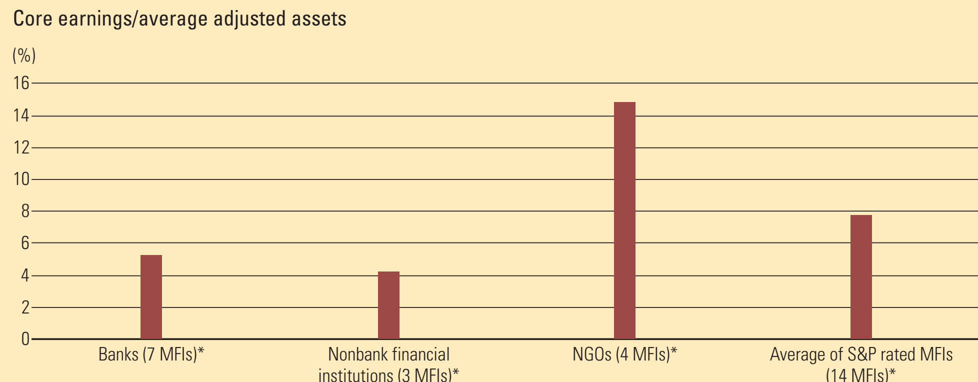
2008 Efficiency



*Mean. NGO—Nongovernmental organization.
© Standard & Poor's 2009.

Chart 4

2008 Return On Assets



Note: Four MFIs are nonprofit organizations and are non-deposit-taking. *Mean. NGO—Nongovernmental organization.
© Standard & Poor's 2009.

Earnings and profitability

In assessing profitability, the key considerations that apply to financial institutions in determining long-term earning power are also relevant to MFIs. In our view, some ratio norms specific to the microfinance industry also need to be taken into account to evaluate profitability. The microfinance business model usually results in higher cost/income ratios than those of the typical bank, reflecting the high cost of making many small loans with predominantly short-term maturities *(see chart 3, page 24)*. In addition to the cost/income ratio, other key characteristics of MFIs that, broadly speaking, result in financial ratios varying from typical bank ratios include net interest margin ratios, loan provisioning ratios, and efficiency ratios, such as employee efficiency ratios (number of loans and borrowers to loan officer, number of loans and borrowers to staff).

Our analysis of profitability and earnings found the following *(see table 6, page 23)*:

- High net interest margins, strong growth, and good asset quality result in a majority of the MFIs showing good efficiency ratios, averaging 50%, in line with peers in the region.
- The institutions that have very high efficiency ratios (averaging 75%) have been affected by a variety of problems, including an increase in provisioning due to asset quality deterioration or a change in regulatory requirements, an increase in staff and branches, or a restructuring of the MFI's portfolio due to inappropriate product mix.
- The costs related to deposit-taking have directly affected the efficiency ratios of some of the MFIs. While deposits are a dependable and stable source of funding, they can be a costly operation to manage and add to the MFI's operating expenses.

Overall, high net interest margins allow the MFIs to maintain adequate to good profitability levels that compare well with those of other types of financial institutions *(see chart 4, page 24)*.

Capital and financial flexibility

MFIs typically have lower leverage levels, given their particular risk profiles. However, those with longer operating track records and confidence in their risk management policies tend to increase leverage. We believe it is important to understand where an MFI stands in this process and whether the target leverage is appropriate. Currently, most capital comes from donors and/or shareholders. In general, most MFIs do not use market instruments to raise capital.

Our analysis of capital and financial flexibility found the following *(see table 7, page 26)*:

- All of the NGOs have very solid capitalization ratios, reflecting the practice of capitalizing retained earnings, because no dividend payouts are allowed.
- The strong capitalization ratios of these institutions also provide a sound cushion against any unexpected future losses.
- Strong capitalization ratios also reflect the level of financial flexibility, indicating the availability of resources to grapple with future contingencies

The lower capitalization levels of MFI banks and nonbank financial institutions reflect the impact of their dividend payout policies, which limits the capacity for internal capital

generation. In those cases, we assess whether their reserve coverage and internal capital generation is sufficient to face future credit losses.

Lessons Learned

Within the context of a global rating of 'BB' or lower *(see chart 5, page 27)*, a majority of the MFIs we reviewed have the tools needed and are relatively well positioned to face the global financial crisis. During the 2008 review period, the performance of many of the MFIs in the pilot study ranged from adequate to strong versus that of their peer group. In our view, they fared relatively well due to their proactive and sound management, strong asset quality, well-managed asset liability positions, and generally limited exposure to foreign currency dislocation. We believe the rated MFIs are generally showing better asset quality performance than the financial institutions in their respective countries.

The pool of MFIs we studied represent the stronger and more-seasoned institutions in the microfinance sector, generally the Tier I and top of Tier II. In most cases, these institutions are the top microfinance performers in their respective countries and also in the

Table 7

Capital And Financial Flexibility

Key indicators		No. of rated MFIs	Comments
Debt to equity ranges (x)	1.5- 2.5	4	The leverage ratios of the four NGOs rated are stable but have increased in the past few years, reflecting the need for borrowings to fund growth because they are not deposit-taking institutions.
	2.9	1	One MFI that is a deposit-taking institution also has a very high leverage ratio, reflecting dependence on credit lines to support its activities. This MFI was in the middle of a restructuring and realignment, which resulted in the loss of a significant portion of its deposit base.
Adjusted total equity to adjusted assets (%)	20-35	6	The NGOs in the pool produce the highest capital ratios because their retained earnings are capitalized. The strong capital base also provides a significant cushion for any future losses. FinComún also has a strong capitalization ratio mostly due to paid-in capital, and does not expect to grow through internal generation. However, it has investors available to inject additional capital. Compartamos also has a very high ratio of 35% due to strong profitability allowing for internal capital generation. Retained earnings represent 67% of the capital base.
	10-20	5	At this level, the banks and nonbank FIs in the pool have reasonable capitalization ratios representing adequate internal capital generation capacities.
	< 10	3	Three of the MFIs have capitalization ratios of less than 10%. Two of these MFIs have significant dividend payout policies, which lower the capacity for generating capital internally. However, they are considering changing these practices. As the capitalization levels of these MFIs are weaker than those of their peers, their managements are exploring options to bring in new shareholders. At the current capitalization levels, the MFIs may find it difficult to meet their short- and long-term growth objectives. In response to this concern, a couple of MFIs have negotiated credit lines to support growth in the short term.

NGO—Nongovernmental organization. MFI—Microfinance institution. FI—Financial institution.

industry. The institutions that faced asset quality deterioration are taking proactive steps to address these issues. While some of the entities have been grappling with funding issues in the last quarter of 2008 and early 2009, they are optimistic that the liquidity constraints in the market will ease up in the later part of 2009. One of the MFIs in our study is even expecting to go to market with a debt issue in the very near future.

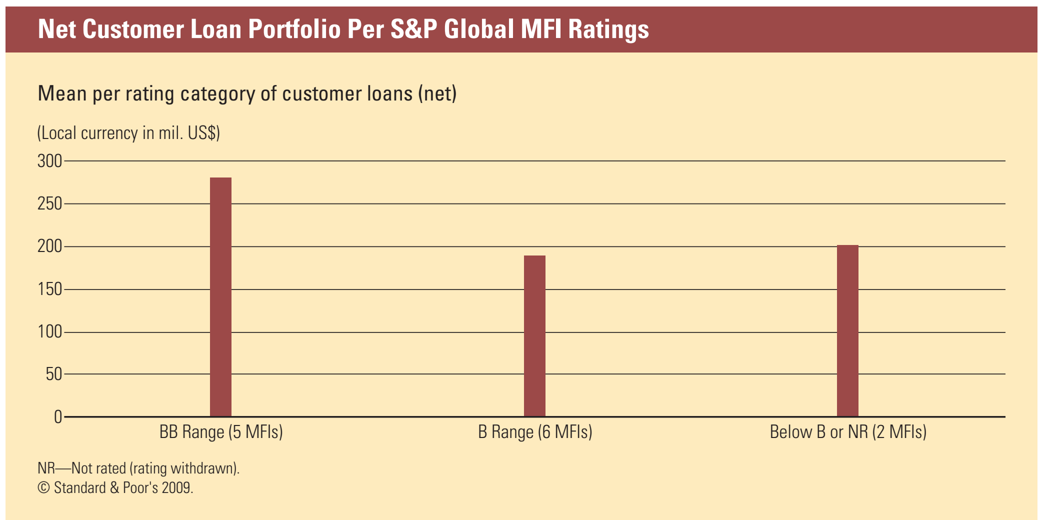
The key issues facing these institutions are obtaining adequate, long-term funding, either through increased deposit-taking or cost-effective debt; maintaining the strength of their asset quality as they increase their portfolios; and building more cost-effective organizations. In our opinion, another important focus for these institutions is to engage both government and regulatory bodies in frequent discussions to help to limit any potential counterproductive regulatory requirements or interventionist actions.

Many of the rated MFIs expect to see a decrease in client repayments but do not expect delinquencies rising above 5%, according to questionnaire responses and recent discussions. They identified general inflation, specifically food price hikes; contractions in their economies; unemployment; and decreases in remittance flow as key factors affecting the ability of their clients to pay. They are employing a variety of strategies to cope with these conditions, including instituting more conservative growth plans, paying closer attention to origination practices, and increasing efficiencies through higher productivity. Many of the MFIs have experienced a more difficult funding environment with increases in the cost of funds, limited access to funds, and some contraction in savings. However, most of the institutions ranked as "low" their concerns about funders and donors renewing their funding commitments.

IDB's goal in engaging Standard & Poor's to conduct the pilot rating project in early 2008 was twofold. One was to promote the development of greater transparency and disclosure regarding MFIs to aid in more active participation by mainstream investors. The other was to support the issuance of standardized, globally accepted credit ratings for

Chart 5

Net Customer Loan Portfolio Per S&P Global MFI Ratings



NR—Not rated (rating withdrawn).

© Standard & Poor's 2009.

these institutions. IDB expected that the MFIs involved in the process would benefit from a global rating because investors would be able to more easily evaluate these entities against other speculative-grade opportunities.

Current market conditions and tighter credit have hindered the MFIs' access to the capital markets, reducing some of the immediate benefits of a global rating. Furthermore, in some instances, the ratings of the MFIs have been affected by sovereign risk ratings. In keeping with the common practice of Standard & Poor's, the MFIs have a right to request a nonpublic or confidential rating. However, we expect that the MFIs will seek to make public the remaining confidential ratings as markets improve.

A number of MFIs expressed a concern that investors in this sector do not clearly understand the differences between a global credit rating, a national credit rating, and a specialized credit rating. We believe market awareness and understanding of the microfinance asset class is following a path similar to the development of other emerging market asset classes, which also required greater transparency and standardized benchmarks in their initial stages of development. In discussions with Standard & Poor's, market participants and especially global investors, not just socially responsible investors, cited the absence of globally recognized standards for this asset class as limiting their ability to invest in this area.

The authors wish to thank Andrea Esposito and Nelun Wijeyeratne for their contributions to this article.

Microfinance Institutions: Methodology And Assumptions: Key Credit Factors

Angelica Bala
Mexico City
(52) 55-5081-4405

Sergio Garibian
Buenos Aires
(54) 11-4891-2119

Xavier Chavée
New York
(1) 212-438-6834

Hans Wright
London
(44) 20 7176 7015

In response to the need for globally accepted, standardized, and comprehensive analytical tools for microfinance institutions (MFIs), Standard & Poor's Ratings Services is refining and adapting its methodology for rating MFIs, based on our criteria, "*Bank Rating Analysis Methodology Profile*" and "*Rating Banks*" (both published March 18, 2004). This article is related to "*Principles Of Corporate And Government Ratings*," published June 26, 2007.

Criteria Summary

Our methodology for rating MFIs draws on our criteria for rating financial institutions, which include a wide range of quantifiable and nonquantifiable factors, organized among the following categories:

- Systemwide factors: economic and industry risk, as summarized in our Banking Industry Country Risk Assessments (BICRA);
- Corporate structure, including group ownership or systemic importance;
- Business profile: market position, diversification, management, and strategy; and
- Financial risk profile: credit risk, funding/liquidity risk, earnings, capitalization, and financial flexibility.

There are five major areas of the financial institutions criteria that receive a greater emphasis and weight when reviewing MFIs. These include:

- Regulatory risk (a subcategory of industry risk);
- Management and strategy;
- Enterprise risk management, looking at the holistic framework for risk management;
- Credit and operational risk; and
- Funding and liquidity.

How Standard & Poor's defines an MFI

- A financial organization whose primary business is to provide loans and financial services to low-income and/or financially underserved clients;
- A financial organization with a double goal of achieving a defined social mission and financial viability.

As with the bank criteria analysis, the weight given to each factor in the analysis of a particular MFI varies, depending on the economy and the laws and customs of the country in

which the institution operates, as well as the regulatory environment, competitive landscape, legal structure of an MFI, and accounting practices. This article highlights certain special characteristics of MFIs that require a different (greater or lesser) emphasis and weighting for certain financial institutions rating factors, and the inclusion of rating methodology from our not-for-profit higher education and health care segments related to an institution's "mission".

Economic And Industry Risk

BICRA methodology

We analyze the credit standing of financial institutions in the context of the broad economic, regulatory, and legal environment in which they operate. Critical factors that underpin the credit rating on an individual financial institution are the strengths and weaknesses of the

Classifying Strategy And Implementation

Classification	Strategy and planning	Implementation
Sound and very comprehensive strategy and implementation	▪ A logical business strategy, incorporating advantages and risks of strategic direction into its analysis ▪ Business model and financing follow business strategy ▪ Risk appetite and complexity of the business model are matched by able ALM, FX, and market risk management ▪ Internal growth plans align with business growth	▪ Very good policies and procedures and well-managed implementation ▪ Strong compliance team, with independence and resources ▪ Very good fraud prevention and sufficient resources to respond to fraud when uncovered ▪ Clear performance benchmarks for staff ▪ Very sound implementation of CRM ▪ Risk policies are clear and regularly reviewed ▪ Origination and collections well staffed and managed by trained, experienced personnel ▪ IT systems support strong internal controls and supervision and accommodate future growth
Adequate strategy and implementation	▪ A logical business strategy, incorporating advantages and risks of strategic direction into its analysis ▪ Internal growth plans aligned with business growth ▪ Understanding of risk appetite and complexity of business adequate and well matched by the ALM, FX, and market risk management strategies	▪ Good policies and procedures and well-managed implementation ▪ Good compliance team ▪ Satisfactory fraud prevention and redress procedures in place or being improved ▪ Adequate HR systems and articulation of staff performance benchmarks ▪ Risk policies are reasonably clear but not updated as frequently ▪ Collections is adequately staffed and managed by experienced personnel ▪ IT upgrades are in process or are required to meet growth ▪ Adequate CRM
Less than adequate strategy and implementation	▪ Acceptable business strategy in place ▪ Understanding and evaluation of risk appetite and complexity of business model are less than adequate. ▪ While currently adequately matched by the ALM, FX and market risk management strategies are not forward-looking ▪ Risk analysis is less apparent in business strategy ▪ Growth may surpass management staff capacity	▪ Historical performance of origination and collections were weak ▪ Lesser compliance ▪ Fraud prevention policies and systems are marginal ▪ Staff objectives are less clear ▪ HR systems need improvement ▪ IT upgrades are in progress or necessary ▪ CRM needs improvement ▪ Risk policies are not clearly articulated nor incorporated into general business processes

ALM—Asset-liability management. FX—Foreign exchange. IT—Information technology. CRM—Credit risk management. HR—Human resources.

overall economy and the banking industry. We periodically compile this analysis in a "Banking Industry Country Risk Assessment" report on *RatingsDirect*.

We synthesize the macroeconomic and sectoral analysis into a single BICRA that reflects the strengths and weakness of a country's banking system relative to those of other countries. BICRAs classify countries into 10 groups ranging from the strongest banking systems (Group 1) to the weakest (Group 10) from a bank credit perspective. At present, we assign BICRAs to the banking systems of 90 countries.

A BICRA is a combination of multiple factors relating to the structure and performance of a country's economy, the legal and regulatory infrastructure underpinning the financial system, and the structure and credit culture in the country's banking system itself. The BICRA also reflects the quality and effectiveness of bank regulation and the track record of a central bank in managing turmoil in the financial sector. The BICRA excludes the potential of extraordinary government intervention and rescue of failing banks, which we evaluate as an institution-specific rating factor distinct from the BICRA.

Gross problematic assets (GPA)

A key component of each BICRA is our estimate of the potential proportion of credit to the private sector and nonfinancial public enterprises that could become problematic during the full course of a recession. The estimates fall into six GPA ranges, the narrowest being 5%-15% and the widest 50%-75%. Problematic assets include overdue loans, restructured assets (where the original terms have been altered), foreclosed real estate and other assets recovered in loan workouts, and nonperforming assets sold to special-purpose vehicles. The estimated GPA ranges project the potential level and extent of future problem assets. For our methodology, we draw on historical data on the nature and extent of a banking system's problem assets during downturns and consider subsequent structural adjustments in a country's economy and financial system. A country's GPA range represents the potential severity of systemwide financial stress or a banking crisis in a recession.

Economic and industry risk: microfinance key credit factors

We use the BICRA as a benchmark to evaluate MFIs' exposure to macroeconomic risks. The degree of exposure to country risk factors varies dramatically among MFIs.

The top tier MFIs (that are financially sustainable or near sustainability and that have a higher degree of commercialization) generally operate in countries with greater global economic integration. The exposure of these institutions to a changing macroeconomic environment closely resembles that of mainstream local and regional banks, making the GPA measure more representative for them than it is for MFIs ranked in lower tier levels.

Industry structure: microfinance key credit factors

Given the ongoing rapid development of the microfinance sector, a country's overall financial sector characteristics may result in greater competitive pressures. A highly competitive mainstream financial sector that has achieved a significant degree of penetration is more likely to turn to microfinance as a new product—creating more competition for specialized MFIs—

than a less-developed financial sector. New entrants include banks and consumer finance companies that tend to have more cost-effective systems and broader market outreach, which can give them significant competitive advantages. The industry risk factors of highly competitive microfinance markets create the dual challenges of declining interest rate margins and potential pressure on underwriting standards from consumer finance and other lenders.

Customer base

In highly competitive markets where the customer base is more financially literate, there are the added risks of both client outflow due to choice and price sensitivity and the potential of overleveraging by borrowers, especially given the lack of industrywide borrower data via credit bureaus.

Regulation and deregulation

Regulation and deregulation analysis includes government's role in creating and maintaining a legal, regulatory, and supervisory framework within which the MFIs can operate. In our view, successful regulatory frameworks are flexible enough to accommodate different types of MFIs (e.g., deposit-taking and non-deposit-taking) while remaining sufficiently consistent to avoid creating a myriad of supervisors and confusing and/or contradictory regulations.

A government's impact on MFIs sometimes goes beyond regulation to encompass its policies for assisting the poor. As a consequence, the evaluation of an MFI must focus on the degree to which the relevant government philosophy is interventionist, and the government has imposed interest rate caps, or extended guarantees or subsidies to organizations that compete with MFIs, and/or lend directly to the poor. Such measures might preclude the development of a "level playing field" that supports competitive, sustainable MFI institutions capable of managing a dual purpose.

MFIs are most often of low systemic importance because their loan and asset portfolios generally represent a small portion of the country's overall banking system assets. Therefore, we do not expect governments to support MFIs in times of crisis. However, there may be limited exceptions, such as where an MFI comprises a significant amount of either total country banking and/or we believe that the government might seek to support MFIs to avoid social and/or political upheaval arising from a broad-based perception that depositors were being disadvantaged. In such cases, we follow the financial institutions criteria as stated.

The industry, however, receives a significant level of aid and funding from international financial institutions (IFIs), which function as backstops and/or lenders of last resort during crises.

Corporate Structure

Ownership structure of MFIs

MFI ownership analysis includes corporate governance, which is also assessed in conjunction with the analysis of an MFI's management quality *(see Management and strategy)*. Governance structures and practices should correspond with the MFI's ownership

structure, stage of development, and social mission, as well as its country of domicile. MFIs, particularly in the early stages of their life cycle, are often fully or partially owned by nontraditional investors, particularly investors with social missions complementary to those of the MFI. IFIs and global MFI networks also frequently invest in MFIs, often improving corporate governance, especially when they have board representation. *(Also see Credit risk section.)*

In our ratings analysis, we assess the ability of the existing governance structure to navigate the growing and increasingly complex microfinance market. Management succession policy is an important board responsibility in any organization; it can be particularly critical for MFIs, which require an unusual combination and evolution of management skills to govern a developing MFI effectively. Board members should possess a diversity of skills and market knowledge so they can evaluate management initiatives and performance critically. Although most MFIs have not yet reached the stage where independent directors can be expected to constitute up to one-third of the board, in accordance with standard corporate governance guidelines, it is nevertheless important to ensure that the board is sufficiently independent.

There may be situations in which a large number of MFI staff are board members and/or when the MFI is characterized by a highly charismatic leader. In these cases, concentrated ownership warrants particular consideration. Another key issue concerns the audit committee, which would typically consist of nonstaff board members with full access to information and the authority to hire or fire the head of the internal audit department. *(Also see Management and strategy section.)*

Business Profile

Market position

Market confidence is crucial to MFIs. For donors or social investors, confidence in an MFI goes beyond financial considerations to include the entity's success in achieving its social mission. We do not determine the appropriateness of the social mission, but rather focus on how well an institution achieves its targets, as such success better allows an MFI to maintain and attract unique funding sources. An MFI's ability to execute its stated mission successfully is factored into the funding and liquidity sections of our financial analysis.

Management and strategy: microfinance key credit factors

The MFI's social mission is an element of its creditworthiness. As noted, our review focuses primarily on how management delivers on its stated objectives and does not include an assessment of the social impact or quality of the MFI's mission. This is the approach we take when reviewing not-for-profit higher education and health care institutions. Therefore, we look only at evidence that the MFI's board of directors and management have established and clearly defined their own social targets, and that they actively monitor execution of these goals to maintain the MFI's donor base and unique industry sources. *(Also see Ownership structure of MFIs.)*

As part of our management and strategy review, we focus on planning and implementation of the business strategy. The table on page 30 defines the factors (parameters) underlying our classification of management's planning and implementation capacity.

Human resource management is another very important component of our review of management and strategy. In the microfinance sector, the management of loan officers, branch managers, and other staff is critical to maintaining strong asset quality and growth in market share. Appropriate incentives, training, and human resource development are key to retention of good staff.

The importance of Enterprise Risk Management (ERM) and the role it plays depend on the level of complexity of an MFI's business model. Our ERM evaluation is based on MFIs' need to articulate, measure, manage, and control risks within the institutions. ERM needs to be embedded across the organization as an enterprisewide practice; however, given the MFIs' risk profile, it is appropriate to primarily focus on operational risks. The ERM assessment provides a qualitative evaluation of many of the factors discussed in the financial risk profile.

Under operational risk, we address the following four areas in the context of the MFIs' business model. Given most MFIs' decentralized structure and quickly evolving status, we review their internal policies and procedures for comprehensiveness, adequacy, and/or success to assure they meet an MFI's risks.

- Policies and procedures
- Technology and systems
- Accounting and financial reporting
- Internal audit functions

Policies and procedures

Given most MFIs' decentralized structure and quickly evolving status, we review an entity's internal policies and procedures for comprehensiveness, adequacy, and/or success to assure they are sufficient to meet the MFI's risks. A qualitative review of the policies and procedures is predicated on the institution's business lines and the lines' risks. In addition, the review must determine if the policies and procedures are clearly written and thorough enough to avoid misunderstanding and oversights and to facilitate their consistent implementation. Efficient management of the branch system is emphasized because it provides another perspective for evaluating the potential for operational risk, especially because so many MFI procedures are manual and can be prone to human error or fraud. This is especially true during times of rapid growth when the related difficulty of hiring and training staff quickly enough to meet market demand is exacerbated. Therefore, we review staff turnover data to determine whether in our view there is an organized hiring, training, and promotion process with compensation and incentives appropriate to local labor market conditions in place. In some of the more mature, increasingly competitive microfinance markets where regional or international banks have entered the arena, retaining strong, well-seasoned staff can create additional pressures on management.

We view MFIs with access to and membership in a global MFI network, or where there is partial ownership by an experienced financial industry participant willing to share appropriate risk-management practices and techniques, as a strength, as it facilitates the institution's movement toward best practices.

Technology and systems

Information technology (IT) and management information systems (MIS) are also important elements in assessing operational risks. We focus on accuracy, thoroughness, and timeliness of information generated by the IT systems, as well as management's recognition of the limitations of its systems. The IT systems' effectiveness at accurately capturing and maintaining detailed levels of data and providing regular, timely, comprehensive reports to management is crucial.

A review of the IT and MIS, which must track the constant inflow of high-volume small payments, must determine whether the systems are being used to maximum effectiveness. Given the lack of an industry standard, existing systems should be accurate, thorough, generate timely information, and be able to handle future growth. They also must be secure and have measures in place to mitigate IT system risk. Management's understanding of any shortcomings of these systems is crucial.

Internal audit functions

We expect the internal audit function of a well-run MFI to have an independent internal audit team and risk managers with appropriate training who report to an independent board member.

Financial Risk Profile

Credit risk

Credit risk management and its related operational risk are one of the keys to our MFI analysis. Therefore, we place more emphasis on this area in our review.

MFIs employ various loan-decision processes because borrowers in the informal sector tend to have little or no formal records and the lending methodologies in place seek alternative ways to assess a borrower's repayment capacity. Indications that the stated lending standards are being applied consistently and according to clear policies and procedures by a well-trained staff should be evident in strong MFIs. When analyzing this type of loan portfolio, we take care to understand the portfolio at risk. We follow the industry's practice of looking at portfolio at risk 30 days (or less, if appropriate), not the 90 days common in mainstream financial institutions.

The MFI's loan portfolio is made up predominantly of short-term loans with little or no collateral. Due to this short tenor, our reviews take into account portfolio at risk at 30 days or less. The accounting principles used, together with the MFI's IT systems, should feed directly into the MFI's MIS. We assess the components that feed into the MIS and its final output more qualitatively in terms of the tools that they provide management to take timely, appropriate actions.

Credit and its related operating risks associated with civil strife and natural disasters are also emphasized, as they can result in mass population dislocation or significant damage to local industry, possibly affecting repayment.

Funding and liquidity

Financial institutions factors used to review an MFI's funding and liquidity investment risks must incorporate the constraints faced by MFIs. These constraints generally fall into three areas: an MFI's legal structure (e.g., regulated/unregulated) and its corresponding access to and varied sources of funding; the little or no access to hedging instruments available to these institutions to mitigate the exposure to abrupt currency-market fluctuations created by foreign currency funding; and structural interest rate risks, owing to interventionist governments that mandated interest rate caps.

Funding and liquidity are given greater weight in the analysis because depending on an MFI's legal structure, it can have a wider range of funding types, some of which are unique to the industry. These include MFI-mandated retail deposits tied to loan products, and funding designed specifically to help develop MFIs from government programs or entities such as international donors or agencies. Because of the social agenda of many of these funding sources, they tend to offer longer tenors even during times of scarce liquidity, resulting in favorable asset-liability matches.

However, during occasions of tightened liquidity, MFIs, like most emerging asset classes, face a scarcity of competing private funding offers and structured finance vehicles (such as collateralized debt obligations), which raises financing costs and lowers access to capital. In the longer term as the industry grows and relies more on commercial funding to meet its expansion needs, we expect the preferential borrowing advantages from unique industry sources to decline gradually.

MFIs receiving other explicit and implicit subsidies from sources specific to the industry must be assessed to determine the institution's fully costed financial performance. If the subsidies are material, the impact of their impairment or loss must be considered and a downside stress scenario evaluated to obtain a true picture of the MFI's nonsubsidized financial performance.

These unique sources of industry funding are generally offered only in hard or foreign currencies. Therefore the analysis must determine how adequately these material foreign currency exposures are identified and managed.

The institutions that can accept deposits have added protection against credit liquidity squeezes. However, unlike for banks, these deposits are not necessarily a less expensive form of funding, as servicing small deposits requires a more costly infrastructure. Therefore, the review process also takes into account the fact that MFI liquidity management can be an unusually demanding function, because most MFI loans are repaid weekly or monthly.

Although MFIs typically have lower leverage, given their different risk profiles, some with longer operating track records and confidence in their risk-management policies tend to increase leverage. Therefore, it is important to understand where the MFI stands in this process and whether the target leverage is appropriate. Currently, most capital comes from donors and/or shareholders. In general, MFIs do not use market instruments to raise capital.

Earnings

To evaluate profitability, we consider some ratio norms specific to the MFI industry. First, relative to the standard bank ratios, the microfinance business model usually results in higher cost-to-income ratios, reflecting the high cost of making many small loans with predominantly short-term maturities. In addition to the cost-to-income ratio, other key characteristics of MFIs that, broadly speaking, result in financial ratios different from bank ratios include:

- MFIs charge higher interest rates to cover their higher operating costs, resulting in stronger net interest rate margins.
- The use of nonstandard collateral (or no collateral), results in higher loan provisioning ratios.

Second, additional ratios are included to better understand the earnings results. These are operating expenses relative to loan disbursements and employee efficiency ratios (number of loans to and the number of borrowers-to-loan officer, number of loans to and number of borrowers-to-staff). MFIs typically have higher ratios of operating costs-to-income due to the high volume-small loan nature of the business. Therefore, it is important to consult appropriate peer group information to assess the significance of a particular MFI's earnings performance.

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

The authors wish to thank Andrea Esposito and Nelun Wijeyeratne for their contributions to this article.

Documentation Requirements For MFI Rating

Angelica Bala
Mexico City
(52) 55-5081-4405

Sergio Garibian
Buenos Aires
(54) 11-4891-2119

The following list of disclosure requirements was developed by Standard & Poor's as a guideline for microfinance institutions (MFIs) interested in applying for an initial credit rating. It is included in this report to illustrate the type of documentation required for the preparation of a rating. Ultimately, these guidelines also can serve as a useful proxy to help MFIs understand the level and scope of disclosure required by mainstream investors.

A meeting with the company's management is an integral part of the Standard & Poor's rating process. Well in advance of such meetings, the company is asked to submit the documentation listed below (two sets), allowing sufficient time for the analysts to review them. Following a preliminary review, the MFI is informed of any additional information required prior to the management meeting, as well as areas of particular focus where detailed questions from the analysts may be expected during such meetings.

To the extent that internal reports used by the MFI's management cover the required information, these are the preferred source of information, rather than reports specially prepared for the rating exercise. For example, reports presented to the board of directors are particularly useful background for the rating exercise.

Disclosure Requirements

I. General Information

A. Background on the creation and establishment of the MFI
B. Organizational structure, including the main operating areas of the company and relationship between branches and head office
C. Holding company organizational structure including subsidiaries and affiliate companies, if any
D. Curriculum Vitae of main executives and board members
E. General information on individuals or families with major stakes in the MFI
F. Shareholders structure including a list of the main shareholders and their ownership shares
G. Incorporation documents, including charter and shareholder agreement

II. Business Description and Competitive Position

A. Description of MFI's main activities

B. MFI's social mission

C. Information and description of each of the main business lines or products

D. Target market and description of the client's profile

E. Market share and market penetration evolution

F. Distribution channels

III. Budget and Strategy

A. Discussion of long-term goals and strategies and, to the extent possible, quantification of short and long-term plans (balance sheet and income statement projections), with underlying assumptions

B. Social mission metrics

C. Growth goals

D. New product development

IV. Profitability: Financial Performance

A. Financial Information

1. Audited financial statements for the past five years, including the auditor's notes and management letters
2. Quarterly financial statements for current fiscal year
3. Financial information breakdown by business lines/product for the past five years

B. Accounting

1. Main accounting policies
2. Main changes in accounting policies in the past two years that could have affected financial information disclosure

C. Revenue Structure (if applicable, for the points listed below, for the past five years and current year's quarterly information)

1. Revenue trends and volatility
2. Total revenues breakdown, by business line/product, market segment; differentiating interest income from fee income
3. Portfolio's profitability
4. Extraordinary income breakdown

D. Cost structure (if applicable, for the points listed below, for the past five years and current year's quarterly information)

1. Costs trend and volatility
2. Total expenses breakdown, by business line/product, distribution expense; differentiating interest expense from fee expense
3. Compensation plans for staff and senior management
4. Employee turnover information
5. Efficiency levels, breakdown of personnel/administrative expenses

6. Extraordinary expenses breakdown
7. Sales, profitability, and break-even points (per branch if multiple branches) if a sales network is used

E. Capital Structure
1. Regulatory capitalization for the past five years, if applicable
2. Dividend policy
3. Additional capital sources to common equity, if applicable
4. Commitment and capacity of shareholders to inject additional capital to the company

V. Asset Quality

A. Description of credit policies and procedures, including credit committees and collateral policy
B. Portfolio breakdown by region, type of loan, and product
C. Income recognition policy on past due loans, provisions and loans charged off
D. Past due loans breakdown by region and product
E. Breakdown of restructured loans
F. Reserves and charge-off policy
G. Restructured loans policy
H. Reconciliation of historical loan loss reserves: loan loss provisions, charge offs, and recoveries for the past five years
I. Significant fraud problems, whether or not they have caused losses
J. Interest rate and foreign exchange risk management

VI. Funding and Liquidity

A. Securities portfolio breakdown
B. Funding sources
1. List of bank's credit lines including usage and amount available, as well as maturity
2. Breakdown of other types of funding sources including usage and amount available, as well as maturity

C. Brief description of asset and liability management by maturity and interest rate

Methodology And Assumptions: Standard & Poor's Approach To Rating Microfinance Securitizations

Eric Gretch
New York
(1) 212-438-6791

Gary Kochubka
New York
(1) 212-438-2514

The success of microfinance programs, which offer loans and financial services to the working poor and other low-income clients in emerging markets, continues to capture the interest of a broad range of market participants. To meet the dramatic increase in demand for funding in this sector, many microfinance institutions (MFIs) and microfinance investment fund managers (MIMs) are looking beyond their traditional funding bases—primarily socially responsible investors, foundations, and multilateral institutions—and considering securitization as a financing option.

Although many MFIs and MIMs have successfully leveraged the growing interest from capital market investors, the relative scarcity of securities analysis and industry benchmarks has, in our view, constrained the growth of the microfinance securitization market. In response, Standard & Poor's Ratings Services has developed a comprehensive methodology for rating microfinance securitizations, which we are providing to offer greater clarity about how we assess these transactions. Standard & Poor's was the first rating agency to rate a multiple-MFI securitization, BlueOrchard Loans for Development S.A.'s series 2007-1, in May 2007.

The criteria we outline in this article reflect our principles-based methodology, as discussed in "*Principles-Based Rating Methodology For Global Structured Finance Securities*," published May 29, 2007.

Foundations Of Our Rating Methodologies For Microfinance Securitizations

Standard & Poor's analysis of microfinance transactions incorporates, as applicable, elements of our rating methodologies for both collateralized debt obligation (CDO) transactions and consumer finance, with adjustments to address factors specific to emerging markets and the microfinance sector.

For our analysis, we divide microfinance securitizations into two distinct categories based on the underlying pool of assets. The first transaction type consists of loans from various third parties (including MIMs, multilateral institutions, and commercial and investment banks) to multiple MFIs; we refer to these as "multiple-MFI transactions." The second transaction type consists of loans that a single MFI (or a network of related MFIs) has issued to its borrowers; we refer to these as "single-MFI transactions."

For multiple-MFI transactions, the loans' position in the respective institutions' capital structures may be senior (secured or unsecured) or subordinate *(see chart 1)*. To date, such securitizations of loan obligations have predominantly consisted of static pools of loans to multiple geographically diverse MFIs; however, Standard & Poor's methodology could also be applied to pools of loans to a single MFI network, although a transaction of that type could embody different risks, such as related-party concentrations.

The second category, single-MFI transactions, refers to securitizations backed by pools of loans—whether consumer, small enterprise, or mortgage loans—that an MFI has originated for its borrowers *(see chart 2)*. Microfinance loans generally have shorter terms than traditional mortgages or consumer loans, typically under one year. For this reason, single-MFI pools tend to have revolving structures to accommodate the timing mismatches between individual loan maturities and the maturity of the structured finance transaction.

Our Rating Methodology For Multiple-MFI Transactions

When analyzing pools of loans to multiple MFI institutions, we use Standard & Poor's CDO Evaluator model to compute our expected default distribution for the portfolio of assets at each applicable rating level. We first simulate the time of default for each individual asset, which then enables us to calculate the complete distribution of defaults for the overall portfolio at each rating level.

In addition to modeling the univariate (individual) default and recovery of each asset, we model the multivariate default and recovery for the portfolio, which reflects the dependency between defaults of different assets. We also factor in the default probability of the sovereign country in which the MFI resides. We use the transfer and convertibility (T&C) assessment of the sovereign (instead of the sovereign foreign currency rating) as our input for the sovereign default probability in Evaluator; the T&C assessment reflects our view of the likelihood that the government will restrict the MFI's access to foreign exchange needed for debt service.

Our CDO Evaluator model also takes into account the amount of geographical diversification in the pool based on 20 regions; all else being equal, a concentration of MFIs in any given region will generally increase our expected default rate for a transaction due to the likely increased correlation among defaults if the region experienced economic stress.

We use CDO Evaluator to calculate the expected default rate for each rating category of a multiple-MFI securitization. Evaluator determines the gross default rate by running a Monte Carlo simulation, which randomly defaults the various obligors (the MFIs) and sovereigns based on their associated default rates, correlations, and geographical locations.

Key assumptions

Various data inputs are necessary to run the CDO Evaluator model, including the MFI's credit rating or credit estimate, the size of each loan to the MFI, the T&C assessment for

the domicile of the MFI, the loans' maturity dates, and any correlation between the assets. Currently, we assume no correlation between the performance levels of individual MFIs in highly diversified microfinance securitizations because the default behavior of any one

Chart 1

Multi-MFI Loan Portfolio Structure

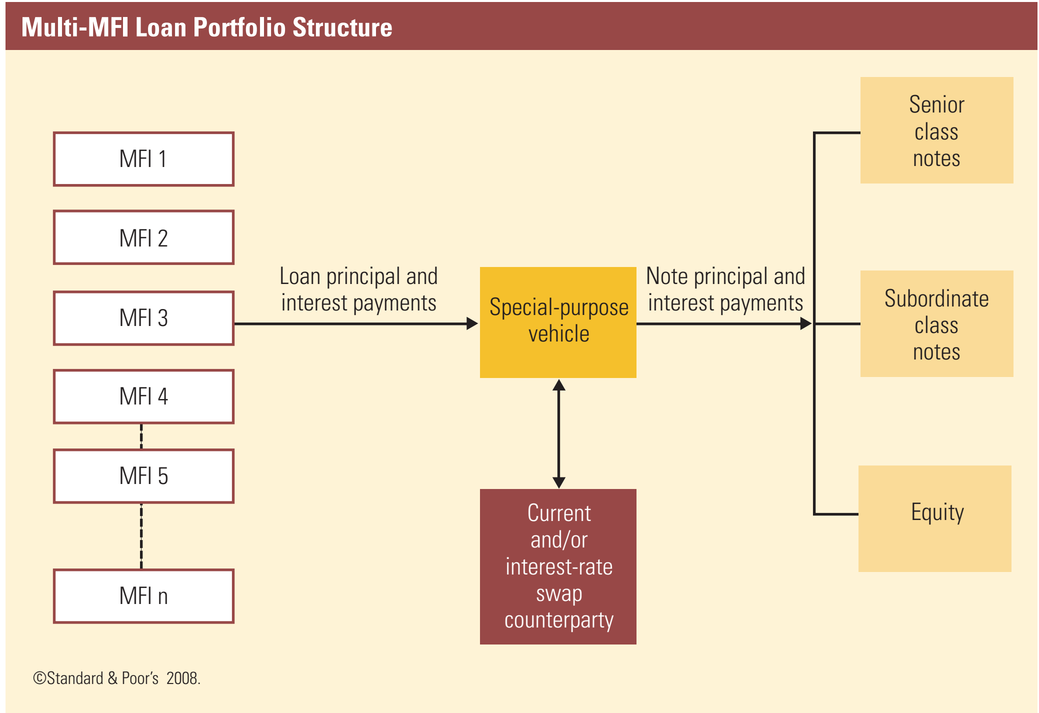
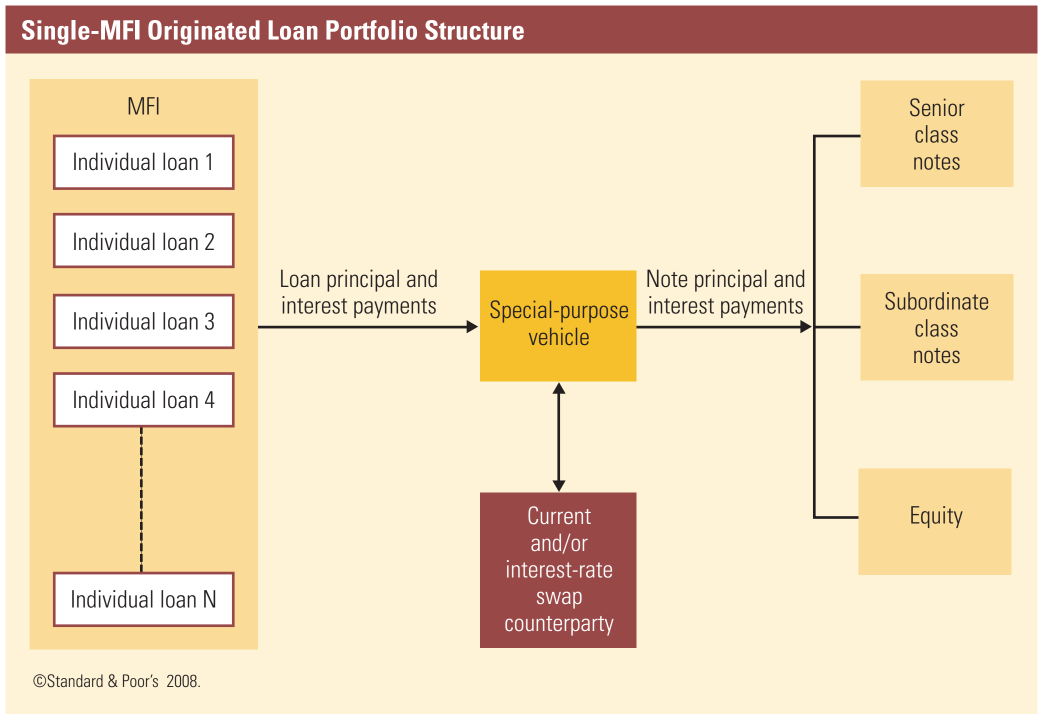


Chart 2

Single-MFI Originated Loan Portfolio Structure



MFI is unlikely to affect that of another. We might adjust this assumption, however, for a related network of MFIs.

We use the T&C assessment as the domicile rating for the respective MFIs because it represents our opinion of the potential for government interference with the foreign exchange market, which we view as more relevant to our analysis of these transactions than the sovereign rating. The T&C assessment is typically one to three notches higher than the sovereign's foreign currency rating.

Cash flow modeling

The default rate we calculate through CDO Evaluator is one of the key benchmarks we use when modeling cash flow for microfinance securitizations. We subject the capital structure of a transaction to various cash flow stress scenarios, which incorporate different default patterns for each rating category, to determine whether it can withstand the level of defaults estimated by CDO Evaluator at a given rating level.

Our cash flow modeling also incorporates the respective recovery rates, in conjunction with interest rate and foreign exchange (if applicable) stress scenarios. These scenarios help us assess the structure's ability to withstand cumulative stress and, therefore, its ability to pay timely interest and timely principal in accordance with the transaction documents.

Analyzing recoveries

When assessing potential recoveries for multiple-MFI transactions, as a starting point, we apply our emerging market tiered recovery matrix (for more information, see "*Updated Global Recovery Rates for Use in Cash Flow CDOs*," published July 23, 2007). This matrix incorporates our recovery rate assumptions for corporations and financial institutions in emerging market countries *(see table)*.

Assessing obligor credit quality

The credit quality of the underlying MFIs is the key component when assessing transactions using CDO Evaluator. For MFIs publicly rated by Standard & Poor's, we use the issuer credit rating, as opposed to the company's security-level rating, because it best represents our view of the MFI's probability of default.

If Standard & Poor's doesn't publicly rate the MFI, we can perform a credit estimate, which provides our confidential indication of the issuer's creditworthiness for use in CDO Evaluator. We arrive at our credit estimate using a modified methodology that draws on our analytical experience and knowledge of the applicable sector; we have no formal interaction with the MFI when determining credit estimates.

Corporate recovery assumptions (%)

AAA	AA	A	BBB	BB	B
22	24	32	33	35	37

The MIM provides Standard & Poor's with relevant financial and qualitative data for each unrated MFI. For MFIs that have neither a public Standard & Poor's rating nor a credit estimate and which have not defaulted in the past three years, we assume a rating of 'CCC-' in CDO Evaluator for modeling purposes.

Gauging the quality of the portfolio manager

MIMs serve a variety of key roles in multiple-MFI securitizations, including sourcing, originating, and servicing loans to the MFIs. They have a bigger role in dynamic pool securitizations because they're responsible for adding or replacing loans, as necessary, according to the transaction's asset eligibility criteria and trading rules. A key role for the MIM is loss mitigation, which it can accomplish either by selling credit-impaired assets or by working them out after an MFI defaults.

Although the MIM typically manages and services the pool of loans itself, it may choose to delegate some of the functions to separate subservicers. In either case, Standard & Poor's will undertake a full review of the servicer's capabilities. We perform a full originator review of the MIM (many of which aren't rated entities), including its performance history, underwriting capabilities, and systems and operations, in conjunction with rating the securitization.

Our Rating Methodology For Single-MFI Transactions

When analyzing pools of consumer, small-enterprise, or mortgage loans originated by one MFI or a network of related MFIs, we use a methodology consistent with those for rating existing-asset securitizations (for more information, see "*European Consumer Finance Criteria*," published March 14, 2000).

Assessing the MFI

Our analysis begins with a review of the MFI, including its organizational and management structure, competitive positioning, lending process, and information systems, as well as its underwriting, origination, and servicing guidelines. We also consider the MFI's historical portfolio performance metrics—particularly arrears, delinquencies, write-offs, and foreclosures—as well as its policies for extending or rewriting loans.

In a single-MFI portfolio securitization, Standard & Poor's will also look at the lending arrangements the MFI employs, which may include community-based or individual lending models. A community-based lending model, for instance, pools a group of borrowers, and each individual obligation becomes the responsibility of the borrowing group as a whole.

If the MFI originating the loan portfolio does not have an issuer credit rating or has a rating lower than the proposed transaction rating, we assume for the purpose of our worst-case scenario analysis that the originating MFI defaults on day one of the transaction; therefore, our analysis of the transaction is not inexorably linked to the rating of the originator.

Reviewing the originator

For single-MFI transactions, the originator is typically responsible for both servicing the existing portfolio and originating new loans. When Standard & Poor's rates a securitization, we will undertake a full review of the originator, the servicer (which may be the originator or a subservicer), and backup servicers the originator has assigned to the transaction. Our originator and servicer reviews cover areas including the firm's performance history, management and staffing, underwriting capabilities (if applicable), servicing, and systems and operations.

Standard & Poor's generally believes that securitizations should have the ability to readily replace a servicer if necessary, and for certain transactions with complex structures or unusual assets, we look for a backup servicer to be in place at origination. The backup servicer should be familiar with the original servicer's computer and processing systems to facilitate the transfer of electronic and hard-copy data.

Analyzing the loan pool

The securitization's loan pool characteristics—such as the interest-rate type (fixed or floating), borrower type (e.g., an individual borrower or a small business), the purpose of the loan, the loan amount, and the loan's terms—are, of course, a primary aspect of our analysis.

Transactions with revolving pools introduce several risks not found in static transactions. First, the collateral composition may change (either negatively or positively) as the originator expands its market share. And second, the originator's underwriting criteria may change in a way that negatively affects the credit quality of the purchased assets. For these reasons, revolving transactions typically have loan underwriting and eligibility criteria in place to ensure the consistency of newly originated loans and to limit subsequent purchases of loans.

The portfolio diversification of a single-MFI loan portfolio can vary depending on the number of loans securitized and the size of the market in which the MFI operates. These loan pools may have higher regional concentrations within a country than the pools underlying multiple-MFI structures.

Reviewing The Transaction Structure

For both single-MFI and multiple-MFI transactions, we will review the formation documentation of the issuer of the rated debt to determine whether it is consistent with our general structured finance special-purpose entity (SPE) criteria for bankruptcy remoteness. We will generally also review factors relating to the transfer of the collateral to the issuer for bankruptcy purposes.

In our experience, transactions can mitigate cash flow diversion risk and help to ensure timely transfer of cash flows to the SPE if the servicer (on behalf of the SPE) receives payments directly from the assets. In addition, we may look for other structural mechanisms to address specific issues in securitizations that involve new jurisdictions, asset types, or transaction structures.

To address potential foreign currency exchange or interest-rate mismatches between the debt issued and the underlying collateral, the SPV typically has two options. First, it may enter into hedging agreements with rated third-party entities; Standard & Poor's looks for these hedge agreements to be consistent with our standard counterparty criteria guidelines. (For more information, see "*Revised Framework For Applying Counterparty And Supporting Party Criteria*," published May 8, 2007.) Second, it may provide credit enhancement by way of a cash reserve or other structural component to protect against potential unhedged risks.

Multiple-MFI transactions tend to be structured with bullet principal payments to accommodate the longer-term funding requirements of the MFIs. However, either securitization type may employ an amortizing principal structure. Additionally, as in BlueOrchard's transaction, a timing mismatch may exist between the origination of loans and the disbursement of funds. MIMs often receive a commitment in advance from an MFI for funding at a future date; these loan commitments are funded at the closing of the transaction, but disbursements may be delayed to accommodate funding requirements.

A ramp-up period for disbursement of such commitments is generally consistent with our criteria for the assignment of a rating given that the structure typically accounts for any negative carrying cost it may incur. Additionally, in the case that a proposed loan isn't funded within a given time frame, the transaction documents may call for a principal prepayment to investors of these funds.

Legal Opinions

Generally speaking, Standard & Poor's legal considerations for multiple-MFI and single-MFI transactions are similar. For both, we will typically review the factors surrounding the transfer of assets into the securitization. As appropriate, we will request true-sale and nonconsolidation opinions for the relevant jurisdictions. We may also request enforceability opinions relating to the securitized loans, again under the relevant jurisdictions. Additionally, we will typically review tax opinions relating to the issuing vehicle's tax status.

The methodology described in this article represents the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by the issuer-specific or issue-specific facts, as well as Standard & Poor's assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions change from time to time as a result of market and economic conditions, issue-specific or issuer-specific factors, or new empirical evidence that would affect our credit judgment.

ACLEDA Bank PLC

Rationale

Credit Profile

Counterparty Credit Rating

B+/Stable/B

ASEAN Regional Scale Rating

axBB/—/axB

Ivan Tan
Singapore
(65) 6239-6335
ivan_tan@
standardandpoors.com

Deepali Seth
Mumbai
(91) 22-4097-8337
deepali_seth@
standardandpoors.com

The ratings on ACLEDA Bank PLC reflect its strong business position and franchise in the domestic banking industry, although these strengths are partially offset by the underdeveloped operating environment and poor legal infrastructure in Cambodia (B+/Stable/B). ACLEDA also has an adequate financial profile and satisfactory asset quality. However, rapid loans growth in previous years may result in higher nonperforming assets (NPA), especially in a prolonged downturn.

ACLEDA is Cambodia's second-largest bank, accounting for about 16% of the system's assets, and has the largest network with 219 branches, mainly in rural areas. It is the leading provider of credit to rural individuals and small businesses, but has also recently established itself as commercial bank providing a range of financial services, including cash management and trade finance, to midsize enterprises.

ACLEDA's small asset base had registered very strong loans growth, averaging 80% in the past three years, fueled by strong economic growth and the country's underbanked nature, where domestic credit accounts for 19% of GDP. Its loan portfolio has a 10:42:48 split between microfinance, small business, and midsize enterprise loans. Reported asset quality is good with an NPA ratio of just 0.30% in June 2008, and fully provided for. Almost the entire loan portfolio is secured against tangible collateral, although the laws on secured transactions are not well defined in Cambodia and recovery is not guaranteed. More importantly, about 9% of its portfolio is exposed to commercial real estate, which has seen valuations rise sharply, and looks set for a correction in a prolonged economic downturn. Consequently, Standard & Poor's believes that the bank's asset quality on a long-run steady-state basis might be weaker than that indicated by the current very low reported NPA as a result of portfolio seasoning.

ACLEDA's reported profitability is good with return on assets of 4.0% and return on equity of 36.2%, in June 2008 (on an annualized basis). Healthy interest margins emanating from the bank's focus on the higher-yielding microfinance and small business segments in rural areas have more than offset the high operating expenses associated with its manpower-intensive business model. In line with the industry, interest margins have naturally declined somewhat in recent years (to 16.1% in June 2008 from 28.2% in 2003) as the economy develops, and as ACLEDA shifts toward the more price-sensitive (lower-margin)

middle-market commercial sector. Although Standard & Poor's expects this trend to continue, ACLEDA's core earnings profile is expected to remain healthy in the medium term as the bank continues its expansion strategy.

ACLEDA is adequately capitalized with adjusted total equity at 10.9% of adjusted assets at June 2008. Notably, shareholders have demonstrated strong commitment to the bank's growth through a regular three-year cycle of capital infusion. The most recent capital-raising exercise, in January 2008, boosted share capital to US$50 million, from US$30 million. That said, the June 2008 ratio of adjusted total equity to adjusted assets was significantly lower than the 18.3% seen at the end of 2006 due to rapid balance sheet expansion, suggesting that more frequent recapitalization might be needed to match the current rate of growth. This is likely to come in the form of a foreign strategic stakeholder to invest up to US$60 million—sufficient to sustain its expansion into 2009.

Outlook

The stable outlook reflects Standard & Poor's expectation that ACLEDA will maintain a satisfactory financial profile and adequate capitalization ratios amid strong balance sheet growth. The outlook factors in a possible increase in NPA associated with portfolio seasoning, and decline in interest margins and profitability as economic prospects deteriorate. As the bank moves toward a full-fledged commercial banking model, providing a wider

ACLEDA Bank PLC Selected Operational And Financial Indicators

	—Year-ended Dec. 31—				
Annual growth (%)	**2009***	**2008**	**2007**	**2006**	**2005**
Customer loans (gross)	(10.67)	47.37	98.08	58.47	51.55
Profitability (%)					
Noninterest expense revenues	80.65	65.84	71.36	71.21	72.75
Core earnings/average adjusted assets	1.63	3.44	2.89	4.02	4.32
Asset quality (%)					
NPA (excl. delinquencies)/ customer loans + ORE	0	0.29	0.06	0.09	0.16
Net charge-offs/avg. customer loans (net)	N.A.	(0.01)	(0.07)	(0.16)	(0.27)
NPLs + charge-offs	N.A.	0.28	(0.01)	(0.07)	(0.11)
Loan loss reserves/NPA (gross)	N.A.	388.72	1,615.01	1,262.13	959.06
Capitalization (%)					
Adjusted total equity/ adjusted assets	13.76	13.55	10.84	18.29	16.04

*Data as of March 31, 2009. NPA—Nonperforming assets. ORE—Other real estate. NPLs—Nonperforming loans; more than 90 days past due. N.A.—Not available.

range of financial services, an upgrade will hinge on its ability to maintain good asset quality upon stabilization of its loan portfolio and improvement in core profitability through greater income diversity and an upgrade of the sovereign credit rating on Cambodia. On the other hand, substantial asset quality slippage from rapid loans growth or prolonged economic deterioration will pose downward pressure on the rating.

Banco Compartamos S.A.

Rationale

The ratings on Mexico-based Banco Compartamos S.A. (Compartamos) are based on the extensive experience of its management and its effectiveness in penetrating its target market while maintaining good asset quality. The ratings also reflect its good financial profile, with outstanding levels relating to asset quality, profitability, and capitalization. On the other hand, the ratings are constrained by an unfavorable economic environment that could reduce the payment capacity of the bank's clients. Stiff competition in the microfinance sector in Mexico also could add pressure to its clients' debt levels.

The bank has positioned itself as a leader in the Mexican microfinance sector supported by a strong management team with broad experience. Despite the difficult economic environment that has prevailed in the last months, in our view, Compartamos will keep growing, given the important growth potential that its target market still offers. Although the bank reports a significant concentration on its product "Credito Mujer" (group loans), representing 78% of its loan portfolio, this product is distributed among several clients and it has the best quality in the portfolio. We expect the bank to maintain a good performance, as it was able to do during past financial crises in Mexico, and management to maintain a conservative approach during the current economic environment.

Although asset quality trends in the banking sector are negative, Compartamos has managed to maintain its portfolio quality related to traditional products. However, the bank's nonperforming loans (more than 90-days past due) have increased since it began making home improvement loans. Although these loans are a higher risk for the bank, Standard & Poor's Ratings Services does not expect them to increase to more than 2.5% of the bank's total portfolio. We do not consider this to be a significant percentage. These indicators compare favorably with those of the banking sector, and with those of other microfinance institutions. We expect the bank to maintain its good asset quality, based on the good risk management practices already implemented and its experience in the sector.

Compartamos has been able to maintain its good profitability levels, based on high intermediation margins and on its good efficiency levels. However, the increase in funding costs and higher provision levels have limited the growth in profitability. In 2008, net income (Mexican peso 1.12 billion) grew 28% annually, reaching a return on assets of 13.8%. This percentage was 15.1 as of March 2009. In addition, the bank's profitability has strengthened

Credit Profile

CaVal National Scale Rating

mxAA-/Stable/mxA-1

Alfredo Enrique Calvo
Mexico City
(52) 55-5081-4436
alfredo_calvo@
standardandpoors.com

Alfonso J. Novelo
Mexico City
(52) 55-5081-4479
alfonso_novelo@
standardandpoors.com

its capitalization level—its adjusted capitalization ratio of 41% as of March 2009 compares favorably with that of other financial institutions globally. Although we expect this ratio to decrease, we believe it will remain at a high level. Compartamos has good financial flexibility, given its strong levels of capitalization and income generation as well as its efficient funding base. Similarly, its short-term (16 weeks on average) credit portfolio allows the bank to adjust rates according to business needs, and it could provide liquidity when needed.

In our view, Compartamos will face the challenge of maintaining its growth pace while maintaining its good asset quality under the current unfavorable economic environment, and the strong competition from other institutions making similar loans, both of which pressure its clients' capability to pay. In this sense, a higher provisioning requirement as a result of a deterioration of its portfolio quality would also increase pressure on the bank's profitability.

Outlook

The stable outlook reflects our expectation that the bank's management will maintain a conservative strategy and will use the experience obtained from past crises to sustain its good performance during 2009. We could raise the rating if the bank manages to retain its strong position through good product diversification, as well as its good credit portfolio quality and strong capitalization and profitability levels, despite the less favorable economic environment.

Banco Compartamos S.A. Selected Operational And Financial Indicators

	—Year-ended Dec. 31—				
Annual growth (%)	**2009***	**2008**	**2007**	**2006**	**2005**
Customer loans (gross)	39.8	36.96	40.71	51.66	65.79
Profitability (%)					
Noninterest expense/ revenues	51.32	53.54	47.98	45.41	48.03
Core earnings/ average adjusted assets	14.6	16.93	21.11	23.01	19.65
Asset quality (%)					
NPA (excl. delinquencies)/ customer loans + ORE	1.93	1.71	1.36	0.61	0.48
Net charge-offs/avg. customer loans (net)	2.33	0.56	0.52	0.59	0.51
NPLs + charge-offs	4.26	2.27	1.88	1.20	0.99
Loan loss reserves/ NPA (gross)	152.97	165.31	292.98	661.11	935.73
Capitalization (%)					
Adjusted total equity/ adjusted assets	41.05	35.13	44.78	42.39	37.67

*Data as of March 31, 2009. NPA—Nonperforming assets. ORE—Other real estate. NPLs—Nonperforming loans; more than 90 days past due.

Banco de Ahorro y Crédito ADOPEM S.A.

Rationale

The operative and financial environment in the Dominican Republic influences our rating on Banco de Ahorro y Crédito ADOPEM S.A. (Adopem). The deteriorating economic outlook could affect the bank's performance. Adopem's concentration levels in terms of products and target market are higher than those of other larger financial institutions operating in the country, also limiting the ratings. The ratings are balanced by Adopem's knowledgeable, strong management team and by the effectiveness of its strategy to increase its market presence gradually while maintaining adequate profitability and asset-quality indicators. Adopem's good financial flexibility, supported by its adequate funding diversification and capitalization levels, are also reflected in the ratings.

Despite the loan portfolio's good performance, an economic environment with inflation rates that could affect debtors' payment capacity may pressure the bank's asset quality. In addition, we expect the Dominican market to face stronger competition from other institutions, as has happened in other countries, affecting people's debt burden and payment capacity. However, Adopem's adequate credit-risk management tools and its experience in the market should allow it to manage the loan portfolio adequately.

Adopem's management has good experience in microlending, which has allowed it to develop a long and successful track record, maintaining the company's vision and mission. In this sense, the bank has increased its market penetration, with adequate asset quality and profitability levels. In our opinion, the participation of the International Finance Corp. (IFC) as a shareholder and the more active participation of other multilateral institutions such as the European Investment Bank have strengthened the bank's corporate governance.

At year-end 2008, Adopem reported return on assets of 6.3%, which compares positively with the ROA of other microfinance institutions we rate. Adopem's good interest margin has allowed it to mitigate high operating costs resulting from its expansion and IT development, and supports its profitability. Although higher provisions to cover possible credit losses may create pressure, we expect Adopem to maintain adequate profitability.

In our opinion, Adopem has managed its credit risk adequately. Nonperforming assets (NPAs), composed of past-due loans and foreclosed assets (proceeding from Banco de Desarrollo del Valle, acquired by Adopem in 2003), represented 2.3% of total loans as of

Credit Profile

Counterparty Credit Rating

B-/Stable/C

Alfredo Enrique Calvo
Mexico City
(52) 55-5081-4436
alfredo_calvo@
standardandpoors.com

Angelica Bala
Mexico City
(52) 55-5081-4405
angelica_bala@
standardandpoors.com

December 2008, and write-offs represented a small portion of total loans (0.5% in 2007 and 2008). Adopem's conservative provisioning policy has allowed it to cover 1.3x its NPAs.

We consider Adopem's financial flexibility to be adequate, supported by the short-term nature of its loan portfolio and its long-term funding base. In 2008 funding sources were distributed among bank loans (45%), client deposits (31%), and subordinated debt (24%). Even though the bank takes deposits directly from its clients, the deposit base is highly concentrated. Adequate capitalization levels provide additional financial flexibility, and are supported by its adequate profitability and shareholders' commitment to keep the bank well capitalized. The bank's adjusted capital stood at 20% as of December 2008, similar to other MFIs we rate.

Outlook

The stable outlook reflects our expectation that the bank will maintain its adequate market position and asset quality, leveraging its experienced management team and the support provided by Adopem's stockholders. It also reflects the bank's adequate financial flexibility and capitalization levels. A negative rating action would result from a strong deterioration in asset-quality indicators that pressured Adopem's profitability or capitalization levels, or from the emergence of unexpected difficulties in management's growth strategy. If the Dominican economic environment improves, we could raise our rating on Adopem.

Banco de Ahorro y Crédito Adopem S.A. Selected Operational And Financial Indicators

	—Year-ended Dec. 31—			
Annual growth (%)	**2008**	**2007**	**2006**	**2005**
Customer loans (gross)	50.15	34.96	71.75	285.83
Profitability (%)				
Noninterest expense/revenues	62.64	65.68	62.68	56.96
Core earnings/average adjusted assets	8.06	7.88	7.08	11.28
Asset quality (%)				
NPA (excl. delinquencies)/customer loans + ORE	2.02	2.23	2.49	1.7
Net charge-offs/avg. customer loans (net)	0.56	0.85	0.54	N.A.
NPLs + charge-offs	2.58	3.08	3.03	N.A.
Loan loss reserves/NPA (gross)	150.87	146.85	131.66	64.44
Capitalization (%)				
Adjusted total equity/adjusted assets	20.35	22.21	23.03	31.37

NPA—Nonperforming assets. ORE—Other real estate. NPLs—Nonperforming loans; more than 90 days past due. N.A.—Not available.

Financiera El Comercio

Rationale

Our rating on Paraguay-based nonbank financial institution Financiera El Comercio reflects the country's high sovereign risk and the intrinsic risks in the Paraguayan financial system. The rating also incorporates our view that, given the company's rapid expansion in a highly competitive environment, El Comercio will have to further consolidate its already improving business and financial performance as it minimizes operational risks that could affect asset quality. The company's relatively strong market position among financial companies operating in Paraguay, and its diversified loan portfolio and revenue structure, as well as its adequate asset quality and fairly strong profitability partially offset these negative rating factors.

Credit Profile

Counterparty Credit Rating

B-/Positive/—

Delfina Cavanagh
Buenos Aires
(54) 11-4891-2153
delfina_cavanagh@
standardandpoors.com

Sergio Garibian
Buenos Aires
(54) 11-4891-2119
sergio_garibian@
standardandpoors.com

Also putting some pressure on El Comercio's operating performance is Paraguay's rather small economy. The country has limited fiscal flexibility, and its financial system is growing amid deficiencies in its institutional and legal frameworks.

Although it is a relatively small entity within the Paraguayan financial system, its status as the country's largest financial company with the largest branch network in the private financial sector (and behind only the government-owned Banco Nacional de Fomento in the entire financial industry) makes El Comercio one of the system's more important players. Despite increasing its portfolio at an annual average rate of 42% over the past five years, it has maintained relatively sound asset quality, with nonperforming loan (NPL) ratios that are better than those of the industry as a whole—2.7% compared with an industrywide 5.6% as of March 31, 2009. The company follows a conservative approach in provisioning, with a loan loss reserve-to-NPL ratio reaching a high 210%. The company maintains adequate liquidity levels and, given its relative ample distribution network and strong market position, El Comercio presents a relatively well-diversified funding profile. Looking forward, the company will have to continue improving its credit procedures in order to further increase its market penetration, even as it tries to maintain healthy asset quality indicators.

Although it's been trending a bit downward recently, given its high rate of growth, El Comercio has adequate capitalization to sustain this growth in its portfolio over the next several quarters, with an adjusted capital-to-assets ratio of 15.3% as of March 31, 2009. Because of its conservative profile and historical commitment to maintaining a capital base cushion

commensurate with the risks it faces, we expect El Comercio to maintain adequate capitalization by retaining a higher proportion of earnings and/or incorporating new shareholders.

Outlook

The positive outlook reflects our expectation that, despite Paraguay's still high operating and sovereign risks, El Comercio will continue to grow. We also anticipate that the bank will further strengthen its competitive position, while consolidating its recent changes in credit procedures, as it preserves its asset quality and relatively strong capitalization levels. A major decline in Paraguay's economy or deterioration in El Comercio's asset quality, profitability, or capitalization could result in a downgrade.

Financiera El Comercio Selected Operational And Financial Indicators

	—Year-ended Dec. 31—				
Annual growth (%)	**2009***	**2008**	**2007**	**2006**	**2005**
Customer loans (gross)	24.16	60.26	60.13	31	39.84
Profitability (%)					
Noninterest expense/revenues	55.82	69.08	59.88	58.16	59.07
Core earnings/average adjusted assets	4.42	7.46	7.31	6.71	9.06
Asset quality (%)					
NPA (excl. delinquencies)/ customer loans + ORE	2.67	2.02	2.00	2.83	2.86
Net charge-offs/ avg. customer loans (net)	1.77	0.82	1.25	6.04	1.7
NPLs + charge-offs	4.44	2.84	3.25	8.87	4.56
Loan loss reserves/ NPA (gross)	209.03	216	163.9	72.18	84.58
Capitalization (%)					
Adjusted total equity/ adjusted assets	15.26	15.39	17.08	18.66	21.08

*Data as of March 31, 2009. NPA—Nonperforming assets. ORE—Other real estate. NPLs—Nonperforming loans; more than 90 days past due.

FinComún Servicios Financieros Comunitarios S.A. de C.V. Sociedad Financiera Popular

Rationale

The ratings on Mexico-based microfinance institution FinComún Servicios Financieros Comunitarios S.A. de C.V. Sociedad Financiera Popular are based on higher economic and industry risks that could put additional pressure on the company's financial performance. The ratings are balanced by an experienced and proactive management team that is improving not only FinComún's asset quality but also its quality client-providing relationship with its partial owner, Mexican packaged food company Grupo Bimbo S.A.B. de C.V.; diversified funding base; and support from shareholders.

The higher inflation, stiffer competition, and higher debt burden of FinComún's target market, Mexico, present challenges that could add further stress to the company's loan portfolio, which had increasing losses during the second half of 2008. Over FinComún's history, it has held nonperforming loans (NPLs) to less than 5%. But, beginning in July 2008, the portfolio began to deteriorate rapidly—reaching a 9% NPL rate by November.

The need for additional provisions to cover possible credit losses also took its toll on profitability, which was extremely low for 2008. However, management has analyzed the portfolio and is taking actions that have already improved asset quality. We expect NPLs to return to historic levels and reserve coverage to reach 70% this year.

The company has invested in a new IT platform. The new system's implementation has also narrowed FinComún's return on assets (ROA) to 0.2% as of Nov. 30, 2008, down from 6.23% in 2006. We expect the improved technological platform and risk management practices to start bearing fruit throughout this year, enabling the institution to increase its 2009 ROA.

FinComún's management has a good, well-established track record and adequate management tools to monitor its loan portfolio while providing additional services to its customers. Although its business strategy is ambitious, FinComún's partnership with Grupo Bimbo has provided the company with a good, stable customer base with ample room for growth. Currently, Grupo Bimbo represents around 20% of total loans. We believe that, based on its experience, management will be able to correct problems in the loan portfolio and that will adjust its growth strategy conservatively to mitigate industry and economic risks.

A stable, low-cost deposit base and credit lines somewhat mitigate higher operating costs. Currently, FinComún's deposit base funds about 70% of its total loans. Credit lines

Credit Profile

Counterparty Credit Rating

BB-/Stable/B

CaVal National Scale Rating

mxBBB+/Stable/mxA-2

Angelica Bala
Mexico City
(52) 55-5081-4405
angelica_bala@
standardandpoors.com

Eli Sanchez
Mexico City
(52) 55-5081-4440
eli_sanchez@
standardandpoors.com

from international organizations and Mexican banks have also supported growth. Liquidity is not a concern given the short-term nature of its loan portfolio—28 weeks on average. Lower funding cost provides for a good net interest margin, which has supported higher operating costs derived from IT investments and provisions for credit losses. Although reserve coverage is currently low at 50%, capitalization is adequate and of good quality. Adjusted total equity represents 24.5% of assets. We expect the company to maintain this level of capitalization.

Outlook

The stable outlook is based on our expectation that management will be able to improve asset quality despite the more challenging operating environment. If this doesn't occur, and if significant pressure on profitability and capitalization continues, we could lower the rating.

FinComún Servicios Financieros Comunitarios S.A. de C.V. Sociedad Financiera Popular
Selected Operational And Financial Indicators

	—Year-ended Dec. 31—				
Annual growth (%)	**2009***	**2008**	**2007**	**2006**	**2005**
Customer loans (gross)	(0.53)	4.59	51.39	29.05	41.49
Profitability (%)					
Noninterest expense/revenues	94.10	81.87	77.95	78.47	76.01
Core earnings/average adjusted assets	(8.11)	0.57	5.02	6.23	4.68
Asset quality (%)					
NPA (excl. delinquencies)/ customer loans + ORE	5.78	13.76	5.29	2.20	4.10
Net charge-offs/avg. customer loans (net)	21.43	14.41	2.95	N.A.	5.73
NPLs + charge-offs	27.21	28.17	8.24	N.A.	9.83
Loan loss reserves/NPA (gross)	98.28	48.99	86.55	135.29	153.77
Capitalization (%)					
Adjusted total equity/ adjusted assets	21.62	25.65	28.75	21.06	17.26

*Data as of March 31, 2009. NPA—Nonperforming assets. ORE—Other real estate. NPLs—Nonperforming loans; more than 90 days past due. N.A.—Not available.

Fundación Integral Comunitaria A.C.

Rationale

Standard & Poor's Ratings Services' ratings on Fundación Integral Comunitaria A.C. (FINCA Mexico) reflect more competition in the Mexican microfinance market and concerns about the increasing debt burden in this niche, which in combination with a less favorable economic environment could hurt the foundation's asset quality. As the company seeks to expand its geographic presence in the United Mexican States, we believe that operating risk exposures will become more difficult to manage. A seasoned management team and FINCA Mexico's good profitability and capitalization levels counterbalance these weaknesses.

FINCA Mexico is a microfinance company focused on giving credit to urban and rural low-income families. Approximately 95% of its portfolio is oriented to group credits. In the current environment, FINCA Mexico has faced a significant increase in competition from other microfinance entities and increasing interest in this sector from larger financial institutions such as banks with better funding sources. In addition, the labor force required to operate in this sector shows high rotation levels, and the entrance of a number of new, small participants to this market has resulted in creditors' higher debt burdens, hurting the foundation's asset quality. FINCA's nonperforming loans rose slightly to 4.0% of total loans in December 2008, compared with 3.9% in 2007. Even with the increase in nonperforming assets, the foundation maintained a 120% reserve coverage of these assets. We don't expect the level of past-due loans to increase dramatically, as the company is strengthening its origination and collection practices.

Although profitability indicators have felt the pressure of a more competitive market, FINCA Mexico maintains high net interest income and loan growth. Microcredit operations normally present high operating costs, given the small amounts of the loans and more costly operation than for other financial institutions. Although efficiency ratios compare negatively to those of other microfinance institutions (MFIs; 81%), final profitability ratios during the past five years are good and compare positively with those of other rated MFIs. By the end of December 2008, the company registered a return on assets of 6.1%.

FINCA Mexico has been able to grow its capital consistently during the past five years (40% average) because of good profitability levels and its status as a nonprofit foundation. As of December 2008, FINCA Mexico's adjusted total equity-to-assets ratio was 27.8%, a level that will allow the company to meet its growth targets.

Credit Profile

Counterparty Credit Rating

BB-/Stable/B

CaVal National Scale Rating

mxBBB/Stable/mxA-3

Alfonso J. Novelo
Mexico City
(52) 55-5081-4479
alfonso_novelo@
standardandpoors.com

Angelica Bala
Mexico City
(52) 55-5081-4405
angelica_bala@
standardandpoors.com

Outlook

The stable outlook reflects our expectation that FINCA Mexico will be able to sustain its good internal capital generation capacity and maintain its credit portfolio's adequate growth rate in a more competitive business environment. A significant deterioration of FINCA Mexico's asset quality or a substantial reduction in its profitability indicators could pressure the ratings.

Fundación Integral Comunitaria A.C. Selected Operational And Financial Indicators

	—Year-ended Dec. 31—			
Annual growth (%)	**2008**	**2007**	**2006**	**2005**
Customer loans (gross)	38.12	39.12	59.13	84.18
Profitability (%)				
Noninterest expense/revenues	81.07	83.12	81.59	73.25
Core earnings/average adjusted assets	5.49	6.88	8.89	15.44
Asset quality (%)				
NPA (excl. delinquencies)/customer loans + ORE	3.95	3.84	2.29	2.37
Net charge-offs/avg. customer loans (net)	1.64	1.07	0.54	0.36
NPLs + charge-offs	5.59	4.91	2.83	2.73
Loan loss reserves/NPA (gross)	119.69	112.15	114.17	104.75
Capitalization (%)				
Adjusted total equity/adjusted assets	27.84	31.54	29.82	39.35

NPA—Nonperforming assets. ORE—Other real estate. NPLs—Nonperforming loans; more than 90 days past due.

Visión Banco S.A.E.C.A.

Rationale

Standard & Poor's Ratings Services' ratings on Visión Banco S.A.E.C.A. (Visión) are constrained by the uncertainty intrinsic to the Republic of Paraguay's (B/Stable/B) financial system and the country's high sovereign risk. Even though Visión is specialized in the microfinance segment, it also offers loans to the middle- and higher segments within a highly competitive environment. These weaknesses are partially offset by the institution's good market position, adequate asset quality, good revenue diversification, and a profitable operation.

In addition, Paraguay has a relatively small economy with limited fiscal flexibility and an expanding financial system that is reporting deficiencies in the institutional and legal framework, putting some pressure on Visión's operating performance.

Favorable rating factors include the bank's adequate asset quality, which has steadily reduced its delinquency ratio since 2002 thanks to conservative credit risk policies and a relative improvement in the macroeconomic environment. As of June 2008, loans more than 60-days past due declined to an adequate 1.3%, while the bank's loan-loss coverage level increased significantly to 174.1% of the nonperforming portfolio. Looking forward, the bank will face the challenge of continuing to increase its loan portfolio—mainly in the microfinance segment—in a highly competitive environment, while maintaining healthy asset quality indicators.

With a return-on-assets of 5%, Visión's profitability is strong and compares well with that of most Latin American banks. Visión has a revenue structure characterized by a relatively diversified earnings structure due to the wide array of services it provides. In the medium term, we expect that recent changes at the bank will translate into new business opportunities whose economies of scale would allow Visión to continue improving its overall performance.

Visión's capitalization level has weakened due to the company's significant growth in past years (an average 35% increase for the past five years). As of June 30, 2008, the adjusted capital-to-assets ratio—according to Standard & Poor's methodology—reached 8%. Visión still needs to raise new capital or further capitalize earnings to sustain its current growth levels. Shareholders have successfully sought to incorporate new investors into the company's ownership.

Credit Profile

Counterparty Credit Rating

B/Stable/—

Delfina Cavanagh
Buenos Aires
(54) 11-4891-2153
delfina_cavanagh@
standardandpoors.com

Sergio Garibian
Buenos Aires
(54) 11-4891-2119
sergio_garibian@
standardandpoors.com

Outlook

The stable outlook reflects our expectation that, despite Paraguay's still-high operating and sovereign risks, the bank's successful implementation of changes aimed at consolidating its strategic position among its peers will enable Visión to continue improving its present competitive position without a significant deterioration in its credit portfolio. The rating upside is limited by the close linkage between the sovereign and financial system credit quality. A sovereign rating upgrade would have a positive impact on Visión's rating. On the other hand, a major decline in Paraguay's economy or a deterioration in Visión's capitalization level or asset quality would result in a downward revision of the ratings.

Visión Banco S.A.E.C.A. Selected Operational And Financial Indicators

	—Year-ended Dec. 31—				
Annual growth (%)	**2009***	**2008**	**2007**	**2006**	**2005**
Customer loans (gross)	30.03	46.65	45.86	26.51	31.26
Profitability (%)					
Noninterest expense/revenues	66.04	67.05	66.46	62.79	67.06
Core earnings/ average adjusted assets	2.94	3.79	3.48	3.96	3.19
Asset quality (%)					
NPA (excl. delinquencies)/ customer loans + ORE	1.56	1.25	1.66	3.51	5.54
Net charge-offs/ avg. customer loans (net)	1.59	1.69	2.76	3.81	4.04
NPLs + charge-offs	3.15	2.94	4.42	7.32	9.58
Loan loss reserves/NPA (gross)	136.03	156.92	148.13	100.81	66.62
Capitalization (%)					
Adjusted total equity/ adjusted assets	10.69	9.42	9.78	10.65	11.36

*Data as of March 31, 2009. NPA—Nonperforming assets. ORE—Other real estate. NPLs—Nonperforming loans; more than 90 days past due.

Biographies

Corporates & Governments Ratings | New York

Jane Eddy | Managing Director, Latin American Region Head for Corporates & Governments Ratings

Jane Eddy, a Managing Director, is Latin American Region Head for the Corporates & Governments Ratings Group, a position she has held since 2005. In her position, Ms. Eddy has overall responsibility for providing the complete range of ratings and other services to issuers, investors, and intermediaries in the Latin American markets. She manages a team of 60 analysts located in Buenos Aires, Mexico City, New York, and São Paulo, who evaluate the credit standing of corporations, banks, insurance companies, managed funds, and sovereign and local governments.

Ms. Eddy joined Standard & Poor's in 1982 and has extensive experience in the analysis of corporations and governments worldwide. She holds a Bachelor of Arts from U.C.L.A. and a Master of Arts from the John F. Kennedy School of Government at Harvard University.

Laura Feinland Katz | Chief Credit Officer, Latin American Debt Ratings

Laura Feinland Katz, Managing Director, is the Chief Credit Officer for Latin American debt ratings, and a member of Standard & Poor's Analytical Policy Board. This senior policy group is responsible for the quality of Standard & Poor's analytic processes, including ratings and related criteria and policy issues. Based in New York, Ms. Feinland Katz is responsible for identifying and resolving strategic criteria issues in the region as well as for the overall quality of Latin American ratings. In her previous positions at Standard & Poor's, she was responsible for Latin American corporate and sovereign debt ratings.

Before joining Standard & Poor's in 1995, Ms. Feinland Katz was a vice president in the Bankers Trust Latin American Merchant Banking Group, and previously held a variety of positions in Latin American corporate and trade finance at Marine Midland Bank and Manufacturers Hanover Trust. Ms. Feinland Katz holds a Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania, and a Master of Business Administration degree from New York University. She is a Chartered Financial Analyst.

Jayan Dhru | Managing Director, Head of Global Financial Services Group

Jay Dhru, a Managing Director, is the Head of the Global Financial Services Group that is responsible for developing criteria and analyzing financial institutions and insurers globally. Mr. Dhru had previously guided the North American Banking Group, which follows all North American banks, broker dealers, government-sponsored entities, mortgage companies, asset managers, clearinghouses, credit card companies, and finance companies. During his career at Standard & Poor's, Mr. Dhru has headed a number of teams responsible for rating large complex insurance groups. These groups have spearheaded the analysis of capital markets transactions such as insurance securitizations, funding agreements, derivative product companies guaranteed by insurers, credit wraps, and other insurance company-related structured securities.

Mr. Dhru spent three years in Standard & Poor's London office, where he led a team of analysts following life, non-life, and reinsurance companies in Germany, Switzerland, the Netherlands, U.K., and the Middle East. He was also responsible for spearheading ratings development in the European life insurance and pensions sector. Before his move to London, he was the senior analyst responsible for rating U.S. and Canadian life insurers.

Mr. Dhru holds a Bachelor of Science with a concentration in Finance and Computer Science from the New Jersey Institute of Technology.

Xavier Chavée | Quality Officer, North American Financial Institutions Team

Xavier Chavée is the Quality Officer for Standard & Poor's North American Financial Institutions team in New York, and Chair of its Standing Ratings Committee, which is the group's main tool to ensure that the quality, timeliness, and comparability of its ratings is maintained at the highest possible level.

Before this assignment, Mr. Chavée was Credit Policy Officer for the European region of Standard & Poor's Credit Market Services, and a member of Standard & Poor's Analytical Policy Board, which is responsible for the quality of Standard & Poor's analytic processes, including ratings and related criteria and policy issues. Some of the other projects he has worked on for Standard & Poor's include: the development of analytical and scoring criteria for the company's Corporate Governance Services, the positioning of Standard & Poor's emerging markets and affiliate strategy, and the establishment of Taiwan Ratings Corp. (TRC), a domestic start-up rating agency in Taipei, Taiwan.

Before joining Standard & Poor's as a bank analyst in 1990, Mr. Chavée was an examining officer with the Federal Reserve Bank of New York, responsible for the supervision of the major money center banks in New York.

Corporates & Governments Ratings | Argentina

Marta Castelli | Managing Director, Office Head

Marta Castelli, Managing Director, leads Standard & Poor's operations in Buenos Aires, covering Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay. Before joining Standard & Poor's in 1997, Ms. Castelli worked for the Corporate and Investment Banking Department of ING Bank in Buenos Aires, and for the Financial Services Division at Esso S.A.P.A. (Exxon).

Ms. Castelli is a Certified Public Accountant, a graduate of the Universidad Católica Argentina, and holds a Master of Business Administration from Babson College, where she graduated summa cum laude. She also is a Chartered Financial Analyst.

Sergio Garibian | Director, Team Leader for Financial Institutions Ratings

Sergio Garibian is a Director in the Financial Institutions Ratings Group at Standard & Poor's. Mr. Garibian is Analytical Leader for the Latin American Fund Ratings and Evaluations team, responsible for ratings of asset managers, mutual funds, and hedge funds in South America, and also directly responsible for ratings of banks and insurance companies, predominantly in Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay.

Before joining Standard & Poor's in 1997, Mr. Garibian was an analyst at the Argentinean Ministry of Economy. He holds a master´s degree in Finance from University of CEMA in Buenos Aires and a degree in Economics from Universidad Católica Argentina in Buenos Aires.

Delfina Cavanagh | Analyst, Financial Institutions Ratings

Delfina Cavanagh is an Analyst in the Financial Institutions Ratings Group in Buenos Aires. She covers financial institutions in South America, mainly Argentina, Bolivia, Paraguay, and Uruguay.

Before Ms. Cavanagh joined Standard & Poor's in 2007, she worked as a researcher at Mediterranean Foundation - Institute of Economic Research on Argentina and Latin American Reality. She holds a degree in Economics from the Universidad Católica Argentina, where she graduated in 2006.

Lorena Rossi | Origination Assistant

Lorena Rossi works as an Origination Assistant at Standard & Poor's in Buenos Aires. For the past six years, she has handled commercial activities for the Buenos Aires office, as well as transactions and agreements with clients in Bolivia, Chile, Paraguay, Peru, and Uruguay.

Ms. Rossi has participated in negotiation processes for every segment (sovereign, corporate, financial institutions and microfinance companies, structured financing, and funds). She is responsible for the signing of agreements and also serves as a contact for issuers, attending to their frequent requests and inquiries. She also assists Standard & Poor's Marketing and Finance Departments.

Before joining Standard & Poor's in 2003, Ms. Rossi acted as a coordinator in the emergency health care and customer services fields. Previously, she worked for the Argentine Ministry of Foreign Affairs.

Corporates & Governments Ratings | Mexico

Santiago Carniado | Senior Director, Financial Institutions Ratings

Santiago Carniado is a Senior Director at Standard & Poor's Credit Market Services. He is Team Leader for Financial Institutions for Northern Latin America, and currently coordinates banks, insurance, financial companies, and funds ratings from the Mexico City office. Previously, he was Team Leader for corporate and project finance ratings.

Mr. Carniado joined Standard & Poor's in 1999. Before joining Standard & Poor's, he was a vice president of the group responsible for middle size corporations at Bancomer in Mexico City. Previously, he worked for Chemical Bank's Mexico office in the Corporate Finance Group and in Banca Serfin's international area in 1989. He joined the accounting firm BDO as an auditor in 1986. Mr. Carniado holds an accounting degree from Universidad LaSalle.

Angelica Bala | Director, Financial Institutions Ratings

Angelica Bala is Director of the Financial Institutions Ratings Group in Mexico, and is responsible for banks and insurance companies rating activity in Mexico, Central America, and the Caribbean. She joined Standard & Poor's in February 2001. Previously, she worked as a credit analyst at Dresdner Bank Mexico, Credit Lyonnais (Mexico and New York), and Banco Nacional de México. She has more than 18 years of experience in the banking sector and also has expertise in leasing, factoring, brokerage and foreign exchange companies, and micro-financing.

Ms. Bala holds a Bachelor in Actuarial Science from the Universidad Anáhuac, where she also attended a certificate course in Actuarial Sciences Applied to Risk. She also holds a Master of Science degree in International Banking and Financial Studies from the Heriot-Watt University in Edinburgh, Scotland.

Laurence Wattraint | Director, Financial Services Ratings

Laurence Wattraint is a Director in the Financial Services Ratings Group in Standard & Poor's Mexico City office. The Financial Institutions Group is responsible for following banks, insurers, and other finance companies and non-banks in Mexico, Central America, and the Caribbean as well as Colombia and Venezuela.

Before joining Standard & Poor's in February 2006, Ms. Wattraint worked for Banco Santander in Mexico as a director for counterparty credit risk, BBVA Bancomer as credit risk analyst, and as a supervisor for market risk

for the National Banking and Securities Commision, the Mexican banking supervisory entity. She holds a master's degree in Finance and Investment from Exeter University in the U.K., and a degree in Business Administration from Instituto Tecnológico Autónomo de México (ITAM) in Mexico City.

Alejandro Serrano | Director, Client Business Management Latin America

Alejandro Serrano, a Director, is responsible for business development and origination for Financial Institutions for northern Latin American countries. In his position, Mr. Serrano originates ratings for banks, finance and insurance companies, brokers, credit unions, and microfinance institutions, as well as ratings for unsecured and structured transactions throughout the region.

Mr. Serrano joined Standard & Poor's in 2006. Previously, he was a private consultant on project finance and infrastructure projects. Before that, he worked for ABN AMRO as a vice president in corporate and investment banking. Mr. Serrano holds a Bachelor of Science in Economics, a Certificate in Corporate and Regulatory Law, and a Master of Business Administration from Instituto Tecnológico Autónomo de México (ITAM) in Mexico City.

Claudia Sanchez | Associate Director, Financial Institutions Ratings

Claudia Sanchez is the analytical manager of Financial Companies ratings including mortgage companies, brokerage houses, leasing, and factoring companies, in the Financial Services Ratings Group in Standard & Poor's Mexico City office. She is also responsible for fund ratings in Mexico. She joined Standard & Poor's in 2004, and was the primary analyst for several financial institutions, banks, and insurance companies.

Before joining Standard & Poor's, Ms. Sanchez worked at Chubb de Mexico as credit analyst for surety and financial lines, analyzing the corporate and commercial sector. She was also responsible for the promotion and growth of the client portfolio.

Ms. Sanchez holds a Master of Business Administration from the Instituto Tecnológico Autónomo de México (ITAM), a certificate in Development of Business Skills, and a bachelor's degree in Accounting also from the ITAM in Mexico City.

Alfonso Novelo | Associate Director, Financial Institutions Ratings

Alfonso Novelo is an Analyst in the Financial Institutions Ratings Group in Standard & Poor's Mexico City office. He covers insurance companies and other financial institutions in Mexico, Central America, and the Caribbean.

Before joining Standard & Poor's in 2006, Mr. Novelo worked at Comisión Nacional de Seguros y Fianzas in the Research & Development, Financial Supervision, and Reinsurance Supervision Departments. After finishing his studies in Economics at the Instituto Tecnológico Autónomo de México (ITAM) in Mexico City, Mr. Novelo received a Master in Finance at the same institute.

Arturo Sanchez | Associate Director, Financial Institutions Ratings

Arturo Sanchez is an Associate Director in the Financial Institutions Ratings Group based in Mexico City. He is the primary analyst responsible for covering the mortgage and auto finance industries in Mexico (both leasing and non-bank institutions). He also covers the clearinghouse & exchanges and credit union sectors. Mr. Sanchez also participated in the rating reviews of Banco Compartamos S.A., a microfinance entity with a national scale rating. He also has experience in rating credit card issuers and warehousing companies.

Mr. Sanchez joined Standard & Poor's in September 2001. He holds a bachelor's degree in Economics from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Jose Perez Gorozpe | Associate, Financial Institutions Ratings

Jose Perez Gorozpe is an Associate in the Financial Institutions Ratings Group based in Mexico City. He is the primary analyst responsible for covering mortgage and leasing companies in Mexico. He also covers other financial companies, such as pawnbrokers and auto finance firms. Previously, Mr. Gorozpe was a member of the International Public Finance Group, where he was the primary analyst for several states, municipalities, and other government-related entities such as water utilities.

Mr. Gorozpe joined Standard & Poor's in November 2003. He holds a bachelor's degree in Economics from Instituto Tecnológico Autónomo de México (ITAM), in Mexico City.

Alfredo Calvo | Associate, Financial Services Ratings

Alfredo Calvo is an Associate in the Financial Services Ratings Group in Standard & Poor's Mexico City office. This group is responsible for following banks, insurers, and other finance companies and non-banks in Mexico, Central America, and the Caribbean as well as Colombia and Venezuela.

Before joining Standard & Poor's in July 2007, Mr. Calvo worked at Banco Santander in Mexico City. He holds a Bachelor of Arts in Actuarial Science from Instituto Tecnológico Autónomo de México (ITAM), in Mexico City.

Eli Sanchez | Ratings Analyst, Financial Institutions Ratings

Eli Sanchez is an Analyst in the Financial Institutions Ratings Group in Standard & Poor's Mexico City Office. Mr. Sanchez currently covers Microfinance Institutions in Mexico and in the Dominican Republic as well as supporting the Banks and Insurance Team with statistical analysis and monitoring of different credits. He is also responsible for keeping track of the Fixed Income Market in Mexico as well as surveillance of international market risk indicators.

Before joining Standard & Poor's, Mr. Sanchez worked as an intern in the Finance Department of HSBC Mexico, where he was responsible for the mapping of business lines according to the Basel II Standards.

Mr. Sanchez holds a bachelor's degree in Economics from Instituto Tecnologico y de Estudios Superiores de Monterrey.

Corporates & Governments Ratings | Brazil

Milena Zaniboni | Managing Director and Team Leader, Corporates & Governments Ratings

Milena Zaniboni is Managing Director and Team Leader, Corporates & Governments Ratings in Brazil. She joined Standard & Poor's in May 2000, after having worked in the credit and customer relationship areas of large international banks.

Before joining Standard & Poor's, Ms. Zaniboni worked at Banco Santander Brazil as a relationship manager in the Consumer Goods division, and BankBoston Brazil, where she started as a credit analyst and progressed to various other responsibilities including Credit Department Supervisor, Analyst in the International Credit Office at BankBoston - Boston/USA, and relationship manager for large corporate clients.

Ms. Zaniboni speaks Portuguese and English. She has a Bachelor's Degree in Economics from Unicamp – State University of Campinas, in São Paulo.

Structured Finance Ratings | New York

Gary Kochubka | Director, Emerging Markets Group, Structured Finance Department

Gary Kochubka is a senior director in the Latin America/Emerging Markets Group of the Structured Finance Department at Standard & Poor's in New York. Mr. Kochubka is responsible for leading the team's rating

surveillance efforts covering Latin America and the Eastern Europe, Middle East and Africa (EEMEA) region. He is a product specialist for microfinance structured finance transactions, emerging market future flows (financial and operating assets), mortgage- and asset-backed structured finance transactions in Latin America, and future flows (financial and operating assets) structured finance transactions in EEMEA. He is also actively involved in the development of Standard & Poor's emerging market structured finance methodologies in his role as analytical manager, and speaks at industry conferences and seminars.

Before transferring to the Latin America Group, Mr. Kochubka worked in Standard & Poor's Melbourne office for one and one-half years, where he was responsible for rating international mortgage- and asset-backed securities in Australia, New Zealand, and Southeast Asia. He has also had primary responsibility for rating international mortgage- and asset-backed securities in Canada, and also has considerable knowledge of and experience with structured ratings in the U.K.

Mr. Kochubka joined the International Structured Finance Group in 1988. Before joining Standard & Poor's, he worked at Salomon Brothers Inc. and Manufacturers Hanover Trust Corp. He holds a Bachelor of Science degree in Accounting and Business from DeSales University in Pennsylvania, and a Master of Business Administration in International Business from Baruch College, in New York City.

Eric Gretch | Associate, Emerging Markets Group, Structured Finance Department

Eric Gretch is an Associate responsible for analyzing and rating both cross-border and domestic Latin American transactions. Additionally, he is deeply involved in rating future flow and microfinance transactions worldwide.

Before joining Standard & Poor's, Mr. Gretch worked in both the Fixed Income and Wealth Management Divisions of Lehman Brothers. In addition, he held a position in the Financial Sector Vice-Presidency of the World Bank.

Mr. Gretch holds both a Bachelor of Arts degree in Economics and a Bachelor of Arts degree in International Studies from Northwestern University, and a Master of Arts degree in International Economics from the Department of Economics at New York University.

Also contributing to this publication:

Andrea Esposito

During her 26-year tenure at Standard & Poor's, Andrea Esposito had extensive experience in credit and governance risk analysis across a broad variety of industry segments, including corporate, public and structured finance, and global regions. She managed Standard & Poor's microfinance project for the Americas. She possesses managerial, analytical, marketing, and sales experience in the corporate and governmental sectors in the U.S., Latin America, and other selected regional markets.

Ms. Esposito spent six years living and working in Latin America, integrating and developing new offices in the region into Standard & Poor's network, as well as serving as the in-region senior credit officer and client relationship manager. Ms. Esposito's other professional experience includes working on special emerging market projects where she managed cross-functional professional teams for various Standard & Poor's assignments, developing and establishing Standard & Poor's Corporate Governance Analysis, working with financial institution clients in implementing and validating Credit Risk Management systems, and building a successful external global client training business based on teaching Standard & Poor's credit and risk management methodologies.

Ms. Esposito is regularly sought after to speak to industry, investor, and special interest groups. She has written numerous articles in professional journals and contributed to a Governance and Risk book. Before joining Standard & Poor's, Ms. Esposito worked for the consulting firm Braxton Associates in Boston, Massachusetts. She holds a Bachelor of Arts degree (cum laude) in Economics from Harvard University.

Nelun de. S. Wijeyeratne

Nelun Wijeyeratne was the Project Manager for the Inter-American Development Bank (IADB) pilot rating project. She has supported various microfinance initiatives undertaken by Standard & Poor's. While a consultant to Standard & Poor's, Ms. Wijeyeratne was also responsible for preparing proposals and working with the analytical staff in different business units to bring together all of Standard & Poor's expertise and capabilities to respond to the needs of the microfinance sector.

Before acting as a consultant on the MFI project, Ms. Wijeyeratne was a Director in Standard & Poor's Tax-Exempt Housing Group and was responsible for and managed the Affordable Housing Group Program. She also worked as a consultant in Standard & Poor's Risk Solutions Group and the Tax Exempt Housing Group in Corporates & Governments Ratings. She is also a recipient of Standard & Poor's Corporate Achievement Award for Innovation.

Ms. Wijeyeratne holds a Master in Business Administration from the Yale School of Management.