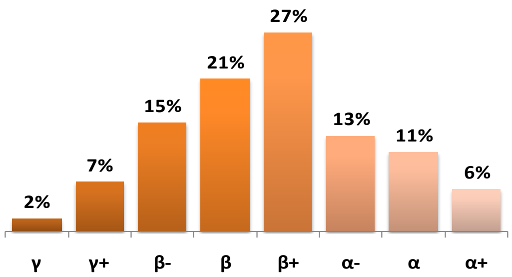
MFI Name | Country | May 2011

β	• Acceptable credit risk level. • Moderate methodological standardization, with limited operational control. • Good managerial leadership and favorable governance.
Stable	Rating Outlook[1]

Financial Situation[2] β

Social Rating[3] ☆☆☆☆☆

Granted Performance Ratings



Date of Visit	Feb-11
Date of Financial Information	Dec-10
Previous MicroRate Rating	n.a.

Main Performance Indicators

	Dec-08	Dec-09	Dec-10
Gross Loan Portfolio ($'000)	$28,877	$41,569	$57,565
Number of Borrowers	17,136	20,671	24,562
Total savings ($'000)	$22,929	$32,618	$46,389
Number of Savers	n.d.	49,465	60,358
Leverage	2.5	2.5	2.6
ROE*	-6.7%	11.4%	14.2%
Portfolio Yield	21.1%	23.2%	25.8%
Portfolio at Risk	8.1%	6.7%	6.5%
Average loan	$1,685	$2,011	$2,344
Operating Expenses	12.2%	11.8%	11.5%
Borrowers per Analist	301	196	167
Operating Margins	-0.7%	4.5%	4.8%

* Adjusted

Summary Description

The MFI is a cooperative ("multiple property organization") founded 48 years ago in CITY, COUNTRY. As a cooperative, it has more than 88,000 active members, including 25,000 borrowers. It is indirectly supervised by Superintendent of Banking (SBS), through the federation of Cooperatives.

The Cooperative has 14 branches, located in 7 of the 24 regions. It serves a mostly rural population, providing a comprehensive range of both financial and non-financial services. Its portfolio is worth US$57.5 million, with an average loan size of US$2,300. In 2010, total deposits increased to US$46 million with an average deposit size of US$725.

Rating Rationale

While the MFI's profitability has improved over the last two years, its methodology is only moderately standardized. Limited training and supervision threaten its operational performance.

There is relative improvement in portfolio quality but insufficient monitoring of risky operations.

The Cooperative's stable and specialized organizational structure is led by a manager with extensive experience in cooperatives. This, coupled with good governance, provide a strong foundation to continue making progress within the current microcredit niche.

The financial profile benefitted from higher operating margins, as well as good liquidity, adequate management of exchange and interest rates risks. It faces moderate term mismatch in given its limited funding diversification.

Highlights

Strengths

+ Continued portfolio growth
+ Committed and experienced board of directors and management team.
+ Good governance practices

Risk Factors

- Moderately specialized and standardized methodology
- Risky operations that affect the quality of the portfolio
- Limited operational supervision
- Minimal funding diversification
- Under-utilization of the information system

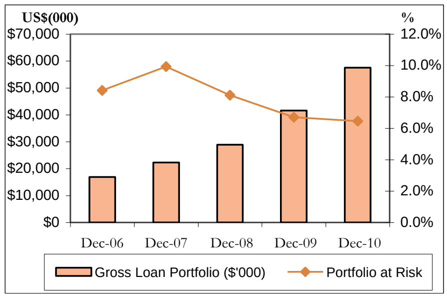
[1]See Annex 1
[2]See Annex 1
[3] See Social Rating

General Summary

MFI's Data			MicroRate Individual		MicroRate Country
Indicators	Dec-10	Quartile	1st Quartile*	Average	Average
ROE**	14.2%	2nd	21.8%	10.8%	15.7%
Leverage	2.6	2nd	1.9	3.5	4.6
Portfolio at Risk	6.5%	2nd	5.1%	7.7%	7.8%
Operating Expenses	11.5%	1st	12.9%	20.2%	16.7%
Number of borrowers per credit officers	167	3rd	288	222	176
Operating Margin	4.8%	2nd	6.5%	3.2%	4.1%
	Dec-10		Average		Average
Gross Loan Portfolio***	$57,565		$114,747		$154,330
Number of borrowers	24,562		75,888		73,833
Average Loan Balance per borrower	$2,344		$1,582		$1,963

** Lower limit of the 1st quartile* *** Adjusted* ****('000$)*

Gross Loan Portfolio vs Portfolio at Risk



Financial Situation (pg. 4)

In the last two periods it has achieved increased profitability through an operational margin benefited by greater portfolio yield and efficiency. It shows adequate liquidity with moderate term mismatch risk.

Operations and portfolio quality (pg. 6)

The dynamism of favorable volume of loan portfolio and increased client base, are remarkable. Its credit methodology is appropriate albeit with moderate standardization that fosters increased credit risk. Moreover, it shows minimal supervision and moderate training.

The portfolio at risk is still manageable, but is threatened by risky operations. It faces better coverage by provisions, with low level of write-offs, but with limited monitoring of expansion-type credits. The collection procedure is adequate.

Organization and Management (pg. 9)

The MFI has a specialized and stable organizational structure, led by a management team with extensive experience. It shows operational efficiency despite its declining productivity. Faced with its increasing operations, it shows insufficient control.

The recent strengthening of the information system is positive, but it is underutilized as an administrative tool for management and control.

Governance and Strategic Positioning (pg. 11)

With a clear institutional mission, the organization is run by a professional and committed board, which seeks to minimize cooperative's typical governance risk. Its future goals are aligned with its original mission. Although there are efforts to concentrate itself in microcredit, there is moderate clarity with respect to the preferred niche. Its geographical positioning is on the rise under a well-planned scheme.

Social Perspective (pg. 12) ☆☆☆☆☆

The fulfillment of the MFI's mission is remarkable. The provision of comprehensive service targeted at customers and non-customers is consistent with the institution's primary objectives. In recent years the mission has been strengthened through the cooperative's organizational culture. While it effectively monitors major social indicators, the evaluation of the socio-economic development of its members is still a challenge.

Context

Country Profile	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Annual Inflation	1.1%	3.4%	6.6%	0.3%	2.1%
Annual Devaluation	-6.8%	-6.3%	4.8%	-8.3%	-2.4%
End of Period Official Exchange Rate / US	3.2	3.0	3.1	2.9	2.8
Deposit Rate (Year Average)	3.2%	3.4%	3.8%	1.6%	1.8%
GDP Annual Nominal Growth	7.7%	8.9%	9.8%	0.9%	8.8%

Source: International Finance Statistics

The country continues to show favorable macroeconomic development which when added to the stable socio-political context, places it among the best performing countries in Latin America[4]. However, the microfinance market shows strong signs of over-indebtedness, which could affect the financial system in the event of macroeconomic deterioration.

Low inflation and strong growth in Gross Domestic Product (GDP) are positive factors. However, the recent presidential elections suggest high levels of uncertainty among local and international economic agents.

Microfinance Sector

The microfinance sector, which operates under specialized regulation, continues to show strong expansion. There are 38 specialized entities regulated between banks, Cajas Municipales (CMAC), financial firms, small- and micro-enterprise development companies (EDPYMES)[5], and Cajas Rurales. Cooperatives are under a specialized regulatory body. Some banks are downscaling into the sector, developing a specific business area to target this niche or by buying MFIs. A growing number of companies and commercial shops targeting this audience add to the oversupply of consumer credit. There are also many unregulated entities in the sector, primarily non-government organizations - (NGOs).

The supply of microfinance services increased with the expansion of a nationwide branch network included those shared with the public Banco de La Nacion (2,200 in 2008 vs. 2,600 in June 2010) reaching far regions.

The regulation of the sector extends to cooperatives under the direct supervision of a similar regulatory body[6]. In general, the regulation of the sector is progressively becoming aligned with Basel II (July 2010), having improved the definition of microenterprise[7].

Sector financing comes from public entities, as well as from a growing number of commercial banks. The Deposit Insurance Fund backs saving deposits (up to US$30,000 per depositor), except for cooperatives. This has incentivized savings in MFIs.

Credit bureaus support the credit analysis process (at least 3 private ones and one connected to the SBS); however, their information lags by about a month and a half.

Current measures to reduce client over-indebtedness are still insufficient to control portfolio quality. The sector is currently experiencing an increase in portfolio at risk, lower operating margins, and a declining rate of growth.

According to the federation of Cooperatives data as of Dec-10, the MFI[8] has the largest number of members in the group of 161 supervised cooperatives, ranking fourth in volume of credits (5.6% of the total) and deposits (4.9%).

[4] In August of 2010, Standard and Poor upgraded the country's foreign currency debt rating from "stable" to "positive."

[5] MFIs that do not take deposits.

[6] National Cooperative Federation of Savings and Credit of Country

[7] Before July 2010, microcredit was defined to be any loan in the local financial system up to US$30,000. Currently the definition is reduced to US$7,200 (or two Gross National Incomes per capita).

[8] According to the General Cooperative Law, an open cooperative is not limited to members with certain occupational qualities, industrial or professional, or other related special conditions.

Financial Situation β

Financial Ratios	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Capital Adequacy					
Debt / Equity	1.7	2.0	2.5	2.5	2.6
Asset Quality					
Portfolio at Risk / Gross Loan Portfolio	8.4%	9.9%	8.1%	6.7%	6.5%
Write-offs / Gross loan portfolio	9.2%	0.5%	2.8%	1.5%	1.1%
Loan loss reserves / Portfolio at Risk	82.9%	72.2%	68.7%	69.7%	81.6%
Loan loss provision exp. / Average gross	9.0%	2.4%	3.6%	2.2%	3.3%
Management					
Operating Expense / Average gross portfolio	11.7%	13.6%	12.2%	11.8%	11.5%
Earnings					
Net income / Average equity	6.8%	0.9%	5.8%	17.4%	20.6%
Net income / Average assets	2.4%	0.3%	1.8%	4.8%	5.6%
Portfolio Yield	26.0%	19.9%	21.1%	23.2%	25.8%
Cost of borrowed funds	5.4%	6.0%	7.5%	5.8%	7.5%
Liquidity					
(Cash & Banks + Temp Inv) / Deposits	27%	15%	18%	15%	15%
(Cash & Banks + Temp Inv) / Gross Loans	19.9%	10.8%	14.2%	11.4%	12.1%

In the last two periods it has achieved increased profitability through an operational margin benefited by greater portfolio yield and efficiency. It shows adequate liquidity with moderate term mismatch risk.

The return on equity (ROE) increased over the last two years due to the improved operating margins. After MicroRate's adjustments *(See Financial Adjustments)* the ROE exceeded MicroRate's average individual lending methodology sample (14.2% vs. 10.8% respectively). The net results were fed by other non-extraordinary incomes (election fines, other commissions, collections and exchange rate differences) equivalent to 29% of net profits.

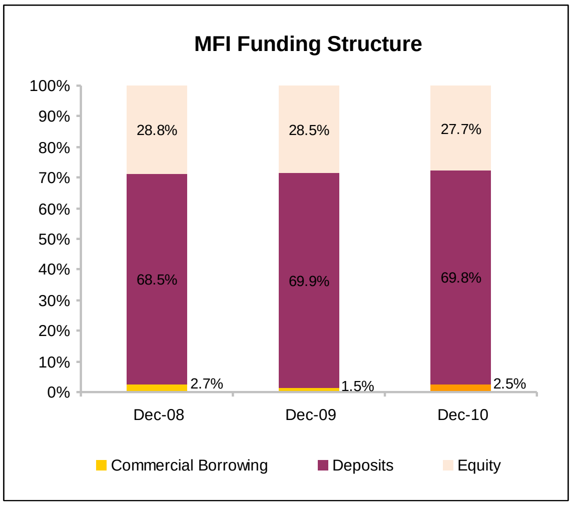
The increasing growth rate with a focus on higher-active interest loan products led to improvement in portfolio performance in spite of the high competition. This factor, combined with the institution's improved efficiency, strengthened the operating margin.

Net Operating margin	Dec-08	Dec-09	Dec-10	MicroRate Individual
Portfolio yield	21.1%	23.2%	25.8%	35.4%
Operating expense	12.2%	11.8%	11.5%	20.2%
Loan loss provision expense	3.6%	2.2%	3.3%	4.1%
Interest expense	6.0%	4.7%	6.1%	8.0%
Net operating margin	-0.7%	4.5%	4.8%	3.2%
Adjusted ROE	-6.7%	11.4%	14.2%	10.8%

Its high funding concentration from deposits (with rates not higher than 3.5% per year), complemented with monthly member contributions at zero cost, explains the comparatively low funding expenses for the local market.

The Cooperative has a leverage ratio (2.6 times), which is maintained by an equity fed, mainly, from members contributions (58% of total equity), which show some mobility[9]. However, the constant strengthening of the legal reserve above the required minimum (32% vs. 20% of profits, respectively) is noteworthy. Similarly, the entity has exceeded the minimum legal reserve regarding Social Capital (42% relative to the 35% minimum). It stresses, in turn, the member retention, which is rising.

Its financial structure is not favorable given its high concentration of funds from short-term deposits (88% of the total of deposits, mostly placed in local currency). Given this, the decision made to expand local and international funding is prudent.



[9] While the Cooperatives Law states that cooperatives could defer the resignation of members in the case of a bad financial situation, in MicroRates opinion, the contributions would not be sufficiently comparable to the typical concept of capital.

The few commercial debts held by the Cooperative are concentrated with government entities. The Cooperative's capacity to negotiate is moderate. Its funding structure is based on short-term debts (79% of the total), however the terms include competitive interest rates and local currency (76% of the total).

Itemized Liabilities

	US$ 000	%
Commercial Borrowing		
Banco de la Nación	$1,068	68.3%
Cofide	$321	20.5%
Oikocredit	$174	11.1%
Total	**$1,563**	**100.0%**

The institution faces moderate exposure to term and interest rates mismatch. Thus, 90% of volume of loans and 76% of funding are in local currency, while 87% of liabilities and only 15% of the volume of loans mature in the short-term. Although its loans and funds are set to fixed interest rates, a less-flexible repayment term schedule minimizes the MFI's ability to adapt to changes in the environment.

Its liquidity indicators related with loan portfolio and deposits are stable and adequate. The institution's weekly monitoring is a strong practice.

The Cooperative's manageable leverage ratio will allow continuing with negotiations with various potential funders. The projected 40% increase in deposits for this year will also sustain the annual projected growth rate of 40% in 2011.

Operations and Portfolio Quality

Company Profile	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Gross Loan Portfolio ($'000)	$16,883	$22,278	$28,877	$41,569	$57,565
Annual Change in Gross Loans	*n/a*	*32.0%*	*29.6%*	*44.0%*	*38.5%*
Number of Borrowers	13,206	14,498	17,136	20,671	24,562
Annual Change in Number of Borrowers	*n/a*	*13.3%*	*26.4%*	*33.8%*	*38.9%*
Total savings ($'000)	12,642	16,017	22,929	32,618	46,389
Annual Change in savings	*n.d.*	*26.7%*	*43.2%*	*42.3%*	*42.2%*
Number of savers and depositors	*n.d.*	*n.d.*	n.d.	49,465	60,358
Annual Change in Number of savers and depositors	*n.d.*	*n.d.*	*n.d.*	*n.d.*	*22.0%*
Number of Loans Outstanding	14,833	16,684	19,674	23,597	28,221
Average Loan Balance (per borrower)- $	$1,278	$1,537	$1,685	$2,011	$2,344
Portfolio at Risk / Gross Loan Portfolio	8.4%	9.9%	8.1%	6.7%	6.5%
Portfolio Yield	26.0%	19.9%	21.1%	23.2%	25.8%

The dynamism of favorable volume of loan portfolio and increased client base, are remarkable. Its credit methodology is appropriate albeit with moderate standardization that fosters increased credit risk. Moreover, it shows minimal supervision and moderate training.

This good trend of growth is seen in both volume and number of borrowers (39% annually). However, there is trend of increasing in the average loan size which reflects that the institution is straying from its original niche. In the last five years, the amount borrowed has almost doubled.

The Cooperative has an excellent diversity of credit products led by microcredit, and followed closely by consumer credits in terms of number of borrowers. Although, individual loan products for cooperative members in urban and peri-urban areas are the priority, the institution also offers group credits to women in rural areas. The institution complements the services with the opportunity to get an additional loan without finishing paying the previous one, a renovated loan and a seasonal loan.

Itemized portfolio 2010

Product	Portfolio		Clients		Average Credit	
	Dec-10	Dec-09	Dec-10	Dec-09	Dec-10	Dec-09
Commerce Micro Loans	57.9%	57.4%	44.1%	45.5%	2,638	2,955
Agricultural Micro Loans	2.2%	3.2%	2.2%	2.9%	2,033	2,551
Small Business Loans	9.2%	13.1%	0.2%	0.4%	88,700	77,466
Consumer Loans	24.7%	19.9%	50.7%	46.2%	978	1,006
Housing Loans	3.2%	1.7%	0.8%	0.5%	7,707	7,557
Village Banking Loans	1.5%	1.6%	1.2%	2.6%	2,508	1,431
Other Loans	1.3%	3.3%	0.6%	1.9%	3,959	4,111
Total	**100%**	**100%**	**100%**	**100%**	**$2,011**	**$2,344**

The loan terms, size limitations, and interest rates vary depending on the product. In general, they provide medium-term loans (64% of the operations) with monthly payments. Loans of this length decrease the institution's flexibility as the context changes.

Despite the various charges that are added to the nominal interest rate, the effective interest rate (EIR) is highly competitive.

Effective Cost

Methodology and Amount	Repayment	Collateral	Interest	APR*	EIR**
Individual US$ 500	Monthly	No	On Balance	30.6%	35.3%
Individual US$ 1,000				34.3%	40.3%

* Annual Percentage Rate.
** Effective Interest Rate takes into account the effects of compounding; both ratios include consultations at credit bureau, debtor's life insurance, contributions and administrative costs.

Strong competition causes the Cooperative to continually seek ways to offer improved services and to target a diversity of segments. For example, there is a weekly-repayment loan product, for clients at retail markets, and group loans (village banking loans) for clients with lower income. They also offer small loans for agricultural activities. Consumer credit products are offered to wage earners, while the housing loans, which are decreasing in number, finance remodeling and extension.

The value chain loan product, which is similar to the agricultural loan product, is suitably designed and executed. These loans are granted to cooperative members with smaller crop production that have strong potential in local and international markets. With terms up to 18 months, including the possibility of a single repayment installment[10], it is less risky as the buyer of the client's product pays directly to the Cooperative, better controlling the credit risk.

Credit Methodology

The credit methodology has an adequate design but is not fully standardized in its application. While it is mainly based on a quantitative focus, evaluating the client's ability to pay, there is a significant portion of loans with collateral indicating that for a long time,

[10] By Dec-10, 3% of the portfolio balance was for loans with single, end-term instalments.

this guided credit process (65% of total loan portfolio is covered by collaterals). Internal monitoring of the credit process is their main weakness and is insufficient for the current volume of loans; even more if riskier operations only require branch-level approval.

The collection of client information is adequate although MicroRate observed some cases where it was incomplete or nonexistent. The Cooperative consults with credit bureaus for all loan applications. Loan officers are required to check two credit bureaus for loans over US$10,700.

Under the decentralized approval process, some committees were participatory[11], while others were individual, minimizing opportunities for continuous training and improving standardization in the methodology. However, it is positive to note that all analysts participate in the weekly branch-level default committees, allowing them to share and get certain feedback on their experiences.

While there are efforts to improve operational supervision, they are still insufficient or nonexistent in some branches. There is a focus on reviewing larger loans *(See Organization and Management)*.

The policy to minimize clients' risk of over-indebtedness is favorable. It limits to three the number of loans with the cooperative, as well as the number of lenders in the financial system (without including the MFI).

However, expansion-type loans[12] (45.6% of the loan portfolio) show some flexibility in its approval process. According to MicroRate, it is risky for loan repayments on a previous loan to be reduced to less than 50% of the original balance, as this prevents from having sufficient information on the quality of the client's loan. This type of loan practice accounts for almost 27% of the total portfolio.

The operational risk is being controlled with insurance for damage and/or theft to the analysts who collect loan repayments daily. The control on the advanced payments is also adequate.

The financial strength of the entity has improved the confidence of depositors. The Cooperative has differentiated itself through a policy that helps them to attract fixed-termed deposits. The lack of depositor concentration is a positive factor.

[11] MicroRate defines "Participatory Committee" as those committees where besides the loan officer presenting the case, other loan officers discuss and approve credit.
[12] Named "ampliados" en Spanish mean new disbursement with amountsincludes or exceeds the cancellation of the previous credit balance at a similar date.

Non-Financial Services

The Cooperative offers non-financial services, through its own clinic supported by member contributions and other resources. These services include health care for members and employees. Educational services include training on finance, business, aspects of value creation, and ethics *(See Social Rating – Dec. 2010).*

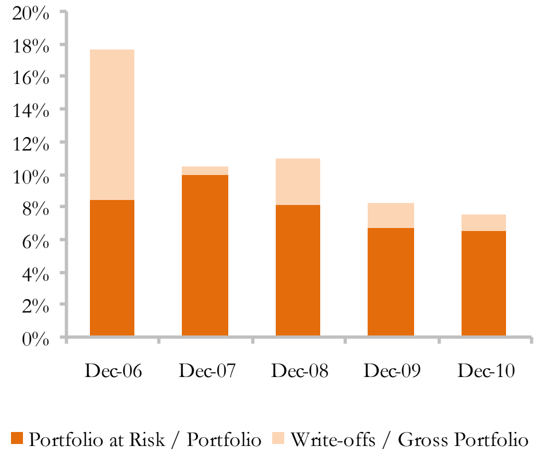
Portfolio Quality

Portfolio Quality	Dec-08	Dec-09	Dec-10	MicroRate Individual
Portfolio at Risk / Gross Loan Portfolio	8.1%	6.7%	6.5%	7.7%
Write-offs / Gross loan portfolio	2.8%	1.5%	1.1%	2.3%
Loan loss reserves / Portfolio at Risk	68.7%	69.7%	81.6%	139.8%

The portfolio at risk is still manageable, but is threatened by risky operations. It faces better coverage by provisions, with low level of write-offs, but with limited monitoring of expansion-type credits. The collection procedure is adequate.

The portfolio at risk (6.5%) shows an apparent improvement over time. However, the indicator is higher than stated as MicroRate identified that 2% of the total portfolio could be included into refinanced loans (for example, postponed[13] and restructured loans). As a result, the portfolio at risk is closer to 10% of the total portfolio, including write-offs.

Portfolio at Risk and Write-offs Evolution



The minimal supervision of operations and only a moderate level of analyst training largely explain the

[13] Loans with more than one postponed loan payment are risky because they indicate that the client has a repayment problem and will potentially default.

increased portfolio risk in certain branches, especially those that are more remote.

Although the agricultural and village banking credits represent a low percentage of the total loan portfolio, they show a notably lower level of quality. Therefore, the risky portfolio of the village banking (5.3%) is far greater than the MicroRate sample of institutions that use a group methodology (3.7% in June-10), and is much higher than the average for leading institutions (0.2%).

Itemized portfolio 2010

Product	PAR by Products		Weigh in PaR	
	Dec-09	Dec-10	Dec-09	Dec-10
Commerce Micro Loans	8.2%	8.3%	70.9%	74.0%
Agricultural Micro Loans	2.0%	4.6%	0.7%	2.3%
Small Business Loans	3.6%	3.4%	4.9%	6.9%
Consumer Loans	4.8%	4.1%	17.7%	12.5%
Housing Loans	10.7%	9.1%	5.0%	2.4%
Village Banking Loans**	2.4%	5.3%	0.5%	1.3%
Other Loans	1.3%	1.3%	0.2%	0.7%
Total	**6.7%**	**6.5%**	**100%**	**100%**

*Balance of Loans with arrears >30 days plus refinanced loans.
** As a group measured

The age of the portfolio at risk is a concern. Of the total portfolio at risk, 52% show arrears of over 90 days, which causes difficulties in collection and fosters larger numbers of write-offs.

There is a dynamic collections process that starts with the analysts and is reinforced by the Department of Recovery and the Legal Area after 30 days of default. The Cooperative has sets appropriate limits for portfolio at risk ratios which is a good practice. It is also active in stopping or reducing the autonomy of those branches or analysts with portfolios that are poor in quality.

Provisioning coverage shows a healthy trend. While microcredit best practices suggest a ratio close to 100%, a portfolio that is backed 62% by preferred collaterals (mortgages; deposits) compensates for the inadequate provisions.

Organization and Management

Organization	Dec-08	Dec-09	Dec-10
Number of branches	11	16	17
Total Staff	122	144	196
Number of loan officers	36	52	79
Staff turnover	13%	15%	13%

The MFI has a specialized and stable organizational structure, led by a management team with extensive experience. It shows operational efficiency despite its declining productivity. Faced with its increasing operations, it shows insufficient control.

Since 2007, a long-standing member has served as the general manager (not a cooperative member since then). The manager is a well-trained professional with a broad understanding of cooperatives. This individual demonstrates strong leadership and has the support of the Administrative Board (Board of Directors).

The management staff (business, administration, and operations) has extensive institutional experience. However, the business management area is overloaded with administrative work, which limits their ability to be involved in strategic management.

The low turnover of staff, including analysts is positive. Consistent with its mission and values, it exhibits strong interest in the well being of its workers, both professionally and personally. The stability of its employees proves to be exceptionally good (13% in Dec.-10) compared to MicroRate´s individual lending methodology sample and the country sample in June-10 (41.1% and 33.8% respectively). The same trend is observed for loan analysts, with the Cooperative having lower staff turnover (21.2%) than the average of the comparable samples indicated above (42.4% and 46.3% respectively).

Organizational growth is not accompanied by an adequate system of internal controls. In branches, loan monitoring is irregular or in some cases nonexistent. Currently, credit supervision is performed by the business manager and by regional supervisors, who serve as branch managers at the same time. Under this system, there is a lack of efficiency in the monitoring process and a potential for conflicts of interest. The newly-formed supervisory department is a promising change.

The ex-ante control is in charge of the Department of Risks. It focuses on market risk analysis and is led by a trained professional. While there is an adequate analysis of key risks, the limited support staff stymies its efficiency. It is positive that this department has included visits to all branches in its plans and created a risk committee, which includes the participation of one director.

The Department of Audit is in charge of ex-post monitoring. It is led by a trained professional who works independently and has access to the Board of Directors (through the Supervisory Board). His work is fairly focused on credit control.

Although most credit analysts have a suitable background (professional and/or technical), there is a need for additional credit methodology training. New analysts take on a portfolio after 15 days on the job (initial training), which is relatively short. While training efforts have been made, they are still not enough to ensure a proper understanding and application of the methodology.

Productivity and Efficiency

Efficiency and Productivity	Dec-08	Dec-09	Dec-10	MicroRate Individual
Operating Expense / Average Gross Portfolio	12.2%	11.8%	11.5%	20.2%
Operating Expense / Borrower	$204	$230	$271	$258
Borrowers / Credit Officer	301	196	167	222
Borrowers/ Staff	89	71	67	99

The institution has excellent efficiency indicators despite their declining productivity. The increase in the volume of loan portfolio and the average loan size has strengthened the operating efficiency indicator. However, the cost per borrower is increasing because of insufficient growth of the client base.

Analyst and employee productivity rates show a declining trend below the MicroRate average for MFIs using an individual methodology (99 clients per employee in June-10). In part, these results are due to the minimal credit training and an incentives system that is not strictly aimed at getting new clients. However, a competency study is planned to boost staff performance through a teamwork approach.

Management Information System (MIS)

The MFI has a scalable, flexible, and secure information system, but has failed to fully utilize the benefits of the MIS for management and control purposes. The relying on the system provider diminishes rapidity for the adaptation. The measures to improve the communication between branches are pertinent.

The BESTERP information system developed in Developer programming language and using an Oracle data base is adequate to meet the current volume of operations. However, there have been problems in the local telecommunications network that hinder online access. As an integrated system it facilitates the consolidation of information. However, users' limited understanding of the system accounts for some inaccuracy of the reported figures. A weakness is that the system still does not incorporate a mechanism to identify, control, and limit risky operations. Only the approval of refinanced and restructured loans is restricted at authorized levels. While the system is flexible for the creation of new credit products, not having source codes and relying on the provider removes independence and speed for other modifications.

The Cooperative has a strong system of security practices including restricted access to information per user, daily backups that are stored in headquarters and bi-weekly backups in other locations.

Governance and Strategic Positioning

With a clear institutional mission, the organization is run by a professional and committed board, which seeks to minimize cooperative's typical governance risk. Its future goals are aligned with its original mission. Although there are efforts to concentrate itself in microcredit, there is moderate clarity with respect to the preferred niche. Its geographical positioning is on the rise under a well-planned scheme.

According to the Cooperatives Law, members are represented in the General Assembly of Delegates, composed of 100 members who are elected annually in a democratic process. The Assembly meets quarterly or on special occasions as needed. The Assembly serves as the maximum governing body which elects the 5 delegates who serves as the board of directors. This board is elected to guarantee the institutional governance.

The practice of having a specialized Audit (Supervisory Board) and Risks Committee is important, although the latter is not occurring frequently enough despite the institution's expansion.

It is healthy that with the goal of minimizing governance risks (typically associated with cooperatives), the institution has established professional profiles for its delegates (in economics, administration, and accounting) complemented with continuous training about cooperatives and management. This practice has enriched meeting discussions and achieved a clear separation of the governing and management staff roles.

Although there is an effort to focus on microcredit (75% of the portfolio will be in this sector by 2012), the strategic plan is vague regarding the niche it will serve and the institution is more pressured by competition. This uncertainty could be counterproductive in its present process of expansion.

While the investment scheme includes the possible incursion into economic activities different from the current rubric (education and housing construction types), it is healthy to plan to have specialized personnel for the administration of these investments. It is also interesting that, together with the diversified profitability goal, the institution seeks benefits for its members through favorable services.

The MFI has gradually moved its operations closer to the location of its main office, extending to the coast and central highlands of the country in an orderly manner.

While the main office in the central highland of the country has a strong positioning, the newer branches are weaker. Headquarters' efficiency and progress is not uniformly implemented in the other branches, limiting progress in achieving their own goals.

The projected growth for 2011 is 40% in size of the portfolio, 40% in deposits, and an increase of 15% in members. The diversification of funding sources coupled with strong liquidity management reinforces these plans.

COUNTRY MAP

Social Perspective ☆☆☆☆☆

Country's Social Profile	Dec-08	Dec-09	Dec-10
GNI per capita (US$)	$3,990	$3,990	$3,990
GNI per capita, 40% poorest population (US$)	$1,127	$1,127	$1,127
Population (million of people)	28.8	29.1	29.1 (p)
Poverty Rate*	36.2%	34.8%	34.8% (p)
Extreme Poverty Rate**	12.6%	11.5%	11.5% (p)
Legal minimum salary	$177	$191	$215
MFI's Social Indicators	**Dec-08**	**Dec-09**	**Dec-10**
Borrowers	17,136	20,671	24,562
Cost per borrower ($)	$204	$230	$271
Client Turnover	9%	5%	8%
Personnel Turnover	13%	15%	13%
Clients in rural areas (%)	n.d.	20%	22%
Female clients (%)	n.d.	53%	53%
Effective cost of loans***	n.d.	n.d.	40%

Source: International Finance Statistic, CEPAL and Instituto Nacional de Estadística e Informática (INEI)

*Measured as a percentage of people with income below two baskets of consumer goods, including those who are in extreme poverty.

** Measured as a percentage of people with income below a basket of consumer goods.

*** A US$1000 credit

(p) Preliminary figures

Institutional Mission

Provide financial and non-financial services in the communities where it operates, using modern technology and trained staff who are committed to the cooperative as the foundation of our organization, prioritizing the strengthening of our values and principles, supporting sustainable initiatives and ventures that better the quality of life for our members.

The fulfillment of the MFI's mission is remarkable. The provision of comprehensive service targeted at customers and non-customers is consistent with the institution's primary objectives. In recent years the mission has been strengthened through the cooperative's organizational culture. While it effectively monitors major social indicators, the evaluation of the socio-economic development of its members is still a challenge. Similarly, it is a challenge to communicate the mission to the staff.

Rating Rationale

The MFI has good social returns. It shows moderate depth of coverage despite its high rural presence, supported by a constant increase in the average loan size per client. Notably, the institution has a wide range of financial services adapted to the clients' needs, providing competitive pricing and excellent institutional responsibility.

It is positive to see that efforts are underway to improve its financial position in order to promote the sustainability of the financial and non-financial services.

Despite its long history in the sector, its social commitment is only moderately reflected in key processes. The Cooperative's social commitment is moderate due to the limited communication of the mission to the staff, during staff selection and training, as well as in the lack of social objectives in the incentive system. However, the Cooperative's client protection and services are remarkable practices.

Future Plans

- Improve communications between branches.
- Strengthening the Department of Risk.
- Diversification of the cooperative's investments (in construction, and education activities).
- Credit methodology training for analysts using their current training institute.
- Restructuring of the incentive policy.
- Strengthening credit monitoring through a special supervisory department.

Balance Sheet (US$'000)	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Assets					
Cash and Banks	2,328	1,760	4,098	4,305	6,285
Temporary Investments	1,026	648	-	447	665
Net Loans	15,705	20,680	27,267	39,629	54,531
Gross Loans	16,883	22,278	28,877	41,569	57,565
Performing Loans	*15,463*	*20,066*	*26,534*	*38,785*	*53,848*
Portfolio at Risk	*1,420*	*2,213*	*2,343*	*2,784*	*3,718*
Loan Loss Reserve	1,177	1,598	1,611	1,940	3,034
Interest Receivables	111	147	268	492	778
Other Current Assets	181	573	115	137	300
Current Assets	**19,352**	**23,809**	**31,748**	**45,010**	**62,559**
Long Term Investments	477	255	693	456	753
Property and Equipment	1,152	1,899	1,797	2,834	5,391
Other Long Term Assets	78	277	202	309	302
Total Assets	**21,060**	**26,239**	**34,439**	**48,609**	**69,005**
Liabilities					
Demand Deposits	10,100	12,152	12,910	14,775	16,994
Short Term Time Deposits	2,542	3,865	10,020	17,843	29,395
Short Term Funding Liabilities	-	-	-	-	1,155
Other Short Term Liabilities	462	622	944	1,964	2,541
Current Liabilities	**13,103**	**16,639**	**23,874**	**34,581**	**50,086**
Long Term Time Deposits	-	-	-	-	-
Long Term Funding Liabilities	402	1,005	909	716	495
Quasi-Capital Accounts	-	-	-	-	-
Other Long Term Liabilities	-	-	-	-	-
Total Liabilities	**13,505**	**17,644**	**24,782**	**35,297**	**50,581**
Equity					
Capital	5,101	6,109	6,787	8,487	10,704
Earnings (Losses) Period	511	70	533	1,995	3,270
Retained Earnings	-	5	-	-	-
Other Capital Accounts	1,943	2,411	2,338	2,830	4,450
Total Equity	**7,555**	**8,595**	**9,657**	**13,312**	**18,424**
Total Liabilities & Equity	**21,060**	**26,239**	**34,439**	**48,609**	**69,005**
Source of Financial Statements	Audited Financial Statements	Audited Financial Statements	Audited Financial Statements	Audited Financial Statements	Audited Financial Statements

Income Statement (US$´000) For periods between:	Jan-06 - Dec-06	Jan-07 - Dec-07	Jan-08 - Dec-08	Jan-09 - Dec-09	Jan-10 - Dec-10
Interest and Fee Income	4,394	3,898	5,406	8,163	12,795
Cash Interest and Fee Income	*4,283*	*3,751*	*5,138*	*7,670*	*12,017*
Accruals (Int.. Receivables)	*111*	*147*	*268*	*492*	*778*
Interest and Fee Expense	705	906	1,538	1,668	3,035
Net Interest Income	**3,688**	**2,992**	**3,868**	**6,494**	**9,760**
Provision for Loan Loss	1,516	466	910	763	1,654
Net Interest Income After Provisions	**2,172**	**2,526**	**2,957**	**5,732**	**8,105**
Operating Expense	1,977	2,663	3,128	4,160	5,721
Personnel	*833*	*1,103*	*1,188*	*1,888*	*2,737*
Other Administrative Expense	*1,143*	*1,559*	*1,941*	*2,272*	*2,984*
Net Operating Income	**196**	**(137)**	**(171)**	**1,572**	**2,384**
Other Income	321	435	994	996	1,011
Investment Income	*15*	*101*	*15*	*73*	*52*
Other Non-Extraordinary Income	*305*	*334*	*978*	*923*	*959*
Other Expenses	8	189	135	567	122
MFI's Inflation Adjustment (if any)	-	-	-	-	-
Other Non-Extraordinary Expenses	*8*	*189*	*135*	*567*	*122*
Net Not-Operating Income	**509**	**109**	**688**	**2,002**	**3,273**
Extraordinary Items	2	(39)	(155)	(7)	(3)
Extraordinary Income	*14*	*2*	*12*	*0*	*-*
Extraordinary Expense	*12*	*41*	*167*	*7*	*3*
Net Income Before Taxes	**511**	**70**	**533**	**1,995**	**3,270**
Taxes	-	-	-	-	-
Net Income	**511**	**70**	**533**	**1,995**	**3,270**
Source of Financial Statements	Audited Financial Statements	Audited Financial Statements	Audited Financial Statements	Audited Financial Statements	Audited Financial Statements

Financial Adjustments

Financial Statements are submitted according to a common format, but are not adjusted to account for different accounting policies or subsidies. To allow a comparison between microfinance institutions, the tables below show performance indicators based on adjusted financial statements. The adjustments are concentrated in the following areas: inflation adjustments if the institution does not include them, adjustments for loan provisioning and write-offs[14] and for subsidized funds[15]. Provisions and write-offs are recalculated based on a formula generally accepted as prudent for portfolios of microfinance loans.

In the MFI's case, MicroRate made adjustments equivalent to US$245,000 for inflation and US$771,000 for provisions, reducing the annual net income of US$3.3 million to US$2.3 million. Therefore, the ROE decreased from 20.6% to 14.2%.

[14] MicroRate writes off delinquent loans > 180 days and recalculates the provisions according to the following:

1-30 days	10%
31-60 days	30%
61-90 days	60%
> 90 days	100%
Refinanced	50%
Refinanced with > 1 day past due	100%

[15] MicroRate takes the deposit rate from the IMF / International Financial Statistics as minimum market rate for loans in local currency. For liabilities in U.S. dollars, the one-year LIBOR +2% and prime rate loans are used for short- and long-term, respectively. The difference between the minimum market rate and the rate charged by the funds is applied to the average of the funds in balance and is charged as additional financing expenditure.

Adjusted Comparison Table
Average Rates of the MicroRate Sample
(US$'000)

*Period: June 2010**	MFI's Data	INDIVIDUAL	PERÚ	LARGE IMF
Loan Portfolio				
Gross Loan Portfolio (US$'000)	$57,565	$114,747	$154,330	$195,948
Annual Change in Gross Loan Portfolio	*38.5%*	*25.6%*	*28.6%*	*30.1%*
Number of Loans Outstanding	28,221	83,927	85,319	142,206
Annual Change in Number of Loans Outstanding	*19.6%*	*12.4%*	*10.3%*	*17.3%*
Number of Borrowers	24,562	75,888	73,833	125,399
Annual Change in Number of Borrowers	*38.9%*	*13.7%*	*11.0%*	*17.2%*
Average Loan Balance (per borrower)-Actual Amounts	$2,344	$1,582	$1,963	$1,818
Portfolio at Risk (Arrears 30-180 Days)/ Gross Loan Portfolio	6.5%	7.7%	7.8%	7.1%
Write-offs / Gross Loan Portfolio	1.1%	2.3%	1.7%	2.0%
Unadjusted Loan loss reserves / Unadjusted Portfolio at Risk	81.6%	139.8%	97.3%	119.6%
Loan loss provision expense / Average Gross Portfolio	3.3%	4.1%	4.6%	4.2%
Efficiency and Productivity				
Total operating expense / Average Gross Portfolio	11.5%	20.2%	16.7%	17.2%
Number borrowers per credit officer	167	222	176	223
Number of borrowers per staff	67	99	87	100
Portfolio yield	25.8%	35.4%	33.2%	34.2%
Personnel Expense/Average Gross Portfolio	5.5%	11.7%	10.0%	9.9%
Credit officers / Total personnel	40.3%	44.5%	49.0%	44.4%
Incentive Pay as % of Base Salary	n/a	39.1%	28.0%	35.7%
Percent of Staff with MFI < 12 Months	n/a	32.1%	35.4%	31.3%
Total operating expense / Borrower	$271	$258	$254	$254
Financial Ratios				
Debt / Equity	2.6	3.5	4.6	4.3
Equity/Assets	26.7%	25.8%	20.0%	19.6%
Net Income / Average equity (ROE)	14.2%	10.8%	15.7%	17.1%
Net Income / Average assets (ROA)	3.8%	2.3%	2.7%	3.3%
Interest expense / Average Gross Portfolio	6.1%	8.0%	7.8%	7.9%
Unadjusted Interest expense / Average funding liabilities	7.5%	9.6%	8.5%	8.8%
(Cash + Temp. Investment)/ Gross Portfolio	12.1%	17.5%	22.2%	17.9%
Adjusted operating margin	4.8%	3.2%	4.1%	4.9%
Absolute Currency Amounts (US$'000)				
Interest and Fee Income	$12,795	$31,629	$40,406	$53,430
Net Income	$2,254	$3,691	$4,744	$6,669
Total Assets	$69,005	$142,251	$197,615	$243,201
Deposits	$46,389	$57,100	$100,699	$103,341
Funding Liabilities (excluding Deposits)	$1,651	$49,411	$52,920	$80,017
Equity	$18,424	$27,139	$30,283	$44,769

* Latest available information
**Figures for December 2010

APPENDIX 1 – Performance Rating Grade Definitions

Performance Rating α, β, γ	A **performance rating** evaluates an institution, comparing it with the best practices in microfinance, taking into account financial, operational, and strategic aspects. In particular, it measures the level of efficiency and effectiveness, the level of risk management, and the future outlook of the institution.
α+ α α–	Those MFIs that have ***successfully balanced*** the financial, operational and strategic considerations of sound microfinance practices as compared to an international set of similar companies and emerging standards in the microfinance industry. ***Good*** efficiency and effectiveness. ***Low Risk / Risk well managed***, leaving the company minimally susceptible to variability during economic cycles. ***Good*** future outlook
β+ β β–	Those MFIs ***working to define*** a relationship among the financial, operational and strategic considerations of sound microfinance practices as compared to an international set of similar companies and standards of the microfinance industry. ***Satisfactory*** efficiency and effectiveness. ***Moderate Risk***, leaving the company subject to some variability during economic cycles. ***Satisfactory*** future outlook.
γ+ γ	Those MFIs ***with financial, operational or strategic weaknesses that have the potential to threaten their viability, now or in the future***, as compared to an international set of similar companies and emerging standards in the microfinance industry. ***Poor*** efficiency and effectiveness. ***High Risk***, with high variability during economic cycles. ***Poor*** future outlook.
Financial Situation Rating α, β, γ	Measures the MFIs financial health based on its financial structure, profitability, operating margins and financial risk management.

Rating Outlook - *Positive* - *Stable* - *Negative* - *Uncertain*	Expected direction of the rating grade over the 12 months following the rating. - Positive- The rating is expected to increase. - Stable- The rating is expected to remain unchanged. - Negative- The rating is not expected to remain unchanged. - Uncertain- Due to unpredictable factors, a rating outlook cannot be determined.
Social Rating ☆☆☆☆☆	MicroRate's social rating provides an opinion on the social return on investment (SROI) by measuring the social performance of an MFI, focusing on the institution's social commitment and social results.

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