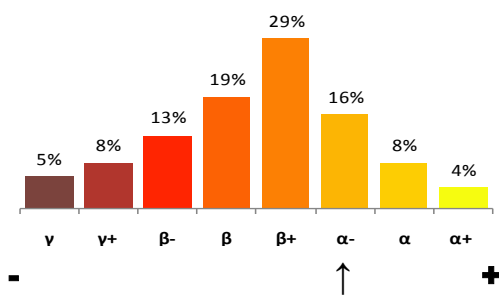


**February 2011**
**FUNDACIÓN D-MIRO**
**Ecuador**

# α-

Low levels of credit and financial risk. Solid and balanced operations place it among the best MFIs worldwide and among the top third of MFIs evaluated by MicroRate.

**Financial Situation<sup>1/</sup>**  
**Rating Outlook**
**α-**  
**Stable**
**Social Rating<sup>2/</sup>**


Date of Visit: Dec-10  
 Previous Rating: β+ ( Dec-09)  
 Number of Ratings Completed: 10  
 Audit: Dec-10, BDO Stern

**Performance Indicators**

	Dec-08	Dec-09	Dec-10
Gross Portfolio (\$ '000s)	\$24,437	\$19,774	\$29,835
Number of Clients	35,163	29,975	36,463
Leverage	1.8	1.3	1.7
ROE*	-0.3%	12.1%	12.4%
Portfolio Yield	30.8%	34.6%	35.8%
Portfolio at Risk	1.9%	6.3%	3.0%
Operating Expenses	20.5%	21.4%	19.9%
Average Loan Size	\$695	\$660	\$818
Borrowers per Staff	175	148	197
Operating Margin	1.4%	-1.0%	6.0%

\* Adjusted

<sup>1</sup> See appendix 1

<sup>2</sup> See report Dec. 2010

**Highlights**

- Well designed lending methodology
- Solid operating margin and low levels of debt
- Good staff productivity
- Low levels of portfolio at risk

**Risks**

- Weaknesses in the standardization of methodology
- Limited supervision of microcredit operations
- Turnover of middle managers

**Overview**

The Foundation for Microenterprise Development- Mission Alliance Ecuador (D-MIRO) began as part of an International NGO called the Norwegian Mission Alliance. D-MIRO has over ten years of experience in the microfinance sector in Ecuador and began operating independently in December 2006.

In accordance with its mission of serving the very poor, D-Miro provides individual and group microloans to clients in the peri-urban areas of Guayaquil, the commercial and financial center of Ecuador, and five other cities along the Ecuadorian coast. D-Miro has a portfolio totaling nearly US \$30 million and reaches 36 million customers. It is concentrated in the medium-low microcredit market niche and its average loan size is US \$818.

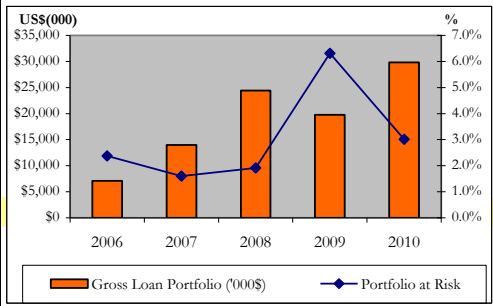
**Rating Rationale**

Based on their strong positioning, D-MIRO has resumed portfolio growth and exhibits favorable quality indicators, healthy profitability, and a solid financial structure. Also, as part of its transformation into a bank, the institution has established a more specialized Board of Directors.

During the last period, the MFI improved its methodology through better automated controls, stricter policies, and better application in the field. In addition, the low level of competition in D-MIRO's market niche has permitted the MFI to achieve significant growth with superior portfolio quality. Nevertheless, the standardization of methodology represents a challenge for the institution. Furthermore, the oversight of field operations presents an opportunity for improvement. The Board of Directors and the overall organizational structure has improved; however, the absence of leadership in key positions such as Commercial Manager represents an institutional weakness.

Thanks to an improved operating margin, profitability indicators have recovered in comparison to earlier periods. The MFI's financial structure is strong and demonstrates good management of market risk.

**SUMMARY**

FUNDACIÓN D-MIRO			MicroRate Individual		MicroRate Sudamérica	Gross Loan Portfolio vs Portfolio at Risk
	Dic-10	Quartile	1st Quartile	Average	Average	
ROE**	12.4%	2do	21.8%	10.8%	12.5%	
Leverage	1.7	1ero	1.9	3.5	3.5	
Portfolio at Risk	3.0%	1ero	5.1%	7.7%	6.0%	
Operating Expenses	19.9%	3ero	12.9%	20.2%	20.5%	
Number of borrowers per staff	197	1ero	120	99	108	
Operating Margin	6.0%	2do	6.5%	3.2%	3.6%	
	Dic-10		Average		Average	
Gross Loan Portfolio***	\$29,835		\$114,747		\$116,179	
Number of Borrowers	36,463		75,888		76,072	
Average Loan Balance (per borr	\$818		\$1,582		\$1,569	

\* Limite inferior del 1er cuartil \*\* Ajustado \*\*\*('000\$)

**Financial Situation (Page 4)**

Based on increased portfolio quality and lower financial expenses, D-MIRO has improved its financial performance indicators. Low leverage, good management of market risks, and strong backing by the Norwegian Mission Alliance represent strengths for the institution.

**Operations and Portfolio Quality (Page 6)**

With the upcoming transformation from NGO to bank, D-MIRO has strengthened its methodology and improved its control of riskier transactions through its information system. This has facilitated strong portfolio growth and healthy portfolio quality. Nevertheless, the standardization of methodology continues to represent a challenge for the institution.

Thanks to changes in credit policy and the economic recovery of the Ecuadorian market, D-MIRO's portfolio quality has improved considerably compared to the previous period. The MFI also displays a solid risk coverage ratio.

**Organization and Management (Page 8)**

D-MIRO has an appropriate organizational structure which the MFI has strengthened in the past year as part of the process of its conversion into a bank. General management and new middle managers display leadership that has ensured the

proper growth of the institution. Control systems have been strengthened, especially for new areas such as Internal Controls and Risk. There are still opportunities for improvement in the process of staff training, however.

D-MIRO has improved its levels of productivity, positively impacting operating efficiency. However this indicator remains average in comparison to D-MIRO's peers in the region due to the high cost involved in conversion into a regulated institution.

**Governance and Strategic Positioning (Page 10)**

D-MIRO maintains a governance structure dependant on the NGO Norwegian Mission Alliance. The MFI has a committed Board of Directors, which has recently been strengthened. The Board's strategy is to deepen the MFI's reach in its market niche and strengthen its positioning in the coastal areas of Ecuador.

**Social Perspective (Page 11) ★★★★★**

In MicroRate's opinion, D-MIRO is fulfilling its mission. Based on its Christian focus, D-MIRO concentrates its operations in the marginal zones and peri-urban areas of coastal Ecuador. The design of D-MIRO's products suits its clients' needs. In addition, with products designed specifically for excluded populations, the MFI achieves positive results consistent with its social mission.

## APPENDIX

Rating	Microfinance Rating Scale Definitions
<b><math>\alpha++</math></b>	Those MFIs with an <i>ongoing stable relationship</i> 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. <i>Optimal</i> efficiency and effectiveness. <i>Very Low Risk / Risk very well managed</i> , leaving company minimally susceptible to variability during economic cycles.
<b><math>\alpha+</math></b> <b><math>\alpha</math></b> <b><math>\alpha-</math></b>	Those MFIs that have <i>successfully balanced</i> 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. <i>Excellent</i> efficiency and effectiveness. <i>Low Risk / Risk well managed</i> , leaving the company minimally susceptible to variability during economic cycles.
<b><math>\beta+</math></b> <b><math>\beta</math></b>	Those MFIs <i>working to define</i> 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. <i>Good</i> efficiency and effectiveness. <i>Moderate Risk / Incipient Risk Management</i> , leaving the company subject to some variability during economic cycles.
<b><math>\beta-</math></b>	Those MFIs <i>lacking</i> a clear relationship among the financial, operational and strategic considerations of sound microfinance practice as compared to an international set of similar companies and standards of the microfinance industry. <i>Acceptable</i> efficiency and effectiveness. <i>Moderate Risk / Inadequate Risk Management</i> , leaving the company subject to significant variability during economic cycles.
<b><math>\gamma+</math></b> <b><math>\gamma</math></b>	Those MFIs <i>with financial, operational or strategic weaknesses that have the potential to threaten their viability, now or in the future</i> , as compared to an international set of similar companies and standards of the microfinance industry. <i>Poor</i> efficiency and effectiveness. <i>High Risk</i> , with high variability during economic cycles.

### Financial Sub-rating

- Using the same rating scale described above, MicroRate's Financial Sub-rating measures the MFIs financial health based on its financial structure, profitability, operating margins and financial risk management.
- Whereas the MFIs Performance Rating indicates the overall excellence of its microfinance operations, the Financial Sub-rating is only concerned with the financial condition of [the MFI. As such, the latter allows investors to differentiate MFIs along purely financial criteria.
- The Financial Sub-rating is an integral consideration of the Rating Committee's assignment of the Performance Rating.