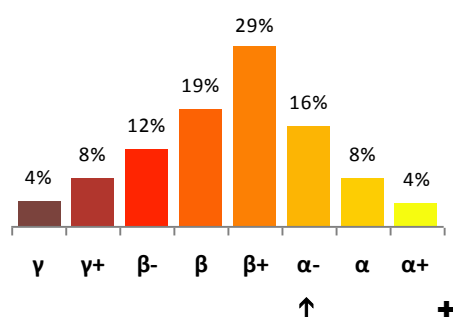


α-

Excellent financial results and solid methodology, but a high number of rescheduled loans and a weak incentive system.

Financial Situation¹ **α**
Rating Outlook **Stable**
Social Rating² ★★★★☆



Date of Visit Feb-11
 Previous Rating **α**
 Number of Ratings Completed 9

Principal Performance Indicators

	Dec-08	Dec-09	Dec-10
Gross Loan Portfolio*	\$61,170	106,630	130,837
Number of Borrowers	52,476	79,325	87,301
Leverage	4.8	6.1	5.1
Return on Equity (ROE)**	23.0%	30.3%	37.2%
Portfolio Yield	32.6%	34.2%	35.7%
Portfolio at Risk	3.0%	4.1%	4.1%
Operating Expense Ratio	13.7%	14.8%	13.4%
Average Loan Size	\$1166	\$1344	\$1499
Borrowers per Staff	72	80	73
Operating Margin	5.6%	5.3%	7.0%

*(000\$) ** Adjusted

¹ See Annex 1 ² See Social Report Mar-11

Highlights

- Exceptional profitability
- Diversified shareholders
- Capable Management Team and Board

Overview

Financiera CREAR began in 1992 as NGO Habitat Arequipa Century XXI. In 1998 it converted into a regulated institution structured as an EDPYME (Development Institution for Small and Microenterprises). At the end of 2009, the MFI completed its conversion into a bank, allowing it to take deposits.

The MFI offers individual loans in primarily urban and peri-urban areas. The total loan portfolio exceeds US \$ 130 million, 56% percent of which corresponds to the microcredit portfolio. It serves more than 87,000 borrowers with an average loan size of US\$1,500.

Rating Rationale

Financiera CREAR is an excellent microfinance institution with exceptional financial ratios. Nevertheless, it displays significant deterioration in Operations and Portfolio Quality that could affect its future performance. As a result, MicroRate has downgraded the institution's rating.

In spite of traditionally having an excellent methodology, risk factors have emerged such as a high portfolio participation of rescheduled loans, a weak incentive system, and the expansion of the Small Enterprise portfolio without an established methodology or consolidated strategy. These risks are intensified by a market that is becoming more competitive and displaying high indices of overindebtedness.

CREAR has an extraordinary return on equity, sufficient capital adequacy, and good liquidity management, which reduce institutional credit risk.

The shareholders are diversified, and the Board and Management are highly capable. Nevertheless, the challenge of establishing a product strategy remains. It is also important to note that a majority stake by Banco Compartamos Mexico was still in the process of being approved by the regulatory authority of Peru at the time of writing of this report.

Risk Factors

- Highly competitive market
- Weaknesses in incentive policy
- Product strategy has not been consolidated

ANNEX

Rating	Microfinance Rating Scale Definitions
$\alpha+$ α $\alpha-$	<p>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. Low Risk / Risk well managed, leaving the company minimally susceptible to variability during economic cycles.</p>
$\beta+$ β	<p>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. Moderate Risk / Incipient Risk Management, leaving the company subject to some variability during economic cycles.</p>
$\beta-$	<p>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. Moderate Risk / Inadequate Risk Management, leaving the company subject to significant variability during economic cycles.</p>
$\gamma+$ γ	<p>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. High Risk, with high variability during economic cycles.</p>

Financial Sub-rating
<ul style="list-style-type: none"> • 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.

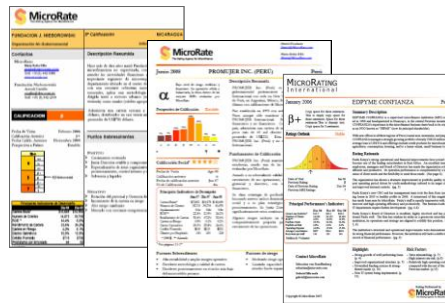
Interested in the full report?

The full Performance Rating includes detailed information on the following:

- Context
- Financial Situation
- Microcredit Operations
- Portfolio Quality
- Organization and Management
- Governance and Strategic Positioning

This performance report is available for purchase. If you are interested in purchasing a report, please contact MicroRate at 1-703-243-5340 or email info@microrate.com.

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