

▶ GLOBAL MICROFINANCE RATINGS COMPARABILITY

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By Julie Abrams
Microfinance Analytics

With the collaboration of
M-CRIL, MicroFinanza Rating,
MicroRate, and Planet Rating



Multilateral Investment Fund
Member of the IDB Group



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I. Executive Summary

Between 1997 and 2000, the four leading specialized microfinance ratings agencies (SMRAs) were founded: MicroRate (1997); Micro-Credit Ratings International, Ltd. (M-CRIL) (1998); Planet Rating (1999); and MicroFinanza Rating (2000). In aggregate, they have completed over 2,350 specialized microfinance ratings to date. To address specialized microfinance rating industry needs, in 2011, the Multilateral Investment Fund (MIF), member of the IDB Group, initiated and funded a collaborative process among the four above-mentioned SMRAs **to develop both a common financial rating product name and a specialized microfinance ratings comparability table**. This publication addresses what were historically called “financial performance ratings” and does not address any form of social performance ratings. The collaborative process involved the active cooperation of the four SMRAs, and was facilitated by Microfinance Analytics. It included a public consultative process to obtain input from industry experts before finalizing the new rating product name and ratings comparability table.

Microfinance Institutional Rating

Each of the four SMRAs historically used a different name for its respective signature “financial performance” rating product as follows: Financial/Credit Rating (M-CRIL); Microfinance Rating (MicroFinanza Rating); Performance Rating (MicroRate); and Institutional Rating (Planet Rating). The *Global Microfinance Ratings Comparability* publication proposes a replacement of these four product names with a single standardized name: Microfinance Institutional Rating. Each of the four SMRAs has agreed to adopt **Microfinance Institutional Rating** as its primary rating product name, but will maintain the prior number of rating grades, lettering systems, and respective proprietary methodologies. The Microfinance Institutional Rating includes the word **microfinance** to clearly indicate that the rating methodology is applicable to the full range of institutions conducting microfinance and providing financial services for the poor. It uses the word **institutional** because it is based upon a comprehensive assessment of the institution, including analysis of institutional risks and performance trends of microfinance operations; governance; and financial, efficiency, and productivity results with a long-term focus, i.e. a time horizon greater than one year. It includes the word **rating** because each client receives an overall rating grade.

A **Microfinance Institutional Rating** provides an opinion on the long term viability and creditworthiness of a regulated or unregulated microfinance institution through a comprehensive assessment of risks, performance, and market position.

Rating Grade Comparability Table for SMRAs

A ratings comparability table can be useful to investors as well as MFIs seeking to compare themselves to other MFIs in local or other markets. The **Rating Grade Comparability Table for SMRAs** segments the SMRAs' rating grades into four categories, numbered 1 - 4, which correspond to classifications of Excellent, Good, Fair, and Weak. Each of the four rating categories is segmented based on a continuum of performance and risk, and encompasses from two to four rating grades per SMRA. The table is based on the participating SMRAs' respective rating methodologies as of September 2012 and is valid for the methodologies in place at that time. Details on the methodology used to develop the ratings comparability table may be found in this publication.

RATING GRADE COMPARABILITY TABLE FOR SMRAS (VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)						
CATEGORY	CLASSIFICATION	DEFINITION	M-CRIL	MICRO-FINANZA RATING	MICRO-RATE	PLANET RATING
			RATING GRADES			
1	EXCELLENT	<ul style="list-style-type: none"> • Excellent performance • Low or very well-managed short- medium term risk 	α+ α	AAA AA A	α+ α	A++ A+ A A-
2	GOOD	<ul style="list-style-type: none"> • Good performance • Modest or well-managed short- medium term risk 	α- β+	BBB BB	α- β+	B++ B+ B B-
3	FAIR	<ul style="list-style-type: none"> • Fair performance • Moderate to medium-high risk 	β β-	B CCC	β β-	C++ C+ C C-
4	WEAK	<ul style="list-style-type: none"> • Weak or poor performance • High to very-high risk 	γ+ γ	CC C D	γ+ γ	D E

Source: Microfinance Analytics

DISCLAIMER: The rating grades in this table may not in any way be construed to be comparable to or equivalent to rating grades issued by mainstream rating agencies such as Fitch Ratings, Moody's, Standard & Poor's or other agencies, or any rating grade equivalence tables comparing those agencies' rating grades. For more information on updated SMRA methodologies beyond September 2012, go to www.microfinancegateway.org.

It is hoped that a common rating product name and rating grade table for SMRAs will help to strengthen and support greater consumer awareness on the part of microfinance institutions, investors, asset managers, and all others who utilize specialized microfinance ratings.

II. Introduction

Since 1996, when MicroRate conducted the first pilot rating of a microfinance institution (MFI), the microfinance ratings industry has grown in size and complexity. Between 1997 and 2000, the four leading specialized microfinance ratings agencies (SMRAs) were founded: MicroRate (1997); Micro-Credit Ratings International, Ltd. (M-CRIL) (1998); Planet Rating (1999); and MicroFinanza Rating (2000).¹ These SMRAs are based in four different countries with headquarters or field offices in a total of 13 countries and conduct microfinance ratings on five continents. In aggregate, they have completed over 2,350 specialized microfinance ratings to date. Specialized microfinance ratings have truly become a global business. From a nascent concept, the specialized microfinance ratings industry has evolved and become more sophisticated. This has led to a need for additional industry tools to best serve a growing microfinance ratings market. Ample general information about specialized microfinance ratings is publicly available, thus is beyond the scope of this paper.²

To address specialized microfinance rating industry needs, in 2011, the Multilateral Investment Fund (MIF), Member of the IDB Group, initiated a collaborative process among the four above-mentioned SMRAs to develop both a common financial rating product name and a specialized microfinance ratings comparability table. This publication addresses what were historically called “financial performance ratings” and does not address any form of social performance ratings.³ The collaborative process involved the active cooperation of SMRAs M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating, and was facilitated by Microfinance Analytics. It included a public consultative process to obtain input from industry experts before finalizing the new rating product name and ratings comparability table.

The raters wanted to brand the specialized microfinance rating more clearly in the ratings market to differentiate it from a traditional credit rating. In addition, they wanted a microfinance ratings comparability table to enable clients to compare their different agencies’ ratings. Ratings equivalence tables⁴ comparing mainstream rating agency credit rating grades of Fitch Ratings,

¹ The rating agencies are listed in order of founding date here. Throughout the rest of this publication, they will be listed in alphabetical order. The use of the term SMRA is defined in this publication to refer solely to the four cited rating agencies: M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating. Other rating agencies specialize in microfinance or rate microfinance programs or institutions; they are beyond the scope of this publication.

² For further information about microfinance ratings, see www.ratingfund2.org and www.ratinginitiative.org for general information, and http://www.amt-forum.org/fileadmin/media_amt/Activities/Code_of_Conduct_final.pdf for the Rating Code of Conduct for Microfinance Rating Agencies. Further information is also available on each of the SMRAs’ websites: <http://www.m-cril.com>; <http://www.microfinanzarating.com>; <http://www.microrate.com>; www.planetrating.com.

³ Social performance ratings have evolved and grown in importance due to interest from impact investors and others in gaining a better understanding of the social results and impact of their investments.

⁴ While the term “equivalence” is used to compare mainstream ratings, specialized microfinance ratings cannot be equilibrated, hence the use of “comparability” instead.

Moody's, and Standard & Poor's are readily available.⁵ To date, however, there have been no publicly available comparability or equivalence tables of specialized microfinance ratings. This publication aims to achieve these two goals.

There are a number of reasons why SMRA ratings have not previously been publicly compared. First, the microfinance industry, and in particular the specialized microfinance rating industry is very young; as noted above, the four SMRAs have been in operation for 12-15 years. Second, each of these rating agencies developed its own proprietary methodologies which have evolved and become more sophisticated over the years. Third, unlike mainstream ratings which have had over a century to collect and measure historical default data, specialized microfinance ratings do not measure probability of default. Rather, the SMRAs analyze numerous quantitative and qualitative factors that affect a microfinance institution, allowing for a nuanced analytical approach, but the results are not as conducive to direct and clear comparison. Fourth, SMRA rating grade comparison required a third party independent facilitator and analyst to allow for review of each SRMA's confidential methodology and data, in order not to divulge competitive intelligence to each other. This required a level of unprecedented cooperation and collaboration amongst the raters, and trust in the third party reviewer. In a nascent industry, these steps have all taken time.

For these four reasons, this publication is the first publicly available comparison of specialized microfinance rating grades. It is based on each participating agency's rating methodology in place as of September 2012. The analyses conducted to develop the rating comparability table were based upon 2008-2011 ratings data, a time period in which each of the participating agency's rating methodology remained constant.

⁵ Although mainstream ratings equivalence tables are readily available, research could not identify who created or prepared any of the publicly available tables, nor the methodology used to do so.

III. The Rating Product Name

As seen in Table 1, each of the four SMRAs: M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating, historically used a different name for its respective signature “financial performance” rating product. There has also been heterogeneity in type, number, and designation of rating grades, as displayed in Table 1.

TABLE 1 SMRA FINANCIAL PERFORMANCE PRODUCT NAMES AND CHARACTERISTICS				
	M-CRIL	MICROFINANZA RATING	MICRORATE	PLANET RATING
PRIOR “FINANCIAL PERFORMANCE” RATING PRODUCT NAME	FINANCIAL/ CREDIT RATING	MICROFINANCE RATING	PERFORMANCE RATING	INSTITUTIONAL RATING
TYPE OF LETTER GRADES	GREEK α, β, γ	ROMAN A, B, C, D	GREEK α, β, γ	ROMAN A, B, C, D, E
NUMBER OF RATING GRADES	8	10 ⁶	8	14
RATINGS PREVIOUSLY DESIGNATED AS INVESTMENT GRADE OR SPECULATIVE INVESTMENT?	YES	NO	NO	YES
WERE SECTION RATING GRADES PROVIDED IN RATING REPORT?	YES	YES	FINANCIAL SITUATION RATING GRADE PROVIDED	YES

Source: M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating, compiled by Microfinance Analytics

⁶ Ten rating grades corresponding to ten rating definitions. Plus and minus signs are used as modifiers within each rating category.

This publication proposes a replacement of these four product names with a single standardized product name: Microfinance Institutional Rating. The new name is defined in Box 1, followed by a description of the rationale for each of the three words found in the product name. Each of the four SMRAs has agreed to adopt Microfinance Institutional Rating as its primary rating product name. Each will maintain their prior number of rating grades, lettering systems, and proprietary methodologies. Investment grades designations will be eliminated.

BOX 1 Definition of Microfinance Institutional Rating

A **Microfinance Institutional Rating** provides an opinion on the long term viability and creditworthiness of a regulated or unregulated microfinance institution through a comprehensive assessment of risks, performance, and market position.

The Microfinance Institutional Rating includes the word **microfinance** to clearly indicate that the rating methodology is applicable to the full range of regulated and unregulated institutions conducting microfinance and providing financial services for the poor. Institutions may or may not solely be providing financial services for the poor. These institutions include banks, credit unions and cooperatives, non-bank financial institutions (NBFIs) and non-bank financial companies (NBFCs), non-governmental organizations (NGOs), rural banks, and other forms of microfinance institutions.⁷

The Microfinance Institutional Rating includes the word **institutional** because it is based upon a comprehensive assessment of the institution, including analysis of institutional risks and performance trends of microfinance operations; governance; and financial, efficiency, and productivity results with a long-term focus, i.e. a time horizon greater than one year. Specialized microfinance raters address aspects of the institution's overall creditworthiness, e.g. capacity to repay financial obligations during the period in which the rating is valid, most commonly for one year. Although rating reports may be organized in a different order and label topical categories differently, all of the SMRAs' rating reports address at a minimum the following topical areas:

- ▶ Operating Environment
- ▶ Market Position
- ▶ Governance
- ▶ Management
- ▶ Operations
- ▶ Credit Methodology and Portfolio Credit Risk
- ▶ Financial Performance
- ▶ Asset Quality
- ▶ Management Information Systems
- ▶ Accounting, Internal Audit and Controls
- ▶ Human Resources
- ▶ Risk Management including Asset-Liability Management
- ▶ Funding structure and funding-related risks
- ▶ Planning and Forecasting

⁷ Per MIX Market Peer Group definitions of the different charter types of microfinance institutions, found in *Benchmarks Methodology*. Washington, DC: MIX Market, 2012, pages 2-3.

For comparative purposes, a detailed list of the topical categories covered in each of the SMRAs' rating reports is displayed in Table 3 found in Appendix 1.

The Microfinance Institutional Rating includes the word **rating** because each client receives an overall rating grade. Inclusion of the word "rating" clearly differentiates it from a diagnostic, assessment, evaluation, or loan portfolio audit, which are separate products offered by some of the SMRAs.

Full descriptions of each of the SMRAs' respective prior financial performance rating product definitions may be found in Table 4 of Appendix 2.

The hallmark of a Microfinance Institutional Rating is its basis in the SMRAs' expertise in microfinance, which is applied throughout the rating process. While other credit rating agencies offer ratings to microfinance institutions, they do not typically specialize in and focus solely on the microfinance industry. It should be noted that a Microfinance Institutional Rating is not equivalent to a mainstream credit rating, which is typically an "opinion on the general creditworthiness of an obligor, or the creditworthiness of an obligor with respect to a particular debt security"⁸ and is based upon historical rates of default. Also not comparable, but slightly more akin to a microfinance institutional rating, are the mainstream rating agency products such as Moody's Bank Financial Strength Ratings, Fitch Rating's Bank Viability Ratings, or Standard & Poor's Stand-Alone Credit Profile. A summary of mainstream rating agencies' credit rating definitions may be found in Tables 5 and 6 in Appendix 3.

With the first objective of identifying and agreeing upon a common rating product name achieved, the next step was to develop a microfinance ratings comparability table.

⁸ Per Standard & Poor's credit rating definition, <http://www.standardandpoors.com/ratings/en/us/>.

IV. Microfinance Institutional Ratings Comparability

A ratings comparability table can be useful to investors as well as MFIs seeking to compare themselves to other MFIs in local or other markets. The ratings comparability table development was undertaken with the full participation and cooperation of the four specialized rating agencies. It was developed through a comprehensive third party independent review and series of analyses conducted by Microfinance Analytics utilizing:

- ▶ Each agency's respective confidential rating grades, product details, and extensive methodological information and data.
- ▶ Sample rating reports.
- ▶ All financial rating grades awarded from 2008-2011.
- ▶ An investment fund's internal comparative table of microfinance rating grades.

Analyses conducted included:

- ▶ Mapping of SMRAs' topical category coverage and respective weighting allocations per topical category and sub-category (when weighting was used).
- ▶ Quartile analyses segmented by SMRA, scale/size of rated institutions, and age of rated institutions based on all financial performance rating grades awarded by the four SMRAs in 2008-2011.
- ▶ Comparisons and analyses of all rating grades awarded to the same MFI by more than one of the rating agencies during the period from 2008-2011.

The steps above resulted in development of a draft version of the microfinance ratings comparability table. A comprehensive public consultative process then vetted the ratings comparability table, including:

- ▶ Ratings Comparability project publicized at the Inter-American Development Bank's Foromic conference in Costa Rica in October 2011 to allow industry input and opportunity to participate as an external reviewer.
- ▶ Microfinance Ratings Comparability Forum held at the Inter-American Development Bank in November 2011 to present to and seek input from ratings' end users.
- ▶ Ratings Comparability project publicized at the Microcredit Summit in Spain in November 2011 to allow industry input and the opportunity to participate as an external reviewer.
- ▶ Webinar on Global Microfinance Ratings Comparability conducted in March 2012 for public review, input, and questions and answers for a worldwide audience.
- ▶ Project results and final draft publication reviewed and vetted by panel of external reviewers in summer 2012.

The four SMRAs had substantive input at each phase of the project, and verified all content regarding their respective rating agencies for this publication.

The Rating Grade Comparability Table for SMRAs is shown in Table 2. The table segments the rating grades of the SMRAs into four categories, numbered 1 - 4, which correspond to rating grades classifications of Excellent, Good, Fair, and Weak. The segmentation and categories were developed specifically for this table. Each of the four rating categories is segmented based on a continuum of: 1) performance and 2) risk. As can be seen, each category encompasses from 2 - 4 rating grades per SMRA. Table 2 is based on the participating rating agencies' respective rating methodologies as of September 2012 and is valid for the methodologies in place at that time. It is not intended to compare rating grades on a one-to-one basis.

TABLE 2 RATING GRADE COMPARABILITY TABLE FOR SMRAS (VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)						
CATEGORY	CLASSIFICATION	DEFINITION	M-CRIL	MICRO-FINANZA RATING	MICRO-RATE	PLANET RATING
			RATING GRADES			
1	EXCELLENT	<ul style="list-style-type: none"> • Excellent performance • Low or very well-managed short- medium term risk 	α+ α	AAA AA A	α+ α	A++ A+ A A-
2	GOOD	<ul style="list-style-type: none"> • Good performance • Modest or well-managed short- medium term risk 	α- β+	BBB BB	α- β+	B++ B+ B B-
3	FAIR	<ul style="list-style-type: none"> • Fair performance • Moderate to medium-high risk 	β β-	B CCC	β β-	C++ C+ C C-
4	WEAK	<ul style="list-style-type: none"> • Weak or poor performance • High to very-high risk 	γ+ γ	CC C D	γ+ γ	D E

Source: Microfinance Analytics

DISCLAIMER: The rating grades in this table may not in any way be construed to be comparable to or equivalent to rating grades issued by mainstream rating agencies such as Fitch Ratings, Moody's, Standard & Poor's or other agencies, or any rating grade equivalence tables comparing those agencies' rating grades. For more information on updated SMRA methodologies beyond September 2012, go to www.microfinancegateway.org.

Table 7 in Appendix 4 displays the four SMRAs' definitions for all of their rating grades, classified according to the four rating comparability table categories found in Table 2.

In addition to the Rating Grade Comparability Table for SMRAs (Table 2), comparing other aspects of SMRAs' methodologies can provide useful insights into their respective microfinance rating approaches. Appendix 5 looks at select aspects of the SMRAs' respective methodologies, including a list of similarities in their methods, followed by Table 8, which shows contrasting approaches to a number of aspects of their respective methodologies. Appendix 6 contains Table 9: Comparison of SMRAs' Financial Performance Rating Metrics. This table provides a detailed comparison of all of the financial performance metrics and respective ratio definitions used by each SMRA. The ratios are mapped against the industry standard Microfinance Financial Reporting Standards developed by the SEEP Network.⁹ These appendices are intended to increase transparency and understanding of specialized microfinance ratings.

⁹ SEEP Network. *Pocket Guide to the Microfinance Financial Reporting Standards: Measuring Financial Performance of Microfinance Institutions*. Washington, DC: SEEP Network, 2010.
http://www.seepnetwork.org/filebin/pdf/resources/SEEP_MFRS_Pocket_Guide_ENG_FINAL_web.pdf.

V. Conclusion

As the microfinance ratings market has evolved and matured, there has been a growing need for increased product differentiation and branding, improved ratings market transparency, and ability to compare the range of specialized microfinance rating product offerings.

For these reasons, four SMRAs: M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating, propose to better brand and differentiate their signature rating product through adoption of a single rating product name, Microfinance Institutional Rating, to replace their different names for what was previously known as a financial performance rating.

Furthermore, the four SMRAs contributed to a specialized microfinance rating grades comparability table to enable the market to directly compare SMRAs' rating grades. The Microfinance Ratings Comparability Table for SMRAs is valid for all ratings using SMRA rating methodologies in effect as of September 2012.

It is hoped that these developments will help to strengthen and support greater consumer awareness on the part of microfinance institutions, investors, and all others who utilize specialized microfinance ratings.

Appendix 1

Comparison of SMRA Topical Categories

Table 3 provides a summary of the respective topical categories covered in the rating reports of M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating. Due to different classifications and categorization of rating report topics or categories, the sections and topics are presented in the order in which they appear in each SMRA's rating report.

TABLE 3 COMPARISON OF SMRA RATING REPORT TOPICS COVERED (VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) IN ORDER PRESENTED IN EACH SMRA'S RATING REPORT

M-CRIL	MICROFINANZA RATING	MICRORATE	PLANET RATING
<p>GOVERNANCE AND STRATEGY</p> <ul style="list-style-type: none"> Country external environment Board (experience, independence, strategic role, separation with management) Quality of management – key man risk Institutional experience and focus Strategy/orientation of MFI (market competitiveness, target clients) Suitability of products and services Funding strategy and sources (diversification, subsidized/commercial, stable/fluctuating, currency) Compliance with legal and regulatory requirements/ Network participation <p>ORGANISATION AND MANAGEMENT</p> <ul style="list-style-type: none"> Human Resource Quality & Systems Staff – salary/incentive structure and productivity Client protection principles – policy and practice Quality of Accounting systems and practices MIS – data flow integrity and report generation capability IT systems – MIS & Accounting integration Internal Audit and Monitoring - scope, frequency and rigour Tracking system for overdues Client dynamics and awareness 	<p>EXTERNAL CONTEXT</p> <ul style="list-style-type: none"> Country Risk. Political and Macroeconomic context Regulatory Risk. Tax and supervision compliance Industry Risk: Financial System and Microfinance Sector <p>GOVERNANCE AND STRATEGY</p> <ul style="list-style-type: none"> Institutional Background Ownership, Governance and Decision-making Strategic and Operational Plan Financial Projections Quality of products offered Market Positioning and franchise value <p>ORGANIZATION AND OPERATIONS</p> <ul style="list-style-type: none"> Organization and Structure Human Resources (HR) and Staff Policy Risk Management, Internal Control and Internal Audit Information Technology (IT) and Management Information System (MIS) External Audit and Accounting Policies 	<p>FINANCIAL SITUATION</p> <ul style="list-style-type: none"> Profitability Solvency and capital adequacy Financial Liquidity Maturity Risk Interest Rate Risk Foreign Exchange Risk <p>MICROFINANCE OPERATIONS</p> <ul style="list-style-type: none"> Portfolio Composition Reliable credit information and Credit Analysis Credit Approval Process Guarantees Credit Terms and Conditions Overindebtedness Savings Products and Services <p>PORTFOLIO QUALITY</p> <ul style="list-style-type: none"> Portfolio at Risk Write-offs Refinanced Loans Risk Operations Provisions Collections 	<p>MICROFINANCE SECTOR GOVERNANCE</p> <ul style="list-style-type: none"> Decision-making Planning Management team HR Management <p>INFORMATION</p> <ul style="list-style-type: none"> Information management and systems <p>RISK MANAGEMENT</p> <ul style="list-style-type: none"> Internal controls Internal audit <p>ACTIVITIES (FINANCIAL SERVICES)</p> <ul style="list-style-type: none"> Financial services management Credit risk level Credit risk coverage <p>FUNDING AND LIQUIDITY</p> <ul style="list-style-type: none"> Capital Adequacy and funding strategy Minimum capital requirement Liquidity risk Market risk

TABLE 3 COMPARISON OF SMRA RATING REPORT TOPICS COVERED
 (VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)
 IN ORDER PRESENTED IN EACH SMRA'S RATING REPORT

M-CRIL	MICROFINANZA RATING	MICRORATE	PLANET RATING
<p>FINANCIAL PERFORMANCE</p> <ul style="list-style-type: none"> • Capital Adequacy • Profitability (RoA, OSS, FSS) • Margins – spread (FCR, OER, and Yield analysis) • Asset Utilisation • Portfolio analysis for concentration risk (area and activity) • Repayment track record on external debt • Debt Service coverage Ratio and ALM 	<p>ASSETS STRUCTURE AND QUALITY</p> <ul style="list-style-type: none"> • Assets Structure • Portfolio Structure, Seasonality and Concentration Risk • Portfolio Quality and Credit Risk • Credit Policies and Procedures and management of lending activities <p>FINANCIAL STRUCTURE AND MANAGEMENT</p> <ul style="list-style-type: none"> • Capital Adequacy and Solvency Risk • Liabilities, indebtedness and Concentration Risk • Financial Needs and Funding Plan • Assets and Liabilities Management (Liquidity Risk and Market Risk) <p>FINANCIAL AND OPERATIONAL RESULTS</p> <ul style="list-style-type: none"> • Profitability and Sustainability • Revenues and Expenses Structure and Margins, Efficiency and Productivity 	<p>ORGANIZATION AND MANAGEMENT</p> <ul style="list-style-type: none"> • Management and Personnel • Organization and structure • Internal Control • Management Information Systems <p>GOVERNANCE AND STRATEGIC POSITION</p> <ul style="list-style-type: none"> • Ownership and Board • Strategic Positioning <p>SOCIAL PROFILE</p> <ul style="list-style-type: none"> • Mission analysis • Social orientation <p>CONTEXT</p> <ul style="list-style-type: none"> • Financial and microfinance sector 	<p>EFFICIENCY AND PROFITABILITY</p> <ul style="list-style-type: none"> • ROA • Revenue quality • Operating efficiency • Asset deployment • Profitability outlook

Source: M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating, compiled by Microfinance Analytics

Appendix 2

Comparison of Previous SMRA Financial Performance Rating Product Definitions

Table 4 provides each of the four SMRAs' respective historical financial performance rating product definitions. These will be replaced by a single Microfinance Institutional Rating definition.

TABLE 4 SUMMARY OF PRIOR SMRA FINANCIAL PERFORMANCE RATING PRODUCT NAMES AND DEFINITIONS

M-CRIL	MICROFINANZA RATING	MICRORATE	PLANET RATING
<p>FINANCIAL/ CREDIT RATING</p> <p>"M-CRIL's ratings provide a holistic assessment of the institution including its sustainability and an opinion on the relative ability of an MFI or institution to meet financial commitments. Rating rationale gives an assessment of the areas of strength and weakness in its operation. Credit ratings are used by investors to gauge the creditworthiness of their borrowers and potential borrowers. M-CRIL ratings cover the global spectrum along with long standing experience in governance, strategy, management systems, financial performance and operational capacity. M-CRIL presents a comparison of some critical performance aspects from its large database maintained over its professional life."</p>	<p>MICROFINANCE RATING</p> <p>"MicroFinanza Rating rates the performance, the fiduciary risk and the credit risk of a microfinance institution. Therefore we provide our opinion on the profitability, efficiency, and assets quality (performance), on the governance, management and operations (fiduciary risk), and on the solvency and ability to repay its financial obligations (credit risk)."</p>	<p>PERFORMANCE RATING</p> <p>"A performance rating evaluates an institution, comparing it with best practices in micro-finance, 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."</p>	<p>INSTITUTIONAL RATING</p> <p>"Institutional ratings provide an opinion on the long term financial sustainability of MFIs by assessing the management of key risks and performance relative to industry benchmarks and competitors."</p>

Source: M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating, compiled by Microfinance Analytics

Appendix 3

Comparison of Mainstream Rating Agency Credit Rating Definitions

Table 5 displays the global credit rating definitions used by the three leading mainstream credit rating agencies. Table 6 lists their definitions for Bank Viability Ratings, Bank Financial Strength Ratings, and Stand-Alone Credit Profiles. The definitions found in these two tables highlight the distinctions between the SMRAs' Microfinance Institutional Rating introduced in this publication, and mainstream rating agency credit ratings.

TABLE 5 MAINSTREAM RATING AGENCY GLOBAL CREDIT RATING DEFINITIONS

FITC RATINGS	"Credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested." ¹⁰
MOODY'S	"Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities." ¹¹
STANDARD & POOR'S	"Standard & Poor's ratings express the agency's opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time." ¹²

Source: Fitch Ratings, Moody's, and Standard & Poor's, compiled by Microfinance Analytics

¹⁰ Fitch Ratings. *Definitions of Ratings and Other Forms of Opinion*, New York, NY: Fitch Ratings, 2012, page 6.

¹¹ Moody's. *Rating Symbols and Definitions*, New York, NY: Moody's, 2012, page 4.

¹² Standard & Poor's. *Guide to Credit Rating Essentials: What are credit ratings and how do they work?* New York, NY: Standard & Poor's, 2011, page 3.

TABLE 6 MAINSTREAM RATING AGENCY BANK CREDIT RATING DEFINITIONS

FITCH RATINGS: BANK VIABILITY RATING	<p>“Viability ratings (VRs) are designed to be internationally comparable and represent Fitch’s view as to the intrinsic creditworthiness of an issuer. Together with the agency’s support ratings framework, the VR is a key component of a bank’s Issuer Default Rating (IDR) and considers various factors including:</p> <ul style="list-style-type: none"> ▶ Industry profile and operating environment ▶ Company profile and risk management ▶ Financial profile ▶ Management strategy and corporate governance. <p>VRs are assigned to bank operating companies, bank holding companies and in limited cases, to similar legal entities where it is considered useful to clarify the source of an entity’s financial strength. Notably, the VR excludes any extraordinary support that may be derived from outside of the entity as well as excluding potential benefits to a bank’s financial position from other extraordinary measures, including a distressed restructuring of liabilities.”¹³</p>
MOODY’S: BANK FINANCIAL STRENGTH RATINGS	<p>“Moody’s Bank Financial Strength Ratings (BFSRs) represent Moody’s opinion of a bank’s intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody’s Bank Deposit Ratings. In addition to commercial banks, Moody’s BFSRs may also be assigned to other types of financial institutions such as multilateral development banks, government sponsored financial institutions and national development financial institutions. Unlike Moody’s Bank Deposit Ratings, Bank Financial Strength Ratings do not address the probability of timely payment. Instead, Bank Financial Strength Ratings are a measure of the likelihood that a bank will require assistance from third parties such as its owners, its industry group, or official institutions. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank’s ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank’s operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.”¹⁴</p>
STANDARD & POOR’S: STAND-ALONE CREDIT PROFILE	<p><i>Paraphrased</i></p> <p>The assessment of the stand-alone credit profile (SACP) rests on six factors. The first two factors, economic risk and industry risk, draw on the Banking Industry Country Risk Assessment (BICRA) methodology. They represent the strengths and weaknesses of the broader operating environment that situate, or anchor, the SACP. The other four factors represent bank-specific strengths and weaknesses: business portfolio; capital and earnings; risk position; and funding and liquidity. Based on the analysis of these factors, the SACP is notched up or down relative to the anchor.¹⁵</p>

Source: Fitch Ratings, Moody’s, and Standard & Poor’s, compiled by Microfinance Analytics

¹³ Fitch Ratings. *Definitions of Ratings and Other Forms of Opinion*, page 25.

¹⁴ Moody’s. *Rating Symbols and Definitions*, page 29.

¹⁵ Standard & Poor’s. *Banks: Rating Methodology and Assumptions*. New York, NY: Standard & Poor’s, 2011, pages 4-6.

Appendix 4

SMRA Rating Grade Definitions

Table 7 is based on the Rating Grade Comparability Table for SMRAs as of September 2012.¹⁶ It maps each SMRA rating grade definition to the rating grade comparability table categories for a more in-depth application of the table.

TABLE 7 SMRAS' RATING GRADE DEFINITIONS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)

RATING COMPARABILITY		DEFINITION	RATING GRADES			
TABLE CATEGORY	TABLE CLASSIFICATION		M-CRIL	MICROFINANZA RATING	MICRO-RATE	PLANET RATING
1	EXCELLENT	<ul style="list-style-type: none"> •Excellent performance •Low or very well-managed short-medium term risk 	<p>α+ Strong governance, excellent systems and healthy financial position. Without a foreseeable risk. Most highly recommended.</p> <p>α Good governance, excellent/good systems, healthy financial position. Highly recommended.</p>	<p>AAA Outstanding operations and performance. Sound strategic vision and planning. Risks are very well identified, monitored and managed. Negligible exposure to short term and foreseeable risks.</p> <p>AA Very strong operations and performance. Sound strategic vision and planning. Risks are very well identified, monitored and managed. Minimum exposure to short term and foreseeable risks.</p> <p>A Strong operations and performance. Sound strategic vision and planning. Risks are well identified, monitored and managed. Minimum exposure to short term and foreseeable risks.</p>	<p>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. Excellent efficiency and effectiveness. Low risk/Risk well managed, leaving the company minimally susceptible to variability during economic cycles.</p>	<p>A+++, A+, A, A- Current institutional, operational and financial performances are excellent to optimal when compared to industry standards. Medium and long-term plans are well-designed, execution capacity is very good; and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.</p>

Source: Microfinance Analytics; rating agency rating grade definitions provided by M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating

¹⁶ Some SMRAs provide a single definition for multiple rating grades, thus some of the rating grade definitions are repeated in more than one category of this table.

TABLE 7 SMRAS' RATING GRADE DEFINITIONS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)

RATING COMPARABILITY		DEFINITION	RATING GRADES			
TABLE CATEGORY	TABLE CLASSIFICATION		M-CRIL	MICROFINANZA RATING	MICRO-RATE	PLANET RATING
2	GOOD	<ul style="list-style-type: none"> • Good performance • Modest or well-managed short-medium term risk 	<p>α- Good governance, good systems, and good financial performance. Low risk, can handle large volumes. Recommended.</p> <p>β+ Reasonable performance, reasonable systems. Reasonable safety but may not be able to bear an adverse external environment and much larger scale. Recommended, needs monitoring.</p>	<p>BBB Good operations and performance. Good strategic vision and planning. Risks are satisfactorily identified, monitored and managed. Limited exposure to short term and foreseeable risks.</p> <p>BB Adequate operations and performance. Adequate strategic vision and planning. Main risks are satisfactorily identified, monitored and managed. Exposure to short term and foreseeable risks is overall under control.</p>	<p>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.</p> <p>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. Good efficiency and effectiveness. Moderate Risk, leaving the company subject to some variability during economic cycles.</p>	<p>B+++, B+, B, B- Current institutional, operational and financial performances are satisfactory when compared to industry standards. Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.</p>

Source: Microfinance Analytics; rating agency rating grade definitions provided by M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating

TABLE 7 SMRAS' RATING GRADE DEFINITIONS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)

RATING COMPARABILITY		DEFINITION	RATING GRADES			
TABLE CATEGORY	TABLE CLASSIFICATION		M-CRIL	MICROFINANZA RATING	MICRO-RATE	PLANET RATING
3	FAIR	<ul style="list-style-type: none"> •Fair performance •Moderate to medium-high risk 	<p>β Moderate systems. Low safety. Acceptable only after improvements are made on specified areas.</p> <p>β- Weak governance, weak systems. Significant risk. Not acceptable but can be considered after significant improvements.</p>	<p>B Sufficient but not fully adequate operations and performance. Capacity of strategic vision and planning exists but is not fully developed. The institution is exposed to some level of risk, though main short term and foreseeable risks are overall identified and sufficiently monitored and managed.</p> <p>CCC Basic operations and partly insufficient performance. Capacity of strategic vision and planning exists but is only partly developed. The institution is exposed to some level of risk, though main risks are partly identified, monitored and managed.</p>	<p>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.</p> <p>Moderate Risk, leaving the company subject to some variability during economic cycles.</p>	<p>C++, C+, C, C- Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak, and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment.</p>

Source: Microfinance Analytics; rating agency rating grade definitions provided by M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating

TABLE 7 SMRAS' RATING GRADE DEFINITIONS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)

RATING COMPARABILITY		DEFINITION	RATING GRADES			
TABLE CATEGORY	TABLE CLASSIFICATION		M-CRIL	MICROFINANZA RATING	MICRO-RATE	PLANET RATING
4	WEAK	<p>•Weak or poor performance</p> <p>•High to very-high risk</p>	<p>Y+ Weak governance, poor quality systems. High risk. Needs considerable improvement.</p> <p>Y Weak governance, poor systems, weak financial position. Highest risk. Not worth considering.</p>	<p>CC Basic operations and insufficient performance. Insufficient capacity of strategic vision and planning. Weak capacity to identify, monitor and manage risks. Exposure to risks potentially affecting the operations in the short-medium term is not negligible.</p> <p>C Poor operations, performance and strategic capacity. Poor capacity to identify, monitor and manage the risks. Relevant exposure to risks potentially affecting the operations in the short-medium term.</p> <p>D Extremely poor operations and performance. High risk exposure, likely to severely affect the operations in the short-term. Imminent risk of default.</p>	<p>Y+ , Y Those MFIs with financial, operational, or strategic weaknesses that have the potential to threaten their viability, now or in the near future, as compared with 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.</p>	<p>D High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.</p> <p>E Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.</p>

Source: Microfinance Analytics; rating agency rating grade definitions provided by M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating

Appendix 5

Comparison of Select Aspects of SMRA Methodologies

(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)

This appendix first lists aspects of rating methodologies that the SMRAs have in common and approach similarly. Below that is Table 8, which provides a side-by-side comparison of rating methodology aspects and approaches that differ per SMRA.

Listed below are aspects of the approach to microfinance ratings that M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating all share:

- ▶ **Institutional legal structure and country:** Each of the SMRAs uses the same rating grade structure, approach and methodology for all rated institutions, regardless of the institutional legal structure of the rating client, or the country in which the rated institution operates.
- ▶ **Quantitative and qualitative:** All specialized microfinance ratings include both quantitative and qualitative measures in their rating assessment.
- ▶ **Outlook:** In addition to a rating grade, each agency issues a rating grade outlook on the MFI, as measured by terms: positive, stable or neutral, uncertain, and negative. Specific definitions may be found on each SMRA's website.
- ▶ **Benchmarks:** Each rating benchmarks the institution against other MFIs or comparable institutions as part of the rating process using data collected by the rating agency or third party external data sources. Some SMRAs use MIX Market data. The rating process includes a review of the institution's performance data over the past 3-5 years plus year to date information. Adjustments to an MFI's financial data are made to compute performance ratios.
- ▶ **Country/sovereign risk:** Country or sovereign risk is not directly factored into the rating. Only aspects of operating environment with a direct impact on the MFI are considered. Political and macroeconomic context, sectoral risk, and regulatory and supervisory environment and risks are factored into the rating grade as relevant and appropriate.
- ▶ **In-country due diligence:** One to two analysts spend between 4-8 days (4-16 person-days) on site and visit several of the institution's branch offices as part of the rating process.
- ▶ **Rating Committee:** The final rating grade is determined by a thorough review by a Rating Committee composed of 3-7 members that deliberates from 1.5 to 3.5 hours per rating. See the last row of Table 8 for further details regarding internal versus external representation on each SMRA's Rating Committee.
- ▶ **Rating validity timeframe:** SMRA ratings are valid for one year, unless otherwise noted, or if a material change of events has led to a withdrawal of or change in the rating. In practice, the validity date is not enforced, in that rated institutions use and consider ratings greater than one year old unless local regulation prohibits it.

Table 8 compares and contrasts differences among the four SMRAs' respective rating methodologies.

TABLE 8 COMPARISON OF SELECT ASPECTS OF SMRAS' RATING METHODOLOGIES
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)

CRITERIA	M-CRIL	MICROFINANZA RATING	MICRORATE	PLANET RATING
Qualitative measures What percentage of the rating grade is based on qualitative measures?	60%	52%	No specific weighting given.	52%
Quantitative measures What percentage of the rating grade is based on quantitative measures?	40%	48%	No specific weighting given.	48%
Rating grade ceilings or limiters Is the final rating grade awarded affected by rating grade ceilings, limiters, or notches?	Varies by country context and legal structure of MFI. Grade limiters on governance, management, financial performance, portfolio at risk, capital adequacy ratio, and return on assets.	The modifiers "+" or "-" may be assigned to a rating grade to indicate relative status within a main rating category. The modifiers cannot be assigned to "AAA" or "D" grades. Caps on specific areas: context, risk management and control systems, portfolio quality, capital adequacy and sustainability.	The modifiers "+" or "-" may be assigned to a rating to indicate relative status within a main rating category. The negative modifier cannot be assigned to "γ" grade.	Microfinance Sector is a cap on the overall grade. A low grade on Governance is a natural cap on the overall grade. If Risk Management section is graded "d" or "e," overall grade cannot be higher than C+. Grade notches are based on projected compliance with minimum capital requirement and profitability outlook.
Rating grade computation method Is the final rating grade calculated mathematically solely based upon rating report section grades?	No (Rating grade is computed mathematically, but rating analysts and/or external Rating Committee members may override and recommend changes to final rating grade.)	Yes	No	Yes

Source: Compiled by Microfinance Analytics based on information from M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating

TABLE 8 COMPARISON OF SELECT ASPECTS OF SMRAS' RATING METHODOLOGIES
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012)

CRITERIA	M-CRIL	MICROFINANZA RATING	MICRORATE	PLANET RATING
Monitoring Is the MFI automatically monitored after the rating is issued?	No	Yes Yes, via Monitoring Process carried out six months after rating report issued.	No	No
Institutional network support Is microfinance network support factored into rating grade?	Yes	Yes	No	Yes
Adjustments What adjustments are made to financial statements for computing performance ratios?	Accrual or cash accounting basis consistency; loan loss provision; write-downs; operational and non-operational grants; inflation only for financial ratios such as financial self-sufficiency. Treatment of restructured loans.	Accrued loans delinquent > 90 days; donations and concessionary loan subsidies; provisions for past-due loans and restructured loans; and inflation.	Inflation; provisions for loans in arrears over 30 days, restructured and refinanced loans; write-offs; and subsidized funds. Accrual or cash accounting basis consistency.	Performance ratios are adjusted for improper accounting or accounting classifications. Adjustments mostly relate to insufficient loan loss provisions for past due loans, rescheduled loans or write-offs; donations/grants; accruals; etc. No adjusted ratios are used such as "Adjusted ROA" or FSS that aim to make MFIs comparable between countries with adjustments such as inflation, and subsidized cost of funds.
Internal versus external Rating Committee Are Rating Committee members internal or external to the rating agency?	External	Internal, but may have up to one external member.	Internal (must have senior person from at least two regions and rating team is not part of vote).	Internal

Source: Compiled by Microfinance Analytics based on information from M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating

Appendix 6

Comparison of SMRA Financial Performance Metrics

Table 9 shows the financial performance ratios and respective formulas that each SMRA uses in its rating process and rating reports. The indicators are organized and categorized in Table 9 using the SEEP Network's Microfinance Financial Reporting Standards (MFRS)¹⁷ ratios' categories when available, with all SEEP MFRS ratio definitions displayed in the second column. The ratios are organized using the same topical categories as the SEEP MFRS as follows:

- ▶ **Profitability** (indicators 1-22)
- ▶ **Capital adequacy and solvency** (indicators 23-27)
- ▶ **Liquidity** (indicators 28-37)
- ▶ **Asset quality and portfolio quality** (indicators 38-52)
- ▶ **Efficiency and productivity** (indicators 53-71)

The last category is:

- ▶ **Asset-liability table ratio** (indicator 72).

Important note: All Table 9 ratios displayed are the respective SMRA's self-reported *verbatim ratio names and definitions* so may vary in format and naming protocols.

TABLE 9 COMPARISON OF SMRAS' FINANCIAL PERFORMANCE RATING METRICS (VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) (USING SEEP NETWORK MFRS)

	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
1	PROFITABILITY (Ratios 1-22)								
	SEEP R1 Portfolio yield (Interest, fees, and commissions in loan portfolio)/Average gross loan portfolio	Portfolio yield	Interest and fee income on loans/ Average loan portfolio for the year	Portfolio yield	Interest and fee incomes on loan portfolio/Average gross outstanding portfolio	Portfolio yield	Interest and fee income/Average gross portfolio	Portfolio Yield	Interest, fees and commissions received on loan portfolio/Average Gross Portfolio (SEEP R1)
2	SEEP R2 Net Interest Margin (Interest income – interest expenses)/ Average earning assets							Net interest margin	Interest income – Interest expense/ Average earning assets (SEEP R2)

¹⁷ SEEP Network. *Pocket Guide to the Microfinance Financial Reporting Standards Measuring Financial Performance of Microfinance Institutions*, pages 1-11.

TABLE 9 COMPARISON OF SMRAS' FINANCIAL PERFORMANCE RATING METRICS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) (USING SEEP NETWORK MFRS)

	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
3	Net operating margin or Spread on portfolio	Net operating margin (Spread on portfolio)	(Yield on portfolio + yield on other income) - (Financial cost ratio + loan loss provisioning + interest loss provisioning)			Net Operating Margin	Portfolio Yield - Financial expenses ratio - Operating expenses ratio - Provision expense ratio		
4	Profit margin			Profit margin	(Total operating income – operating expenses – financial expenses – loan loss provision expenses)/Total operating revenues				
5	SEEP R3 Return on average assets (ROA) Net income after taxes and before donations/Average assets	Return on assets after tax and before donations	Net operating income/Average assets	Return on assets	Net income before donations/Average assets	Return on assets	Net income/Average assets	Return on Assets (without donations)	Net income after taxes and before donations/Average assets (SEEP R3)
6	Adjusted return on assets (AROA)			Adjusted return on assets	Adjusted ¹⁸ net income before donations/Average assets				
7	Return on average assets - microfinance operations (ROA)							Return on assets (micro-finance operations)	Net income (microfinance operations only, i.e. excluding non-operating costs) after taxes and before donations/Average assets
8	Other than loan portfolio income over assets	Other than loan portfolio income to assets	Other than loan portfolio income/Average assets						
9	SEEP R4 Return on average equity Net income after taxes and before donations/Average equity	Return on equity after tax	Net operating income/Average equity	Return on equity (ROE)	Net income before donations/Average equity	Return on equity	Net income/Average equity	Return on equity	Net operating income after taxes and before donations/Average equity (SEEP R4)

¹⁸ The following adjustments are included: accrued interests on loans with arrears > 90 days, subsidized cost of funds, inflation, loan loss provision expenses and in-kind subsidies.

TABLE 9 COMPARISON OF SMRAS' FINANCIAL PERFORMANCE RATING METRICS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) (USING SEEP NETWORK MFRS)

	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
10	Adjusted return on equity (AROE)			Adjusted return on equity (AROE)	Adjusted net income before donations/Average equity				
11	Operational self-sufficiency (OSS)	Operational self-sufficiency	Total operational income/Total operational costs	Operational self-sufficiency	(Financial revenue + other operating revenue)/(Financial expenses + loan loss provision expenses + operating expenses)				
12	Financial self-sufficiency (FSS)	Financial self-sufficiency	Total operational income/ Total adjusted expenses ¹⁹	Financial self-sufficiency	(Adjusted ²⁰ financial revenues + other operating revenues)/ (Adjusted financial expenses + adjusted loan loss provision expenses + adjusted operating expenses)				
13	SEEP R5 Financial expense ratio Interest and fees expense on funding liabilities/Average gross loan portfolio	Financial cost ratio	Total interest and fee expenses for the year/Average portfolio for the year	Funding expense ratio	Interest and fee expenses on funding liabilities/ Average gross outstanding portfolio	Funding expense ratio	Interest and fee expenses/Average gross portfolio	Financial expense ratio	Interest and fees on funding liabilities/ Average gross loan portfolio (SEEP R5)
14	Administrative expenses ratio	Administrative expenses ratio	Administrative expenses ratio related to operations (other than financial cost and provisioning)/Average portfolio for the year						
15	Personnel expenses ratio	Personnel expenses ratio	Personnel expenses/Average portfolio	Personnel expenses ratio	Personnel expenses/Average gross outstanding portfolio	N/A	Personnel expense/ Average gross portfolio		

¹⁹ Adjustments made for the subsidized cost.

²⁰ The following adjustments are included: accrued interests on loans with arrears > 90 days, subsidized cost of funds, inflation, loan loss provision expenses and in-kind subsidies.

TABLE 9 COMPARISON OF SMRAS' FINANCIAL PERFORMANCE RATING METRICS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) (USING SEEP NETWORK MFRS)

	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
16	SEEP R6 Impairment expense ratio Impairment expense/ Average gross loan portfolio	Loan loss provisioning ratio	Loan loss provision expense for the year/Average gross portfolio	Provision expense ratio	Loan loss provision expenses/Average gross outstanding portfolio	Provision expense ratio	Loan loss provision expenses/Average gross portfolio	Impairment expense ratio	Impairment expense/Average gross loan portfolio (SEEP R6)
17	SEEP R7 Operating expense ratio Operating expense/ Average gross loan portfolio	Operating expense ratio	Salaries + travel + administrative costs + depreciation expenses/ Average gross loan portfolio	Operating expense ratio	Operating expenses/Average gross outstanding portfolio	Operating expense ratio	Total operating expense/Average gross portfolio	Operating expense ratio	Operating expense/Average gross portfolio (SEEP R7)
18	Total revenue ratio							Total revenue ratio	Total revenue/ Average gross outstanding portfolio
19	Revenue from investment as percentage of financial revenues							Revenue from investment as percentage of financial revenues	Interest and fee income on investments/ (Interest, fees, and commissions received on loan portfolio + Interest and fee income on investments)
20	Other income to average portfolio	Other income to average portfolio	Total income other than from the interest and fee on loans/Average portfolio	Other products' yield	Other operating revenues / Average gross outstanding portfolio				
21	Cost of funds ratio or Cost of borrowing ratio	Cost of funds ratio	Interest and fees expenses /Average funding liabilities or average interest bearing funds	Cost of funds ratio	Interest and fee expenses on funding liabilities/ Average funding liabilities	Cost of funds ratio	Interest and fee expenses/Average funding liabilities	Cost of borrowings	Interest and fees paid on borrowings/Average borrowings
22	Cost of savings							Cost of savings	Interest and fees paid on deposits/ Average deposits

TABLE 9 COMPARISON OF SMRAS' FINANCIAL PERFORMANCE RATING METRICS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) (USING SEEP NETWORK MFRS)

	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
23	CAPITAL ADEQUACY AND SOLVENCY (Ratios 23-27) SEEP R8 Debt to equity ratio or (Leverage or gearing ratio) Total liabilities/Total equity	Debt equity ratio	Debt/Net worth	Debt to equity ratio	Total liabilities/Total equity	Debt/equity	Total liabilities/Total equity	Leverage	Total liabilities/Total equity (end of period) (SEEP R8)
24	SEEP R9 Equity to assets ratio Total equity/Total assets			Equity to asset ratio	Total equity/Total assets	Equity/assets	Equity/assets		
25	SEEP R10 Capital adequacy ratio (CAR) Total capital/Risk-weighted assets	Risk weighted capital adequacy ratio (Tier I + Tier II)	Total capital (Tier I & II)/Risk weighted assets ²¹	Capital adequacy ratio	Total adjusted capital/Risk weighted assets			Capital adequacy ratio (CAR)	Total capital/Risk weighted assets (SEEP R10)
26	Core capital adequacy ratio	Risk weighted capital adequacy ratio (Tier I)	Net worth (Tier I)/Risk weighted assets					Core capital adequacy ratio	Core capital (=Tier 1 capital)/Risk weighted assets
27	SEEP R11 Uncovered capital ratio (UCR) (NPL30 – Impairment loss allowance)/Total capital							Uncovered capital ratio	NPL30 – Impairment loss allowance/Total capital (SEEP R11).

²¹ Tier II capital not to exceed 100% of Tier I capital plus subordinated debt-quasi equity is discounted based on remaining tenure.

TABLE 9 COMPARISON OF SMRAS' FINANCIAL PERFORMANCE RATING METRICS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) (USING SEEP NETWORK MFRS)

	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
	LIQUIDITY (Ratios 28-37)								
28	SEEP R12 Cash ratio (Unrestricted cash and cash equivalents)/ (Demand deposits + short-term time deposits + other short-term liabilities + short-term borrowings + Interest payable on funding liabilities + Accounts payable + Other short-term liabilities)			Cash ratio	Cash and cash equivalents/(Demand deposits + short-term time deposits + other short-term liabilities + short-term borrowings)				
29	Liquidity ratio or Deposit coverage ratio or Cash to demand deposits			Liquidity over demand deposits ratio	Cash and cash equivalents/Total demand deposits	Deposit coverage ratio	Cash and banks + temporary investments/Client deposits	Cash to demand deposits	Instantly available liquid assets/ Demand deposits (end of period)
30	Liquidity/total assets	Liquidity ratio	Cash & liquid assets/Total assets	Liquidity over total assets ratio	Cash and cash equivalents/Total assets	Liquidity ratio	Cash and banks + temporary investments/Gross loan portfolio	Liquidity/ total assets	Instantly available liquid assets/Total assets
31	Idle funds ratio	Idle funds ratio	Average cash and bank balances/ Average assets						
32	Current ratio			Current ratio	Assets with contractual maturity within 365 days/Liabilities with contractual maturity within 365 days			Current ratio	Short term assets ²² /Short term liabilities ²³
33	Maturity gap ratio 30 days or Quick ratio (1 month)			Maturity gap ratio 30 days	Assets with contractual maturity within 30 days/Liabilities with contractual maturity within 30 days			Quick ratio (1 month)	Assets maturing within one month ²⁴ /Liabilities due within one month ²⁵

²² Assets convertible to cash within 12 months.

²³ With a residual maturity of less than 12 months.

²⁴ Cash, investments, loans (excluding non-performing loans).

²⁵ Borrowings, term deposits, + 20% of demand deposits + 10% of term deposits due.

TABLE 9 COMPARISON OF SMRAS' FINANCIAL PERFORMANCE RATING METRICS
(VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) (USING SEEP NETWORK MFRS)

	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
34	Maturity gap ratio 90 days or Quick ratio (3 months)			Maturity gap ratio 90 days	Assets with contractual maturity within 90 days/Liabilities with contractual maturity within 90 days			Quick ratio (3 months)	Assets maturing within three months ²⁶ /Liabilities due within three months ²⁷
35	Operating expense coverage							Operating expense coverage	Liquid assets ²⁸ / Average monthly operating expense ²⁹
36	SEEP R13 Savings liquidity (Reserves against deposits as required by regulators + Unrestricted cash)/ Total demand deposits								
37	SEEP R14 Loans to deposits ratio Gross loan portfolio/ Deposits								
38	ASSET QUALITY (PORTFOLIO QUALITY) (Ratios 38-52) NPL > 0 days	Portfolio at risk (> 0 days)	(Principal outstanding balance on all loans with overdues greater than or equal to 1 day/Total loans outstanding on a given date						
39	SEEP R15 NPL ³⁰ 30 days past due (Includes renegotiated loans unless otherwise noted) NPL30/Gross loan portfolio	Portfolio at risk (>30days)	PAR > 30 days (including rescheduled loans)/Gross loan portfolio	Portfolio at risk (PAR30). Does not include renegotiated loans with 0-30 days arrears	Outstanding balance on loans with arrears > 30 days/ Gross outstanding portfolio	Portfolio at risk	(Outstanding balance on arrears over 30 days + Total gross outstanding refinanced portfolio)/ Total outstanding gross portfolio	NPL30 days past due + r	NPL30 days past due + rescheduled loans/Gross loan portfolio

²⁶ Cash, investments, and loans.

²⁷ Borrowings and term deposits.

²⁸ Cash and due from bank, readily marketable securities or investments.

²⁹ Annual operating expenses divided by twelve.

³⁰ NPL is an acronym for non-performing loans

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40	NPL30 days past due (Excludes renegotiated loans)							NPL30 days past due	NPL30 days past due/Gross loan portfolio (Does not include rescheduled loans)
41	NPL>60 days	PAR>60 days	PAR > 60 days/ Gross loan portfolio						
42	NPL>90 days			PAR90	Outstanding balance on loans with arrears > 90 days/ Gross outstanding portfolio				
43	NPL >365							NPL >365	Balance of outstanding loans with arrears great than 365 days, including rescheduled and refinanced loans (end of period EOD)/Gross outstanding loans (EOD)
44	NPL 31-165							NPL 31-165	Balance of outstanding loans with arrears of 31 to 365 days, including rescheduled and refinanced loans (end of period, EOD)/Gross outstanding loans (EOD)
45	Renegotiated loans			Restructured loans ratio	Total gross outstanding rescheduled and/or refinanced portfolio / Gross outstanding portfolio			Rescheduled loans	Rescheduled loans/Gross loan portfolio
46	Current repayment rate	Current repayment rate	Principal recovered (net of pre-payments)/ Principal due for the last one year						

TABLE 9 COMPARISON OF SMRAS' FINANCIAL PERFORMANCE RATING METRICS (VALID FOR RATING METHODOLOGIES AS OF SEPTEMBER 2012) (USING SEEP NETWORK MFRS)

	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
47	SEEP R16 Write-off ratio Value of loans written off/Average gross loan portfolio	Write-off ratio	Write-offs/Average gross portfolio	Write-off ratio	Value of loans written-off during the period/Average gross outstanding portfolio	Write-off ratio	Value of loan write-offs/Gross loan portfolio	Write-off ratio	Value of loans written off/Average gross loan portfolio (SEEP R16)
48	SEEP R17 NPL30 + write-offs ratio (Average NPL30 + Value of loans written off)/Average gross loan portfolio							NPL30 + rescheduled loans + write-offs ratio	Average non-performing loans 30 + average rescheduled loans + value of loans written off for the past 12 months/ Average gross loan portfolio (SEEP R17)
49	SEEP R18 Portfolio to assets Gross loan portfolio/ Total assets	Loans to total assets	Loans/Total assets	Portfolio to asset ratio	Net outstanding portfolio / Total assets			Asset deployment ratio	Net loan portfolio/ Total available assets
50	Loan loss reserve ratio		Loan loss reserves/ Gross portfolio	Loan loss reserve ratio	Loan loss reserve/ Gross outstanding portfolio				
51	Risk coverage ratio		Loan loss reserves/ Portfolio at risk (>60 days)	Risk coverage ratio (> 30 days)	Loan loss reserve/ Portfolio at risk > 30 days	Risk coverage ratio	Loan loss reserves/ (Outstanding balance on arrears over 30 days + refinanced loans)	Risk coverage portfolio (PAR30)	Loan loss reserve/ NPL30
52	Risk coverage ratio (including renegotiated loans)			Risk coverage ratio (PAR30 + rescheduled loans 0-30 days)	Loan loss reserve/ Portfolio at risk >30 days + restructured loans 0-30 days				
EFFICIENCY AND PRODUCTIVITY (Ratios 53-71)									
53	SEEP R19 Cost income ratio Operating expense/ Total revenues							Cost income ratio	Operating expense/Total revenues (SEEP R19)
54	SEEP R20 Cost per active client Operating expense/ Average number of active clients	Cost per borrower	Total operating expenses/Average active clients	Cost per borrower	Operating expenses/Average number of active borrowers	Cost per borrower (active client)	Operating expenses/Average number of active borrowers (active clients)	Cost per borrower	Operating expense/Average active borrowers (end of period) (SEEP R20)

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	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
55	SEEP R21 Borrowers per loan officer Number of active borrowers/ Number of loan officers	Number of borrowers/ Field staff	Number of borrowers/ Field staff	Loan officer productivity - Borrowers	Number of active borrowers/ Number of loan officers	Borrowers per credit officer	Number of active borrowers (excluding consumer loans)/ Number of loan officers	Borrowers per loan officer	Number of active borrowers/ Number of loan officers (SEEP R21)
56	SEEP R22 Active clients per staff member Number of active clients/ Total number of personnel	Active clients per staff	Number of members/ Total staff	Staff productivity - borrowers (active clients)	Number of active borrowers (active clients)/ Number of staff	Borrowers per staff	Number of active borrower (excluding consumer loans)/ Total staff	Staff productivity (Active clients per staff)	Number of active clients/ Total number of personnel (SEEP R22)
57	Staff allocation ratio			Staff allocation ratio	Number of loan officers/ Number of staff	Credit officers/ Total personnel	Credit officers/ Total personnel		
58	Loan officer productivity - amount	Loan outstanding per loan officer or field staff	Gross portfolio/ Number of loan officers or field staff	Loan officer productivity - amount	Gross outstanding portfolio/ Number of loan officers				
59	Loan officer turnover ratio					Loan officer Turnover Rate	1-(Beginning number of loan officers + number of new loan officers during period - ending number of loan officers)/ Beginning number of loan officers		
60	Staff productivity - amount			Staff productivity - Amount	Gross outstanding portfolio/ Number of staff				
61	Incentive pay as % of base salary					Incentive pay as percentage of base salary	Incentive pay/ Base salary		
62	Percent of staff with MFI <12 months					Percent of staff with MFI <12 months	Percent of staff with MFI <12 months		
63	Staff turnover	Staff attrition rate	No. of employees left during period/ (Total employees end of the period + no. of employees quit during period)	Staff turnover ratio	Number of staff who left the institution during the period/ Average number of staff	Staff Turnover Rate	1-(Beginning number of staff + number of new staff during period - ending number of staff)/ Beginning number of staff	Staff turnover	Number of staff that left during the period/ Average number of staff during the period

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	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
64	Client retention rate					Client retention rate	$1 - \left[\frac{\text{Beginning number of active clients} + \text{number of new clients during period} - \text{Ending number of active clients}}{\text{Beginning number of active clients}} \right]$		
65	SEEP R23 Client drop out (Number of active clients, beginning of period + Number of new clients during period) – Number of active clients, end of period/ Number of active clients, beginning of period)			Drop out ratio	(Number of active borrowers at the beginning of the period + number of new (first time) borrowers entering during the period – borrowers written off during the period – number of active borrowers at the end of the period)/(Number of active borrowers at the beginning of the period)	Client turn-over rate	$\frac{\text{Beginning number of active clients} + \text{number of new clients during period} - \text{Ending number of active clients}}{\text{Beginning number of active clients}}$		
66	SEEP R24 Average outstanding loan size Gross loan portfolio/ Number of active borrowers	Average outstanding loan	Gross portfolio/ Total number of active clients			Average loan size	Value of loan portfolio at a given time/Number of borrowers at that time	Average outstanding loan size	Gross loan portfolio/Number of active borrowers (SEEP R24)
67	Average outstanding loan size as % of GDP per capita							Average outstanding loan size as % of GDP per capita	Average outstanding loan size/GDP per capita
68	SEEP R25 Average loan disbursed Value of loans disbursed/ Number of loans disbursed	Average loan size at disbursement	Loan disbursement (amount)during the period/Number of loans issued during the period	Average disbursed loan amount	Total loan amount disbursed in the period/Number of disbursed loans			Average amount disbursed per loan	Value of loans disbursed/Number of loans disbursed (SEEP R25)
69	Average loan disbursed as % of GDP per capita			Average disbursed loan amount on per-capita GDP	Average disbursed loan amount/Per capita GDP			Average loan disbursed as % of GDP per capita	Average loan disbursed/GDP per capita

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	SEEP MFRS RATIO NAME AND TYPE	M-CRIL Ratio Name	M-CRIL Rating Definition	MicroFinanza Rating Ratio Name	MicroFinanza Rating Definition	MicroRate Ratio Name	MicroRate Rating Definition	Planet Rating Ratio Name	Planet Rating Rating Definition
70	SEEP R26 Average deposit account balance Total deposits/Number of deposit accounts								
71	SEEP R27 Average deposit account balance per depositor Total deposits/Number of depositors								
72	SELECT ASSET-LIABILITY TABLE RATIO (Ratio 72) SEEP ALM 3 (Foreign currency) net open position as percentage of equity			Foreign exchange net open position as percentage of equity	((Assets – liabilities – equity +/- off balance sheet item) denominated in each single foreign currency)/ Total equity				

Appendix 7

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