

WORLD WOMEN BANK

COLOMBIA CALI

SRI & Microfinance Case Study

Published by Valuation & Research Specialists (VRS)
Researchers: Luis Fernando Gomez and Michail Rizos



This page is intentionally left blank

CONTENTS

Foundation Profile	4
Strategy, Management and Corporate Governance	6
Products	7
Risk Management	7
Financial Performance	8
PandL	8
BalanceSheet	10
CAMEL and Comparison to its peers	12
Conclusions and Future perspectives	14
References	14
Notes	15
Disclosure Statement	16

Researchers: **Luis Fernando Gomez and Michail Rizos**

Please contact Valuation & Research Specialists (VRS) at info@valueinvest.gr to order a printed copy of this report. Price: 10 euros including VAT and postage expenses.

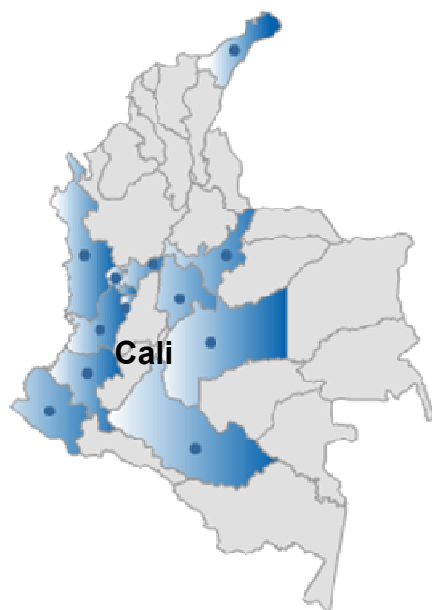
WORLD WOMEN BANK

COLOMBIA, CALI

Foundation Profile

Colombia World Women Bank Foundation (WWBF) was created in 1980 in the western city of Cali, with the main purpose of supporting entrepreneurial projects of low income women responsible for their households, and this initial startup was with the help and permanent guidance of the Women's World Banking Network.

Images: World Women Bank Logo and Colombia Map



Source: <http://www.fwwbcol.org/index.php/agencias>

Today, WWBF Colombia offers credit opportunities to more than 220,000 micro and small enterprises through its 59 branches located in 12 departments of the country and helping in the creation of more than 300,000 employment opportunities.

During the last 30 years, the institution has developed an enormous knowledge of the microfinance market in Colombia and has expanded its operations from Cali, to cover the majority of the country. This coverage has also promoted the project to become a bank, in order to begin diversifying its funding alternatives as well as to improve the access of its beneficiaries to the regulated banking system.

WWBF Colombia offers credit to women using its proprietary methodology, based on group solidarity credits, however, in the nineties, thanks to a technical assistance received from an international agency, it moved its scheme towards the individual credit approval. Despite this change the model maintained the referencing from people of the community as a critical element to approve the credit to the potential debtors, as well as rigorous control in the pass due moments of the credit in order to avoid potential higher defaults. Furthermore WWBF has invested heavily in new technologies in order to improve its credit risk assessment, improving its efficiency as well as working hard on the training of its credit analysts' team in order to enhance the development of the entity.

One of the main strengths of WWBF is its proximity to its clients and the quality of its service; with this as its cornerstone, they are developing new alternatives and channels to approach clients by channeling agencies and agreements with companies dedicated to electronic transaction proceeds like "Baloto" which is one of the largest lottery sellers in the country. The significant experience in the Colombian microfinance market, the successful developing of a coherent strategy and the proximity to its clients are the strengths that make WWBF one of the most important microfinance entities in Colombia.

Some of the main indicators of WWBF Colombia are the following:

Data	2009	2008	2007
Active Clients	195,715	214,584	184,140
Borrowers	195,715	214,584	184,140
Savers	N/A	N/A	N/A
Portfolio Outstanding (USD 000)	229,155	214,584	219,248
Average Loan (US\$)	1,130	932	1,078
Percentage of Female Clients	69%	68%	67%

Source: <http://www.swwb.org/node/212> - N/A The foundation does not provide saving accounts service

It is important to mention the reduction of active clients of the foundation during 2009 (-8.79%), this event is relevant because the institution, since its strategic decision to move towards a regulated scheme and become a bank, began a cleaning process of its loan portfolio, establishing stricter measures of credit approval than current policies and made these changes in order to increase its efficiency. 2009 was a tough year not only for aggregate demand

of developed countries, but also for emerging markets as is the case of Colombia. The country faced economic difficulties which affected growth and as a result the credit quality of portfolio loans.

Microcredit institutions are now facing other important changes; some of them are structural changes as the incursion of traditional banks into the segment of microcredit due to a government policy, which is trying to integrate more individuals into the financial system. For example in 2004 almost 75% of WWBF clients' did not have access to credit in other financial institution different from WWBF; now this figure is around 55%. According to WWBF, this "bancarization" process is generating some over indebtedness, generating low performance in the quality of the credit loan portfolio. This phenomenon occurs thanks to the credit approval from other microfinance institutions and banks, trying to get into the market of Microfinance, thus saturating payment capacity of the clients, without taking into account the ability of the clients to honor their debts.

Strategy, Management and Corporate Governance

The organization management has shown its commitment to well-oriented results. The current president of the organization was one of the founders of the institution in 1980 and has been employed as president since 1992; she also is a board member of the International Network of the Women's World Bank (WWB) since 2000.

The other board members of WWBF are recognized entrepreneurs from the western region of Colombia and from the city of Cali. WWBF has remained consistent with its services to its clients, with the proximity to them and it has been consistent with the execution of its strategy. Right now the entity is becoming a commercial bank, executing successfully the WWB International network model and moving towards the future development of the Microfinance Financial Institutions (MFI) in Colombia. Currently the institution maintains the leadership as one of the most important MFI in the country.

WWBF issued bonds in 2005 from the Colombian capital markets valued at nearly USD\$60 million; since then the foundation has very clear principles of Corporate Governance, which assure the excellence in the execution of its strategy and establish rigorous controls to its management and its operational staff. The access to Colombian capital markets was a tremendous success for the institution because it allowed for the diversification of its funding sources.

Currently WWBF holds an AA- long-term credit risk rating and F1 for the short term, granted by Fitch ratings. These ratings reflect the solid credit capacity of the entity as well as the low risk in the long and the short term of the entity to honor its debts.

Products

WWBF offers microcredit to its clients through its commercial structure. In the last year the institution has tightened its policies for credit approval in order to face threats from a potential over indebtedness in the microfinance sector promoted by the entrance of traditional banks and other MFI.

It is important to mention all the control processes and following to customers put in place by WWBF with every of them. This procedure generates credit risk and management efficiency because WWBF staff try to make sure that the clients assign a percentage of their revenues for the payment of their debt, in order to avoid potential credit risk default. This permanent following of the clients is one of the most important practices of success for the foundation.

WWBF also offers other benefits to its clients such as life insurance, property and casualty insurance for the small enterprises plus the permanent advisory of the staff of the foundation to the owners of the microenterprises managing its financial resources. In the coming future, when the institution becomes a bank, WWBF will offer deposit accounts to its clients and option to offer other saving products.

Risk Management

Market Risk

The institution implements policies and procedures to manage and control market risk in line with the proposal by the Superintendencia Financiera. It uses an in-house methodology to calculate the amount of risk derived from variations in interest rates. Every month the institution implements a simulation of the scenarios given the changes in the different risk factors. The entity uses value at risk models (VaR) to measure and manage not only the market risk in its portfolio of investments, but also to mitigate the effects of market changes in the cost of its financial obligations and to control the impact of these changes on its financial margins and solvency. The institution has \$1.7 mill investments available-for-sale down from \$4 mil. in 2008. On Dec 31 2009, the solvency indicator adjusted for VaR was 30.5%. The indicator is by far above the one established by the Superintendencia Financiera (9%). It is apparent that the institution can sufficiently meet its long-term obligations, since the solvency ratio has been rising steadily since 2007 (26%).

Credit Risk

The institution develops and implements a Credit Risk Management System since April 2007 in order to analyze the granting and recovery of loans and to establish the level of provisions according to the calculation of the probability

of default of the micro debtors. The institution provides exclusively retail loans. 98% of these loans are targeted towards micro entrepreneurs, 1.8% is targeted towards mortgage micro debtors and 0.2% is granted for educational purposes. The average loan balance per borrower is \$1130, with an increasing trend since 2005. However, if we take into account the increase in the GNI per capita, the average loan balance per borrower stays at the same levels since 2005, indicating that the borrowers' debt service burden is not deteriorating year by year.

Operational Risk

The entity follow the process of identification, measure, control and follow to the eventual risks present on each process in the organization and also for future processes. The institution develops programs in order to manage the operational risk, some of the activities developed in order to improve on this issue are:

- Training programs to all staff in the process of risk events identification and register.
- Operating risk database reconstruction since 2006 in the areas of human resources, operations, technology and security, in order to determine the potential exposures of the entity to operational risks and take measures in order to mitigate them.

Financial Performance

1. P&L

Operating Performance

The structure of the operating income of WWB Cali stands out for its simplicity depending primarily on interest coming from its loan portfolio (92.3% as of December 09) and from commissions generated from loans (6.36% of EBIT, amounting to \$4.19 mil.). The latter revenues are derived from a commission of 4.5% and 7.5% on the value of the microcredit for a disbursement of an amount less than 25 and 4 monthly minimum wages respectively, partially offsetting the statutory limitation to establish a highest active fee. This is a substantial difference compared to other Latin American markets, since Colombia imposes limits on the lending rates of microcredit operations.

Interest income on loans has significantly increased since 2005 to \$58.9 mil. However, the global financial crisis lowered the demand for credit and affected the growth of interest income (11.1% down 09/08) and commission income (40.8% down 09/08). The latter was decreased significantly because the loan portfolio also suffered a big drop, as well as because there was an extension of deadlines for the operations that were approved in 2009.

On the other hand, as far as the expenses are concerned, there was a reduction in WWB's cost of funding amounting to 21% (\$17.4 mil.), mainly due

to the expansionary monetary policy of the Central Bank of Colombia with an emphasis on cutting interest rates and decreasing capital requirements on bank's balance sheets. As a result, thanks to lower costs of funding, profit margin increased from 11.26% to 16.39% in the period 2008-09. Interest expense comes exclusively from borrowings, since the institution does not offer deposit services to its clients. Operating expenses showed a general decrease in 2009 (-20%), due to lower administrative expenses, with personnel and depreciation expenses staying roughly the same. The reduction of the administrative expenses came exclusively from a reduction in advertising expenses (\$-2.2 mil.).

Efficiency

Overall, net operating income increased 29% in 2009. However, we are slightly worried about the following red flags: Firstly, the volatility of the growth in net operating income is high, since during previous periods we can observe significant drops and rebounds (77% in 2007, -31% in 2008). Secondly, the operating expenses/loan portfolio ratio is increasing every year since 2006, with the exception of 2009, when there was a small decline due to the necessary implementation of cost-cutting measures. Furthermore, costs per borrower and costs per loan are increasing significantly every year since 2005. This implies a persistently decreasing efficiency which can be improved through an installation of a better and more efficient IT infrastructure. Personnel expenses/loan portfolio increased slightly from 2005, indicating the needs for the organization to hire more skilled employees to reach its goals.

Profitability

Return on assets and return on equity are on a declining trend since 2005. As far as ROE is concerned (13%), we believe there is room for reaching the previous high ROEs (in the area of 20%) if the institution increases its operating and asset use efficiency. ROAs are in the area of 4% from 2006-2009, down from 6.53% in 2005. This shows that the management's performance in using the assets of the institution to generate income has slightly declined since 2005. Moreover, operational self-sufficiency has declined from 130.58% to 119.61% in 2005. Although with this performance the institution is reaching operational self-sufficiency, the institution should be cautious in the future in order to maintain the sustainability of its lending operations by increasing operating income more than its operating and financing costs and loan loss provisions.

Management efficiency

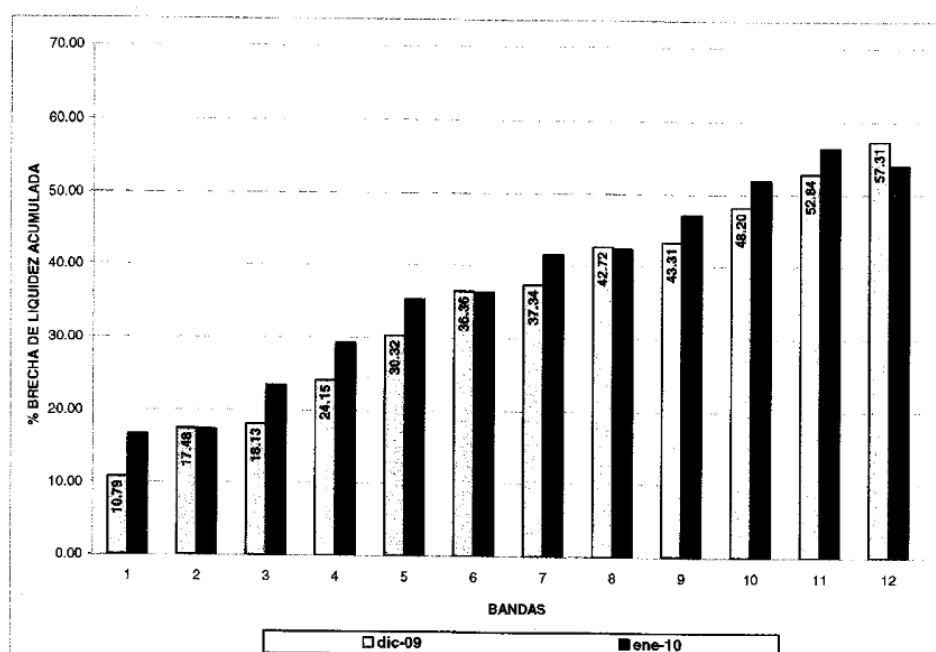
Cost/income ratio tells us that WWBF is efficient in terms of management (36.1% in 2009 down from 34.9% in 2008). This increase is attributed to the decrease in operating income during the crisis, since income decrease by a greater magnitude than general and administrative expenses.

2. Balance Sheet

Liquidity

Liquidity is positively affected by the fact that WWBF does not mobilize savings from depositors. WWBF has \$20.2 mil. in cash, up from \$5 mil. in 2008. WWBF in order to manage liquidity risk followed the methodology established by “Superintendencia Financiera de Colombia”. The liquidity index measure is the review of the 3 months liabilities and assets available of the entity at that moment. For this index WWBF on December 2009, showed positive assets availability nearly to \$20 millions.

The analysis for the others time bands is presented in the following graph and can be clearly seen that the foundation has remained excesses of liquidity in order to be prepared for the coming changes as a traditional bank.



Source: WWBF 2008 -2009 Financial statements

Asset Quality

Write-off ratio increased in 2009 to 4.16%, with the average ratio of the Colombian NGOs at 3.53%. There is a growing trend in both write-off ratio (write-offs/loan portfolio) and loan loss rates. Loan loss rates increased from 0.58% in 2005 to 3.93% in 2009, with the industry average at 2.94%. Portfolio at risk > 30 days has almost tripled in 2009, reaching 7.35%, with the industry average standing at 4.26%. In general we are worried about the asset quality of the loan portfolio of WWB Cali. If we compare it with the average asset quality of the Colombian MFI NGOs we can observe that NPL/assets ratio is higher by 43% than the industry average in 2009. This can be partially explained by the fact that WWB Cali is the largest and one of the most creditworthy MFI NGO in Colombia and can sustain more losses than its

smaller peers due to its good financial health, but we are still worried about WWB's relatively high number of bad loans.

Provisions

Loan loss allowances increased by 20.3% in 2009. This increase is significantly lower if we compare it with the average increases of the previous years (78.6% the period 2005-2008), and constitutes 4.19% of the institution's total assets. Provisions for loan loss impairments per assets were in the same levels from 2005-2007, but they increased two-fold in 2008/09, a normal consequence of the credit crunch, since less microfinance debtors would be able to pay back their obligations.

Sources and Cost of Funding

WWB Cali was the first MFI to provide microcredit and today is the oldest and largest NGO MFI in Colombia. WWB Cali is an MFI which is not regulated by the "Superintendencia Financiera", the Colombian regulator, and as a result is not authorized to collect money from the public. In 2001, loans accounted for around 56% of total funding sources, increasing from 38% in 1998. According to the top management of WWB, the loans were not sufficient to finance WWB's portfolio growth and there was a funding gap which was associated with higher interest rates and higher guarantee requirements. Loans from banks were not favorable enough, since WWB had to pay very high interest rates (around 16.5% p.a.), with short-term maturities and present high collateral requirements. An additional source of funding was through loans from International Financial Institutions, which were providing more favorable terms for WWB, with lower interest rates, higher maturities and denominated in US dollars. In 2001, USAID provided a loan guarantee for two local currency loans, amounting to \$4 million. WWB was asked to provide a cash collateral for these loans, since it was still perceived as a risky debtor. The majority of WWB funding as of 31 Aug 2007 came from commercial loans from Colombian banks and from bonds issued by WWB, as indicated in the table below. The first bonds issued by WWB took place in 2005, when WWB borrowed \$52 million without a guarantee from any third party.

**WWB's Funding Structure as of
August 31, 2007**

Source	% of Funding
Bonds	37%
Commercial loans (Colombian banks)	38%
Novation of portfolio	13%
Loans (international finance institutions)	12%

Source: WWB Cali

Total liabilities today amount to \$183.3 million. From these liabilities, borrowings constitute 97% and the rest 3% comes from trade payables and provisions for employee benefits. Equity amounts to \$70 million, up from \$55 million in 2008. Retained earnings and donations constitute the largest part of the equity portion of liabilities. Interest expense on borrowings was \$17.4 million in 2009, down from \$22.3 million in 2003.

Equity – Capital

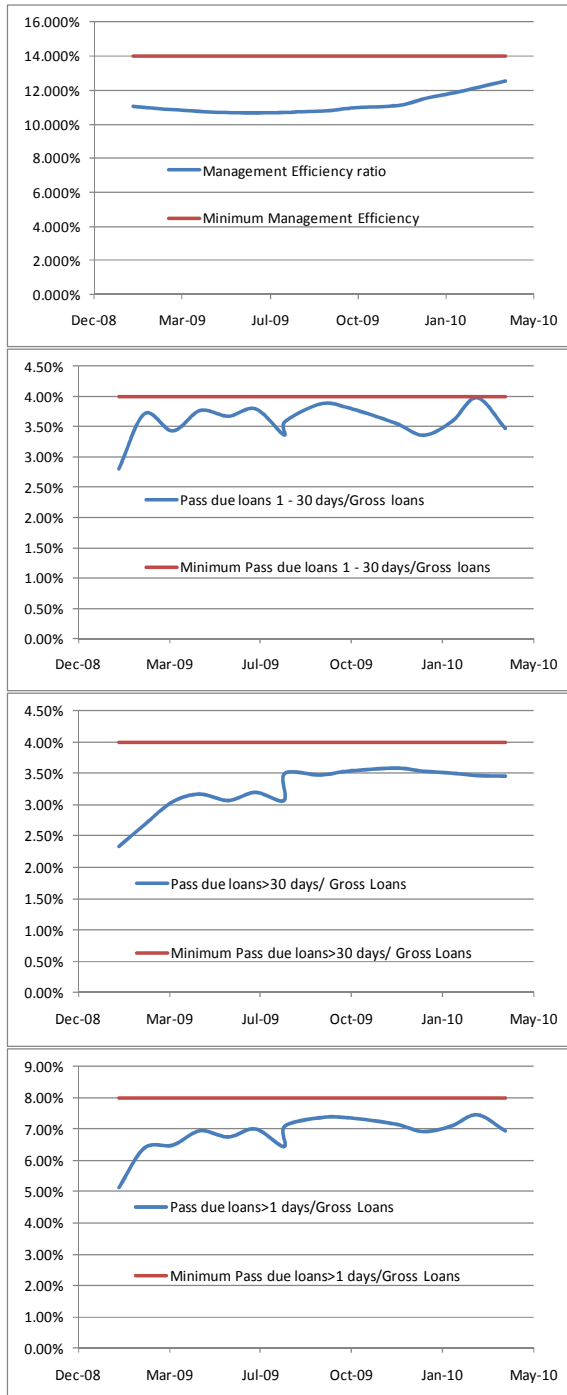
Total equity amounted to \$70.5 mil. in 2009. Retained earnings constitute 85% of equity, whereas donated equity is equal to only 0.7% of total equity. The rest equity is comprised of equity reserves and other equity interests. In the below table we can see the structure of the risk-weighted assets of WWB Cali since 2007. WWB's capital adequacy is by far above the requirements of the Colombian regulator. In 2009, the WWB Cali's capital adequacy amounted to 31.16%, up from 25.94% the previous year, presenting excellent capital adequacy requirements. 31.16% capital adequacy is much higher than the regulator requirement for traditional financial institutions of 9%.

CAMEL and Comparison to its Peers

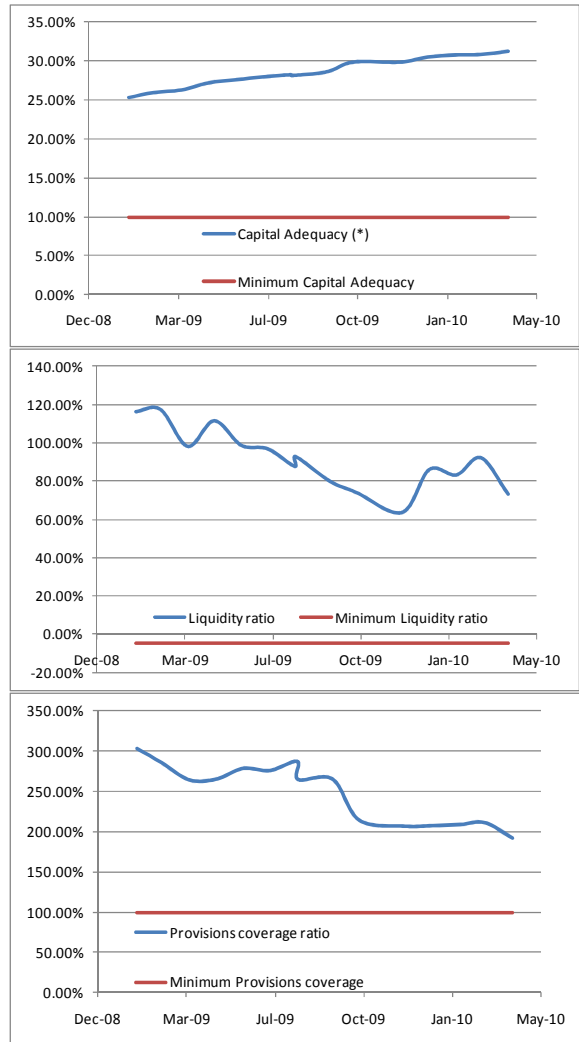
KEY INDICATORS:	WWB			Industry		
	2007	2008	2009	2007	2008	2009
Total Assets	240,810,259	227,186,809	253,897,475	41,452,198	10,319,374	123,828,201
Equity	54,679,283	55,250,237	70,510,711	8,314,281	n/a	42,106,014
Net Income	11,376,593	7,246,333	9,167,479	771,279	n/a	1,292,313
Capital Adequacy:						
Required Capital/Risk Weighted Assets*	24.78%	25.94%	31.16%	12.84%	12.69%	14.05%
Assets Quality:						
Net NPL/ Total Assets	0.00%	3.13%	3.63%	0.38%	1.72%	2.54%
Overdue loans / Total Loans (PAR)	0.00%	3.32%	4.03%	1.01%	2.31%	3.53%
Management Competence (Cost/Income):						
Cost/Income	34.2%	34.9%	36.1%	43.3%	n/a	36.2%
Personnel costs/Operating costs	57.9%	57.2%	61.6%	44.2%	n/a	55.8%
Operating Income	52,303,703	71,993,777	63,847,932	6,648,133	3,064,418	9,497,816
General and Administrative Expenses	17,872,768	25,098,843	23,049,963	2,877,675	n/a	3,433,522
Earnings Ability:						
ROA	4.72%	3.19%	3.61%	2.25%	2.41%	4.32%
ROE	20.8%	13.1%	13.0%	11.2%	6.0%	9.4%
MIN	16%	27%	21%	n/a	n/a	n/a
Liquidity Risk:						
Earning Assets/Deposits + Liabilities with Cost	184%	166%	159%	n/a	n/a	n/a
Earning Assets/Total Assets	93%	91%	87%	n/a	n/a	n/a

Other important ratios that the Foundation is subject to calculate every month as covenants of the bonds issue are the following:

Maximum level



Minimum Level



It is important to notice how the quality of the loan portfolio has been affected last year, getting closer to the maximum levels of the covenant indices, due to this behavior in the loan portfolio of the foundation, Fitch ratings establishes a negative outlook in the credit rating of the entity, but nevertheless the WWBF still maintains healthy levels of past due loans and the liquidity of the entity and its capital adequacy are important elements that reflect the strength of the institution.

Conclusions and Future Perspectives

The transformation into a bank and a regulated institution will favor its funding structure as well as it will enhance its ability to compete with different MFI institutions supported by traditional banks and with new entrants coming to the market. The WWBF is a solid NGO, with the support of important international entities such as the International Finance Corporation, The Interamerican Development Bank and the permanent advisory of the WWB. Despite the change in the quality of its loan portfolio, the entity maintains sufficient cushions of cash that limit a potential default risk and the proximity of the clients to the institution. The access as a bank to other cheaper sources of funding will enable the institution to continue developing an excellent performance. We can conclude from this analysis that WWBF is a solid institution with great experience and solid ratios to do well in the Colombian Microfinance Institutions market.

References

1. <http://www.fwwbcol.org/>
2. <http://www.fitchratings.com.co/>
3. <http://www.mixmarket.org/>
4. <http://www.superfinanciera.gov.co/>
5. Credit risk report from Fitch Ratings. World Women Bank Foundation Colombia.

NOTES

DISCLOSURE STATEMENT

VALUATION & RESEARCH SPECIALISTS (VRS) is an independent firm providing advanced equity research, quality valuations and value-related advisory services to local and international business entities and / or communities. VRS services include valuations of intangible assets, business enterprises, and fixed assets. VRS's focus business is in providing independent equity research to its institutional and retail clients / subscribers.

VRS is not a brokerage firm and does not trade in securities of any kind. VRS is not an investment bank and does not act as an underwriter for any type of securities.

VRS accepts fees from the companies it covers and researches (the "covered companies"), and from major financial institutions. The sole purpose of this policy is to defray the cost of researching small and medium capitalization stocks which otherwise receive little research coverage. In this manner VRS can minimize fees to its clients / subscribers and thus broaden investor's attention to the "covered companies."

VRS analysts are compensated on a per-company basis and not on the basis of their recommendations. Analysts are not allowed to solicit prospective "covered companies" for research coverage by VRS and are not allowed to accept any fees or other consideration from the companies they cover for VRS. Analysts are also not allowed to trade in the shares, warrants, convertible securities, or options of companies they cover for VRS.

Furthermore, VRS, its officers, and directors cannot trade in shares, warrants, convertible securities or options of any of the "covered companies." VRS accepts payment for research only in cash and will not accept payment in shares, warrants, convertible securities or options of "covered companies" by no means.

To ensure complete independence and editorial control over its research, VRS follows certain business practices and compliance procedures, which are also applied internationally. Among other things, fees from "covered companies" are due and payable prior to the commencement of research and, as a contractual right, VRS retains complete editorial control over the research process and the final equity analysis report.

Information contained herein is based on data obtained from recognized statistical services, issue reports or communications, or other sources, believed to be reliable. However, such information has not been verified by VRS, and VRS does not make any representation as to its accuracy and completeness. Opinions, estimates, and statements nonfactual in nature expressed in its research represent VRS's judgment as of the date of its reports, are subject to change without notice and are provided in good faith and without legal responsibility. In addition, there may be instances when fundamental, technical and quantitative opinions, estimates, and statements may not be in concert. Neither the information nor any opinion expressed shall constitute an offer to sell or a solicitation of an offer to buy any shares, warrants, convertible securities or options of "covered companies" by no means.