

MICROFINANCE INSTITUTIONAL RATING

PerMicro S.p.A.

Italy

April 2016



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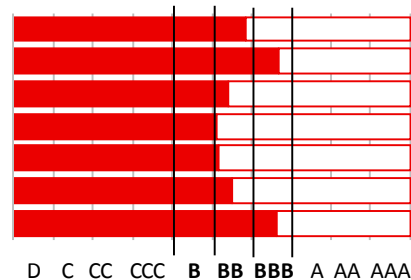
For further information please consult: <http://ec.europa.eu/social/easi>

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PerMicro - Italy

FINAL RATING **BB+**
OUTLOOK **Stable**
RATING SCORING BY AREA

Competitive Environment
 Governance & Management
 Profitability and Sustainability
 Solvency and ALM
 Loan Portfolio Quality
 Systems & Controls
 Client Protection



Mission date: April 2016
Date Rating Committee: June 2016
Validity: 1 year if no relevant changes in operations or in the external context occur
Previous Rating: BB (November 2013)

RATING RATIONALE
**FINANCIAL ANALYSIS
AND CAPITAL
ADEQUACY**

PerMicro profitability stands at negative levels throughout the entire period of analysis; however, figures show a marked upward trend, mostly thanks to increasing economies of scale and good operational efficiency. The monthly break-even has been achieved since September 2015. On the other hand, the loan portfolio quality is poor, reflecting also the vulnerabilities of the specific target clientele. The capital adequacy ratio is weak and decreasing over time. Yet, PerMicro's shareholders show good commitment and enough financial capacity to provide additional resources and safer solvency ratios.

**GOVERNANCE, RISK
MANAGEMENT AND
CLIENT PROTECTION**

PerMicro relies on a strong and diversified ownership structure and good governance systems. The main shareholder (BNL) is also a strategic partner, greatly supporting PerMicro in different areas such as funding, capacity building, market opportunities and operating expenses, but posing a potential key partner risk for the institution. The management team is highly committed with effective and smooth decision-making. The risk management framework is adequate for the size of institution and is focused on credit risk. Yet, comprehensive policies and tools are still missing. The internal control systems are adequately set up, whereas the internal audit function is not yet in place. PerMicro performance in terms of client protection is overall adequate, almost good, while showing some room for improvement especially in terms of formalization of client feedback collection, client over-indebtedness monitoring and client complaints reporting. The operational context is challenging mainly due to the high credit risk in the market, while the regulatory framework is defined with no major issues for PerMicro.

Institution details		Indicators			
		Dec13	Dec14	Dec15	
Legal form	NBFI	ROE	-31.6%	-11.5%	-2.7%
Ownership	BNL-BNP, EIF, FINDE, FP, CRT, CSP, FGA, Phitrust,	ROA	-5.9%	-1.7%	-0.3%
Year of inception	2007	Oper. Self-sufficiency (OSS)	76.6%	93.9%	98.7%
Financial Services	Business and consumer lending	Capital Adequacy Ratio (MFR)	17.6%	11.4%	8.6%
Credit methodology	Individual	Equity to Assets Ratio	18.3%	11.8%	8.9%
Regulator / Supervisory Authority	Bank of Italy	Cash Ratio	0.7%	1.9%	0.2%
Institutional data		Operating expense ratio	16.1%	10.5%	8.6%
Clients (#)	4,045	Financial expense ratio	1.4%	2.1%	1.6%
Members (#)	n.ap.	Provisioning expense ratio	5.6%	5.4%	4.8%
Active borrowers (#)	4,045	Portfolio yield	16.6%	15.3%	14.0%
Female borrowers	57.7%	PAR 30	12.3%	10.5%	11.4%
Active loans (#)	4,082	PAR 90	9.1%	8.8%	9.8%
Branches (#)	12	Restructured portfolio	0.6%	3.4%	5.0%
Total staff (#)	37	Write-off ratio	1.5%	1.0%	1.6%
Loan officers (#)	21	Credit risk ratio	na	13.5%	15.2%
Gross outstanding portfolio (Euro)	18,518,608	Risk coverage ratio	57.9%	73.9%	76.3%
Average loan balance/GDP p.c.	17.9%	Staff productivity (borrowers)	109	127	142
Total assets (Euro)	19,377,117	Effective Interest Rate (EIR/TAEG)	na	na	17%
Total savings (Euro)	0	Average transparency index	na	na	60%
Active savers (#)	0	Average disbursed loan size, Euro	6,216	7,113	7,544

na: not available n.ap.: not applicable

MicroFinanza Rating Srl
 Via Rigola, 7
 20159 Milan – Italy
www.microfinanzarating.com

PerMicro S.p.A.
 Via XX Settembre, 38
 10123 Turin - Italy
www.permicro.it

The final rating grade does not consider the Country Sovereign Rating Risk, but it takes into account the effects of the political and economic context on MFI's performance.

Microfinance Rating PLUS		Common rating grade classification for all microfinance rating agencies	
Grade	Definition	Classification	Definition
AAA	<i>Excellent capacity to manage risks. This capacity is not expected to be affected by a foreseeable deterioration of the operations or economic conditions. Extremely strong and stable fundamentals. Excellent client protection systems.</i>	EXCELLENT	Low or well-managed short-medium term risk. Strong performance
AA+, AA, AA-	<i>Very strong capacity to manage risks. This capacity may be slightly affected by a deterioration of the operations or economic conditions. Very strong and stable fundamentals. Excellent client protection systems.</i>		
A+, A, A-	<i>Strong capacity to manage risks. This capacity may be affected by a deterioration of the operations or economic conditions. Strong and stable fundamentals. Good client protection systems.</i>		
BBB+, BBB, BBB-	<i>Good capacity to manage risks. However, this capacity is likely to be affected by a deterioration of the operations or economic conditions. Good fundamentals. Adequate client protection systems.</i>	GOOD	Modest or well-managed short-medium term risk. Good to moderate performance
BB+, BB, BB-	<i>Adequate capacity to manage risks. However, this capacity may be significantly affected by a deterioration of the operations or economic conditions. Adequate fundamentals. Adequate client protection systems.</i>		
B+, B, B-	<i>Moderate capacity to manage risks. This capacity is vulnerable to a deterioration of the operations or economic conditions. Moderate fundamentals. Moderate client protection systems.</i>	FAIR	Moderate to moderate-high risk Moderate performance
CCC+, CCC, CCC-	<i>Modest capacity to manage risks. This capacity is highly vulnerable to a deterioration of the operations or economic conditions. Modest fundamentals. Modest client protection systems.</i>		
CC+, CC, CC-	<i>Weak capacity to manage risks. Modest fundamentals. Poor client protection systems.</i>		
C	<i>Weak capacity to manage risks. Weak fundamentals. Poor client protection systems.</i>	POOR	High risk Poor performance
D	<i>Extremely weak capacity to manage risks. Extremely weak fundamentals. Poor client protection systems.</i>		

MODIFIERS The modifiers “+” or “-” may be assigned to a rating to indicate relative status within a main rating category. The modifiers cannot be assigned to "AAA" and below "CC" grades.

OUTLOOK indicates the direction a GRADE is likely to move over a one year period

- POSITIVE** Probable upgrade of the rating grade
- STABLE** Rating grade is not likely to change
- NEGATIVE** Probable downgrade of the rating grade

UNDER OBSERVATION The rating grade and/or outlook cannot be assigned, due to unexpected internal/external events or to insufficient information provided and it may be assigned only after a monitoring to be held in the short term.

The information used in the current rating has been partly provided by the institution subject to the evaluation process and partly collected during the meetings with the head executives. The analysis is based on audited financial statements and other official sources. MicroFinanza Rating cannot guarantee the reliability and integrity of the information, as it does not conduct auditing exercises, and therefore does not bear responsibility for any mistake or omission coming from the use of such information. The rating has to be considered as an external and independent opinion and it has not to be considered as a recommendation to realize investments in a specific institution.