

November 2010

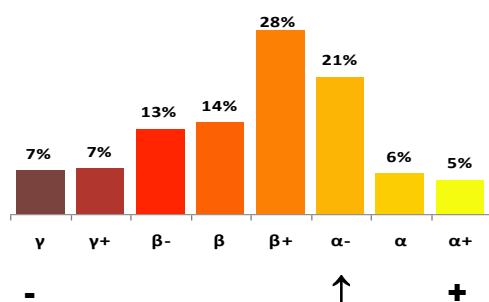
ABA SME

Egypt

α-

Good credit methodology and portfolio quality. Highly qualified top management, robust information system and good internal controls. Strong equity. Unprofitable in real terms.

Future Rating Outlook: Stable



Date of visit: Sep-10
 Previous Rating: β+
 Date of Previous Rating: Sep-08
 Number of Ratings: 2nd

Principal Performance Indicators

	June-09	Dec-09	Jun-10
Gross Portfolio Loan*	\$34,130	\$38,461	\$44,916
Number of Clients	124,432	134,701	160,116
ROE**	-1.5%	-3.7%	-0.3%
Portfolio Yield	27.4%	28.5%	27.2%
Portfolio at Risk	3.3%	3.7%	2.7%
Operating Expenses	11.6%	11.6%	10.9%
Average Loan Size	\$274	\$286	\$281
Borrowers per Staff	155	156	179

*(000 \$) ** Adjusted.

Highlights

Strengths

- Experienced personnel and robust information system
- Excellent efficiency and strong equity
- Good methodology and portfolio quality

Summary

The Small and Micro Enterprise Project of the NGO the Alexandria Business Association (ABA SME) was launched in January 1990. It has a portfolio of US\$ 45 million and serves nearly 161,000 borrowers, with an average loan size of \$280. In addition to individual and group lending, it offers several non-financial services to its clients. ABA SME also serves the microfinance sector in Egypt and other countries through training and technical assistance activities.

This report evaluates only the ABA Small and Micro Enterprise Project, not the whole NGO ABA.

Rating Rationale

ABA-SME is a leading Egyptian microfinance institution with excellent performance and low credit risk. ABA-SME is a unit of ABA, a philanthropic foundation. MicroRate's evaluation only covers ABA-SME, which does not have a separate legal identity. Ultimately ABA, which was not rated by MicroRate, is responsible for all financial obligations of the microfinance institution.

ABA SME serves the very low microfinance niche, financing only income generating activities. Credit methodology and portfolio quality are good. The highly qualified top management, experienced personnel, and robust information system enable good performance in the future.

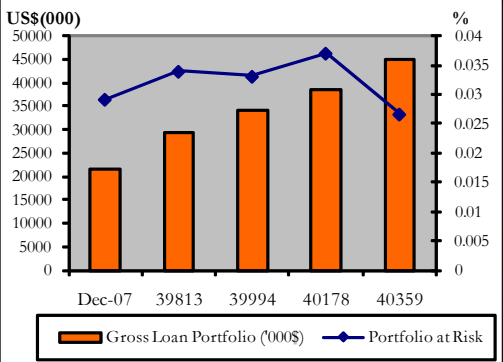
The combination of strong management and an effective Board have resulted in strong positioning, a clear mission and a well articulated strategy. However, the lack of independent legal status could eventually become a limitation.

Despite comparatively low lending rates, an efficient operation and low borrowing costs allow for ample net operating margin. Tight profitability in real terms (voluntary due to strong social orientation) does not represent high risk in the short term. ABA SME shows very low leverage, giving it considerable growth potential.

Weaknesses

- Weak cash flow analysis and approval process in individual lending
- Unprofitable in real terms
- Lack of independent legal status

GENERAL SUMMARY

ABA SME			MicroRate Africa		Gross Loan Portfolio vs Portfolio at Risk	
	Jun-10	Quartile	1st Quartile	Average		
ROE**	-0.3%	4th	16.8%	3.0%		
Leverage	0.5	1st	1.7	3.1		
Portfolio at Risk	2.7%	2nd	1.1%	2.4%		
Operating Expenses	10.9%	1st	17.3%	26.4%		
Number of borrowers per staff	179	2nd	187	145		
Operating Margin	10.4%	1st	8.3%	1.9%		
	Jun-10		Average			
Gross Loan Portfolio***	\$44,916		\$67,088			
Number of Borrowers	160,116		134,315			
Average Loan Balance (per borrower)	\$281		\$427			

* Lower limit for the first quartile

** Adjusted ***('000\$)

Financial Situation (pg.4)

Overall, ABA SME maintains a good financial position with a strong capital base. However, the good nominal return on equity (ROE) is neutralized by the inflation rate. Although ABA SME maintains sufficient liquidity in the short term, low profitability in real terms and lack of independent legal status could make securing additional debt and equity a challenge in the long term.

Microfinance Operations and Portfolio Quality (pg.6)

ABA SME shows good microfinance operations. The conservative growth rate, well-diversified portfolio, well-managed credit conditions and low risk of overindebtedness are noteworthy. Although the credit process is generally strong, weak cash analysis and approval processes for individual loans pose risks.

Portfolio quality is solid, although provision coverage remains low.

Organization and Management (pg.8)

ABA SME has a simple yet sound organization. The well-experienced, stable and committed top management and personnel contribute to good performance. The strong information system, internal controls and training process are fundamental tools for the current and future success of ABA SME. The institution shows excellent efficiency, and continuous improvement of personnel productivity.

Governance and Strategic Positioning (pg.10)

ABA SME's mission and positioning towards the very low Egyptian microfinance niche is clear. The board members are qualified and effective in their governance. As a special project of ABA, ABA-SME lacks an independent legal status, which could affect future growth. At the same time, its strong social orientation could prevent its ability to take timely measures to protect or increase equity.

Social Perspective (pg.11)

ABA SME shows high social return, based on excellent social results and good social commitment. The institution finances only income generating activities and average loan sizes are very low. Additionally, diverse non-financial services are offered. The institution aids the microfinance sector through offering its information system and technical assistance to other MFIs.

The excellent efficiency enables very low cost to the client. Responsibility towards personnel is high. Although financially, the institution only breaks even in real terms, there is no doubt about sustainability in the medium term due to strong equity.

ABA SME, part of the NGO ABA, has a clear institutional mission with a strong social focus. The Board and management are highly committed. Some processes to ensure social results, such as hiring and personnel training, are well developed. Although ABA has strong social commitment, it can still improve its strategic planning, monitoring and client protection.

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

Financial Sub-rating
<ul style="list-style-type: none"> Using the same rating scale described above, MicroRate's Financial Sub-rating measures the MFIs financial health based on its financial structure, profitability, operating margins and financial risk management. Whereas the MFIs Performance Rating indicates the overall excellence of its microfinance operations, the Financial Sub-rating is only concerned with the financial condition of [the MFI. As such, the latter allows investors to differentiate MFIs along purely financial criteria. The Financial Sub-rating is an integral consideration of the Rating Committee's assignment of the Performance Rating.

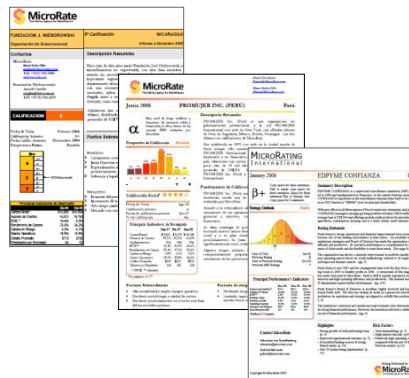
Interested in the full report?

The full Performance Rating includes detailed information on the following:

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

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

*MicroRate also offers the **Rating Report & Analyst Access Service** which provides investors with access to public performance and social rating reports through an annual subscription, regional package, or other tailored package to fit your needs.*



<p>MicroRate Latin America Mayor Armando Blondet 261 San Isidro, Lima, 27 Lima – Peru Phone: (511) 628-7054 Fax: (511) 628-8729</p>	<p>MicroRate Headquarters 1901 North Moore Street Suite 10004 Arlington, VA 22209 United States Phone: (703) 243-5340 Fax: (703) 243-7380</p>	<p>MicroRate Africa 1, Angle rue el Araar et bd Lalla Yacout Casablanca-Morocco Phone/Fax: +212 5 22 49 10 94</p>
<p>info@microrate.com</p>		<p>www.microrate.com</p>

Copyright © MicroRate 2010

This document is subject to copyright and may not be reproduced in whole or in part without the written permission of MicroRate©. The ratings and other opinions contained herein are, and must be construed solely as statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information is given or made by MicroRate in any form or manner whatsoever.