

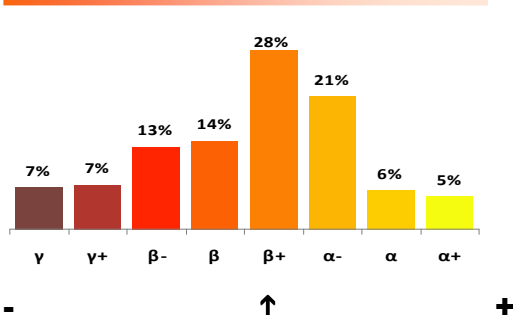
September 2008

ABA SME

Egypt

# β+

Strong credit methodology for individual lending based in experienced loan officers. Healthy portfolio growth with solid tendency. Good internal controls and strong management team. Low leverage. Unprofitable in real terms.

**Future Rating Outlook: Positive**


Date of visit	November 08
Previous Rating	N/A
Date of Previous Rating	N/A
Number of MRI Ratings	1st

### Principal Performance Indicators

	Sep-07	Dec-07	Sep-08
Gross Portfolio Loan*	\$20,988	\$21,526	\$28,928
Number of Clients	68,017	70,957	95,037
ROE**	0.9%	3.6%	-2.2%
Portfolio Yield	26.4%	27.8%	26.1%
Portfolio at Risk	6.2%	2.9%	3.1%
Operating Expenses	13.2%	13.3%	11.8%
Average Loan Size	\$323	\$303	\$304
Borrowers per Staff	81	84	118

\*(000 \$) \*\* Adjusted.

### Summary

The Small and Micro Enterprise Project of the Alexandria Business Association (ABA SME) was launched in January 1990. Under the umbrella of the Alexandria Business Association, it serves nearly 100,000 clients with an average loan of \$304. It also conducts large-scale technical assistance activities on behalf of ABA, primarily for the benefit of other MFIs throughout the MENA region.

### Rating Rationale

Based on its simple organization and strong credit methodology, ABA SME is achieving healthy and sustainable portfolio growth. A professional management team couples very well with an experienced team of loan officers, whilst reliable internal controls and a sophisticated MIS ensure good portfolio quality. However, there is still significant room for improvement as productivity levels are still poor, funding sources are concentrated and profitability in real terms is negative.

Top management is very professional. All are experienced in their area of expertise and seems to communicate very well with middle management. At branches, the situation is similar as loan officers are very experienced, with an average of 7 years working for ABA SME. However, the absence of significant competition and strategic clarity allowed for poor productivity levels.

Although very socially oriented with strong tendency to diminish interest rates, ABA SME managed to make profits maintaining good operating margins. This situation did not pressure for more sophistication of the funding structure. However, higher levels of inflation have harmed significantly profitability, turning it negative in real terms.

In opinion of MicroRate, the quality of top management and personnel at ABA SME makes possible to see significant improvements in the near future, and thus considers the future outlook of the rating assigned as positive.

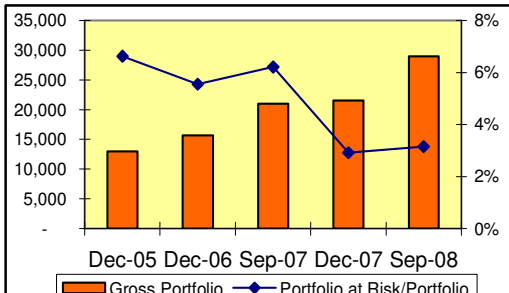
### Strengths

- Good credit methodology for individual lending.
- Good portfolio quality and internal controls.
- Improved efficiency and productivity.
- Strong Management team.

### Weaknesses

- Documentation of loan applications lacks detailed information on cash flow analysis.
- Unprofitable in real terms.
- Low microfinance expertise at governance body.

**GENERAL SUMMARY**

ABA SME			MicroRate Africa		Gross Loan Portfolio vs. Portfolio at Risk
	Sep-08	Quartile	1st Quartile	Average	
ROE**	14.8%	2nd	21.7%	4.8%	
Portfolio at Risk	3.1%	2nd	1.0%	4.9%	
Operating Expense	11.8%	1st	23.0%	36.9%	
Number of borrowers per Staff	118	4th	220	164	
Operating Margin	8.9%	1st	7.5%	3.0%	
	Sep-08		Average		
Gross Loan Portfolio***	\$28,928		\$19,309		
Number of borrowers	95,037		55,136		
Average Loan Balance	\$304		\$391		

\* Lower limit of the 1st quartile \*\* Unadjusted \*\*\* (000)

**Financial Situation (pg.4)**

A strong financial structure, with low leverage and significant liquidity, low exchange rate risk and good profitability gives ABA SME a solid financial profile. Inflation, however, has significantly hurt profitability in real terms, and funding sources remain concentrated. Unfortunately, ABA SME is not protecting itself by charging higher interest rates, despite the lack of any significant competition.

**Microfinance Operations and Portfolio Quality (pg.6)**

Thanks to a favorable operating environment with limited competition and solid internal methodologies, ABA SME has achieved moderate but stable growth in the last three years. Since September 2007, ABA SME has grown its loan portfolio by 37.8%, primarily because of its experienced loan officers and branch network expansion that now includes 48 branches in 6 governorates.

Overall, portfolio quality at ABA SME is good. This is a result of diligent supervision of past due loans and effective client screening.

Coverage of portfolio at risk, however, is weak when compared to industry best practices. Furthermore, ABA SME permits the practice of deferring loan repayment for 30 days beyond the due date ("shifting the loan") without considering such loans to be in arrears.

**Organization and Management (pg.8)**

Although ABA SME has over 800 employees, its organizational arrangement is not very sophisticated. With a strong management team and experienced credit personnel, the institution has

become quite efficient. Good internal controls and strong IT systems further strengthen the institution's operations. However, productivity is still low, leaving significant room for improvement.

**Governance and Strategic Positioning (pg.10)**

ABA SME's Executive Committee is sharp and closely monitors all operational aspects. Unfortunately, because microfinance is a relatively new industry to Egypt, there is little microfinance experience throughout the institution. Strategically, ABA SME is well positioned in Alexandria and its surrounding governorates, having operated there for many years. It enjoys a sound reputation among its clients.

**Social Perspective (pg.11)**

Although ABA SME has not yet achieved significant national coverage or satisfactory depth of operations, it is reaching Egyptian micro entrepreneurs with low cost loans and expanding its non-financial services offerings. ABA SME employees proudly support their institution's Social Commitment. Unfortunately, ABA SME's strategic plan does not adequately define any specific social mission. Doing so would give enthusiastic employees an opportunity to work together towards improving their community(s) in ways beyond the financial realm.

To access the full rating report, please contact **MicroRate Africa Ltd** © by writing an e-mail to our African offices: [africa@microrate.com](mailto:africa@microrate.com). Please note that you can also subscribe to our reports packages. Contact us for more information.

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



*is the Global Alliance of:*



<p><b>MicroRate Europe:</b> c/o CLW Associates Av. Jacques Brel, 38 B-1200 Brussels BELGIUM Tel.: +32(0)27728500</p>	<p><b>MicroRate Headquarters:</b> 3300 North Fairfax Drive Suite 202 Arlington, Virginia 22207 USA Tel. +1 (703) 532-7167</p>	<p><b>MicroRate Africa</b> 357 Bd Mohammed V 10ème étage, espace A11 Casablanca – Morocco Tel: +212 22 24 52 69</p>
<p><a href="mailto:africa@microrate.com">africa@microrate.com</a></p>		<p><a href="http://www.MicroRate.com">www.MicroRate.com</a></p>

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