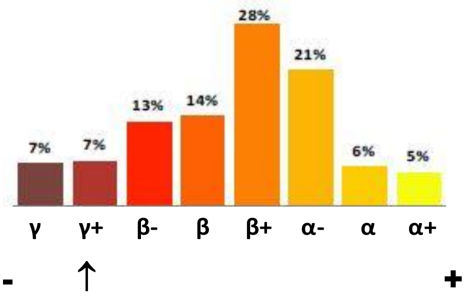
MicroRate
The Rating Agency for Microfinance

August 2009 MICRO AFRICA LTD (KENYAN OPERATIONS) Kenya

γ+

Weak financial health and credit quality. Poor portfolio quality with increasing competitive pressures.

Financial Sub-Rating[1]	γ+
Future Rating Outlook	Uncertain
Social Rating	★☆☆☆☆ [2]



Date of Visit	Jul-09
Previous Rating	n.a
Number of MicroRate Ratings	1st

Principal Performance Indicators

	Dec-07	Dec-08	Dec-09
Gross Loan Portfolio*	$1,543	$1,554	$1,918
Number of Borrowers	2,479	1,845	1,937
ROE**	-10.9%	-61.5%	-100.5%
Portfolio Yield	42.6%	31.7%	28.0%
Operating Expenses	22.5%	14.3%	17.7%
Average Loan Balance	$622	$842	$959
Borrowers/Staff***	n.a.	26	30

*('000$) ** Adjusted *** Exclusive of Salary

[1] See Annex
[2] See Social Report Sep-09

Summary Description

Micro Africa Limited ("MAL") is a holding company registered in Kenya with lending operations in Kenya, Uganda, Rwanda, Tanzania and Sudan. The present report focuses exclusively on "Micro Kenya" ("MK"), the Kenyan division of MAL. Legally, "Micro Kenya" is part of Micro Africa Limited; however this report only analyzes the Kenyan operations.

Since 2000, Micro Kenya has primarily offered salary-backed loans. MK's portfolio amounted to $1.9 million and served nearly 2,000 clients through its 4-branch network in June 2009.

Rating Rationale

Micro Kenya operations have suffered from a combination of poor lending practices, fraud and post-election violence. Extremely poor portfolio quality resulted in high provision expenses which in turn led to losses that have impacted the company's equity. Declining yields and the above-average cost of funding are other constraining factors that prevent MK from competing efficiently.

Great efforts have been made by the MFI to overhaul operations but it's too soon to see a positive impact of this on MK's viability. In June 2009, the MFI still reported a loss-making position.

MK benefits from the strong support of the competent and dedicated Board of its parent company, Micro Africa Limited, which has provided strong financial support since inception. Whilst injecting additional equity would not pose a problem, stiff competition, a high risk of over-indebtedness in urban areas and a looming food crisis in Kenya will pose additional challenges for MK.

Strengths

+ Strong Governance and shareholding structure
+ Competent management team
+ Improved controls
+ Strong Balance Sheet of the parent company

Risk Factors

- Operations are not sustainable
- Poor portfolio quality
- Stiff competition
- Staff and client retention

ANNEX

Rating	Microfinance Rating Scale Definitions
α++	Those MFIs with an ***ongoing stable 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. ***Optimal*** efficiency and effectiveness. ***Very Low Risk / Risk very well managed***, leaving company minimally susceptible to variability during economic cycles.
α+ 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 standards of the microfinance industry. ***Excellent*** efficiency and effectiveness. ***Low Risk / Risk well managed***, leaving the company minimally susceptible to variability during economic cycles.
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. ***Good*** efficiency and effectiveness. ***Moderate Risk / Incipient Risk Management***, leaving the company subject to some variability during economic cycles.
β-	Those MFIs ***lacking*** 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. ***Acceptable*** efficiency and effectiveness. ***Moderate Risk / Inadequate Risk Management***, leaving the company subject to significant variability during economic cycles.
γ+ γ	Those MFIs ***with financial, operational or strategic weaknesses that have the potential to threaten their viability, now or in the future***, as compared to an international set of similar companies and standards of the microfinance industry. ***Poor*** efficiency and effectiveness. ***High Risk***, with high variability during economic cycles.

Financial Sub-rating

- 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.

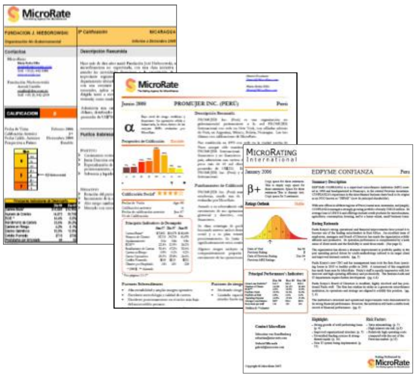
Interested in the full report?

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.*



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