

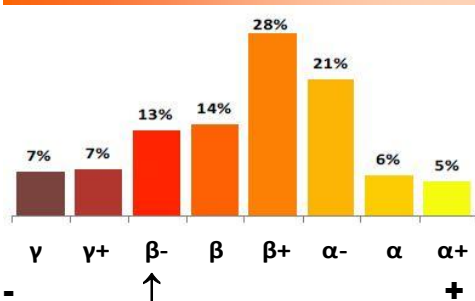
August 2009

MICRO UGANDA LTD (MUL)

Uganda

β-

Financially sustainable. Weak management team in place. Poor portfolio quality and high write-offs are a concern.

Financial Sub-Rating¹
Future Rating Outlook
β-
Stable


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

Principal Performance Indicators

	Dec-06	Dec-07	Dec-08
Gross Loan Portfolio*	\$1,072	\$1,354	\$1,382
Number of Borrowers	1,806	1,094	1,121
ROE**	8.9%	-4.1%	16.8%
Portfolio Yield	57.6%	58%	54.4%
Operating Expenses	24.9%	21.9%	16.9%
Average Loan Size	\$594	\$1,238	\$1,233

*(000\$) ** Adjusted

¹ See Annex

Summary Description

Micro Uganda Limited (MUL) is the Ugandan subsidiary of the holding company Micro Africa Limited (MAL), a private company limited by shares registered in Kenya. MUL is based in Kampala and started operations in 2002. As of December 2008, the company reported a loan portfolio of US\$1.4 million, with 1,121 active borrowers and a high average loan size of US\$1,233. With a portfolio consisting mainly of consumer loans (68%), the company is not a microcredit institution in the strict sense of that term.

Rating Rationale

MUL is offering a limited range of products, concentrated on consumer loans (70%). Mainly as a consequence of a weak small business lending methodology portfolio quality is poor and the high level of write-offs is a concern. It is therefore good to note that MUL's board decided to slow down growth and clean the loan portfolio before rolling-out new products.

At the organizational level there is an urgent need to strengthen and train top management to face upcoming challenges. Controls have recently been strengthened but the actual MIS remains weak. Despite the institution's strong ownership and governance, the strategic positioning is delicate and growing competition with both banks and MDIs (Microfinance Deposit-taking Institutions) will challenge the ability of the institution to grow.

Whilst a high foreign exchange risk and tight liquidity represent serious challenges, MUL has demonstrated good levels of profitability for the last period.

Overall, serious challenges do remain, however Micro Uganda benefits from the strong financial and technical backing from its committed parent-company Micro Africa Ltd.

Strengths

- + Consistently profitable
- + Strong backing from the parent company (MAL)

Risk Factors

- Weak organization and management
- Weak lending methodology for small business loans
- Portfolio quality calculations not in line with industry best practices
- Strong competition

ANNEX

Rating	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. Optimal efficiency and effectiveness. Very Low Risk / Risk very well managed , 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. Excellent efficiency and effectiveness. Low Risk / Risk well managed , 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. Good efficiency and effectiveness. Moderate Risk / Incipient Risk Management , 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. Acceptable efficiency and effectiveness. Moderate Risk / Inadequate Risk Management , 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. 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.

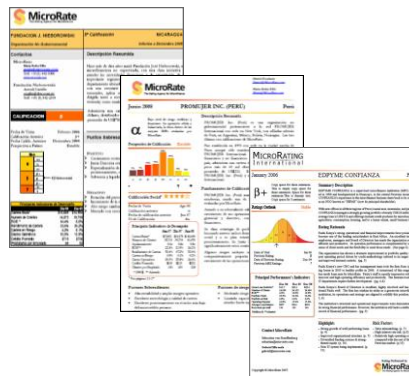
Interested in the full report?

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.

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