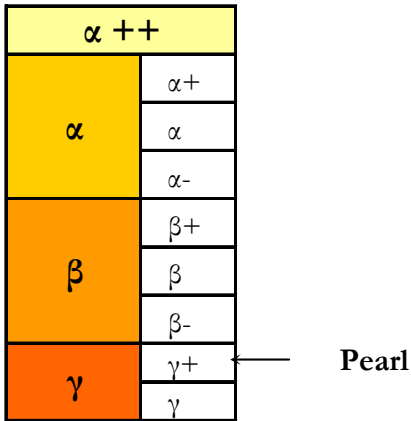


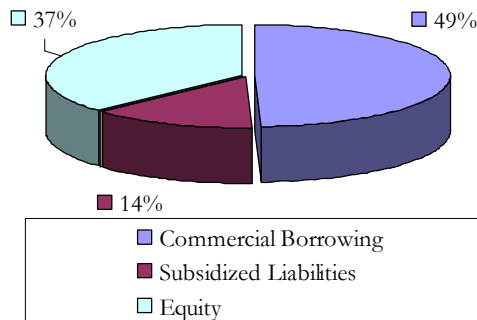
Pearl Microfinance Limited (Pearl)		Uganda	
Company		Report as of June 2007	
Contacts		Synopsis	
<p>MicroRate: Ben Midberry ben@microrate.com</p> <p>M-CRIL: Gunjan Grover gunjan@m-cril.com</p>			
PERFORMANCE RATING	γ+	<p>Pearl Microfinance Limited (Pearl), a Tier IV (least regulated) Non-Bank Non Deposit-taking Finance Company, was formed in 2006 to transform the 12-year-old microfinance operations of “Feed the Children Uganda” (FTCU) into a separate and better recognised legal organization. The organisation has a small portfolio size of US\$2.3 million but a wide network of 14 field offices spread as far as 400 Kms from the head office. Pearl is characterised by a strong Board, qualified and experienced senior management but a weak MIS, a low repayment rate and high operating expenses. Access to donor funds has been insufficient to meet growth targets and hence access to commercial borrowings has become increasingly urgent. In 2007, Pearl fell short of its first two quarter targets by 25%.</p> <p>The current portfolio quality of the organisation could not be ascertained. The rating team expects it to be weak considering a moderate repayment rate*of 84% for the six months ending 30 June 2007. Pearl’s current reporting system does not give an accurate picture on the quality of the portfolio. Discussions with the Senior Managers confirmed the fact that reports on portfolio quality which are sent by the field staff are inaccurate. This was also reported in many of the internal audit reports. The rating team found errors in aging of overdues and portfolio at risk during their visits to the Branch offices.</p> <p><u>See Portfolio quality section on page number 6 for more details</u></p>	
RATING OUTLOOK	Neutral		
Date of visit	Sep 2007		
Date of previous rating	n.a.		
Previous rating	n.a.		
 <p>The diagram shows a vertical scale of ratings: α++ (yellow), α (yellow), β (orange), and γ (orange). Each level has sub-categories: α+ and α- under α; β+ and β- under β; and γ+ and γ under γ. An arrow points to the γ+ sub-category, which is labeled 'Pearl'.</p>		<p>* Repayment Rate is the ratio of total collection made to the total collections due for the period. The total collections due includes the total collections made and the overdues.</p>	
Main Performance Indicators		Highlights	
	Dec '06	June '07	POSITIVE
Gross Portfolio ('000's)	\$2,006	\$2,313	<ul style="list-style-type: none"> Strong Board Experienced and qualified senior management High capital adequacy (36%), Debt:Equity-1.7
Number of active borrowers	17,547	18,382	NEGATIVE
ROE	(2.3%)	(10.2%)	<ul style="list-style-type: none"> Weak and Cumbersome MIS Weak control systems Lack of commercially oriented staff Lack of strategic advantage in a highly competitive market High operating costs Low repayment rate
Portfolio Yield	50.1%	60.1%	
Portfolio at Risk(>30 days)*	3.2%	NA	
Operating Expense Ratio	47.3%	46.4%	
Average Loan Size	\$114	\$126	
Borrowers per staff	254	248	

Pearl

Uganda

June 2007

Sources of Funding



Rating Rationale

Qualified and experienced senior management– Senior management is experienced and qualified. They understand organisational weaknesses and are competent to make decisions to solve and prioritise the issues.

Independent Board – Pearl’s Board comprises of independent and professional members. Members are experts from the field of finance, law, accountancy and education. The Board performs well in ensuring transparency in the organisation, though their involvement in operations is limited.

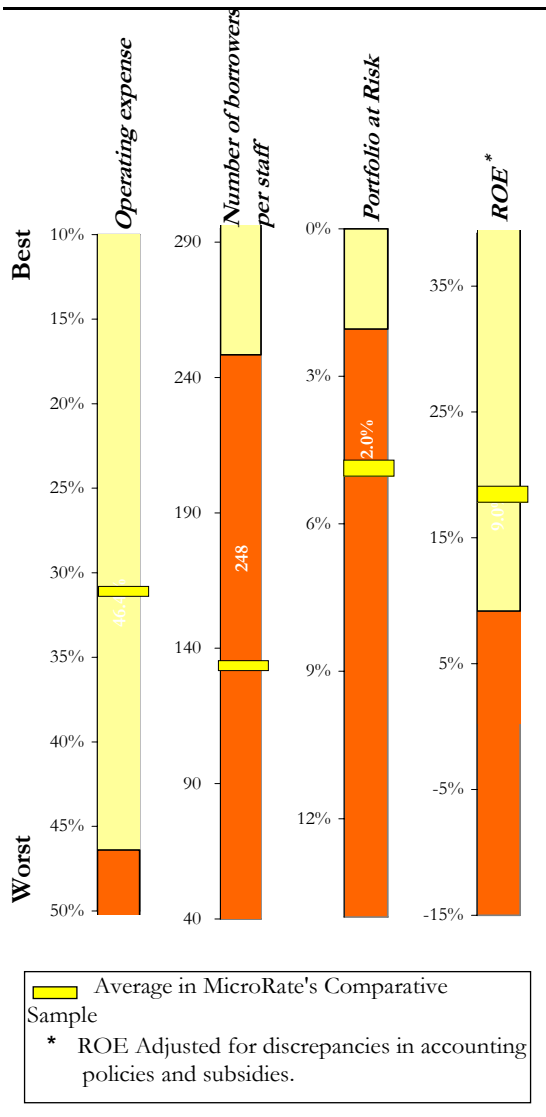
Comfortable debt: equity ratio– Pearl’s debt: equity ratio is at 1.7 and capital adequacy at 36%. Even after considering the requirement of higher provisioning for loan losses in view of a higher estimated Portfolio at Risk, there is lot of scope for leverage.

Lacks competitive advantage – Uganda’s microfinance market, especially the semi-urban market is highly competitive. Pearl competes with Microfinance Deposit Taking Institution (MDIs) and banks offering multiple products, which Pearl cannot offer in its current legal form. The interest rate of Pearl is either the same or higher than that of other players.

Operational losses–High operating expenses and higher loan loss provisioning and write-off requirements have led to operational losses. Even the current relatively higher loan loss provisioning, as made by the organisation, appears to be inadequate.

Weak MIS –The current manual information system is prone to errors and is cumbersome. Discrepancies were found in the portfolio quality reports of the organisation. The system is very time consuming for field staff, as well as, the senior staff and leaves little time for core jobs including monitoring and control of operations.

Repayment rate – For the six months ending 30 June 2007, the repayment rate of the Group loan product was 87%, while the repayment rate of the Individual loan product, which constitutes 7.5% of the total portfolio, was 29%. These repayment rates are low.



The operating expense ratio and ROE compared to all African MFIs rated by MicroRate with average loans < US\$500.

