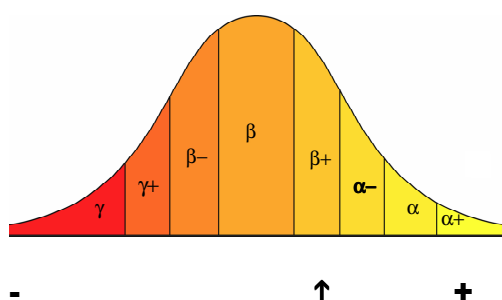


December 2007 PRIDE MICROFINANCE LIMITED (MDI) Uganda

β+

Moderate level of credit and financial risk. Very good asset quality and increasing efficiency.

Future Rating Perspective: Uncertain


Date of visit	April 08
Previous Rating	n.a.
Date of Previous Rating	n.a.
Number of MRI Ratings	1 st

Principal Performance Indicators

	Dec-05	Dec-06	Dec-07
Portfolio Gross Loans*	\$11,211	\$15,200	\$20,646
Number of Borrowers	51,002	51,717	56,297
ROE**	-31.1%	-38.0%	24.7%
Portfolio Yield	58.4%	51.9%	48.3%
Portfolio at Risk	2.5%	1.4%	1.1%
Operating Expenses	46.6%	46.4%	34.9%
Average Loan Size	\$220	\$294	\$367
Borrowers per Staff	171	160	152

* (000 \$) ** Adjusted.

Summary

PRIDE MICROFINANCE LIMITED (MDI) ["PML"] was founded in 1994 as "Pride Africa in Uganda Project" with financial support from the government of Uganda and the government of Austria. In 1996, the government of the Kingdom of Norway started funding Pride. After the Microfinance Deposit Taking Institutions Act was passed in 2003, PML transformed into an MDI in July 2005 and now operates as a company limited by shares, fully owned by the government. With headquarters in Kampala, PML has a \$20.6 million loan portfolio and serves more than 56,000 borrowers through a wide network of 29 branches.

Rating Rationale

High profits in 2007 (RoE of 24.7% after adjustments), were used by PML to lower leverage and thereby strengthen the company's financial structure.

PML lends to individuals and to solidarity groups. However, growth during the last years has been largely due to increased lending to individuals. Due to concentrated efforts by management, portfolio quality has improved steadily and is now excellent.

Senior management is strong and all have adequate professional background and experience. This has greatly contributed to strengthen various areas such as controls and operational planning. While senior management has been stable, there has been considerable turnover of middle management. Indeed, capped salaries by the Central Bank since 2004 have kept salaries low, which results in lower motivation and more importantly high staff drop-out rates. This, along with a lack of clear task segregation at branch-level, affects PML's productivity levels. Nonetheless, efficiency levels have improved, essentially through higher loan sizes and strong growth of its individual loan portfolio.

Operations are good and balanced but there is room to further improve its product offer and to refurbish its branches' outlook, to boost savings. This is supported by increasing competition.

An important weakness of PML is the MIS system, which is reaching the limits of its capacity. Ownership and an as yet undefined privatization process is another concern that, if unresolved, is likely to affect the company's ability to position itself in a fast-changing market.

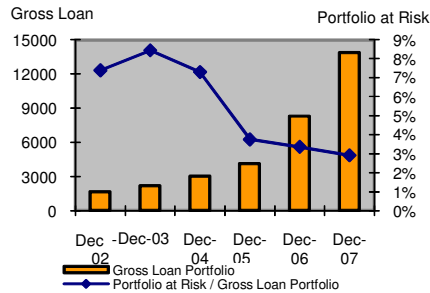
Strengths

- Excellent quality of loan portfolio
- Strong Senior Management
- Sustained growth levels
- High profitability

Weaknesses

- Weak MIS
- High attrition rate of experienced staff
- Weak governance

GENERAL SUMMARY

PRIDE MICROFINANCE LIMITED (MDI)	Dec-07		MicroRate Sample		Gross Loan Portfolio vs Portfolio at Risk
	Quartile	1st Quartile*	Average		
ROE**	24.7%	1st	15.7%	1.2%	
Portfolio at Risk	1.1%	2nd	1%	4.9%	
Operating Expenses	34.9%	2nd	30.1%	37.7%	
Number of borrowers per staff	152	3rd	221	164	
Gross Loan Portfolio (000\$)	\$18.287	1st	23.794	\$19.759	
Number of Borrowers	56.297	2nd	64.265	52.747	
Operating Margin	3.5%	2nd	7.4%	-2.1%	
Average Loan Balance (per borrower)	367	3rd	149	408	

*Lower limit of the 1st quartile.

**Adjusted.
 --Adjusted.

Financial Situation (pg. 4)

PML has managed to become highly profitable in 2007, which has also allowed the MFI to reduce its debt-to-equity levels. To a large extent, this is the result of capped salaries and it is therefore not sustainable in the long run. The MFI also changed its funding strategy and managed to contract more long-term loans, which used to be a challenge in the past. This contributes to strengthen its overall financial position.

Microfinance Operations and Portfolio Quality (pg. 6)

Partly due to strong competition, PML's loan portfolio grew by 20.3% in December 2007 (2006: 35.6), which is relatively slow for an MFI. While PML's traditional strengths lie in its customer care and the quality of service, the great challenge lies in the refurbishment of its product offer and of its branches.

PML's portfolio quality has constantly been improving since 2004 and the portfolio at risk over 30 days was at a very low 1.1% in December 2007 (2006: 1.4%). This is well above the average of MFIs tracked by MicroRate in Africa (5.7% as of December 2006).

Organization and Management (pg. 8)

PML's structure has evolved in accordance with its size and mission. Despite a few vacant positions - namely MIS manager, Risk Management and more importantly the position of Deputy Managing Director - the MFI has a stable and capable senior management team.

PML's major challenge lies in the low motivation of its field staff, whose salaries have been capped since 2004. As a result, overall productivity is declining and staff drop-out has dramatically increased. There are however clear plans to increase salaries and more importantly, review the bonus scheme.

The actual MIS presents limitations and does not allow for branches to be interconnected. All in all, the system does not allow PML to cope with future growth and the MFI is actually planning to review its system and look for alternative solutions.

Governance and Strategic Positioning (pg. 10)

Governance and ownership of the company have been a challenge for the last years. The Board has greatly concentrated its attention in preparing the company for privatization and has not given same attention to other day-to-day issues such as dwindling staff, which may ultimately affect the position of the company in a fast-evolving and highly competitive market.

PML positions itself just like the 3 other MDIs, essentially in urban areas, under commercial banks and above the government supported SACCOs ("tier 4" MFIs). Its extensive branch network represents however a competitive advantage, should the MFI decide to intensify its rural activities. While the mission has become more commercial, PML intends to keep its traditional group guarantee product and to remain focused on its core clients.