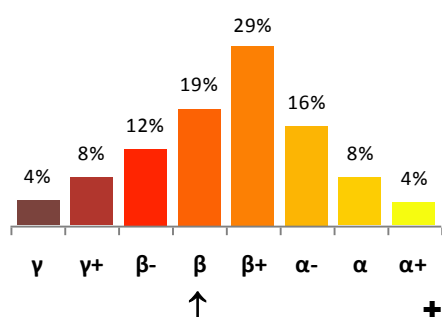


β

Good effectiveness but moderate risk, leaving the company subject to some variability during economic cycles

Financial Sub-Rating¹
Future Rating Outlook
Social Rating

β –
 Uncertain
 ★★☆☆☆²



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

Principal Performance Indicators

	Dec-07	Dec-08	Dec-09
Gross Loan Portfolio*	\$667	\$3,358	\$4,653
Number of Borrowers	6,722	31,367	47,407
Number of Savers	8,888	32,681	53,931
ROE**	n.a.	n.a.	86.1%
Portfolio Yield	21.3%	79.8%	61.9%
Portfolio at Risk	0.5%	2.4%	2.3%
Operating Expenses	35.1%	29.2%	31.4%
Average Loan Balance	\$99	\$107	\$98
Borrowers/Staff	102	200	165

*(‘000\$) ** Adjusted

¹ See Annex

² See Social Report Mar-10

Summary Description

Grooming Centre is a Non-Governmental Organization (NGO) founded in December 2006, and registered with the Nigeria Corporate Affairs Commission (CAC) to address the near absence of financial services for the economically active poor engaged in small trading and micro productive activities in Nigeria. It has received financial and technical assistance from Lift Above Poverty Organization (LAPO) and ASA International. In its third year of operations, it has reached 50 branches and over 47,407 clients with individual methodology (mixed with components of group methodology). Gross loan portfolio amounted to USD 4.6 million as of December 2009.

Rating Rationale

Grooming is a well run, operationally sound microfinance institution. However, taking deposits from borrowers without supervision could become a serious risk for the clients, the institution and external providers.

Strong methodology and highly standardized credit operations have resulted in significant growth of the loan portfolio while retaining high portfolio quality. However, the institution could benefit from a stronger head office with more specialized administration, and timely reporting. The Organization exhibits good internal controls, a high level of productivity and efficiency. It benefits from strong positioning in its market niche with a large potential market and few competitors. The institution is committed to its social mission and board members look to continually improve its performance.

Lack of funding is jeopardizing the institution’s growth and future repayments of current debt are threatening liquidity. Grooming has so far met its pressing funding needs by mobilizing savings. Nigerian law allows unsupervised NGOs like Grooming to mobilize deposits from their “members”. But the institution is not adequately equipped for this and the practice exposes poor depositors to unacceptable risks. If Grooming could fund its growth from other sources or transform itself into a licensed institution its rating grade would improve significantly.

Strengths

- + Good methodology and portfolio quality
- + High profitability
- + Good positioning on low market niche with low competition

Risk Factors

- Growing liquidity concerns
- Lack of specialization of the administrative structure
- High reliance on mobilized savings without regulation

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.

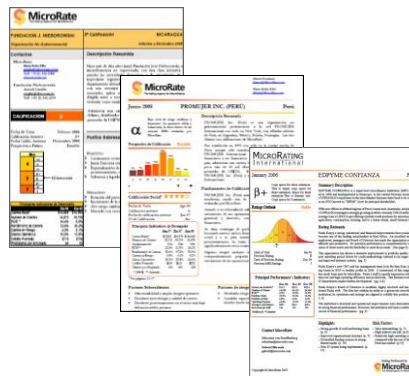
Interested in the full report?

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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