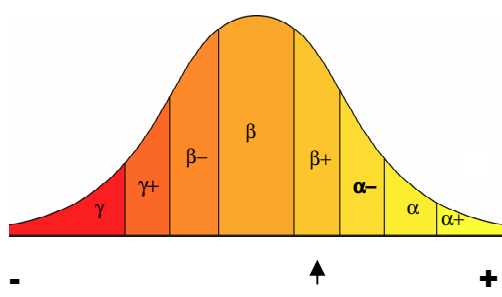


December 2007
 2nd MicroRate Rating

LAPO
Nigeria
β+

Moderate
 Strengthened operations and internal controls. Average efficiency and staff productivity. Profitable

Risk.
 Average staff productivity.

Future Rating Outlook **Stable**


Date of visit	May 08
Previous Rating	β
Date of Previous Rating	Dec 05
Number of MRI Ratings	2 nd

Principal Performance Indicators

	Dec-05	Dec-06	Dec-07
Gross Portfolio Loan*	\$3,416	\$7,659	\$16,484
Number of Clients	43,699	84,006	129,269
ROE**	10.4%	23.8%	30.3%
Portfolio Yield	61.9%	61.4%	59.2%
Portfolio at Risk	1.1%	0.6%	1.5%
Operating Expenses	39.9%	35.3%	34.4%
Average Loan Size	\$78	\$91	\$128
Borrowers per Staff	148	168	127

* (000 \$) ** Adjusted

Summary

The NGO Lift Above Poverty Organization (“LAPO”) is a non-profit MFI, with over 20 years of operations. LAPO was initially supervised by the Grameen Bank of Bangladesh and received technical assistance from another large Bangladeshi MFI, the Grameen Foundation USA and ASA. Thanks to the aid of both organizations, LAPO has developed into a large, profitable microfinance institution.

Through a fast-growing network of 108 branches in south-west Nigeria, LAPO reaches almost 130,000 borrowers with loans averaging \$128 per client and a total gross portfolio of US\$16.4 million.

Rating Rationale

LAPO is a sustainable and profitable microfinance institution. Operational procedures and internal controls have been improved to keep pace with the institution’s rapid loan portfolio growth. Furthermore, LAPO is well positioned at the lower end of the microcredit niche.

A suitable group loan methodology and solid repayment culture have helped produce strong portfolio quality. However, the client desertion rate remains high.

Thanks to high staff morale and a committed management team, LAPO is establishing a solid basis for future development. However, deficiencies in the MIS system continue to hamper operational performance and management’s ability to lead the institution. Furthermore, LAPO should focus on improving efficiency and productivity.

LAPO consistently displays excellent operating margins, good liquidity levels, and high profitability. However, as an NGO, LAPO faces future funding constraints due to its high debt/equity ratio.

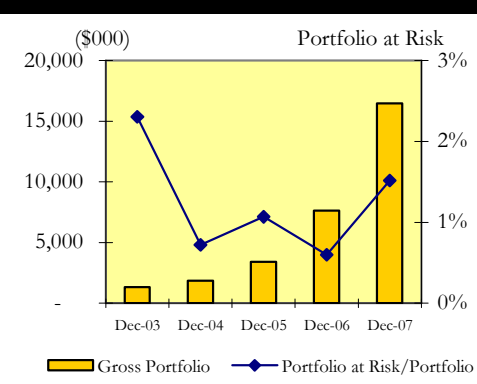
Strengths

- Fast growth with excellent positioning at the lower end of the market
- Good loan portfolio quality
- Highly profitable
- Stable and committed management and staff

Weaknesses

- Client savings intermediation without a license and without an appropriate structure
- Inadequate MIS, cannot keep up with fast growth
- Low staff productivity
- Some exchange risk exposure

GENERAL SUMMARY

LAPO	Dec-07		MicroRate Africa Sample		Gross Loan Portfolio vs Portfolio at Risk
	Dec-07	Quartile	1st Quartile*	Average	
ROE**	30.2%	1st	22.2%	14.3%	
Portfolio at risk	1.5%	1st	2.0%	4.3%	
Operating expenses	34.4%	2nd	14.0%	23.4%	
Client per employee	127	2nd	167	119	
Gross Portfolio Loan***	\$16,484	3rd	\$69,897	\$54,575	
Number of clients	129,269	3rd	67,084	61,585	
Operating margin	13.1%	1st	8.9%	6.4%	
Average loan size per client	\$128	1st	\$498	\$963	

*Lower limit of the 1st Quartile **Adjusted ***(\$000\$)

Financial Situation (pg. 4)

LAPO is highly profitable, due to generous operating margins and gearing that is high for a NGO. Borrowings are well diversified among a large number of mainly foreign lenders. Approximately one third of funding is provided by client deposits even though as a NGO, LAPO is not licensed to mobilize savings.

Microfinance Operations and Portfolio Quality (pg. 7)

Since the last MicroRate rating in 2006, LAPO has grown rapidly. Village banking loans still account for the bulk of lending, but these have recently been complemented by solidarity loans and even individual loans. However, very fast growth has resulted in procedural weaknesses at some branches. Portfolio quality, though lower than in 2006, remains excellent.

Organization and Management (pg. 8)

High staff morale, and very low staff turnover are positive aspects. Operations have been decentralized as the branch network has grown.

LAPO has not been able to benefit from economies of scale as it expanded. Administrative expenses have grown at roughly the same pace as the loan portfolio. Controls, which had been weak two years ago, have improved substantially. Unfortunately the same is not true for the Management Information System, which remains inadequate and is unable to keep pace with rapid expansion.

Governance and Strategic Positioning (pg. 10)

LAPO's Board has been strengthened and now includes members with financial expertise and banking experience. Board committees have been set up to concentrate on specific aspects of LAPO's operations. The institution continues to be excellently positioned towards the lower end of the microfinance market, where competition is less pronounced. The extensive branch network moreover, allows LAPO to reach underserved areas.

Social Perspective (pg. 10)

LAPO successfully fulfills its mission by serving the poorest microcredit niche in Nigeria and increasing outreach through geographic and product diversification.

The MFI has historically placed social objectives at the center of its institutional strategy. Moreover, social objectives are reflected into its processes and have been instilled to clients as well as staff. There is little probability for mission drift. Retaining their clients remains however a big challenge.

To access the full rating report, please contact **MicroRate Africa Ltd** © by writing an e-mail to our African offices: africa@microrate.com. Please note that you can also subscribe to our reports packages. Contact us for more information.