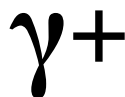


July 2009

SEAP

Nigeria



Strong group lending methodology but members' savings are put at high risk given the weak organizational and governance structure in a rapidly growing context.

Financial Sub-Rating¹
Future Rating Outlook
Social Rating



- ↑ +

Date of Visit	Apr-09
Previous Rating	γ
Date of Previous Rating	Dec-06
Number of MicroRate Ratings	2 nd

Principal Performance Indicators

	Dec-06	Dec-07	Dec-08
Gross Loan Portfolio*	\$394	\$1,342	\$6,212
Number of Borrowers	5,820	14,044	45,317
Number of Savers	n.a.	24,276	66,961
ROE**	55.2%	79.8%	128.4%
Portfolio Yield	58.5%	38.0%	31.8%
Portfolio at Risk	1.0%	n.a.	0.2%
Operating Expenses	60.0%	37.5%	17.3%
Average Loan Size	\$68	\$96	\$137
Borrowers/Loan Officer	162	227	338

*(000\$) ** Adjusted

¹ See Annex

² See Social Report July-09

Summary Description

Self Reliance Economic Advancement Program, SEAP, is a non-governmental organization (NGO) that started in 2000 and is located in South Western Nigeria.

As of December 2008, SEAP served over 45,000 borrowers through a network of 35 branches. It had an outstanding loan portfolio of \$6.2 million and mobilized savings that amount to US\$4.4 million.

Rating Rationale

In the two years since the last MicroRate rating, SEAP has expanded its loan portfolio nearly 16fold. Taking advantage of economies of scale, the organization turned profitable – indeed highly profitable – in 2008. Despite fast growth, asset quality has remained good. Moreover, the strong leadership of its founder and CEO has maintained the organization focused on a clear market niche: very poor households that have no access to financial services.

However, in its single-minded pursuit of growth, SEAP has neglected to develop vital functions such as human resources, information systems and internal controls. Growth was moreover funded largely through savings deposits collected from borrowers. Most of these are so-called “forced savings” which are required as a pre-condition for receiving a loan. As an unsupervised NGO, SEAP is not authorized to accept savings deposits; however the Central Bank of Nigeria has so far not enforced the laws in this regard.

In MicroRate’s opinion, SEAP has grown far beyond the capacity of its organization and of its financial structure to handle the present volume of operations. An exceedingly narrow equity base (debt equity ratio of 7.8:1 – the highest observed by MicroRate in many years) and virtually no liquidity put the savings of its clients at unacceptable risk.

Strengths

- + Rapid growth
- + Operationally sustainable and highly profitable in 2008
- + Strong management and leadership
- + Good portfolio quality
- + High efficiency

Risk Factors

- Limited product offering in an increasingly competitive environment
- Inappropriate legal structure for savings collection
- Weak organization (HR, internal controls and MIS)
- Weak governance

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.

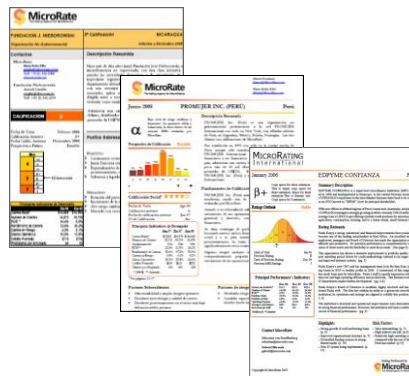
Interested in the full report?

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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