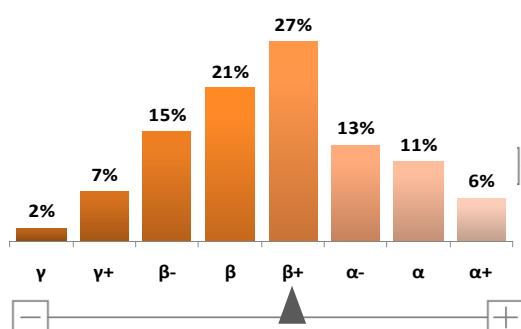


β+	Good group credit methodology and low portfolio at risk. Individual loan methodology to strengthen. High profitability and access to international funding. Strong managerial leadership and governance.
Stable	Rating Outlook ¹

Rating Validity Date² November 2013

Financial Situation³ α-

Performance Rating Grade Distribution



Date of Visit August-12

Date of Financial Information June-12

Previous MicroRate Rating 2008

Principal Performance's Indicators

	Dec-10	Dec-11	Jun-12
Gross Loan Portfolio (\$'000)	\$49 412	\$74 618	\$93 487
Number of Borrowers	322 338	421 126	453 581
Total savings (\$'000)	\$34 103	\$45 930	\$51 178
Number of Savers	na	620 528	518 187
Leverage	4,5	4,6	4,1
Adjusted ROE	39,6%	20,1%	42,3%
Portfolio Yield	74,3%	53,4%	54,5%
Portfolio at Risk	1,4%	0,8%	0,9%
Average loan	\$153	\$177	\$206
Operating Expenses	50,6%	37,1%	31,1%
Borrowers / Loan Officer	325	297	279
Operating Margins	18,6%	7,7%	19,9%

¹ See Annex 1

² Rating grades are valid up to 1 year after publication. MicroRate reserves the right to modify rating grades due to circumstantial changes at any time.

³ See Annex 1

Summary Description

LAPO Microfinance Bank Limited (LAPO MfB) having operated as a licensed state since 2010, covers as of June 2012, 27 states (out of 36) with a network of 290 branches. It serves 453,581 borrowers for a loan portfolio of US\$93.5 million and an average loan size of US\$206. It collects member deposits totaling US\$51 million. LAPO MfB received a license from the Central Bank of Nigeria (CBN) in July 2012 to operate with national coverage.

Rating Rationale

The Beta plus rating reflects LAPO MfB's dominant market position, excellent portfolio quality, good methodology for its main lending product – group lending – and strong finances.

Short term challenges include necessary improvements in its new individual lending product and implementation of a new management information system which will tie together the far-flung network of nearly 300 branches.

In the longer term LAPO faces the task of broadening its ownership structure; the Bank is wholly owned by the NGO (88%) which gave rise to the institution and by its founder, who is also the Bank's CEO.

Highlights

Strengths

- + Good Group methodology
- + Excellent portfolio quality
- + Experienced management team
- + Stable institution

Risk Factors

- Fast growth
- New MIS to be implemented
- Weak individual methodology
- Link with the mother company -LAPO NGO-

ANNEX I – Performance Rating Grade Definitions

<p>Performance Rating α, β, γ</p>	<p>A performance rating evaluates an institution, comparing it with the best practices in microfinance, taking into account financial, operational, and strategic aspects. In particular, it measures the level of efficiency and effectiveness, the level of risk management, and the future outlook of the institution.</p>
<p>$\alpha+$ α $\alpha-$</p>	<p>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 emerging standards in the microfinance industry. Good efficiency and effectiveness. Low Risk / Risk well managed, leaving the company minimally susceptible to variability during economic cycles. Good future outlook</p>
<p>$\beta+$ β $\beta-$</p>	<p>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. Satisfactory efficiency and effectiveness. Moderate Risk, leaving the company subject to some variability during economic cycles. Satisfactory future outlook.</p>
<p>$\gamma+$ γ</p>	<p>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 emerging standards in the microfinance industry. Poor efficiency and effectiveness. High Risk, with high variability during economic cycles. Poor future outlook.</p>
<p>Financial Situation Rating α, β, γ</p>	<p>Measures the MFIs financial health based on its financial structure, profitability, operating margins and financial risk management.</p>

<p>Rating Outlook - Positive - Stable - Negative - Uncertain</p>	<p>Expected direction of the rating grade over the 12 months following the rating.</p> <ul style="list-style-type: none"> - Positive- The rating is expected to increase. - Stable- The rating is expected to remain unchanged. - Negative- The rating is not expected to remain unchanged. - Uncertain- Due to unpredictable factors, a rating outlook cannot be determined.
<p>Social Rating ☆☆☆☆☆</p>	<p>MicroRate’s social rating provides an opinion on the social return on investment (SROI) by measuring the social performance of an MFI, focusing on the institution’s social commitment and social results.</p>

ANNEX II – Performance Rating Terms and Indicators

Loan Portfolio	
Gross Loan Portfolio	Value of Loan Portfolio at a given time
Average Gross Loan Portfolio	$(\text{Value of Loan Portfolio at the start of a period} + \text{Value of Loan Portfolio at the end of a period}) / 2$
Number of Loans Outstanding	Number of Loans at a given time
Number of Borrowers	Number of Borrowers at a given time (assumes that a Borrower can have more than one Loan at a time)
Average Loan Size	$\text{Value of Loan Portfolio at a given time} / \text{Number of Borrowers at that time}$
Portfolio Quality	
Portfolio at Risk	$(\text{Outstanding Balance on Arrears over 30 days} + \text{Total Gross Outstanding Refinanced Portfolio}) / \text{Total Outstanding Gross Portfolio}$
Write-off Ratio	$\text{Value of Loan Write-offs} / \text{Gross Loan Portfolio}$
Provision Expense Ratio	$\text{Loan Loss Provisioning Expenses} / \text{Average Gross Portfolio}$
Risk Coverage Ratio	$\text{Loan Loss Reserves} / (\text{Outstanding Balance on Arrears over 30 days} + \text{Refinanced Loans})$
Productivity	
Operating Expense Ratio	$\text{Total operating expense} / \text{Average gross portfolio}$
Cost per Borrower	$\text{Operating Expenses} / \text{Average Number of Active Borrowers}$
Borrowers per Credit Officer	$\text{Number of Active Borrowers (excluding Consumer Loans)} / \text{Number of Loan Officers}$
Borrowers per Staff	$\text{Number of Active Borrowers (excluding Consumer Loans)} / \text{Total Staff}$
Financial	
Debt / Equity	$\text{Total Liabilities} / \text{Total Equity}$
Return on Equity	$\text{Net Income} / \text{Average Equity}$
Return on Assets	$\text{Net Income} / \text{Average Assets}$
Portfolio Yield	$\text{Interest and Fee Income} / \text{Average Gross Portfolio}$
Funding Expense Ratio	$\text{Interest and Fee Expenses} / \text{Average Gross Portfolio}$
Cost of Funds Ratio	$\text{Interest and Fee Expenses} / \text{Average Funding Liabilities}$
Liquidity Ratio	$\text{Cash and Banks, and Temporary Investments} / \text{Gross Loan Portfolio}$
Deposit Coverage Ratio	$\text{Cash and Banks, and Temporary Investments} / \text{Client Deposits}$



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Interested in the full report?

The full Performance Rating includes detailed information on the following:

- Microfinance Environment
- Governance and Management
- Organization and Operations
- Portfolio Credit Risk
- Financial Profile

This performance report is available for purchase. If you are interested in purchasing a report, please contact MicroRate at 1-703-243-5340 or info@microrate.com.

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