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June 2008 | **IMFB** | **Nigeria**

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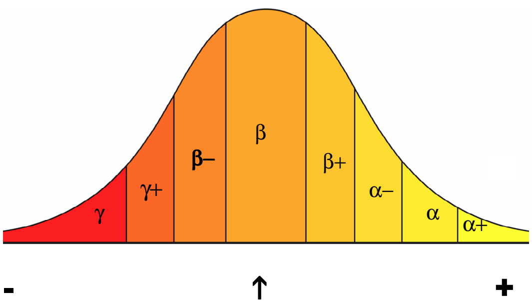
Low credit risk and good portfolio quality. Weak microcredit methodology, strongly focused on guarantees. Good internal controls and strong management team. Profitable at early stage of development.

Future Rating Outlook: stable



Date of visit	August 08
Previous Rating	na
Date of Previous Rating	na
Number of MRI Ratings	1st

Principal Performance Indicators

	Sep-07	Jun-08*
Gross Portfolio Loan**	$6,752	$12,716
Number of Clients	5,448	9,497
ROE***	-13.7%	8.4%
Portfolio Yield	50.7%	83.4%
Portfolio at Risk	1.33%	0.04%
Operating Expenses	53.5%	63.7%
Average Loan Size	$1,239	$1,339
Borrowers per Staff	9	13

*Annualized Figures * *(000 $) *** Adjusted.

Summary

Integrated Microfinance Bank (IMFB) is the first licensed microfinance bank of Nigeria. It was granted with a banking license by the Central Bank of Nigeria (CBN) and started operations in September 2006. It serves close to 10,000 borrowers and over 95,000 savings clients and is the only microfinance bank in the country to be authorized to operate nationwide.

Rating Rationale

With a strong management team and a solid financial structure, IMFB is facing the challenge of consolidating both the organization and the credit methodology in a high growth environment while learning on the way the nuts and bolts of microfinance. Because it is a very young MFI and since top management is composed of experienced professionals with strong banking experience, the applied credit methodology still differs from microfinance best practices, reaching very low productivity levels.

Financially very sound, with very low leverage and strong liquidity, IMFB shows very little credit risk. Its financial structure is strengthened by significant savings mobilization. Profitable at an early stage, it has attracted interest from national and international institutions to participate as shareholders.

However, credit methodology applied is more similar to consumer lending than to microfinance, as reliance in guarantees is very strong and the centralization of credit processes is high. Whilst this may soon represent a bottleneck should growth increase as planned, the portfolio quality remained strong. Maintaining such quality in the future will be more challenging once growth and competition increase. Although credit manuals are very detailed with regards to targeting income generating activities, the way in which IMFB is operating poses a significant risk that loan officers oversee payment capacity of the clients when evaluating a credit application. The fast pace at which IMFB is growing increases this risk substantially.

Strengths

- Diversified product mix with strong savings mobilization
- Good portfolio quality and internal controls
- Strong management team
- Profitable at early stage of development

Weaknesses

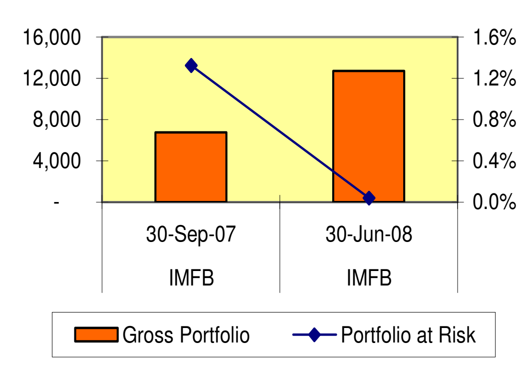
- Centralization of credit approval and processes
- Centralized monitoring of past due obligations
- High operating expenses and low productivity
- Lack of diversification in funding sources

GENERAL SUMMARY

IMFB			MicroRate Africa	
	Jun-08	Quartile	1st Quartile*	Promedio
ROE**	13.6%	2nd	21.7%	4.8%
Portfolio at Risk	0.04%	1st	1.0%	4.9%
Operating Expense	63.7%	4th	23.0%	36.9%
Number of borrowers per Staff	13	4th	220	164
Operating Margin	11.1%	1st	7.5%	3.0%
	Jun-08		Promedio	
Gross Loan Portfolio***	$12,716		$19,309	
Number of borrowers	9,497		55,136	
Average Loan Balance	$1,339		$391	

** Lower limit of the 1st quartile ** Unadjusted *** (000)*

Gross Loan Portfolio vs. Portfolio at Risk



Financial Situation (pg.4)

A comfortable financial structure, with significant savings mobilization and low leverage, coupled with positive profitability levels has given IMFB a solid financial position. This is very unusual for a microfinance institution with less than 2 years of operations and is a good indicator of the potential market in Nigeria

Microfinance Operations and Portfolio Quality (pg.6)

Thanks to a favorable environment, IMFB has achieved impressive growth over the past two years utilizing a credit methodology with significant differences from observed best practices in microfinance globally.

Although strong growth usually overstates good portfolio quality, IMFB's PAR is excellent. Key factors that explain such performance are product design, strong collections culture and close monitoring of past due obligations.

It is, however, very important to mention that MicroRate had very limited access to more detailed data and because of that is not able to fully confirm the given figures.

Organization and Management (pg.8)

With a sophisticated organizational structure and highly qualified management team, IMFB is thriving for consolidation while keeping pace with strong growth. Although productivity levels are low, internal controls and IT backing are strong. In addition, the consolidation of an organizational culture based in employee's inclusion, is growing strong.

Governance and Strategic Positioning (pg.11)

IMFB impresses with the quality of its Board of Directors. Although lacking microfinance skills, Board members are successful and experienced Nigerian professionals with strong social interests and share a common vision for the institution.
IMFB has the ambitious vision of becoming the leading MFI in Africa within 5 years and the objective of being the leading MFB in Nigeria. The institution is currently taking advantage of relatively low market competition to be profitable even at this early stage, in order to capitalize and fund the process of expanding operations nationwide.

Social Perspective (pg.12)

IMFB has achieved significant coverage and depth of operations in a very short period of time. However, its cost to the customer is still high. With a strong social mission its probability to shift from its target market is moderate. There is also a strong commitment to recognizing employee's contribution and to educating its clients.

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