

Indlu Finance (Pty), South Africa

Indlu is a Housing Finance Institution established in 2001 as a private company limited by shares to enable lower income individuals to improve their living conditions. Indlu has offices in three out of nine provinces in South Africa: the Head Office and two branches operate throughout Mpumalanga, Gauteng and Western Cape. Indlu offers three individual housing loans products and one consumer loan. Housing loans are dedicated to a wide range of housing purposes, from home improvement to house construction. Indlu also offers other services such as cell phone banking (Wizzit) and insurances (disaster and funeral insurances). As of January 2009 Indlu served 2,159 clients with an outstanding loan portfolio of 2.8 M USD.

GIRAFE Rating

Rating

D

Outlook

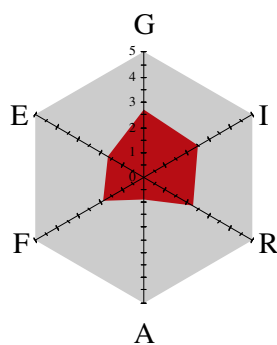
Positive

Date of the rating

April 2009

Valid until March 2010

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- Indlu financial statements shows a gradual improvement toward profitability with an ROA increasing from (7.1%) as of August 2007 to (1.8%) as of August 2008. However, this trend is based on lowering provisioning level below internationally accepted standards. Bringing provisioning level up to the minimum required would bring down the ROA for FY 07/08 to a low (50.9%).
- Planet Rating considers Indlu is under-capitalized after adjustment. When applying the minimum GIRAFE provisioning to the financial statements, the CAR stands very low at 2.2% (vs. 22.8% before adjustment).
- Indlu has a poor portfolio quality. Despite a 5.8 M ZAR (573 K USD) guarantee agreement with RHLF in June 2007, Indlu still has a PAR 30 standing at 41.1% as of January 2009, slightly decreasing its August 2008 level of 48%.
- Indlu is adequately governed by its BOD and strengthened its management team. It needs to fill-in some key management positions to mitigate the key person risk.
- Indlu is a small player in the housing finance market and the still untapped market for low income clients is attracting increased competition.
- Indlu's main challenge will be to strengthen its capital structure in order to retain and attract its existing and potential fund providers.

Outlook

The positive outlook considers the support of its shareholders and of the BOD as well as the continuous efforts to strengthen the management team and other improvements. This outlook is however contingent upon the recapitalization of the institution.

Performance indicators

USD	Aug. 2004	Aug. 2005	Aug. 2006	Aug. 2007	Aug. 2008	Jan. 2009
Assets	533,321	2,394,147	2,602,261	2,469,491	3,320,664	2,936,864
Evolution	N/A	337.3%	17.7%	(4.0%)	45.3%	15.5%
Loan portfolio	352,886	2,007,845	2,802,076	2,803,514	2,965,464	2,821,775
Evolution	N/A	454.2%	51.1%	1.2%	14.3%	24.3%
Active borrowers	493	1,773	2,317	2,147	2,074	2,159
Avg. outstanding loan per client	716	1,132	1,209	1,306	1,430	1,307
Staff	7	17	22	20	34	34
ROE	(24.4%)	36.5%	(24.0%)	(28.5%)	(4.2%)	(2.9%)
ROA	(6.2%)	4.3%	(2.0%)	(7.1%)	(1.8%)	(1.2%)
Liabilities / Equity	2.96x	10.33x	12.25x	1.33x	1.28x	1.55x
Portfolio Yield	67.8%	49.5%	50.2%	47.1%	47.8%	36.6%
Operating expense ratio	50.1%	31.9%	19.9%	22.1%	39.0%	28.4%
PAR 31-365	25.7%	35.2%	48.7%	25.6%	17.4%	13.7%
PAR > 365	11.0%	3.8%	21.4%	28.8%	30.8%	27.4%
Write-off ratio	3.6%	2.8%	10.8%	13.7%	9.0%	2.8%

Microfinance sector

South Africa has been unable to generate the type of pro-poor microfinance sector that has been successful in many other African countries. The South African financial sector targeting low income households can broadly be divided into a highly developed consumer finance industry and a poorly developed microfinance industry. The former developed as a result of an exemption notice (1992) to the Usury Act of 1968 to remove the interest rate ceilings on loans below 10,000 ZAR (1,459 USD). To qualify both consumer lenders and MFIs needed to be registered by the MicroFinance Regulatory Council (MFRC) as of 1999.

In 2005 a new National Credit Act (NCA) was passed and came into effect in March 2006. The act was introduced to regulate all creditors, debt counselors and credit bureaus. For this purpose the National Credit Regulator (NCR) was established in June 2006. The NCR is tasked with carrying out education, research, policy development, registration of industry participants, investigation of complaints, and ensuring enforcement of the National Credit Act 34 of 2005. All institutions giving out credit need to be registered with the NCR.¹ With the establishment of the NCR the MFRC mandate came to an end and MFRC was incorporated into the NCR.

The regulations under the act have become effective as of June 1st 2007. The NCA again introduces an interest rate ceiling for loans which at present stands at 44.2% for uncollateralized credit.² However, including initiation and service fees the effective interest rates can come up to 125% depending on the loan amount and maturity. Furthermore, all micro loans must be registered with the National Loans Register through one of the eight credit bureaus – with both positive and negative information. At present there are 16.9 million active creditors listed with credit bureaus in South Africa.

Besides being regulated by NCR banks are regulated by the South African Reserve Bank under the Banking Act of 1990. Savings and Credit Cooperatives are regulated by the Savings and Credit Cooperative League of South Africa (SACCOL) under the Cooperatives Act of 1981. Banks can pursue full financial intermediation where cooperatives are only allowed to intermediate their member deposits. Other

¹ Only those with fewer than 100 credit agreements and a loan book of less than 500,000 ZAR are excluded.

² The maximum interest rate for uncollateralized and developmental credit is set at 2.2 times the Repurchase Rate of the South African Reserve Bank (Repo Rate) + 20%; for loans under 8,000 ZAR and with a term not exceeding six months the maximum rate is 5% per month.

financial service providers are not otherwise regulated and are not allowed to hold or on-lend client deposits.

The development of a microfinance sector offering enterprise loans remains highly limited. A large underserved market remains as a 2007 Finscope survey shows that 25% of South Africans remain financially excluded and another 11% is only informally served (e.g. through community based savings groups)³. The larger MFIs in South Africa are shown in the table below:

MFIs	Loan Portfolio (M USD)	Active borrowers
SEF (2007-12)	8.92	50,319
Marang (2007-12)	4.20	23,426
Indlu (2009-01)	2.8	2,159
WDB (2007-12)	1.60	15,000
Kuyasa Fund (2007-12)	1.58	3,095
Total	17.12	84,975

The government has supported the development of the microfinance institutions with both grants and concessional funding through its wholesale fund Khula Enterprise Finance Ltd that operates under the Department of Trade and Industry (DTI). In 2006, this support role was transferred to the South African Micro-Finance Apex Fund (SAMAF) which also operates under DTI. Due to the limited funds available at SAMAF the support to both Marang and SEF, as well as other larger MFIs have remained with Khula.

Political & economic environment

Slumping household consumption and exports

Economic growth fell from 5.0% on average these past four years to 3.5% in 2008. Production and investment in the mining sector suffered from power failures in the first quarter while households — with debt burdens representing over 80% of disposable income — tended to hold back on spending. The economy will likely slow further in 2009 amid a sharp fall in ore prices and sluggish private consumption. The worsening economic conditions are borne out by the deterioration of the Coface payment incident index with South Africa now rated no better than the world average. Although inflation, mainly imported from abroad, peaked at 13.6% in August 2008 stoked by surging prices for food and oil products, it has been easing since then, a trend likely to continue in 2009. The Central Bank, doubtless envisaging gradual reduction of its key rate — previously raised 450 basis points between June 2006 and June 2008 — made five rate cuts since December 2008 (the repo rate is currently at 7.5%). The contraction of the current-account balance and FED zero interest rate policy should enable the Central Bank to support the internal demand as well as to

³ Survey Highlights, FinScope, South Africa, 2007

stabilise the Rand, thanks to the rate discrepancy favourable to carry trade operations.

Stiffening conditions for financing the current account deficit

Thanks to the prudent fiscal policy maintained these past years, the government now has room for manoeuvre in pursuing counter-cyclical policy. The Minister of Finance thus presented a budget for 2009/2010 — the first in three years showing a deficit — with spending focused on public investment in infrastructure, transport, and energy. The capital goods imports necessary for these investments will contribute, however, to widening the current account deficit, offsetting to some extent the fall of oil prices and the drop in imports of consumer goods with South Africa's external position weakening in consequence. The volatility of portfolio investments — which play a preponderant role in financing from abroad — thus increase with the rising aversion to emerging risk. Foreign direct investment could similarly begin to wane with international credit drying up. Multilateral development banks are in this context expected to become a major source of financing in 2009 while external needs could reach USD 25 billion. With the stiffening conditions for financing the current account deficit tending to exacerbate the rand's volatility, exchange rate risk will in any case remain high in 2009. However, the banking system – relatively unscathed by the subprime crisis — will have little exposure to exchange rate risk in view of the limited extent of positions opened in foreign currency.

Political uncertainties and social risk

With Jacob Zuma — backed by the Communist Party and the unions — winning the presidential election in 2009, the country's future political and economic policies should remain unchanged. However, the leader's ability to reconcile policies apt to reassure the markets with redistribution policies, like agrarian reform and affirmative action, intended to benefit the historically underprivileged, has met with some scepticism. The social situation, already tense as evidenced by the xenophobic violence that broke out in June 2008 in Johannesburg and the Cap townships, could deteriorate further with the expected rising of unemployment.

Strengths

- With the country generating 33 per cent of African GDP, its economic and political influence is an inescapable fact on the continent.
- South Africa boasts extensive mining resources, diversified industry, and a high-performance tertiary sector (banks, telecommunications, transport).
- Public sector finances have been under control with financing needs moderate and foreign debt limited

- With the country's good creditworthiness; the government has enjoyed substantial capacity to contract new loans.
- Tight economic management and the quality of the business environment represent a major asset.

Weaknesses

- Under-investment in energy infrastructure has given rise to a chronic energy crisis likely to last for the next five years.
- A lack of skilled labour hinders implementation of vast investment projects not only in energy but also in transport.
- Although South Africa is one of the main beneficiaries of foreign direct investment in sub-Saharan Africa, the investments nonetheless do not suffice to cover its growing financing needs.
- A yawning wage gap reflects the social and economic dualism inherited from apartheid with Black Economic Empowerment policies thus far not contributing much to reducing the inequality that stirs social and political tensions
- COFACE Business Climate Rating: A3 – Rating watchlisted with negative implication since June 2008. Changes in generally good but somewhat volatile political and economic environment can affect corporate payment behaviour. A basically secure business environment can nonetheless give rise to occasional difficulties for companies. Corporate default probability is quite acceptable on average.

(USD billions)	2006	2007	2008(e)	2009(f)
Economic growth (%)	5.4	5.1	3.1	-1.5
Inflation (%)	4.7	7.0	10.8	5.7
Public sector balance (%GDP)	0.3	1.3	-1.1	-3.8
Exports	64.2	76.0	93.2	87.5
Imports	70.4	81.7	98.6	95.9
Trade balance	-6.2	-5.7	-5.3	-8.4
Current account balance (%GDP)	-6.5	-7.3	-7.4	-5.8
Foreign debt (%GDP)	23.1	26.6	24.7	30.5
Debt service (%G&S exports)	7.8	8.4	6.4	5.9
Foreign currency reserves (in months of imports)	3.2	3.5	2.7	2.8

Source: COFACE's Country Risk Rating Guidebook 2007. (e) estimates (f) forecasts. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

Indlu Finance (Pty) Ltd was established in 2001 as the Incremental Housing Finance arm of the Beehive Group of Companies. The Beehive Enterprise Development Company (EDC) was established in 1995 as a Section 21 Company

(Not for Profit) and accredited by the Department of Trade and Industry as a Local Business Service and Tender Advice Center. For funding purposes, the management decided to create two separate private companies for the housing finance activity, Indlu Finance and Beehive Financial Services. It also created the Beehive Savings and Credit Cooperative (SACCO), a membership driven organization registered under the Registrar of Cooperatives. Indlu Finance is not regulated by the South African Reserve Bank but does fall under the supervision of the National Credit Regulator (NCR) as a Development Finance Institution as well as under the Financial Services Board where it is registered as a Financial Services Provider.

The Financial year of Indlu starts on the 1st of September and ends on the 31st of August. Indlu has been audited by Ferreira Venter Laws & Nel until August 2006. Since then, External Audits have been conducted by Sentinel Chartered Accountants who did not qualify their opinion in either of the years.

Ownership

Indlu has five shareholders.

- Enterprise Development Trust (EDT): this trust was set up as a foundation. The reason was that Indlu and BFS were established as a direct result of the systems, procedures and products developed by the Beehive EDC over time. As the Beehive EDC was funded through public monies, the Board decided to issue 50% shares to the ED trust. Thus, 50% of all future dividends were to be ploughed back into enterprise development
- Beehive Supporters Trust (BST): an employees trust representing all staff of the group
- Indlu Employees Trust (IET): a share scheme set up for employees
- Oikocredit of the Netherlands
- Rural Housing Loan Fund (RHLF - Government backed): a wholesale fund established in South Africa to promote incremental housing amongst the rural poor of South Africa

The Board of Directors (BOD) is elected during the Annual General Meeting with no maximum to the number of terms served by a BOD member. The current BOD, has seven members comprising a representative each of Oikocredit and RHLF, the Managing Director and four independent Directors. Mrs. Lilian Ethel Segoane has been the Chairman of Indlu since inception. She is a retired nurse with community development background. Other BOD members have backgrounds in business, management, engineering, accounting and finance. The BOD meets quarterly. No sub committees have been set.

Name	Common shares			Preferred shares	
	number	value	%	number	value
EDT	25	0.5	25%	0	0
BST	10	0.2	10%	0	0
IET	20	0.4	20%	0	0
Oikocredit	30	0.6	30%	333,333	1.0
RHLF	15	0.3	15%	0	0
Total	100	2.0	100%	333,333	1.0

Ownership structure of Indlu as of January 2009 (in M ZAR).

Donations

Since 2004, Indlu received a total of 2.8 M ZAR (340 K USD) in donations of which the majority has come from Hivos (2.2 M ZAR) (267 K USD). There is one outstanding grant contract with Hivos (472 K ZAR) (57 K USD) focused on capacity building (IT systems, marketing).

Funding composition

As of August 2008 the funding structure comprises 43.8% equity and 56.2% debt. The debt totals 14 M ZAR (1.8 M USD) and is composed of commercial loans labeled in ZAR. Most of the loans are linked to the Prime rate. 5.8 M ZAR (805 K USD) debt from RHLF is subordinated.

Management team

The management is composed of the Managing Director (MD), Wessel Venter, the Chief Operating Officer (COO) Johan De Klerk, appointed in January 2008 supported by Sonnica Venter⁴, the Operations Manager. As of April 2009, there were no formal management appointments for the positions of Finance or Audit. The Finance Administration is handled by the COO as well as a Junior Financial Manager.

- Mr. Venter has a BA (HONS) in Classical Greek from the University of Pretoria, an MBA from the University of Potchefstroom and he also attended the Boulder Micro Finance Training Program in 2001. He was a practicing minister with the Baptist church from 1990 to 1994 when he joined the Beehive project as the Executive Head. Since 2001 he has been the Managing Director of Beehive Financial Services and Indlu. Mr. Venter has experience in economic development initiatives and participated in programs linked to the International Labour Organization (ILO).

Organization

Indlu's operational activities are characterized by the central control of key functions at the Head Office (HO) which include: loan approval, loan disbursement and accounting. Only marketing functions are held in the two branches which are staffed with an administrator. Clients are mainly recruited by Building Material Suppliers which inform them

⁴ Sonnica Wenter is the spouse of Wessel Venter and has participated to Beehive project since inception.

about Indlu's credit facility. Clients are then directed to Indlu offices or required to send the necessary documentation. At the HO 17 credit officers process the documentation, having no direct contact with the clients.

All loans are approved at the HO after passing the legal department, which controls that all legal conditions have been fully satisfied. Once approved by the Credit Approvals Manager and the COO, a disbursement order is prepared and the loan is wired electronically to the Building Material Supplier's account (70%) for the building materials and 30% to the client's bank account. Clients, on the other hand, are required to make repayments through a national debit order system (ALLPS) to Indlu's bank accounts.

Indlu currently manages four IT systems to cover the entire scope of its activities. Indlu uses Micro Loans Administration System (MLAS) developed by Integrated Products Intelligence (IPI) a five person South African software company for loan tracking. There is a real-time interface between MLAS and Pastel Evolution, the accounting package used by Indlu and developed by Softline Pastel, a South African accounting software developer. Indlu also uses Workflow System developed by SEG Data (PTY) Ltd, a Pretoria based Software Company. These three systems have automated communication among them and are managed by Indlu's IT officer who also has programming skills. A debt collection system (Visual Court System), developed by Visual Court is managed separately by the legal department and not integrated with the other systems.

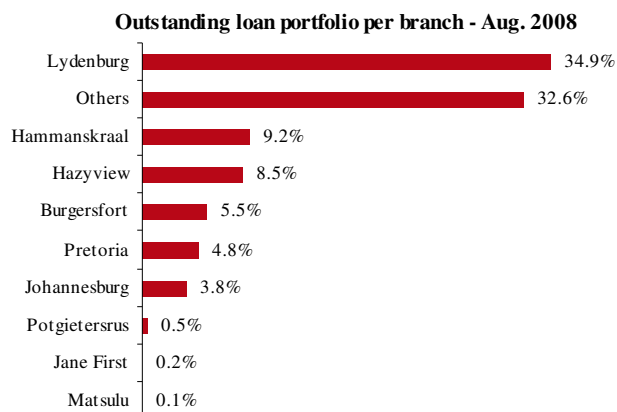
Credit Crisis

Indlu experienced a credit crisis in 2006. Indlu was then working with Home Improvement Companies as agents for disbursement and loan collection. It allowed Indlu to experience a strong growth. In May 2006 Indlu decided to stop the disbursement through this channel fearing a credit crisis and an eventual bankruptcy⁵ of these intermediaries. The Home Improvement Companies immediately stopped the recovery of active loans and Indlu experienced a steep degradation of its portfolio quality. Indlu received strong support from RHLF who guaranteed 5.8 M ZAR (705 K USD) of its portfolio in April 2007. The repayment of the subordinated portion of 5.8 M ZAR (805 K USD) of RHLF's loan is linked to the amount collected. Indlu would only have to reimburse RHLF the collected amount of the secured portfolio.

⁵ Housing Improvement Companies were not conducting repayment capacity analysis leading to bad credit decisions. They effectively went bankrupt few months after Indlu stopped its collaboration.

Market penetration

Indlu operates in four out of nine provinces in South Africa: the Head Office and two branches operate throughout Mpumalanga, Gauteng, Limpopo and Western Cape. The loan portfolio per area as of August 2008 is shown below.



Products and services

Indlu offers four products: the Incremental loans, the Bond loans, the Short Term loans and the Group loans. Indlu has a total Effective Interest Rate (EIR) is estimated at 56%.

- The Incremental loans are designed to finance home improvement to increase the value of the client's property. Loans amount from 1,000 to 20,000 ZAR (121 – 2,450 USD) with a term ranging from 6 to 24 months. The loans carry an interest rate of 43% per annum on declining balance. Indlu charges a 10% contract fee as well as an additional 14% VAT (Value Added Tax) with a maximum of 5,000 ZAR (excl VAT) (608 USD). An additional 107 ZAR (13 USD) fee is charged on a monthly basis. EIR stands at 61%.
- The Bond Loans are designed to finance a house on fixed property with rental purpose. Loans amount from 30,000 to 250,000 ZAR (3,600 – 30 K USD) with a term ranging from 60 to 144 months and a three months grace period. The loans carry an interest rate of 29% per annum on declining balance. The same system of fees is applied. Indlu registers a bond on the property as collateral. EIR stands at 29%.
- The Short Term Loans are consumer loans. They amount from 500 to 8,000 ZAR (61 – 972 USD) with a term ranging from 1 to 6 months. The loans carry an interest rate of 60% per annum on declining balance. The same system of fee is applied. EIR stands at 130%
- The Group Loans (Enterprise loans) are microfinance loans for low income rural clients. They are based on a group methodology and amount from 500 to 4,000 ZAR (61 - 486 K USD) with a term ranging from 4 to 8 months. The same system of fee is applied. EIR stands at 35%

Networks

Indlu is member of the Association for Microfinance Transparency (AMT) and the Association of Microfinance Institutions of South Africa (AMFISA).

■ Governance

Governance and Decision making is rated “c”

Decision making

There is a reasonable decision-making process at Indlu, supported by a strategic mission shared among key stakeholders. The organizational structure of Indlu’s group of companies has been thought-out in order to attract relevant fund providers. Indlu has a clear social objective that does not undermine its focus on sustainability. This double bottom-line is shared among shareholders and employees. However, Indlu will have to be aware of any mission drift while looking at highly profitable products (Cash loans).

Strategic decisions are generally adequately taken by a supportive Board of Directors (BOD). Despite the fact that planning skills and anticipation in the decision-making process could be improved, the Directors have adequate skills with a good balance between social, financial and managerial background. Indeed, Directors proved their commitment during the 2006 crisis by providing relevant financial management support. Furthermore, the BOD has been strengthened in 2008 by adding a new director with specific microfinance skills. This adequate BOD composition ensures an adequate balance in decision-making with the MD.

In terms of reporting, the BOD is provided with thorough and timely reports based on templates provided by RHLF. These reports, if they provide useful information need to be further analyzed by the management. Indlu’s decision-making process would benefit from a concise report analyzing key ratios and priorities. The regular BOD meetings are documented in minutes, but a stronger focus on the effective control over the implementation of the decisions would be necessary.

Planning

Relevant strategic goals, adequately backed by realistic financial projections, have been set but need to be further documented. A relevant Business Plan clearly oriented towards sustainable growth has been built based on realistic assumptions. However, a step by step implementation process detailed in a documented operational plan is necessary. Nevertheless, Indlu successfully transformed strategic goals into operational projects (Mobile banking,

outlets and kiosks to reach rural clients). Indlu will start in 2009 to refocus on the growth of its portfolio as it is recovering from the 2006 credit crisis. Financial projections have been built through Microfin backing the goals set for the next three years. These projections are nevertheless based on an optimistic scenario where the retained earnings of the institution are sufficient to maintain an adequate level of capitalization. A stress scenario would have been useful to stress the need of potential capital injections. The net portfolio is expected to grow by 53% from August 2009 to August 2010 and by 68% from August 2010 to August 2011.

Indlu’s positioning on the housing finance market dedicated to low income clients is relevant in South Africa. Its strong ties with the field have proven its efficiency to evaluate the market situation. However, Indlu will have to develop a thoroughly documented analysis of competition and demand to support its geographical expansion.

A detailed annual budget is closely monitored and updated when necessary. Budget are accurately made, as of February 2009, Indlu realized 89% of its year to date interest revenues set in the budget and 99% of the operating expenses. However, specific budgets need to be developed for the main operational projects in order to ensure their adequate follow-up. Even though the annual planning process could be more participatory, the consistent communication between the management team and the staff ensures a good buy-in of strategic goals.

Management team

Indlu is competently led by its MD. However, despite the recent and valuable addition of a COO, key management positions will need to be added to face the expected growth of the institution. Indlu currently lacks an IA Manager and HR Manager. Indlu has a Finance Manager with but she still has to grow in her function and finalize her studies to fully ensure an efficient financial management. These are crucial for a basic supervision of the activity and a clear division of tasks. In addition to operations, the current COO handles the financial and HR management. His work load makes it difficult to also handle the formerly externalized financial management. The day-to-day management is slowing down the development process of efficient management tools and hampers the execution capacity of the team. There is however a smooth internal communication, good teamwork, cohesiveness and respect among Indlu’s management team.

The skills of the middle management have been improved through internal trainings but they still need to be strengthened. Indlu will continue to be exposed to key-person risk on its CEO until the key management positions are filled and fully integrated in operations.

Human resource management

Adequate HR procedures and policies are in place within Indlu. However, there is no HR Department as such and the function is held by the COO. Main processes to improve staff skills are in place but could be further developed. The annual evaluation of staff is systematic and adequate. Efficient internal trainings have been and are regularly delivered. However, the evaluations could be used to set more personalized training programs.

The salaries are in phase with the market and the opportunities offered by a growing institution help to maintain a manageable turnover. Incentive schemes are adapted to each function within the institution and specific bonus schemes have been set in order to increase the portfolio quality. Staff morale is good.

Information

Information is rated “c”

Indlu recently improved its information management, which now ensures a basic monitoring of its activities and financials. However, further improvements are mandatory for an efficient management of the institution. Indlu currently has to manage four systems to cover the entire scope of its activities. This organization gives Indlu all the needed functionalities but it is time consuming and costly to maintain regular follow-ups with every developer.

The information management is now adequate thanks to the implementation of a workflow system. Indlu also refined its loan tracking system. Indlu has sufficient internal capacity to manage the workflow, the loan tracking and the accounting systems but relies on the developers for their improvement. MLAS developers' capacity to answer Indlu's needs have improved over the last year. After experiencing some ownership changes, Integrated Products Intelligence (IPI) (MLAS developers) has now been restructured and has been reactive and efficient so far.

Indlu sets-up adequate procedures to ensure data security. Each computer has a password and the access to the systems is limited to authorized users. Daily back up are stored in a fireproof place and weekly data are kept in a safe at the bank. Hard data is stored in an organized manner although their storage is not fully secure (locked cupboard but not fireproof). Every computer is protected with an updated version of anti-virus software and Indlu does have the licenses for the software it uses.

The systems allow provision of a wide range of data and most of the needed indicators but some weaknesses still remain. The information is available in a timely manner and

a wide range of data on activities is available (PAR, portfolio per building material company and per region, client's employment data, gender and income). The accounting information is accurate and easily available through automatic reports but is time consuming. Pastel generates monthly financial statements but they are not generated under the adequate format and Cash Flow statements need to be done through Excel. Financial ratios have been recently implemented to improve the financial analysis (Capital adequacy ratio, profitability indicators and efficiency indicators) but other reports (e.g. maturities, liquidity management) and more detailed data mining would be necessary. Additional ratio for the financial analysis could also be developed (e.g. cost analysis per product and per project).

Risk Management

Risk Management is rated “c”

Procedures and internal controls

Procedures and internal controls do exist at Indlu and are fairly efficient but they strongly lack formalization. A good policy of separation of tasks is in place and hierarchical control is key in Indlu's procedures. Incompatible tasks are handled by distinct persons (e.g. loan application / data entry/ loan approval / disbursement). However, limitation of power could be reinforced (loans above a certain amount to be approved by a credit committee). In terms of cash security, Indlu reduced to the minimum the staff contact with the cash, LO's only handle bank slips. The cashier is responsible for cash collection and is daily controlled by the bookkeeper.

Indlu still needs to formalize most of the procedures to ensure their compliance. Indeed, neither an Operations nor an Accounting manual are available. However, the main risks are mitigated through precise job descriptions and cost control formalized procedures. Furthermore, the implementation of Workflow Management System effectively standardized most of the operational procedures as it imposes to the staff a step by step process. Indlu's management is aware of these shortcomings and expects the new IA officer to formalize these procedures.

The implementation of the existing procedures is adequate thanks to efficient and thorough controls done by the management. In addition, regular internal trainings on procedures are conducted to update the staff knowledge.

The data reliability is ensured through daily reconciliation among the three systems and with the bank accounts. Furthermore, data between the cash book and cash in safe are reconciled daily. Specific checks are automatically

carried out and the rare differences are swiftly identified and solved.

Internal audit

The Internal Audit (IA) function was externalized until August 2007 and Indlu suffered a lack of IA since that time. An IA officer has been recruited at the end of 2008 but she is not yet able to carry out her function yet as she is still in training. The IA officer will be supervised for almost another year by the COO to be adequately trained as she has no prior IA experience. This is not compatible with the necessary independence of the function.

There has been basic support to monitor internal controls by RHLF on-site visits supported by regular reporting to strategic partners / investors. Despite this regular follow-up (every three months), external auditors have not provided any management letters to date increasing Indlu need for an efficient internal audit structure in the future to support the expected growth.

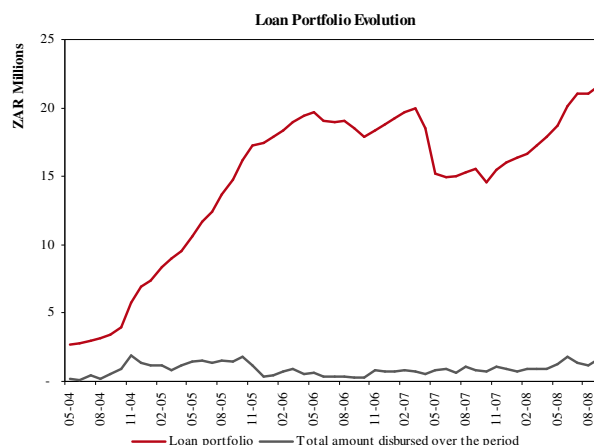
Activities

Activities: products and services is rated “e”

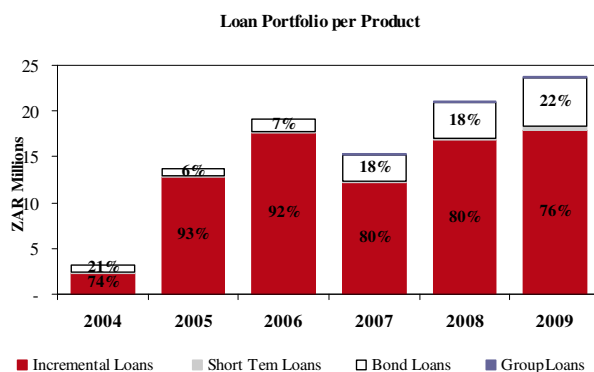
Financial services evolution

Indlu experienced strong growth of its portfolio from 2004 to May 2006 (98% from August 2003 to August 2004; 336% from FY04 to FY05 and 40% from FY05 to FY06) thanks to the Home Improvement Companies⁶. Then, it experienced the strong credit crisis in 2006 and stopped the disbursements in May 2006. Though, the portfolio has decreased from May 06 (19 M ZAR) to April 07 (15.3 M ZAR). The secured portion of the portfolio is not taken into account for the analysis of the activity and for the PAR data. For analytical purposes, PR considers that the portfolio decreased by the amount of loans secured, leading to a negative growth of 19.7% for the FY 06/07. However, Planet Rating took this amount into account as part of the assets, as the loans have not been written-off. Indlu re-focuses on the growth of its portfolio (+37.2% for the FY 07/08) since September 2007.

⁶ See Institutional Presentation



The growth in number of clients has been lower as a result of an increasing average outstanding loan size. The incremental loan remains the most prominent product of the portfolio (76% of total portfolio as of January 2009) but it is declining compared to the past 4 years where it was accounted for between 93% and 80% of the portfolio. This is the result of the constant increase of the bond loans from 2006 (7% of the portfolio) to 2009 (22% of the portfolio).



Financial services management

The credit methodology is relatively adequate but is significantly hampered by the fact that Indlu set loose criteria for the repayment capacity analysis: repayment capacity criteria are linked to the gross income of the client – 33% of the gross income and 100% of the disposable income. They are in line with the affordability criteria set by the National Credit Regulator which is demonstrated to be too loose by the current portfolio quality. Furthermore, no mechanisms are in place to improve client repayment behavior (reward to clients for on-time repayments, symbolic collaterals and guarantees for Incremental Loans and ST Loans). The systematic use of the credit bureau strengthens the credit decision but does not address the risk of future over indebtedness. There is no client visit to evaluate the clients’ repayment capacity for incremental loans. On the contrary, bond loans are dedicated to well known clients and a site visit complements efficiently the desk evaluation.

The methodology is adequately implemented thanks to adequate LO's technical skills. However, some trainings on portfolio quality indicators would be needed for the LO's and specifically for the Group Lending department. Furthermore, the adequate repayment capacity analysis is complex and needs to be strongly supervised.

Delinquency Management is adequate and supplemented by the dissuasive effect of the collaterals for the Bond loans. Indlu's LOs make a systematic follow-up on the first late day by several phone calls and an official warning letter after one month. However, LOs still have room to increase pressure on clients to ensure repayment is made. Furthermore, as incremental and short term loans are uncollateralized, Indlu does not have any pressure tools on the clients except from the legal process. A specific legal department is in charge of the recovery process if the client did not repay 21 working days after the warning letter. The legal process is fairly swift in South Africa (3 to 6 months).

Credit risk

Credit risk at Indlu is high with a high PAR 30 standing at 41.1% as of January 2009. Indlu experienced a strong drop in its portfolio quality due to a systemic crisis in 2006. PAR 30 rose to 70.2% by August 2006. It is now following a decreasing trend at 54.4% in 2007, 48.1% in 2008 and 41.1% as of January 2009. However, beyond the slow portfolio quality improvement, this recovery is mainly due to two different factors: the 5.8 M ZAR portion of the portfolio secured by RHLF which has been removed from the PAR data and a successive and significant write-offs. Indeed, loans disbursed after the credit crisis also show a low portfolio quality with PAR 31-365 of 13.7% as of Jan. 2009.

Indlu has not followed the best write-off practices since 2006. Even so, the ratio has been well above international standards (10.8% in 2006, 13.7% in 2007 and 9% as of August 2008). Indlu recently put in place a write-off policy which will be applied to loans issued after October 2008. Indlu will write-off loans for which there have been no payments for past 9 months. Despite the successive write-off, Indlu still has a high PAR 365 standing at 27.4% as of January 2009 which does not adopt a significant decreasing trend (21.4% as of August 2006, 28.8% as of August 2007 and 30.8% as of August 2008).

Indlu's management expects the rescheduled loans to be little but they are not monitored. As such, the rescheduled loans are not considered in the portfolio quality indicators.

Connected loans are under the same affordability conditions than other loans and monitored by a specific loan officer. However no limit has been set in terms of percentage of portfolio.

Indlu does not monitor the concentration risk and no specific criteria are in place to limit exposure. Indlu increased the number of building material suppliers as the management took conscience of the excessive exposure to some retailers. However, although being conscious of this risk, Indlu does not monitor it properly.

Credit risk coverage

Indlu is under provisioned as the provisions cover only 26.4% of PAR 30 and 29.5% of PAR 90 as of January 2009.⁷ Furthermore, PAR 30 net of loan loss provisioning comprises 61.6% of equity where PAR 365 comprises a high 33.8% of equity. To come up to the minimum required loan loss provisioning of Planet Rating an additional provisioning expense of 5.7 M ZAR (568 K USD) is required.⁸

Indlu adopted a specific provisioning policy under RHLF advice taking into account housing finance specificities. This methodology takes into account the repayment behavior of the client. However, in the opinion of Planet Rating, the risk coverage is insufficient for a Housing Finance Institution with 78% of its portfolio uncollateralized. According to Indlu's own provisioning policy an additional loan loss provisioning expense of 5.6 M ZAR (551 K USD) is required.

Indlu asks its clients to contract specific life insurance (compulsory) and a short term insurance on a voluntary basis. No other insurance policy is contracted that would cover important risks such as health insurance covering HIV/AIDS risks or economical risks. All the Bond Loans are collateralized; Indlu registers a bond on the property.

■ Funding and liquidity

Funding and liquidity is rated "d"

Funding strategy and capitalization

Planet Rating considers that Indlu is undercapitalized after adjustments. After Oikocredit's capital injection in 2008, Indlu has a nominal capital adequacy ratio (CAR) calculated on the Tier 1 capital of 22.8% as of January 2009. However, after adjusting Indlu's provisions to reach the minimum required according to the GIRAFE methodology (see Credit risk coverage), Indlu's capital is brought down to an insufficient 698 K ZAR (68,895 USD) as of January 2009. Such adjustments would bring the CAR at a very low 2.2%,

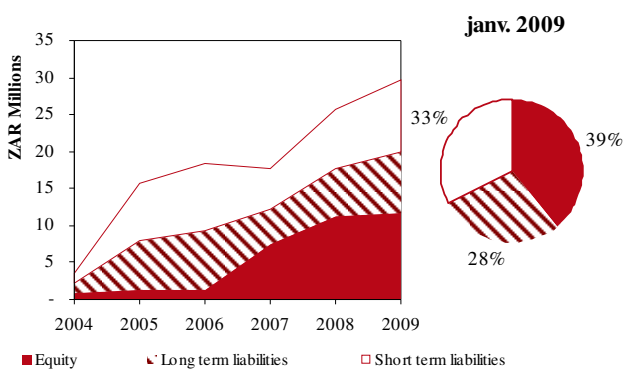
⁷ The PAR figures used to calculate the coverage already exclude the portion of the portfolio covered by RHLF.

⁸ GIRAFE minimum provisioning requirements are 50% provisioning for late loans between 91-180 days and 100% provisioning for loans late by 181 days or more.

thus pleading for additional equity injection in order to recapitalize Indlu.

Funding needs for 2009 are clearly identified and secured (RHLF funding). For 2009/10, funding needs are in advanced negotiation with reliable shareholders (Oikocredit and RHLF) and handled so far by the MD. Despite the definition of a long term funding strategy, the current undercapitalization weakens Indlu's position to retain and attract existing and new fund providers. Nevertheless, Microfin model provides precise identification of the three years funding needs (cf. Planning), and Indlu plans to limit its reliance on its current fund providers. Furthermore, Indlu developed a trust relationship with the fund providers thanks to consistent and transparent communication with its current partners.

Funding Structure



Liquidity risk

At present there is limited capacity at Indlu for proper liquidity and maturity management. The finance function is carried out by the COO who still needs to develop stronger financial management tools. Maturity risk is not monitored at Indlu despite the fact that the technical insolvency leads to a long-term maturity gap.

Liquidity risk at Indlu needs to be further managed. The liquidity risk is monitored thanks to monthly cash flow projections that are updated on a weekly basis. However, these projections can be improved and a minimum level of liquidity needs to be set. The liquidity to total asset ratio has reached a low level. It was standing at 6% as of August 2008 and decreased to 2.7% as of January 2009. Furthermore, the liquidity kept is just sufficient to cover 1.3 months of operating expenses (down from 2.8 in August 2008). However, the risk of cash flow shortages is mitigated by the unused portion of 10 M ZAR (987 K USD) credit facility from RHLF.

Market risk

Indlu has no exposure to foreign exchange risk as all assets and liabilities are labeled in local currency. Interest

exchange risk, on the other hand is present. Oikocredit's 4.7 M ZAR (571 K USD) long term loan is linked to the Prime Rate representing an open position 51.9% on the Tier 1 capital. Even though Indlu is authorized by the NCR to adjust the interest rates on its loans following the Prime Rate, it does not compensate the current open position. Indeed, the loans are issued at a fixed rate. Similarly to the other interest rates around the world, the Prime rate is following a declining trend from a high 15% as of December 2008 to 12% as of May 2009. If the trend is not expected to change in the very short term, a 100 basis point increase in this rate would nevertheless impact the ROA up to 0.6%.

Efficiency and Profitability

Efficiency and Profitability is rated "d"

Profitability analysis

Indlu's under-provisioning hinders the increasing profitability trend. Audited financial statements show ROA figures improving from negative (7%) in 2007 to negative (1.8%) as of August 2008 and negative (1.2%) as of January 2009. However, additional provisions necessary to meet the GIRAFE standard would have a strong impact on the ROA, reducing it to negative (50.9%).

The portfolio yield slightly decreased over the last 3 years to stand at 47.8% as of August 2008. The 15% yield gap is mainly due to the low portfolio quality shown by the PAR data. However, as Indlu charges interest on the actual outstanding amount (recalculating interest when clients are late) the yield gap is kept to a more manageable level.

The profitability has been impacted positively by the strong decrease of the LLP ratio⁹. It is however not realistic due to the insufficient credit risk coverage. Indeed, this declining LLP ratio trend is not due to improved portfolio quality but the result of reduced credit risk coverage in 2008.

Indlu has a moderate revenue quality. On the one hand Indlu is strategically well positioned to capitalize on the still untapped housing finance market for low income clients. Furthermore, the institution relies on the lower cost (for short term loans) and the longer term (for bond loans) of its products compared to its main competitors. On the other hand however, these advantages could erode fast as competition is adjusting. Moreover, Indlu has limited capacity to develop new products and expand its outreach to fully capitalize on the opportunities in the market.

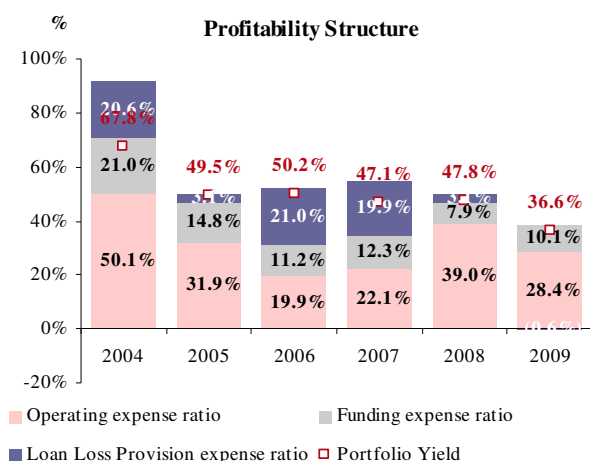
⁹ The LLP ratio stood at 21% as of August 2006, 20% as of August 2007, 3% as of August 2008 and (0.6%) as of August 2009.

In terms of expenses, the operating expense ratio (OER) has been fluctuating above 20% since 2007 (22%) and stands at 28% as of January 2009¹⁰. The OER is considered to be high given the level of the average outstanding loan per client¹¹ and Indlu's modus operandi. The increasing trend of the OER (72% from August 2007 to August 2008) is not due to a lower average loan outstanding as percentage of GDP per capita which remains stable. The number of active clients also remained stable for the last three years. Consequently, the cost per borrower has increased¹². The increase in the OER is reflected in the LOs' productivity that has dropped from 268 clients in 2007 to 127 in January 2009. Given the fact that all the operations are done over the phone, it gives Indlu interesting room to improve its productivity. Indlu will need to increase its portfolio by 29% to come back to the 2007 OER level.

The cost structure as of January 2009 goes back to the levels experienced in August 2007 after a decrease in FY 2007/08. The combined effect of a heavier weight of funding in the BS as well as a larger recourse to commercial loans and higher leverage led to a funding expense ratio standing at 10.1% as of January 2009 and a cost of liabilities standing at 14.9%. With an asset deployment ratio over 85% for the last years (87.4% as of January 2009) Indlu shows an excellent optimization of its resources.

Given the significant under-provisioning and the stagnating low portfolio quality, the profitability outlook for Indlu is negative in the short term. The increase in the profitability will depend on Indlu's capacity to manage the growth, in order to benefit from economies of scale while improving its portfolio quality.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.



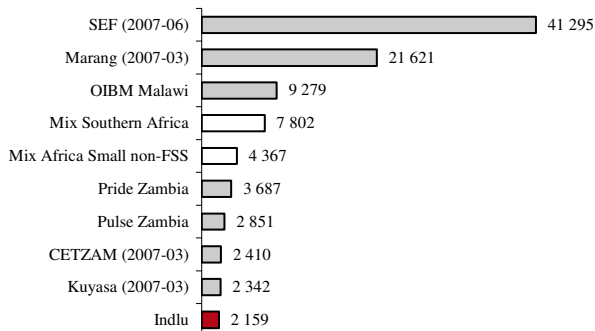
¹⁰ OER reached 39% in 2008 due to the combined effects of the stagnation of the portfolio and the 127% increase in the personnel expenses (22 headcounts recruited in 2008).

¹¹ The average outstanding loan per client, stood at 1,430 USD in 2008

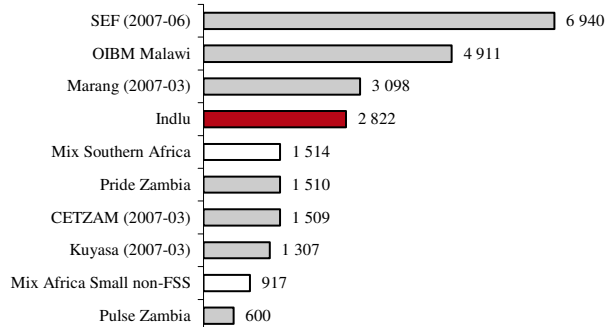
¹² The cost per borrower increased from 255 USD as of August 2007 to 420 USD as of August 2008 and decreased to 335 USD as of January 2009.

Benchmarking

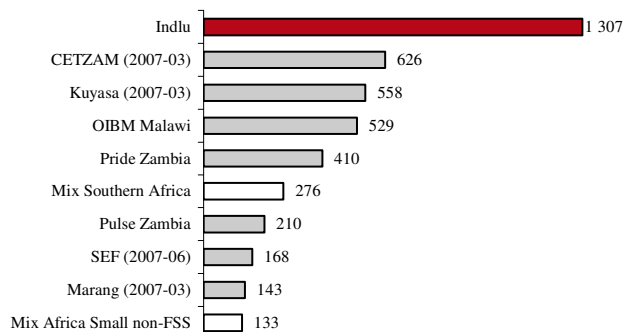
Active borrowers



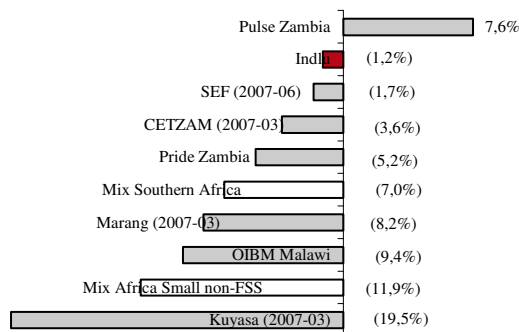
Loan portfolio ('000 USD)



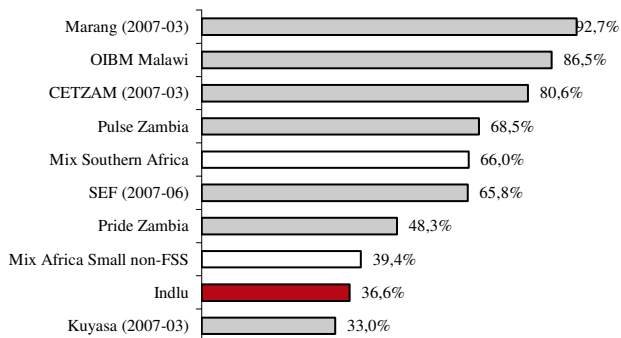
Average outstanding loan per client (USD)



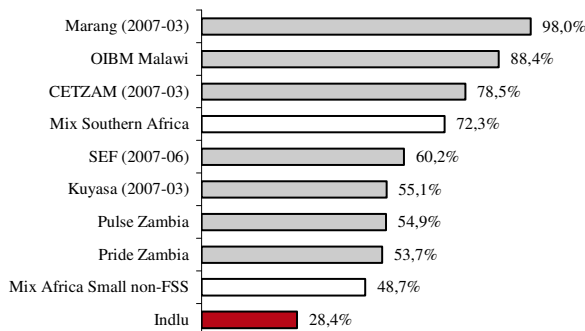
ROA



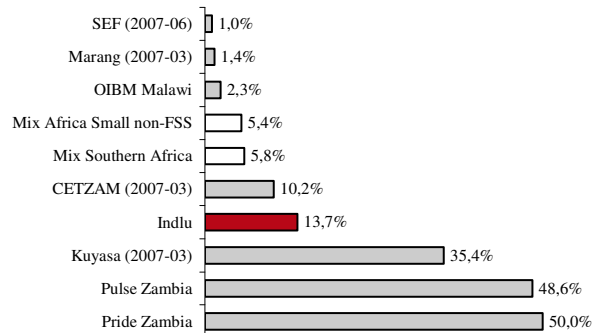
Portfolio yield



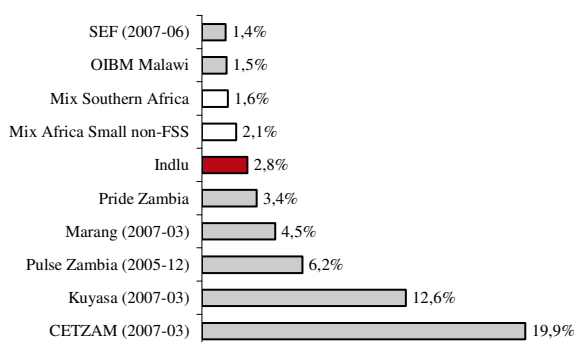
Operating expense ratio



PAR 31-365



Write-off ratio



Source: Planet Rating own data for Indlu and Kuyasa; other data from www.mixmarket.org, 1. Mix Africa Small Non FSS uses 2007 data, 2. Mix Africa Southern Africa uses 2006 data

Data in USD, unless otherwise stated

■ Performance indicators

	Aug. 2004	Aug. 2005	Aug. 2006	Aug. 2007	Aug. 2008	Jan. 2009
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	352,886	2,007,845	2,802,076	2,803,514	2,965,464	2,821,775
Loan portfolio (ZAR)	2,375,841	13,168,053	19,892,579	20,124,742	22,995,396	28,574,532
Evolution	-	454.2%	51.1%	1.2%	14.3%	24.3%
Average outstanding loan portfolio	176,443	1,237,661	2,518,048	2,477,127	2,234,280	2,546,301
Active borrowers	493	1,773	2,317	2,147	2,074	2,159
Evolution	68.3%	259.6%	30.7%	(7.3%)	(3.4%)	4.1%
Average outstanding loan per client	716	1,132	1,209	1,306	1,430	1,307
% of GDP per capita	9.1%	13.3%	13.2%	13.4%	14.1%	13.0%
Average amount disbursed per loan	1,739	1,385	1,051	966	1,235	1,166
% of GDP per capita	22.1%	16.3%	11.5%	9.9%	12.2%	11.6%
Portfolio quality						
Rescheduled loans	N/A	N/A	N/A	N/A	N/A	N/A
PAR 31-365	25.7%	35.2%	48.7%	25.6%	17.4%	13.7%
PAR > 365	11.0%	3.8%	21.4%	28.8%	30.8%	27.4%
Write-off ratio	3.6%	2.8%	10.8%	13.7%	9.0%	2.8%
Credit risk coverage						
Risk coverage ratio (PAR 30)	21.2%	5.0%	28.3%	45.8%	9.7%	26.4%
PAR 31 net of loan loss provision / Equity	100.2%	366.0%	689.2%	59.2%	81.0%	61.6%
Staff						
Total number of staff	7	17	22	20	34	34
% Credit officers	57.1%	52.9%	45.5%	40.0%	50.0%	50.0%
Turnover	-	0.0%	15.4%	19.0%	29.6%	0.0%
Profitability analysis						
ROE	(24.4%)	36.5%	(24.0%)	(28.5%)	(4.2%)	(2.9%)
Liabilities / Equity	2.96x	10.33x	12.25x	1.33x	1.28x	1.55x
Capital adequacy ratio*	33.1%	10.0%	8.2%	10.8%	24.5%	22.8%
Adjusted CAR**	23.4%	6.5%	(20.9%)	(20.4%)	(3.1%)	(0.3%)
ROA***	(6.2%)	4.3%	(2.0%)	(7.1%)	(1.8%)	(1.2%)
Profitability structure						
Portfolio Yield	67.8%	49.5%	50.2%	47.1%	47.8%	36.6%
Operating expense ratio	50.1%	31.9%	19.9%	22.1%	39.0%	28.4%
Cost per borrower	179	223	216	255	420	335
Staff productivity	70	104	105	107	61	64
Loan officer productivity	123	197	232	268	122	127
Average outstanding loan per client (USD)	716	1,132	1,209	1,306	1,430	1,307
Funding expense ratio	21.0%	14.8%	11.2%	12.3%	7.9%	10.1%
Cost of liabilities	18.6%	14.3%	12.8%	16.2%	11.4%	14.9%
Loan Loss Provision expense ratio	20.6%	3.1%	21.0%	19.9%	3.1%	(0.6%)
PAR 31-365	25.7%	35.2%	48.7%	25.6%	17.4%	13.7%
Write-off ratio	3.6%	2.8%	10.8%	13.7%	9.0%	2.8%
Resource optimization						
Outstanding Loan Portfolio / Assets	59.4%	82.2%	87.2%	92.0%	85.5%	87.4%
Revenue from investment as a % of financial revenues	0.1%	0.0%	0.0%	0.0%	0.0%	0.2%
Liquidity						
Liquidity / Total assets (LAR)	23.7%	11.5%	8.0%	3.9%	6.0%	2.7%
Exchange rate 1 USD= xx ZAR	6.7	6.6	7.1	7.2	7.8	10.1

* CAR is calculated on Tier 1 Capital

** CAR was only adjusted for loan loss provisioning.

*** ROA, based on the audited financial statements, not adjusted for write-offs or loan loss provisioning.

GIRAFE Rating – Indlu, South Africa – April 2009

Indlu	ZAR					USD						Evolution			
	Aug. 04	Aug. 05	Aug. 06	Aug. 07	Aug. 08	Jan. 09	Aug. 04	Aug. 05	Aug. 06	Aug. 07	Aug. 08	Jan. 09	07/06	08/07	09/08
Income Statement															
Financial Revenue (a)	868,167	4,619,738	8,971,773	8,366,592	8,277,539	3,937,417	128,950	704,411	1,263,767	1,165,523	1,067,464	388,825	(6.7%)	(1%)	(52%)
Financial Revenue from Loan Portfolio	805,962	4,016,735	8,971,773	8,366,592	8,277,539	3,930,545	119,710	612,466	1,263,767	1,165,523	1,067,464	388,147	(6.7%)	(1.1%)	(52.5%)
Interest on Loan Portfolio	640,996	3,318,116	7,363,598	6,678,381	6,664,127	3,034,247	95,208	505,941	1,037,239	930,344	859,399	299,636	(9.3%)	(0.2%)	(54.5%)
Fees and Commissions on Loan Portfolio	142,261	616,535	1,113,989	897,905	787,064	447,342	21,130	94,008	156,917	125,084	101,499	44,176	(19.4%)	(12%)	(43.2%)
Penalty Revenue on Loan Portfolio	22,705	82,084	494,186	790,306	826,348	448,956	3,372	12,516	69,611	110,095	106,565	44,335	59.9%	4.6%	(45.7%)
Financial Revenue from Investments	1,047	1,668	-	-	-	6,872	156	254	-	-	679	-	-	-	-
Other Operating Revenue	61,158	601,335	-	-	-	-	9,084	91,691	-	-	-	-	-	-	-
Financial Expense (b)	249,032	1,201,571	2,002,336	2,187,550	1,372,315	1,087,730	36,989	183,214	282,050	304,741	176,972	107,415	9.2%	(37%)	(20%)
Interest paid on borrowings	249,032	1,201,571	2,002,336	2,187,550	1,372,315	1,007,001	36,989	183,214	282,050	304,741	176,972	99,443	9.2%	(37%)	(26.6%)
Interest paid on deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	-	-	-	-	80,729	-	-	-	-	-	7,972	-	-	-
Financial income [c=a-b]	619,135	3,418,167	6,969,437	6,179,042	6,905,224	2,849,687	91,961	521,197	981,717	860,783	890,491	281,411	(11.3%)	11.8%	(58%)
Net Loan Loss provision expense (d)	244,523	252,509	3,750,302	3,530,620	542,559	(65,432)	36,319	38,502	528,269	491,839	69,968	(6,462)	(5.9%)	(84%)	(112%)
Loan loss provision expense and write-off	244,523	265,571	3,788,848	3,822,676	976,615	127,721	36,319	40,494	533,698	532,525	125,943	12,613	0.9%	(74%)	(86.9%)
Recovery from Loans written off	-	13,062	38,546	292,056	434,056	193,153	-	1,992	5,430	40,685	55,975	19,074	657.7%	48.6%	(55.5%)
Operating expense (e)	595,613	2,589,365	3,549,241	3,933,871	6,760,311	3,053,440	88,467	394,823	499,947	548,015	871,803	301,531	10.8%	71.8%	(54%)
Personnel Expense (includes fringe)	118,561	1,192,886	1,709,303	1,723,083	3,918,259	1,575,725	17,610	181,890	240,773	240,037	505,295	155,605	0.8%	127%	(59.8%)
Administrative Expense (non-staff operating expenses)	477,052	1,396,479	1,839,938	2,210,788	2,842,052	1,477,715	70,857	212,933	259,174	307,978	366,508	145,926	20.2%	28.6%	(48.0%)
Depreciation and amortization	106,341	143,931	75,458	92,407	105,286	-	15,795	21,946	10,629	12,873	13,578	-	22.5%	13.9%	-
Administrative Expenses	370,711	1,252,548	1,764,481	2,118,381	2,736,766	1,477,715	55,062	186,042	262,080	314,645	406,495	219,486	20.1%	29.2%	-
Net Operating Income Before Taxes and Donations [f=c-d-e]	(221,001)	576,293	(330,106)	(1,285,449)	(397,646)	(138,321)	(32,826)	87,872	(46,499)	(179,072)	(51,280)	(13,659)	289.4%	(69%)	(65%)
Income Taxes (g)	-	157,574	3,436	-	-	-	-	24,027	484	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]	(221,001)	418,719	(333,542)	(1,285,449)	(397,646)	(138,321)	(32,826)	63,846	(46,983)	(179,072)	(51,280)	(13,659)	285.4%	(69%)	(65%)
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	90,278	-	-	-	-	8,915	-	-	-	-
Net Income Before Donations [k=h+i-j]	(221,001)	418,719	(333,542)	(1,285,449)	(397,646)	(228,599)	(32,826)	63,846	(46,983)	(179,072)	(51,280)	(22,574)	285.4%	(69%)	(42%)
Donations (l)	262,500	60,000	341,955	1,735,000	472,500	802,200	38,989	9,149	48,168	241,697	60,933	79,218	407.4%	(72%)	69.8%
Net Income (after Taxes and Donations) [m=k+l]	41,499	478,719	8,413	449,551	74,854	573,601	6,164	72,994	1,185	62,626	9,653	56,644	5,243%	(83%)	666.3%

GIRAFE Rating – Indlu, South Africa – April 2009

Indlu	ZAR						USD						Evolution		
	Aug. 04	Aug. 05	Aug. 06	Aug. 07	Aug. 08	Jan. 09	Aug. 04	Aug. 05	Aug. 06	Aug. 07	Aug. 08	Jan. 09	07/06	08/07	09/08
Balance sheet															
ASSETS	3,590,640	15,701,533	18,474,049	17,726,991	25,749,757	29,739,973	533,321	2,394,147	2,602,261	2,469,491	3,320,664	2,936,864	(4.0%)	45.3%	15.5%
Short Term Assets	3,140,006	15,110,632	17,746,960	17,031,361	23,632,324	27,518,218	466,388	2,304,047	2,499,843	2,372,585	3,047,602	2,717,462	(4.0%)	38.8%	16.4%
Cash and Due from Banks	851,199	1,800,741	1,481,093	689,133	1,552,305	810,407	126,429	274,574	208,627	96,001	200,184	80,029	(53.5%)	125.3%	(47%)
Short Term Investments	-	-	-	-	-	749,061	-	-	-	-	-	73,971	-	-	-
Short Term Net Loan Portfolio	2,024,720	12,853,105	16,058,703	16,257,439	21,973,254	25,998,092	300,734	1,959,823	2,262,035	2,264,772	2,833,650	2,567,348	1.2%	35.2%	18.3%
Short Term Gross Loan Portfolio	2,269,243	13,118,676	19,847,551	20,080,115	22,949,869	28,574,532	337,053	2,000,317	2,795,733	2,797,297	2,959,593	2,821,775	1.2%	14.3%	24.5%
(Loan Loss Reserve)	244,523	265,571	3,788,848	3,822,676	976,615	2,576,440	36,319	40,494	533,698	532,525	125,943	254,427	0.9%	(74.5%)	163%
Interest Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
On loan portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
On investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	264,087	456,786	207,164	84,789	106,765	(39,342)	39,225	69,650	29,181	11,812	13,768	(3,885)	(59.1%)	25.9%	(136%)
Long term assets	450,634	590,901	727,089	695,630	2,117,433	2,221,755	66,933	90,100	102,418	96,906	273,062	219,401	(4.3%)	204%	4.9%
Long Term Net Investments	-	63,302	233,352	239,758	1,443,931	1,200,000	-	9,652	32,870	33,400	186,208	118,502	2.7%	502%	(16.9%)
Long Term Gross Loan Portfolio	106,598	49,377	45,027	44,627	45,527	-	15,833	7,529	6,343	6,217	5,871	-	(0.9%)	2.0%	-
Net Fixed Assets	344,036	478,222	448,710	411,245	627,975	1,021,755	51,100	72,919	63,205	57,289	80,983	100,900	(8.3%)	52.7%	62.7%
Other Long Term Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY	3,590,640	15,701,533	18,474,049	17,726,991	25,749,757	29,739,973	533,321	2,394,147	2,602,261	2,469,491	3,320,664	2,936,864	(4.0%)	45.3%	15.5%
Liabilities	2,683,546	14,315,747	17,079,850	10,103,379	14,464,425	18,063,145	398,590	2,182,844	2,405,874	1,407,469	1,865,318	1,783,761	(40.8%)	43.2%	24.9%
Short term liabilities	1,449,115	7,802,987	9,224,700	5,558,269	8,005,148	9,694,255	215,239	1,189,788	1,299,394	774,305	1,032,336	957,321	(39.7%)	44.0%	21.1%
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	1,449,115	7,645,413	9,221,264	5,335,564	7,647,000	9,877,178	215,239	1,165,761	1,298,910	743,280	986,150	975,385	(42.1%)	43.3%	29.2%
Interest payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other	-	157,574	3,436	222,705	358,148	(182,924)	-	24,027	484	31,024	46,186	(18,064)	6.381%	60.8%	(151%)
Short Term Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities	1,234,431	6,512,760	7,855,151	4,545,110	6,459,277	8,368,890	183,351	993,056	1,106,479	633,165	832,982	826,440	(42.1%)	42.1%	29.6%
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	1,234,431	6,512,760	7,855,151	4,545,110	6,459,277	8,413,893	183,351	993,056	1,106,479	633,165	832,982	830,884	(42.1%)	42.1%	30.3%
Other Long Term Liabilities	-	-	-	-	-	(45,003)	-	-	-	-	-	(4,444)	-	-	-
Equity	907,094	1,385,786	1,394,198	7,623,612	11,285,332	11,676,828	134,732	211,303	196,387	1,062,021	1,455,346	1,153,103	446%	48.0%	3.5%
Tier 1 Capital	907,094	1,385,786	1,394,198	1,843,748	5,918,601	6,446,544	134,732	211,303	196,387	256,847	763,257	636,605	32.2%	221%	8.9%
Paid-In Capital	1,000,000	1,000,000	1,000,000	1,000,000	4,999,999	5,000,000	148,531	152,479	140,860	139,307	644,795	493,757	0.0%	400%	0.0%
Donated equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings without donations and reserves	(92,906)	385,786	394,198	843,748	918,602	1,446,544	(13,799)	58,824	55,527	117,540	118,462	142,848	114%	8.9%	57.5%
Tier 2 Capital	-	-	-	5,779,864	5,366,731	5,230,284	-	-	-	805,174	692,088	516,498	-	(7.1%)	(2.5%)
Subordinated debt	-	-	-	5,779,864	5,366,731	5,230,284	-	-	-	805,174	692,088	516,498	-	(7.1%)	(2.5%)
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

■ Formulas

Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{Equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{Average gross outstanding portfolio}$
Staff productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{Average gross outstanding portfolio}$
Cost of savings ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowings}$
Loan loss provision expense ratio:	$\text{Net loan loss provision expense} / \text{Average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{Average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{Total assets (end of period)}$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{Average gross outstanding portfolio}$
Capital adequacy ratio:	$\text{Capital} / \text{Risk weighted assets (end of period)}$

■ Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
A-	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	
B++	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	INVESTMENT GRADE
B+	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	
B	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	SPECULATIVE INVESTMENT
B-	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	