

LEHMAN BROTHERS

Corporate Strategy

Americas

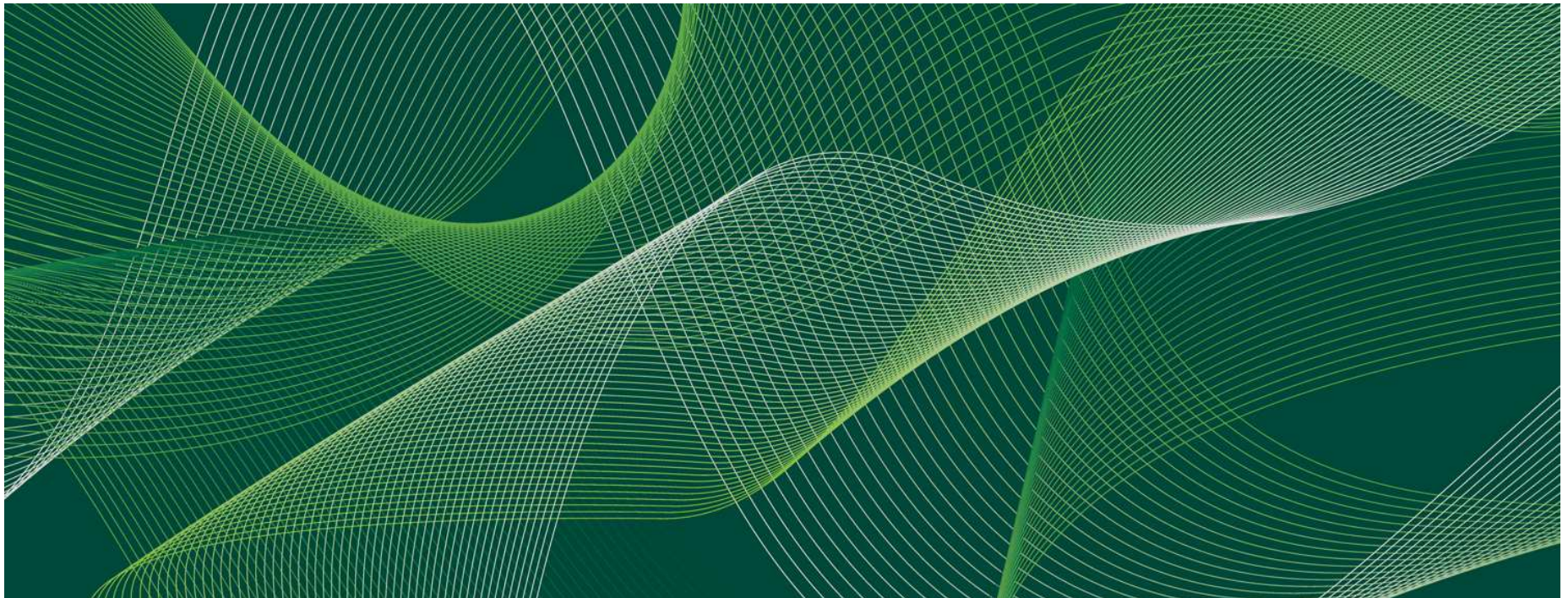
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Microfinance Overview



Microfinance Landscape Overview and Key Terms

Microfinance Landscape: 3 Types of Players

Retail Microfinance Institutions (MFIs)

- ◆ *Role in landscape.* Provide financial and perhaps ancillary services, such as business development and financial literacy training, as well as health care and education, directly to the self-employed poor
- ◆ *Investment opportunities.* Given the relatively small size of most retail microfinance institutions, the cost as a percentage of assets of investing in them individually can be prohibitive. To maximize potential commercial returns, it therefore makes sense to either invest directly in Tier I (larger and more profitable) MFIs or through MIVs in Tier I and II MFIs

Microfinance Investment Vehicles (MIVs)

- ◆ *Role in landscape.* Facilitate collective debt and equity investment in microfinance institutions
- ◆ *Investment opportunities.* Microfinance investment vehicles are becoming more commercial,¹ but many are not yet commercial. The most commercially attractive MIVs focus on profitable MFIs that are not overbanked

Networks

- ◆ *Role in landscape.* Provide retail MFIs with technical assistance, financial products and services, and support for advocacy
- ◆ *Investment opportunities.* Currently not a commercial investment opportunity, but may be a means of sourcing deals; a number of networks have started their own microfinance investment vehicles

1. Please see page 2 for definition of “Commercial.”

3 Types of Microfinance Investment Vehicles (MIVs)¹

Commercial

- ◆ Aim to provide a financial return to socially responsible and commercial private and institutional investors while maintaining key social and development objectives. Commercial MIVs would be clearly targeted towards private and institutional investors

Commercially -Oriented

- ◆ Have clearly stated financial objectives, but are currently targeted to private donors, development agencies, and other such actors in the microfinance industry

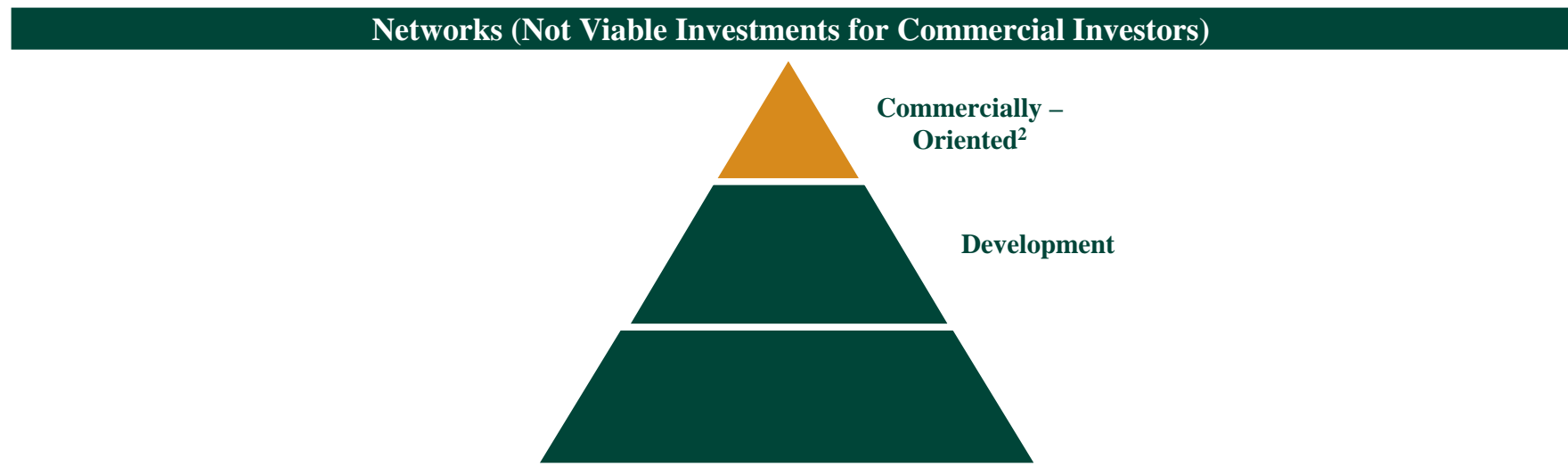
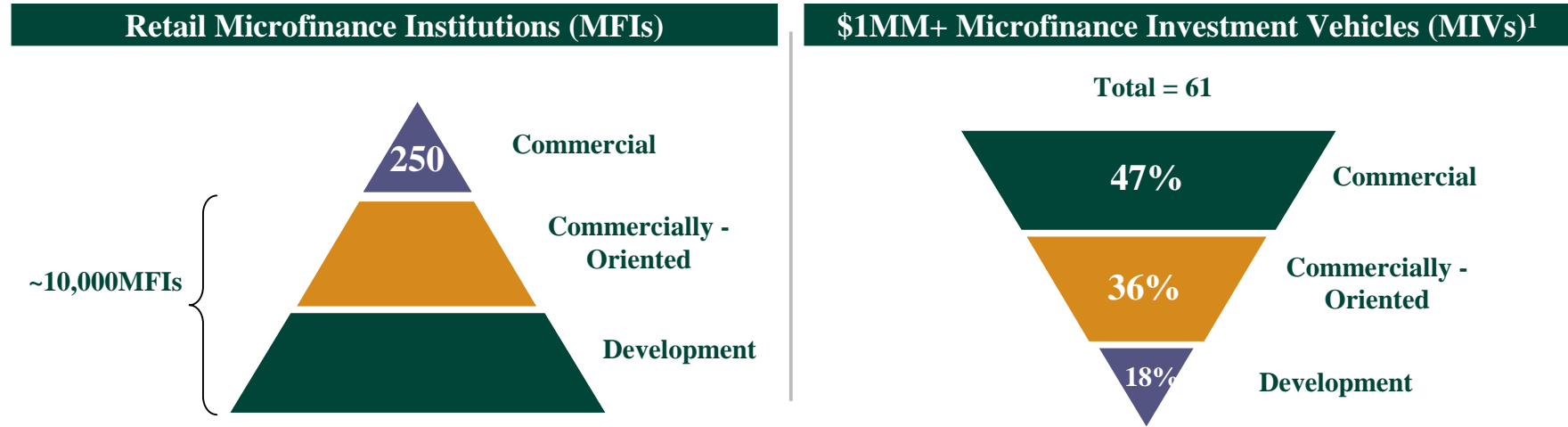
Development

- ◆ Aim to make capital available to MFIs through sustainable mechanisms to support their development and their growth without necessarily achieving financial return

1. Source: Patrick Goodman's "Microfinance Investment Funds: Key Features"

Microfinance Landscape

There is some movement in the microfinance industry toward more commercially-driven activities. Most of the industry remains development- and commercially-oriented

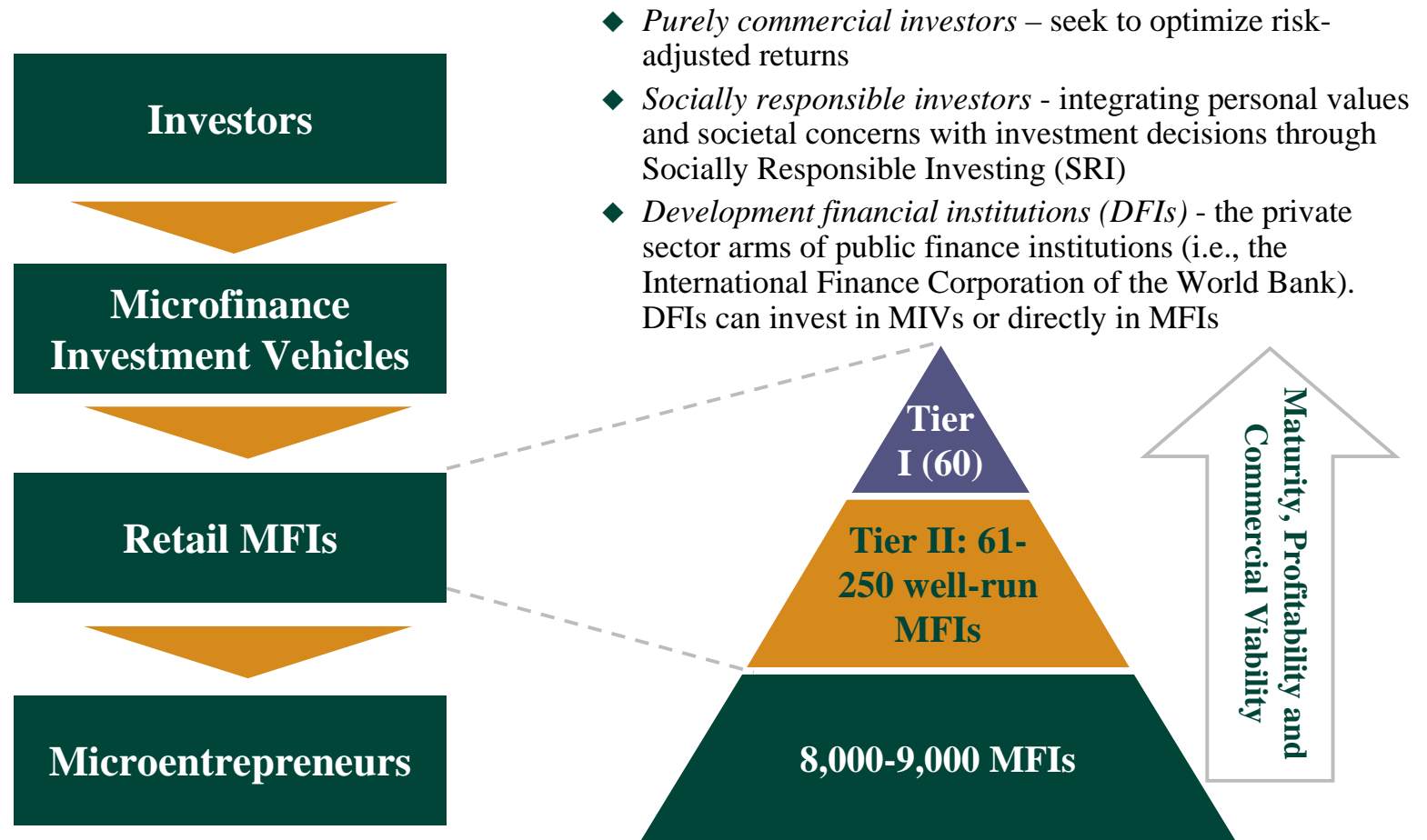


1. Of the 96 MIVs in existence in July 2008, 61 reported to MIXMarket \$1MM+ in AUM and disclosed the nature of their sources of funding
 2. Limited to cases in which networks have launched microfinance investment vehicles

Microfinance Investment Mechanics and Investors

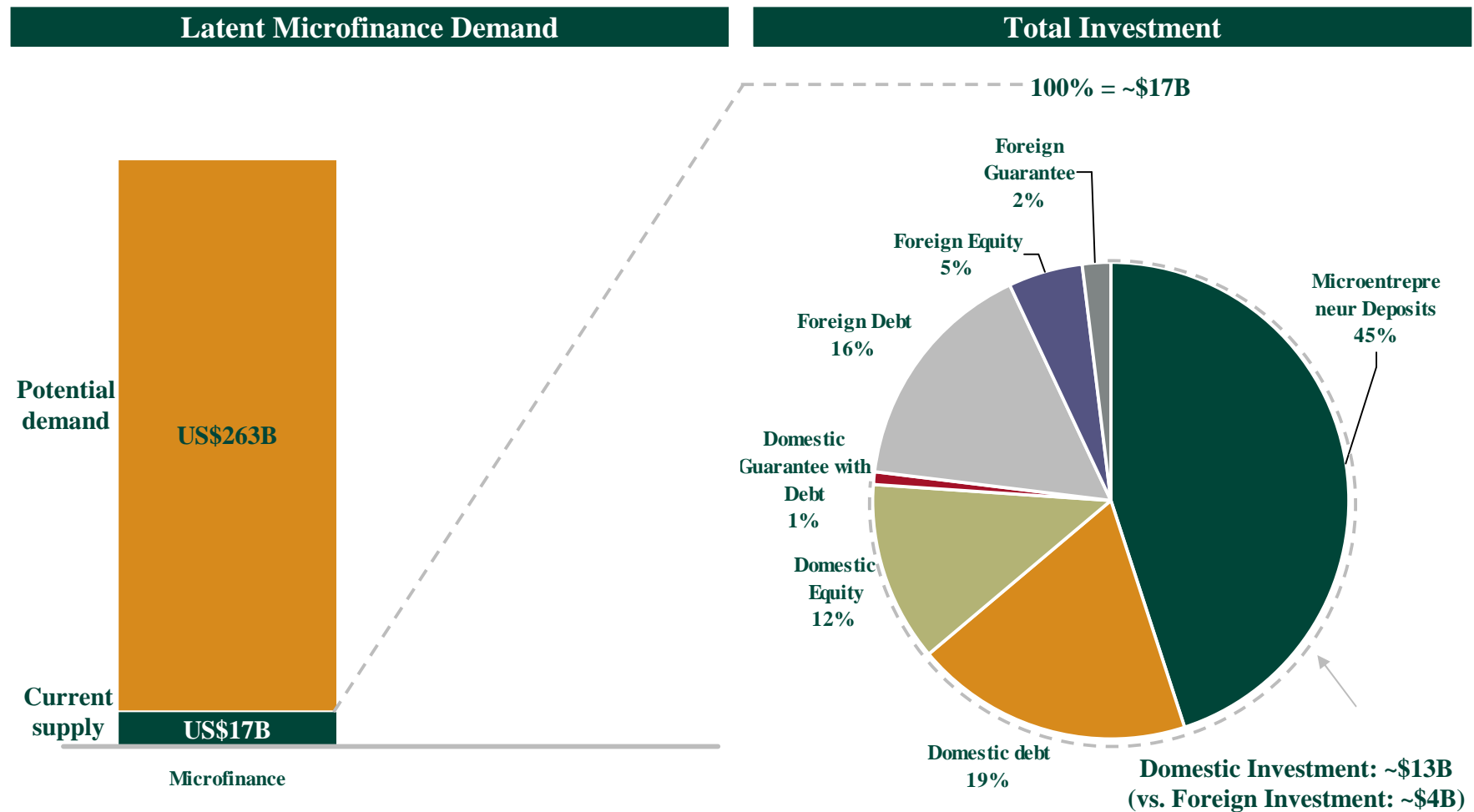
Investors typically access microentrepreneurs through a series of intermediaries. The 3 main categories of investors (purely commercial investors, socially responsible investors, and development financial institutions) have different goals and approaches

Microfinance Investing via Investment Banks



Potential Capital Needs Cannot be Met by Traditional Sources¹

In the long-term, commercially-oriented² and development³ capital will not be able to fund the provision of credit at the required scale



1. Source: McKinsey's "Optimizing Capital Supply in Support of Microfinance Industry Growth" presented October 2006. Study drew upon 2004 data.
 2. Commercially-oriented capital - has clearly stated financial objectives, but is largely funded by private donors, development agencies, and other such actors in the microfinance industry.
 3. Development capital - aims to make capital available to MFIs through sustainable mechanisms to support their development and their growth without necessarily achieving financial return.

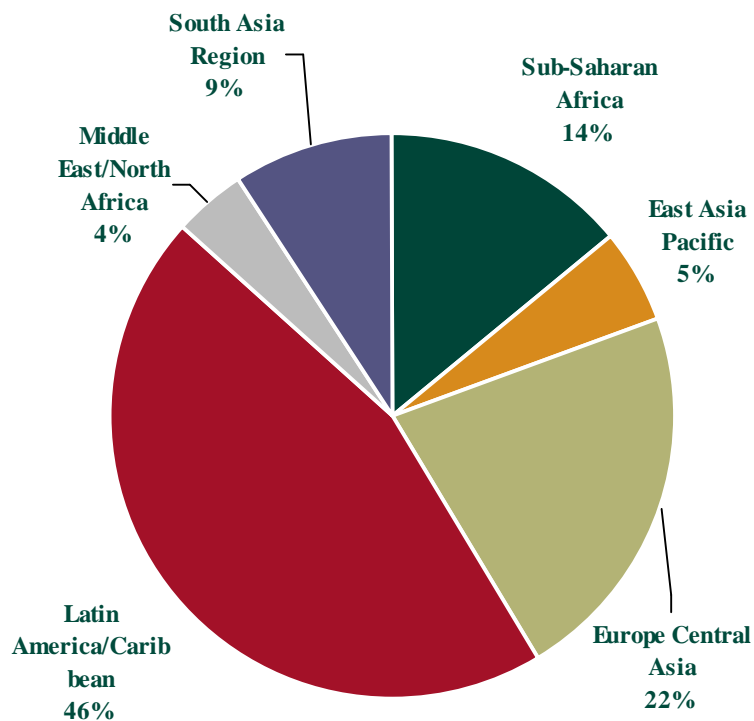
Tier I and II MFIs

MFI Universe Summary Statistics: Regional Distribution

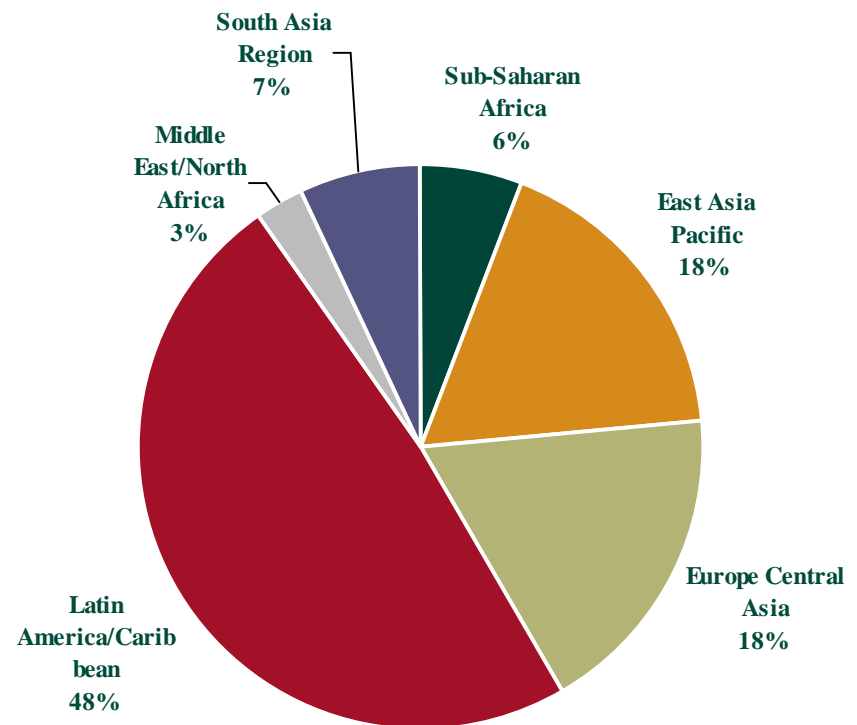
Tier I and II MFIs

68% of MFIs and 66% of MFI assets are concentrated in 2 regions: Latin America/Caribbean and Europe/Central Asia

Global Distribution of Tier I and Tier II MFIs



Global Distribution of Tier I and Tier II MFI Assets

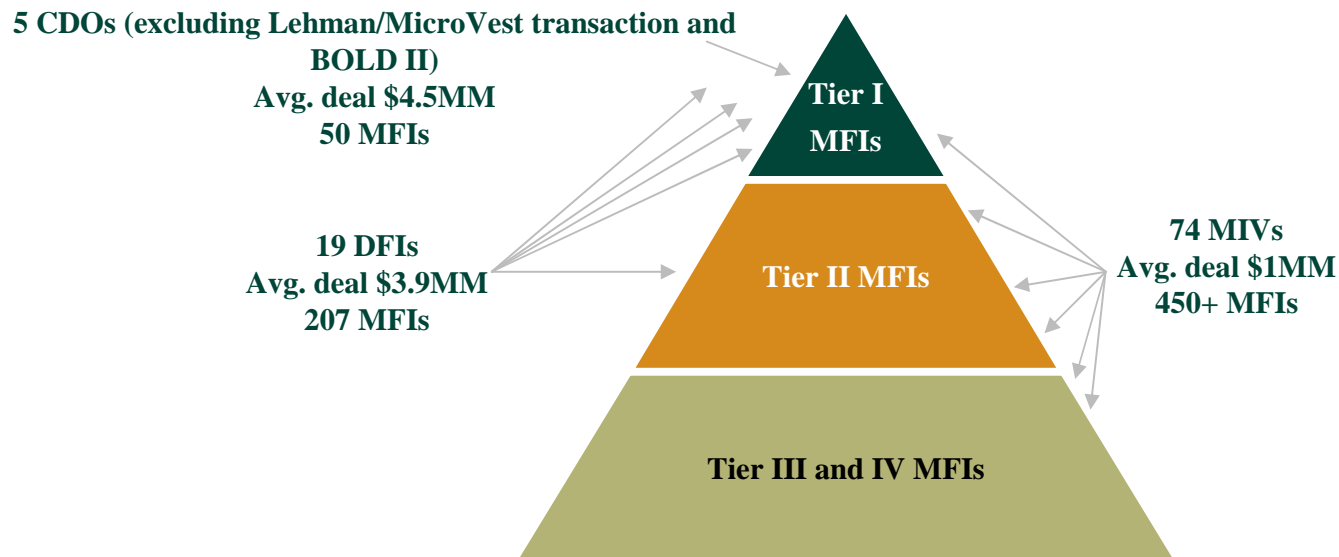


1. Source: MIXMarket Data as of July 26, 2007

Concentration on Tier I MFIs¹

Microfinance CDOs and DFI investments have been focused on Tier I MFIs

CDO, DFI, and MIV Investments in MFIs

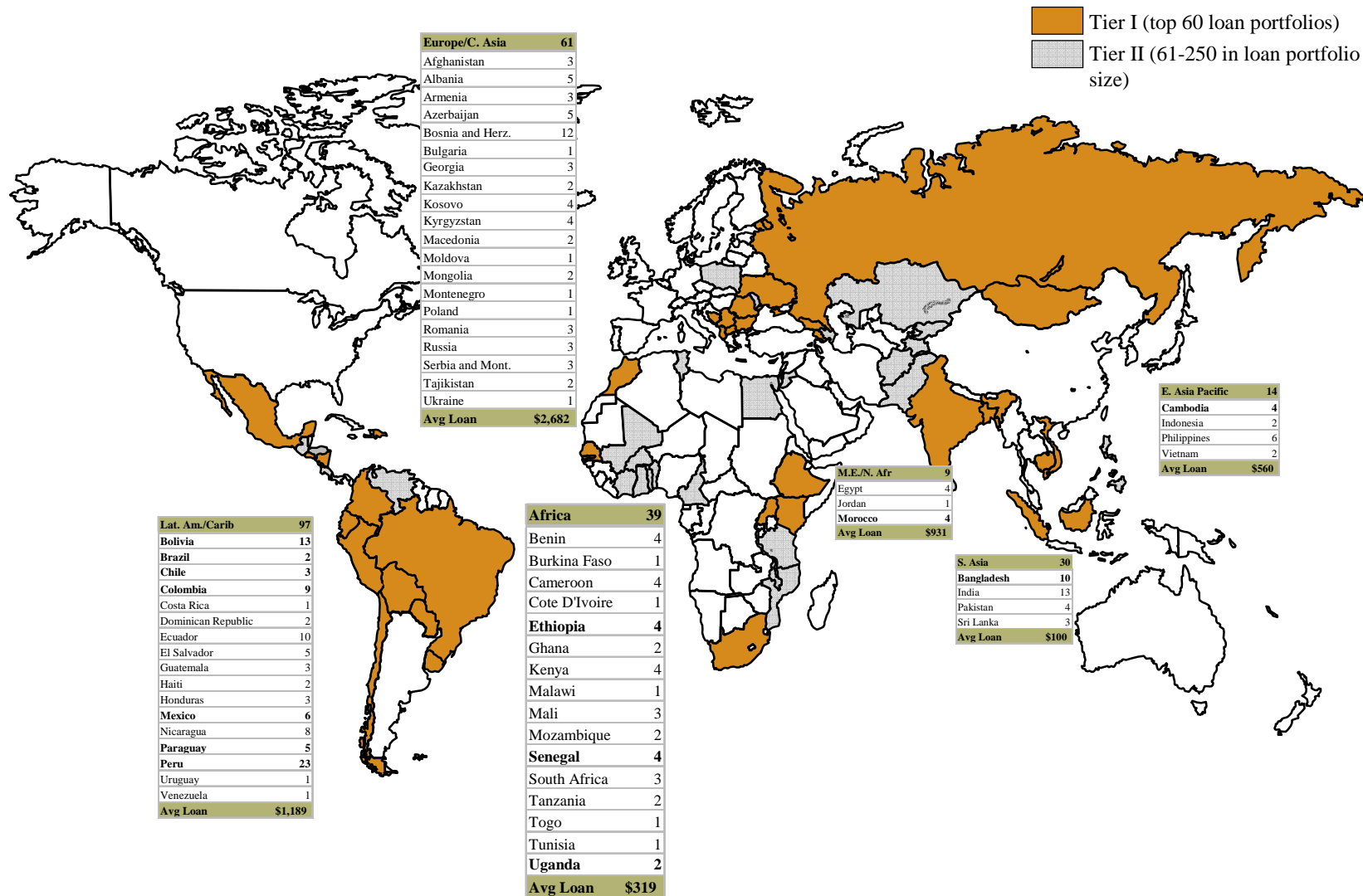


1. Source: Elizabeth Littlefield's "Building Financial Systems for the Poor: MIV and DFI Investment Examined"
2. Comparative economics of top quartile Tier I and Tier II MFIs detailed on page 12

MF Overview: Global Presence¹

Tier I and II MFIs

Distribution of Tier I MFIs (\$80mm+ loan portfolios) & Tier II MFIs (\$10-80mm)



1. Source: MIXMarket FYE 2006 Data as of July 26, 2007

MIVs

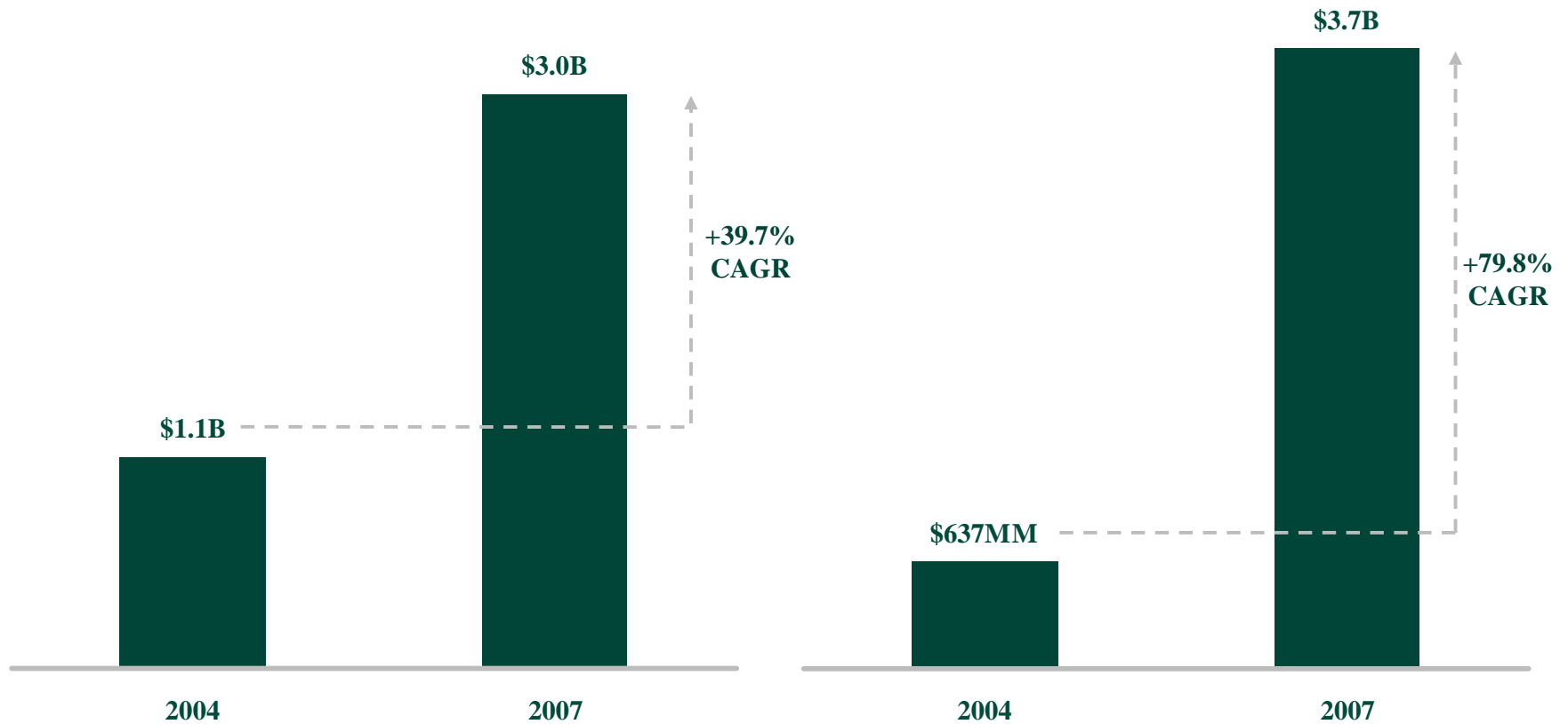
Foreign Capital Investment in Microfinance is Booming

MIVs

The two main foreign investors in microfinance are DFIs (the private sector arms of public finance institutions) and MIVs (private MIVs)

Development Financial Institution (DFI) Portfolios

Microfinance Investment Vehicle (MIV) Portfolios



1. Source: Elizabeth Littlefield's "Landscape of Microfinance Investment in 2008" presented at 2008 ACCION International and Credit Suisse "Cracking the Capital Markets for Microfinance" Conference

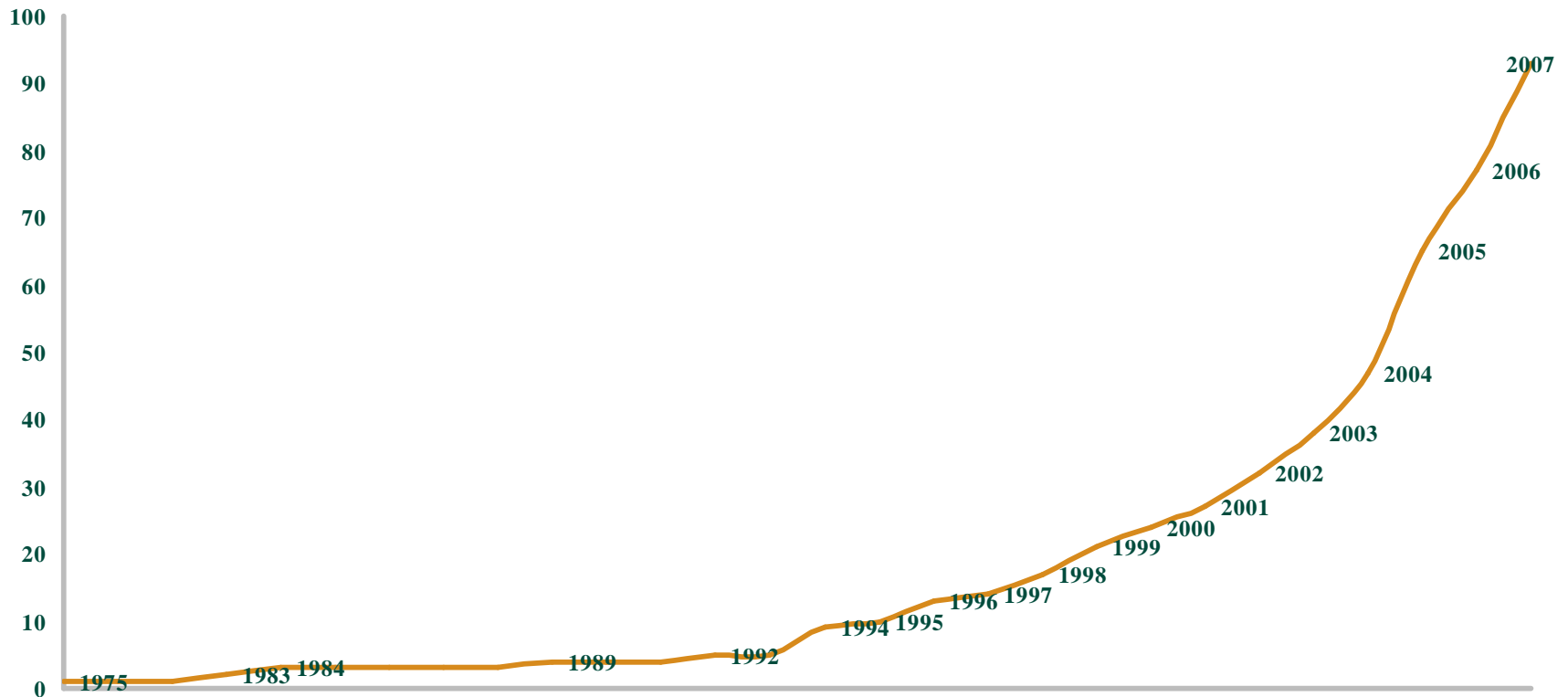
Microfinance Investment Vehicles¹

MIVs

There were 93 microfinance investment vehicles at FYE 2007;² half had been created in 3 years (2005 - 2007)

Microfinance Investment Vehicle Growth

No. of funds



1. Source: Elizabeth Littlefield's "Landscape of Microfinance Investment in 2008" presented at 2008 ACCION International and Credit Suisse "Cracking the Capital Markets for Microfinance" Conference

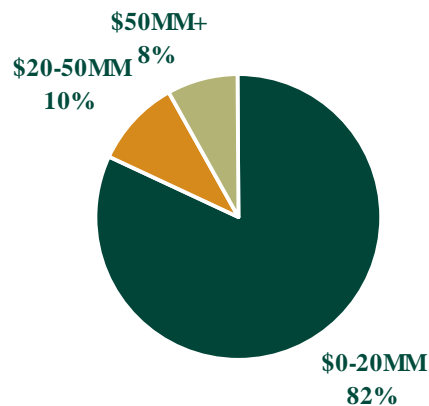
2. 96 microfinance investment vehicles were in existence in July 2008

MIV AUM and Asset Concentration

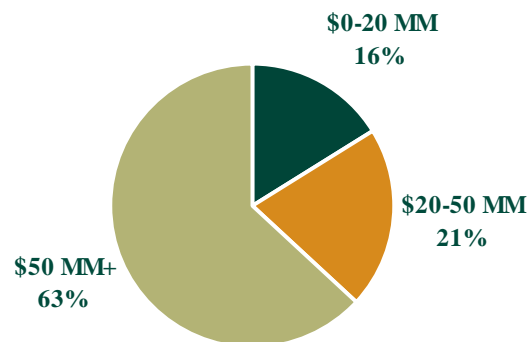
MIVs

Most MIVs are quite small: the top 10 hold 60% of MIV investments; the top 3 hold 34%

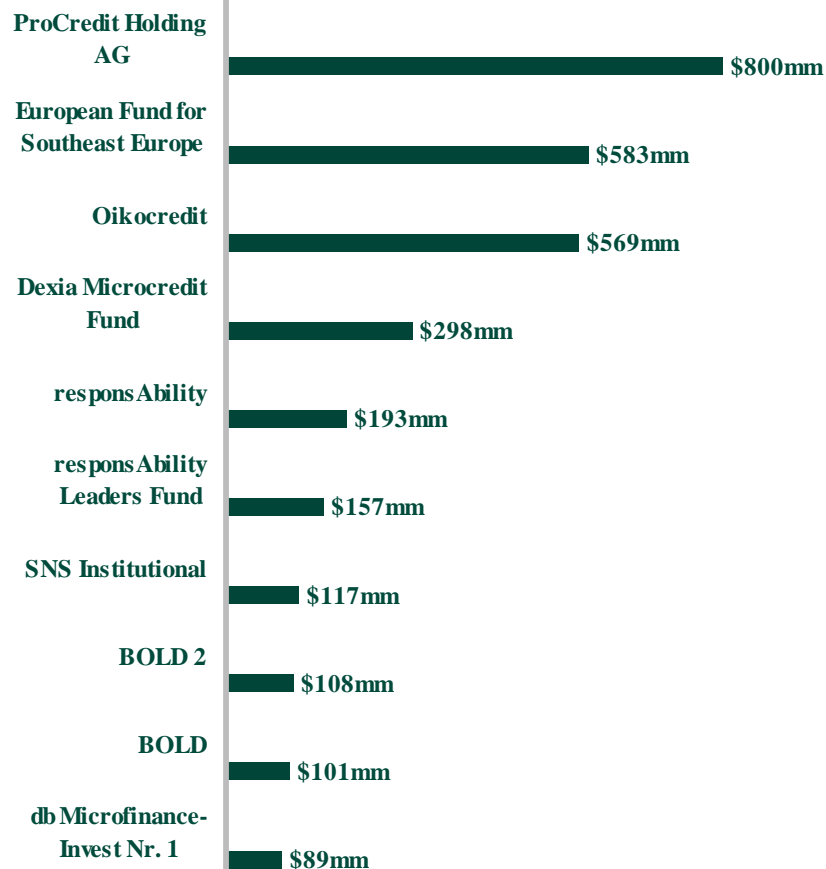
% of MIVs at Various AUM Levels⁽¹⁾



Aggregate MIV Microfinance Assets by AUM⁽²⁾



MIV AUM Concentration⁽³⁾



1. Source: Elizabeth Littlefield's "Building Financial Systems for the Poor: MIV and DFI Investment Examined," presented at 2007 ACCION International and CSFB "Cracking the Capital Markets for Microfinance" Conference

2. Source: MixMarket Microfinance Funder Universe as of September 28, 2007

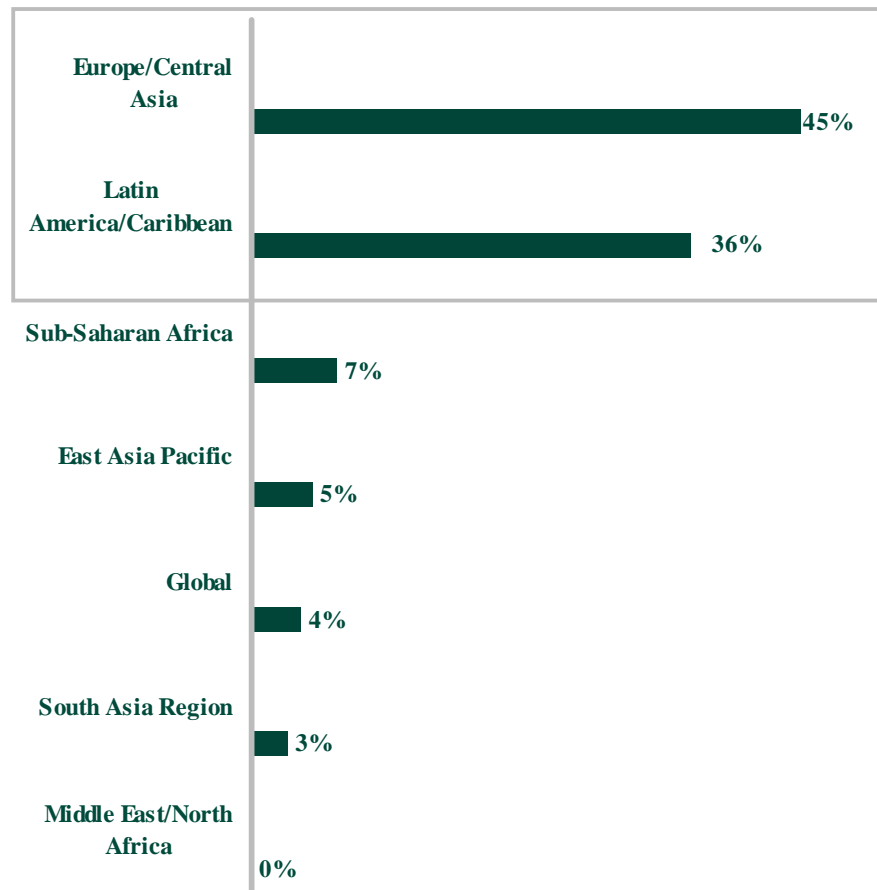
3. Source: Elizabeth Littlefield's "Landscape of Microfinance Investment in 2008" presented at 2008 ACCION International and Credit Suisse "Cracking the Capital Markets for Microfinance" Conference. Exchange rate EUR/USD 1.47285 from 12/31/07

MIV: Regional and Asset Class Concentration

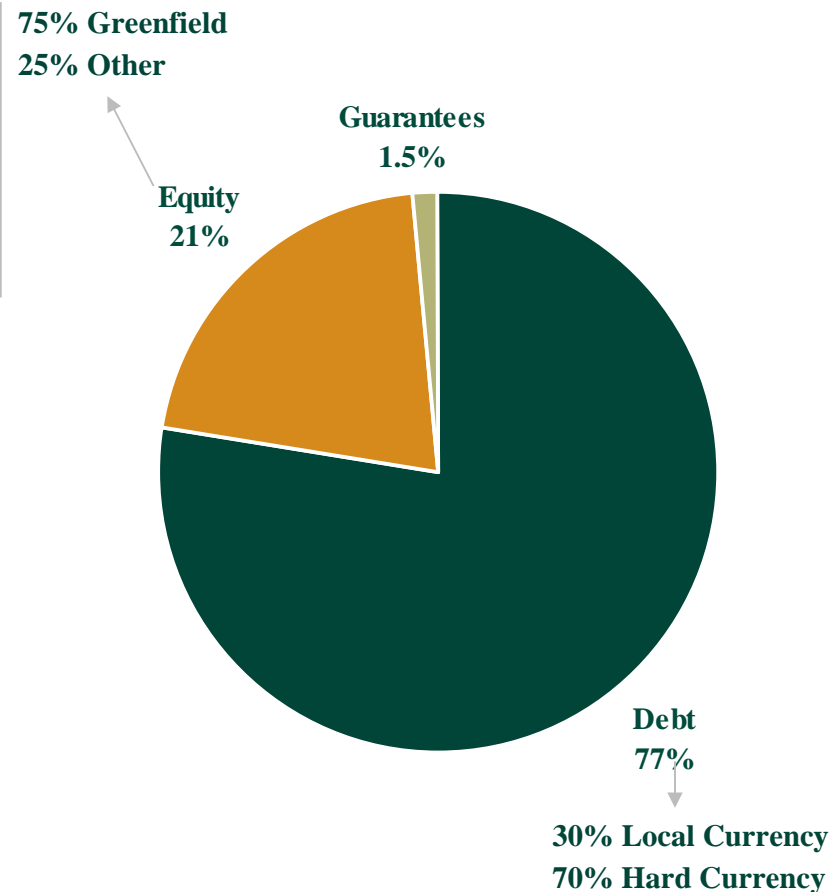
MIVs

Most MIVs are concentrated in Europe and Latin America, and in hard currency debt

MIV Regional AUM Concentration



MIV Asset Class Concentration



This creates opportunity in other regions, in local currency debt, & in existing MFI equity

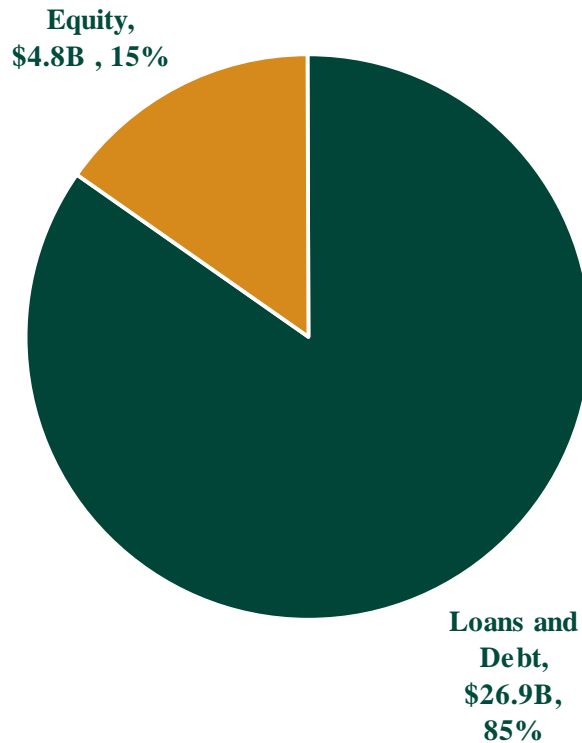
1. Source: Elizabeth Littlefield's "Landscape of Microfinance Investment in 2008" presented at 2008 ACCION International and Credit Suisse "Cracking the Capital Markets for Microfinance" Conference

Tier I and II MFI Capital Structure Distribution vs. Commercial MIV Microfinance Asset Class Distribution

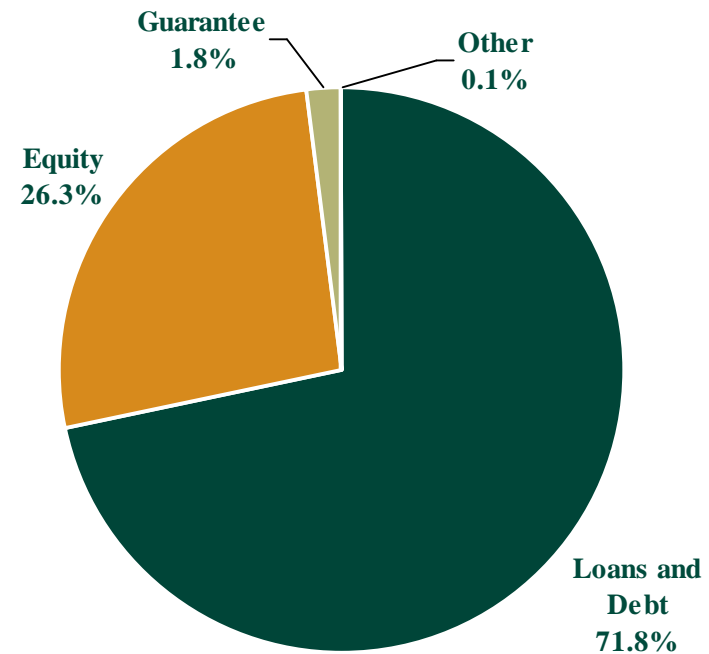
MIVs

The aggregate capital structure of Tier I and II MFIs is 85% debt and 15% equity. Meanwhile, in aggregate, commercial MIV microfinance AUM is 72% debt and 26% equity

Tier I and II MFI Capital Structure Distribution¹



Commercial MIV Microfinance Assets by Asset Class²



1. Source: MIXMarket MFI Data as of July 26, 2007

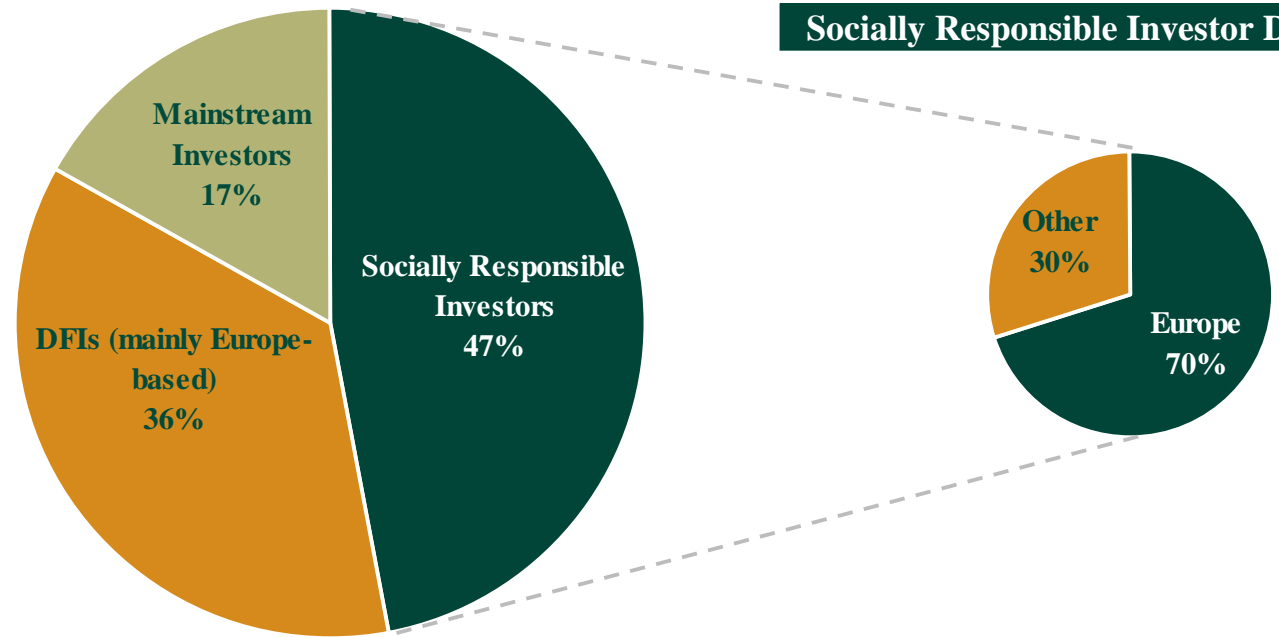
2. Source: MixMarket Microfinance Funder Universe as of September 28, 2007

Funding of MIVs

SRIs are nearly 50% of MIV funding; combined, **SRI**s¹ and **DFI**s² are 80%+ of funding

- ◆ **SRI**s are focused on the societal impact of their investments and **DFI**s interested in the development impact in particular
- ◆ **SRI**s and **DFI**s are sometimes willing to tradeoff risk-adjusted return for the creation of positive externalities

MIV AUM by Funding Source

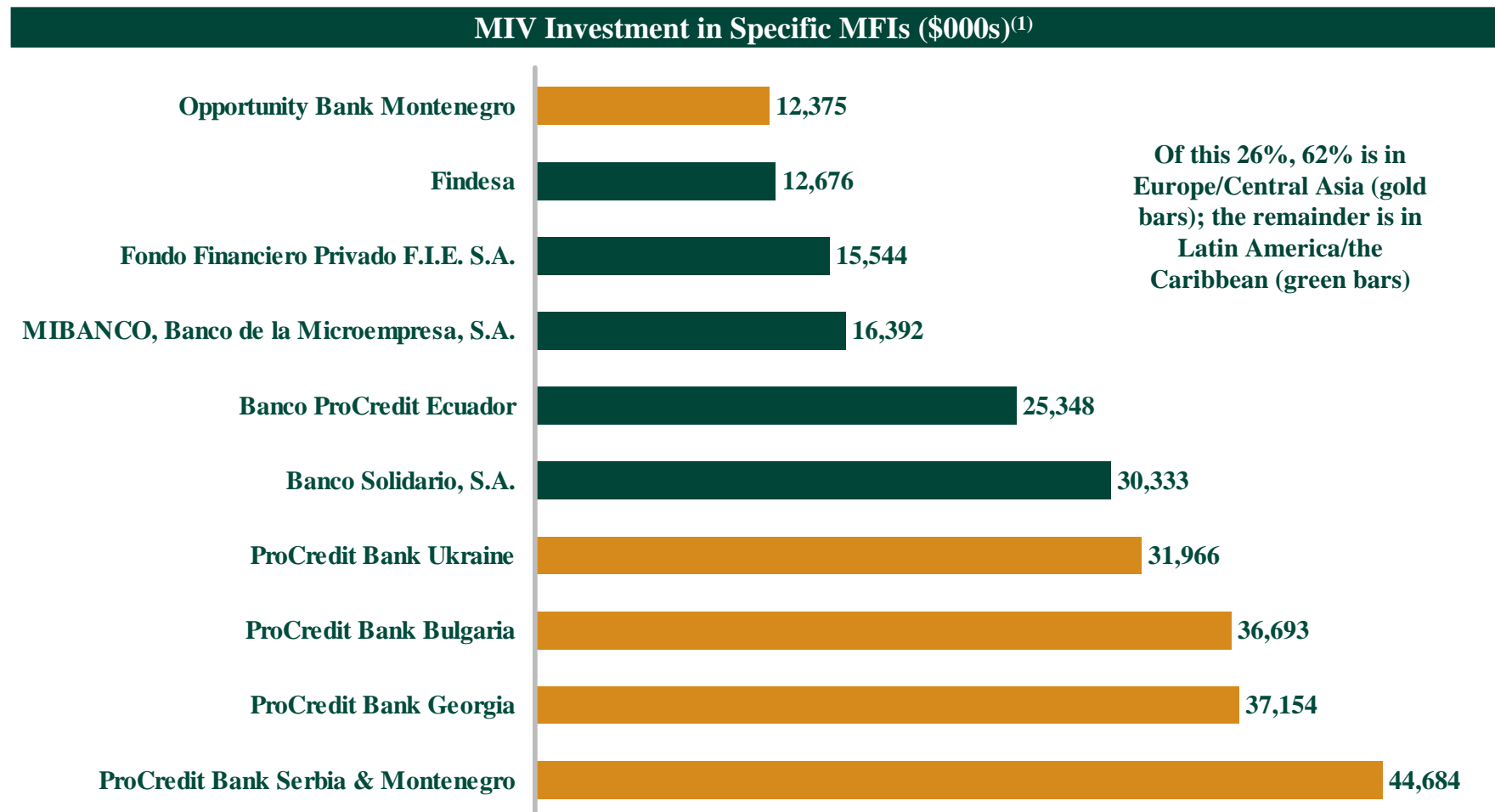


1. Socially responsible investors - integrating personal values and societal concerns with investment decisions through Socially Responsible Investing (SRI)
2. Development financial institutions (DFIs) - the private sector arms of public finance institutions (i.e., the International Finance Corporation of the World Bank). DFIs can invest in MIVs or directly in MFIs

MIV Investment Concentration: Tier I MFIs in ECA & LAC

MIVs

10 MFIs comprise 26% of MIV Investment; all 10 are Tier I MFIs in Europe/Central Asia and Latin America/the Caribbean



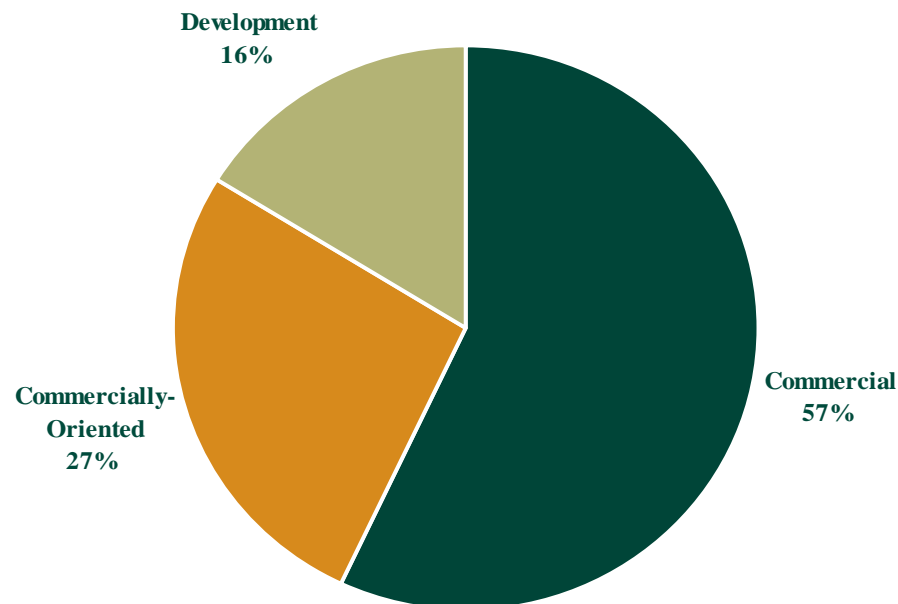
1. Source: Elizabeth Littlefield's "Building Financial Systems for the Poor: MIV and DFI Investment Examined"

Investor Orientation in MIVs: Commercial Focus⁽¹⁾

MIVs

57% of overall MIV AUM is commercial. Dexia (Blue Orchard) and Gray Ghost are the largest commercial MIVs

MIV Microfinance Assets by Investor Orientation



1. Source: MixMarket Microfinance Funder Universe as of September 28, 2007 and deal press releases

Microfinance Capital Markets Transactions

Microfinance Capital Markets Transaction Database

Microfinance Capital Markets Transactions

Roughly 20% of the \$1,611MM in cumulative microfinance capital markets transactions is due to deals that occurred 2002-2005. Investor interest in microfinance started slowly

Microfinance Capital Markets Transactions: 2002 - 2005

Issuer	Date	Amount (\$US)	Country(s)	Tenor	Type & Comments
2002					
Compartamos	July-02	\$10.3M	Mexico	3 yr	1st bond issue, Mx Peso denominated, floating rate / 13.6% initial coupon / mxA+ rated / 80% individual & 20% institutional investors
Compartamos	November-02	\$5.0M	Mexico	3.25 yr	2nd issue, Mx Peso denominated, floating rate / 13.02% initial coupon / mxA+ rated / 50/50 split between institutional and individual investors
Mi Banco	December-02	\$6.0M	Peru	2 yr	Peruvian sol denominated / fixed rate, 12% coupon, AA/AA rating / 50% guarantee of principal provided by USAID
2002 Total		\$21.3M			
2003					
Compartamos	April-03	\$5.0M	Mexico	3 yr	3rd bond issue, Mx Peso denominated, floating rate, 11.17% initial coupon, mxA+ rated
MiBanco	September-03	\$6.0M	Peru	2.25 yr	2nd bond issue, fixed rate, 12% coupon, Sol denominated, AA/AA rated, 50% guarantee from CAF (\$6M raised in initial bond issue in 2002)
MiBanco	October-03	\$3.0M	Peru	1.5 yr	3rd bond issue, fixed rate, 5.75% coupon, Sol denominated, AA-/AA+ rated, unsecured
Basix	November-03	\$1.0M	India		Securitization/ICICI transfer
2003 Total		\$15.0M			
2004					
Share	January-04	\$4.3M	India		Securitization / 25% of SHARE portfolio / ICICI subsequently purchased for Priority Sector Lending requirement
BOMFS I	July-04	\$40.0M	7 LatAm countries, Cambodia, Russia	7 yr	CDO / 4 tranches (Senior, Sub A, B, C) / JPM & BlueOrchard / OPIC Certificates of Participation covered 58% of total notes sold / Fixed Rate - returns ranged from 4.5% (OPIC Notes) to 12% (equity) with Sub C Notes at 8.0%, Sub B at 6.0%, and Sub A at 5.0%
Compartamos	July-04	\$17.0M	Mexico	5 yr	Mexican peso denominated, Floating rate, 34% guarantee by IFC, 9.0% initial coupon, mxAA rated by S&P and Fitch
2004 Total		\$61.3M			
2005					
FWWB Cali	February-05	\$30.0M	Colombia	3 and 5 yr	Tranche 1 Floating & Fixed rate bonds, bullet maturity / 3 year - 10.78% fixed & 5 yr: IPC + 5.5% (11%) / Colombian peso denominated / 1.87x oversubscribed, AA+ rated by D&P / \$25M offered and \$30M sold
Faulu	April-05	\$6.5M	Kenya	5 yr	Kenyan shilling denominated / floating rate / 9.13% initial coupon / not rated / AFD guarantee for 75% of principal & interest
BOMFS II	May-05	\$47.0M	14 MFIs in LatAm, E. Europe, Asia		CDO / JPM & BlueOrchard / OPIC Guarantee
Compartamos	October-05	\$29.0M	Mexico	5 yr	Mx Peso denominated, Floating Rate, 34% IFC guarantee, 10.7% initial coupon, AA rated
ProCredit Bulgaria ¹	November-05	\$56.8M	Bulgaria	~ 3 yr (weighted avg of underlying loans)	Securitization / initial amount of 47.8 euros, intended to increase to 100 euros over next 12-15 months / BBB rating (Fitch) - SME loans (average loan size of 15 euros)
MFLO ¹	November-05	\$35.7M	Albania, Montenegro, Romania, Russia	~3.5 / 4/ 4.5 yr	Securitization / Symbiotics & Opportunity Intl / subsequent closings expected for 2006
FWWB Cali	November-05	\$22.0M	Colombia	6 yr	2nd tranche, Floating rate - IPC + 3.4% (8.7%), pricing improved 218 bps over 1st tranche / 3.15x oversubscribed / Effective financing rate of FWFB Colombia decreased from 14.25% in Dec 04 to 10.67% on Dec 05 (~358 basis points)
2005 Total		\$227.0M			

Source: Women's World Banking's January 2007 Capital Markets Workshop.

1. Assuming 1 US dollar = 0.841145 euro. This represents the average of 0.82895 (1 Nov 05 exchange rate) and 0.85334 (30 Nov 05 exchange rate). Source for exchange rates: www.oanda.com.

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Microfinance Capital Markets Transaction Database, cont'd

Microfinance Capital Markets Transactions

The remaining 80% of the \$1.6B in cumulative microfinance capital markets transactions is due to deals that occurred after January 1, 2006 (62% due to deals in 2007). Investor appetite for microfinance accelerated through the end of 2007

Microfinance Capital Markets Transactions: 2006 - 2008

Issuer	Date	Amount (\$US)	Country(s)	Tenor	Type & Comments
2006					
BOLD	March-06	\$99.1M	21 MFIs in 13 countries	Avg lives of 4.7 yr in senior tranches	CDO / BlueOrchard & Morgan Stanley / 25% of proceeds carry local currency financing in Col Pesos, Mx Pesos, Russian Rubles / Euro, Dollar, and Sterling notes split into 3 tranches / unrated & unwrapped (FMO purchased \$28M of notes)
MicroFinance Securities XXEB (MFS)	June-06	\$60.0M	15 countries	5 yr	CDO / Symbiotics & DWM / Fixed and floating rate notes / Rated A1 (Moody's scale) by Micorate, thus first MF CDO rated
BRAC	July-06	\$14.3M	Bangladesh	6 yr / 1 yr first tranche	Securitization / \$181M over 6 yr (first tranche of \$14.3M), Taka denominated / AAA rated (local rating) / Citi as structurer with FMO and KfW guarantees
2006 Total		\$173.4M			
2007					
Compartamos	April-07	\$467.0M	Mexico	NA	IPO / \$467M: \$332.3M from 144a Reg S tranche (international investors) and \$73M from Mexican retail. Credit Suisse - global coordinator and bookrunner of the 144a Reg S tranche. Banamex and Banorte - handling sales to Mexican retail
BOLD 2	May-07	\$108.0M	21 MFIs in 13 countries	Avg life ~5 yrs	CDO / BlueOrchard & Morgan Stanley / 5 tranches: \$42M S&P AA, \$16M S&P BBB, \$50M unrated / Loans to MFIs in currencies of Ghana, Mongolia, Colombia, Peru, & Russia, as well as Euro and USD. Swap provider: Morgan Stanley (except FMO for Ghanaian loan)
MicroAccess Trust	June-07	\$39.1M	10 MFIs in 8 countries	Avg life ~2.5 yrs	1 tranche: no subsidies. Involves second tier MFIs
Financiera Independencia	Nov-07	\$300.0M	Mexico	NA	IPO / \$300M / Credit Suisse
German Fund for Microfinance	Nov-07	\$83.3M		7 years	Deutsche Bank - (i) First microfinance fund for German investors; (ii) First rated (Fitch) securitization of subordinated microcredits (100% subordinated) (iii) Possibly the first rated fund in the microfinance space (target rating: BBB- or higher)
2007 Total		\$997.4M			
2008					
Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.	March-08	\$40.5M	5 MFIs in 4 countries	3 yr	Local currency denominated senior unsecured loans in Peru, Colombia, Mexico, and Kazakhstan. The loans were originated by Morgan Stanley, and the servicing and portfolio management is also being performed by Morgan Stanley.
MILAA (Microfinance Institutional Loans for Asia and Africa)	May-08	\$45.0M	A subset of the 48 MFIs in 15 countries that Standard Chartered supports	5 yr	Credit-linked notes / First issuance of notes backed by loans to MFIs in Africa and Asia / Collaboration between IFC (providing \$45M) and Standard Chartered Bank (has originated the loans to MFIs and set up the SPV)
ACCION Texas	August-08	\$30.0M	United States (Texas)	5 yr	Citi will buy up to \$30M in new microloans from ACCION Texas. ACCION Texas will become Citi's national service provider, handling microloan underwriting, servicing, and collections. Citi and ACCION Texas will share loan portfolio risks and revenue
2008 Total		\$115.5M			
Cumulative Total		\$1,610.9M			

1. Women's World Banking's January 2007 Capital Markets Workshop and press releases from 2007 & 2008

Three Reasons to Consider Microfinance Investments

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Three Reasons to Consider Microfinance Investments

- ◆ Reason 1: Attractive potential market growth
- ◆ Reason 2: Microfinance investment exit opportunities
- ◆ Reason 3: Microfinance ratings

Reason 1: Attractive Potential Market Growth

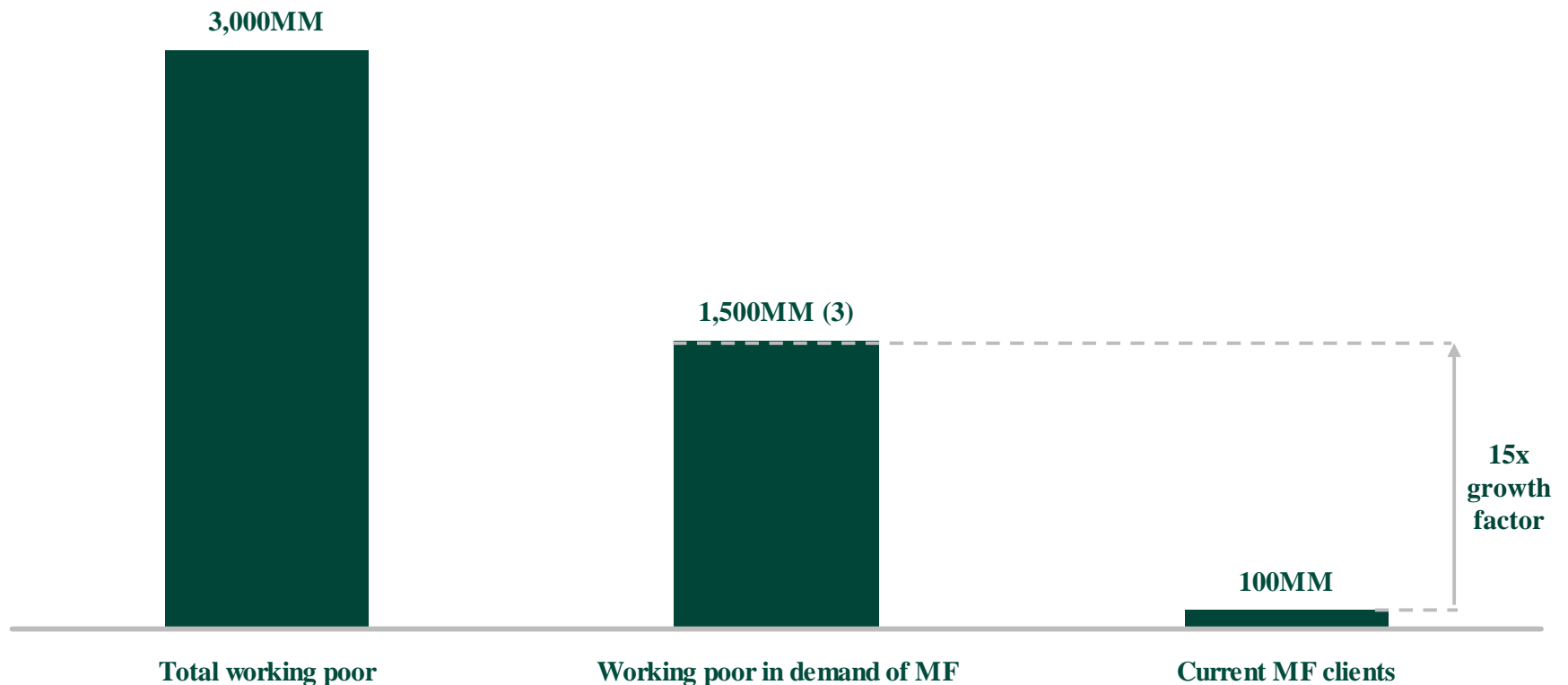
Untapped Demand for Financial Services Remains Huge

Reason 1: Attractive Potential Market Growth

Despite their successes over the past 30 years, MFIs only reach a fraction of the estimated underlying demand

Current MFI⁽¹⁾ Clients vs. Total Potential Market⁽²⁾

Million people



1. MFIs include NGOs, non-bank financial institutions, commercial banks specializing in microfinance, and microfinance programs in full service banks

2. Source: Gonzales and Rosenberg (2006) "The State of Microfinance" and CGAP Occasional Paper #8 (2004) via McKinsey's "Optimizing Capital Supply in Support of Microfinance Industry Growth"

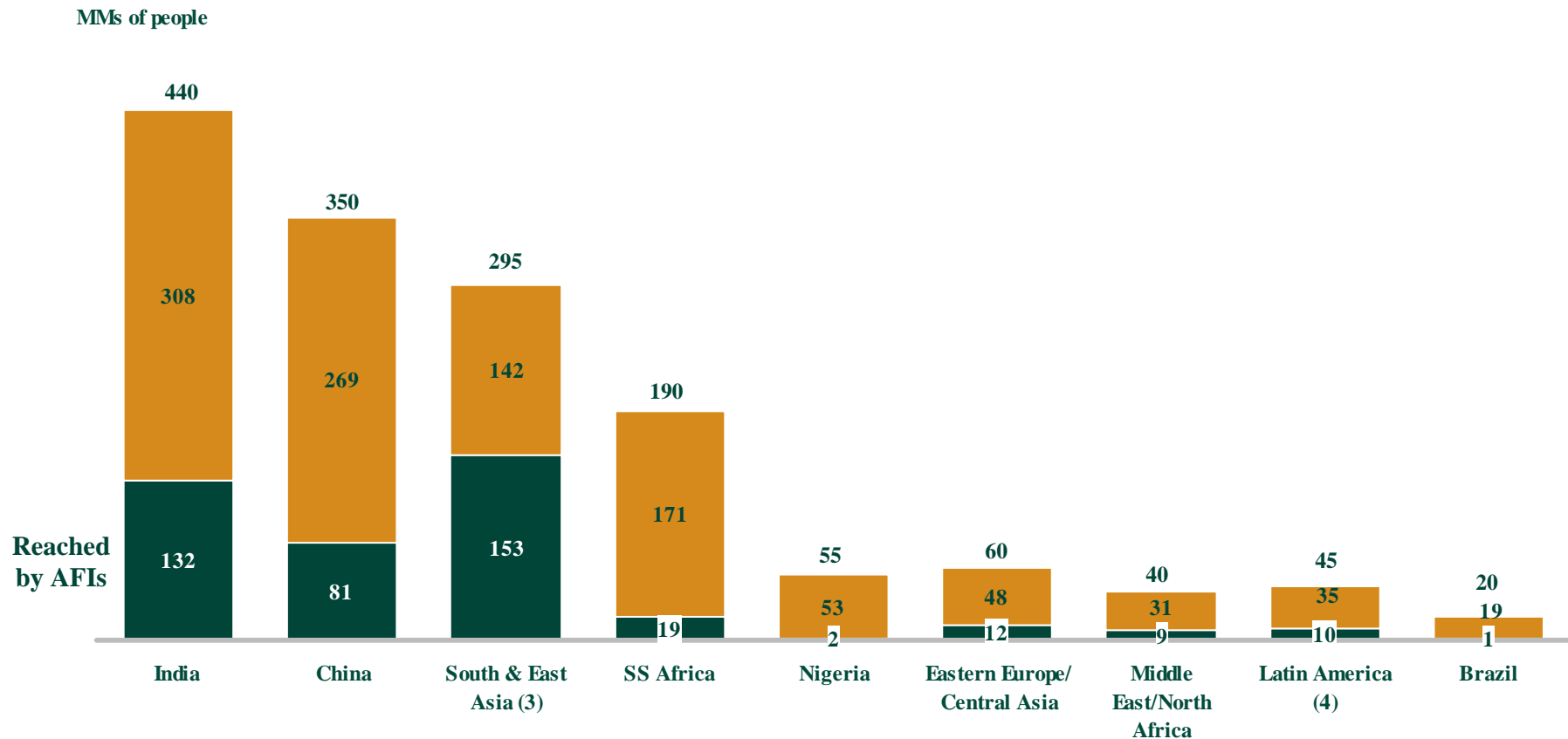
3. Estimate based on International Labour Organization's estimate of the percentage of poor people working in the informal urban sector (e.g., 60% in Latin America and Africa and 40-50% in Asia)

Reach of Alternative Financial Institutions⁽¹⁾ Varies Significantly with Geography

Reason 1: Attractive Potential Market Growth

This unmet demand is unevenly distributed across geographies, with the biggest absolute numbers of poor people not reached in India, China, and Sub-Saharan Africa

Potential Microfinance Market in Developing and Transitional Economies⁽²⁾



1. Alternative Financial Institutions (AFIs) have social objectives and target clients below that level of commercial banks, even though they also serve the non-poor. They include MFIs, Co-ops, Credit Unions, Banks (state, rural, and postal). Note that the universe of institutions here is broader than that evaluated on the prior page.
2. Source: World Bank, United Nations, and CGAP Occasional Paper #8 (2004) via McKinsey's "Optimizing Capital Supply in Support of Microfinance Industry Growth"
3. Excludes India and China
4. Excludes Brazil

Alternative Approach to Assessing Potential Market Growth

Reason 1: Attractive Potential Market Growth

An alternative approach to assessing potential market growth is to use the microfinance penetration rates of countries with the most robust microfinance activity (Bangladesh, Mongolia, Bolivia, and Bosnia) as crude targets for those of other countries

Countries with High Microfinance Penetration⁽¹⁾

Country	MFIs	Total Portfolio (US\$MM)	Borrowers (\$000s)	Average Loan Balance (\$US)	Borrowers/Population	Total Population (MM)
Bangladesh	44	995	13,600	73	9.2%	147
Mongolia	2	135	228	592	8.1%	3
Bolivia	9	437	391	1,117	4.4%	9
Bosnia	11	372	183	2,034	4.1%	4
Cambodia	9	145	479	302	3.5%	14
Nicaragua	10	112	192	583	3.4%	6
Peru	23	970	884	1,097	3.1%	28

Microfinance Penetration in Large Countries⁽¹⁾

Country	MFIs	Total Portfolio (US\$MM)	Borrowers (\$000s)	Average Loan Balance (\$US)	Borrowers/Population	Total Population (MM)	At 4.4% Penetration	
							Borrowers (\$000s)	Total Portfolio (US\$MM) ⁽³⁾
China		No MFIs reporting to the MIX				1,313	NA	NA
India	26	160	1,620	99	0.1%	1,095	48,180	4,759
Indonesia	6	1,816	3,158	575	1.3%	245	10,780	6,199
Brazil	2	43	173	248	0.1%	188	8,272	2,056
Pakistan	12	81	530	152	0.3%	166	7,304	1,116
Bangladesh	44	995	13,600	73	9.2%	147	13,600	995
Russia	2	273	54	5,064	0.0%	143	6,292	31,810
Nigeria	3	4	186	24	0.1%	132	5,808	125
Mexico	6	137	465	295	0.4%	107	4,708	1,387
Total		3,509	19,786				104,944	48,446

Increasing large country mf penetration rates⁽³⁾ to 4.4% would increase their aggregate microfinance portfolios by \$45B and the number of borrowers by 85MM

1. Source: Rhyne, Elisabeth (SVP, Policy & International Operations, ACCION International) and Maria Otero (President and CEO, ACCION International)'s "Microfinance through the Next Decade: Visioning the Who, What, Where, When and How," A Paper Commissioned by the Global Microcredit Summit 2006. Pages 11-12
2. Assumes that portfolio scales in proportion to increased scale of number of borrowers
3. Bangladesh's penetration rate remains 9.2% for the purposes of this analysis

Reason 2: Microfinance Investment Exit Opportunities

Microfinance Investment Exit Opportunities

Reason 2: Microfinance Investment Exit Opportunities

IPOs

- ◆ Financiera Independencia SA (Mexico)
- ◆ Banco Compartamos (Mexico)
- ◆ Equity Society (Kenya)
- ◆ Bank Rakyat Indonesia (Indonesia)
- ◆ Capitec Bank Holdings (South Africa)

Private Equity Investments

- ◆ SHARE
 - Legatum - US\$25mm (over 100 crore) for majority interest (advised by Intellect Pvt Ltd) – 15 May 15 2007; goal of investment: 6mm clients and US\$600mm portfolio by 2012 and lower costs for the rural poor
 - Aavishkaar Goodwill: US\$2mm
- ◆ SKS: VC group Sequoia and MIV Unitus invested \$11.5 million into SKS Microfinance in March 2007
- ◆ Blackstone and Carlyle: Blackstone and Carlyle have shown interest in putting money into MFIs, said a source close to the development. The quantum of investments may be upwards of \$20 million. The target firms are not yet clear⁴

Other Secondary Investors

- ◆ Gray Ghost I bought \$3mm of Dutch IFI FMO's \$28mm first loss position in the 2006 BOLD \$99mm transaction⁵

1. December 18 price of 142 Kenyan shillings (<http://nse.co.ke/newsite/copinindex.asp?cop=44>) and exchange rate of 63.10426 (www.oanda.com)

2. A consortium of international development investors, principally International Finance Corporation - a private arm of the World Bank and European Investment Bank

3. Credit Suisse and ACCION Insight No. 23 via Deutsche Bank's "Microfinance: An Emerging Investment Opportunity." December 19, 2007.

4. "Blackstone, Carlyle eye microfinance firms," *The Economic Times, India*, October 12, 2007.

5. Abrams, Julie and Damian von Stauffenberg. "Role Reversal: Are Public Development Institutions Crowding Out Private Investment in Microfinance?"

Reason 3: Microfinance Ratings

Description of Microfinance Ratings

The vast majority of MFIs are still unrated; of those that are rated, most are rated by specialist microfinance raters

- ◆ Given their relatively small size, many MFIs are reluctant or unable to pay much for a rating
- ◆ To date, the mainstream rating agencies—Moody's, Standard & Poor's and Fitch—have only rated a small, but growing, fraction of MFIs
 - ProCredit of Germany, Banco Compartamos of Mexico, Mibanco of Peru, and ACLEDA of Cambodia¹
 - *Fitch*: Fundacion MICROS (Guatemala), FUBODE (Bolivia), CRECER (Bolivia), FIELCO (Paraguay), ProMujer (Bolivia), FADES (Bolivia), Banco PyME BHD (Dominican Republic), FDD (Dominican Republic), BANGENTE (Venezuela), FINDESA (Nicaragua)²
 - *S&P*: Vision (Paraguay)²
- ◆ Specialist microfinance ratings agencies focus on a portion of the thousands of MFIs unexamined by the mainstream rating agencies
 - More specifically, these specialist microfinance ratings agencies largely concentrate their efforts on a subset of the approximately 1,126 MFIs that report into the MIX MARKET,³ a global, web-based microfinance information platform

(1) Sources: Easton, Tom. "Survey: Microfinance - Critical Acceptance," *The Economist*, 3 November 2005.

(2) *The Rating Fund* (http://www.ratingfund.org/ratings_completed.aspx?sort=ReportDate)

(3) *PlaNet Rating*.

Specialist Microfinance vs. Mainstream Rating Agencies

Reason 3: Microfinance Ratings

	Specialist Microfinance Rating Agencies	Mainstream Rating Agencies ⁽¹⁾
Advantages for MFIs	<ul style="list-style-type: none"> ◆ Can be less costly ◆ Recognized by specialized investors ◆ Valuable operational and financial assessment; deeper and specialized evaluation which takes a more holistic view of the MFI into account 	<ul style="list-style-type: none"> ◆ Widely recognized ratings are useful to access a broader range of investors. ◆ A high rating can validate financial performance
Advantages for Investors	<ul style="list-style-type: none"> ◆ Ratings help investors understand origination, financial and operational risks specific to MFIs 	<ul style="list-style-type: none"> ◆ Moody's, S&P, and Fitch are well-known to mainstream investors ◆ For MFIs seeking global, rather than local funding, the methodology for global scale ratings of the mainstream agencies allows for comparisons across industries and geographies
Disadvantages for MFIs	<ul style="list-style-type: none"> ◆ Ratings must prove themselves over time → many specialist rating agencies face barriers to establishing credibility ◆ Some MFI rating agencies have launched ancillary businesses on the side (consulting), undermining their perceived objectivity 	<ul style="list-style-type: none"> ◆ Obtaining a rating can be costly given that most MFIs are smaller than other financial services companies, such as banks
Disadvantages for Investors	<ul style="list-style-type: none"> ◆ Microfinance ratings are specialized to the sector and may not provide a uniform standard for comparing investment options 	<ul style="list-style-type: none"> ◆ Mainstream rating agencies may not have the expertise to analyze origination, financial and operational risks specific to MFIs
Examples	<ul style="list-style-type: none"> ◆ MicroRate, MCRIL, PlaNet Rating and Microfinanza are all well-known and well-respected specialist microfinance rating agencies 	<ul style="list-style-type: none"> ◆ Compartamos of Mexico, ProCredit of Germany, FWWB Colombia, and Aceda of Cambodia all have Moody's, Standard and Poor's, or Fitch Ratings

(1) While the larger rating agencies are often referred to as “mainstream”, the key distinction is that they deliver a “credit” rating (of the institution’s ability to satisfy their obligations), whereas specialized rating agencies focus on the MFI’s overall institutional strength and assessment.

Source: Women's World Banking Capital Markets Guide for Microfinance Institutions (MFIs), written in collaboration with a team of volunteers from Lehman Brothers

Specialist Microfinance Rating Agencies

Reason 3: Microfinance Ratings

	Microrate	M-CRIL
Date of Establishment	<ul style="list-style-type: none"> ◆ 1996 	<ul style="list-style-type: none"> ◆ 1998 (established), 1999 (registered)
Geographic Focus	<ul style="list-style-type: none"> ◆ Latin America, Africa 	<ul style="list-style-type: none"> ◆ Asia
Number of Ratings	<ul style="list-style-type: none"> ◆ 54 in 2005 & over 270 in total for MFIs ◆ 1 CDO rating 	<ul style="list-style-type: none"> ◆ 250 MFI and credit ratings
Reputation	<ul style="list-style-type: none"> ◆ First rating agency specializing in the evaluation of microfinance institutions. Known for being highly credible and scrupulous to the extent that they have lost certain clients over time. 	<ul style="list-style-type: none"> ◆ The leader in terms of volume → specialized knowledge of Asia. Rates MFIs of a wide range of organizational forms. The vast majority of M-CRIL's ratings are performed in India.
Methodology	<ul style="list-style-type: none"> ◆ Performance Rating that assesses 5 general areas: microfinance operations, portfolio quality, management and organization (including risk management and controls, MIS, productivity, efficiency and personnel), governance and strategic positioning and special emphasis on financial performance and credit risk. 	<ul style="list-style-type: none"> ◆ Assesses external risk, credit risk, market risk, and the risk of fraud; looks at quality of governance, depth and efficacy of management systems, and financial health of the institution
Ancillary Business & Misc.	<ul style="list-style-type: none"> ◆ Special projects, typically macro-overviews (ex: assessment of microfinance industry in specific countries or regions for development organizations) 	<ul style="list-style-type: none"> ◆ Sectoral research, social performance monitoring. M-CRIL is a subsidiary of EDA Rural Systems that does training and capacity building in microfinance sector

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Specialist Microfinance Rating Agencies

Reason 3: Microfinance Ratings

	PlaNNet Rating	Microfinanza
Date of Establishment	◆ 1999	◆ 1996
Geographic Focus	◆ More than 35 countries, worldwide	◆ Eastern Europe and the Balkans, Central Asia and Caucasus, Africa, Latin America and the Caribbean
Number of Ratings	◆ 145	◆ 40
Reputation	◆ Reports tend to be longer and more detailed, and seem geared towards a donor audience.	◆ Microfinanza has successfully established itself in LAC and Africa by offering a rating product that is less expensive than MicroRate's.
Methodology	◆ GIRAFE Methodology: Governance and Decision-Making, Information and Systems, Risk Management, Activities and Services, Funding and Liquidity, and Efficiency and Profitability	◆ A Microfinanza rating covers: external context; governance and operational structure; financial products; assets structure and quality; financial structure; operational and financial results; strategic objectives and financial needs with a 50/50 mix of Qualitative vs. Quantitative information
Ancillary Business & Misc.	◆ 70% owned by PlaNNet Finance, which consults for MFIs and has launched its own microfinance funds	◆ Consulting firm specializing in microfinance with specialized division, Microfinanza Rating

Source: Women's World Banking Capital Markets Guide for Microfinance Institutions (MFIs), written in collaboration with a team of volunteers from Lehman Brothers

Mainstream Rating Agencies

Reason 3: Microfinance Ratings

	S&P	Moody's	Fitch
Date of Establishment	1941	1909	1913
Geographic Focus	<ul style="list-style-type: none"> Global (The S&P Global 1200 covers 31 markets and approximately 70% of global market capitalization) with MFI rating focus on Latin America 	<ul style="list-style-type: none"> Global 	<ul style="list-style-type: none"> Global for Fitch parent 12 ProCredit group MFIs rated, as well as ProCredit Bulgaria CDO rating Also have ratings for 6 FFPs, 6 Mutuales, 1 Cooperative, and 2 banks in Bolivia Additional Duff & Phelps MFI ratings include FWFB Colombia (Cali)
Number of Issuers Rated	<ul style="list-style-type: none"> \$30 trillion of debt, representing nearly 750,000 securities issued by more than 40,000 borrowers 4 MFIs (2 confidential institutional ratings) 	<ul style="list-style-type: none"> 70,000 structured finance obligations, 25,000 public finance issuers, 11,000 company issuers, 100 sovereign 	<ul style="list-style-type: none"> Total coverage of 3,100 financial institutions, including 1,600 banks and 1,400 insurance companies, including 20 MFIs
Methodology	<ul style="list-style-type: none"> S&P assesses the creditworthiness of a debt instrument relative to all other debt issues and issuers worldwide for global scale credit ratings. In addition, S&P will assign national scale ratings where the universe of comparison is limited to debt issues and issuers within a single nation, (i.e., for a local debt issue). Like Moody's, an S&P rating is 50/50 qualitative vs quantitative 	<ul style="list-style-type: none"> Moody's ratings place an emphasis on an issuer's credit risk and solvency while benchmarking the institution against the banking sector A Moody's rating covers capital adequacy; profitability; operational efficiency; liquidity risk; foreign exchange risk; credit management, organizational management and ownership; market position; and projected cash flows 	<ul style="list-style-type: none"> Fitch considers qualitative and quantitative factors in determining a rating including balance sheet integrity, profitability and risk management as well as an assessment of the franchise of the financial institution in question, the strategy and quality of its management, the environment it operates in and the most likely future development of it business.
Ancillary Business & Misc.	<ul style="list-style-type: none"> Recently made a 60% stake investment in CRISIL (who has rated some MFIs in Asia) 		<ul style="list-style-type: none"> Duff & Phelps is a subsidiary of Fitch

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Considerations of Microfinance Investments

Considerations of Microfinance Investments

Potential investors should be aware of the following risks factors:

- ◆ Relatively short track record of cross-border commercial investments in microfinance institutions, particularly equity
- ◆ Small absolute institution size (small equity cushion to absorb financial problems)
- ◆ Lack of diversification (typical focus on local low-income customers in one particular region)
- ◆ Rapid microfinance sector and microfinance institution growth could increase credit and operational risk

Other considerations of investing in microfinance institutions include, but are not limited to:

- ◆ Market risk: interest rate risk, foreign exchange risk, and risks affecting the informal sector in the region in which the microfinance institution operates
- ◆ Credit risk: loan portfolio quality and diversification, loan loss provisioning, and credit assessment and monitoring
- ◆ Operational risk: people, processes, and procedures
- ◆ Reputational risk: due to dual commercial and humanitarian aims; particularly important for microfinance institutions that are dependent on socially responsible investors and donors
- ◆ Key person risk: depth of talented staff, corporate governance
- ◆ Liquidity, funding risk, capital adequacy
- ◆ Microfinance institution risk assessment, monitoring, and control systems
- ◆ Operating environment: political and economic context, sovereign credit rating, financial sector development, regulatory framework, accounting standards

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