



# MICROVEST NEWS

As of September 30, 2008

## Message from the Chief Executive Officer



Gil Crawford, CEO

In September, many of us experienced the most volatile financial markets of our generation. I was reminded that many of our clients have seen this kind of financial market meltdown in their economies on a regular basis and yet they have continued to grow well-run MFIs and micro-enterprises. Despite the credit crunch, oil price and food market increases, we have seen very little tangible effect on our portfolio. Since our inception, we have analyzed the impact of oil and food imports on national accounts. We find that our clients by and large have not been strongly affected. We feel the credit crunch has had a net salutary impact on the microfinance market, reining in some of the past "Year of Microfinance" exuberance.

MicroVest currently manages or services microfinance assets through four different vehicles: MicroVest I, LP, MicroAccess Trust 2007, MicroPlace and a number of loan syndications arranged with various lenders. Altogether (at June 30, 2008) these vehicles represented US\$76 million in capital invested with 27 MFIs in 16 countries and 2 regional vehicles.

MicroVest's growth over the last year was driven by three factors: a concerted focus on excellent due diligence and risk management, a diversified and disciplined approach to structuring MFI investments, and a track record of strong returns. The performance of MicroVest I, LP for the fiscal year ended June 30, 2008 is summarized below.

In the coming year we will continue to address the demand for capital among growing MFI's while exploring ways to mobilize financing for housing, insurance, education and other productive investments that bring expanded opportunities and improved quality of life for those at the base of the economic pyramid.

## MicroVest I, LP (MV I, LP)

At June 30, 2008, MV I, LP held investments in 25 MFIs located in 14 countries and in two regional facilities. The two regional funds include investments in 10 MFIs in 7 countries where MV I, LP did not invest directly. MV I, LP's total assets reached \$37.5 million, with over 94% of assets invested in portfolio companies. The portfolio is well diversified across countries and MFIs. Investments in equity represent 20% of the total portfolio with debt instruments, ranging in tenor from 1 to 5, years comprising the remaining 80% of the portfolio.

### MV I, LP Investment Exposure by Country As of June 30, 2008

Country	Region	Total Exposure	% of MFI Portfolio
Azerbaijan	EECA	6,900,000	19.4%
Peru	LAC	5,561,014	15.6%
Ecuador	LAC	3,166,666	8.9%
El Salvador	LAC	3,112,500	8.7%
US - MFI	US	3,100,000	8.7%
Kazakhstan	EECA	2,000,000	5.6%
Kyrgyzstan	EECA	2,000,000	5.6%
Regional	EECA	1,949,151	5.5%
Bosnia	EECA	1,578,880	4.4%
Georgia	EECA	1,500,479	4.2%
Nicaragua	LAC	1,420,747	4.0%
Mongolia	Asia	1,349,323	3.8%
Ghana	Africa	1,000,000	2.8%
Mexico	LAC	500,000	1.4%
Bolivia	LAC	500,000	1.4%
<b>Total Carrying Value</b>		<b>35,638,760</b>	<b>100.0%</b>

### MV I, LP Financial Summary

Balance Sheet			Income Statement		
	as of 6/30/07	as of 6/30/08	FYE 6/30/07	FYE 6/30/08	
Cash & Equivalents	1,153,406	1,589,445	Investment Portfolio Income	2,359,777	2,914,419
MFI Investments at Fair Value (net of reserves)	26,979,175	35,356,550	Other Income	128,327	172,483
Other Assets	242,911	591,089	<b>Total Revenue</b>	<b>2,488,104</b>	<b>3,086,902</b>
<b>Total Assets</b>	<b>28,375,492</b>	<b>37,537,084</b>	Mgmt Fees & Other Op Exp	961,648	1,244,193
Borrowings	11,400,000	17,500,000	Cost of Borrowing	507,145	763,449
Accts Payable & Other Liabilities	445,164	698,788	<b>Net Investment Income</b>	1,019,311	1,079,260
Partners' Capital	16,530,328	19,338,296	<b>Realized Gains/ Losses</b>	-	2,137,235
<b>Total Liabilities and Partners' Capital</b>	<b>28,375,492</b>	<b>37,537,084</b>	<b>Unrealized Gains/Losses</b>	1,429,493	101,473
			<b>Total Net Income</b>	<b>2,448,804</b>	<b>3,317,968</b>



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The following stories highlight the transformative capacity of the MFIs funded by MicroVest I, LP. This year, MV I, LP made its first investment in Normicro, a fast growing MFI in Azerbaijan, and divested shares from XAC Bank, one of the largest and most successful MFIs in Mongolia. Through MFIs such as Normicro and XacBank, MV I, LP continues to expand its outreach to the entrepreneurial poor.

## MFI Profile- Normicro

Gross Portfolio (US\$): 7,928,000  
Average Loan Size (US\$): 1,275  
Number of Clients: 10,136  
Country: Azerbaijan  
Population: 8,177,700  
Principal Export: Oil  
GDP per Capita (US\$): 3,507



Normicro began as a sustainable humanitarian project set up by the Norwegian Refugee Council and has evolved into a fast-growing, profitable microfinance institution. In 2006, the firm was acquired by a commercial investor, Kolibri Kapital, and Normicro has grown to be the third largest microfinance institution in Azerbaijan by number of clients.

With its strong emphasis on client relationships and its wide network of branches in rural areas, Normicro is well-positioned to expand further into under-served markets. Under its dynamic new owner, Normicro grew from US\$ 2.5 million in December 2006 to more than US\$ 7.9 million in March 2008, increasing its client base from 4,500 to 10,100 at the same time.

MicroVest made its first investments in Azerbaijan in 2007 with short term investments in larger institutions while conducting due diligence on various MFIs to identify the “best in class,” such as Normicro. MV I, LP extended an initial loan of US\$ 750,000 in May 2008, providing Normicro the capital to support its efforts to modernize and transform into a sophisticated commercial entity further expanding its outreach and social impact in Azerbaijan

## MFI Profile- Xac Bank

Gross Portfolio (US\$): 101,855,308  
Average Loan Size (US\$): 1,623  
Number of Clients: 62,748  
Country: Mongolia  
Population: 2,996,080  
Principal Exports: copper, apparel, livestock  
GDP per Capita (US\$): 745



XacBank serves as a model of how a well-managed and innovative microfinance institution can produce extraordinary results in a competitive market. In March 2008, XacBank reached a major milestone with a loan portfolio of over US\$ 101 million, a quadrupling of its portfolio in four years.

In 2004, MicroVest identified XacBank as a promising investment opportunity due to their strong financial position and innovative approaches to microfinance. MicroVest initially extended a loan of US\$ 1.5 million in November 2004 with the option to purchase shares. In May 2005 MicroVest invested another US\$ 750,000 in equity and later exercised its option to purchase US\$750,000 in additional shares, making it the second largest shareholder of the bank.

This year, MicroVest partially divested its share holding in XacBank in order to release funds for promoting similar ventures elsewhere. MicroVest’s risk capital investment in XacBank not only yielded an attractive return for our investors, but allowed the Fund to participate in a true success story.



**Normicro Client Story:** Ms. Hashimova Terana rented a booth at the local market to supplement her husband’s income and help sustain their family after they were forced to relocate due to regional strife. She used an initial US\$ 200 loan from Normicro in 2002 to buy inventory from wholesale shops in Baku and a second loan to renovate the market stall and increase turnover. After six years of hard work and the support of Normicro’s microloans, Ms. Terana’s business is sustainable and her family’s life has improved dramatically.

**XacBank Client Story:** Mr. Baiyt Jabay has used financing from XacBank since 2002 to build his business of hand crafting award-winning Dombros, the traditional musical instrument of the Kazakh people. After five years of hard work and continued financing from XacBank, he has moved his workshop out of his 2-bedroom flat, hired one employee and built a larger home for his family of 7. He sells his instruments in local markets and exports to Kazakhstan, and is the winner of a “Best Product” award for the Western part of Mongolia. The earnings from the business have allowed him to send three children to study abroad and will fund his plans to cultivate cucumbers and tomatos in his large yard.

