

Microfinance: an attractive dual- return investment opportunity

Positive long-term outlook but some clouds in the medium-run

Raimar Dieckmann, Senior Economist, Deutsche Bank



World Microfinance Forum Geneva
October 1-2, 2008

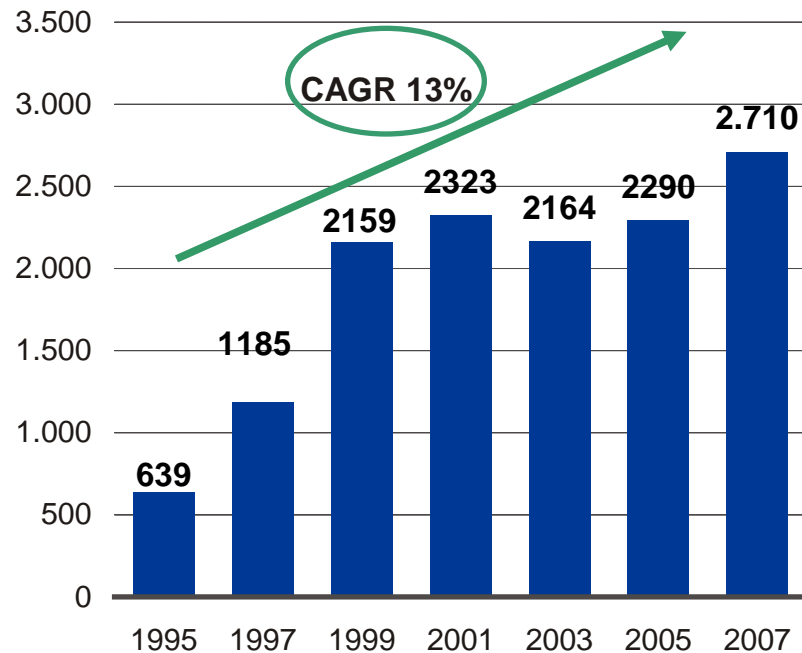
Deutsche Bank Research



Socially responsible investments on the rise – Active social investment strategies with comparatively little AuM

SRI assets in the US

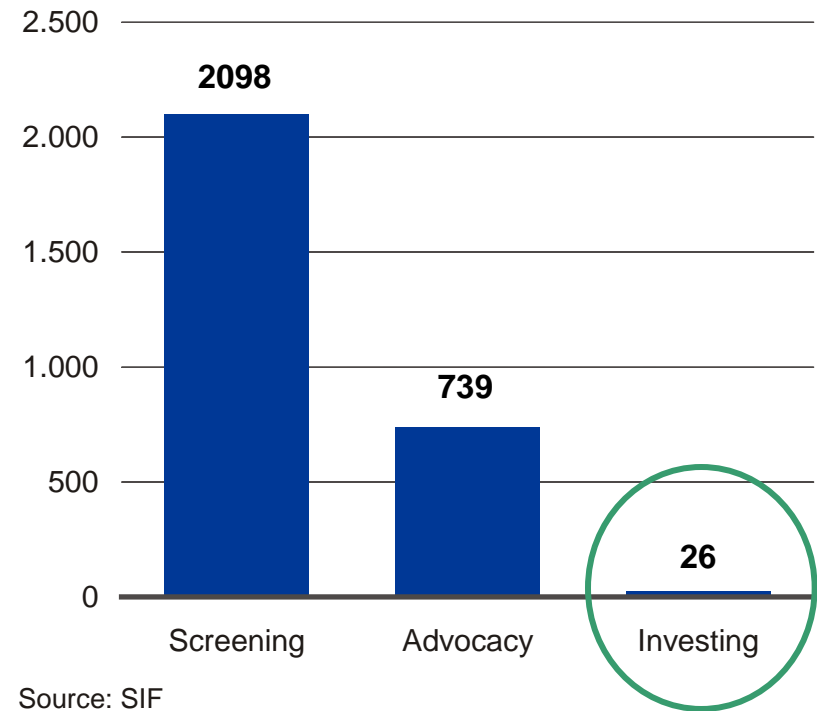
USD bn



Source: SIF

SRI assets in the US

USD bn



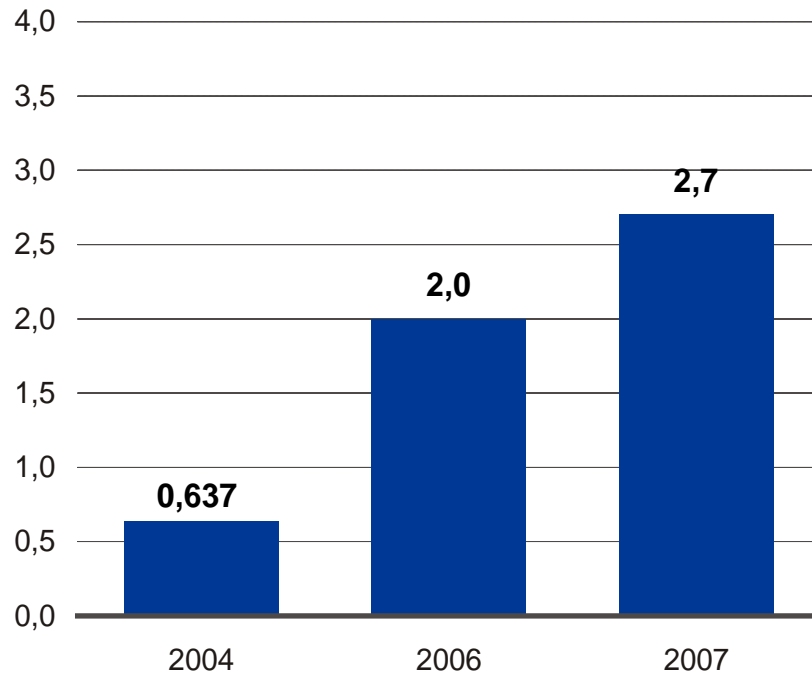
Source: SIF



Foreign investments of both IFI and private sector investors skyrocketed since 2004

Private sector investments

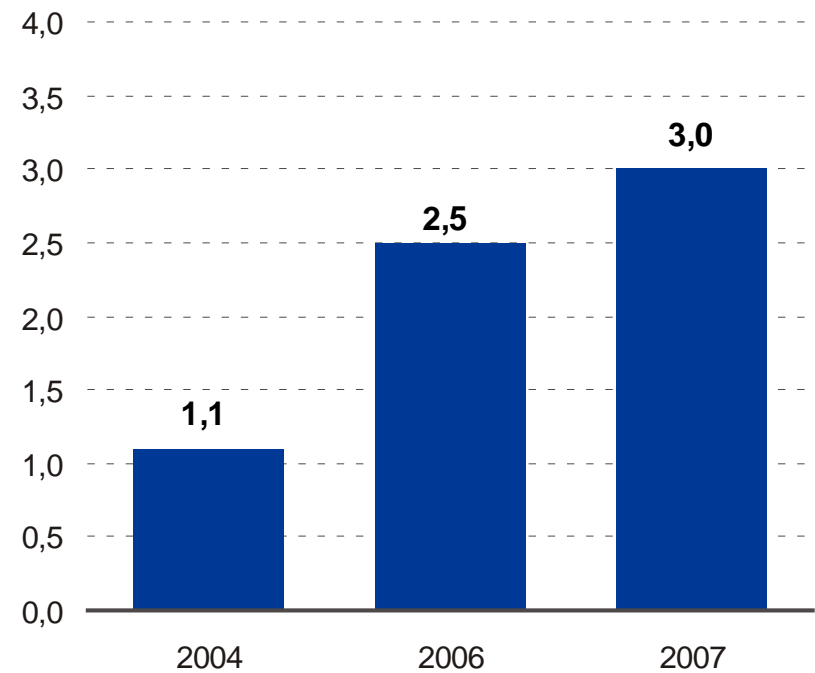
USD bn



Source: CGAP survey, 2007 estimates

Investments of IFI

USD bn



Source: CGAP



Attractive dual return profile but also enhanced risk situation during the last 12 months

Dual return profile

- Social returns:
 - Poverty alleviation and social change
 - Inclusion of the ‘unbankable’
 - Often more effective than top-down development policies
 - Employment and education
- Financial returns
 - Largely stable over the economic cycle
 - Low loan default rates
 - Potentially conducive to portfolio diversification



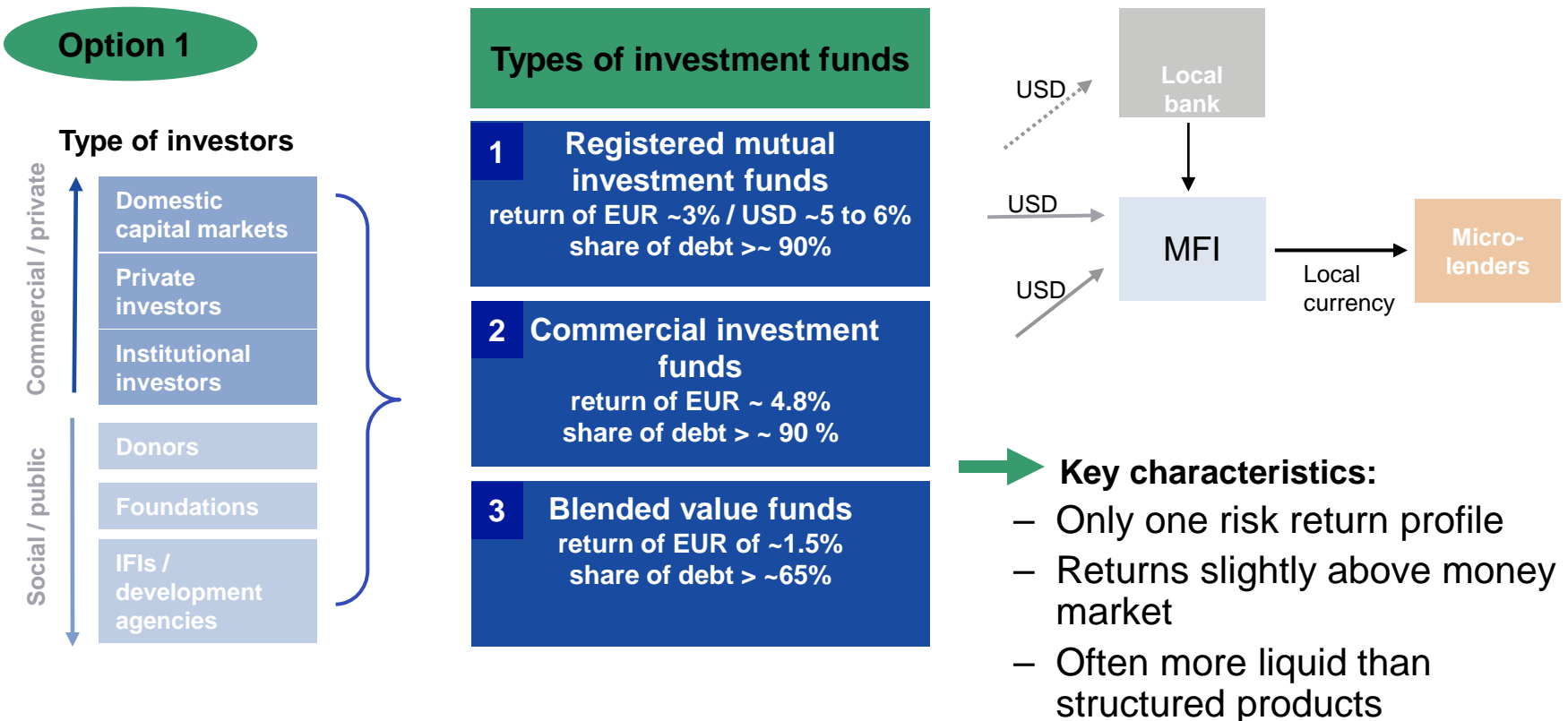
Risk situation

- Investment-related risks
 - Emerging market risks
 - No detailed historic track record
 - Loans might be illiquid
- Changes during the last 12 months
 - Strong capital inflows in top 150 MFIs
 - Impacts of the financial crisis
 - Rising operational risks due to transformation of MFIs
 - Enhanced political instability, e.g. Kenya
 - Rise in inflation in emerging markets



Fixed-income investments dominate – Two broad types of MIVs: investment funds and structured vehicles

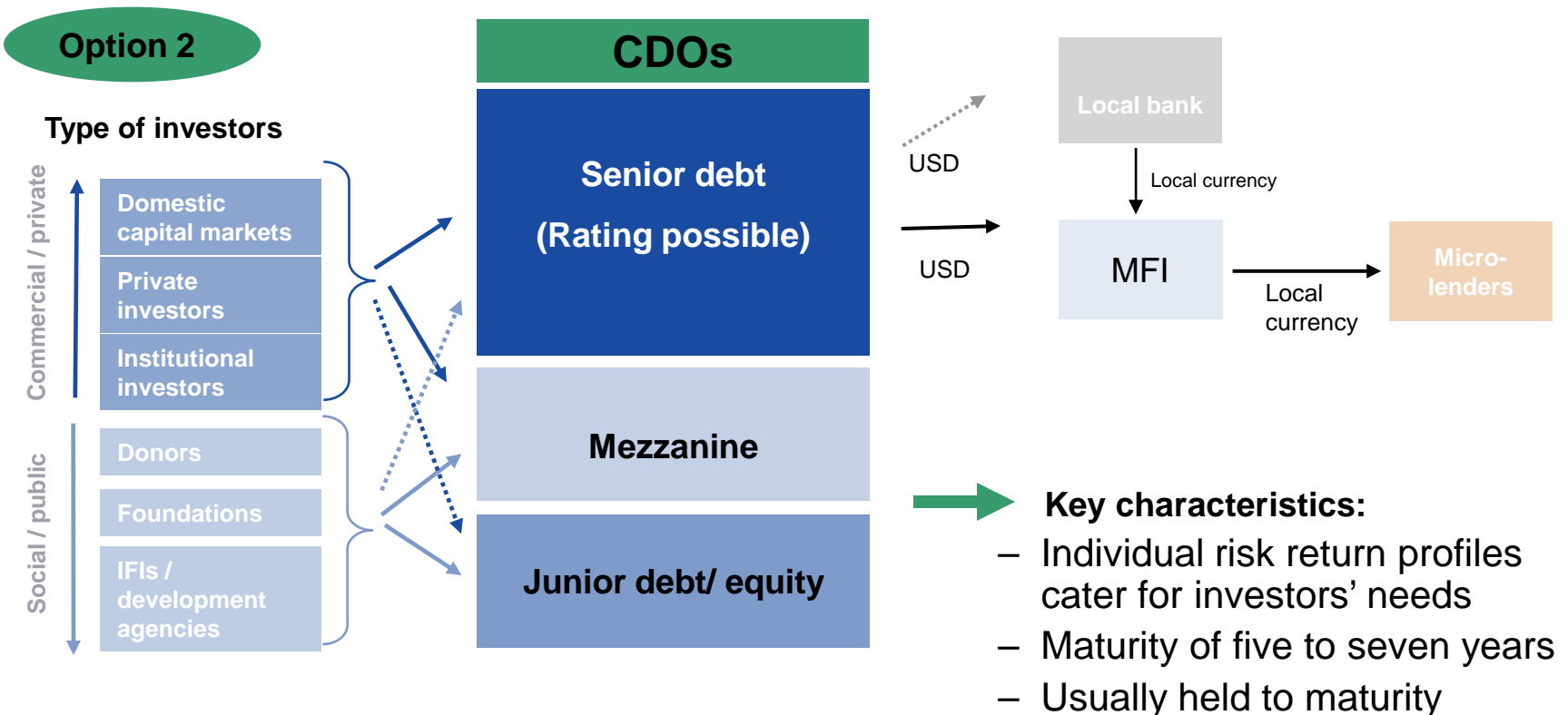
Stylised structure of investment funds



Source: DB Research, average return and debt allocation figures for 2006 (source: CGAP)

Structured debt products cater for individual risk appetite of investors – Senior pieces investment grade

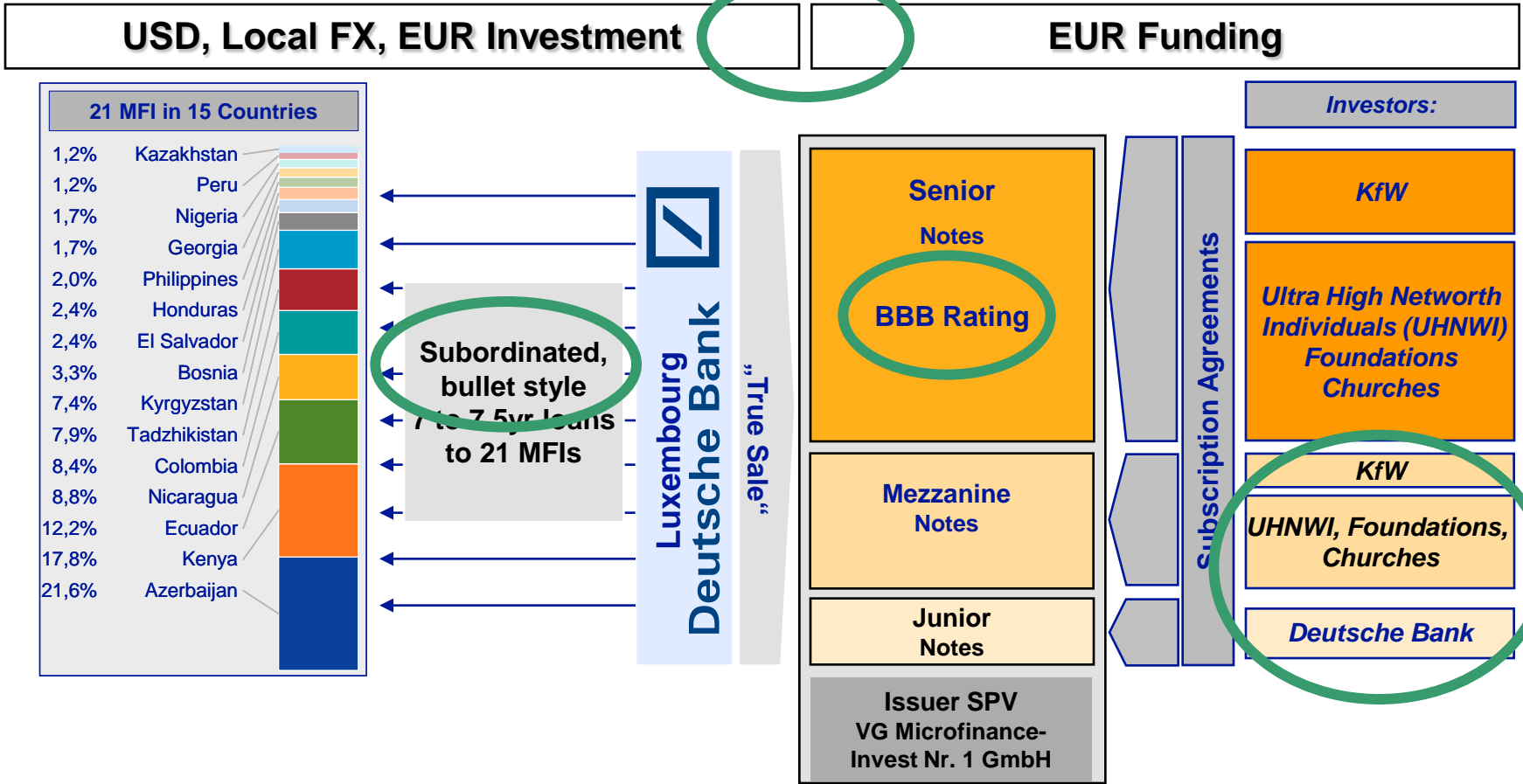
Stylised deal structure of structured debt instruments



Source: DB Research



Case study of a structured investment product : db Microfinance-Invest Nr. 1



Key facts

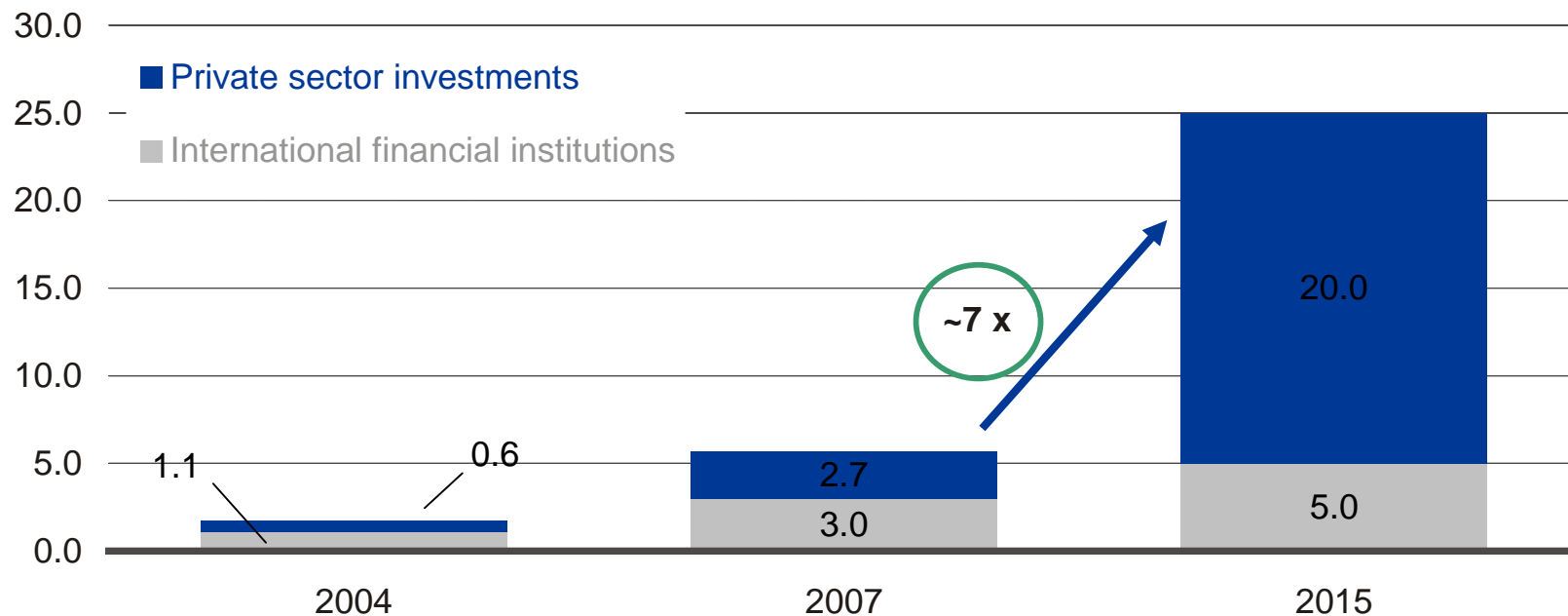
Investors	<ul style="list-style-type: none"> ■ €36m Deutsche Bank Clients, thereof <ul style="list-style-type: none"> a) High Net Worth Individuals €22m b) Churches and Foundations €14m ■ €20m KfW ■ €4m Deutsche Bank <p>(Minimum commitment per investor: €1m)</p>
Structure	<ul style="list-style-type: none"> ■ Issuance of Notes with a total notional of €60m <ul style="list-style-type: none"> Senior 6.0% p.a.: €36,000,000 Rated "BBB" by Fitch Mezzanine 9.5% p.a.: €20,000,000 Junior: €4,000,000 ■ FX risks hedged for scheduled cash flows over lifetime
Loans	<ul style="list-style-type: none"> ■ Total loan volume €60m – reaching at least 120,000 micro entrepreneurs ■ Subordinated loans with a 7 – 7.5 year term ■ Loans granted in US-Dollar (83%), Euro (13%) or domestic currency ■ Average rate of interest (Euro based): 9.24% p.a.



We forecast individual and institutional investments to rise to USD 20 bn by 2015

Forecast of institutional and individual investments in microfinance

USD bn



Sources: DB Research



Seven core assumptions of our forecast – microfinance to increasingly become a niche investment product

- 1 Microfinance will benefit from a general sharp rise in SRIs
- 2 Regulatory changes – e.g. in Germany – attract (more) retail investors
- 3 Private-sector investors attracted by dual nature and risk-return profile
- 4 Joint investment activities of public and private investors act as multiplier...
- 5 ... some market participants increasingly willing to invest in first loss pieces
- 6 More commercial investors will discover microfinance as supplement for portfolio diversification
- 7 Critical mass of MFIs becoming capable of absorbing commercial funding





© Copyright 2008. Deutsche Bank AG, DB Research, D-60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht. In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange regulated by the Financial Services Authority for the conduct of investment business in the UK. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Limited, Tokyo Branch. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.



Deutsche Bank: from philanthropy to business case

DB Microcredit Development Fund (DBMDF)

- Invested 4.2m to 40 MFIs in 25 countries with a impact of USD 55m

DB Microfinance Start-Up Fund (2005)

- Supports MFIs in early stages

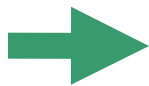
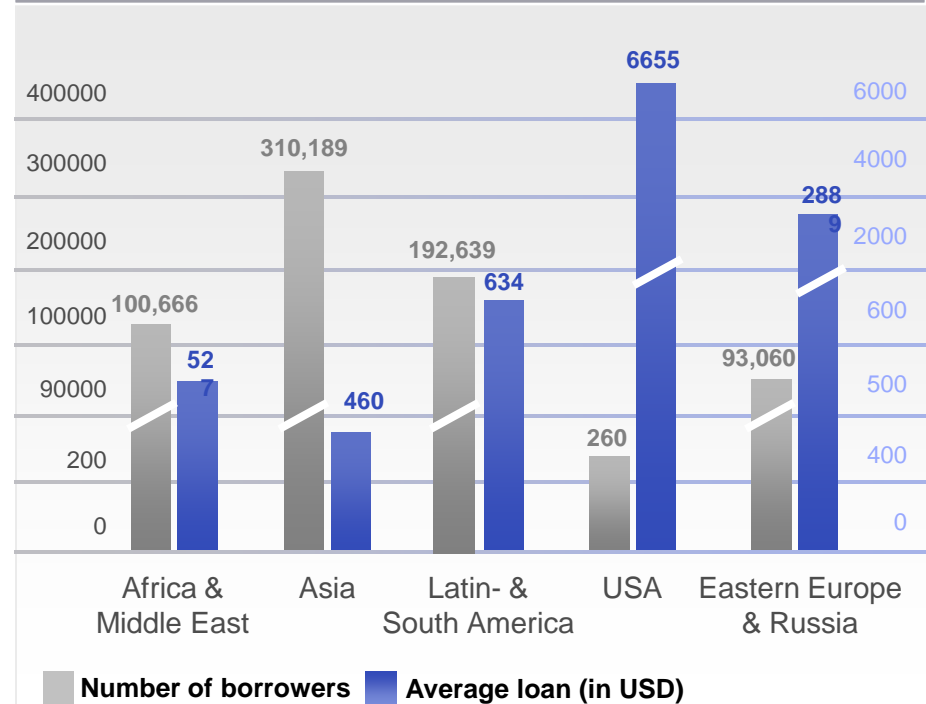
Global Commercial Microfinance Consortium

- Total capitalization of USD 80 million
- Investors: AXA, Munich Re, Merrill Lynch

db Microfinance-Invest

- First German commercial fund with EUR 60 million
- Investment-grade rating BBB to the “Senior Tranche” by Fitch Ratings

Impact of DB’s microfinance activities



Thanks to the first three funds 700.000 people received microcredits totaling up to USD 309 million

