

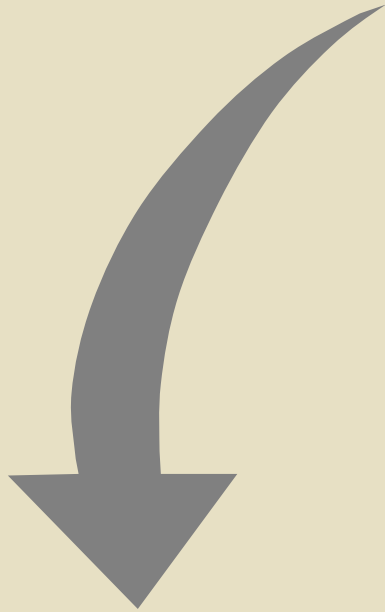
Investment in Microfinance: Valuation, Pricing and Strategies

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22 January 2008



How do you value an MFI ?

MFI Valuation

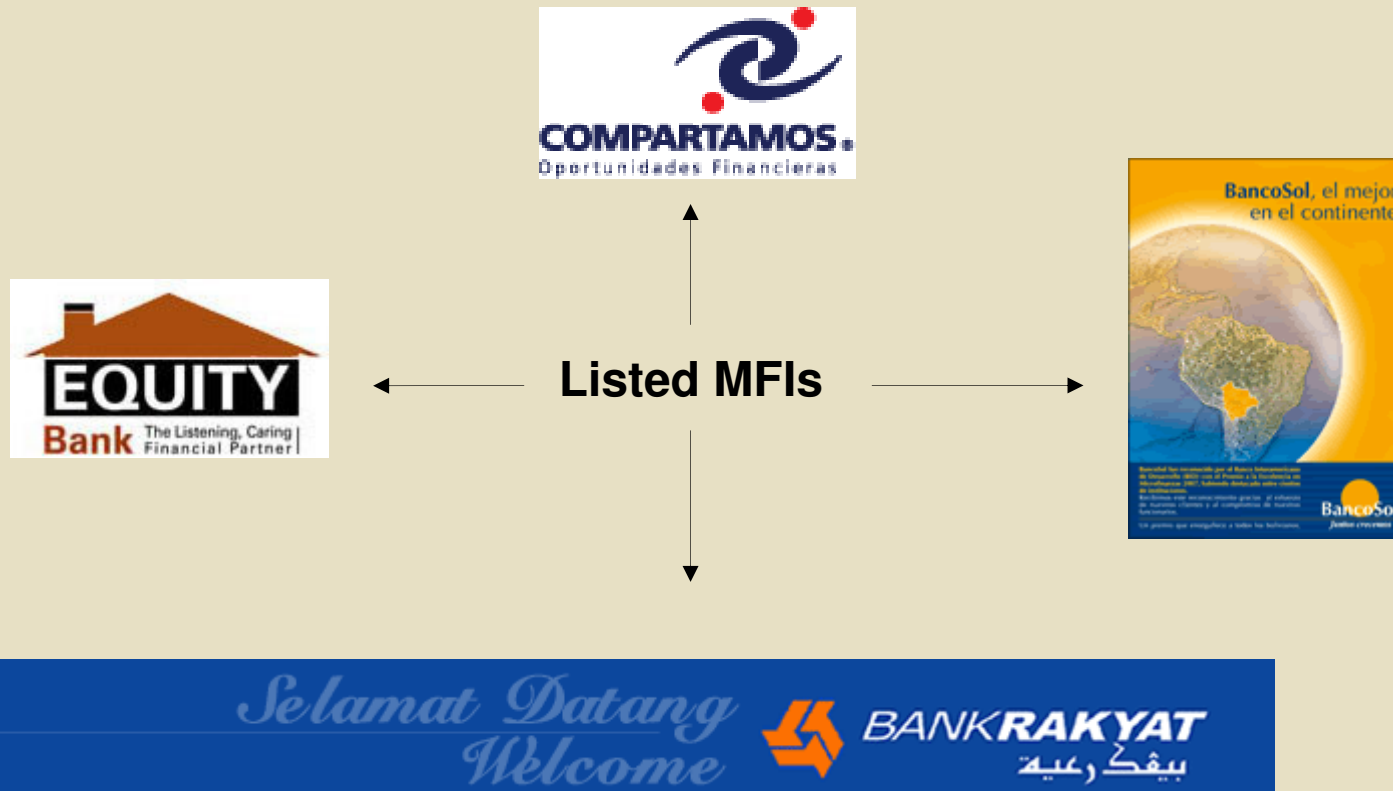


Discounted Cash Flow



Benchmark Ratios

Benchmarks



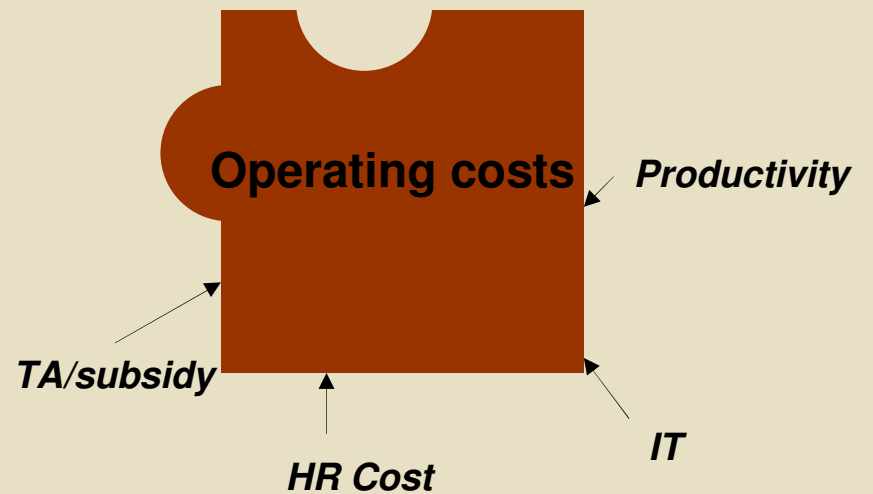
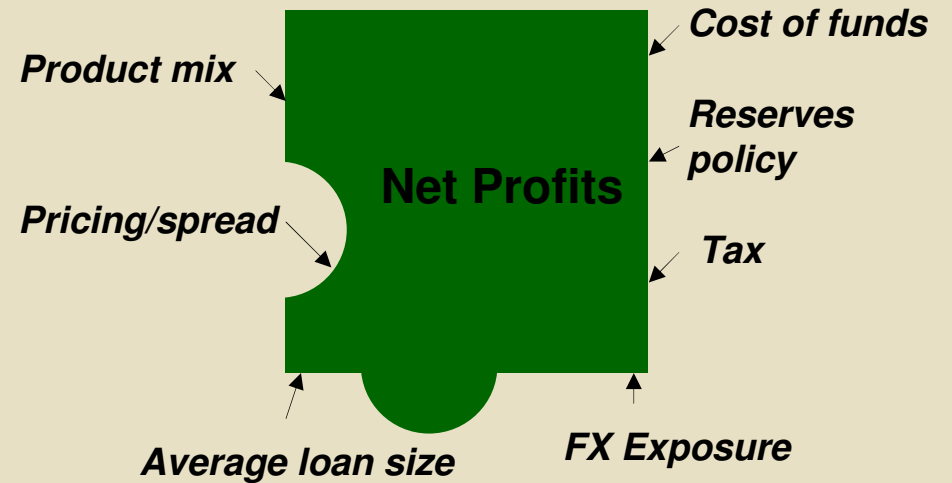
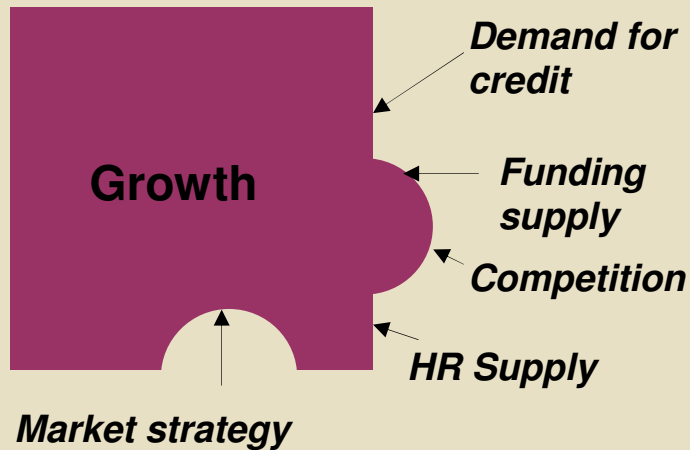
Four ? MFIs does not a market make

Are banking benchmarks relevant for MFIs ?

Banks	MFIs
<ul style="list-style-type: none">•Closely Regulated & supervised – Basel 2 so lower risk	<ul style="list-style-type: none">•Loosely regulated and supervised – no universal standard – more risk than banks
<ul style="list-style-type: none">•Numerous products – trade, forex, retail, corporate & investment banking, insurance	<ul style="list-style-type: none">•Limited product offering – essentially subset of retail banking
<ul style="list-style-type: none">•Access to retail deposits	<ul style="list-style-type: none">•Most not allowed to raise retail deposits – greater funding risk
<ul style="list-style-type: none">•Matching term and currency of assets and liabilities	<ul style="list-style-type: none">•Mismatch of term and currency common
<ul style="list-style-type: none">•Extensive experienced labour pool from which to draw	<ul style="list-style-type: none">•MFI management skills not in abundant supply – greater HR risk
<ul style="list-style-type: none">•Universally commercial	<ul style="list-style-type: none">•Varied social agenda
<ul style="list-style-type: none">•Established/formal rating – S&P etc	<ul style="list-style-type: none">•Rating nascent

Are banking ratios relevant for MFIs ? – Not yet

Key variables that make up the DCF valuation jigsaw



DCF best available option but beware.....

