

Microfinance Investments & Financial Markets

More of the same in the fourth quarter

Cheaper money markets. Since the third quarter, money market rates decreased sharply, closing the year at 1.75% for both short-term rates (6m USD libor) and mid-term rates (3y USD swap). The depth of the US economy's contraction persuaded the Federal Reserve to cut its target lending rate from one percent to a historically low of near zero to unfreeze lending. The ECB, and other European banking authorities, trimmed interest rates in December to shore up their respective economies in the face of bleaker financial news. Nonetheless, market reaction indicated that yet even more efforts may be needed to restore the confidence in the market.

Higher credit premiums. Despite bold fiscal and monetary measures responding to the escalating global financial crisis by many governments worldwide, corporate credit markets showed few signs of relief during the fourth quarter. Risk premiums persisted at historically high levels. AAAs were still trading at seven times their historical value and BBBs at about four or five times.

Despite cheaper money markets, high credit premiums have continued to push microfinance investments away from capital markets. Liquidity is scarce and most mainstream investors have cut back peripheral investments. Moreover, MFIs (although already paying virtually higher premiums due to lower base rates) are not ready to pay coupons adjusted to the expected risk perceived, which would place them between 10% to 15% in USD terms.

As a consequence, no

microfinance capital markets transactions have been placed with private investors, despite several trials from specialized managers and investment banks alike.

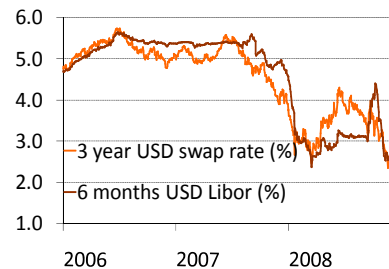
SMX stable absolute returns. Despite the continued negative trend and outlook, microfinance as an asset class has continued to behave as in the past. The SMX USD index, which tracks the performance of regulated microfinance funds, continued producing stable positive monthly returns with low volatility. It remains uncorrelated to major financial indices, closing the year at 5.95% in USD terms, 5.55% in EUR terms and 4.63% in CHF.

Based on November 2008 data, the global financial crisis has overall not had a major impact on the financial performance of the underlying MFIs, although tighter liquidity has slowed down their loan portfolio growth.

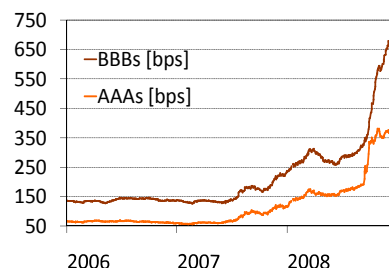
MIV slower but positive growth. Microfinance investment vehicles have also remained stable overall. Several new investment funds have been created in the fourth quarter and volumes of existing ones have continued to have positive net cash inflows, although some have witnessed some larger gross outflows than in the past. Symbiotics tracks the volume of all MIVs registered in Luxembourg, which remained relatively stable from USD 2.23 billion in June to USD 2.31 billion in December. However, most funds have seen their microfinance portfolios diminish mainly due to large swings in the EUR/USD forex market.

KEY MARKET INDICATORS

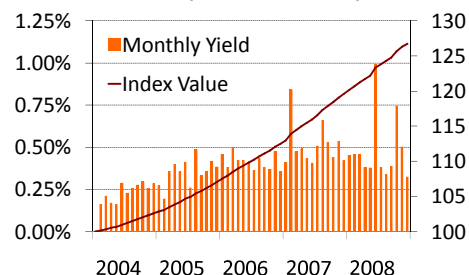
Money Markets



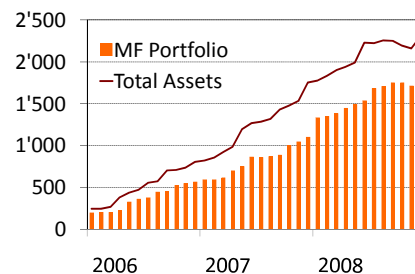
Credit Premiums



Symbiotics Microfinance Index (Yield, SMX USD)



Luxembourg MIVs (Volume, USD million)



Source: Bloomberg, Symbiotics

MFI Behavior in the Global Financial Crisis

MFI adapt as crisis makes it harder to grow, despite high demand

Globally integrated economies harder hit. Certain elements have played a major role in how emerging market economies have been struck by the global financial crisis. First, the crisis mainly hit the larger and more open economies, with considerable levels of foreign investment into their stock markets. More peripheral economies, with less foreign direct investments, saw less deterioration in their macroeconomic indicators. Second, countries with free floating exchange rates regimes have seen the value of their currency heavily impacted while those with interventionist monetary policy have seen less immediately visible consequences. In addition, net exporters of commodities have seen their budgets seriously hit by the dramatic fall of commodity prices, although this occurred six months after unexpected historically high prices. Finally, countries relying heavily on remittances from workers abroad started to see this source of income drying up.

Resilient microfinance sectors. Despite the current turmoil affecting emerging economies, their microfinance sectors demonstrated to be more resilient than other market segments. The Symbiotics 50 benchmark, which tracks large MFIs worldwide, denotes rather unchanged figures throughout the fourth quarter and before, whether in terms of profitability or risk.

That being said, some microfinance institutions may struggle with maintaining their growth levels, which in turn might affect their profitability or risk in the future.

Symbiotics 50 (MFI)	10 Key Indic.
Total Assets (US\$)	95'850'533
Loan Portfolio (US\$)	76'446'846
Number of Borrowers	49'257
Average Loan	2'059
Debt/Equity Ratio	4.25
Portfolio Yield	29.9%
Op Exp Ratio (OER)	14.9%
Op Self-Suffic (OSS)	121.8%
Return on Equity	16.7%
Portfolio at Risk	3.2%

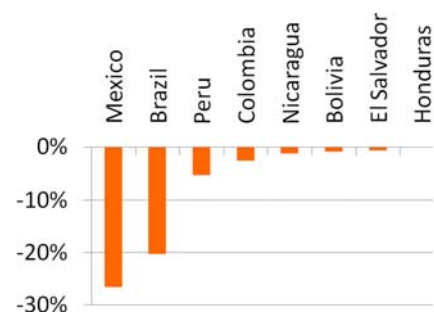
Following the worsening of the financial crisis last fall, Symbiotics carried out an assessment of the impact of the crisis on all our investees. The main potential risks identified by MFIs attributed to the global financial crisis, were: (1) liquidity shortages from depositors, lenders and investors, (2) increasing interest rates on borrowings, (3) increased currency risk due to forex volatility, and (4) deterioration of the portfolio quality due to (a) economic slowdown, (b) decrease of remittances and (c) micro-credits which are indexed to foreign currencies.

Adapting to scarcer funds. Overall, MFIs are adapting to this new situation: most of them were ready to pay higher interest rates than before and most have reviewed downward their projections for 2009. Those MFIs more integrated in the financial system are harder hit and are reacting stronger to the crisis. Fortunately, as in the case of more sophisticated economies, these MFIs are also better equipped to face external shocks.

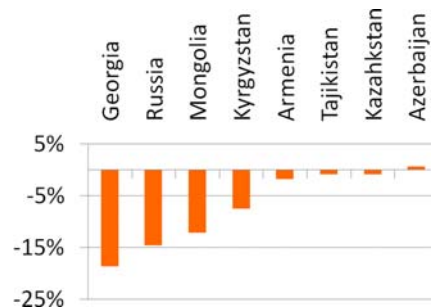
Witnessing this resilience despite difficult times, Symbiotics has continued to originate microfinance investments in the fourth quarter, mostly focusing on mid-size MFIs and economies.

Currency Markets in Q4-2008

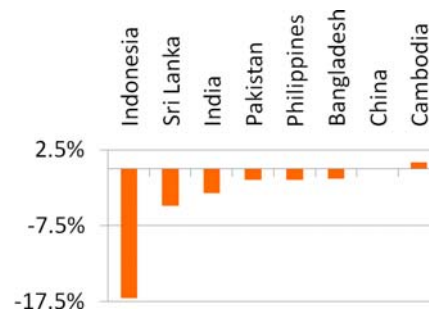
Latin America vs. USD



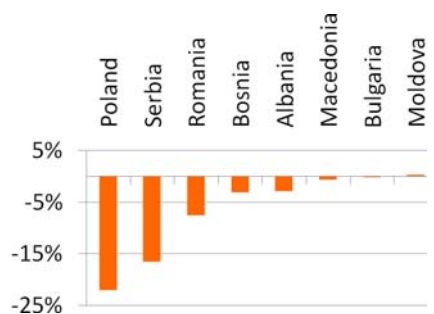
Russia, Cauc. & Central Asia vs. USD



South & East Asia vs. USD



Central & Eastern Europe vs. EUR



Source: Oanda, Bloomberg, Symbiotics

Investment Strategy & Results Delivered to our Clients

Higher rates and premiums. Symbiotics' brokerage platform has originated USD 50 million of microfinance investments in the fourth quarter of 2008, bringing its disbursements since inception to USD 435 million. Split in 337 transactions, mostly denominated in USD and EUR, they represent an average investment of USD 1.1 million with 31 months maturity and 9% average coupon, slightly above past yields. Most microfinance institutions reported significant need for liquidity, as usual during the last quarter of the year. The peak season of funding needs coincided with a liquidity shortage on the investor side, and thus a general increase in interest rates, at all maturities. Also, with the continued decrease of money markets, these higher rates imply credit premiums much higher than in the past, today closer to 7%.

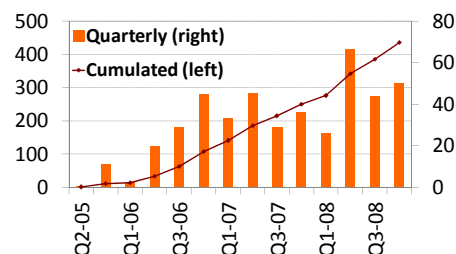
New MIVs and MFIs. Two new MIVs and six new MFIs entered the platform in the fourth quarter, bringing their respective total number to 15 and 96.

If we assume each micro-borrower covers the capital and labor needs of three individuals, the outstanding portfolio of the platform contributes to providing access to finance, cash flow security and inclusive growth to over 500,000 economically active poor in 25 emerging economies.

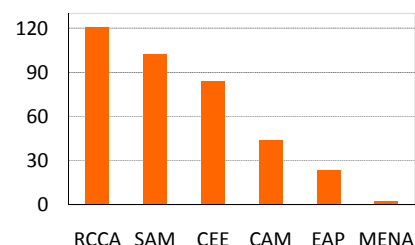
Latin America absorbed half of Q4's new investments, twice as much as Russia, Caucasus & Central Asia, which had previously been the fastest growing region and remains the largest one overall. Other regions have remained stable.

Loan Provision. For the first time, a loan provision has been advised regarding positions with an MFI facing governance and operational challenges in its transformation into a regulated entity. These investments represent 0.21% of the platform outstanding portfolio. No payment default occurred or is expected but the MFI's credit risk rating has been downgraded from A- to BB during the quarter.

Brokerage Volume (USD million)



Regional Allocation (USD million)



RCCA: Russia, Caucasus & Central Asia
 SAM: South America
 CEE: Central & Eastern Europe
 CAM: Central America, Mexico & the Caribbean
 EAP: East Asia & the Pacific
 MENA: Middle East & North Africa

AVERAGE YIELD

Average coupon	9.0%
Average base rate (at closing)	3.7%
Average premium (at closing)	5.3%
Libor USD 6m (31.12.08)	1.8%
Implied premium (31.12.08)	7.2%

Top 5 Currency	Vol m\$	Coupon
USD	261.4	9.0%
EUR	90.8	8.2%
PEN	20.0	11.2%
JOD	1.4	8.5%
THB	0.9	10.8%

Top 5 Country	Vol m\$	Coupon
Peru	45.6	10.1%
Bosnia	33.2	8.1%
Azerbaijan	31.8	9.0%
Bolivia	30.3	9.1%
Nicaragua	30.2	8.7%

AVERAGE RISK

Ratings	
MFI Credit Risk	BBB
Country Risk (ceiling)	BB-
Aggregate Rating	B+

Portfolio at Risk	% Total Vol
Loan provisions	0.2%
Write offs	0.0%

Maturity	Months
Full maturity (at closing)	31.4
Remaining maturity (31.12.08)	19.6

Top 5 exposures	Vol m\$
Findesa, Nicaragua	19.9
Partner, Bosnia	14.8
XacBank, Mongolia	14.0
AccessBank, Azerbaijan	13.0
Kompanion, Kyrgyzstan	12.8

TOTAL OUTREACH

Category	% Total	Clients
Total Micro Clients		177'514
Agriculture	19.0%	34'084
Manufacturing	6.8%	12'087
Trade	39.9%	70'821
Services	17.0%	30'100
Other	17.1%	30'422
Women	54.4%	96'514
Men	44.1%	78'321
Urban	58.2%	103'385
Rural	41.8%	74'129
Enterprise	79.5%	141'135
Consumer	11.0%	19'530
Housing	5.7%	10'031
Other	3.8%	6'819

Corporate Strategy & Organizational Development

Stable growth. Despite the financial crisis, our business has remained stable. We have continued to grow at similar rates as in the past pursuing our core strategy of providing an integrated professional investment services company to microfinance investors and fund managers, developing further our four core activities: information services, consulting services, investment management, and investment structuring.

Four new mandates. Most notably, our Investment Management team started two new fund management mandates for Enabling Microfinance AGmV, a fund based in Liechtenstein and Wallberg Global Microfinance Fund in Luxembourg. Our Consulting Services successfully gained two

projects, one for microfinance in Palestine and another for structuring an IFI renewable energy fund.

Four new employees. This growth was paralleled with further strengthening of our corporate planning and management systems, as well as with the addition of four new colleagues joining the team during the last quarter. Todd Farrington was hired as regional manager for Latin America, running our new office in Mexico City. He replaces Fabio Sofia, who joined the Investment Management team, reinforcing our client relationship and product management activities, after four years of successfully developing our Latin American presence. Anya Berezna, who was previously CFO of an MFI in the Middle East, and Benoit Bouet, who

was previously credit analyst with BNP Paribas, have joined François Rossier in covering our largest investment region: Russia, Caucasus & Central Asia. Jean-Philippe Clivaz, recent graduate of the Swiss Federal Institute of Technology, will help our two IT engineers, Christophe Brédy and Gilles Bayon, in further developing the backbone of our operations as well as launch our new business website. This brings the total headcount to thirty, split between our office in Geneva, Luxembourg and Mexico, up from 18 at the end of 2007.

We expect the first quarter of 2009 to be fairly similar in growth and development, with three or four new staff joining us, as well as investor demand resuming after the usual January low.

Did you know...

FINANCIAL ADVISORY SERVICES

Daniel Schriber was appointed Director, joining the management committee of the company. He heads the Financial Advisory Services, which is in charge



of relationship management with microfinance institutions, after having been its Regional Manager for Europe and Asia. Previously, Daniel worked at the International Committee of the Red Cross holding management positions in various field operations in Rwanda, Sri Lanka and Afghanistan, and was Deputy Head of Operations for Eastern Europe. Daniel holds an MA in international relations from IUHEID and an MBA from the University of Lausanne.

INVESTMENT OPERATIONS

Yvan Renaud was appointed Director, joining the management committee of the company. He heads the Operations Department in charge of



origination, monitoring, servicing and risk valuation of all investments. Previously, Yvan worked as operations manager for BlueOrchard Finance SA, as a microfinance consultant in Peru and Western Africa and as fund accountant and project manager for Capital International for five years. He holds a BA in business administration from the University of Geneva and an MS in social policy from the London School of Economics.

SYMBIOTICS MEXICO

Todd Farrington was hired as Regional Manager for Latin America, based in Mexico City. Previously, Todd worked as Director with Acción Global Investments on the equity and credit enhancement sides, as a founding partner of MicroRate and general manager of MicroRate Latin America, at the Inter-American Development Bank, and with the Inter-American Foundation in the Andean Region. He holds an MA in Economics and Financial Systems in a program from The Fletcher School and Harvard Business School; an MA in Literature from the University of Michigan; and a BA in Literature and Economics.



Value Chain Illustration:

1. MIV >> 2. MARKET >> 3. MFI >> 4. MSE

1. Microfinance Investment Vehicle (MIV): Subordinated Debt

Microfinance Loan Obligations S.A. (MFLO) – Subordinated Debt is the fifth issuance of MFLO, a microfinance bond origination platform, setup jointly between the European Investment Fund (EIF) and Symbiotics. MFLO aims to pool microfinance debt and provide adequate funding instruments tailored to the needs of both the underlying borrowing microfinance institutions and the investors or note holders.

This transaction provides quasi capital (eight year subordinated debt accounted for as equity from a regulatory perspective) to six mature microfinance programs in Kazakhstan, Nicaragua and Peru, needing further equity base in order to strengthen their transformation or their growth through leverage. The investment

provides equity to its beneficiaries while by-passing usual equity challenges whether at the governance, regulatory, valuation, currency, exit or dividend levels both for the investor and the MFI.

MFLO bonds typically offer more cost efficient and legally solid transactions than direct loans or promissory notes. Moreover, they are transferable securities, adequately adapted to specialized fund manager requirements. Such investments also allow investors to buy into risk adjusted return investment opportunities, with yields targeting their specific needs.

In this case, the issuance was structured in three layers of risk sold to three investors with different risk/return appetites, all based in Switzerland. The equity piece was bought by a

government sponsored fund, the mezzanine was bought by a specialized investment fund and the senior notes were purchased by a pension fund manager, respectively yielding 15%, 9% and 7%. Bonds will mature in 2015, allowing MFIs to leverage on them throughout this period.

10 KEY INDICATORS

Name	MFLO3
Jurisdiction	Luxembourg
Product	Bond obligations
Instrument	Subordinated debt
Currency	USD
Volume	USD 13 million
Coupons	7.0%(A), 9.0%(B)
Maturity	8 years
Country Risk (start/now)	BB/BB-
MFI Credit Risk (start/now)	A-/BBB+

2. Microfinance Market: Peru

Peru is the fourth largest country of South America in population, with 29.2m inhabitants. The country has experienced good macroeconomic conditions with an average growth of 4% per year from 2002 to 2006 and 9% both in 2007 and 2008, coupled with low inflation and stable exchange rates.

International rating agencies have recently upgraded the country's sovereign credit risk to investment grade level, confirming robust growth prospects. Moreover Peru is considered less vulnerable to the global economic crisis than many other emerging countries thanks to strong and sustained internal demand and low dependence on external financing.

2009 growth expectations have been reduced to 6%, mostly due to probable falling exports prices.

Despite this relatively strong economic context, poverty remains significant with 30% of the population living with less than two dollars a day. As a result, Peru's political and social stability remains quite unstable due to unresolved social inequalities and government institutions suffering from low credibility.

Microfinance started in Peru about twenty five years ago. Today, its microfinance industry has grown to over sixty institutions. Recently, several commercial banks have downscaled operations into microfinance segments, which contributes to a strong level of competition. This high number of microfinance institutions has no equivalent in Latin America. It can be explained by the long history of the market and by a strong

regulatory framework. Indeed, MFIs can chose to operate as banks, municipal banks, non bank financial institutions, cooperatives and NGOs, each regulated by its own set of rules and supervision. The sector has remained stable over the past decades and continues to grow significantly.

10 KEY INDICATORS (2008)

Population	29.2 million
Pop. living in poverty	30.6%
Human development rank	87/177
GDP per capita (USD)	7'615
Real GDP growth	7.9%
Inflation rate (09/2008)	6.2%
Forex	-5.3% /USD
Private credit	19.0% /GDP
Foreign aid	0.8% /GDP
Remittances	2.0% /GDP

3. Microfinance Institution (MFI): CMAC Maynas

CMAC Maynas is a municipal bank created thanks to a single contribution of the municipality of Iquitos in 1987. The investment has grown today to about USD 6 million, due to the accumulation of earnings over time. The municipality remains until now the unique shareholder of the institution.

In order to regulate any political interference, Peruvian banking authorities supervise the activities of the institution guaranteeing administrative, economic and financial autonomy. Moreover, the board of directors must be composed not only of representatives of the municipality, but also of the civil society, including the church.

CMAC Maynas is located in Iquitos, the largest city in the

Peruvian rainforest (370,000 inhabitants) which can be reached only by boat or plane. It has extended progressively its network of agencies to twelve, in the entire northeast region of the country. CMAC Maynas wishes now to reach the coastal region in order to ensure financial services and development in the entire Amazonian region. It has planned to reach Lima in 2010.

CMAC Maynas offers a wide and complete range of products and services aiming at serving business, consumption and housing purposes. It also offers a pawn loan business backed with jewelry allowing clients to face urgent demands in liquidity in a region rich in gold. Competition remains relatively weak, due to the fact that the region is vast and poorly populated.

CMAC Maynas presents excellent levels of efficiency despite a decreasing portfolio yield; its operational self-sufficiency ratio remains over 130%. Its portfolio quality is fair with 3.9% of past-due loans over 30 days and only 0.6% of write offs made in 2008.

10 KEY INDICATORS (Nov 08)

Total assets (USD)	63 million
Portfolio size (USD)	54 million
Micro-enterprise clients	29'816
Average loan (USD)	1'494
Portfolio yield	26.7%
Operating self-sufficiency	133.0%
Operating expense ratio	11.5%
Return on equity	23.4%
Debt/equity	4.65
Portfolio at risk	3.9%

4. End Beneficiary (MSE): Mr. Marciano Gómez

Marciano Gómez was born in the cold and mountainous region of Huaráz. In 1983, he moved to Iquitos, situated in the Amazonian part of Peru, in search of new opportunities.

He started selling random products on the streets of the city, without any planning and by borrowing from "loan shark" lenders at 10% monthly rates.

In 1995, thanks to a first loan granted by the CMAC Maynas of 600 Soles with a two month maturity, he began to trade several products and sell them before religious celebration. He added handbags in the range of his products and, thanks to the lower interest rate he had to repay; he could decrease the prices of his merchandise and start saving.

Later on, he rented his own place in one of the city's most dynamic markets. Subsequently, his

sales grew steadily each year permitting him to increasingly diversify his product range.

In 1998, Mr Gómez rented a second shop space and expanded his business further, supported by at least three credits over different maturities through CMAC Maynas.

Nowadays he employs three people selling jewellery, clothes for women and handbags among others products. His business yearly turnover now amounts to more than USD 100,000. In the near future, Mr Gomez would like to buy his own market place in a two level house.

He named his shop "Emperatriz", in honour of his wife, Emperatriz Zúñiga, who has helped and supported him from the start. She is now helping him to manage the shops. Their sons have been able to go to university, through the support of their parent and

their successful business.

CMAC Maynas maintains with Mr. Gomez several credit lines of different amounts and maturities according to his business cash flows. Mr Gomez places most of his savings in the institution.





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