

Deutsche Bank

Microcredit Development Fund | Report of Activities

An Innovative Partnership of Deutsche Bank and Private Banking Donors

Deutsche Bank



The Power of Microfinance

Throughout history, credit has been a keystone in the development of assets. From the Medicis to the Vanderbilts, the power of credit has been used to leverage resources for people with existing wealth. Microfinance brings the power of credit to the grass roots via loans to the poor, without the requirement of collateral or previous credit experience, and it is proving to be a revolutionary force in enabling families to rise from poverty. From rural villages in Asia to urban centers in the United States, small loans to emerging entrepreneurs create opportunities for self-employment and lives of dignity for millions. Loans to small businesses and individual entrepreneurs foster self-reliance and community-wide economic benefits.

The success of microfinance is redefining international development policies that increasingly embrace bottom-up strategies to effect economic change. According to the World Bank, "Microfinance is an effective weapon in the fight against poverty. Developing countries' practitioners working at the grass roots level have demonstrated this fact beyond a doubt." Presently, 3 billion people, or half of the world's population, live on less than \$2 a day. Globally, microfinance institutions (MFIs) reach only 7 percent of the 500 million who could benefit from these services. Thus, the potential for microfinance to grow as an industry is enormous. Experts agree, however, that achieving commercial sustainability is key to reaching the scale necessary to truly affect change for the world's poor.

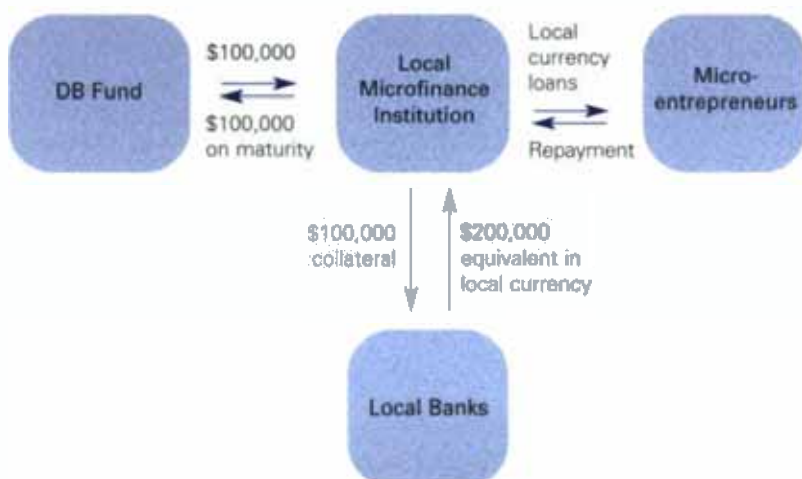
The Deutsche Bank Fund

The DB Fund is a non-profit, tax exempt 501(c)(3) U.S. corporation. In 2002, in response to European donor interest, complementary tax exempt funds were established in the United Kingdom and Germany. The DB Fund was conceived with the mission of helping MFIs reach scale and long-term durability as sustainable institutions that will have a recurring impact on the alleviation of poverty. Deutsche Bank's strategy is to encourage and establish relationships between local commercial financial institutions and MFIs by providing high-risk catalytic funds as collateral for leveraged loans from local financial institutions.

The DB Fund makes loans that are structured as subordinated, non-amortizing, very low cost financing (1-to-3 percent annual rate) with maturities of three to eight years. Loans from the DB Fund cannot be used as working capital or as funds for direct lending to program participants. Rather, loans from the DB Fund leverage capital from local commercial financial institutions, at least at a 2:1 ratio, for direct lending to the poor. (Refer to the diagram of a typical DB Fund transaction.) As an exception in certain difficult environments, the DB Fund will accept lower leverage as long as within 2 years a 2:1 leverage ratio is achieved. Relationships with local commercial financial institutions enable the targeted MFIs to leverage sustainable conventional debt, grow their programs to scale, and work toward the economies of scale needed to become self-sufficient.

A Typical DB Fund Loan Structure

- Loan size \$100,000
- 2% annual interest rate
- Quarterly interest payment in US dollars (USD)
- No amortization of principal
- 5 year maturity



- MFI earns market interest on this USD-based deposit of the DB Fund proceeds, which helps defray the costs of local currency loans from the commercial bank. DB Fund loan remains in USD unless the MFI defaults on the loan to the local commercial bank, thereby avoiding foreign exchange risk.
- Local currency market rate loans must have a minimum leverage ratio of 2:1.
- Loans to micro-entrepreneurs have maturities that are often less than six months and typically less than one year.

A Partnership of Deutsche Bank and Private Banking Donors

The DB Fund is capitalized through the donations of Deutsche Bank Private Banking clients, other wealthy families and individuals, Deutsche Bank Americas Foundation and DB Citizenship UK. Donations are received in minimum amounts of \$50,000. Recently, the DB Fund began accepting Program Related Investments (PRI) in minimum amounts of \$100,000. All services involved in managing the DB Fund are provided on a pro-bono basis by the Community Development Group of Deutsche Bank in New York. The Bank's extensive network of offices throughout the world has further facilitated the placement of loans and the brokering of relationships with in-country commercial banks. All contributions received from donors are deployed as loans to benefit microfinance institutions. Since the DB Fund's inception, administrative costs have been limited to 2 percent of the value of loans made.

Donors to the DB Fund are committed to utilizing their wealth to invest in sustainable social change that will have a recurring social impact and act as a catalyst to help leverage additional resources. As a result of the DB Fund's success in meeting these objectives, a three-year goal has been set to increase the DB Fund's overall capitalization to \$5 million.

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