

INVESTING IN FINANCIAL INSTITUTIONS **SERVING MICRO AND SMALL BUSINESSES**



SHORECAP INTERNATIONAL (SCI) IS AN INTERNATIONAL PRIVATE EQUITY COMPANY THAT INVESTS IN REGULATED MICROFINANCE INSTITUTIONS AND SMALL BUSINESS BANKS IN DEVELOPING AND TRANSITIONAL ECONOMIES. SHORECAP EXCHANGE (SCE) IS A NON-PROFIT COMPANY THAT BUILDS CAPACITY IN THESE DEVELOPMENT FINANCE INSTITUTIONS THROUGH TECHNICAL ASSISTANCE AND CONDUCTS PEER KNOWLEDGE EXCHANGE ACTIVITIES. TOGETHER THE SHORECAP COMPANIES MADE SIGNIFICANT PROGRESS TOWARD THEIR OBJECTIVES IN 2004, THEIR FIRST FULL YEAR OF OPERATIONS.

- Completed capital raising for ShoreCap International with total commitments of \$28.3 million, exceeding the company's goal of \$25 million.
- Raised a total of \$4.1 million in grant commitments to support the technical assistance services of ShoreCap Exchange.
- Invested \$5.5 million in three high-performing microfinance institutions in Kenya, India and Cambodia, and two leading small business banks in Bangladesh and Armenia.
- Provided in-depth technical assistance services to portfolio companies in the areas of credit risk management, internal audit, operational efficiency and new product development.
- Supported growth and outreach of investee institutions, which collectively made \$118 million in new development loans to 143,000 borrowers.

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ShoreCap International, Ltd. may be the only private investment company whose niche is minority equity stakes in locally managed and regulated Asian, African, and Eastern European small business or microfinance financial institutions.

Founded by ShoreBank, a \$1.7 billion asset commercial bank holding company providing financial and information services to low-to-moderate income U.S. markets, the company exists based on the belief that it could adapt the same principles used to catalyze economic activity in the U.S. to developing international markets. Banks are the universal delivery system for business credit. But while small scale businesses account for the majority of economic activity in developing countries, most banks do not lend to them. Through its investments, and in partnership with ShoreCap Exchange Corporation, SCI aims to demonstrate both the profitability of financing micro and small businesses and the impact such financing can have on economic development in those markets.

In its first 18 months, a talented management team completed capital raising, with over 50% of capital coming from private and non-governmental investors, and closed its first five investments.

Mary Houghton

Chair, ShoreCap International, Ltd.

Key to ShoreCap's strategy is to give our partners access to "Capital Plus." ShoreCap International, Ltd. provides the capital; ShoreCap Exchange Corporation offers the "plus" by providing access to specialized knowledge, information and expertise.

SCE provides this "plus" by working with senior managers to prioritize consulting needs, and by linking global, regional and local experts with deep experiences in building and strengthening financial institutions to enrich local knowledge.

SCE also offers one-of-a-kind peer-to-peer learning opportunities. Its first peer learning session occurred in December 2004 in Chicago. A small group of ten banks took part in a three-day forum focused on risk management. Attendees discussed their own experiences and attended panels led by expert practitioners who provided tools that participants could use immediately in their own institutions.

Together the ShoreCap companies represent a bold new delivery model. It is the only private sector bank-sponsored venture that combines financing and information services to support and strengthen financial institutions serving micro and small businesses. We are hopeful that it will serve as a demonstration in the market.

Helen Dunlap

Chair, ShoreCap Exchange Corporation

OVERVIEW OF SHORECAP COMPANIES

Shared Mission

The ShoreCap companies seek to expand access to financial services for microentrepreneurs and small business owners in emerging markets by providing the capital, governance and knowledge necessary to support permanent development finance institutions within these markets.

Target Markets

SCI invests in developing countries and emerging markets in Africa, Asia and Eastern Europe.

Investment Criteria

SCI invests in commercial microfinance institutions and small business banks that:

- Have a demonstrable commitment to development
- Are regulated by their country's Central Bank
- Run profitable, unsubsidized operations
- Have a high-performing local management team
- Maintain sound levels of asset quality
- Are committed to an investment exit within 5-7 years
- Are capable of delivering target investment returns through long-term capital appreciation in share price

Technical Assistance/ Knowledge Exchange

ShoreCap Exchange provides a wide range of capacity building services, including new product development, risk management systems, internal controls, deposit mobilization strategies, management and staff skills development, and information technology solutions. In addition, SCE organizes knowledge networking events that bring together bank CEOs and senior managers to share information and experiences in a focused, facilitated forum.

Sponsor and Manager

ShoreBank is America's first and leading community development and environmental banking corporation providing information and financial services. Headquartered in Chicago, ShoreBank is a \$1.7 billion company which owns, operates, invests in and advises development banks around the world.

THE INVESTMENT PORTFOLIO

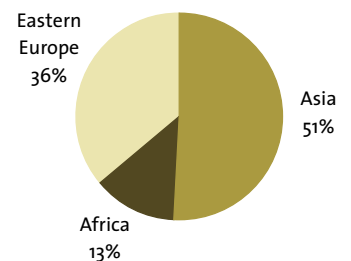
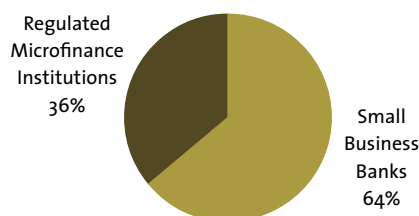
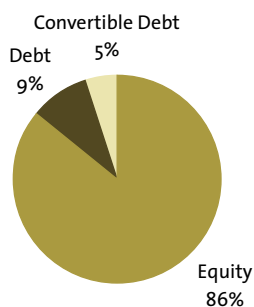
ShoreCap International has invested, or committed to invest, a total of \$5.5 million in five institutions: three in Asia, one in Africa, and one in Eastern Europe. As illustrated below, the portfolio consists mainly of equity investments.

Overall in 2004, the portfolio companies performed well both financially and in terms of their development objectives. Collectively, these institutions made \$118 million in new

development loans, defined as loans to microentrepreneurs or small businesses that employ low-income people. They also reached a collective \$239 million in total assets. Each company was profitable in 2004 with an average return on assets of 3.8% and return on equity of 17% across the portfolio. As a result, ShoreCap International has seen strong growth in the net asset value of its portfolio companies. Going forward, the ShoreCap companies will continue working with its investees to strengthen their financial performance and expand their development impact.

SCI's Investment Portfolio

BY TYPE OF INVESTMENT, TYPE OF INSTITUTION AND REGION





Bhartiya Samruddhi Finance Ltd. (BSFL), India

BSFL is a non-bank finance company regulated by the Reserve Bank of India. It is the flagship of the BASIX Group, an Indian microfinance institution which leads the industry in institutional development, foreign investment, and mainstream financial sector linkages.

Through its “Livelihood Triad” strategy, BSFL provides microfinance, institutional development, and agricultural and business development services. In its microfinance operations, BSFL works in rural areas, offering individual and group-based microcredit and insurance products. It makes agricultural loans to farmers for crops, livestock, irrigation and equipment, and business loans for small-scale commerce or manufacturing. In addition, it makes general purpose loans to self-help groups, which deliver credit and other services to poor women.

BSFL continued profitable operations in 2004, as it increased its outreach and implemented new services. A new management team was put in place mid-year, and new hiring and training have strengthened the institution’s human resource capacity. BSFL remains well capitalized and has continued to find financing from local banks.

ShoreCap Exchange conducted an in-depth needs assessment and developed a technical assistance plan that will be carried out in 2005.

www.basixindia.com/samruddhi.asp

Investment

2004 SNAPSHOT

SIZE: \$512,000 (equity)
 DATE: September, 2004
 SCI BOARD MEMBER: Paul DiLeo
Advisor, ShoreCap Management

Assets	\$11.8 million	Outlets	29
Loans	\$11.5 million	Employees	579
Borrowers	74,364		

BRAC Bank Ltd., Bangladesh

BRAC Bank is the largest and fastest growing small business bank in Bangladesh. It was founded by the Bangladesh Rural Advancement Committee (BRAC) – a leading development finance institution that helped pioneer microfinance in Bangladesh.

Small businesses represent one of Bangladesh’s largest opportunities for wealth and job creation, yet they go largely ignored by microfinance institutions and traditional banks. BRAC Bank was created to provide these businesses with financing.

BRAC Bank had an outstanding year in 2004, doubling in size and profitability. A leading Bangladesh business magazine named it “Bank of the Year.” The bank also opened three new full-service branches and more than 100 new field offices. Plans for the bank to go public also continue to move forward.

ShoreCap Exchange began implementing the first stages of its technical assistance plan at BRAC Bank in June 2004. Initial assistance focused on increasing operational efficiency, building credit risk management capacity and refining SME credit methodology at the bank.

www.bracbank.com

Cambodian Entrepreneur Building Ltd. (CEB)

Established in 2003 as a private limited company, CEB focuses on providing financing for entrepreneurial low-income women in both rural and urban areas. CEB grew out of the work of Cambodia Community Building MicroFinance Institution, a non-profit which is the majority shareholder of CEB.

CEB offers both group and individual loan products, with individual loans comprising a large majority of the current portfolio. CEB encourages savings among its borrowers through compulsory saving requirements as a condition on all its loans.

CEB has already established a strong reputation and is poised to expand its lending activities with the aim of becoming one of Cambodia’s premier microfinance institutions. CEB achieved strong growth in 2004, surpassing its budget projections in terms of total assets and loans outstanding. Asset quality remained excellent even as the loan portfolio almost doubled in size. To support expansion, CEB invested in new staff, including a finance manager to improve capacity in this area.

ShoreCap Exchange developed a technical assistance plan covering a broad range of areas including deposit products, MIS and risk management.

Investment

2004 SNAPSHOT

SIZE: \$1.5 million (equity)

DATE: December, 2003

SCI BOARD MEMBER: Paul Christensen
President, ShoreCap Management Ltd.

Assets	\$164 million	Deposits	\$132.3 million
Loans	\$95.4 million	Outlets	293
Borrowers	14,000	Employees	1,000

Investment

2004 SNAPSHOT

SIZE: \$750,000 million (equity & debt)

DATE: December, 2004

SCI BOARD MEMBER: Davis Golding
*EVP & Chief Investment Officer,
ShoreCap Management Ltd.*

Assets	\$4.3 million	Deposits	\$181,181
Loans	\$3.7 million	Outlets	8
Borrowers	8,493	Employees	140

InecoBank, Armenia

InecoBank is a small business and consumer finance bank, founded in 1996. In both its commercial and consumer activities, Ineco has often been the first entrant into underserved markets and is one of only a few banks actively lending in Armenia. Ineco's success in reaching these markets has primarily resulted from its management's desire to use thorough research to guide its activities, instead of allowing common misperceptions about low-income markets to sway its decisions.

InecoBank had another strong year in 2004. It was the fastest growing bank in Armenia and the 13th fastest growing bank in Eastern Europe, according to *The Banker* magazine. Earnings totaled \$2.1 million, which drove ROE to 44%. In the second half of the year, a new CEO was hired to improve governance and strengthen the senior management team.

ShoreCap Exchange developed a technical assistance plan for 2005 with initial focus on human resource policy improvements and remittances.

www.inecobank.am

K-Rep Bank, Kenya

Since its establishment in 1999, K-Rep Bank has grown to become one of the largest commercial microfinance institutions in East Africa, with over \$30 million in total assets and more than 70,000 clients. K-Rep aims to demonstrate that banking for low-income people is both commercially viable and an effective way to combat poverty.

K-Rep provides both credit and savings products with group-based loans to micro-entrepreneurs as its core business. K-Rep also makes wholesale loans to other microfinance institutions and cooperative societies that on-lend the funds to members or employees.

K-Rep Bank continued to grow at a steady pace in 2004 and concluded the year with \$1 million in earnings. The bank achieved improvement in the quality of its loan portfolio through increased attention on delinquencies. K-Rep's management designed and prepared plans to expand the bank's network in 2005.

ShoreCap Exchange began its technical assistance program at K-Rep in the fourth quarter of 2004, with initial focus on refining the small business credit methodology and internal audit improvements.

www.k-repbank.com

Investment

2004 SNAPSHOT

SIZE: \$2,000,000 (equity & debt)

DATE: October, 2004 (debt); equity to close in early 2005

SCI BOARD MEMBER: Leon Smith

*Senior Vice President Risk Management,
ShoreBank Corporation*

Assets	\$23.5 million	Deposits	\$12.4 million
Loans	\$15.0 million	Outlets	3
Borrowers	24,500	Employees	150

Investment

2004 SNAPSHOT

SIZE: \$720,000 (equity & debt)

DATE: November, 2004

SCI BOARD MEMBER: Mary Houghton

President, ShoreBank Corporation

Assets	\$34.9 million	Deposits	\$18.6 million
Loans	\$27.5 million	Outlets	29
Borrowers	71,800	Employees	321

THE SHORECAP INVESTMENT PROCESS

STAGE	REVIEW/APPROVAL	WHAT'S NEEDED
Initial consideration	Preliminary Investment Committee Approval	Audited financial statements
Term sheet issuance		Current portfolio reports
Due diligence and needs assessment	Exchange Donor Committee Approval	Ownership and governance structure
Investment commitment	Final Investment Committee Approval	5-year business plan with full financial projections
Documentation	SCI Board Notification	Rating agency reports (if available)
Closing/execution		Preliminary agreement on terms
		On-site data collection
		Interviews with senior managers
		Review of current policies and procedures
		Meeting with central bank representatives
		Branch and customer visits
		Loan file reviews
		Final negotiation of terms
		Preparation of investment documents
		Finalization of Technical Assistance agreement
		Satisfaction of any conditions precedent
		Local legal opinion
		Execution of agreements

SCI SCI Shareholder
SCE SCE Donor

ABN AMRO Bank **SCI**

A leading international bank based in the Netherlands with total assets of nearly €600 billion. It has more than 3,000 branches in 66 countries and territories and a staff of 105,000 worldwide.

Asian Development Bank **SCI**

A multilateral development finance institution established in 1966 and supported by 63 member countries that is dedicated to reducing poverty in Asia and the Pacific.

The Belgian Investment Company (BIO) **SCI SCE**

A public/private partnership that supports private sector projects in developing countries by providing long-term financing to micro, small and medium-sized enterprises.

The Calvert Group **SCI**

One of the largest families of socially responsible mutual funds with over US\$9 billion in assets under management in 27 investment portfolios.

CDC Group **SCI**

The British-owned development finance institution established in 1948 with assets of US\$2.3 billion deployed through fund managers in 60 developing countries.

Evslin Family Foundation **SCI SCE**

A U.S.-based family foundation dedicated to the use of education, transparent business practices and technology to improve the conditions of individuals living in disadvantaged communities around the world.

Finnfund **SCI**

A Finnish development finance company established in 1979 that provides long-term risk capital for private projects in developing countries.

Ford Foundation **SCI SCE**

An independent, non-profit organization that has provided more than US\$12 billion for grants and other funding to reduce poverty and injustice, strengthen democratic values, promote international cooperation and advance human achievement.

The Gatsby Charitable Foundation **SCI SCE**

A UK-based trust that funds a range of activities including efforts to combat poverty in Africa through promotion of small-scale enterprise and innovation in agriculture.

The International Finance Corporation (IFC) **SCI SCE**

The private investment arm of the World Bank Group and the largest multilateral source of loan and equity financing for private sector projects in developing countries.

Levi Strauss Foundation **SCE**

A corporate foundation that targets its grantmaking in the areas of increasing economic development and education opportunities for disadvantaged women and youth.

The Netherlands Development Finance Company (FMO) **SCI SCE**

A public/private partnership that invests in private sector projects in developing countries and emerging markets in Africa, Asia, Latin America, Central and Eastern Europe.

Netherlands Ministry of Foreign Affairs **SCE**

A Dutch governmental agency promoting partnerships with civil society organizations, enterprises and knowledge institutes in support of various poverty reduction programs.

ShoreBank Corporation **SCI**

The United States' leading community development and environmental banking corporation with US\$1.7 billion in assets. ShoreBank is committed to building vibrant communities around the world through providing access to financial and information services.

Skoll Foundation **SCI**

A private U.S.-based foundation whose mission is to advance systemic change to benefit communities around the world by investing in, connecting and celebrating social entrepreneurs.

Swiss Agency for Development & Cooperation (SDC) **SCE**

Switzerland's international cooperation agency within the Swiss Foreign Ministry with a staff of 500 people and an annual budget of about CHF1.2 billion.

OUTLOOK FOR 2005 AND BEYOND

The ShoreCap companies anticipate that 2005 will be an exciting year with several new developments. ShoreCap International is likely to see its first dividend income generated from several of its investments in profitable and maturing institutions. In addition, one of the portfolio companies is expecting to float new shares on the local market as a way of raising additional capital to support its continued growth.

ShoreCap International intends to invest another US\$5-6 million in three or four more development finance institutions in 2005. The pipeline of new opportunities remains robust with on-going discussions underway with several institutions in Africa and Asia. In addition, the management team intends to continue prospecting trips to various countries throughout the year.

ShoreCap Exchange has plans in place to support ongoing capacity building efforts at all five of the existing portfolio companies and will be conducting individual needs assessments for each of the new investee institutions. In addition, Exchange is planning its next in-person “Banker to Banker” forum for later in the year.

MANAGEMENT TEAM

ShoreCap International

Mary Houghton Chair and CEO

Mary Houghton is President and a co-founder of ShoreBank Corporation. She serves on the boards of Women’s World Banking, the Calvert Foundation, and on the advisory board of the Harvard Business School Initiative on Social Enterprise. She is a founding member of the Development Finance Forum for which ShoreBank currently serves as Secretariat. In 2004, Mary was named Community Banker of the year by the *American Banker*.

Paul Christensen President and COO

Paul Christensen manages ShoreCap International and serves as lead investment officer for the Africa portfolio. He is the former President and CEO of ShoreBank Enterprise Group—a \$12 million-asset small business support organization in Cleveland, Ohio—and a former director of ShoreBank, Cleveland. From 1992-1996, he was an Engagement Manager for the consulting firm McKinsey & Co.

Davis Golding EVP and CIO

Davis Golding manages ShoreCap’s investment process and pipeline while serving as the lead investment officer for Asia. Davis previously was Executive Vice President and Chief Operating Officer of ShoreBank Pacific. During his 22-year career, Davis has held various management positions in commercial banks in the U.S. He also ran a start-up bank in Hong Kong and founded and ran a recycling company.

Forest Himmelfarb Investment Analyst

Forest Himmelfarb joined ShoreBank in 2003 and has been involved in ShoreCap since its capitalization campaign. Forest assists in due diligence investigations with prospective investee institutions and manages investee reporting requirements. Forest also coordinates communication with ShoreCap’s board and shareholders and serves as ShoreCap’s Environmental Coordinator.

ShoreCap Exchange

Lynn Pikholtz President and CEO

Lynn Pikholtz manages the overall operations of ShoreCap Exchange and directs its technical assistance delivery activities. Lynn was formerly a Senior Managing Director with ShoreBank Advisory Services, the consulting affiliate of ShoreBank Corporation. Lynn previously worked for First National Bank and The Urban Foundation in South Africa and has written extensively on development finance.

Urmi Sengupta Program Consultant

Urmi Sengupta joined ShoreCap Exchange in 2004. She is the lead consultant on SCE’s Knowledge Exchange Program and has management responsibility for day-to-day operations at ShoreCap Exchange. She also assists in the areas of fundraising, strategic planning and technical assistance for client financial institutions. Urmi previously worked at Bank of America in India and has extensive experience in small business banking.

2004
(January-December) **2003**
(July-December)

SUMMARY BALANCE SHEET AS OF DECEMBER 31, 2004 AND 2003

ASSETS

Current Assets

Cash and cash equivalents	\$1,641,712	\$401,734
Other current assets	\$176,036	\$13,950

Long-Term Assets

Investments (at fair value) *	\$3,232,000	\$1,500,000
Notes receivable	\$750,000	\$0

Total Assets	\$5,799,748	\$1,915,684
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LIABILITIES

Current Liabilities

Accounts payable	\$38,921	\$10,065
Accrued expenses	\$37,251	\$50,798
Total Liabilities	\$76,172	\$60,863

SHAREHOLDERS EQUITY

Share Capital	\$7,159	\$2,622
Share Premium	\$7,172,435	\$2,619,328
Accumulated Deficit	(\$1,456,018)	(\$767,129)
Total Shareholders Equity	\$5,723,576	\$1,854,821

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$5,799,748	\$1,915,684
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TOTAL CAPITAL COMMITMENTS	\$28,333,000	\$15,500,000
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* Investments are valued at cost unless either new financing takes place involving a material investment by a third-party at arm's length or there has been a material and permanent impairment in the value of the investment below cost.

SUMMARY INCOME STATEMENT FOR YEAR ENDING DECEMBER 31, 2004 AND 2003

REVENUE

Interest income	\$7,937	\$0
Dividend income	\$0	\$0
Origination fees	\$2,500	\$0
Total Revenues *	\$10,437	\$0

EXPENSES

Interest expense	\$0	\$167
Organization and start-up expenses	\$20,000	\$500,000
Management fee	\$501,500	\$211,500
Legal, accounting and professional fees	\$145,619	\$41,930
Other operating expenses	\$32,208	\$13,532
Total Expenses	\$699,326	\$767,129

NET INCOME (LOSS)	(\$688,889)	(\$767,129)
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* As an equity investor, ShoreCap International receives very limited current revenues, and projects net losses to continue for the next 3-5 years until realizing capital gains upon exiting its investment holdings.



SHORECAP
INTERNATIONAL



SHORECAP EXCHANGE
CORPORATION

SHORECAP INTERNATIONAL & SHORECAP EXCHANGE BOARDS OF DIRECTORS

SHORECAP INTERNATIONAL

Frank DeGiovanni
Ford Foundation

Emile Groot
FMO

Ronald Grzywinski
ShoreBank Corporation

Mary Houghton
ShoreBank Corporation

Mary Ellen Iskenderian
IFC

Franklin Kennedy
ShoreCap Investment
Committee Chair (non-director)

Paul Lembrechts
ABN AMRO Bank

Eugene Ludwig
Promontory Financial Group

Alfredo Pascual
Asian Development Bank

Ibrahim Seushi
Tanzania Gatsby Trust/
PricewaterhouseCoopers

Ernest Stern
World Bank (retired)

Rik Vyverman
BIO

SHORECAP EXCHANGE

Maria Flordelis F. Aguenza
Planters Development Bank

Stuart Burden
Levi Strauss Foundation

Paul Christensen
ShoreCap International, Ltd.

Helen Dunlap
ShoreBank Advisory
Services

Tom Evslin
Evslin Consulting

Mary Houghton
ShoreBank Corporation

Rik Vyverman
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