

PROVIDING  
CAPITAL AND  
EXPERTISE  
TO **FINANCIAL**  
**INSTITUTIONS**  
SERVING MICRO  
AND SMALL  
**BUSINESSES**



05  
ANNUAL REPORT

SHORECAP INTERNATIONAL & SHORECAP EXCHANGE

SHORECAP INTERNATIONAL (SCI) IS AN INTERNATIONAL PRIVATE EQUITY COMPANY THAT INVESTS IN MICROFINANCE INSTITUTIONS AND SMALL BUSINESS BANKS IN DEVELOPING AND TRANSITIONAL ECONOMIES. SHORECAP EXCHANGE (SCE OR EXCHANGE) IS A NON-PROFIT COMPANY THAT BUILDS CAPACITY IN THESE DEVELOPMENT FINANCE INSTITUTIONS THROUGH TECHNICAL ASSISTANCE, AND CONDUCTS PEER KNOWLEDGE EXCHANGE ACTIVITIES.



# COMMITTED TO THE ENTREPRENEUR

## HIGHLIGHTS

# 05

Invested or committed to invest \$4.1 million in XacBank (Mongolia), Eshkhat Bank (Tajikistan) and BRAC Bank Afghanistan, which increases the total portfolio to \$9.5 million in eight institutions.

Achieved nearly \$3 million in unrealized gains on investments in portfolio companies, which collectively grew their assets to \$440 million, and attained an average return on assets and return on equity of 2.3% and 18% respectively.

Supported the growth and outreach of investee institutions which collectively made \$200 million in new loans to 207,000 small and micro borrowers.

Expanded capacity building partnerships to new investee institutions using a range of innovative delivery mechanisms, drawing widely on the expertise of ShoreBank as well as regional and local experts.

Doubled the number of partner banks and MFIs served through Exchange's Peer-to-Peer Banker Knowledge Exchange Network.

Launched, in partnership with PlantersBank and ShoreBank International (SBI), the first small business lender forum of its kind in the Philippines. This forum was attended by 31 small business bankers from across Asia and Africa.

ShoreCap International (SCI) is a private investment company whose core business is making minority equity investments in locally managed Asian, African, and Eastern European regulated financial institutions that specialize in small business and microfinance lending.

Together the two ShoreCap companies, ShoreCap International and ShoreCap Exchange (SCE or Exchange), along with ShoreBank's consulting company, ShoreBank International (SBI), formerly known as Shorebank Advisory Services, Inc., demonstrate ShoreBank's belief that micro and small entrepreneurs have great potential to alleviate poverty and build wealth in developing countries, but are often constrained by a lack of accessible and affordable financial services.

The ShoreCap model is local, embodying the belief that capacity building of local banking entrepreneurs and their staffs is a critical vehicle for long-term sustainable systemic change in developing countries (as elsewhere).

The ShoreCap companies continue to work across the continuum of small businesses and microenterprises. Together, through SCI's investments and SCE's capacity building services, we are able to demonstrate the financial viability of financing and strengthening micro and small businesses and the impact such financing can have on economic development in developing country markets.

In 2005, SCI added two investments to its strong portfolio of development institutions and was witness to impressive financial and development performance by existing investees. Collectively, portfolio institutions originated over 207,000 new development loans during the year totaling \$200 million – 26 times the amount of ShoreCap's invested capital.

**Mary Houghton**

Chair, ShoreCap International, Ltd.

During 2005, ShoreCap Exchange more than doubled its scale of operations in line with the increase in the number of partner banks served and the volume and intensity of technical assistance (TA) delivered to its pre-existing partners. Exchange expanded the range of capacity building services it delivered to include: piloting of a new voluntary savings product; evaluating the feasibility of remittances; supporting Information Technology (IT) conversions; and strengthening the human resources function at banks. It also launched a number of new Peer-to-Peer Banker Knowledge Exchange Forums, leveraging its learnings way beyond SCI's investees.

Many of SCE's early lessons now drive its innovative and multi-faceted approach to serving small business banks and microfinance institutions more efficiently and effectively.

ShoreCap Exchange pairs its rapidly evolving Knowledge Exchange program which identifies common sector-wide concerns and encourages innovative responses to those concerns, with a focused and increasingly sophisticated regional consulting network that provides on-site technical assistance. Exchange also draws deeply on the consulting expertise of ShoreBank International to deliver many of these services.

ShoreCap Exchange today represents a focused participant-driven model to build capacity in development finance institutions, ensuring that ShoreCap International's portfolio companies and other knowledge exchange partners are supported as they increase their scale and depth to reach underserved populations.

**Laurie Spengler**

Chair, ShoreCap Exchange Corporation

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# SHARED MISSION

**TO EXPAND ACCESS TO FINANCIAL SERVICES TO MICRO-ENTREPRENEURS AND SMALL BUSINESS OWNERS IN EMERGING MARKETS BY PROVIDING THE CAPITAL, GOVERNANCE AND KNOWLEDGE NECESSARY TO SUPPORT SUSTAINABLE DEVELOPMENT FINANCE INSTITUTIONS.**

## 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/staff skills development and information technology solutions. SCE plays a second important role in knowledge networking, developing joint solutions to common challenges based upon experiences shared amongst partner institutions.

## Target Markets

ShoreCap focuses on developing countries and emerging markets in Africa, Asia and Eastern Europe.

## Investment Criteria

Partner institutions are 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

## Sponsor and Manager

ShoreBank Corporation is the United States' first and leading community development financial institution supporting economic equity and a healthy environment. Headquartered in Chicago, ShoreBank is a \$1.8 billion company that owns, operates, invests in and advises development banks around the world.





## BOARD AND 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 and the Calvert Foundation as well as the advisory board of the Harvard Business School Initiative on Social Enterprise, and is a founding member of the Development Finance Forum. In 2004, Mary was named Community Banker of the year by *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 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 in commercial banking, Davis has also run a start-up bank in Hong Kong and founded and run a recycling company.

#### **Forest Himmelfarb**

ASSOCIATE INVESTMENT OFFICER

Forest Himmelfarb joined ShoreBank in 2003 and has been involved in ShoreCap since its capitalization campaign. Forest conducts business development in Africa and Central Asia and manages due diligence and engagement with select prospects. Forest also manages investee reporting requirements and coordinates communication with ShoreCap's board and shareholders.

### SHORECAP EXCHANGE

#### **Laurie Spengler**

CHAIR

Laurie Spengler has 15 years experience developing successful, market-tailored consulting practices in dynamic market economies. Before joining SBI, Laurie established and ran a business solutions and legal advisory firm, the Central European Advisory Group (CEAG), based in Prague, Czech Republic. A graduate of Stanford University and Harvard Law School, she worked for a number of years as an attorney focusing on community development issues.

#### **Lynn Pikhholz**

PRESIDENT AND CEO

Lynn Pikhholz manages all aspects of ShoreCap Exchange and directs its technical assistance delivery activities. Lynn was formerly a Senior Managing Director with 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**

ASSISTANT PROGRAM DIRECTOR

Urmi Sengupta joined ShoreCap Exchange in 2004. She directs SCE's Knowledge Exchange Program and manages Exchange's day-to-day operations. 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.

# STRENGTHENING LOCAL AND REGIONAL CAPACITY THROUGH PEER NETWORKS

## SCE'S KNOWLEDGE EXCHANGE NETWORK (KEN) STARTED AS AN EFFORT TO SHARE LESSONS FROM ITS EXPERIENCES WITH SCI INVESTEES AMONGST THE BROADER FIELD.

Today, the KEN program has grown to include a wide network of partner institutions from countries ranging from Cambodia to Cameroon. Program effectiveness continues to be measured by the ability of partners to take recommendations and tools home to their institutions for implementation.

The essence of the KEN program is captured below. The overarching goal of the program is to provide an opportunity for strategic networking

and learning from peers. Each peer forum, whether for CEOs, lenders or human resource managers, is taken as an opportunity to develop ongoing relationships among peer bankers who inject new ideas into discussions and jointly problem-solve. Exchange's facilitation of strategic networking contributes to the development of new partnership ideas, delivery channels, and local capability and capacity.

### ACTIVITY AND DESCRIPTIONS

#### **BANKER-TO-BANKER PEER LEARNING FORUMS**

Exchange's In-Person and Teleconference Forums provide our partner banks and MFIs with the opportunity to share learnings and widen their networks, thus leveraging the lessons more effectively throughout the field.

#### **CEO**

The CEO Forum brings together CEOs, MDs, and COOs from investee companies and other interested peer institutions. Topics discussed include risk management, human resources management, attracting capital etc.

#### **LENDER'S CORNER**

The Lender's Corner Quarterly Phone Forum is led by two ShoreBankers with extensive experience in small business lending and credit risk management. Exchange also held an in-person lenders forum in partnership with ShoreBank International and PlantersBank in Manila in September 2005 where 31 lenders from across the globe shared their experiences of introducing and growing small business lending at their banks and MFIs.

#### **HUMAN RESOURCES**

The Human Resources Phone Forum series was initiated after Exchange's CEO Forum expressed interest in leadership building, middle management strengthening and staff retention. The forum brings HR managers together from Exchange's banking partners to discuss common challenges and strategies to address them. Like other forums, it is facilitated and resourced by ShoreBank and other experts.

#### **INVESTEES VISITS**

Exchange facilitates peer learnings through onsite visits to successful financial institution partners to study innovative and effective models, tools and techniques. Samruddhi and PlantersBank, for example, hosted study visits by CEB on savings mobilization.

#### **GOOD PRACTICE PAPERS**

These Exchange publications are written to provide a practical focus on subjects drawn from our forums. Exchanging Views are papers incorporating a range of tools and strategies for capacity building.

Exchange Notes are short briefs that go in-depth into an aspect of a relevant issue and make strategic recommendations.

#### **TOOLKITS & TRAININGS**

Exchange is committed to formalizing and sharing its learnings through the development of in-depth training materials and toolkits, which are typically presented in partnership with a regional or local consulting partner. All toolkits and practical workpapers are available on our website at [www.shorecapexchange.org](http://www.shorecapexchange.org).

THE SHORECAP INVESTMENT PROCESS



STAGE	PHASE I	PHASE II	PHASE III
	<ul style="list-style-type: none"> <li>Initial consideration</li> <li>Term sheet issuance</li> </ul>	<ul style="list-style-type: none"> <li>Due diligence and needs assessment</li> <li>Investment commitment</li> </ul>	<ul style="list-style-type: none"> <li>Documentation</li> <li>Closing/execution</li> </ul>
REVIEW/APPROVAL	Preliminary Investment Committee Approval	Exchange Donor Committee Approval Final Investment Committee Approval	SCI Board Notification
WHAT'S NEEDED	Audited financial statements Current portfolio reports Ownership and governance structure 5-year business plan with full financial projections Rating agency reports (if available) 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	Preparation of investment documents Finalization of Technical Assistance agreement Satisfaction of any conditions precedent Local legal opinion Execution of agreements

SCI'S INVESTMENT PORTFOLIO

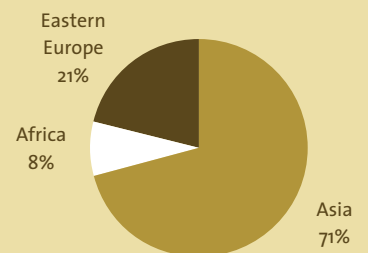
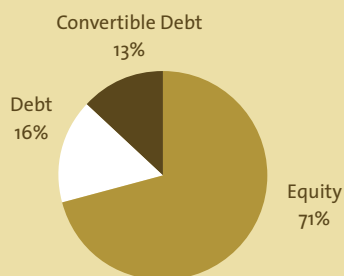
ShoreCap International has invested, or committed to invest, a total of \$8.5 million in seven financial institutions. In addition, the company has approved a \$1 million investment in a startup bank in Afghanistan which it expects to close in 2006. As illustrated below, most of the current portfolio, including commitments, consists of equity investments.

The portfolio companies continued strong performance in 2005 both in terms of financial returns and development impact.

Combined, the portfolio institutions collectively reached \$440 million in total assets. Average return on assets was 2.3% and return on equity was 18% across the portfolio.

Over \$200 million in loans were disbursed to customers in ShoreCap's targeted micro and SME sectors. Job creation was also significant. For example, BRAC Bank in Bangladesh estimated that its loans helped spur the creation of nearly 15,000 jobs in 2005.

BY TYPE OF INVESTMENT, TYPE OF INSTITUTION AND REGION



# PROVIDING ACCESS TO FINANCE, STIMULATING ECONOMIC GROWTH AND WEALTH CREATION



## **Bhartiya Samruddhi Finance Ltd. (BSFL), India**

[www.basixindia.com/samruddhi.asp](http://www.basixindia.com/samruddhi.asp)

Samruddhi is a non-bank finance company regulated by the Reserve Bank of India. It is the flagship of the BASIX Group, an Indian-based microfinance institution, one of the industry leaders in institutional development and mainstream financial sector linkages.

Through its “Livelihood Triad” Strategy, Samruddhi provides microfinance, institutional development, agricultural and business development services. In its microfinance operations, Samruddhi works in rural areas, offering individual and group-based microcredit and insurance products. It also makes general purpose loans to self-help groups, which deliver credit and other services to poor women.

Over the past year, Samruddhi’s lenders have both steadily improved the efficiency of their operations and their portfolio at risk, resulting in a significant increase in loans outstanding and profitability, and expanded into new areas and product lines.

ShoreCap Exchange started on-site technical assistance with Samruddhi in 2005, working to support its extensive branch network and building systems to improve operating performance. Exchange fielded consultants at Samruddhi to work alongside management to develop a strong Internal Audit function. Exchange is currently supporting efforts to create an integrated Information Technology (IT) platform for Samruddhi’s multiple business lines across a broad geography. Samruddhi participates in Exchange’s CEO and Human Resources peer forums and has requested that Exchange help it further with strengthening middle management.

### **Investment**

**SIZE: \$512,000 (equity)**

**DATE OF INVESTMENT: September, 2004**

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

	<b>2004</b>	<b>2005</b>
Assets	\$11.8 million	\$24.4 million
Loans	\$11.5 million	\$21.5 million
Borrowers	74,364	135,443
Outlets	29	38
Employees	579	781



**BRAC Bank Ltd., Bangladesh**

[www.bracbank.com](http://www.bracbank.com)

BRAC Bank is the largest small business bank in Bangladesh. It was founded by BRAC – a leading development finance institution that helped pioneer microfinance in Bangladesh.

In 2005, BRAC retained its status as the fastest growing bank in Bangladesh in both deposits and credit. Over the past year, the bank’s total assets increased by 55%, loans outstanding by 87%, and total deposits by 51%. In addition, the bank diversified beyond its core small and medium enterprise lending by solidifying a retail position with over 125,000 account holders and 60,000 ATM cards in circulation.

ShoreBank has worked extensively to strengthen BRAC’s microfinance program over the years. Exchange has continued the focus, stepping in with small business lending expertise to support BRAC Bank’s growing front line loan staff and develop strong underwriting guidelines for maintaining portfolio quality in this period of accelerated growth. Development of human resources has been a continuing need for all our partners, and BRAC Bank benefited during the year from Exchange sponsorship of several local, regional and international trainings for its top managers and staff.

Exchange will continue working alongside BRAC Bank in 2006, focusing on new growth areas such as designing and delivering a systematic cash management business based on its ever-increasing remittance volumes.

**Cambodian Entrepreneur Building Ltd. (CEB)**

In just a couple of years since its transformation in 2003 from an NGO to a regulated entity, CEB has established a strong reputation in the Cambodian microfinance marketplace. CEB focuses on providing finance for entrepreneurial low-income communities, especially women, in both rural and urban areas

In 2005, profits for the year outperformed expectations, with annual net income 7% ahead of plan. In addition, CEB continued to expand its loan portfolio while maintaining excellent credit quality with its portfolio at risk over one day at 1.6%. It also substantially expanded its branch network increasing access among its client base.

Exchange focused its initial work with CEB on strengthening its: Internal Audit Function, IT Function, and Branch Operations. Towards the end of the year, Exchange also began working to strengthen CEB’s Financial Management in preparation for decentralization of operations and for the roll-out of a voluntary savings product.

Exchange is using regional experts to work alongside CEB in the above tasks. These experts are, in turn, further resourced by a small off-site team from Exchange, thus leveraging the benefits of the traditional approach while retaining a regional focus. Exchange has been successfully piloting this model in an effort both to strengthen regional consultants, where necessary, and to bring down the cost of technical assistance for partner banks.

**Investment**

**SIZE: \$1,500,000 (equity)**

**DATE OF INVESTMENT: December, 2003**

**SCI BOARD MEMBER: Paul Christensen**  
*President,*  
*ShoreCap Management*

	2003	2005
Assets	\$76.2 million	\$254.8 million
Loans	\$49.1 million	\$178.1 million
Borrowers	5,340	21,723
Outlets	156	310
Employees	475	1,213

**Investment**

**SIZE: \$750,000 (equity and debt)**

**DATE OF INVESTMENT: December, 2004**

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

	2004	2005
Assets	\$4.3 million	\$6.8 million
Loans	\$3.7 million	\$6.3 million
Borrowers	8,493	11,129
Outlets	8	15
Employees	140	204

## InecoBank, Armenia

[www.inecobank.am/index\\_eng.php](http://www.inecobank.am/index_eng.php)

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. Ineco's success in reaching these markets has primarily resulted from its management's desire to use thorough local knowledge and research to guide its activities, instead of allowing common misperceptions about low-income markets to influence its decisions.

In 2005, InecoBank posted strong earnings, with net income after taxes of \$1.79 million. Asset quality in the loan portfolio remained excellent with portfolio at risk over one day at 3.38%. The European Bank for Reconstruction and Development (EBRD) selected Ineco as one of its four Armenian partners that will be responsible for administering over €40 million in loans to Armenian small and medium enterprises.

Capacity building at InecoBank started in 2005 with Exchange evaluating a remittance business opportunity for Ineco in the United States. The major area of focus throughout the year has been in the area of Human Resources (HR). Hiring an HR head reflects Ineco's commitment to developing the infrastructure and strategies necessary to sustain and grow its staff.

Exchange's goals for 2006 include the implementation of a performance management and incentive system, and improving the bank's ability to mobilize local deposits. ShoreBank's HR department hosted Ineco's HR manager in early 2006 to share learnings.

## K-Rep Bank, Kenya

[www.k-repbank.com](http://www.k-repbank.com)

Since its establishment in 1999, K-Rep Bank has grown to become one of the largest commercial microfinance institutions in East Africa, with over \$50 million in total assets and more than 70,000 borrowing clients and over 80,000 depositors. As its core business, K-Rep provides both credit and savings products with group-based loans to micro-entrepreneurs. K-Rep also makes wholesale loans to other microfinance institutions and cooperative societies that on-lend the funds to members or employees.

K-Rep continued its solid growth in 2005 with nearly \$35 million in loans outstanding – up 25% from last year. K-Rep also pushed forward with ambitious branch expansion plans, with an additional six branches planned for 2006. The bank revamped its IT system in line with these expanding needs.

In 2005, Exchange implemented its first regional mentoring program at K-Rep Bank to build local capacity in its small business lending department. Growing small business lending as a second line of business alongside its strong microfinance portfolio is a brave and challenging endeavor for any microfinance bank to undertake. Exchange is pleased to be working alongside K-Rep on a longer-term basis in this regard.

During the year, Exchange completed basic training for K-Rep's audit staff and K-Rep lenders attended an Exchange-sponsored lender training in Manila. In 2006, Exchange's focus will be on supporting K-Rep Bank in building operating efficiencies and further controlling credit quality.

### Investment

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**SIZE: \$2,000,000 (equity and debt)**

**DATE OF INVESTMENT: October, 2004**

**SCI BOARD MEMBER: Leon Smith**

*Senior Vice President Risk Management,  
ShoreBank Corporation*

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	2004	2005
Assets	\$23.4 million	\$37.3 million
Loans	\$15 million	\$21 million
Borrowers	24,500	29,779
Outlets	3	5
Employees	150	198

### Investment

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**SIZE: \$720,000 (equity)**

**DATE OF INVESTMENT: December, 2004**

**SCI BOARD MEMBER: Leon Smith**

*Senior Vice President Risk Management,  
ShoreBank Corporation*

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	2004	2005
Assets	\$34.9 million	\$51.8 million
Loans	\$27.5 million	\$34.5 million
Borrowers	55,441	73,800
Outlets	30	32
Employees	321	404



### XacBank, Mongolia

[www.xacbank.org](http://www.xacbank.org)

XacBank was formed in late 2001 with the merger of two of Mongolia's leading organizations in the micro and small businesses lending sectors, XAC and GE. Since then, the institution has introduced an additional focus on rural markets. While almost 90% of the country's lending activities take place in three primary cities, the bank has branches in all of the country's provinces and has specifically targeted the country's low-income, rural and remote population as a primary focus area.

In 2005, XacBank had an excellent year with total loans growing by 87% year-on-year. The former Deputy Governor of the central bank, the Bank of Mongolia, Mr. Bold Magvan, joined the bank as its new president, and Ganhuyag Chuluun, CEO, was awarded "The Best CEO of 2005" by the Bank of Mongolia. XacBank also continues to be recognized by the Consultative Group to Assist the Poor (CGAP) through its financial transparency award, and made news recently by receiving CGAP's pro-poor innovation award.

ShoreCap Exchange has developed a capacity building plan with the bank to strengthen its human resources function. This work, which began in December 2005, will continue throughout 2006.

### Eskhata Bank, Tajikistan

[www.eskhata.tj/eng/index.php](http://www.eskhata.tj/eng/index.php)

Eskhata Bank, added to ShoreCap International's portfolio in December 2005, is SCI's most recent Investee. The investment was made in partnership with the European Bank for Reconstruction and Development (EBRD), which chose Eskhata in 2003 as its first Tajik partner for a credit line to facilitate lending to micro-entrepreneurs and small businesses. Already one of Tajikistan's market leaders in micro and small business sector lending, the joint investments of ShoreCap International and EBRD will allow Eskhata to significantly expand its ability to serve these sectors in the future.

2005 was an important year for Eskhata Bank, with the investments helping the bank meet Tajikistan's new \$5 million minimum capital requirement. Strong earnings of \$1 million were achieved, as the bank's loan portfolio grew by nearly 40%. This trend is expected to continue in 2006.

ShoreCap Exchange is working together with EBRD to implement a comprehensive set of technical assistance activities, aimed at helping the bank develop scale and volume. While EBRD will focus on governance and strategy in line with their previous efforts, Exchange will work in 2006 to help Eskhata further strengthen its credit, internal audit and human resources functions.

#### Investment

**SIZE: \$1,500,000 (equity and debt)**

**DATE OF INVESTMENT: September, 2005**

**SCI BOARD MEMBER: Anne Arvia**

*President & Chief Executive Officer,  
ShoreBank Corporation*

	2005	
Assets	\$48.5 million	Deposits \$25.3 million
Loans	\$31.2 million	Outlets 55
Borrowers	50,101	Employees 617

#### Investment

**SIZE: \$1,400,000 (equity and debt)**

**DATE OF INVESTMENT: December, 2005**

**SCI BOARD MEMBER: Gordon Hellwig**

*Vice President, Real Estate Lending,  
ShoreBank*

	2005	
Assets	\$15.9 million	Deposits \$4.9 million
Loans	\$4.8 million	Outlets 10
Borrowers	1,234	Employees 337

## SHORECAP EXCHANGE FINANCIAL STATEMENTS



### Statement of Financial Position

As of December 31, 2005 and December 31, 2004

Assets	2005	2004
Cash and cash equivalents	1,356,919	498,014
Prepaid expense	2,420	—
Accounts receivable	60,142	24,901
Grants receivable	1,536,263	3,055,634
	<b>\$2,955,744</b>	<b>\$3,578,549</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	95,975	15,806
Accrued expenses	13,500	42,504
Due to affiliates	124,032	39,018
	<b>\$233,507</b>	<b>\$97,328</b>
<b>Net Assets</b>		
<b>Unrestricted</b>		
Undesignated	557,732	440,300
Board designated	150,000	75,000
<b>Temporarily restricted</b>	2,014,505	2,965,921
<b>Total Net Assets</b>	<b>\$2,722,237</b>	<b>\$3,481,221</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$2,955,744</b>	<b>\$3,578,549</b>

### Statement of Activities

Year ended December 31, 2005 and the 13 months ended December 31, 2004

Revenues	2005	2004
Grant income	264,553	290,115
Interest income	15,456	2,221
Fee income	131,044	46,662
Other income	4,941	—
Net assets released from restrictions	1,071,077	713,238
<b>Total Revenues</b>	<b>\$1,487,071</b>	<b>\$1,052,236</b>
<b>Expenses</b>		
Administration	222,820	195,608
Fund raising	16,400	17,312
<b>Program expenses:</b>		
Needs assessment	103,519	74,719
One-on-one consulting	664,449	172,699
Knowledge exchange	283,729	76,598
Program evaluation	3,722	—
<b>Total Expenses</b>	<b>\$1,294,639</b>	<b>\$536,936</b>
<b>Change in unrestricted net assets</b>	<b>\$192,432</b>	<b>\$515,300</b>
<b>Temporarily Restricted Net Assets</b>		
Grant income	361,000	3,445,969
Foreign currency exchange gain (loss)	(241,339)	233,190
Net assets released from restrictions	(1,071,077)	(713,238)
Change in temporarily restricted net assets	(951,416)	2,965,921
<b>Total change in net assets</b>	<b>\$(758,984)</b>	<b>\$3,481,221</b>
<b>Net assets at beginning of period</b>	<b>\$3,481,221</b>	
<b>NET ASSETS AT END OF PERIOD</b>	<b>\$2,722,237</b>	<b>\$3,481,221</b>

Please note these are abridged financials. Please contact ShoreCap Exchange Management to obtain a complete set of financial statements.

**Balance Sheets**

As of December 31, 2005 and December 31, 2004

<b>Assets</b>	<b>2005</b>	<b>2004</b>
<b>Investments</b>		
Equity shares, at fair value*	9,595,000	3,232,000
Loans	1,250,000	750,000
<b>Total Investments</b>	<b>\$10,845,000</b>	<b>\$3,982,000</b>
Cash and cash equivalents	888,984	1,641,712
Prepaid expenses	16,354	157,129
Other assets	21,701	18,907
<b>Total Assets</b>	<b>\$11,772,039</b>	<b>\$5,799,748</b>
<b>Liabilities</b>		
Accounts payable	2,895	38,921
Accrued expenses	34,000	37,251
<b>Total Liabilities</b>	<b>\$36,895</b>	<b>\$76,172</b>
<b>Shareholders' Equity</b>		
Share capital	10,980	7,159
Share premium	11,010,773	7,172,435
Retained earnings (accumulated deficit)	713,391	(1,456,018)
<b>Total Shareholders' Equity</b>	<b>\$11,735,144</b>	<b>\$5,723,576</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$11,772,039</b>	<b>\$5,799,748</b>

**Statements of Operations**

Years ended December 31, 2005 and December 31, 2004

	<b>2005</b>	<b>2004</b>
<b>Revenues</b>		
Change in unrealized gains on equity shares	2,963,000	—
<b>Operating Income</b>		
Interest on idle funds	3,510	—
Interest income on loans	111,618	7,938
Dividend income	7,594	—
Loan origination fees	5,000	2,500
<b>Total Operating Income</b>	<b>\$127,722</b>	<b>\$10,438</b>
<b>Operating Expenses</b>		
Organizational and start-up expenses	—	20,000
Management fee to ShoreCap Management, Ltd.	765,600	501,500
Legal, accounting and other professional fees	103,631	145,619
Other operating expenses	52,082	32,208
<b>Total Operating Expenses</b>	<b>\$921,313</b>	<b>\$699,326</b>
<b>Loss from operations</b>	<b>\$(793,591)</b>	<b>\$(688,889)</b>
<b>NET INCOME (LOSS)</b>	<b>\$2,169,409</b>	<b>\$(688,889)</b>

\* Investments are carried at fair value according to International Accounting Standards No. 39 based on a variety of methodologies including recent third-party transaction prices, comparable market multiples, net asset values, contractual put option prices, and discounted cash flow analysis.

## SHAREHOLDERS & DONORS

**SCI** ShoreCap International Shareholder

**SCE** ShoreCap Exchange Donor

### **ABN AMRO Bank** **SCI**

A leading international bank based in the Netherlands with total assets of €880 billion, over 3,000 branches in more than 60 countries and territories and a staff of about 96,000 worldwide.

### **ABN AMRO Foundation** **SCE**

A foundation set up by ABN AMRO Bank in 2005 as part of the bank's commitment to foster sustainable development, working to support and stimulate entrepreneurship among communities and empower people to create the conditions that will lead them to a sustainable livelihood.

### **Asian Development Bank (ADB)** **SCI**

A multilateral development finance institution established in 1966 and supported by 64 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\$10 billion in assets under management in more than 30 investment portfolios.

### **CDC Group** **SCI**

The British government-owned development finance institution was established in 1948, and currently has \$1.9 billion deployed through 49 funds in Africa, Asia and Latin America.

### **European Investment Bank (EIB)** **SCI**

EIB is the financing institution of the European Union (EU). EIB serves as a development partner in 77 African, Caribbean and Asian countries where it supports initiatives which promote private sector development.

### **Evslin Family Foundation** **SCI SCE**

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

### **Financial Sector Deepening Trust Kenya** **SCE**

The Trust, funded partly by the UK's DFID, supports the development of financial markets to stimulate wealth creation by expanding access to services among lower income households and smaller scale enterprises.

### **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 in 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\$1.8 billion in assets committed to building vibrant communities around the world through 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, which is dedicated to poverty alleviation. It has a staff of 550 people and an annual budget of about CHF \$1.3 billion.



OUTLOOK FOR

# 06

AND BEYOND

**2006 PROMISES TO BE AN EXCITING YEAR FOR THE SHORECAP COMPANIES WITH SEVERAL NEW DEVELOPMENTS. NOW INTO THEIR THIRD YEAR OF OPERATIONS, BOTH ARE POISED TO EXPAND FURTHER — DEEPENING EXISTING RELATIONSHIPS AND EXPLORING NEW ONES.**

ShoreCap International plans to hire a new Investment Officer based in Africa to focus on existing and future investment opportunities identified there. ShoreCap Exchange will be adding a new Program Analyst position in order to keep pace with the growing demand for its technical assistance and knowledge networking services.

ShoreCap International intends to build on its existing portfolio by investing another \$6 million in at least four more development finance institutions in 2006, bringing the total number of portfolio companies to 12 by year end. The pipeline of new opportunities remains robust with on-going discussions and planned due diligence investigations at institutions in Africa and Asia.

ShoreCap Exchange will continue providing capacity building services at each of SCI's portfolio companies throughout the year in addition to expanding its "Banker to Banker" knowledge networking activities, which have been tremendously valued by participating banks and MFIs to date.

## BOARDS OF DIRECTORS

### SHORECAP INTERNATIONAL

**Cyrille Arnould**  
European Investment Bank

**Austin Belton**  
Asian Development Bank

**Anne-Maree Byworth**  
CDC Group

**Frank DeGiovanni**  
Ford Foundation

**Richard Fahey**  
Skoll Foundation

**Emile Groot**  
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**Mary Houghton**  
ShoreBank Corporation

**Mary Ellen Iskenderian**  
International Finance  
Corporation

**Franklin Kennedy**  
ShoreCap Investment  
Committee Chair (non-director)

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**Eugene Ludwig**  
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**Ibrahim Seushi**  
Tanzania Gatsby Trust/  
PricewaterhouseCoopers

**Ernest Stern**  
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**Stuart Burden**  
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**Paul Christensen**  
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**Tom Evslin**  
Evslin Consulting

**Mary Houghton**  
ShoreBank Corporation

**Michèle Husson**  
BIO

**Laurie Spengler**  
ShoreBank International

**Udayan Wagle**  
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