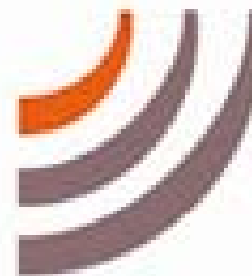


TCX: cutting the gordian knot of currency hedging

European Microfinance Week 2008

TCX — *the currency exchange fund*



EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH

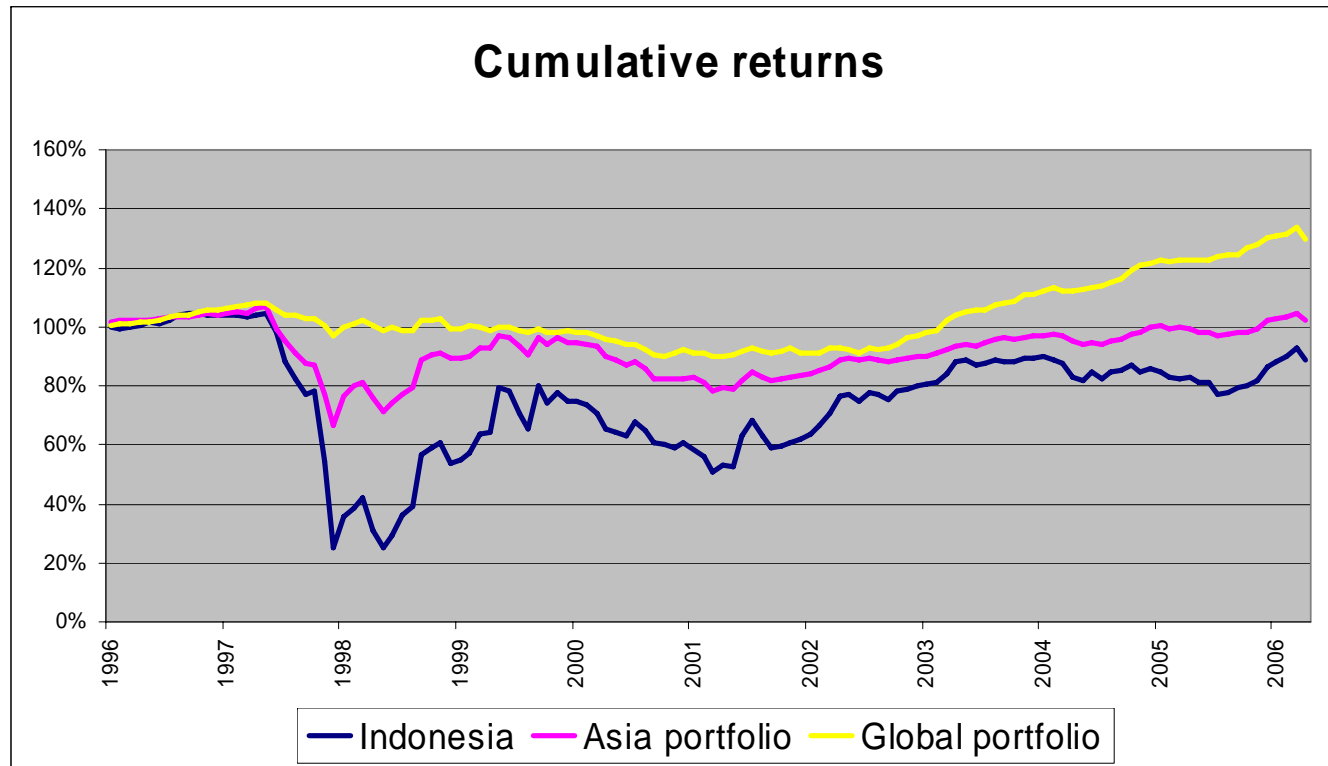
TCX: introduction

- Specialist fund focusing uniquely on currency and interest rate hedging in developing countries
- Created as a joint initiative of leading development finance institutions, large microfinance investors and a commercial bank
- TCX's mission is to catalyse the participation of international investors in local currency capital markets in developing countries.
- TCX aims to become a thought leader on the management of currency risks in frontier markets

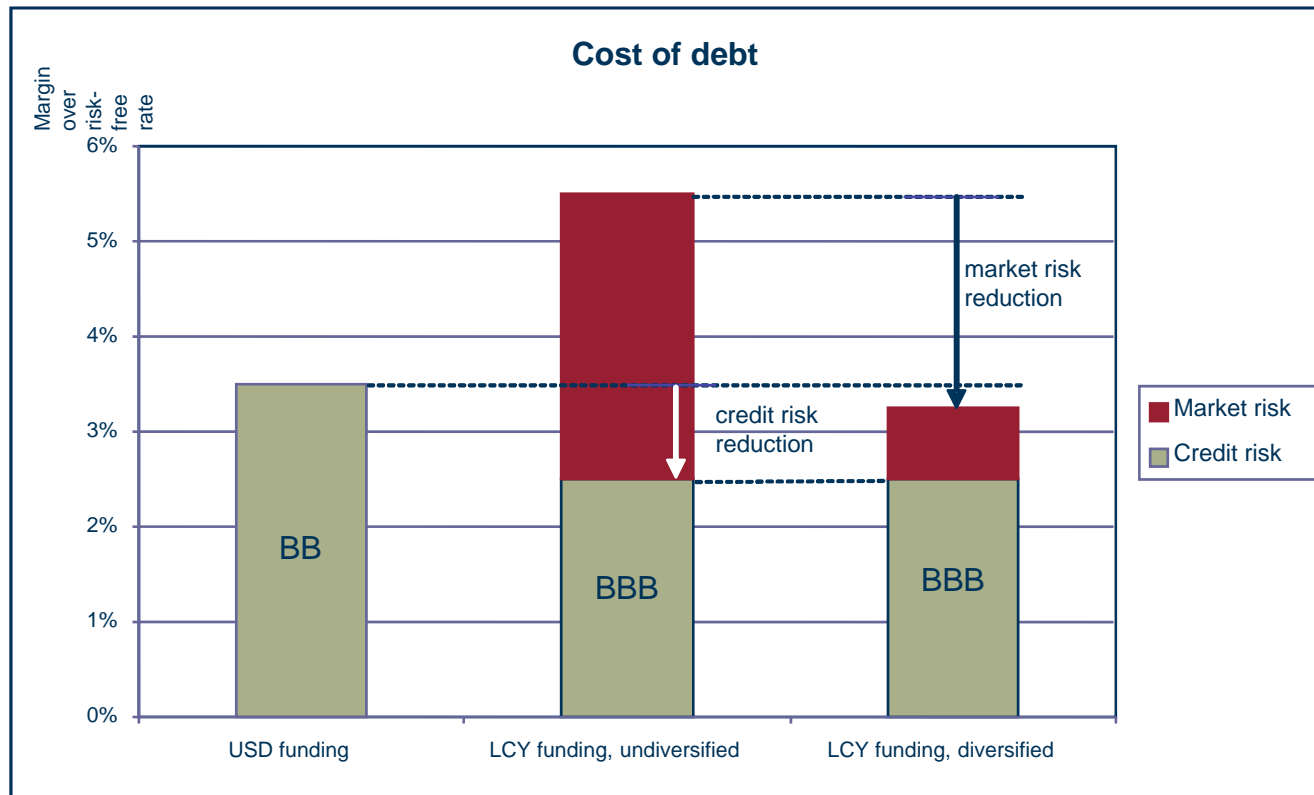
Current Update TCX

- Fund closed in September 2007, started operations in January 2008
- End October 2008:
 - Circa \$600m committed capital, 19 investing institutions
 - \$250m in primary hedging transactions closed
 - \$ 2,5bn quotes since start-up, circa 50% still under negotiation
- Current global footprint:
 - Floating-rate benchmarks approved for 43 currencies
 - No ability to quote in 10 currencies for lack of benchmarks
 - Delivery of product domestically under discussions

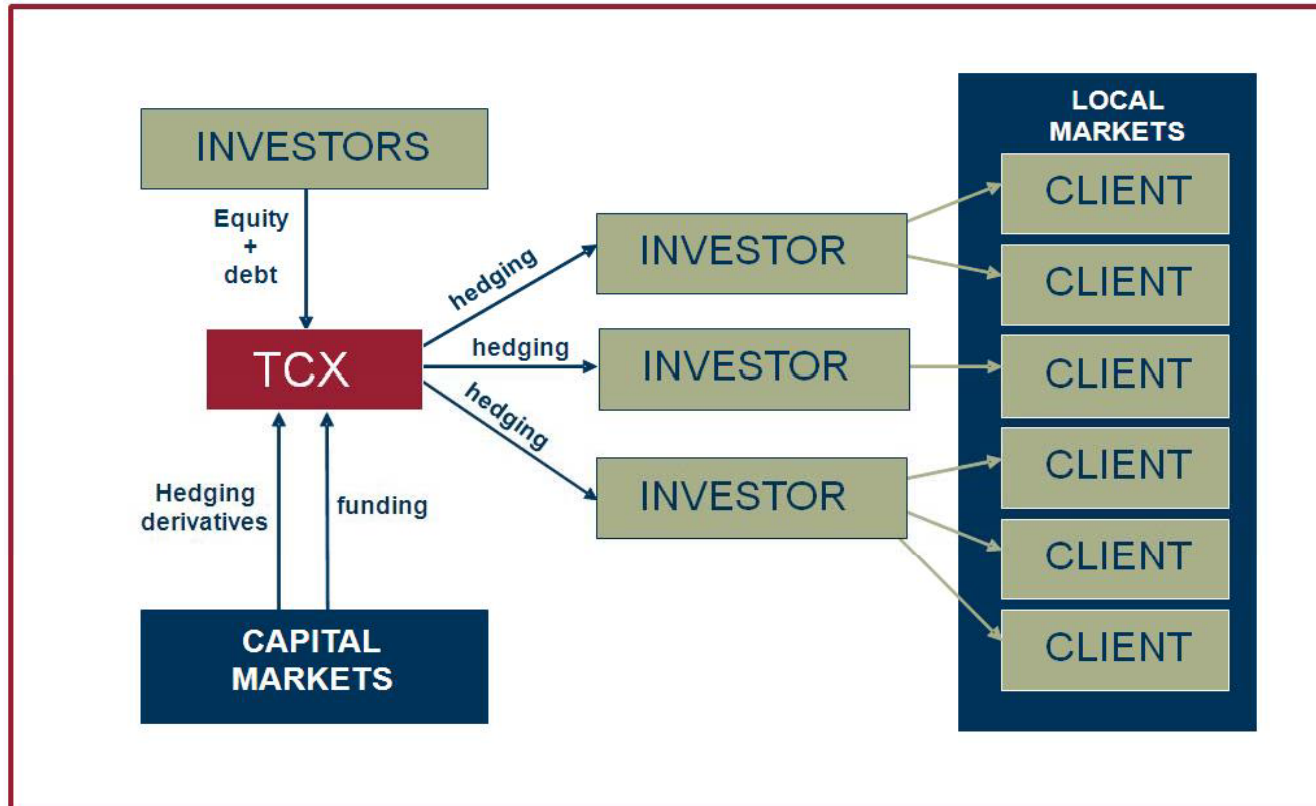
TCX risk concept



TCX commercial proposition



TCX business concept



What makes TCX different

Unique risk management concept

- Application of capital to buy-and-hold currency risks rather than rely on matching demand and supply
- Access to lowest-income country exposure allowing much broader diversification than market-based parties
- Expert management focus on highly illiquid markets

Servicing the commercial needs of its investors

- Exclusive service to its investors, zero margin to investors until 2010
- Bridging treasury and commercial needs of investors
- Offering long-term commitment to support the negotiation process

Commercial capabilities

Transaction characteristics

- All DAC countries
- Transaction size from \$250K to \$75m approximately
- Term is unlimited for floating rate (exclusive of margin)
- Interest rate fixing (including hedging fixed margins over floating rate) limited to 1,5 times existing local benchmark

Products

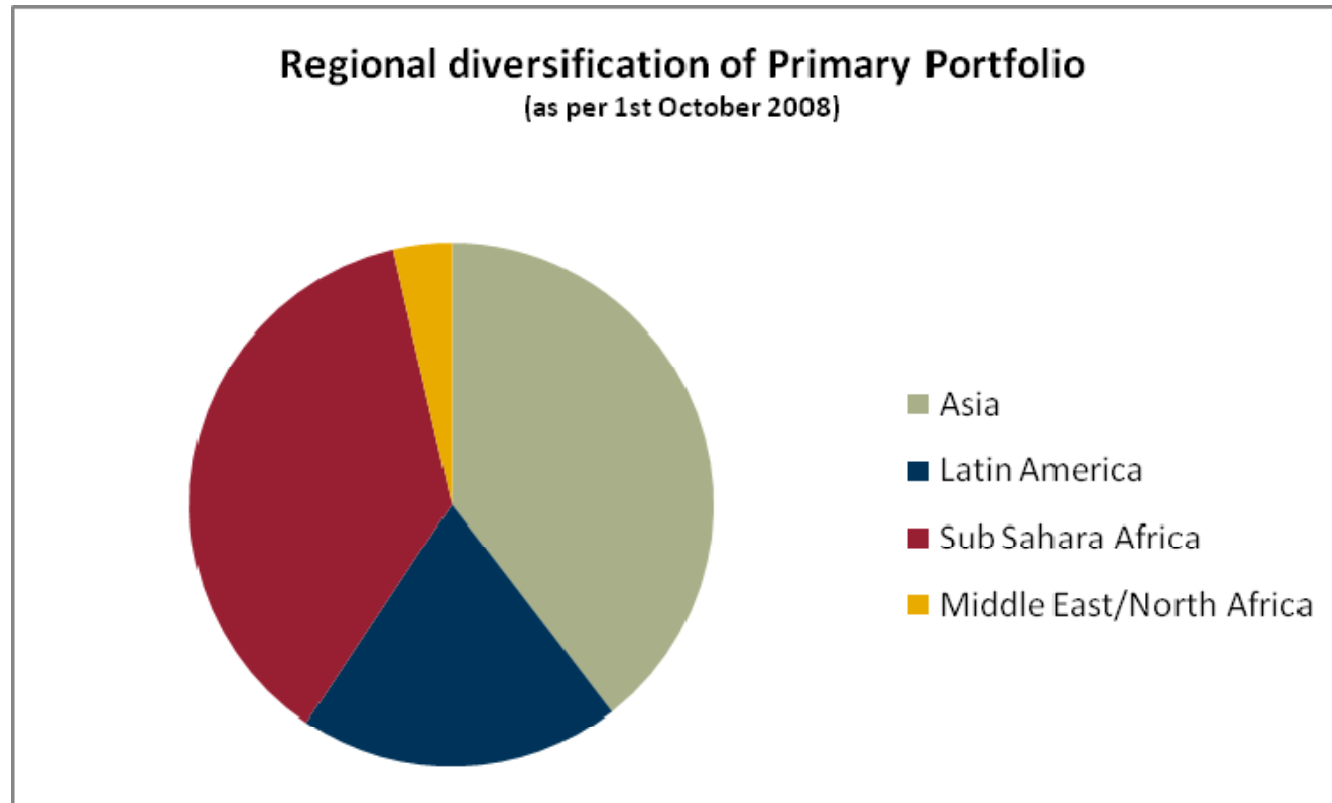
- Non-deliverable swaps and forward
- Under construction: deliverable swaps and forwards
- Under construction: payment services
- Future development: optionalities

Pricing strategy

Market-based where possible

- Selection of local benchmark, using mid-market rates
- Pricing for non-deliverable product adjusts local benchmark for:
 - Transfer and convertibility risk (premium subtracted)
 - Implied credit risk in the benchmark (premium subtracted)
 - Liquidity premium in case of floating rate (premium added)
- Fixed rate products benchmarked against long-term domestic bonds
- Where no benchmarks exist, TCX is piloting the development of an in-house pricing tool
- Of 82 quotes provided, only 7 were rejected due to choice of benchmark or total package provided by the TCX partner being found uncompetitive against alternatives. In no case was TCX uncompetitive against alternatives for its shareholders.

Current portfolio



Governance

TCX

- Supervisory Board of 5 senior bankers selected by the shareholders
- Pricing Committee of 4 market practitioners
- Compliance officer supporting future possible regulated status
- Risk Manager separate from Fund Manager

Fund Manager

- 100% owned by FMO
- Dedicated to TCX
- Outsourced services for treasury back office and administration
- Remuneration structure:
 - Annually agreed budget
 - Annual performance fee + Carried interest of 20% of goodwill

Lessons learned

General

- End users are used to the risks of mismatch and are wary to change rapidly
- Fully mitigating all market risks for investors is impossible (spot FX rates, pricing uncertainties during negotiations, etc)
- Accounting issues can be daunting in immature markets
- Pricing must be market-based to be accepted by clients

2008 Financial Crisis

- Portfolio effect functions
- Conservative assumptions on capitalisation are needed: the crisis will come, and there is little that can be done to mitigate the effects.
- Risk awareness (and commercial interest in hedging) has increased

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