Banco Compartamos

Market Leadership Sustained by Superior Efficiency

Initiation
Overweight

Ps44.86
28 April 2008

Banks Latin America

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We initiate coverage of Compartamos with an Overweight rating in the context of our universe of Latin American banks and a December 2008 price target of Ps.60, on the back of solid fundamentals and prospects.

- **Leading microfinance institution (MFI) in Latin America**, with more than 800,000 clients and 60% of the market of outstanding enterprise micro-loans in Mexico. Its loan origination methodology, based on group lending (85% of its portfolio), translates into strong loan collection.
- **Outstanding loan growth and opportunity to leverage balance sheet**. Loan growth CAGR should average 31% in the period 2008-2012, compared with 15% for other banks in Latin America. We believe its strong capitalization provides significant opportunity for leverage. Its equity to assets ratio is 45% vs. 10% for the average bank in Latam.
- **Compartamos has pricing power.** We see competitors in this segment as being much less efficient (50% opex ratio for microlenders vs. 30% for Compartamos) or having weaker asset quality (10% for consumer finance entities vs. 1.6% for Compartamos) and therefore being less able to threaten Compartamos' margins (currently 65%). However, to be conservative, we are assuming a more pronounced reduction in margins than the company, and that we think Compartamos can achieve.
- **We see attractive upside potential despite seemingly rich valuations.** The stock trades at 17.4x '08e earnings and 5.9x BV, a premium to all the banks we cover in the region and also its global peers. We think the premium reflects Compartamos' better earnings growth and ROE's. The 2008e PEG ratio for Compartamos (64%) is still less attractive than Banorte's, which is our top pick in Mexico (45%), or Unibanco (50%), but the difference is much less than implied by current P/E multiples. We believe The P/BV multiple premium is justified by Compartamos' higher ROE (40% on average) vs. 20%-25% for other Latam banks.

Price Performance

	YTD	-1M	-3M	-12M
Absolute	-1.0%	2.6%	6.6%	-11.1%

Source: RIMES, Reuters.

Upside risks

- Faster-than-expected growth in deposits
- Development of savings and insurance products.

Downside risks

- Higher-than-expected erosion of margins
- Uncontrolled expenses due to new products or branch expansion

Banco Compartamos S.A. (COMPARTO.MX;COMPARTO MM)

	2006A	2007A	2008E	2009E
EPS - Core (Ps)				
Q1 (Mar)	0.28	0.50	0.59A	
Q2 (Jun)	0.36	0.50	0.64	
Q3 (Sep)	0.40	0.49	0.67	
Q4 (Dec)	0.44	0.53	0.69	
FY	1.47	2.01	2.58	3.29
P/E Core FY	30.5	22.3	17.4	13.6

Source: Company data, Reuters, JPMorgan estimates.

Company Data	
Price (Ps)	44.86
Date Of Price	28 Apr 08
52-week Range (Ps)	70.00 - 38.00
Mkt Cap (Ps mn)	19,192.77
Fiscal Year End	Dec
Shares O/S (mn)	428
Price Target (Ps)	60.00
Price Target End Date	31 Dec 08

See page 47 for analyst certification and important disclosures, including investment banking relationships.

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Valuation and data on cover reflect 4/28/08 close; all other valuation and data reflect 4/25/08 close.

Investment Thesis

We are initiating coverage of Banco Compartamos S.A. with an Overweight rating and a Dec-08 price target at Ps.60.

Our PT is based on a 5-year discounted free cash flow to equity analysis, with a cost of equity of 11.0% and a long-term earnings growth rate of 6%.

A very solid business model with a proven track record

Compartamos was created in 1990 as an NGO and became a bank in June 2006. It has been historically active in the southern part of Mexico and has developed a strong origination methodology with non-traditional guarantees to address the needs of the low-income segment of the population, which typically does not have access to traditional financing. The bank has managed to increase its customer base to 839,000 million and loan portfolio to Ps4.2 billion at the end of 2007 (or 0.2% of total loans in the Mexican banking system). We believe its methodology and sound management will allow the bank to continue to gain market share and post solid growth, without harming the solid quality of its loan portfolio.

Compartamos retains pricing power

In our view, while competition is likely to increase given limited barriers to entry, Compartamos is in a good position to compete. In particular, we believe that Compartamos is significantly more efficient than other non-bank microfinance institutions (operating expense ratio or opex of 30%, vs. 50% on average for non-bank MFI's in Mexico). To us, this is the key factor behind Compartamos' strong profitability, as its loan rates are not very different from competitors'. The company's efficiency advantage leads us to believe that its pricing power is largely intact. In addition, the bank already has a critical mass of clients to whom it can roll larger loan balances and new products, such as savings and insurance, which smaller peers do not have. The company also has better asset quality and charges less than consumer finance companies or banks focused on the low-income segment.

Leading position in its market and national presence

Becoming a bank has allowed Compartamos to offer a larger range of products, and has given it access to better funding options. The bank is the leader in Latin America in the market of loans for micro entrepreneurs. Its competitors are NGOs, cooperatives, other financial entities and traditional banks, although we believe none of these serves the needs of low-income micro entrepreneurs in Mexico as well as Compartamos. The company estimates that Compartamos has a 60% share of the market of loans to micro entrepreneurs in Mexico and has a national coverage, with a presence in 29 out of the 32 Mexican states.

The bank has an opportunity to leverage its balance sheet

The very strong capitalization of the bank (with an equity to assets ratio of 45% as of Dec-07, and a BIS ratio of 53%) opens the possibility of leveraging its balance sheet through more efficient use of capital. Compartamos was not allowed to distribute dividends in 2007. We expect the bank to pay a 25% dividend in 2008 and gradually increase its payout until it reaches 75% by 2011.

Drivers of profitability are high interest margins, loan growth, and efficiency
Compartamos enjoys very high margins, compared with traditional commercial banks, with an average rate of 82% for its largest product. Net interest margins at Compartamos exceed 60% now, versus 7%-8% at commercial banks. We believe that the bank will continue to experience very robust growth of its franchise, reaching 1 million clients in 2008, and that loans will grow at a CAGR of 31% the next five years. Thanks to its unique loan origination methodology, asset quality should remain very strong, close to current levels. W also believe that efficiency will be key to maintaining profitability as the bank moves into new products and develops its distribution network.

Operating in a well-regulated market
Compartamos operates in a market with solid regulatory supervision from both the Central Bank and the CNBV (bank and stock exchange regulator), with two fully operational positive (includes full payment history, not just instances of non-payment) credit bureaus, and good disclosure from the established banking system. In our opinion, this significantly reduces in Mexico the risk of reckless lending that were so damaging to, for instance, Bolivian MFI's in the early 1990's.

Microfinance offers diversification in a portfolio
Compartamos offers an option to invest in a Mexican bank and in a microfinance institution. Microfinance tends to be relatively less cyclical and can provide good diversification in a portfolio. Finally, the stock has shown good liquidity on the Mexican Stock Exchange, having recently been added to the IPC index, comprising the 30 most liquid stocks in the Mexican Bolsa.

Table 1: Compartamos Summary Financials

	2007	2008E	2009E	2010E	2011E	2012E
Net income (Ps millions)	861	1,104	1,407	1,728	2,100	2,493
Net income growth (yoy)	36%	28%	27%	23%	22%	19%
Loan growth (yoy)	41%	34%	33%	32%	31%	25%
Equity / Assets	45%	54%	55%	50%	45%	42%
ROA	20.7%	20.0%	20.5%	19.3%	18.3%	17.3%
ROE	47.3%	40.5%	37.7%	37.0%	38.6%	39.5%
NIM	65.0%	61.6%	57.7%	53.6%	49.6%	47.2%
Non-Interest Expense/AEAs	29.7%	29.0%	26.0%	24.0%	21.0%	20.0%
Write off ratio	0.6%	0.7%	0.8%	0.9%	1.1%	1.2%
Avge loan per client (US$)	457	482	545	604	655	712
Clients by loan officer	326	326	328	346	365	382

Source: Company reports and JPMorgan estimates.

Valuation

We use a DFCFE model to value Compartamos, which yields a Dec'08 PT of Ps.60
Our preferred valuation method is the discounted free cash flow to equity (DFCFE). We believe this methodology is particularly well-suited for a bank like

Compartamos, which is excessively capitalized, as it captures potential dividends, regardless of whether they are paid or not. We decided not to use the traditional Gordon growth model because we thought it is better suited for mature companies with relatively stable earnings (or dividend) growth.

We believe our earnings estimates are conservative

We have built a fair amount of conservativeness into our forecasts, particularly after 2008, when we have net interest margins significantly below what the company expects to achieve with a net interest margins of 62% in 2008 and 58% in 2009. We think the company can do better than our forecasts due to the pricing power it retains, given the lower efficiency or weaker asset quality of competitors. In terms of efficiency, our forecast is less conservative, as we assume the opex ratio will decline to 20% from 29.7% at the end of 2007. However, given the potential efficiency gains from moving into much less human capital-intensive products such as the Solidarity group loan, the home renovation or individual loans. We believe our forecast is achievable despite some recent disappointment.

Current multiples look high, but are justified by growth and profit outlook

Compartamos is currently trading at 14.3x our 2009e earnings and 4.5x 2009e book value, a premium to its closest peers, and also to the banks we cover in the region. In spite of current valuations, we believe the stock still has additional upside given its strong earnings growth potential (better than any other bank in our universe), and its strong return on equity, also better than any banks we cover in the region. For instance, Compartamos' 2008e PEG ratio (64%) is still higher than GF Banorte's, and Unibanco, but the premium is lower than that implied by straight P/E ratios. We believe the higher P/BV ratios can be justified by Compartamos' higher sustainable ROE (40% for Compartamos and 20%-25% for the average Latam bank). See Table below and Table 3.

Table 2: 2008E PEG Ratio. Adjusting for Growth Compartamos Does Not Look as Expensive

	PEG Ratio	Long-term ROE
	2008E	
Brazil		
Banco do Brasil	0.8	23.5%
Bradesco	0.9	25.5%
Itau	0.6	24.0%
Unibanco	0.5	23.0%
Mexico		
GFNorte	0.45	23.0%
Compartamos	0.6	40.0%

Source: JPMorgan.

Opportunities to develop other areas of microfinance: insurance and savings

Apart from increasing efficiency by moving into loans with higher balances, we see significant opportunities in two key segments of microfinance that Compartamos has not yet fully exploited. We believe it would be relatively easy for the bank to capture micro savings deposits associated with its lending business that are currently held at other banks. We estimate the value of Compartamos' option to enter the micro savings business is Ps.3.61 per share, and the value of Compartamos' option to enter the micro insurance business is Ps.5.14 per share. The conservative forecasts that we use to calculate our December 2008 price target of Ps.60 incorporate only about 35% of the value of the options, we estimate.

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Performance and Valuation Comparison

Table 3: Performance and Valuation Comparison. In our view, the best comparables are African Bank (South Africa) and BRI (Indonesia)

Company information						Size		Valuation				Performance					Efficiency		Asset quality
Name	Country	Ticker	Rating	Main focus	Price (local)	Mkt. Cap. ($ m)	Total Loans ($ m)	P/E 07	P/E 08E	P/BV 07	P/BV 08E	ROE 07	ROE 08E	ROA 07	ROA 08E	NIM	Avge Loan ($)	C/ I*	Write off / Avg. Loans 07
Inbursa	Mexico	GFINBURO	UW	Middle market	34.0	9,743	7,814	24.1	20.6	2.3	2.3	14.9%	12%	5.2%	3.8%	6.4%	953	39%	0.2%
Banorte	Mexico	GFNORTEO	OW	All segments	45.5	8,774	16,991	13.6	10.9	2.8	2.3	23.5%	23.0%	2.7%	2.7%	7.5%	-	56%	1.3%
Compartamos	Mexico	COMPARTO	OW	Micro	44.9	1,812	400	23.0	18.2	8.9	6.1	47.3%	40.5%	20.7%	20.0%	65.0%	477	46%	0.6%
Independencia**	Mexico	FINDEP*	NR	Consumer	20.2	1,313	251	23.4	14.4	5.5	5.7	44.7%	-	16.9%	-	7.8%	361	69%	4.1%
Banco do Brasil	Brazil	BBAS3	OW	All segments	26.6	39,390	94,676	11.3	10.2	2.8	2.3	27.5%	25%	1.7%	2.1%	7.0%	3,641	47%	2.5%
Panamericano	Brazil	BPNM4	NR	Vehicle financing	9.0	1,364	4,169	17.2	3.8	1.9	0.9	16.3%	30%	2.2%	3.9%	3.6%	1,489	62%	4.3%
Bco Patagonia	Argentina	BPAT11	OW	Middle market	29.5	598	1,126	10.3	5.0	1.3	1.1	11.0%	24%	2.2%	4.6%	5.5%	1,542	67%	0.3%
Banco Macro	Argentina	BMA	OW	Middle market	23.4	1,601	3,076	10.4	7.5	1.9	1.6	19.5%	23%	2.8%	3.1%	6.5%	1,465	59%	1.0%
Credicorp	Peru	BAP	OW	All segments	79.9	6,388	7,772	18.8	15.2	3.8	3.3	22.8%	23%	2.4%	2.5%	5.0%	2,989	51%	0.6%
MiBanco **	Peru	MIBAN/A	NR	All segments	3.5	142	501	6.8	-	2.4	-	34.4%	-	5.1%	-	7.6%	1,749	50%	4.3%
African Bank	S. Africa	ABL	OW	Consumer / Micro	6.8	2,780	745	9.8	7.7	5.3	1.8	60.6%	23%	13.5%	10.8%	28.8%	705	27%	8.9%
Capitec Bank	S. Africa	CPI	NR	Consumer / Micro	19.1	398	258	12.6	16.6	2.7	3.3	22.0%	22%	17.4%	7.2%	12.4%	209	58%	-
Equity Bank **	Kenya	EQBNK KN	NR	Micro	218.0	204	349	5.6	-	5.7	-	40.4%	-	4.9%	-	11.0%	888	57%	1.2%
AEON Thana Sinsap	Thailand	AEONTS TB	N	Consumer	39.0	308	762	7.6	7.9	2.1	2.0	29.1%	-	4.2%	-	25.2%	401	47%	-
Solomon Mutual Savings	Korea	007800 KS	OW	Mortgage Subprime	10,100.0	173	2,893	3.7	5.7	0.8	0.6	19.5%	20%	1.7%	2%	7.2%	-	28%	-
Shriram Transport Fin.	India	SHTF IN	NR	Vehicle financing	321.6	1,633	130	10.8	16.2	5.8	3.3	19.8%	-	2.2%	-	139%	521	16%	2.6%
Mahindra Fin.	India	MMFS IN	NR	Vehicle financing	276.8	671	1,108	17.6	13.8	3.1	2.7	18.2%	-	2.4%	-	8.4%	2,367	22%	0.8%
Danamon	Indonesia	BDMN IJ	OW	Consumer / Micro	5,450.0	2,992	5,807	12.3	10.5	2.5	2.2	20.9%	20.2%	2.5%	2.4%	9.9%	-	50%	2.0%
Pan Indonesia	Indonesia	PNBN EJ	N	Consumer / Micro	580.0	1,274	2,724	13.2	11.0	1.6	1.4	12.1%	13.5%	2.1%	2.1%	8.1%	-	43%	0.5%
Bank Rakyat	Indonesia	BBRI IJ	OW	Micro / Consumer	5,850.0	7,845	10,804	14.3	11.6	3.6	3.0	26.5%	26%	2.7%	2.5%	12.9%	-	49%	1.5%

Source: Company data, JPMorgan estimates, Bloomberg, MIX Market. * C/I stands for Cost to Income, or Non Interest Expenses divided by total revenues. ** Data only available for 2006. Independencia data is based on consensus. ROE of Independencia is as of 2006. We indicate with an hyphen data that is not available. JPMorgan ratings: OW = Overweight; N = Neutral; UW = Underweight . Pricing as of 4/25/08

Risks to Our Rating and Price Target

We list below the main risks to Compartamos' franchise that could affect its earnings stream and our price target. The main risks to the downside are the following:

1. **More competition may put pressure on margins and on market share.** Competition could come from both the traditional banking sector and non-banks as the low-income segment of the population is serviced by different types of lenders. Also, as clients' income grows and they develop a credit history, they are more likely to have access to the traditional banking sector. Our thesis is that Compartamos is in a good position to compete given its better efficiency. However, competitors may begin to close the efficiency gap, enabling them to lower prices (currently at 80% plus), more aggressively. At this point, we believe Compartamos still has at least three years where competition will be relatively weak, before other players refine their loan origination and collection methodologies and begin to compete more effectively.

2. **Extension of product offering implies more risks and smaller margins.** As Compartamos grows its product offering, the bank will increase its reliance on products that do not benefit from its group lending origination methodology. Also, as the bank moves to more urban areas, it will face stronger competition. For instance, Compartamos' flagship product, the income generator loan (IGL) has rates of 82%, compared with 70% for the individual loan and 65% for in the home renovation loan. Asset quality is also weaker for other loans, (IGL 0.8% NPL ratio as of 1Q08, 10.4% for the individual loan, and 5.0% for the home renovation loan). See Table 6. We believe that at least part of the lower margins and weaker asset quality will be offset by better efficiency.

3. **Efficiency gains may not happen.** The expansion of its branch network could put pressure on personnel and administrative costs, with the development of new products, new partnerships, higher salaries for a workforce that is largely unionized, and potential high turnover as competition builds. While this risk is not negligible, we believe it is mitigated by Compartamos' pricing power, at least for the next few years.

4. **Potential for more regulation.** Currently, there is no federal regulation on what a microfinance institution can charge customers for loans or how large a loan can be. The establishment of caps on interest rates charged or limits on the size of loans**,** for example, could limit the bank's profitability. We highlight that we view this risk as extremely low. The basis for anti-usury regulation is typically that an entity is charging significantly higher rates than the market (which Compartamos clearly is not), or that there is an inefficient market with high barriers to entry, which again is not the case. We highlight that a few states in Mexico have anti-usury legislation and Compartamos, in its 18 years of operation, has not been sued once. Since 2006, this is in part because Compartamos is already subject to federal legislation (the banking law), which pre-empts legal action in states.

5. **Macroeconomic deceleration.** Loans due within four months at Compartamos account for a significant portion of interest income, and any significant reduction in short-term loans or disruption in the economy as a whole or in specific sectors may

result in a significant decrease in interest income. Loans may not be rolled over upon maturity, particularly if competition increases. For the system as a whole, we believe that a 100 bps reduction in GDP growth should result in a 6-7% lower loan growth for the Mexican financial system, which we are forecasting at 22% in nominal terms in 2008. We forecast growth of 34% at Compartamos, and highlight that in previous economic decelerations, microlending has tended to be less sensitive than traditional loans.

SWOT Analysis

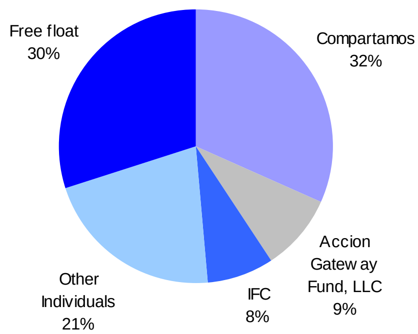
Strengths	Weaknesses
• We believe Compartamos retains substantial pricing power, as its competitors are either less efficient or have weaker asset quality. • Compartamos is the leader in a very dynamic market, which has strong potential for growth, in our view. • The bank has a successful track record of loan disbursement, thanks to a solid methodology and despite the customers' limited credit history and the absence of traditional guarantees • The bank portfolio enjoys very strong asset quality, despite non-traditional guarantees • Nominated in the "2007 Best Companies to Work For ", Compartamos prides itself on fostering a good working environment, which is positive for employee retention • Compartamos may benefit from scarcity value as a microfinance company • At present, there are no legal or regulatory limitations in Mexico, neither on microfinance banks nor on foreign investment in the Mexican banking system. • Funded almost exclusively by its strong capital base, funding costs are largely irrelevant for Compartamos at this stage.	• High turnover in the workforce and high percentage of unionization push personnel and training expenses up • The loan disbursement methodology requires a lot of human capital and is paper intensive, raising a question mark about scalability • Compartamos operations are still largely concentrated in a few states in southern Mexico

Opportunities	Threats
• The market of SMEs in Mexico presents significant potential over the next few years. Of the approximately 14.5 million households of segments D to C-, an estimated 10.2 million (75%) are totally unbanked. INEGI (Institute of Statistics) currently estimates that there are 17.3 million people working in micro enterprises • As a new bank, we expect Compartamos to develop new products, develop cross selling, and thereby increase the customer retention • In particular, we see strong opportunities in savings and insurance products, not only in lending.	• Competition from the traditional banking sector or other institutions targeting the low-income population should intensify and could potentially drive margins down • The expected development of the bank (branch network expansion and new products) should drive fixed expenses up • Regulators could cap the maximum interest rates charged to customers (currently there is no cap on loan loss reserve requirements, reserves with the central bank, deposits with the IPAB - Banking Deposit Insurance Institute) • The development of new products could dilute the focus of the bank and harm key competitive advantage • A deceleration of the Mexican economy (due to less growth in the US, less remittances or higher inflation) could harm Compartamos' client base • Natural disasters (hurricanes, flood…) could affect the bank's customers, especially as the client base is relatively concentrated in southern states

Company Description

Banco Compartamos, S.A., is the largest microfinance institution (MFI) in Latin America. Established as an NGO in 1990, then as a Sofol in 2000 and headquartered in Mexico City, Compartamos provides small loans to low-income Mexican individuals and business owners, such as craft manufacturers, food vendors and other small businesses, who are currently underserved. The company was incorporated as a bank in May 2006 and its shares began trading on the Mexican Stock Exchange on April 25, 2007.

Figure 1: Shareholding structure (post IPO)



Source: Company data.

As of December 2007, the company had 839,000 clients. With 252 branches and 4,090 employees, the bank operated in 29 of 32 Mexican states, giving it national coverage. The relative importance of the five largest states (Veracruz, Chiapas, Puebla, Estado de Mexico, Oaxaca) has been declining over the past three years, as the bank increases its operations in western and northern parts of the country.

Figure 2: 252 branches in 29 states: strong presence in the South

Source: Company data, as of Dec-06.

Figure 3: Geographical diversification: relative weight of the 5 largest states has been declining

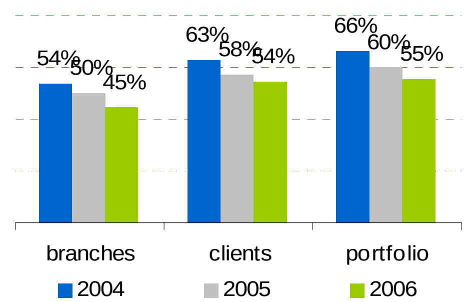


Table 4: Top Management: Solid experience in microfinance

CEO	Carlos Labarthe Costas
Vice-CEO	Carlos Antonio Danel Cendoya
CFO	Fernando Álvarez Toca

Source: Company website.

The bank has a 60% share in the market of loans to microentrepreneurs

The bank offers financial services to low-income un-banked clients, essentially small working capital loans ranging from Ps900 to Ps85,000 for microentrepreneurs, 98% of clients being women. The bank's target is primarily the portion of the adult working population earning between three and 20 times the minimum monthly wage in Mexico (from Ps.4,612 to Ps.30,747), which represents the Cm through D-socioeconomic levels as defined by AMAI (Asociación Mexicana de Agencias de Investigación de Mercados y Opinión Pública). Those segments of the population do not typically have access to financing from the traditional banking sector.

Table 5: The bank's target customers are underserved by the traditional financial sector

Socioeconomic category	Number of Households	% of Homes with Access to Banking Services (at least one banking product)
A	0.1	100%
B	0.5	100%
C+	0.8	94%
Cm	1.6	53%
C-	2.1	45%
D+	2.9	32%
Dm	3.5	22%
D-	4.4	19%
E	6.0	4%

Source: Company data.

In addition, according to data from INEGI, as of September 30, 2006, 17.3 million people in Mexico were engaged in microbusiness activities. The bank estimates that only one million customers within this portion of the population have obtained a microcredit loan in the past. With only an estimated 7% market penetration in Mexico, according to a study conducted by Boston-based non-governmental organization ("NGO") ACCION International in April 2005, Compartamos believes the Mexican microfinance market is underpenetrated, which provides growth opportunities. As of 2006, Compartamos estimated that it had a 60% share of the market of loans to microentrepreneurs in Mexico.

One main product, but the offering is increasing

The main product offered by Compartamos is the Income Generator Loan (IGL), which targets the working capital needs of microbusiness owners (mostly women), and represented 85% of the loan portfolio as of June 2007. The IGL is a high-margin product with an interest rate charged of approximately 82%. Clients of these loans have no credit history, the loan balance is small, with an average of US$413 and transaction costs are high. On the flip side, this product is also relatively low risk as the bank has developed non-traditional guarantee mechanisms, underpinned by an implicit group gurantees of individual loans. Other existing products have a smaller stake in the portfolio and tend to have lower margins and significantly lower asset quality.

Table 6: Loan offering: IGL is the dominant product

	Income Generator Loan (IGL)	Parallel Credit Loan	Solidarity Group Loan	Individual Credit Loan	Home Renovation
General Characteristics	• Mainly in rural areas • Group of at least 12 women (22 on average) • Group guarantee • Loan given to each member • Clients automatically life insured (Banamex)	• Second loan offered to IGL clients • Clients must have completed 2 cycles under IGL and must have a current loan of at least US$180	• Mainly in urban areas with less social cohesion • Group of 3 to 8 members • Group guarantee	• Personal Guarantee	• Personal Guarantee
Loan Size	US$80 - US$1,850	US$55 - US$390	US$180 - US$1,800	US$500 - US$7,800	US$1,200
Maturity	16 weeks	4 - 11 weeks	3 - 9 months	3 - 24 months	12-24 months
Interest Rate (Annual Average)	approx. 82%	approx. 81%	approx. 74%	approx. 70%	65%
Payments	Weekly or bi-weekly	Weekly or bi-weekly	bi-weekly	bi-weekly or monthly	Monthly
Contribution to Total Loan Portfolio	85%	2%	5%	8%	Pilot Project (not included in growth estimates)
Contribution to Total Number of Clients	92%	5%*	5%	3%	Pilot Project
NPL Ratio	0.78% (with Parallel credit)	0.78% (with IGL)	5.22%	10.36%	5.00%

Source: Company reports as of April 15, 2008. * All Parallel Credit Loan clients are IGL clients.

Developing new products is part of the bank's strategy, including insurance products through alliances with insurance companies, savings accounts, home renovation loans and other banking products and services tailored to the lower-income segments of the Mexican population. The company currently has a pilot project to offer Home Renovation loans to existing clients of its IGL product. The loan agent in charge of the groups can offer the loan to clients based on tenure and repayment experience. The loan rate is lower (65%), but it should allow the company to triple the balance of the loan of a client (from US$400 to US$1,200), without incurring significant additional operating expenses, helping improve efficiency.

Compartamos typically launches new products in a few pilot branches before extending them to the full network, if successful, as was the case for the Home Renovation Loan product, which was first launched in four branches in the Mexico City area. We note that those products incur one-off losses when developed, relating to marketing and training.

The bank developed non-traditional, implicit guarantees

The main product of Compartamos, IGL, is a personal loan for working capital needs available to groups of 20 women on average, principally in rural areas, where social cohesion and a sense of interpersonal responsibility are generally stronger than in urban centers. Groups are self-selected, with group members typically limited to people who are well known to the group and who are deemed unlikely to default on their loan payments. Each of the borrowers in the group is typically looking to fund an independent business project, and the loans are made to each individual.

While loans are made to individuals, the product is offered on a group basis mostly to lower administrative costs (associated with performing credit analyses and meeting borrowers in person) and to obtain an informal joint guarantee. Failure by an individual borrower to make timely payment may negatively impact the group's ability to borrow loans from Compartamos in the future; as a result, the rest of the group will typically pressure such borrowers to make timely payment or will collectively make the payment on the defaulting borrower's behalf, effectively providing an informal joint guarantee on the borrower's loan. This informal joint guarantee from the members of the group reduces the credit risk.

Motivated workforce and experienced management

Compartamos' sales personnel consist of advisors and loan officers. As of December 2006, there were 1,578 advisors and 389 loan officers. Loan officers and advisors represented slightly less than 60% of the workforce as of June 2007. Sales personnel are evaluated every month, based on financial and operational goals (number of clients and quality of portfolio) and receive a performance bonus the next month, which ranges between 30% and 120% of the employee's fixed salary. The rest of the employees consist of recruiting and service office administration staff and headquarters personnel. We note that 83% of employees are unionized.

Management has significant experience in the microfinance and the banking sector in Mexico, with an average seven years at the company. The team includes three co-founders of the company (Carlos Labarthe, Carlos Danel and Ivan Mancillas). We highlight that the bank strives to maintain an attractive work environment, which has been recognized in several rankings, such as “Best Employers in Latin America”.

Fiscal reform

Additionally, we note that the fiscal reform that was enacted by Congress at the end of 2007 should have a neutral impact for both Compartamos and its customer base. The fiscal reform provides for the payment of a tax on savings deposits equal to 2% of savings accounts in excess of Ps25,000. Banks are responsible to collect this tax and transfer it to the Treasury. However, we note that customers' information is not shared between banks, and that the trigger amount of Ps25,000 is well above the average balance of a customer at Compartamos. Savings accounts at Compartamos are only in a pilot project.

A second part of the reform introduced a fixed alternative minimum tax (IETU). In our view, this should have a limited impact on Compartamos, since it already pays a relatively high 30-33% income tax (28% income tax plus workers participation in company earnings). The minimum tax applies mostly when companies pay low or no income tax, and have low investments.

Elimination of inflation accounting

Starting in 2008, the CNBV (Banking and Stock Exchange regulator) will eliminate inflation accounting, which was introduced for banks after the Tequila crisis. This will have a positive impact on banks with long monetary positions (monetary assets such as cash and loans are larger than monetary liabilities), since they will no longer book a negative result on their monetary position (REPOMO). Most banks, including Compartamos, have long monetary positions, given their strong capitalization (and therefore, low monetary liability position). Prior periods will no longer be adjusted to Pesos of as of the last reporting date.

The introduction of the new accounting rules will make comparisons with prior periods more difficult, since no restatement is required to adjust prior periods to exclude inflation adjustments.

Compartamos in Perspective

Comparison with a traditional bank: a different animal

In this section, we give an overview of the main differences between Compartamos and GFNorte (Banorte), which is representative of a traditional commercial bank. Each line item is presented as a percentage of total average assets. At first sight, Compartamos enjoys much higher levels of profitability than a traditional commercial bank, with an ROA around 21%, vs. less than 3% for Banorte in 2007.

Compartamos's interest margins are significantly higher
Not surprisingly, given its focus on small unsecured loans to lower-income individuals, margins at Compartamos are significantly higher than NIM's at Banorte, (62.8% vs. 6.8%, respectively, of average total assets). Banorte focuses on higher-income consumers, and has a significant portion of its portfolio in lower-yielding corporate loans.

Low leverage
Compartamos assets/equity ratio is a low 2.3x, compared with 8.8x for Banorte. The low leverage is in part a legacy of Compartamos having been an NGO with limited access to funding, which forced it to reinvest capital to fund growth. Compartamos' solid capital position and profitability eventually allowed it to repay all subsidized lines of credit and no longer require donor funding. Given its strong capitalization, Compartamos has recently been allowed to start paying dividends, which may help mitigate overcapitalization. We see the potential to increase leverage as a significant opportunity going forward, particularly if at least part of the funding comes from savings deposits.

Fee income is negative
We also note that contrary to traditional banks, Compartamos relies on only one source of revenues, interest from loans, while Banorte also generates income from fees, trading and FX. Compartamos is currently focused on microcredit, and does not charge origination or other fees. In fact, Compartamos pays fees to other banks to maintain the accounts it uses to distribute the loans. We view this as an opportunity for Compartamos to expand its products and to establish more revenue streams, particularly if it can use its existing client base to cross-sell other microfinance products, such as savings deposits and insurance products. Compartamos already requires borrowers to put 10% of the original balance of the loan in a savings account at a commercial bank.

Efficiency is weak at Compartamos vs. commercial banks
Microfinance institutions' efficiency significantly lags that of commercial banks. Compartamos' non-interest expenses (personnel and administrative) represent around 29% of assets, vs. less than 6% for Banorte. Compartamos' products are highly human-capital intensive, as they require constant monitoring of borrowers to ensure repayment. Compartamos has a large amount of very small loans, which results in much lower loans per employee and per-branch ratios.

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Table 7: Compartamos ROE decomposition

	2006	2007
Interest Income %	73.0%	66.8%
Interest Expense %	-6.4%	-4.0%
Net Interest Income %	66.7%	62.8%
Non-Interest Income %	-0.9%	-1.0%
o.w. Service Fees %	-1.0%	-1.0%
o.w. Trading Income %	0.0%	0.0%
o.w. FX Income %	0.0%	0.0%
Non-Interest Expense %	-29.4%	-28.7%
o.w. Personnel %	NA	NA
o.w. Admin. & Other %	NA	NA
Net Revenues %	34.5%	31.4%
Loan Loss Provision %	-1.7%	-1.7%
Non-Operating Income %	0.7%	1.0%
Tax Expenses %	-10.9%	-8.9%
ROA	22.6%	20.7%
Assets / Equity Ratio	2.48	2.28
ROE	56.1%	47.3%
Avg Assets (yoy growth)	44%	49%

Source: Company reports and JPMorgan estimates. Each line item is presented as a % of Total Average Assets.

Table 8: Banorte ROE decomposition

	2006	2007
Interest Income %	16.3%	15.4%
Interest Expense %	-9.6%	-8.7%
Net Interest Income %	7.0%	6.8%
Non-Interest Income %	3.7%	3.0%
o.w. Service Fees %	2.8%	2.5%
o.w. Trading Income %	0.6%	0.3%
o.w. FX Income %	0.2%	0.2%
Non-Interest Expense %	-5.8%	-5.5%
o.w. Personnel %	-2.2%	-2.2%
o.w. Admin. & Other %	-1.8%	-1.8%
Net Revenues %	4.6%	4.1%
Loan Loss Provision %	-0.7%	-1.0%
Non-Operating Income %	0.3%	0.9%
Tax Expenses, Profit Sharing %	-1.4%	-1.4%
ROA	2.8%	2.6%
Assets / Equity Ratio	9.11	8.82
ROE	25.4%	22.9%
Avg Assets (yoy growth)	16%	23%

Source: Company reports and JPMorgan estimates. Each line item is presented as a % of Total Average Assets.

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Comparison with Bolivia: efficiency is key

Lessons from the most advanced microfinance market in Latam: Bolivia
In this section, we do not attempt to provide a comprehensive comparison of both systems, but rather focus on a few key metrics that we think will allow us to better understand profitability drivers at Compartamos and its domestic competitors. We believe it is necessary to take into account national characteristics when comparing operating performance metrics of MFI's across different geographies.

Bolivian and Mexican MFIs have significantly different yields, efficiency and asset quality. In general, Mexican MFIs are much less efficient than their Bolivian counterparts, forcing the Mexicans to charge much higher rates to achieve similar profitability.

Bolivia is a more mature market in microfinance
In Bolivia, the microfinance industry started earlier (at the beginning of the 1980's), with the help of international donors, including USAID, GTZ (German Cooperation) and the Swiss Cooperation for Development (COSUDE), among others. MFIs in the country have a much more important role in the economy and have a very significant number of clients (in a country that counts less than 10 millions inhabitants).

Table 9: 5 largest MFIs in Bolivia: Is it still microfinance?

Name	Size of Institutions	Size of loans
Proxy indicator	Number of Active Borrowers	Average Loan Balance per Borrower/ GNI per Capita
FIE	71,334	129%
PRODEM	77,476	158%
Banco Los Andes ProCredit	85,009	203%
CRECER	88,435	24%
BancoSol	103,786	143%
Compartamos	834,754	6%

Source: Mix Market (2006 for Bolivia, 2007 for Compartamos), Company data. GNI is Gross National Income.

Table 10: Country data

	Bolivia	Mexico
External debt, total (% of GNI)	49	20
GDP (current US$) (billions)	11	839
GNI per capita, Atlas method (current US$)	1,100	7,830
Life expectancy at birth, total (years)	65	74
Population, total (millions)	9	104
Population growth (annual %)	1.9	1.1
School enrollment, primary (% net)	95	98
Surface area (sq. km) (thousands)	1,099	1,964

Source: Worldbank.

Loan yields are much lower in Bolivia
We estimate that average loan yields in Bolivia are 28%, compared to close to 70% for Mexico. There are several explanations for this difference.

- **A key factor is efficiency.** One key reason why Bolivian companies can charge much lower rates than Mexican MFI's is that they are significantly more efficient. The opex ratio for Bolivian companies is around 11%, while it is above 50% for Mexican companies. In part, Bolivian MFI's have better efficiency due to lower costs, including personnel costs, given the labor-intensive nature of microlending. In addition, the Bolivian economy is not as developed as Mexico's, so an even larger portion of the population does not have access to commercial banks. MFIs in Bolivia have filled this void, becoming the de facto commercial bankers for small companies that represent a large portion of Bolivia's GDP. As a result, average loan balances at Bolivian MFI's are much larger than those at Mexican MFI's, resulting in better efficiency. Compartamos is by far the most efficient of the Mexican MFIs, but its opex ratio at 28.7% of earning assets in 2006 is still significantly higher than those of Bolivians, with 8.6% for Bancosol for example (please refer to Table 11 below).

- **Bolivia is a better-penetrated market – competition is more significant.** There are four large MFI's with national reach in Bolivia, competing strongly since the early 1980's. They withstood the onslaught of Chilean consumer finance companies that entered the market in the early 1990s, causing depressed profitability for all participants, large asset quality issues, and the eventual departure of the Chilean companies. Such strong competition has pushed the yield on loans down. In Mexico, outside of Compartamos, MFI's are smaller and operate locally. Fincomun, which is one of the largest providers of micro loans to entrepreneurs, has a portfolio that is approximately 10 times smaller than Compartamos' (please refer to Table 11 below) Competition is less intense, although it is increasing.

Leverage is much higher for Bolivian MFI's

Bolivian MFI's are at a more mature stage of development than Mexican MFI's. Not only do they have better operating efficiency, they also have a more efficient capital structure. A significant opportunity for the Mexican MFI's is that as the system matures, they should be able to offset some of the pressure on net interest margins by leveraging their balance sheet. It also could be challenging, for those that cannot obtain good funding sources or are not able to increase loans, since profitability would be affected by the lower margins.

Taxes

According to the microfinance Gateway, charitable non-profit organizations are not exempted if they engage in financial intermediation. We use the general applicable income tax rate of 25% for Bolivian institutions.

Table 11: Financial information of Bolivian MFI's is very similar to traditional banks' in Mexico

	FIE	PRODEM	Banco Los Andes ProCredit	CRECER	BancoSol	Compartamos
Yield	23.9	27.5	21.6	34.2	24.5	81.6
Cost of funding	6.0	6.7	6.0	4.9	6.7	10.8
Net int margin	17.9	20.8	15.6	29.3	17.8	70.8
Opex Ratio	12.3	16.7	9.0	17.0	8.6	33.5
Provisions/loans	2.1	0.6	2.4	0.4	2.0	1.8
Operating income	3.6	3.6	4.1	12.0	7.2	35.5
Taxes	-0.9	-0.9	-1.0	-3.0	-1.8	-12.4
Return on loans	3.6	3.6	3.1	12.0	5.4	23.1
Other information						
Equity/Assets Ratio	10.7	8.0	10.1	33.9	9.3	42.4
ROA	1.9	1.9	1.2	7.9	2.3	23.2
ROE	16.9	22.9	12.3	21.9	22.8	57.4
Loans	106,520	166,563	270,982	27,397	208,937	377,831
Assets	135,343	235,003	327,682	30,582	264,534	467,865

Source: MIX, JPMorgan.Data as of 2006. Data for loans and assets is in US thousands. All other data in %.

Mexico looks like Bolivia in the mid-1990s: what is around the corner?
The Bolivian case suggests that Mexico could be 15 years behind in terms of development of its microcredit industry. Bolivia started with a number of NGOs, largely supported by international donors.

A painful crisis
As those institutions grew, they attracted the attention of other players, including traditional commercial banks and consumer finance companies (including from Chile), which flooded the market with less expensive loans. To some extent, this is similar to what happened in India, where international players, such as Standard Chartered, offered attractive micro loans. The over supply brought with it an asset-quality crisis, with reached its peak in 1999-2000 with record-high delinquency ratios. The crisis led to a consolidation of the sector and a subsequent improvement in risk-management techniques.

Credit bureaus collect loan repayment information of clients of the financial system that can be accessed by institutions that contribute to it.

Credit bureaus are a key tool to reduce credit risk for participants in the system, as they can tell which clients are riskier, based on repayment experience and leverage.

Mexico should be spared a similar crisis
However, we do not assign a high probability for such a scenario in Mexico. While profitability of the sector is certainly attracting many other competitors, there are several factors that should help prevent a crisis like that of Bolivia. In particular, we highlight that the system is highly regulated, particularly banks and Sofomes. In addition, most participants in the microfinance sector have to report to one of Mexico's two credit bureaus[1], and many of those who are not obligated, do so anyway, which should help prevent the asset-quality crisis that affected Bolivia.

[1] *Buro de Credito* is the largest credit bureau in Mexico. In January 2002, Mexico introduced a revised legal framework for governing credit bureau operations, enhancing the quality of data collection and strengthening privacy protection. The Bureau is owned by commercial banks and by three stable shareholders, namely Trans Union Corp., Dun & Bradstreet Corp. and Fair Isaac Corp. The Bureau collects and retains data on individuals for a period allowed by law. Information on corporates and people with entrepreneurial activity is kept for an indefinite period. Contributors happen to also be the users of the database, which comprises banks, vehicle financing companies, mortgage lending companies, retail stores, microfinance companies and other service providers (such as cable or phone companies).

Compartamos: Efficiency Supports Profits

Compartamos has enjoyed strong margins, driven by the interest rate charged on its main product, the Income Generator Loan (IGL, see Company Description for a list of products). The IGL represents 85% of the bank's loan portfolio, with a rate of approximately 82%. The company is guiding for declines of 300 bps a year in yield for this product for the next several years. We believe the reduction in yields will discourage new entrants in the market, but more importantly, we think the reductions respond more to efforts to expand into lower-yielding segments, to bolster asset quality and to pass some of the benefits to clients.

Why are Compartamos' rates so high?

The level of rates charged by Mexican microfinance institutions is much higher than in other countries. In part, this is because Mexican institutions are less efficient and because they are less leveraged than international peers. We find that Compartamos does not charge more than competitors, but its profitability is much better because it is significantly more efficient or has better asset quality.

Higher costs (especially operating) and weaker asset quality justify higher rates
As we saw in previous sections, microlending institutions incur relatively higher costs than traditional commercial banks, as MFI's have higher personnel and administrative expenses. Also the absence of traditional guarantees can make this business riskier for an institution, depending on how good it is at recovering loans. Certain MFI's and banks focusing on microfinance have to charge higher rates to compensate for weaker asset quality.

Leverage of MFI's in Mexico is quite low
MFI's in Mexico have very low leverage, vis-à-vis commercial banks and other MFI's, for instance, in Bolivia. In part, this because at this stage of their development, Mexican MFI's have to reinvest a large portion of their earnings since they do not have a stable source of funding. To generate a good return on the capital invested, companies need to charge more.

Compartamos' does not charge more than the competition
Compartamos faces competition from lenders that target the lower-income segments of the Mexican population, particularly savings banks, credit unions, cooperatives, consumer loans and informal loan providers, Sofoles, and Sofomes, and NGOs. In addition, the bank faces competition from the public sector, as the Mexican government currently engages in its own microcredit programs.

However, we highlight that Compartamos' rates are similar to those charged by other microinstitutions (See Table 13) and do not differ much from other consumer finance products of commercial banks and other financial institutions (See Table 12), which can yield more than 100%. In other words, Compartamos does not charge more than other institutions focusing on the same lower-income client base.

Table 12: Rates on Credit Cards in Mexico (Total Annual Cost)

%

	Institution	Credit Card	TAC
1	Inbursa	Efe Clásica	42.82%
2	Afirme	Clásica	45.16%
3	Bajío	Visa Clásica	48.97%
4	Scotiabank	Clásica	52.51%
5	Banorte	Clásica	53.17%
6	IXE	Clásica	57.26%
7	Banregio	Clásica	58.09%
8	BBVA Bancomer	Azul	61.32%
9	American Express Bank	Verde	61.41%
10	HSBC	Clásica	63.68%
11	Santander	Clásica	64.12%
12	Banamex	Clásica	65.71%
13	Banco Fácil	Chedraui	75.97%
14	Invex	Spira Clásica	86.24%
15	GE Money	Azul	152.58%

Source: Condusef, JPMorgan, as of March 30, 2008. TAC includes fees, not only interest rate.

The table below lists Compartamos' main competitors in the market for micro loans. The competition comprises institutions incorporated as NGO's (Promujer, FINCA) and non-banking financial institutions (Sofol, Indpendencia). Compartamos' rates are similar to the competition's.

Table 13: Compartamos' rates are not higher than peers. Higher efficiency drives better profitability

Data in %, except Loans and Assets in US$ millions

Return on loans	Fincomun	FINCA	ADMIC	ASP Financiera	ProMujer	Independencia*	Banco Azteca	Compartamos
Yield	82.7	81.2	65.3	76.6	67.2	90.0	72.6	81.6
Cost of funding	11.0	12.6	4.1	11.2	8.0	9.4	12.8	10.8
Net int margin	71.7	68.7	61.2	65.3	59.2	80.6	59.8	70.8
Opex Ratio	60.8	55.7	55.6	57.2	43.0	38.6	47.7	33.5
Provisions/loans	1.3	1.9	2.2	4.7	1.3	12.8	7.8	1.8
Operating income	9.6	11.1	3.4	3.5	14.9	29.2	4.3	35.5
Taxes	-3.4	0.0	-1.2	-1.2	0.0	-9.0	-1.5	-12.4
Return on loans	6.3	11.1	2.2	2.2	14.9	20.2	2.8	23.1
Other information								
Equity/Assets Ratio	22.2	29.4	40.7	21.1	35.1	40.6	7.7	42.4
ROA	5.7	8.5	4.9	5.1	10.2	15.1	0.8	23.2
ROE	28.8	26.9	12.6	22.5	27.4	51.8	10.9	57.4
Loans	43,290	22,159	5,470	5,962	4,090	2,181	1,750,192	377,831
Assets	58,848	28,154	8,045	8,199	5,523	2,484	4,239,231	467,865

Source: MIX Market, JPMorgan. Source for Banco Azteca is CNBV, as of 2006, and may therefore not be exactly comparable to the other institutions. All other data as of 2006, except for loans and assets as of 2007.

* Yield for Independencia includes net fee revenue. Excluding fee revenue, the yield on loans would be 71.6%.

Compartamos retains significant pricing power

We believe the key reason Compartamos has higher profitability than its peers is that it is much more efficient. To a lesser extent, profitability is also explained by its superior asset quality, particularly vis-a-vis consumer finance companies such as Independencia. These competitive advantages put Compartamos in an attractive position to compete going forward.

Competition is less efficient or has worse asset quality

NGOs, led by institutions such as Asociación ProMujer de México and FINCA México, are significantly less efficient and do not have a nationwide presence. They compete with Compartamos only in specific markets. As a result, even when the yields on their products are similar to those of Compartamos, their profitability typically is significantly lower.

Non-banking financial institutions such as Sofoles and Sofomes focus primarily on offering consumer loans to middle- and low-income individuals. Currently, 58 non-banking institutions are licensed to operate in Mexico. Some of these institutions are FinComún and Financiera Independencia. In the case of FinComun, we note a significantly higher operating expense ratio, while in the case of Independencia, the asset quality of the portfolio is weaker than at Compartamos, causing high provisioning expenses.

Other players do not compete directly with Compartamos
Established commercial banks do not compete directly with Compartamos, particularly in their IGL product. So far, traditional banks have had difficulties defining the right methodology to originate loans and collect payments from this client base, which is more reluctant to use established banks' branch infrastructure. As an illustration, the results of a first attempt by GF Banorte to enter the microfinance arena has been mixed. After an increase in asset-quality problems, the firm decided to revise its loan origination methodology and shorten the periodicity of repayments from one month to one or two weeks.

There is some overlap between consumer finance institutions such as Independencia (which focuses on salaried employees), Azteca (which also does small company financing), and Compartamos. Azteca is really a competitor in the 'individual loan' product of Compartamos, which is finding it harder to grow with this product in a more urban setting. On the consumer finance side, banks such as Azteca have traditionally charged similar rates to Compartamos.

Price elasticity of demand in this segment tends to be low
Clients are more sensitive to the size of installments than to rates. Small payments in absolute terms are easier to accept. The short duration of loans (average of four months) and their low amount make payments small in absolute terms and therefore less painful for clients. In the area of consumer finance loans, customers are typically more sensitive to the size of installments than to the effective rate. Therefore, we believe that the bank does not have to lower rates to gain new clients.

If competition is less of an issue, why lower rates?

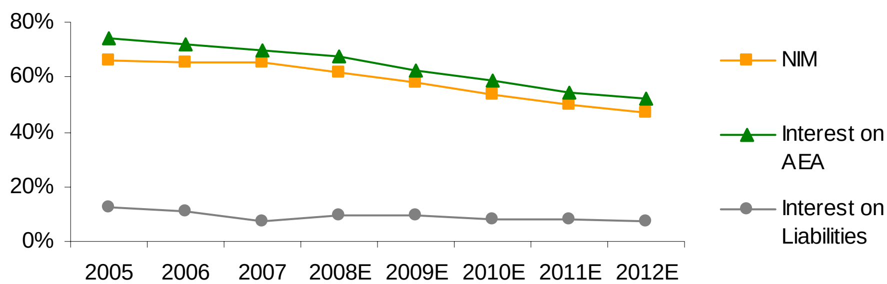
We believe that Compartamos' yields are relatively safe from competition, but the company may decide to lower them unilaterally for several reasons. First, to make it more difficult for emerging competition. Rates should also decline as Compartamos moves into lower-yielding segments, such as individual loans. Also, although lower rates have relatively little impact on demand, they may help improve asset quality, which may be important as Compartamos grows its portfolio. Part of the lower yields would benefit clients. But we believe such reductions (Compartamos expects the IGL rate will decline by by 300 bps a year for the next several years) may be less pronounced if expected efficiency gains do not materialize, including if expansion into larger, more efficient loans turns out to be more difficult than managements expects.

Earnings Outlook and Drivers

Driver 1: Net interest margins declining, but still robust

As we alluded to in the section above, Compartamos is guiding for a 300 bps reduction in its IGL product rate per year for the next several years, and net interest margins could fall even less, if they keep funding costs under control. Although we argue that Compartamos still has significant pricing power, in our base case scenario we have assumed a more conservative evolution on margins to build an additional level of comfort into our estimates. We stress that we believe Compartamos is likely to do better than the scenario that we build into our model. In 2008, we have margins compressing 340 bps, and in 2009 we have them down 397 bps. After 2009, we expect the decline in margins to accelerate a bit as the bank starts paying dividends and begins to lever up its balance sheet. In 2010, we have margins declining 401 bps, and in 2011 we lower them by 406 bps, before decelerating to a decline of 244 bps in 2012, as the impact of growth in savings deposits kicks in, as we explain below.

Figure 4: NIM evolution



Source: Company reports and JPMorgan estimates.

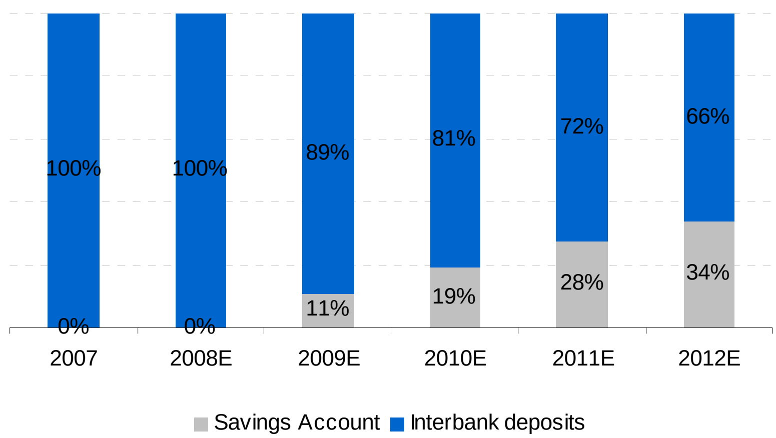
Driver 2: Savings deposits support stable cost of funding

Growth in savings deposits should help protect margins going forward. However, since the bank funds the majority of its assets with equity right now, we do not expect the impact to be meaningful until 2011-2012, as the bank begins to lever up the balance sheet through the payment of dividends. Compartamos requires that 10% of the balance of a loan is deposited in a bank account (currently not at Compartamos) upon the loan's inception. Many MFI’s require such deposits.

Compartamos estimates that this deposit averages 20% of average loan balances. We believe it would be relatively easy for Compartamos to capture these deposits, and the bank is currently working with regulators on how collection would take place, including using some of the bank’s offices as branches and using telegraph offices and retail outlets, to make it more convenient for its clients. Compartamos, as a bank, can collect savings deposits, but has not developed the infrastructure to do so. The ability to use alternative channels will be decided by regulators, but we believe it will happen in some form or another, and should be cheaper to implement than through Compartamos’ branches.

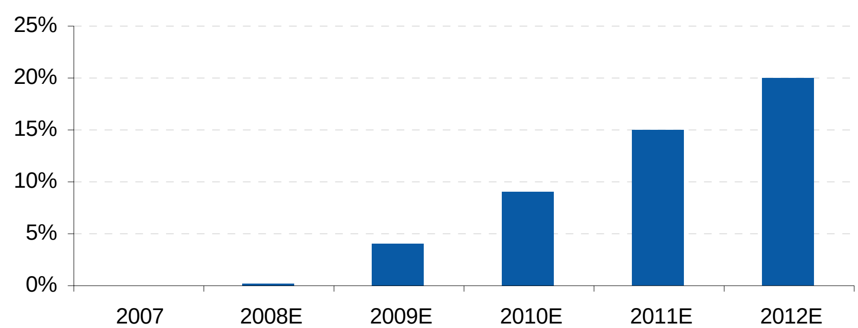
In this regard, we are being more conservative in our forecasts than the bank is. Compartamos believes that it can achieve collections of 20% of loans by 2010. We assume it only achieves 9%, with savings representing 19% of total deposits in 2010.

Figure 5: Our Assumption on Funding



Source: Company reports and JPMorgan estimates.

Figure 6: Savings deposits to loans ratio



Source: Company reports and JPMorgan estimates.

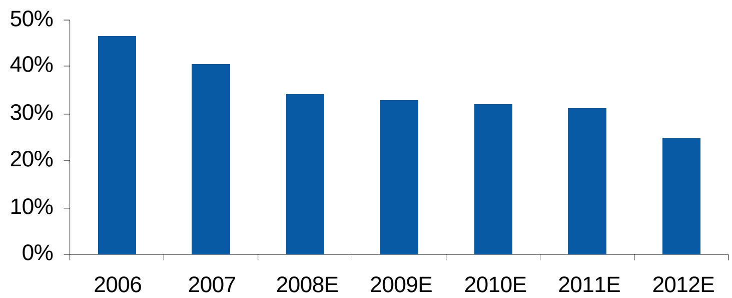
As the bank leverages its balance sheet through loan growth and dividend distribution, we believe it will have to increase its market funding significantly to compensate for the lower equity. We estimate that dividend payments will have a significant impact on the capitalization ratio, particularly after 2010. We assume a payout ratio of 25% in 2008, 35% in 2009, 70% in 2010 and 75% thereafter.

Overall, we have the cost of funding improving slightly as savings-deposit growth offsets the effect of higher liabilities, driven by increased leverage. Savings deposits are remunerated at a rate of 3-5%, while interbank deposits have a rate above 9% for Compartamos. Again, we believe Compartamos can do better than our relatively conservative scenario.

Driver 3: Robust loan growth in an underpenetrated market

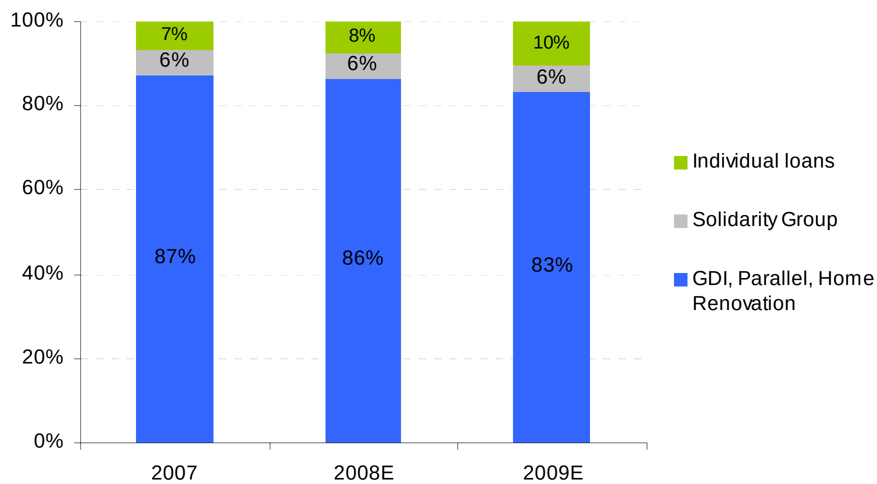
In an underpenetrated market, we expect loan growth to be solid. We believe the market of microenterprises in Mexico presents significant potential over the next few years. Of the approximately 14.5 million households of segments D to C-, an estimated 10.2 million (75%) are unbanked. INEGI (Mexican Institute of Geography and Statistics) currently estimates that there are 17.3 million people working in micro enterprises. Compartamos estimates that it has a 60% share in the market of loans to micro entrepreneurs. This provides an opportunity for ample growth. We forecast that loans at Compartamos will grow at a CAGR of 31% over the next five years. We believe that growth in clients will underpin loan growth. Threats to growth include a macro economic deceleration or natural disasters. Growth will be underpinned by expansion in branches, of about 60-65 a year, and expansion into the three Mexican states where it does not have a presence already.

Figure 7: We forecast loans to grow at a CAGR of 30% over 2008-2012



Source: JPMorgan estimates.

Figure 8: Breakdown of loans by segment: Diversification of the product offering



Source: Company reports and JPMorgan estimates. Totals may not add to 100% due to rounding.

Driver 4: Very solid asset quality thanks to its methodology

Asset quality to remain strong, albeit deteriorating gradually
We believe that the bank will be able to maintain its solid asset quality thanks to its strong loan origination methodology and that it therefore can maintain a relatively low level of provisions for bad loans. We note that asset quality should deteriorate only slightly as the bank moves into more urban areas and as it introduces new products that may be riskier. By far, the loans with the weaker asset quality are the individual loans, which are unsecured loans, primarily in urban areas. In part, high levels of default have kept growth in this product at lower levels than the rest of the portfolio. We note that Compartamos has agreed with regulators to create enough provisions for reserves to reach at least 4% of the total portfolio, so the key driver of provisioning will be total loans, rather than past due loans, at least in the short to mid-term.

Table 14: Asset Quality Is Lower for Individual Loans

	3Q/07	4Q/07	1Q/08	2Q/08E	3Q/08E	4Q/08E	2009E
GDI, Parallel, Home Renovation - PDL ratio	0.4%	0.5%	0.8%	0.6%	0.6%	0.6%	0.7%
Solidarity Group - PDL ratio	4.1%	4.7%	5.2%	4.6%	5.1%	5.1%	5.4%
Individual loans - PDL ratio	7.3%	9.4%	10.4%	9.1%	8.6%	8.8%	8.8%
Total PDL ratio	1.1%	1.4%	1.7%	1.7%	1.7%	1.7%	1.9%

Source: Company reports and JPMorgan estimates.

Compartamos' original methodology allows it to avoid adverse selection
The economic literature suggests that charging high interest rates can have counterproductive consequences for a bank. In an influential paper dating back to 1981, Stiglitz and Weiss explain that the interest rate a bank charges may itself affect the riskiness of the pool of loans because of an adverse selection effect and an incentive effect. Adverse selection suggests that by charging a high rate, the bank would attract riskier projects. Additionally, high rates induce borrowers to undertake projects with lower probabilities of success but higher payoffs when successful (incentive effect).

We find that Compartamos is able to avoid those two negative effects by offering a group guarantee**,** and also by conditioning future disbursements to the repayment of the current loan. Peer pressure and the promise of larger loans upon payment of an existing loan counteract the negative effects that a high interest rate could have for the bank.

We prefer charge-offs as an indicator of asset quality, instead of NPL 90 days
MFIs can see bigger swings in asset quality than traditional banks because of the relatively shorter maturity of loans. Therefore, we believe that the non-performing loan ratio over 90 days that is used for traditional banks does not accurately measure asset quality for Compartamos , since the average maturity of its loans is 4 months. We would look at loans that are past due after 30 days instead.

Table 15: 20 Largest MFIs in Latam. Compartamos has best asset quality based on NPL 30 days

	Name	Country	Total assets (US$)	NPL 30 days
1	Caja Popular Mexicana	Mexico	1,337,473,224	11.9%
2	Banco Estado	Chile	609,537,367	4.7%
3	Caja Libertad	Mexico	555,731,476	8.0%
4	BANTRA	Peru	421,065,823	6.7%
5	MiBanco	Peru	388,387,900	2.9%
6	Banco Solidario	Ecuador	341,105,844	5.2%
7	Compartamos	Mexico	296,838,090	1.1%
8	CMAC Trujillo	Peru	237,307,888	2.2%
9	Banco Los Andes ProCredit	Bolivia	235,772,000	2.0%
10	CMAC Arequipa	Peru	227,819,084	3.9%
11	BancoSol	Bolivia	222,344,817	2.9%

Source: Mix Market, 2005. * More recent data for those microfinance institutions is not available.

Table 16: Compartamos has one of the best charge-off ratios in our universe.

GFInbursa	0.2%
Frances	0.3%
Compartamos	0.6%
Credicorp	0.6%
Banco de Chile	0.7%
Patagonia	0.7%
Macro	1.0%
GFGalicia	1.1%
GFNorte	1.3%
Banco do Brasil	1.5%
Santander Chile	1.6%
Bradesco	2.6%
Unibanco	3.5%
Itau	5.1%
Nossa Caixa	8.4%

Source: JPMorgan.

However, Compartamos no longer discloses its NPL over 30 days. Another common indicator in the MFI industry is the portfolio at risk (PaR). The PaR is the sum of the PDL 30 days and the total of refinanced loans, divided by total loans. This measure is applicable to MFIs because they do more restructuring of their loans than traditional banks because of the closer monitoring of clients. For traditional MFIs, restructuring means that the amount of charge-offs could be understated. Compartamos' policy is not to restructure loans. Therefore, we use the ratio of charge-offs to total loans and anticipate Compartamos' charge-offs to remain stable at around 0.6% of average loans over the next few years.

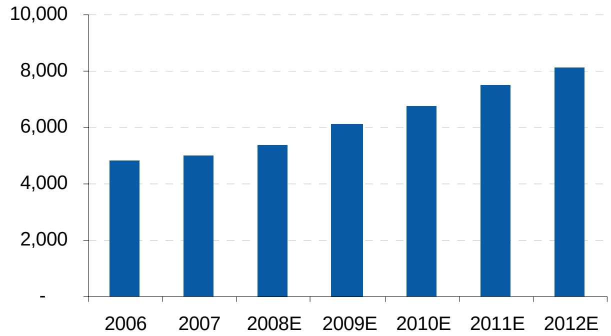
Driver 5: Efficiency improves as the average loan increases

We believe that the expansion of the franchise and the launch of new products will put pressure on expenses in the short term. The high rate of unionization, as well as high turnover, support high personnel expenses through wages and training. Compartamos plans to open, either through 'bipartition' (when an office splits into two, to serve a larger client base), or the opening of new branches, about 65 branches in 2008. Our expectation is that employees will increase by 23% to approximately 5,300 in 2008 and then by 13% to approximately 6,000 in 2009.

Despite this expansion plan, we believe the company will meet its objective to control costs and keep the ratio of expenses to average earning assets under control.

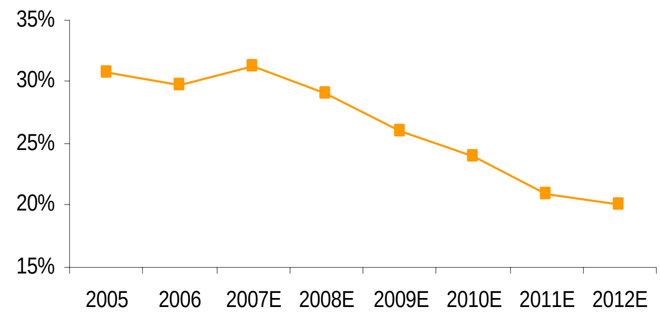
For MFIs, key driver of efficiency is the average loan per borrower
We believe the bank's improved efficiency should come with an increase in the average loan to client, which stood in 2007 at 4,991 Pesos. We see three structural reasons for this steady increase: i) as the client base matures, customers will require larger loans; ii) the growth in individual loans; iii) a development in more urban areas should also support higher loan averages. We see this trend as positive since the bank has a large share of fixed costs, and the increase in average loans would be a way to leverage Compartamos' infrastructure.

Figure 9: Average Loan per Client (Ps.) on the Rise



Source: Company reports and JPMorgan estimates.

Figure 10: We expect operating expenses to average earnings assets to decrease steadily to reach 26% in 09



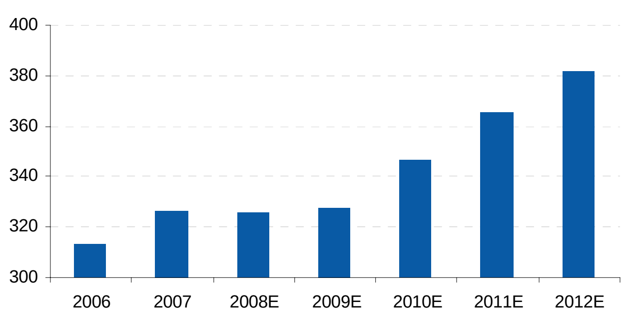
Source: JPMorgan estimates.

Another common measure of efficiency for microfinance institutions is the average number of borrowers per loan officer. We forecast this number to progressively increase, supporting our assumption of enhanced efficiency in the medium term.

Finally we indicate the sensitivity of ROE to a change in operating expenses, expressed as operating expenses divided by average earnings assets. Current opex ratio stands around 30% (29% for 2008), which corresponds to an estimated ROE of 40.5% for 2008. We estimate a reduction of 5%in the opex ratio impacts ROE positively by 7%. In 2012, a reduction of 5% of the opex ratio, between 25% and 20%, would improve the ROE by 9%, from 31% to 40%.

As a result we note that the sensitivity of ROE to a change in the opex ratio increases over time, as ROE is smaller. In 2012 a decrease of 5% of the opex ratio has an impact of 128% on ROE, i.e. ROE increases by 9.6% or 128%.

Figure 11: Average number of borrowers per loan officer



Source: Company reports and JPMorgan estimates.

Figure 12: Sensitivity to operating expenses

Opex / Year	2007	2008	2009	2010	2011	2012
30%	47%	39%	32%	29%	25%	22%
25%	54%	46%	39%	36%	32%	31%
20%	62%	53%	46%	43%	40%	40%
15%	70%	60%	52%	49%	48%	48%

Source: Company reports and JPMorgan estimates.

Valuation

We are initiating coverage on Banco Compartamos with an Overweight rating relative to our universe of Latin American banks. Our OW rating is consistent with the upside potential we see to our 2008 price target (derived below). A key factor behind our earnings forecasts and valuation is that we believe that Compartamos still has significant pricing power in the microfinance market, as its competitors tend to be less efficient or have weaker asset quality. That said, our model does assume significant margin declines over time, partly offset by efficiency gains on the back of progress in diversifying away from the IGL product into riskier, but more efficient, (larger balance) loans. Our comfort with our forecasts derives from our belief that should efficiency gains fail to materialize the bank can always elect not to lower margins as quickly, without risking a losing significant market share.

Current multiples look high, but are justified by growth and profit outlook
Compartamos is currently trading at 18.2x our 2008e earnings and 6.1x 2008e book value (14.3x 2009e earnings and 4.5x 2009e book value) at a premium to its closest peers, and also to all other banks we cover in the region. In spite of current valuations, we believe the stock still has additional upside given its strong earnings growth potential (better than any other bank in our universe), and its strong return on equity, also better than any banks we cover in the region, and better than its closest peers globally. See Table 25.

When we look at 2008e PEG ratios, we see that Compartamos' ratio (64%) is still higher than those of GF Banorte, and Unibanco and Banco do Brasil, but the premium is much lower than that implied by straight P/E ratios. Although we think that the P/BV ratio is less relevant given the overcapitalization of Compartamos, we believe that it can be justified by Compartamos' higher sustainable ROE (40% and 20%-25% for the average Latam bank.

Table 17: Higher Valuations Justified by Earnings Growth and Sustainable ROE

	PEG Ratio 2008E	Long-term ROE
Brazil		
Banco do Brasil	0.8	23.5%
Bradesco	0.9	25.5%
Itau	0.6	24.0%
Unibanco	0.5	23.0%
Mexico		
GFNorte	0.45	23.0%
Compartamos	0.6	40.0%

Source: JPMorgan.

Our preferred valuation method is the discounted free cash flow to equity (DFCFE). We believe this methodology is particularly well suited for a bank like Compartamos that is excessively capitalized, as it captures potential dividends, regardless of whether they are paid or not. We decided not to use the traditional Gordon growth model because we thought it is better suited for mature companies with relatively stable earnings (or dividend) growth.

We also make an attempt to value Compartamos' option to enter the savings business and to expand its (currently small) insurance operation. We value these options at Ps.3.61 and Ps.5.14, respectively. We estimate that approximately 35% of the value of these options is already in our December 2008 target price, which only incorporates a modest savings deposit assumption, as well as an insurance business that remains relatively stable from current levels (i.e. it does not expand).

DFCFE: December 2008 PT of Ps.60

Our discounted free cash flow to equity model generates a December 2008 price target of Ps.60. Our price target is based on a discounted free cash flow to equity method with an explicit forecast period of five years.

PT implies multiples of 23.2x 08E earnings and 7.9x 08E book, and 18.2x 09E earnings and 5.8x 09E book.

FCFE model. With this model we attempt to calculate the cash that is available to be distributed to shareholders, after funding the core activities of the bank, such as lending and after deducting the cost of operation and investments in infrastructure. The flows thus calculated are discounted at the company's cost of equity of 11.0%.

Cash flow from operations. One of the main sources of cash is cash from operations (which can be defined as net income plus non-cash items minus other cash deductions). In particular, we add back (non-cash) loan provisions but subtract charge-offs, which we consider to be a better proxy of actual cash losses.

Financing cash flow. Another source of cash is the financing cash flow, which includes growth in deposits and other liabilities such as subordinated debt issuances. We subtract from that the cash used to finance growth in loans and other core financial assets, as well as growth in fixed assets necessary for the operations of the bank.

Free cash flow. What is left is the FCFE, which includes cash used to pay out dividends, as well as any cash not used for the core operations of the bank and that we deem as available for distribution, should the company wish to do so. We note that in our forecasts, given the high dividend payout ratio of the company, the key driver in FCFE for Compartamos is growth in the dividend flow.

For our cost of equity, we use a risk free rate of 4.5%, a country risk of 160bps, an equity risk premium of 5% and a beta of 0.97. Using the CAPM formula, we get a cost of equity of 11.0%.

Our target price of Ps60 gives us a target P/2008E earnings of 23.2 times and target P/2008E book value of 7.9 times. The upside potential over current price levels is 28%, consistent with an Overweight rating.

Table 18: Compartamos: DFCFE Model yields a Dec-08 Target Price of Ps60
Ps in millions

	2008E	2009E	2010E	2011E	2012E
Operating Cash flow	1,161	1,481	1,833	2,342	2,815
Investing Cash Flow	(1,231)	(1,983)	(2,339)	(3,027)	(3,404)
Financing cash flow	326	790	1,498	1,989	2,170
FCFE	256	288	992	1,303	1,582
Discounted FCFE	256	259	806	954	1,044

Source: JPMorgan estimates.

Table 19: Valuation Assumptions

cost of equity	11.0%
long-term earnings growth rate	6%

Source: JPMorgan estimates.

Sum of DFCFE	3,319
Terminal Value	22,349
Target Market Value	25,668
Shares Outstanding (million)	427.8
Dec-08 TP	60

Source: JPMorgan estimates.

Valuing options to enter insurance and savings business

In this section, we attempt to value Compartamos' option to enter the savings deposits and insurance business. We believe these activities are an important complement to Compartamos' lending business.

Compartamos' savings: making balance sheet de-leveraging more profitable
We think Compartamos has a significant opportunity to generate value by entering the savings business. Currently, Compartamos requires borrowers in its income generator loan (IGL) product to deposit 10% of the loan at a bank account with other banks. These deposits typically average 20% of outstanding loans. As a result, the cost of its option to enter the business is relatively low, and Compartamos recently launched a pilot program to explore the potential of gathering savings deposits.

Compartamos' strategy will focus more on alternative distribution channels, such as telegraph offices, retailers, small shops and other businesses, and less on its own branches. Compartamos is taking this route partly because it believes it would be more convenient for clients and adapting its current branch infrastructure to receive deposits would be quite costly. Compartamos would prefer having a separate deposit-gathering force, instead of relying on its loan agents. In addition, it is mindful that the women who constitute close to 85% of its client base may find it difficult to go to a bank branch (of any bank) on a regular basis to make a deposit, particularly in rural areas. This is partly because in those areas bank branches are scarce and also because women tend to be busy with domestic activities closer to home, as opposed to the men who typically work outside the home and have more opportunities to visit a bank branch.

The key question at this point is regulatory: How exactly will the regulator allow banks and other financial entities to use retailers and other businesses to gather deposits? Regulators are facing pressure to limit alternative distribution channels from established banks, which have already made significant investments in their distribution networks. However, we think that the regulators are focused on increasing the reach of financial services to larger segments of the population, and alternative channels are necessary to achieve this objective.

Our assumptions
Based in part on our conversations with the company, we estimate that Compartamos spent around Ps.13 million in 2007 on its effort to explore the business and launch its pilot program. We believe slightly higher amounts would be spent in 2008 and 2009, but after that, provided the regulator allows Compartamos to use alternative distribution channels, there will only be a variable cost linked to the volume of deposits gathered.

Spread of savings vs. Interbank is key driver of value of option

Savings deposits are cheaper than interbank deposits. We first calculate the funding cost that Compartamos would save from replacing a portion of its interbank deposits with savings deposits. We estimate six scenarios where the ratio of savings deposits to total deposits ranges from 0% to 100%. The capital ratio (equity to assets), which is extremely high for Compartamos, is the same for all six scenarios. To the extent that the capital ratio declines faster than we assume, the gains from replacing interbank deposits with savings deposits would be higher.

We assume Compartamos pays a significantly higher rate (4% in 2008) than established commercial banks (less than 1%), but lower than that of some of the new banks set up by retailers (7%-8%). We believe Compartamos will be able to pay less because the bulk of Compartamos' deposits would be tied to loan operations, and because Compartamos operates in rural areas where the new retail banks have only a small presence (if any).

The second key driver are fees on savings deposits

Apart from the benefits of the lower cost of savings deposits, we also assume revenue will be generated by charging fees for savings accounts. Our assumption is that fees will be between 2% and 2.5% of the average balance of the deposit, depending on the scenario. We highlight that our assumption is relatively high versus traditional savings accounts with much higher balances, but low compared with other microfinance institutions, where in many cases depositors end up 'paying' to keep the deposits at a microfinance institution (i.e. the net of the return minus the fees is a negative number).

Table 20: Assumptions. Key driver is spread between interbank funding and savings cost

	2007	2008	2009	2010	2011	2012
Interbank funds cost	10.0%	9.5%	9.0%	8.6%	8.1%	7.7%
Savings deposit costs	3.5%	3.4%	3.3%	3.2%	3.1%	3.0%
Tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Discount rate	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Share count (MM)	427.8	427.8	427.8	427.8	427.8	427.8
Risk-free rate	6%	6%	6%	6%	6%	6%
	2007	2008	2009	2010	2011	2012
Equity Ps.MM	2,285	3,171	4,302	5,063	5,854	6,771
Equity to assets	44.8%	53.6%	54.9%	50.2%	45.5%	42.4%
Total Deposits PS.MM	2,608	2,131	3,198	4,686	6,665	8,825

Source: Company reports and JPMorgan estimates.

Table 21: Savings deposits as % of total deposits

Ps. million

	2007	2008	2009	2010	2011	2012
Scenario 1 - 0%	-	-	-	-	-	-
Scenario 2 - 20%	-	426	640	937	1,333	1,765
Scenario 3 - 40%	-	852	1,279	1,875	2,666	3,530
Scenario 4 - 60%	-	1,279	1,919	2,812	3,999	5,295
Scenario 5 - 80%	-	1,705	2,559	3,749	5,332	7,060
Scenario 6 - 100%	-	2,131	3,198	4,686	6,665	8,825

Source: Company reports and JPMorgan estimates.

Table 22: Additional net marginal earnings under each scenario

Ps. million

Scenario	2007	2008	2009	2010	2011	2012
1	(8)	(10)	(12)	-	-	-
2	(8)	2	18	42	58	76
3	(8)	14	49	86	118	155
4	(8)	28	81	131	181	237
5	(8)	42	115	179	246	323
6	(8)	57	150	228	314	413

Source: Company reports and JPMorgan estimates.

Our model

Our scenario analysis generates three key inputs for a real options model based on the Black-Scholes option valuation formula. The present value of the revenue (lower cost of funding plus fees), which we define as (S), is Ps.1.72 billion. The second input is the cost of exercising the option to go into this business (initial expenses plus variable cost), which amounts to Ps.226.5 million. The volatility of the revenues is our third input (s), Ps.1.29 billion, or 70% of average revenue. The risk-free rate we assume is 6% (in pesos), and the life of the option is three years. Although Compartamos can exercise the option at any time in the future, we set a period of three years, in part because after that other banks and financial institutions may be in a better position to compete for these deposits. In addition, we believe this is a reasonable time for Compartamos to figure out the business and enter it. More than three years may mean that either the regulatory environment was not conducive, or they did not find the right formula to be successful in this business.

Figure 13: We estimate the value of the option to go into the savings business is Ps.3.61 per share

Life of option [T for Time] (in years)	3.00
Risk-free rate [r] (%)	6.00%
Project volatility [s] (%)	70.1%
Estimate of potential project value [S/X] (%)	761.3%
Asset price [S] ($, in millions)	$ 1,724.6
Strike price [X] ($, in millions)	$ 226.5
Calculated Option Value Black-Scholes (P$, in millions)	$ 1,543.5
Per share P$	$ 3.61

Source: JPMorgan estimates. Alfred Rappaport and Michael Mauboussin. (HBS Press, 2001, Chapter 8). Value as of December 2008

Compartamos' insurance: enhancing cross-selling opportunities

Compartamos can improve its cross-selling capabilities, which are low compared to established commercial banks, through the distribution of insurance products**.** Currently, Compartamos offers life insurance at no cost to its borrowers. The full amount of the insurance goes to the borrower's beneficiaries, i.e. none goes to cover the outstanding balance of the loan, which Compartamos writes off in case of death.

The company does not get any revenue from the basic insurance, as the premium goes directly to the insurance company (Seguros Banamex). In fact, the premium is paid by Compartamos. However, since 2006, the company offers additional insurance 'modules'. A module is life insurance coverage of Ps.15,000 for Ps.57 per period (typically four months). In 2007, 25% of Compartamos clients (approximately 210,000) had at least one module. Of those, only 10% had more than one module. Compartamos keeps 2/3 of the premiums generated by selling additional modules. Other costs to Compartamos (beyond 1/3 of the premium) are minimal since the insurance company takes care of product design and risk management.

Our assumptions

Similar to the savings deposit business, we calculated six scenarios to derive the value of revenues and expenses from the business. Revenue is calculated based on penetration of the insurance product and the price paid for the insurance modules. In scenario one, we assume penetration declines to zero, but otherwise we assume it increases, at least slightly, and prices increase range from below inflation to somewhat above inflation. In the better scenarios, we assume client growth (apart from penetration of the insurance product) to be somewhat better.

Our model

Our scenario analysis generates three key inputs for a real options model based on the Black-Scholes option valuation formula. The present value of the revenue (lower cost of funding plus fees), which we define as (S), is Ps.2.9 billion. The second input is the cost of exercising the option to go into this business (initial expenses plus variable cost), which amounts to Ps.954 million. The volatility of the revenues, our third input (s), is Ps.1.29 billion, or 66% of average revenue. The risk-free rate we assume is 6% (in pesos), and the life of the option is three years. Although Compartamos can exercise the option at any time in the future, we set a period of three years, in part because after that other banks and financial institutions may be in a better position to compete in this segment with Compartamos . In addition, we believe this is a reasonable time for Compartamos to figure out the business and enter it. More than that may mean that either the regulatory environment was not conducive, or they did not find the right formula to be successful in this business.

Figure 14: We estimate the value of the option to go into the insurance business is Ps.5.14 a share

Life of option [T for Time] (in years)	3.00
Risk-free rate [r] (%)	6.00%
Project volatility [s] (%)	66.3%
Estimate of potential project value [S/X] (%)	303.0%
Asset price [S] ($, in millions)	$ 2,892.4
Strike price [X] ($, in millions)	$ 954.5
Calculated Option Value using above inputs ($, in millions)	$ 2,198.1
Per share	$ 5.14

Source: JPMorgan estimates. Alfred Rappaport and Michael Mauboussin. (HBS Press, 2001, Chapter 8). Value as of December 2008.

Microfinance has low correlation with markets

There is still little statistical evidence of the low correlation of microfinance investments to capital markets, since there are few listed (and liquid) institutions. We highlight a research paper (*Can Microfinance Reduce Portfolio Volatility?*, Nicolas Krauss and Ingo Walter, NYU Stern, March 2008) that concludes that MFIs 'display virtually no correlation with global capital markets' but 'display significant correlation with the domestic economy, but they seem to be less exposed to the domestic economy than other types of institutions'. In the case of Compartamos, it appears that the US deceleration of 2001 impacted the traditional banking sector but had little effect on Compartamos' operations. The authors suggest that microfinance institutions generally show very low exposure to general market movements.

In the case of macroeconomic downturns, there is evidence that MFIs fare relatively better than traditional banks. NPLs for BRI of Indonesia peaked at 5.7% during the Asian crisis. This outcome was much better than most Indonesian banking businesses. For Grameen of Bangladesh, devastating floods led NPLs to a high of 6.9% in 2001.

We see three empirical reasons to explain the relative counter cyclicality of MFIs:

MFIs have original risk management techniques. The following characteristics of microfinance can all be seen as effective risk management techniques: disburse small loans, shorten maturities, keep a large client base, rely on group lending, require borrowers to deposit a percentage of the loan at a bank, or condition new loans to the full repayment of a previous one.

Their client base operates in safer sectors. Microfinance customers tend to operate in the informal sector and be less integrated into the formal economy. They provide small-ticket items and offer essential products, such as food or clothing. In the case of Compartamos, the garment and food sectors represented 73% of the total loan portfolio as of 2006. As they serve the needs of their close community, micro-borrowers are also less dependent on imports and currency fluctuations.

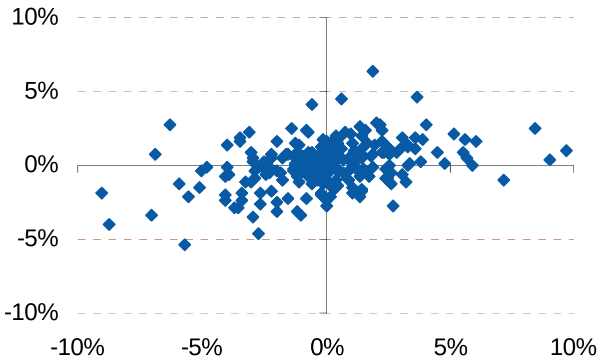
MFIs are relatively less leveraged than traditional banks. We note that this is less true for the largest MFIs, though their capitalization ratios remain significantly higher than for other financial institutions.

We note however that some MFIs can be especially sensitive to natural disasters due their relatively small size and limited geographical diversification. This would be less of a risk for the largest MFIs.

We believe that MFIs tend to present a lower risk than traditional banks, which justifies a lower cost of equity (through a lower beta). This should also explain the lower volatility of their stock, if listed. We think MFI investments can exhibit good diversification characteristics in a portfolio.

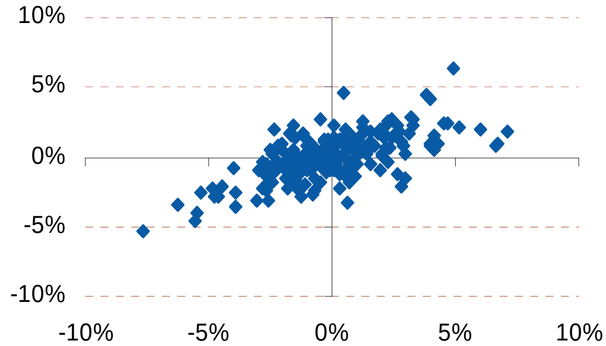
Below, we compare the distribution of returns of Compartamos and Banorte, versus the local stock exchange (Mexbol). We recognize that the track record is short (less than a year since its IPO), but highlight that data tends to support our hypothesis that the correlation between Compartamos and the market is lower than for other traditional banks (correlation of 65% vs. 74% for Banorte).

Figure 15: Compartamos distribution of returns vs. Mexbol: Higher dispersion



Source: Bloomberg. Daily stock price performance since Compartamos IPO (4/19/2007)

Figure 16: Banorte distribution of returns vs. Mexbol: Linear relationship



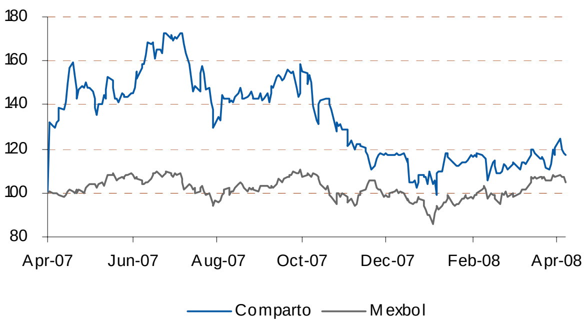
Source: Bloomberg. Daily stock price performance since Compartamos IPO (4/19/2007)

Share price performance -- Stock liquidity has declined

The stock price has been trading in the range of Ps.40to Ps.50 pesos in the past 4 months, close to the introduction price on April 19 and well below a peak of Ps.69 reached on July 25, 2007.

Average daily trading volume has declined continuously in the past few months, to reach US$2.5 million on a 3-months average basis. This compares with an ADTV 3-month of US$1.9 million for Inbursa and $19.6 million for Banorte. The trading volumes of the latter banks has increased in the past few months.

Figure 17: Relative Price performance (vs. Mexbol)



Source: Bloomberg.

Figure 18: Price performance since IPO

Source: Bloomberg

Table 23: Performance 1M, 3M, 6M, ytd

	1 Month	3 Month	6 Month	YTD
Compartamos	2.60	6.62	(21.92)	(0.95)
Banorte	(1.24)	6.81	(9.88)	0.95
Inbursa	17.29	28.99	17.98	19.85

Source: Bloomberg

Table 24: Average daily trading volume 1M, 3M and 6M (US$)

	20d	3M	6M
Compartamos	2,108,081	2,449,863	2,910,496
Banorte	26,769,269	20,624,316	19,735,905
Inbursa	4,858,416	2,786,174	2,379,754

Source: Bloomberg

Performance and Valuation Comparison

Table 25: Performance and Valuation Comparison. In our view, the best comparables are African Bank (South Africa) and BRI (Indonesia)

Company information						Size		Valuation				Performance					Efficiency		Asset quality
Name	Country	Ticker	Rating	Main focus	Price	Mkt. Cap.	Total Loans	P/E		P/BV		ROE		ROA		NIM	Avge Loan	C/ I*	Write off / Avg. Loans
					(local)	($ m)	($ m)	07	08E	07	08E	07	08E	07	08E		($)		07
Inbursa	Mexico	GFINBURO	UW	Middle market	34.0	9,743	7,814	24.1	20.6	2.3	2.3	14.9%	12%	5.2%	3.8%	6.4%	953	39%	0.2%
Banorte	Mexico	GFNORTEO	OW	All segments	45.5	8,774	16,991	13.6	10.9	2.8	2.3	23.5%	23.0%	2.7%	2.7%	7.5%	-	56%	1.3%
Compartamos	Mexico	COMPARTO	OW	Micro	44.9	1,812	400	23.0	18.2	8.9	6.1	47.3%	40.5%	20.7%	20.0%	65.0%	477	46%	0.6%
Independencia**	Mexico	FINDEP*	NR	Consumer	20.2	1,313	251	23.4	14.4	5.5	5.7	44.7%	-	16.9%	-	7.8%	361	69%	4.1%
Banco do Brasil	Brazil	BBAS3	OW	All segments	26.6	39,390	94,676	11.3	10.2	2.8	2.3	27.5%	25%	1.7%	2.1%	7.0%	3,641	47%	2.5%
Panamericano	Brazil	BPNM4	NR	Vehicle financing	9.0	1,364	4,169	17.2	3.8	1.9	0.9	16.3%	30%	2.2%	3.9%	3.6%	1,489	62%	4.3%
Bco Patagonia	Argentina	BPAT11	OW	Middle market	29.5	598	1,126	10.3	5.0	1.3	1.1	11.0%	24%	2.2%	4.6%	5.5%	1,542	67%	0.3%
Banco Macro	Argentina	BMA	OW	Middle market	23.4	1,601	3,076	10.4	7.5	1.9	1.6	19.5%	23%	2.8%	3.1%	6.5%	1,465	59%	1.0%
Credicorp	Peru	BAP	OW	All segments	79.9	6,388	7,772	18.8	15.2	3.8	3.3	22.8%	23%	2.4%	2.5%	5.0%	2,989	51%	0.6%
MiBanco **	Peru	MIBAN/A	NR	All segments	3.5	142	501	6.8	-	2.4	-	34.4%	-	5.1%	-	7.6%	1,749	50%	4.3%
African Bank	S. Africa	ABL	OW	Consumer / Micro	6.8	2,780	745	9.8	7.7	5.3	1.8	60.6%	23%	13.5%	10.8%	28.8%	705	27%	8.9%
Capitec Bank	S. Africa	CPI	NR	Consumer / Micro	19.1	398	258	12.6	16.6	2.7	3.3	22.0%	22%	17.4%	7.2%	12.4%	209	58%	-
Equity Bank **	Kenya	EQBNK KN	NR	Micro	218.0	204	349	5.6	-	5.7	-	40.4%	-	4.9%	-	11.0%	888	57%	1.2%
AEON Thana Sinsap	Thailand	AEONTS TB	N	Consumer	39.0	308	762	7.6	7.9	2.1	2.0	29.1%	-	4.2%	-	25.2%	401	47%	-
Solomon Mutual Savings	Korea	007800 KS	OW	Mortgage Subprime	10,100.0	173	2,893	3.7	5.7	0.8	0.6	19.5%	20%	1.7%	2%	7.2%	-	28%	-
Shriram Transport Fin.	India	SHTF IN	NR	Vehicle financing	321.6	1,633	130	10.8	16.2	5.8	3.3	19.8%	-	2.2%	-	139%	521	16%	2.6%
Mahindra Fin.	India	MMFS IN	NR	Vehicle financing	276.8	671	1,108	17.6	13.8	3.1	2.7	18.2%	-	2.4%	-	8.4%	2,367	22%	0.8%
Danamon	Indonesia	BDMN IJ	OW	Consumer / Micro	5,450.0	2,992	5,807	12.3	10.5	2.5	2.2	20.9%	20.2%	2.5%	2.4%	9.9%	-	50%	2.0%
Pan Indonesia	Indonesia	PNBN EJ	N	Consumer / Micro	580.0	1,274	2,724	13.2	11.0	1.6	1.4	12.1%	13.5%	2.1%	2.1%	8.1%	-	43%	0.5%
Bank Rakyat	Indonesia	BBRI IJ	OW	Micro / Consumer	5,850.0	7,845	10,804	14.3	11.6	3.6	3.0	26.5%	26%	2.7%	2.5%	12.9%	-	49%	1.5%

Source: Company data, JPMorgan estimates, Bloomberg, MIX Market. * C/I stands for Cost to Income, or Non Interest Expenses divided by total revenues. ** Data only available for 2006. Independencia data is based on consensus. ROE of Independencia is as of 2006. We indicate with an hyphen data that is not available. Pricing as of 4/25/08

- **BRI of Indonesia (OW).** BRI's origins date back to 1895, making it the oldest MFI in the world. With about two thirds of its loan portfolio in micro/SME loans, strong asset quality, and a large network covering the Indonesian archipelago (with small units and village posts), we view it as a good comp for Compartamos. Differences are size (BRI is much bigger), disbursement (no group lending, usually requires collateral) and larger product offering (deposits, corporate loans). For 2008, JPMorgan's Head of Indonesian Equity Research Rizal Prasetijo forecasts loan growth of 23% and net income growth of 13% (vs. 34% and 28% respect. for Compartamos).
- **African Bank of South Africa (OW)**. ABL is the largest player in South Africa in the unsecured mass market (loans with maturity < 1 year represent 1/3 of total). Distribution network is similar to Compartamos. Differences are in asset quality (lower at ABL, with a bias towards unsecured individual loans), efficiency (better at ABL, with collections done via direct debit on customers bank accounts) and funding where ABL relies on markets for about 70% of its funding. For 2008, JPMorgan's South African Banks Analyst Mervin Naidoo forecasts loan growth of 27% (ABL on a stand alone basis) and net income growth of 18% (pro forma for the combined ABL and ELH) (vs. 34% and 28% respect. for Compartamo

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Table 26: Valuation Table for LATAM Coverage Universe

	Ticker	JPM Rating	Analyst	Mkt. Cap (US$ m) 25-Apr-08	Float	Price local or USD* 25-Apr-08	Target Price	Target Date	COE	Div. 08	DY 08	P/BV 08E	P/BV 09E	P/E** 08E	P/E** 09E	ROE** 08E	ROE** 09E	BIS Ratio**
Argentina																		
Frances	BFR UN	Neutral	Partida	973	24%	$6.2	$11.1	Dec-08	13.3%	$0.2	2.5%	1.2	1.0	6.2	4.6	22%	24%	17%
Macro	BMA US	Overweight	Partida	1,601	66%	$23.4	$39.2	Dec-08	13.0%	$0.6	2.4%	1.6	1.3	7.5	6.0	23%	24%	28%
Patagonia	BPAT11 BZ	Overweight	Partida	598	30%	$15.6	$30.4	Dec-08	13.0%	$1.0	6.3%	1.1	0.9	5.0	4.1	24%	24%	36%
GFGalicia	GGAL US	Neutral	Partida	787	77%	$6.3	$10.7	Dec-08	13.5%	$0.0	0.0%	1.2	0.9	5.9	4.0	23%	26%	12%
Total				3,958				Average		$0.4	2.8%	1.3	1.0	6.1	4.7	23%	25%	23%
Brazil																		
Banco do Brasil	BBAS3 BZ	Overweight	Partida	39,390	22%	26.6	39.0	Dec-08	11.9%	0.9	3.4%	2.3	1.9	10.2	8.6	25%	25%	16%
Bradesco	BBDC4 BZ	Overweight	Partida	67,040	60%	37.0	67.0	Dec-08	11.9%	1.3	3.6%	3.1	2.7	13.4	11.4	26%	26%	18%
Itau	ITAU4 BZ	Neutral	Partida	62,878	53%	43.9	51.0	Dec-08	12.1%	1.4	3.3%	2.9	2.5	12.9	11.0	25%	25%	19%
Nossa Caixa	BNCA3 BZ	Underweight	Partida	1,631	29%	25.5	29.0	Dec-08	13.1%	0.6	2.3%	0.9	0.8	12.3	5.8	9%	19%	19%
Unibanco	UBBR11 BZ	Overweight	Partida	18,478	81%	22.0	34.0	Dec-08	11.9%	0.8	3.7%	2.1	1.8	9.7	8.5	24%	23%	14%
Total				189,417				Average		1.0	0.0	2.3	1.9	11.7	9.0	22%	23%	17%
Chile																		
Banco de Chile	CHILE US	Neutral	Partida	6,082	13%	$52.2	$55.0	Dec-08	11.1%	$2.6	4.9%	2.1	1.9	11.4	10.3	19%	19%	11%
Corpbanca	BCA US	Underweight	Partida	1,505	35%	$33.2	$29.0	Dec-08	11.5%	$0.3	0.8%	1.3	1.2	10.6	9.7	13%	12%	13%
Santander Chile	BSAN US	Overweight	Partida	9,571	23%	$52.8	$60.0	Dec-08	10.8%	$2.0	3.8%	2.5	2.1	10.6	8.7	25%	26%	13%
Total				17,158				Average		$1.6	3.2%	2.0	1.7	10.9	9.5	19%	19%	12%
Mexico																		
GFNorte	GFNORTEO MM	Overweight	Partida	8,774	60%	45.5	67.0	Dec-08	11.0%	0.6	1.3%	2.3	1.9	10.9	9.3	23%	22%	15%
GFInbursa	GFINBURO MM	Underweight	Partida	9,743	30%	34.0	NA	NA	11.4%	0.5	1.3%	2.3	2.2	20.6	19.2	12%	12%	25%
Total				18,517				Average		0.5	1.3%	2.3	2.0	15.7	14.3	17%	17%	20%
Other Latam Banks																		
Credicorp	BAP UM	Overweight	Partida	6,388	70%	$79.9	$92.5	Dec-08	11.7%	$2.1	2.7%	3.3	2.9	15.2	13.9	23%	22%	11%
Bladex	BLX US	Underweight	Partida	683	75%	$18.8	$21.0	Dec-08	11.5%	$1.0	5.2%	1.1	1.0	8.6	7.5	13%	14%	22%
Total				7,071														

Source: JPMorgan estimates, Bloomberg. JPMorgan ratings: OW = Overweight; N = Neutral; UW = Underweight

Note:* We present the price in local currency or US$ depending on the currency of our Price Targets. US$ prices for depositary receipts are indicated with '$'; all other prices for shares are local.

** ROE is the reported return on average equity. RPC Index for Argentine banks, Tier 1 ratio for CEE banks. P/E and ROE are adjusted for extraordinary items for Brazilian and South African Banks.

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Model

Table 27: Quarterly Income Statement and Balance Sheet

Ps. millions

	1Q/06	2Q/06	3Q/06	4Q/06	1Q/07	2Q/07	Q/07	4Q/07	1Q/08	2Q/08E	3Q/08E	4Q/08E
Income Statement												
Interest Income	422	436	547	630	602	665	721	786	781	831	863	929
Interest Expense	(55)	(29)	(50)	(43)	(35)	(38)	(43)	(50)	(46)	(48)	(49)	(54)
Monetary Gain	(9)	(3)	(13)	(25)	(16)	9	(24)	(35)	-	-	-	-
Net Interest Income	367	407	497	587	567	627	678	736	735	783	813	875
Fee Income	4	(17)	(7)	(7)	(8)	(13)	(15)	(6)	(10)	(9)	(10)	(11)
Market-Related Income	-	6	(4)	(1)	-	-	-	(1)	(1)	-	-	-
Total Non-Interest Income	4	(11)	(11)	(8)	(8)	(13)	(15)	(7)	(11)	(9)	(10)	(11)
Total Non-Interest Expense	(169)	(185)	(207)	(258)	(244)	(285)	(315)	(348)	(360)	(368)	(378)	(404)
Net Revenues	193	208	266	296	299	338	324	345	364	406	425	459
Loan Loss Provision	(8)	(6)	(13)	(19)	(7)	(9)	(18)	(35)	(18)	(17)	(20)	(35)
Non-Oper. Inc./Benefits/Charges	(4)	21	(3)	5	8	8	11	15	(1)	(9)	(10)	(16)
Pretax Net Income	181	223	250	282	300	314	309	325	345	381	396	408
Taxes	(61)	(70)	(80)	(94)	(90)	(99)	(97)	(85)	(99)	(107)	(111)	(114)
Deferred Inc. Taxes/Profit Sharing	0	-	-	-	3	(2)	(4)	(13)	5	-	-	-
Net Income	120	153	170	188	213	213	209	226	251	274	285	294
Core Earnings	202	205	283	322	315	329	348	382	365	406	425	459
Post-provision Core Earnings	194	199	270	303	308	320	330	347	347	389	405	424
Balance Sheet												
Total Assets	2,472	2,868	3,020	3,206	3,326	3,655	4,064	5,103	4,744	5,090	5,251	5,914
Cash and Due from Banks	50	201	146	105	124	170	111	442	77	78	79	79
Marketable Securities	271	432	425	100	40	115	466	460	215	217	219	222
Gross Loans	2,115	2,185	2,408	2,975	3,137	3,338	3,460	4,186	4,426	4,640	4,948	5,609
Total Deposits	-	-	-	-	-	-	1,807	2,608	1,736	1,753	1,806	2,131
Accounts Payable	71	111	136	91	153	167	231	209	270	300	320	340
Equity	863	979	1,158	1,359	1,582	1,794	2,024	2,285	2,536	2,810	2,877	3,171
Total Past Due Loans	12	14	17	18	25	35	39	57	75	79	85	96
Loan Loss Reserves	95	93	106	119	125	134	138	167	177	186	198	224

Source: Company reports and JPMorgan estimates.

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Table 28: Quarterly Per Share Analysis and Ratios

Ps. Millions, %

	1Q/06	2Q/06	3Q/06	4Q/06	1Q/07	2Q/07	3Q/07	4Q/07	1Q/08	2Q/08E	3Q/08E	4Q/08E
Per Share Analysis												
Shares Outstanding (per. end)	427.8	427.8	427.8	427.8	427.8	427.8	427.8	427.8	427.8	427.8	427.8	427.8
Exchange Rate Ps/$ (per. end)	10.87	11.34	10.98	10.82	10.84	10.81	10.94	10.91	11.00	11.00	11.00	11.10
EPS (Ps)	$0.28	$0.36	$0.40	$0.44	$0.50	$0.50	$0.49	$0.53	$0.59	$0.64	$0.67	$0.69
BV/Share (Ps)	$0.00	$0.00	$0.00	$0.00	$3.70	$4.19	$4.73	$5.34	$5.93	$6.57	$6.72	$7.41
Core Earnings/Share (Ps)	$0.47	$0.48	$0.66	$0.75	$0.74	$0.77	$0.81	$0.89	$0.85	$0.95	$0.99	$1.07
Dividend/Share (Ps)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.51	$0.00
EPS (US$)	$0.03	$0.03	$0.04	$0.04	$0.05	$0.05	$0.04	$0.05	$0.05	$0.06	$0.06	$0.06
Core Earnings/Share (US$)	$0.04	$0.04	$0.06	$0.07	$0.07	$0.07	$0.07	$0.08	$0.08	$0.09	$0.09	$0.10
BV/Share (US$)	$0.00	$0.00	$0.00	$0.00	$0.34	$0.39	$0.43	$0.49	$0.54	$0.60	$0.61	$0.67
Economic Indicators												
CPI Inflation	0.9%	-0.2%	1.2%	1.4%	1.7%	-0.4%	1.3%	1.0%	1.1%	1.2%	1.2%	1.0%
TIEE (Avg.)	9.6%	9.1%	9.0%	9.0%	9.1%	9.2%	9.3%	9.3%	9.4%	9.4%	9.2%	9.0%
Ratios												
Net Interest Margin	0.0%	61.9%	68.6%	76.2%	70.0%	72.4%	70.8%	64.5%	60.0%	64.9%	63.9%	62.7%
Post-Provision Margin	0.0%	61.0%	66.8%	73.8%	69.1%	71.4%	68.9%	61.5%	58.5%	63.5%	62.3%	60.2%
ROA	38.8%	22.9%	23.1%	24.2%	26.1%	24.4%	21.6%	19.8%	20.4%	22.3%	22.0%	21.1%
ROE	0.0%	66.5%	63.6%	59.8%	58.0%	50.5%	43.7%	42.0%	41.7%	41.0%	40.1%	38.9%
Overhead Ratio	45.6%	46.7%	42.6%	44.6%	43.6%	46.4%	47.5%	47.8%	49.7%	47.6%	47.0%	46.8%
Fee Income/Non-Interest Expense	2.3%	-9.2%	-3.4%	-2.7%	-3.3%	-4.6%	-4.7%	-1.8%	-2.8%	-2.4%	-2.6%	-2.7%
Non-Interest Expense/AEAs	0.0%	28.1%	28.6%	33.5%	30.1%	33.0%	32.9%	30.5%	29.4%	30.5%	29.7%	29.0%
Asset Quality												
Past Due Loans/Gross Loans	0.6%	0.6%	0.7%	0.6%	0.8%	1.0%	1.1%	1.4%	1.7%	1.7%	1.7%	1.7%
Past Due Loan Coverage	792%	664%	624%	661%	500%	383%	354%	293%	236%	235%	234%	233%
Loan Loss Reserves/Gross Loans	4.5%	4.3%	4.4%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Provisions/Avg. Loans	0.0%	1.2%	2.3%	2.8%	0.9%	1.1%	2.1%	3.7%	1.7%	1.5%	1.7%	2.7%
New Problem Loans/Avg. Loans	0.0%	0.4%	0.5%	0.1%	1.4%	1.2%	1.8%	2.4%	2.4%	1.0%	1.1%	1.6%
Liquidity and Capital Adequacy												
Gross Loans/Total Assets	85.6%	76.2%	79.7%	92.8%	94.3%	91.3%	85.1%	82.0%	93.3%	91.2%	94.2%	94.8%
Gross Loans/Deposits	0.0%	0.0%	n/a	n/a	n/a	n/a	191.5%	160.5%	255.0%	264.6%	274.0%	263.2%
Equity/Assets	34.9%	34.1%	38.3%	42.4%	47.6%	49.1%	49.8%	44.8%	53.5%	55.2%	54.8%	53.6%

Source: Company reports and JPMorgan estimates.

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Table 29: Annual Income Statement and Balance Sheet

Ps. millions

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Income Statement								
Interest Income	1,392	2,035	2,774	3,404	4,217	5,171	6,292	7,635
Interest Expense	(145)	(177)	(166)	(198)	(264)	(330)	(440)	(566)
Monetary Gain	(19)	(50)	(66)	-	-	-	-	-
Net Interest Income	1,247	1,858	2,608	3,206	3,953	4,841	5,852	7,069
Fee Income	(22)	(27)	(42)	(40)	(24)	(6)	7	16
Market-Related Income	(15)	1	(1)	(1)	-	-	-	-
Total Non-Interest Income	(37)	(26)	(43)	(41)	(24)	(6)	7	16
Total Non-Interest Expense	(578)	(819)	(1,192)	(1,510)	(1,783)	(2,166)	(2,478)	(2,998)
Net Revenues	613	963	1,306	1,655	2,147	2,670	3,381	4,086
Loan Loss Provision	(53)	(46)	(69)	(90)	(124)	(185)	(361)	(503)
Non-Oper. Inc./Benefits/Charges	12	19	42	(35)	(69)	(84)	(103)	(122)
Pretax Net Income	572	936	1,248	1,530	1,954	2,400	2,917	3,462
Taxes	(192)	(305)	(371)	(431)	(547)	(672)	(817)	(969)
Deferred Inc. Taxes/Profit Sharing	-	-	(16)	5	-	-	-	-
Net Income	380	631	861	1,104	1,407	1,728	2,100	2,493
Core Earnings	647	1,012	1,374	1,656	2,147	2,670	3,381	4,086
Post-provision Core Earnings	594	966	1,305	1,565	2,023	2,484	3,020	3,584
Balance Sheet								
Total Assets	2,366	3,206	5,103	5,914	7,835	10,076	12,869	15,957
Cash and Due from Banks	66	105	442	79	91	99	105	112
Marketable Securities	241	100	460	222	250	300	350	390
Gross Loans	2,030	2,975	4,186	5,609	7,460	9,848	12,900	16,125
Total Deposits	-	-	2,608	2,131	3,198	4,686	6,665	8,825
Accounts Payable	60	91	209	340	330	340	350	360
Equity	891	1,359	2,285	3,171	4,302	5,045	5,849	6,766
Total Past Due Loans	10	18	57	96	142	197	271	403
Loan Loss Reserves	91	119	167	224	298	404	645	968

Source: Company reports and JPMorgan estimates.

Table 30: Annual Per Share Analysis and Ratios

Ps. Millions, %

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Per Share Analysis								
Shares Outstanding (per. end)	427.8	427.8	427.8	427.8	427.8	427.8	427.8	427.8
Exchange Rate Ps/$ (per. end)	10.63	10.80	10.91	11.10	11.20	11.20	11.40	11.40
EPS (Ps)	$0.89	$1.47	$2.01	$2.58	$3.29	$4.04	$4.91	$5.83
BV/Share (Ps)	$2.08	$3.18	$5.34	$7.41	$10.05	$11.79	$13.67	$15.82
Core Earnings/Share (Ps)	$1.51	$2.36	$3.21	$3.87	$5.02	$6.24	$7.90	$9.55
Dividend/Share (Ps)	$0.11	$0.44	$0.00	$0.51	$0.65	$2.30	$3.03	$3.68
EPS (US$)	$0.08	$0.14	$0.18	$0.23	$0.29	$0.36	$0.43	$0.51
Core Earnings/Share (US$)	$0.14	$0.22	$0.29	$0.35	$0.45	$0.56	$0.69	$0.84
BV/Share (US$)	$0.20	$0.29	$0.49	$0.67	$0.90	$1.05	$1.20	$1.39
Economic Indicators								
CPI Inflation	3.3%	4.1%	3.1%	4.5%	3.3%	3.0%	2.2%	3.0%
TIEE (Avg.)	10.0%	9.2%	9.2%	9.2%	8.3%	8.1%	8.2%	8.3%
Ratios								
Net Interest Margin	66.4%	65.1%	65.0%	61.6%	57.7%	53.6%	49.6%	47.2%
Post-Provision Margin	63.6%	63.5%	63.3%	59.9%	55.8%	51.6%	46.5%	43.8%
ROA	19.7%	22.6%	20.7%	20.0%	20.5%	19.3%	18.3%	17.3%
ROE	51.4%	56.1%	47.3%	40.5%	37.7%	37.0%	38.6%	39.5%
Overhead Ratio	47.8%	44.7%	46.5%	47.7%	45.4%	44.8%	42.3%	42.3%
Fee Income/Non-Interest Expense	-3.8%	-3.3%	-3.5%	-2.6%	-1.3%	-0.3%	0.3%	0.5%
Non-Interest Expense/AEAs	30.8%	28.7%	29.7%	29.0%	26.0%	24.0%	21.0%	20.0%
Asset Quality								
Past Due Loans/Gross Loans	0.5%	0.6%	1.4%	1.7%	1.9%	2.0%	2.1%	2.5%
Past Due Loan Coverage	910%	661%	293%	233%	211%	205%	238%	240%
Loan Loss Reserves/Gross Loans	4.5%	4.0%	4.0%	4.0%	4.0%	4.1%	5.0%	6.0%
Provisions/Avg. Loans	3.3%	1.8%	1.9%	1.8%	1.9%	2.1%	3.2%	3.5%
New Problem Loans/Avg. Loans	1.1%	0.9%	1.6%	1.5%	1.5%	1.6%	1.7%	2.2%
Liquidity and Capital Adequacy								
Gross Loans/Total Assets	85.8%	92.8%	82.0%	94.8%	95.2%	97.7%	100.2%	101.1%
Gross Loans/Deposits	0.0%	0.0%	160.5%	263.2%	233.2%	210.1%	193.6%	182.7%
Equity/Assets	37.7%	42.4%	44.8%	53.6%	54.9%	50.1%	45.5%	42.4%

Source: Company reports and JPMorgan estimates.

Table 31: ROE Decomposition and Projections

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Interest Income %	72.1%	73.0%	66.8%	61.8%	61.3%	57.7%	54.8%	53.0%
Interest Expense %	-7.5%	-6.4%	-4.0%	-3.6%	-3.8%	-3.7%	-3.8%	-3.9%
Net Interest Income %	64.6%	66.7%	62.8%	58.2%	57.5%	54.1%	51.0%	49.0%
Non-Interest Income %	-1.9%	-0.9%	-1.0%	-0.7%	-0.3%	-0.1%	0.1%	0.1%
o.w. Service Fees %	-1.1%	-1.0%	-1.0%	-0.7%	-0.3%	-0.1%	0.1%	0.1%
o.w. Trading Income %	-0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
o.w. FX Income %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-Interest Expense %	-29.9%	-29.4%	-28.7%	-27.4%	-25.9%	-24.2%	-21.6%	-20.8%
o.w. Personnel %	-16.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
o.w. Admin. & Other %	-13.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Revenues %	31.7%	34.5%	31.4%	30.0%	31.2%	29.8%	29.5%	28.4%
Loan Loss Provision %	-2.7%	-1.7%	-1.7%	-1.6%	-1.8%	-2.1%	-3.1%	-3.5%
Non-Operating Income %	0.6%	0.7%	1.0%	-0.6%	-1.0%	-0.9%	-0.9%	-0.8%
Tax Expenses %	-9.9%	-10.9%	-8.9%	-7.8%	-8.0%	-7.5%	-7.1%	-6.7%
ROA	19.7%	22.6%	20.7%	20.0%	20.5%	19.3%	18.3%	17.3%
Assets / Equity Ratio	2.61	2.48	2.28	2.02	1.84	1.92	2.11	2.28
ROE	51.4%	56.1%	47.3%	40.5%	37.7%	37.0%	38.6%	39.5%
Avg Assets (yoy growth)		44%	49%	33%	25%	30%	28%	26%

Source: Company reports and JPMorgan estimates.

Other Companies Recommended in This Report (all prices in this report as of market close on 28 April 2008, unless otherwise indicated)
African Bank Investments Ltd (ABLJ.J/2,623c [25-April-2008]/Overweight), Banco Compartamos (COMPARTO.MX/Ps44.86/Overweight), Bank Rakyat Indonesia (BBRI.JK/Rp5,650/Overweight), GFNorte (GFNORTEO.MX/Ps45.30/Overweight)

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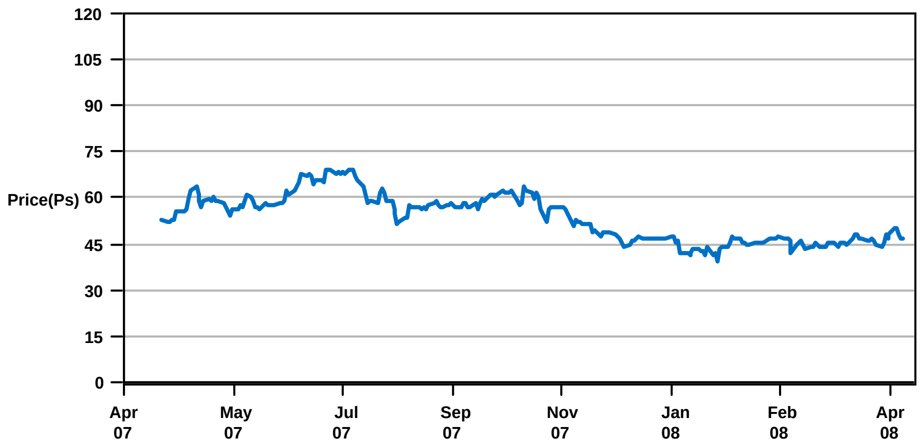
African Bank Investments Ltd (ABLJ.J) Price Chart

Date	Rating	Share Price (c)	Price Target (c)
13-Jun-05	OW	1820	2000
01-Dec-05	OW	2260	2500
30-Mar-07	OW	3000	3876
09-Jul-07	OW	3240	3694
25-Sep-07	OW	3150	3670
16-Nov-07	OW	3549	4545
11-Feb-08	OW	2837	4195
13-Mar-08	OW	2949	3887

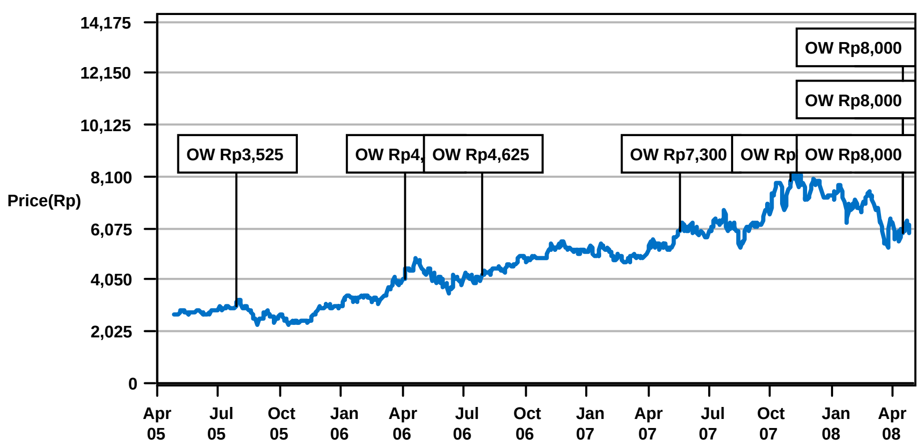
Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 06, 2006 - Mar 30, 2007. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Banco Compartamos (COMPARTO.MX) Price Chart



Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

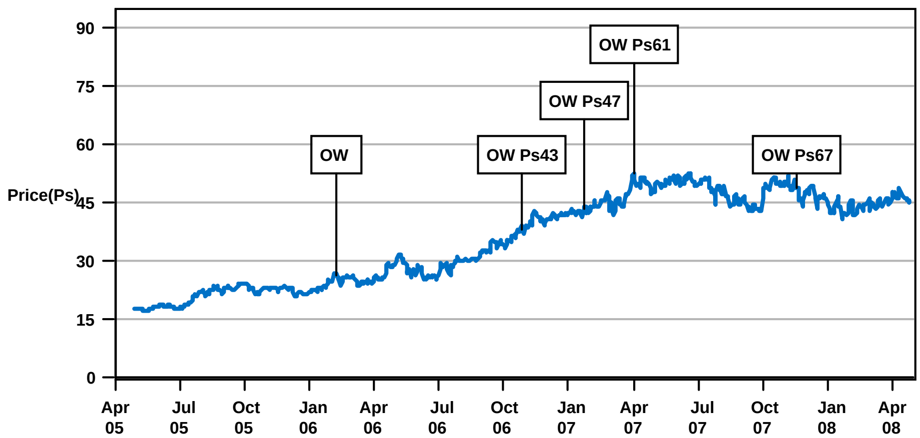
Bank Rakyat Indonesia (BBRI.JK) Price Chart



Date	Rating	Share Price (Rp)	Price Target (Rp)
28-Jul-05	OW	3000	3525
05-Apr-06	OW	4125	4325
28-Jul-06	OW	4275	4625
18-May-07	OW	6000	7300
31-Oct-07	OW	7900	8300
14-Apr-08	OW	6050	8000
14-Apr-08	OW	6050	8000
15-Apr-08	OW	5900	8000

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

GFNorte (GFNORTEO.MX) Price Chart



Date	Rating	Share Price (Ps)	Price Target (Ps)
07-Feb-06	OW	26.45	--
25-Oct-06	OW	37.97	43.00
22-Jan-07	OW	43.70	47.00
03-Apr-07	OW	52.49	61.00
18-Nov-07	OW	48.66	67.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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IB clients*	50%	51%	39%
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IB clients*	70%	66%	54%

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