

## MFX Counterparty Credit Assessment

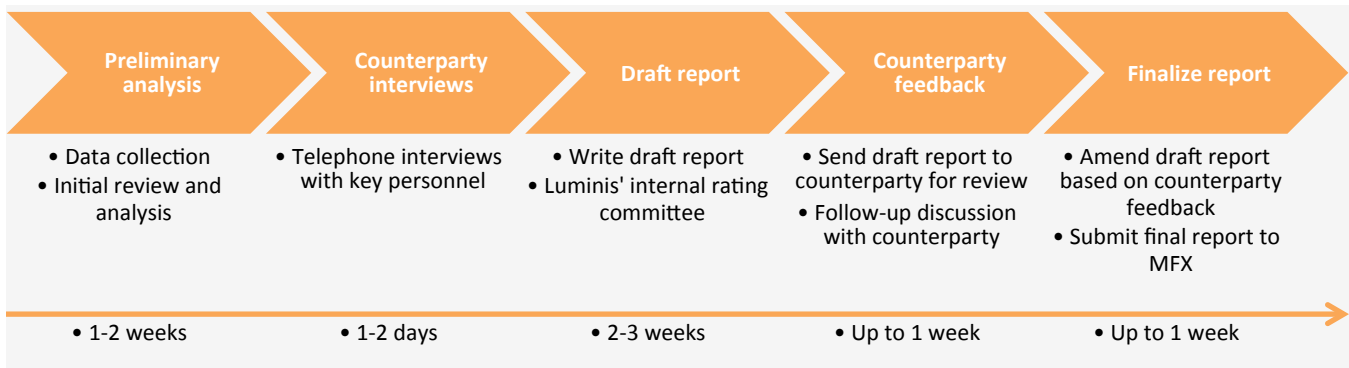
### Overview

As part of MFX Solutions’ standard on-boarding process, all prospective counterparties must undergo a credit assessment. MFX relies on an analytical and reporting methodology developed by Luminis Advisors to assess the financial and business characteristics unique to the impact investment sector.

The credit assessment is a typical desk review-style due diligence evaluation. Details of the process, data requirements, methodology, scoring, and cost considerations are provided below.

If a hedge is entered into, please note that the credit assessment must be updated annually for as long as the hedge is active. Please also note that all credit assessment reports – Counterparty Risk Reports (initial) and Surveillance Reports (annual updates) – are confidential documents and only intended for MFX’s internal use. As such, these reports are not available for public distribution or circulation by MFX or our counterparties.

### Credit Assessment Process



### Data Requirements

Each prospective counterparty must provide to Luminis certain data and information as required to complete the credit assessment. Generally speaking, this includes all related legal documents, financial information, investment/portfolio details, and management/operating policies. For a complete list of required material, please contact Luminis directly (see *Contact Information* below).

### Analytical and Reporting Methodology

Each prospective counterparty will be assessed on its short-term creditworthiness, specifically concerning its ability to meet its contractual obligations under the governing ISDA with MFX.

For investment funds, the analysis is primarily concerned with the following key criteria: (1) Financial Risk, including profitability, liquidity and treasury management, structural risk, capital adequacy, and market risk; (2) Portfolio Risk, including credit risk, sovereign risk, and asset quality; and (3) Operational Risk, including management and governance, investment process, portfolio management, and risk monitoring.

For microfinance institutions (MFIs), the analysis relies on the financial strength rating derived from MicroRate’s standard rating methodology for MFIs. (MicroRate is the leading microfinance rating agency and Luminis’ corporate partner.)

### Scoring

In accordance with the analytical and reporting determinations, each prospective counterparty is assigned a counterparty risk score. This score is used by MFX to determine the maximum allowable hedging volume. The range of scores, descriptions of each, and the corresponding trading limits, are as follows:

#### For investment funds:

Counterparty Risk Score	Creditworthiness	Description	Max. hedging volume
Tier 1	High Creditworthiness	These counterparties are consistently profitable, maintain excellent liquidity, and whose portfolios have minimal exposure to high-risk investees/markets. Management is superior, with distinguished commercial experience, local market knowledge, and excellent track records.	25% notional of MFX's total portfolio
Tier 2	Medium Creditworthiness	These counterparties are profitable, although capitalization is susceptible to structural risk and/or investor base is susceptible to redemption. Portfolio quality is average (credit, country, and concentration) as is management.	20% notional of MFX's total portfolio
Tier 3	Low Creditworthiness	These counterparties are typically small, levered funds with average to poor performance track records, below average portfolio quality and/or heavy exposure to risky microfinance markets, material interest rate and/or unhedged local currencies, and inexperienced management and/or weak portfolio management practices.	10-15% notional of MFX's total portfolio
Tier 4	Not Creditworthy	These counterparties have weak and/or no profitability track records, in new and/or highly illiquid sectors, and significant fund-level risks (structural, market, asset-liability management, etc.). Asset quality is poor, with numerous losses to date. Management is new and/or only has development experience.	No hedging allowed

#### For MFIs:

Counterparty Risk Score	Creditworthiness	Financial Strength	Description	Max. hedging volume
Tier 1	High Creditworthiness	A	Financial institutions with high long-term sustainability and high creditworthiness. Performance is excellent. Low short- to medium-term risk.	10% notional of MFX's total portfolio
Tier 2	Medium Creditworthiness	A- B+	Financial institutions with good long-term sustainability and good creditworthiness. Performance is good. Modest or well-managed short- to medium-term risk.	
Tier 3	Low Creditworthiness	B B-	Financial institutions with moderate long-term sustainability and moderate creditworthiness. Performance is fair. Moderate to high short- to medium-term risk.	
Tier 4	Not Creditworthy	C+, C, C- D+, D, D- E+, E	Financial institutions with weak long-term sustainability and poor creditworthiness. Performance is poor. High to very high short- to medium-term risk.	No hedging allowed

### Costs

The credit assessment fee schedule is presented below. Please note that MFX manages the entire hedging process, from the on-boarding stage through trading. As such, all costs associated with the credit assessments are administered directly between the counterparty and MFX.

#### For investment funds:

- Initial counterparty risk report: US\$ 6,000
- Annual surveillance report: US\$ 1,500

#### For MFIs:

- Initial counterparty risk report: Variable, please contact MFX to discuss
- Annual surveillance report: Variable, please contact MFX to discuss

### Contact Information

For questions about the credit assessment, please contact Stephen Brown at [stephen@luminisadvisors.com](mailto:stephen@luminisadvisors.com). For all other inquires, please contact your MFX account manager or [mfxinfo@mfxsolutions.com](mailto:mfxinfo@mfxsolutions.com).