



BlueOrchard[®]

Microfinance Investment Managers

BlueOrchard Loans for Development – 2006 (BOLD 1)

Investors' Update as of Oct 2010

Dear Investor,

In this newsletter, we provide an overview of the performance of BOLD 1 and its 21 participating microfinance institutions (MFIs) for the 12 months ending Jun 2010.¹

Interest Payment: September 2010

As disclosed to Noteholders in notices through Euroclear, the MFI Banex in Nicaragua is now in default on its USD 5mm loan from BOLD 1. The June 2010 payment due by the institution was made in early August, but the September payment was not made. The other 20 MFIs in the portfolio made their 15 September 2010 interest payment on schedule, two MFIs (EKI and Xacbank) made partial principal amortizations and coupons were subsequently paid to noteholders on 27 September 2010. Class A notes also received partial principal amortizations in both June and September. Since the April 2006 closing, BOLD 1 has made eighteen interest payments to investors and the next payment is due in December 2010. The Banex default is expected to reduce the per annum holding period returns to Class B noteholders by approximately 300-400 bps, but Class A noteholders' returns will not be impacted.

	MFI	Country	Exposure (USD)
1	AccessBank	Azerbaijan	4,000,000
2	ACLEDA BANK	Cambodia	5,000,000
3	BANCO SOLIDARIO	Ecuador	7,500,000
4	<i>BANEX - in default</i>	<i>Nicaragua</i>	<i>5,000,000</i>
5	CONFIANZA	Peru	2,000,000
6	CREAR AREQUIPA	Peru	2,000,000
7	EDYFICAR	Peru	4,000,000
8	EKI	Bosnia Herzegovina	1,815,000
9	FAMA	Nicaragua	3,000,000
10	FDL NITLAPAN	Nicaragua	3,000,000
11	FFP FIE	Bolivia	3,000,000
12	FINCA MEXICO	Mexico	2,000,000
13	FORUS BANK	Russia	3,600,000
14	MIBANCO	Peru	5,000,000
15	OPPORTUNITY ALBANIA	Albania	2,420,000
16	PROCREDIT BANK GEORGIE	Georgia	10,000,000
17	PRODEM	Bolivia	10,000,000
18	WWB - BUCARAMANGA	Colombia	3,000,000
19	WWB - CALI	Colombia	3,000,000
20	WWB - POPAYAN	Colombia	9,000,000
21	XACBANK	Mongolia	3,250,000
			91,585,000

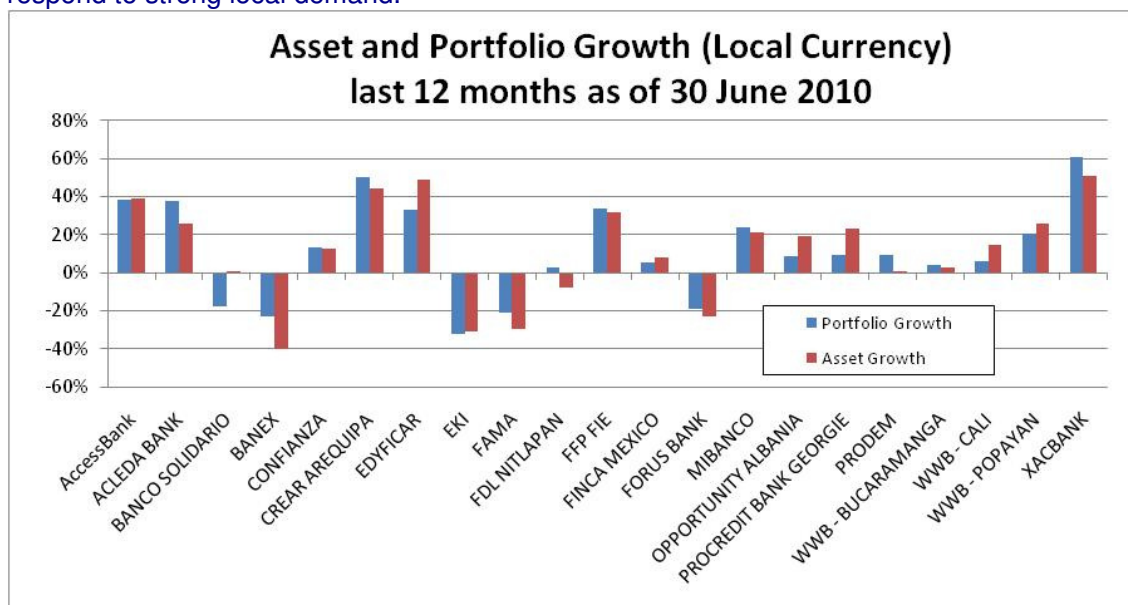
¹ Based on unaudited numbers, self-reported by the MFIs through June 2010.

Investment Monitoring: The 21 MFIs:

(1) Asset and Portfolio Growth:

For the 12 months ended June 2010, the total assets of the BOLD 1 MFIs grew at an average rate of 11.3% in local currency terms and the combined total assets of the MFIs reached more than USD 6.5bn. Growth rates remain below the levels of previous years, reflecting the continuing impact of the global financial crisis as well as some local issues, particularly in Central America and Eastern Europe. The regional differences highlighted in previous reports have in fact sharpened, such that the 7 MFIs in the BOLD portfolio in Central America (Mexico and Nicaragua) and Eastern Europe (Albania, Bosnia and Russia) suffered an average 15% decline in assets while the rest of the portfolio MFIs grew 24% on average.

The MFIs with the strongest asset growth in USD in the last twelve months were all in Asia and South America: Xacbank in Mongolia (50%), and Edyficar (49%) and Crear Arequipa (45%) in Peru. In portfolio terms, Xacbank again topped the list with 61% growth, followed by Crear Arequipa at 51% and Accessbank in Azerbaijan at 38%. While the markets in each of these countries are quite mature, growth rates have been relatively high as MFIs reverse the conservative lending policies that they had taken on during the global financial crisis, and respond to strong local demand.



Banex experienced the biggest decline in assets due to the extreme difficulties faced by the institution. Depositors' savings have been fully repaid or transferred to another domestic bank, and attention is now turning to winding down the portfolio and liquidating the bank. Assets will therefore continue to shrink in the coming months. The other Nicaraguan MFIs in the portfolio, Fama and FDL Nitlapan, also suffered a decline in assets during the last 12 months, though FDL's portfolio in fact grew slightly, at 2.8%, reflecting this institution's strong performance in face of an extremely difficult market environment. EKI in Bosnia continues to experience a significant shrinkage in portfolio due to the ongoing microfinance crisis in that country, and both portfolio and assets had declined by more than 30% year-on-year as of end June 2010, in line with the BiH microfinance industry as a whole.

Forus in Russia also experienced a significant contraction in assets over the year (-19% year-on-year as of June 2010). We are beginning to see an important turn-around in performance, after Forus hit its lowest point in December 2009. The MFI took significant write-downs and is now slowly rebuilding its portfolio.

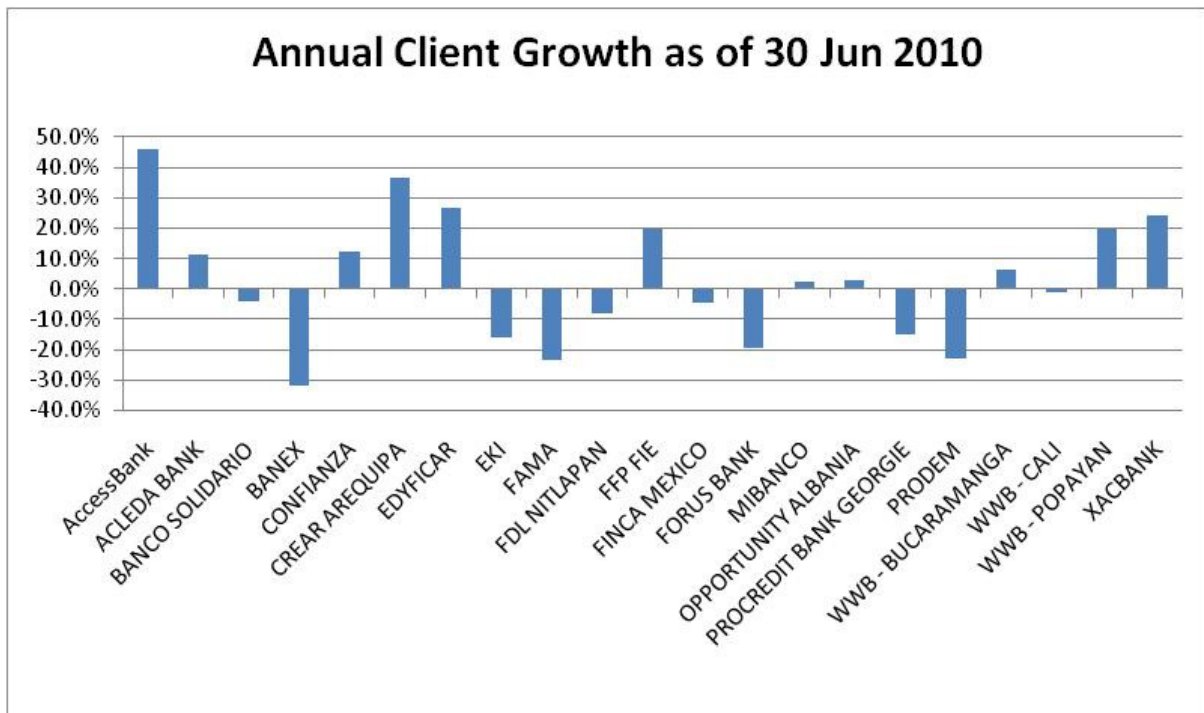
Finally, a decline in Banco Solidario's portfolio was due primarily to conservative lending practices employed during 2009 when there was a peak of uncertainty regarding the macroeconomic situation in Ecuador. Banks choose to retain liquidity in order to be able to face a potential run on deposits, though such a run thankfully did not materialize. In 2010, portfolio growth has resumed, as the macro environment has stabilized (Please see below in section 5).

(2) Client Outreach:

As of 30 June 2010, the MFIs in BOLD 1 were providing loans to over 2.6 million clients, somewhat (7%) higher than the prior year. As with asset and portfolio growth rates, however, client growth rates among portfolio MFIs vary dramatically and large regional differences are apparent: ten of the 21 MFIs in the portfolio experienced a decline in clients (most of these are located in Central America and Eastern Europe), while the average growth rate at the other eleven (overwhelmingly located in Asia and South America) was +19%.

What appears to be quite consistent across most of the MFIs in the portfolio is that client figures are growing slower than portfolio volumes, showing a trend to higher average loan sizes. In some cases this is due to more conservative lending, where MFIs focus on larger amounts to good clients that they already know (FDL, WWB Cali) while in other cases reflects a move to more small and medium enterprise (SME) lending (MiBanco, Edyficar, Acleda). Of all the MFIs, only three -- Banco Solidario in Ecuador, AccessBank Azerbaijan and WWB Bucaramanga -- showed a trend to lower average loan size.

The average loan size of MFIs in the portfolio is USD 1,983 but ranges at individual MFIs from a low of USD 264 at Finca Mexico to over USD 5,000 at Pro Credit Georgia.

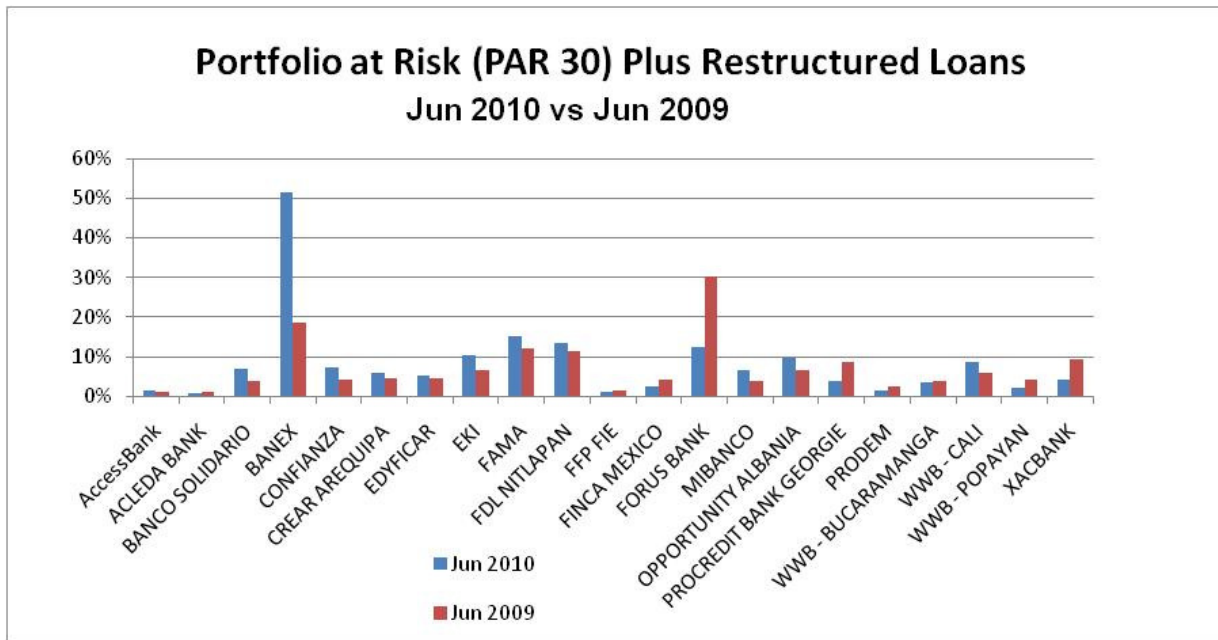


(3) Portfolio quality:

In this newsletter we continue to show a modified portfolio quality measure. This ratio is more conservative than the “PAR 30” typically used in the microfinance industry. It measures “portfolio at risk” as the sum of the loans more than 30 days delinquent (PAR 30) plus the amount of restructured and refinanced loans. We feel that this measure controls for the different restructuring policies followed by different MFIs

As of June 2010, the exposure weighted average portfolio at risk ratio for BOLD 1 MFIs was 7.7%, a full point higher than June 2009’s 6.7%. Excluding Banex, however, where more than half of the overall portfolio is now either past-due or restructured, this ratio drops to 5.2%, an improvement over June 2009’s 6.0%. Importantly, almost half of the MFIs (9 of the 21) show better portfolio at risk indicators than at this time last year.

Aside from Banex, four institutions show double digit figures for portfolio at risk: Fama and FDL in Nicaragua (15.2% and 13.5% respectively), Forus Bank (12%) and EKI (10.2%). FDL and Fama continue to face a very difficult environment, and their portfolio quality is poor though stable at approximately the same levels that it has been over the past several months. While concerning, we believe that management at both institutions is coping quite well with the crisis, and we expect them to continue to perform relatively well under these unfortunately stressful circumstances. Forus Bank’s numbers show a significant improvement from the 30%+ figures posted last year. The bank has been cleaning its portfolio (roughly 20% was written off in the past year), and its performance has been turning around slowly but steadily in the past few months. Management expects PAR30 figures to reduce significantly to approximately 3% by year-end. Last of all, EKI’s portfolio quality continues to suffer from the ongoing crisis in the Bosnian microfinance sector, though its portfolio at risk ratio has stabilized at around the 10% level for the past several months (up from only 1% in 2008). Year-on-year write-offs are another 9.5% as of June 2010. In order to mitigate further portfolio quality deterioration and limit costly provisioning expenses, EKI has proactively introduced more stringent policies and reduced its portfolio by 18% during the first half of 2010.



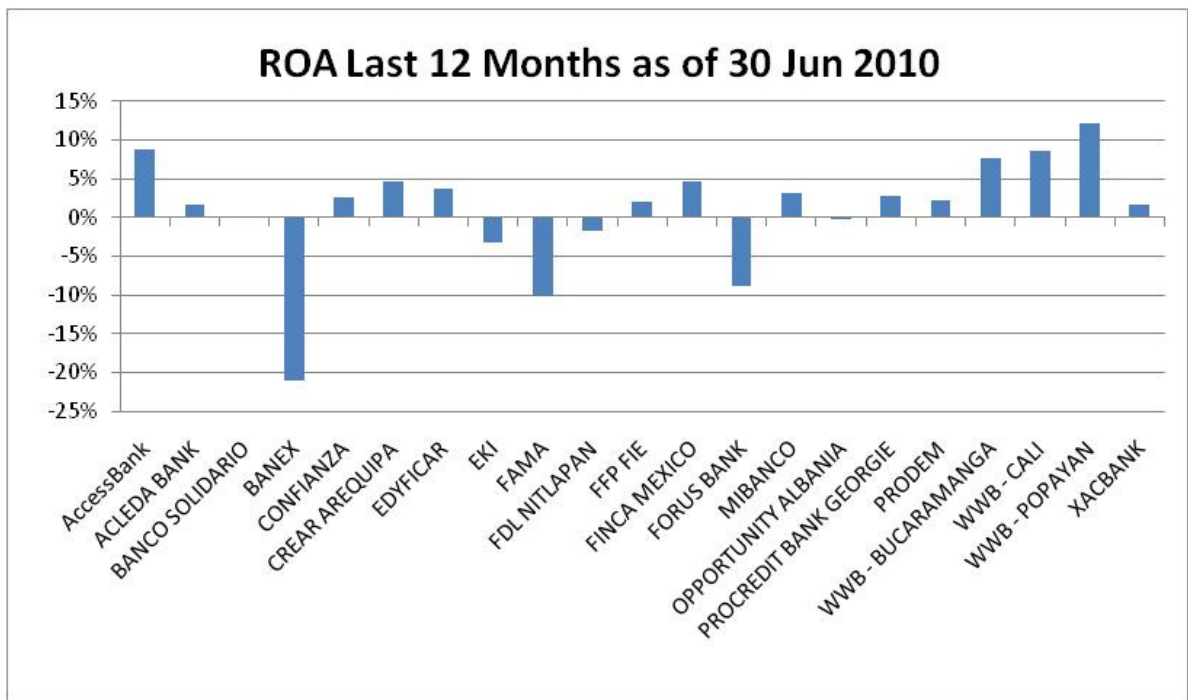
At the other end of the spectrum, five MFIs show very strong portfolio quality, with portfolio at risk of less than 2%. These are: AccessBank, ACLEDA, FIE FFP, Prodem and WWB Popayan. With the exception of WWB Popayan, which wrote off 2.8% of its portfolio in the

past 12 months, these MFIs also have very low write-offs averaging less than 1% for the year.

(4) Profitability:

The weighted average return on assets (ROA) for MFIs in the portfolio was 1.5% for the last 12 month period, in line with the figures shown in our last semester update. Excluding Banex’s -21% ROA, however, the weighted average moves up to 2.8%.

Losses were sustained by 5 MFIs in the portfolio over the past 12 month period: EKI, Fama, FDL, Forus and Opportunity Albania. While last 12 month figures are still negative for Forus and FDL, both institutions became profitable on a monthly basis again in 2010, and are net profitable for the year. FDL’s loan loss provisions do not fully cover PAR30, however, and adjusting for higher provisioning would result in slight net losses for the year.



On the positive side, four MFIs posted ROAs in excess of 5%: all three Colombian MFIs, WWB Popayan and WWB Cali and WWB Bucaramanga (12.2%, 8.6% and 7.7% respectively) and AccessBank in Azerbaijan (8.7%)

(5) Global Economic and Political Environment

The international environment remains somewhat fragile, though clearly much more supportive than during the peak of the global financial crisis in late 2008 and early 2009. Fears linger over a “double dip” recession and there continues to be concern over high deficits, and stubbornly high unemployment in many developed economies. Such concerns are mostly related to the US and Europe, however, and by and large developing countries are felt to have responded very well to the crisis. The impact of this uncertainty continues to be felt through low remittances and low exports to the developing world, however. Again, the impact of the crisis varies significantly from region to region and country to country, and we see much stronger negative effects in countries such as Russia and Nicaragua than in, for example, Peru and Colombia.

The microfinance industry currently has ample liquidity and strong MFIs can easily refinance their current liabilities and finance projected growth. Indeed, lower growth plans at many MFIs and resulting low funding needs, has led to excess liquidity in some markets and a downward trend in financing costs. MFIs with adverse trends still face challenges refinancing their debt, however.

The following are brief updates of the countries represented in the BOLD1 that have been particularly impacted by the global crisis, or which are undergoing important political and/or microfinance policy changes:

Bosnia & Herzegovina (BiH)

Political stability in Bosnia remains elusive, as talks on constitutional amendments and other reforms, which are conditions for BiH's integration with the EU, are deadlocked. The October 2010 elections showed continued voting along ethnic lines which will continue to complicate future decision making. The international High Representative, Valentin Inzko, will continue to face an uphill struggle in his attempts to revive the reforms before his post is abolished, which is expected in 2011. He will then be replaced by an EU Special Representative (EUSR), with fewer powers. Economic policy will be determined by the need to encourage economic growth following the downturn in 2009, to bring about greater fiscal stability, and to implement the stabilisation and association agreement (SAA) with the EU. The currency board will remain the cornerstone of monetary policy. After a contraction in 2009, real GDP is forecast to grow modestly in 2010.

The global economic crisis hit the Bosnian economy in late 2008 as exports dropped and remittances shrank from trading partner economies in the EU and Balkan region. Lower sales, government spending cuts and fewer remittances from abroad meant that microfinance clients started facing troubles in repaying their loans. In a few months, portfolio quality deteriorated sharply at many MFIs, and as of June 2010, all but one of the 12 MFIs reporting to the national microfinance association displayed PAR30 above 5%, with a national average of 10.5%. The economic crisis exacerbated failings in microfinance institutions' risk management. Indeed, higher arrears are a direct consequence of the aggressive growth which brought weaker credit procedures and a generalised "fight for clients" in prior years of rapid growth in the context of a very underdeveloped credit bureau system. In general, despite the scarce availability of data on client indebtedness on a national scale, it is widely believed that the majority of clients in Bosnia have multiple loans.

Higher arrears have meant significant provisioning costs which are reducing profits. As of June 2010, all Bosnian MFIs but two were reporting financial losses, due to higher provisioning expenses and lower financial income due to a decreasing loan portfolio. MFIs have had to tighten credit process both before and after disbursement.

The BiH industry as a whole has witnessed portfolio shrinkage over the course of 2009 and the first half of 2010 and the total national loan portfolio has decreased by 16% from December 2009 to June 2010. The crisis has led to a phase of consolidation where MFIs are going "back to the basics," focusing on portfolio quality and client needs, and strengthening internal control and collection tracking.

On the positive side, MFIs' analyses have been strengthened due to obligatory reporting requirements to the National Credit Bureau since June 2009, allowing them to better assess their clients' credit quality and qualify guarantors' information before new loans are disbursed. This is important but not flawless, since there can be a time lag in accessing up-to-date information on clients. Also, some MFIs are now actively working to reduce over indebtedness thanks to better information-sharing and the use of the credit bureau and some

of them are cooperating to support their common clients in arrears. In the future, the sound application of client protection principles should help support a healthier market in Bosnia and Herzegovina. Consolidation is also expected to be one of the results of the poor FY 2009 performance; however process of mergers seems slower than expected and it is unlikely that any merger or acquisition happen before the end of 2010.

Ecuador

Concerns last year that dollarization could be in jeopardy in Ecuador have eased considerably. In early 2009 Ecuador faced growing fiscal and commercial deficits due primarily to the dramatic drop in oil prices and compounded by the significant loss of remittances, and reduction in exports. Given the current level of Ecuador's crude oil (ranging from 65-75 USD per barrel this year) and with financing needs secured through the end of 2011, however, the near-term threat on dollarization has abated.

Ecuador's economy nevertheless continues to be highly dependent on oil prices. As reported in previous updates, this dependency has been exacerbated by the high level of current government spending, which is significantly higher than the previous governments. This spending will likely be the engine for Ecuador's economic growth which most sources project to reach about 2%. EIU is projecting 2.3% GDP growth in 2010 and 2011.

The microfinance industry in Ecuador is quite robust and our main concern has not been with MFI specific issues but rather the macroeconomic conditions in Ecuador which in an extreme case could threaten the dollarization regime. It would seem however that in the short term de-dollarization is not likely, absent an unexpected major drop in oil prices.

A recent apparent (unsuccessful) coup attempt against President Rafael Correa was a reminder of the very unstable political environment in Ecuador, where three presidents have been overthrown since 1996.

Nicaragua:

There are signs that the Nicaraguan economy is recovering from the 2009 recession, when real GDP contracted 1.5%. In spite of 3% growth in the first quarter of 2010 year on year,, an increasingly politicized policy environment and the gradual reduction of bilateral support will continue to adversely impact exports and investment. The official cordoba exchange rate versus the USD is still adjusted daily according to a crawling peg: There is 5% nominal depreciation per year, aiming to control prices and maintain external competitiveness.

The microfinance market in Nicaragua continues to face a challenging environment: As reported in previous reports, rapid growth of the sector in past years led to over-indebtedness on the part of borrowers who were then vulnerable to the deterioration of the macroeconomic situation, especially in the highly exposed cattle sector. The "no pay" movement, seeking to restructure or not to repay MFI debts, remains an important negative influence in the sector. Under pressure from this group, a moratorium law was approved in February 2010, though it has shown very limited results, as very few clients approached MFI to restructure their debts since they were expecting more favorable terms. The prospect for a rapid solution is not clear, as presidential elections in 2011 make the government less likely to risk alienating borrowers by pressuring them to pay their debts. The association of microfinance institutions presented the government with a plan to sell loans affected by the "no pay" movement. This is very unlikely to occur since such decision would be against agreements signed with the International Monetary Fund (IMF) under the Extended Credit Facility.

(6) MFI Updates

Banex (formerly Findesa)

As reported previously, Banex is in a distressed state due to factors including the weak Nicaraguan economy, the “no pay” movement in the country and the poor quality of many loans extended by the bank. Despite a recapitalization completed in December 2009 and January 2010 and significant changes at management and board levels, the deterioration at the bank continued. On August 6, 2010, Banex was placed into liquidation. Banex fully repaid depositors and the liquidation process is expected to last at least one year. As noteholders have been informed, the Banex loan in the BOLD 1 portfolio has been declared in default and has been accelerated, making all principal and interest immediately due and payable.

Is it very difficult to predict the recovery value of the BOLD 1 loan to Banex due to uncertainty over the true quality of the MFIs’ assets, the ability to collect on outstanding loans now that the bank is in liquidation and the cost of the liquidation process itself which historically in Nicaragua has consumed much of the amount recovered in a liquidation.

EKI

EKI continues to face the challenges of a very difficult environment in the Bosnian microfinance sector: PAR30 which historically was below 1.0% rose to 8.4% as of December 2009, up to 9.6% in June 2010; write-offs in the first six months of 2010 reached 6%. Unlike some of its competitors, EKI has not restructured or refinanced many loans to its clients, and restructured/ refinanced loans equal less than 1%. In order to mitigate further portfolio quality deterioration and limit costly provisioning expenses, EKI has proactively introduced more stringent policies and reduced its portfolio by 18% during the first half of 2010.

As the first Bosnian MFI to have created a proper risk management department, EKI remains conservative in provisioning. The loan loss reserve provides a strong 90% coverage of PAR30 and restructured loans. While maintaining a low operating expenses ratio and decreasing its financial expenses, EKI returned to profitability in May 2010 and has had 4 consecutive positive months through the last reported figures at the end of August. Year-to-date results are still negative however, and the 2010 outlook for EKI’s profitability remains fragile.

FAMA

During its transformation to a financiera in 2007, Fama, now one of the 3 regulated MFIs in Nicaragua, focused on issues related to the transition at the expense of growth. 2008 and 2009 were supposed to be years of renewed strong growth. However the systemic crisis in Nicaragua (economic recession, political instability, over indebtedness, no pay movement and moratorium law) didn’t allow Fama to expand as planned and also to start capturing deposits as it is allowed as Financiera. On the contrary, Fama’s portfolio decreased by 24%, and as of June 2010 decreased an additional 15% from December 2009 levels. However, the pace of portfolio contraction has eased, especially in the last two months.

Portfolio quality has been severely affected by the crisis and margins have eroded. PAR 30 continues to be high at 14.6% as of June 2010, (17.1% in December 2009) whilst ROA fell to -10.5%. Unlike the rest of the microfinance industry in Nicaragua Fama does not have a significant restructured portfolio (0.1% at June 2010). It wrote off 6.8% of the portfolio in 2009 and 6.5% year-to-date through June 2010).

Fama is currently operating in a very difficult environment and management expects that 2010 will continue to be a difficult year. Despite the difficulties, we believe Fama can survive this crisis. It has a competent management team and the MFI has important technical support from one of its shareholders, Accion.

FDL

FDL continues to face the challenge of a national recession and the threat of the no pay movement like all MFIs in Nicaragua. Portfolio at risk (PAR30 + restructured loans) has been in the 10-15% range for most of 2009 and 2010, compared to 3.5% in December 2008 before the current problems began. FDL's portfolio quality is still well above the Nicaraguan average, however, even compared with the regulated MFIs. Leverage remains higher than the 5x internally imposed limit at 6.2x (5.9x considering sub-debt), but there are positive signs, as FDL is now generating positive net income for the year (though its provisioning level is below 100% of PAR30) and it is in negotiations to receive new subordinated debt which would further strengthen its Tier II capital.

With its strong management we believe that FDL has better resources to cope with the current crisis than most MFIs in Nicaragua. Given the uncertainties in market conditions, however, close monitoring should continue, especially in the conditions of their new loans and recoveries in the refinanced portfolio.

Forus Bank

As previously reported, Opportunity International decided last year to sell its ownership in Forus Bank as part of a broader divestment strategy in Eastern Europe. The new owner is CEE Microfinance, formed by Development Financial Equity Partners AG ("DFE") and Creation Investments Capital Managements LLC ("Creation") CEE Microfinance is also buying Opportunity's microfinance operations in Albania, Opportunity Albania. Due to the Central Bank of Russia's requirement that a purchasing entity have at least three years profitable financial statements, Opportunity Albania will in fact be the official buyer of Forus bank, following its purchase by CEE Microfinance. Funds were transferred for these transactions in July 2010, and completing the purchase of 85% of shares in Forus Bank and it is expected to complete the transfer of the remaining 15% of shares to OA by the end of September.

In addition, CEE Microfinance has taken title to subordinated debt of Forus Bank from Opportunity International, and plans to provide additional amounts of subdebt to the bank which will be converted to share capital in 2011 as legal and regulatory requirements allow. Forus bank will thereby significantly strengthen its Tier 1 capital base over the coming year. The change of ownership and the forthcoming additional financial support to the bank are positive signals for the future of Forus Bank and its capacity to meet its debt obligations.

On the operating side, bank performance is recovering from 2008 and 2009's poor results. After several consecutive quarters of losses, Forus bank is currently running a positive net profit for the year 2010. Portfolio quality has also improved significantly, with PAR30 brought down to 4% by July 2010, restructured loans to 6%, and year-to-date write-offs of 10.4%. The Bank continues to increase the motivation and skills of its sales and collection teams, simplify procedures, reduce administrative costs and build-up risk management. Management expects to end the year above budget and with PAR30 around 3%.

(7) Looking Ahead

The challenging environment for many MFIs in 2009 appears to be improving in most regions, with growth and profitability gradually resuming. As the BOLD1 transaction draws to a close in the coming quarters, we expect stable performance by the vast majority of the portfolio MFIs. An obvious exception to this is Banex, where deterioration in the MFI's portfolio and performance reached too great a level to be contained or reversed, and the institution has been forced to shut down, with disastrous consequences for its lenders, clients, employees and shareholders. Recovery on this loan is not expected to be sizeable or timely, though we will continue to keep investors aware of developments on the liquidation. We also remain available to answer any questions you may have on other portfolio MFIs, and the countries within which they operate.

Sincerely yours,

The BlueOrchard Team

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