

Managing Commercial Investments in Microfinance with Sustainable Results

Annual Review 2008



BlueOrchard[®]
Microfinance Investment Managers

BlueOrchard's Mission

BlueOrchard is a leading commercial microfinance intermediary, providing loans to microfinance institutions through BlueOrchard Finance S.A. since 2001 and investing in the equity of microfinance institutions and microfinance network funds through BlueOrchard Investments Sàrl since 2007.

Our mission

BlueOrchard's mission is to empower the poor world-wide and improve their quality of life by promoting income-generating activities through private investments in microfinance.

Our win-win philosophy...

We are convinced that microfinance investments can simultaneously produce social progress and financial returns. This is what makes microfinance a powerful tool to sustain economic development and alleviate poverty; as well as an attractive asset class, worthy of inclusion in any diversified investment portfolio strategy.

... and our win-win approach

We provide innovative financial instruments and solutions for placements in microfinance, bridging the gap between capital markets and microfinance institutions. We generate profitable returns on investments while supporting the development of millions of promising small enterprises.

We believe in creating value through solid long-term relationships by providing debt and equity to microfinance institutions in all stages of their development. We share their mission to provide financial services to those who have few resources and are excluded from mainstream financial services. We regard our cooperation with them as the primary means to support economic and social integration worldwide.

Our values

- We attach a high importance to our capacity to innovate.
- We treasure our integrity and consistency.
- We believe in establishing trust through transparency.
- We work with zeal and enthusiasm.

Baking and selling bread in Tajikistan

Zohir Sattorov (51), lives in Dushanbe, Tajikistan. He is married and has four girls and two boys who are between 15 and 26 years old. Zohir, his wife and three of his daughters work together to make the flat round breads called "non" that they sell from their street stall. Zohir trained and worked as a baker all his life, and in 2007, he decided to set up his own shop. He took a first loan of USD 2,000 equivalent with First MicroFinance Bank of Tajikistan (FMFBT) to buy flour. He built a bread oven in a rented space and started baking and selling his bread. In 2008, he took another credit of USD 4,000, after having repaid his first one with interests, again to buy flour. He built a second bread oven and hired two bakers. He now oversees the selling in the street with his wife. Thanks to his high productivity, he sells to other bread vendors in the neighboring areas. His loans have helped him increase his activity and his profits considerably, and he was able to employ his wife and his daughters and two more persons.



The First MicroFinance Bank of Tajikistan (FMFBT) was registered in August 2003 as a Closed Joint Stock Company and is licensed and supervised by the National Bank of Tajikistan (NBT). From 2007, the Bank took over the microfinance activities of different microfinance programs managed by the Aga Khan Foundation. Thanks to the strong growth experienced over the last two years, as of June 2008 the institution provides credit to 20,170 active clients and presents a gross portfolio worth around USD 30 million. At the same time, the Bank has managed to attract loans from several international investors, which now represent the main source of funding.

Message from the Chairman of the Board

This is the moment when we must build on the wealth that open markets have created, and share its benefits more equitably. Trade has been a cornerstone of our growth and global development. But we will not be able to sustain this growth if it favors the few, and not the many.

Barack Obama, Senator and Presidential Candidate, USA, July 2008.



2008: Growth with quality

The year 2008 can be characterised as successful: our assets under management grew by nearly 30%

which allowed us to realise a diversified expansion strategy. In 2008, we completed 131 loan arrangements and 8 private equity investments with microfinance institutions (MFIs) in over 40 countries. Most importantly, our partner MFIs reached out to **almost 9 million micro-entrepreneurs**, a majority of them women. Once again, all loans were repaid by our debtors, without any default. Our positive achievements and progress are rooted in the ever-growing professionalism, efficiency and transparency of our partner MFIs, as well as in the quality of the work performed by BlueOrchard itself. **Thorough and transparent reporting to investors** based on in-depth continuous monitoring of the financial, managerial and social performances of our partner MFIs convinced many institutional and individual investors to look seriously at the opportunities in microfinance markets.

BlueOrchard Finance is a 50% shareholder in BlueOrchard Investments which manages the **BlueOrchard Private Equity Fund** launched at the end of 2007. This fund of USD 131 million (at 31 December 2008) rapidly built up an outstanding portfolio of direct investments in first-rate MFIs and specialised regional funds. Under the leadership of Jean-Philippe de Schrevel, a competent team of specialists analysed and negotiated very promising investments. BlueOrchard is therefore well positioned to play an active role in the **process of consolidation** of the microfinance sector.

2008 was a year of growth with quality. As an important sign of recognition, BlueOrchard received the Sustainable Deal of the Year Award for the BlueOrchard Loans for Development (BOLD) 2007, our renowned structured microfinance investment

vehicle, from the Financial Times and the International Finance Corporation.

In August 2008, we implemented a well-prepared hand-over in the **Chief Executive Officer** position of BlueOrchard Finance: Jean-Pierre Klumpp followed Jack Lowe, who continues to work for BlueOrchard as President of BlueOrchard Finance USA and as project leader for financial advisory services. Jack Lowe was a driving force for the successful development of our company from 2004 to 2008, and he set BlueOrchard Finance onto a solid basis. Very quickly, Jean-Pierre Klumpp demonstrated his ability and commitment to lead the team into the future. In autumn 2008, Geert Roosen was hired as the **new Chief Financial Officer** to further strengthen the capacities of BlueOrchard to analyse the market, to render accounts on its operations and to efficiently plan ahead. **Our team** has expanded to include 35 persons based in Geneva, New York and Lima by the end of 2008, in view of our **high ambition for growth and professional excellence.**

The challenge ahead

Although the **global financial and economic crisis** had a moderate immediate impact on the micro-finance market so far, BlueOrchard kept a careful watch on its potential indirect effects (e.g. decline in the local demand for microfinance services, increasing inflation and currency fluctuations). The micro-finance industry as a whole continued to grow albeit at a slightly slower rate. Microfinance demonstrated its stability rooted in the production of essential goods and services at a community level. Creditors and lenders showed their great flexibility and their outstanding capacity to adapt to a changing context.

But the core challenge remains: We have to further develop our **professional structures and processes**, our methodologies and reporting systems, our risk management and our capacity to develop innovative answers for the markets.

Our mission continues

More than ever, we remain convinced that supporting the development of micro-businesses is a **key strategy for alleviating poverty through market forces**. BlueOrchard wants to be a dynamic driver for sustainable, qualitative growth, innovation and discipline. The present global crisis shows the importance of striving for economic and social justice and progress for the majority of the global population. The world is calling for **inclusive and fair financial markets** as a core contribution to responsible capitalism. Leaders in microfinance like BlueOrchard provide a convincing answer to this appeal by reaching out to communities at the bottom of the pyramid. This is our mission and we will continue to pursue it with professionalism and passion.

I would like to thank all members of the management team for their dedication and commitment to our mission, and great appreciation to all of our stakeholders, investors and clients, for their cooperation and partnership.

Thank you for supporting our efforts.



Ernst A. Brugger, Chairman of the Board

Growing mushrooms in Bosnia and Herzegovina

Habiba Ehlic is 62 years old and resides in a village near Sarajevo in Bosnia and Herzegovina. She is a widow and lives with her two adult sons in their family home. Before 1992, Habiba had a bakery, which was partly destroyed and completely looted during the war while the Ehlic family was on the run. The family didn't have the means to buy new machinery for the bakery so Habiba decided to start cultivating mushrooms in her house, with some help and advice from her sons. She buys compost and seeds for button and oyster mushrooms and then creates the right temperature, humidity and light conditions to grow her crop. The revenues from her little business carried the family through while her sons were looking for work during the first years that followed the war. Since 2004, Habiba took out seven loans with Prizma, primarily to buy compost and seeds. She also used the funds to purchase a vehicle to make the deliveries to the Sarajevo market vendors. She borrowed between Bosnia-Herzegovina Marks (BAM) 1,000 to 4,500 with each loan (about EUR 500 to 2,300 or USD 680 to 3,000), which she always repaid on time, with interests.



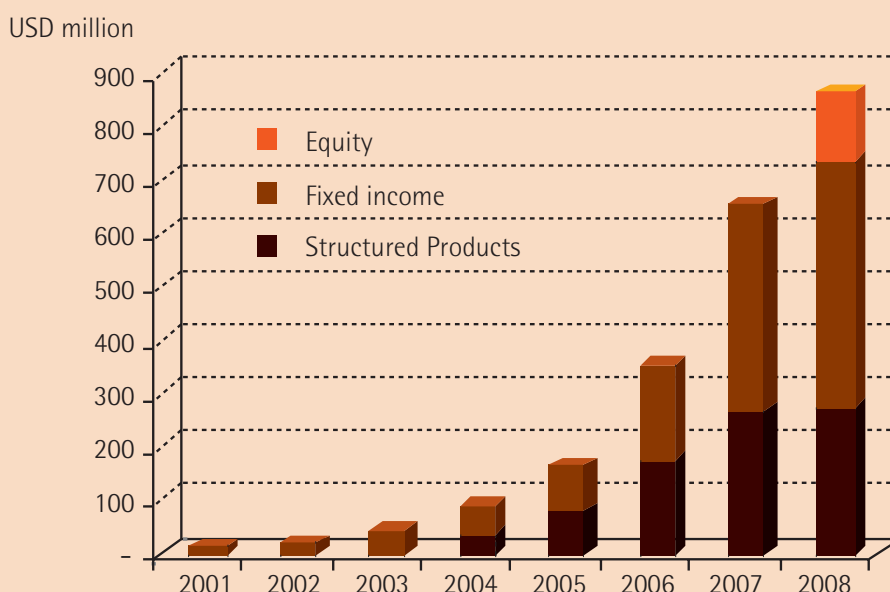
Prizma is an independent microfinance institution (MFI) assisting poor women and their families by providing long-term access to quality financial services. In addition to its headquarter located in Sarajevo, Prizma's 200 staff work from the MFI's six regional centres and more than 43 branches. Prizma serves over 60,000 clients in more than 100 low-income municipalities across the entire territory of Bosnia and Herzegovina. As one of the leading MFIs in Bosnia and Herzegovina, Prizma has so far allocated 165,000 loans for a total amount of BAM 240 million (about EUR 123 million or USD 163 million). Prizma has been a client of BlueOrchard since 2005 and has received four loans from the Dexia Micro-Credit Fund for a total amount of EUR 3.5 million (or USD 4.6 million).

2008 at a Glance

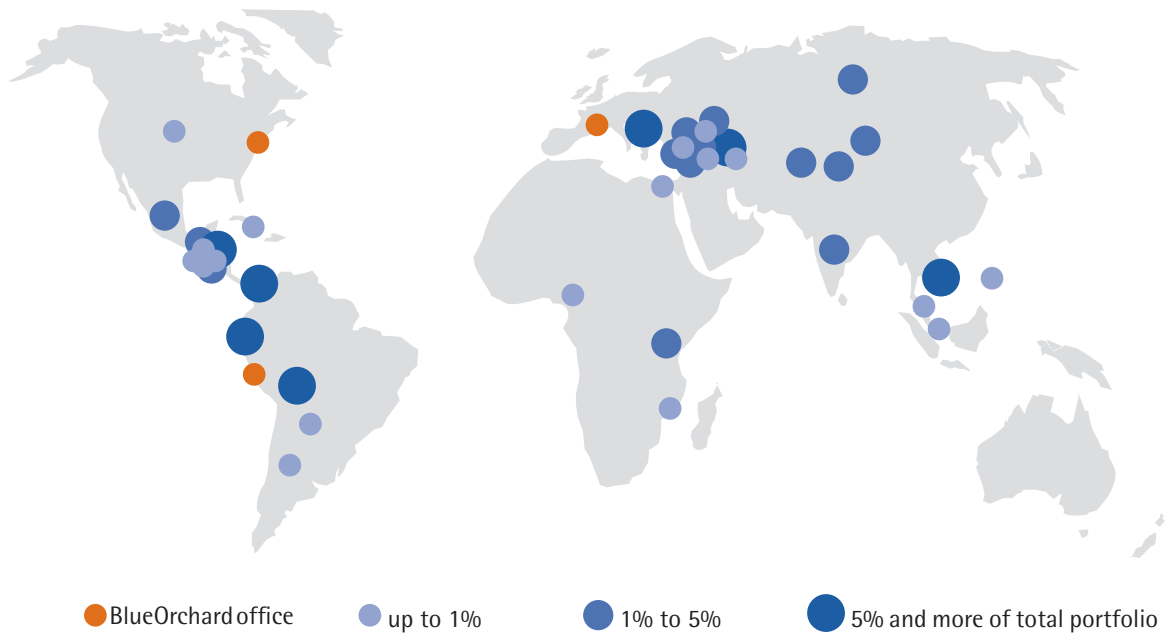
Accomplishments in 2008

- The new BlueOrchard's Private Equity Fund was able to raise USD 131.1 million in 2008 and began investing in top-level microfinance institutions and network funds, as well as taking an active part in their governance.
- New initiatives launched by BlueOrchard Finance S.A. included the setting up of the BlueOrchard Microfinance Investment Fund for US Investors (feeder for the Dexia Micro-Credit Fund), the development of the SEEDS fund for young, promising microfinance institutions and the offer of Financial Advisory Services.
- The financial and economical crisis has slowed but not halted growth of microfinance industry as a whole – BlueOrchard's partner microfinance institutions (MFIs) showed an average total asset growth of 45% in 2008; BlueOrchard's assets under management grew 28%.
- The performance of the microfinance investment vehicles managed by BlueOrchard reached the objectives set and more, at between 4 to over 8% depending on the product and share class.
- BlueOrchard received the "Sustainable Deal of the Year" award from the Financial Times and the International Finance Corporation for its ground-breaking structured microfinance investment vehicle "BOLD 2" (closed in 2007). However, as the financial crisis struck, it proved impossible to close another securitisation in 2008, as had been planned.
- A number of initiatives were launched industry-wide to develop tools for the social performance and impact evaluation of microfinance activities. BlueOrchard contributed to these projects and also remodelled its own due diligence process in order to better capture the social performance of partner MFIs.
- 2008 also saw many new initiatives towards the secure provision of local currency loans for MFIs, although these initiatives will take time to be implemented. Meanwhile, BlueOrchard further increased its capacity to provide local currency loans with a new hedging partner thus expanding the number of currencies it can operate in.

BlueOrchard's microfinance investment vehicles – Total assets under management



Geographical distribution of loans and BlueOrchard's presence



Creation and production of t-shirts and bags with Colombian designs

Amanda Guarin, 54, lives in Cali, Colombia. 16 years ago, she set up her own business creating and producing t-shirts and carry-on bags: Amanda buys white t-shirts made of Colombian cotton and designs the prints drawing from her country's rich folkloric imagery. She employs more than 20 housewives and was awarded the Avon prize for her social enterprise. She has gained recognition by Cali's chamber of commerce and by WWB Colombia, and has presented her production at fairs and exhibits. Amanda has taken out more than a dozen small, short-term loans with WWB Colombia since 1999 to run, develop and promote her small business, and has faithfully repaid them with interest. "With the support of WWB Colombia, I now have a better financial stability, a greater production capacity, more clients and a higher recognition for my work," says Amanda Guarin.



The Foundation Women's World Banking Colombia de Cali (WWB), an affiliate of the Women's World Banking network, is a non-profit organization headquartered in the city of Santiago de Cali and governed by private law. The principal activity of the foundation, which has been in operation since June 1982, is to lend to micro and small businesses. It also offers basic economic training to women. As of March 2009, WWB Cali serves almost 200,000 micro-entrepreneurs who otherwise have little or no access to capital. They work in trading (65%), services (30%) and manufacture (5%). While adhering to its vision of providing financial services, WWB Cali also distributes a portion of its net income in the communities where it operates, supporting hospitals and schools. WWB has been a client of BlueOrchard since 2002 and has received four loans from the Dexia Micro-Credit Fund, one from BOMS 1 and one from BOLD 1 for a total amount equivalent to USD 17.5 million (ca. EUR 13 million).

BlueOrchard Finance S.A.'s – Results for 2008 and Future Goals



Overview

2008 was another positive year for BlueOrchard: our activities continued to grow; we further strengthened our capacities and competences; and we performed well as a whole, even with the onset of the financial and economic crisis in the fall of 2008. On this sound basis, and having successfully faced the pressures of market fluctuations and instabilities, we feel well equipped to take on the challenges ahead.

The microfinance market

During the first half of 2008 most microfinance institutions (MFIs) continued to show strong growth figures, consistent with the previous years. But in the last quarter, considering the world market turmoil, they reduced their pace and adjusted their projections, in anticipation of a more difficult environment. Indeed, they had to cope with a sharp decrease in refinancing funds from commercial and other sources, strong fluctuations in the currency exchange markets and other extraneous factors that put their operations under pressure. As can be noted from their consistent performances, the majority of BlueOrchard's partner MFIs were remarkably resourceful at implementing measures to safeguard the quality of their credit portfolio.

Considering the magnitude of the crisis, 2009 will most likely continue to test the MFIs' resilience and their capacity to improve their efficiency. The steps they have already taken towards the diversification of their funding, tighter credit management and the streamlining of their processes and operations bode well for their ability to successfully steer their institutions through this uncertain period. Moreover, the crisis might have a favourable influence on such unwholesome developments as the over-indebtedness of end-borrowers and the mission drift of some MFIs towards more consumption lending and other strongly profit-oriented activities that were largely induced by the exponential growth in recent years.

BlueOrchard products

Overall, the debt funds managed by BlueOrchard Finance performed well in 2008. This resulted from a favourable evolution of the interest rates which allowed for good margins without burdening MFIs; as well as from the high quality of the respective MFI portfolios.

The net asset value of the Dexia Micro-Credit Fund grew from USD 294.5 million at the end of 2007 to USD 385.9 million at the end of 2008. Despite the crisis, all but a few investors maintained their positions in the fund, thus demonstrating their long term commitment to a socially responsible investment scheme. This was also rewarded by a positive financial performance for the year of between 4.14% and 5.67% depending on the share class. On 1st October 2008, the Dexia Micro-Credit Fund celebrated its 10th anniversary in presence of eminent guests from the microfinance industry and of its supporters.

As at 31 December 2008, the Saint-Honoré Micro-credit Fund's EUR 12.10 million were invested to nearly 70%. During the second half of the year a range of measures were taken to enhance its performance and attractiveness, particularly by improving the composition of its portfolio.

The BBVA microfinance fund for Latin America, amounting to EUR 27.7 million at the end of 2008 was invested to 62%, with part of the portfolio disbursed in local currency. At the end of the year, the fund received a significant investment inflow which was a very positive development.

The existing collateralised debt obligations, BOMS 1, BOLD 1 (2006) and BOLD 2 (2007) operated normally with no late payments or defaults. During the course of the year, we worked on a BOLD 2008 transaction and were ready to launch it in September. For obvious market-related reasons this transaction had to be postponed to more favourable times.

Throughout the year, our colleagues in New York worked hard to register the new BlueOrchard Microfinance Fund for US Investors, so as to enable investors in the USA to come on board more easily.

The fund, which will feed into the Dexia Micro-Credit Fund, was successfully launched beginning of February 2009.

In mid-2008, we launched a project aimed at creating a new fund called "SEEDS" which will refinance smaller but promising MFIs. Part of the funding from this new vehicle will be disbursed in local currency. We are excited about the prospect of extending our reach in existing and new markets, and anticipate a launch of the SEEDS fund toward mid-2009, thanks to the support of investors who are willing to commit to a deeper social involvement.

Also in mid-2008, we initiated a "Financial Advisory Services" out of our New York office, with the intention of providing services and advice to selected MFIs. The services on offer range from raising capital from investors globally to providing advice on financial transactions and issues, such as advice on asset/liability management; structuring and valuation advice on an acquisition or merger transaction; or assistance with portfolio restructuring.

We welcomed three new colleagues with adequate professional backgrounds to head these new initiatives and our organizational structure was amended in order to accommodate for these additional business lines.

Our company

After several years of fantastic growth, we decided in early 2008 to further strengthen our set up and professional capacities in order to continue to deliver high quality solutions to our partner MFIs as well as to microfinance investors and to maintain our ability to further innovate in microfinance investing. BlueOrchard Finance's staff increased from 17.6 to 26.9 (full time equivalent) and we are pleased to have attracted many new talents on board, all highly-skilled and experienced and all sharing the same passion for our mission. We also added working space and improved our infrastructures, namely our information technology services, to create suitable working conditions for our staff.

Perspectives

2009 promises to be a year of many challenges and opportunities. We are convinced that the microfinance industry overall is well-prepared to face the difficulties that will arise with its own resources and capabilities and with the support it will continue to receive from different quarters. Its further expansion is key to a fairer and more inclusive global development.

The financial and economic crisis will drive the changes in the way investments will deploy in the future. Sustainability and social responsibility are fundamental criteria that are gaining momentum among investors and investment managers. Already at the end of 2008 we saw an increased interest from investor groups for microfinance investing. We anticipate this trend to continue in 2009.

Our company is well positioned and fully equipped to continue to play a leading role in microfinance investing. We will continue to strive to achieve both an attractive financial return for all stakeholders and a demonstrable social impact. We are excited about the opportunity we have to contribute to the development of a fairer world. We are greatly motivated to contribute some constructive answers to the questions that the current crisis raises about alternative ways to go forward and to build healthier economies.

I extend my warm gratitude to all our partners for their continued support and contribution in 2008.



Jean-Pierre Klumpp, CEO, BlueOrchard Finance S.A.
Geneva, May 2009

Microfinance Vehicles Managed by BlueOrchard Finance S.A. – Profiles and Performances ¹

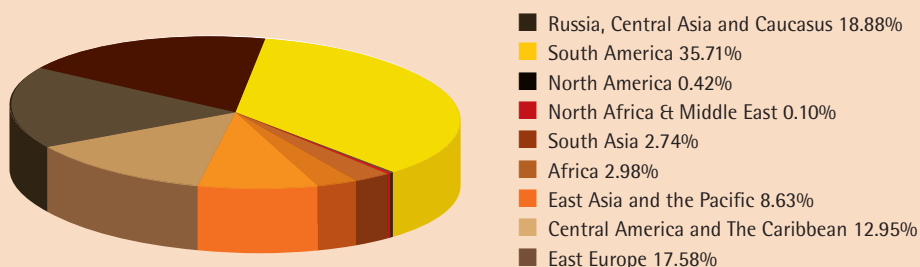
Year-end snapshot

In USD million	2007	2008	% Change
Assets under management (AUM)	680.3	738.8	9%
Microfinance portfolio	579.9	672.8	16%
Average loan size to micro finance institutions (MFIs)	2.3	2.2	4%
Average loan size of new loans disbursed to MFIs by year	-	1.5	-
Net revenues (in CHF thousands)	7'360	9'514	29%

Profiles and key performance indicators ²

MIV currency	DMCF USD	SHMFF EUR	respA ³ USD	BBVA EUR	BOMS1 USD	BOLD1&2 USD	TOTAL [USD Eq]
Net asset value (NAV)	385.9	12.10	5.98	27.70	74.0	203.4	738.8
Microfinance portfolio	352.9	8.32	5.98	17.10	74.0	203.4	672.8
%							
% of the NAV invested in microfinance	91%	69%	n.a.	62%	100%	100%	91%
Annual return to investors	USD	5.31%	n.a.		6.59%	8.68%	
	EUR	5.67%	3.85%	n.a.	4.93%		
	CHF	4.14%	n.a.				

Geographical distribution of total portfolio



1) Unaudited figures for the year ending on 31 December 2008.

2) DMCF: Dexia Micro-Credit Fund; SHMFF: Saint-Honoré Microfinance Fund; respA: responsAbility Global Microfinance Fund; BBVA: BBVA Codespa Microfinance Fund; BOMS 1: BlueOrchard Microfinance Securities (2004–2005); BOLD 1 & BOLD 2: BlueOrchard Loans for Development 2006 and 2007.

3) respA: values under NAV and Microfinance portfolio are only the amounts managed by BlueOrchard, not total NAV/MF portfolio of fund.

Profile and Performance of the BlueOrchard Private Equity Fund ¹

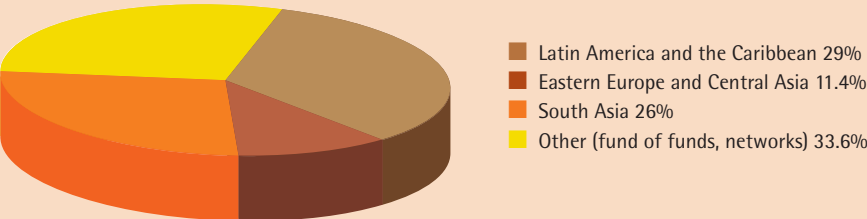
Year-end snapshot and forecast

Committed Capital as of 31 December 2008	USD 131.1 million
Total Net Asset Value in USD million	USD 23 million
Microfinance portfolio (invested) in USD million	USD 22 million
Number of investments made	8
Of which outstanding microfinance "fund of funds" investments in USD million	USD 7.4 million
Projected commitments during 2009	USD 70 million

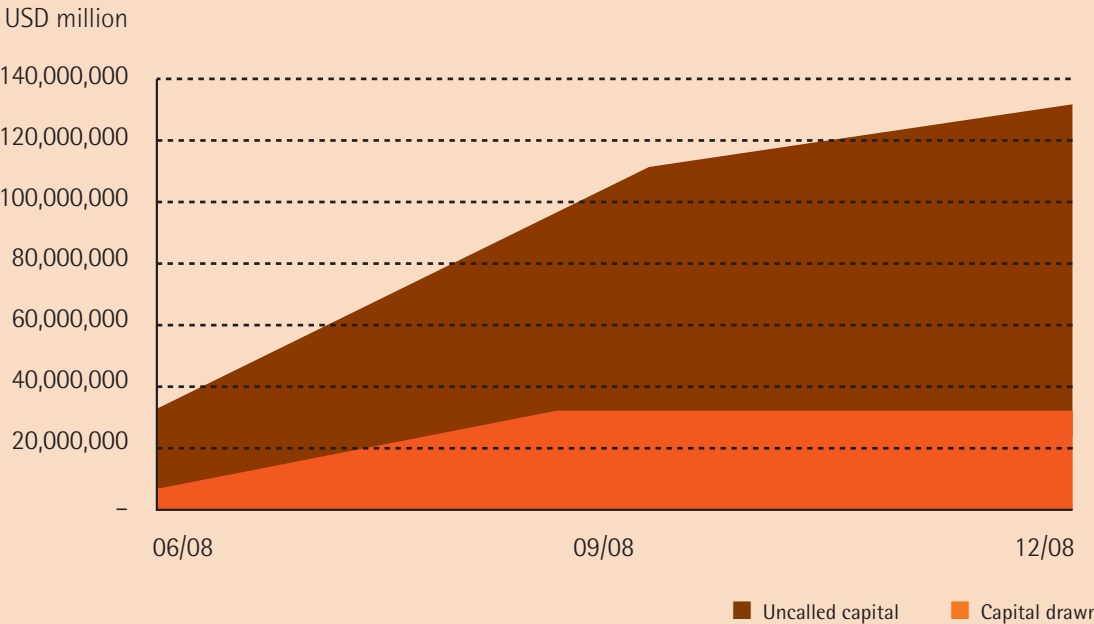
Key performance indicators

Value per share	USD 1,017.82
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Geographic distribution of outstanding microfinance assets



Fund growth since inception



1) Unaudited figures for the year ending on 31 December 2008.

BlueOrchard Investments Sàrl – Achievements in 2008 and Ambitions for the Future



BlueOrchard launched its Private Equity Fund at the end of 2007 in recognition of an important need for additional capital injections in the microfinance industry. We felt confident that the

timing was appropriate for BlueOrchard to embark on activities in the private equity sector, as we could build on a successful track record in the fixed-income field, a widely recognized in-depth analytical expertise and an established global network of partnerships with leading microfinance institutions.

As of 31 December 2008, total assets of the Fund reached USD 131.1 million, of which 80% from European and US institutional investors and 20% from individual investors. The fund is a 10-year limited partnership registered in Luxembourg, managed by BlueOrchard Capital (Luxembourg) and advised by BlueOrchard investments (Switzerland), two new companies operating separately from BlueOrchard Finance, with their own specialized staff and independent investment decision processes.

The BlueOrchard Private Equity fund has a global geographic scope and a diversified investment strategy. The main focus is to work with leading regulated, fast growing microfinance banks through direct participations in their capital or through the creation of regional holding companies, in order to facilitate acquisitions and cross-border expansion. Thus, we contribute to the consolidation of the sector and to capturing economies of scale. Other investments further diversify the portfolio: a few investments in mid-size and start-up microfinance companies with high growth potential; and some activities in fund of funds to solidify links with international networks and to generate joint investment opportunities.

Throughout 2008, and to this date, our activities are unfolding as planned, with a presence already established in all continents, two regional holdings formed with good acquisition prospects, two major direct investments made, four investments in other funds of varying scopes and geographic coverage, and two start-up companies identified and under due diligence. After only one year of operations,

USD 22 million have already been disbursed, USD 40 million formally committed and USD 63 million earmarked for follow-on investments over the next 3 to 5 years.

Such a fast deployment owes a lot to the creation of a strong cohesive team of seven high calibre dynamic professionals dedicated to microfinance and a solid Board of Directors and group of advisers. The team combines a carefully crafted mix of professional experience in private equity, investment banking, consulting and microfinance, leveraged by cultivated entrepreneurial spirit and diversified emerging market exposure and language abilities. The team is actively engaged at board level in every partner institution, inspiring and implementing strategic development, adding to global portfolio know-how and industry vision.

The whole private equity team at BlueOrchard is essentially motivated by the pleasure of partnering with fine groups of microfinance managers and directors who understand microfinance's mission and practice it daily: to achieve sustainable and profitable growth for the ultimate benefit of low income communities. Our team also feels the excitement and responsibility of contributing to forge the future landscape of microfinance alongside like-minded co-investors.

2008 has been such a successful year and response in the market has been so positive that we have decided to keep the BlueOrchard Private Equity Fund open and to continue fundraising in 2009. We are keen to welcome new limited partners who would share our enthusiasm for microfinance: an excellent financial investment opportunity and an efficient approach to wealth creation for the poorest segments of the world population.

A handwritten signature in black ink, appearing to read 'J. Schrevel', written in a cursive style.

Jean-Philippe de Schrevel, CEO,
BlueOrchard Investments, Geneva, May 2009

Social Performance – the Benefits of BlueOrchard's Microfinance Activities for People and Communities

"Institutional development has a key role to play towards the goal of widening the stakeholder base of society and building the participants of the local economy through various channels; ensuring capital flow and distribution throughout society; bringing access to education and health care, stimulating entrepreneurship and developing the enterprise base for employment generation. In addressing poverty alleviation microfinance plays a key and complementary role in building a sustainable infrastructure to support low income households, providing a capital flow mechanism dictated by societal needs above return-maximising objectives."

Zohaib Pateel in *Islamic Finance and Microfinance; Lessons for the Global Financial Crisis. Microfinance Insights, March/April 2009.*

BlueOrchard focuses on microfinance because it has proven to be an efficient mechanism to enable entrepreneurship and value creation at the grassroots level. We believe that investing in microfinance is a socially responsible and sustainable way to contribute to the development of those who are marginalised and underprivileged. Moreover, the provision of microfinance services empowers its clients, increasing their self-esteem and independence.

Measuring and assessing social performance

BlueOrchard is involved in several projects with its peers, notably in the Social Performance Task Force (SPTF), in order to elaborate reporting standards on social performance in microfinance and to ensure the quality, relevance, standardization and comparability of such reporting. In parallel with these industry-wide initiatives, we are also improving our own data collection and analysis by introducing social performance metrics in a more systematic fashion in our due diligence process. We focus on the following elements to assess social performance:

Intent: Does the microfinance institution (MFI) aim to contribute to the socio-economic well-being of its clients? How well is its proclaimed mission integrated in its activities and approach?

Outreach: Who are the MFI's target clients? Who does the MFI reach?

Client protection: How does the MFI ensure that its clients are treated fairly and respectfully? How does it ensure that clients do not get into excessive debt?

Community and environmental impact: How does the MFI impact the community in which it operates? Does it take environmental issues into account in its business?

Being a good employer: How does the MFI treat its staff and support the career development of its employees?

Level and distribution of profits: Does the MFI

charge rates that are reasonable within the market context? How does it use its profits?

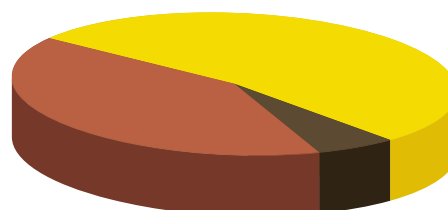
Measuring social impact: Does the MFI initiate or take part in studies to assess the social impact of its work or in evaluations or ratings of its social performance?

The socio-economic profile of our partner MFIs' clients²

Our partner MFIs were serving an average of 72,422 clients each (across all portfolios managed by BlueOrchard). The average size of the loans granted to micro-entrepreneurs from the Dexia Micro-Credit fund, our largest and most representative fund, was of USD 1,584, ranging from USD 50 to slightly above USD 8,000. To be noted also that merely 2.65% of the loan repayments by the micro-entrepreneurs to the MFIs were delayed more than 30 days (PAR30 2.65%).

The following charts show the characteristics of all BlueOrchard's fund portfolios in terms of social indicators: the gender participation in our partner MFIs' loan portfolios; the types of activities financed by these MFIs; the location of the micro-entrepreneurs; what part the different services and products of the MFIs take; and what methodology is followed by the MFIs.

Gender



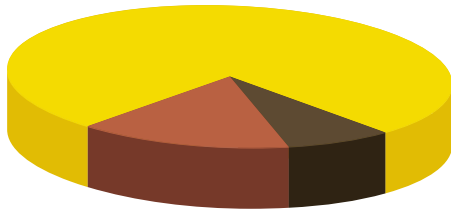
■ Female 53.3%
■ Male 40.7%
■ Legal Entities 5.9%

1) More on the SPTF on http://www.microfinancegateway.com/resource_centers/socialperformance.

MIX expects to begin posting the MFI social performance data in 2009 to www.themix.org.

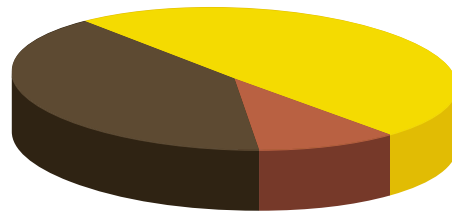
2) These figures relate to total portfolio under management by BlueOrchard at 31 December 2008.

Methodology



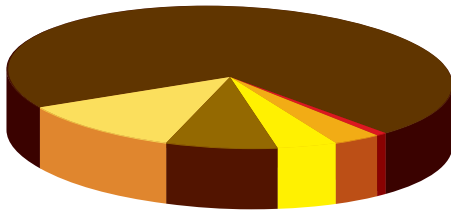
- Individual 76.7%
- Small group* 15.3%
- Large group** 8.0%

Location



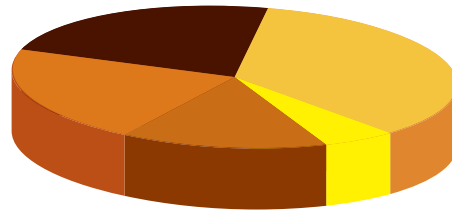
- Urban 49.6%
- Semi-urban 10.4%
- Rural 40.0%

Products



- Microcredit loans 71.6%
- SME loans 4.4%
- Consumption 11.6%
- Education / Health / Emergency 0.7%
- Housing 3.6%
- Other products 8.2%

Activities



- Trade 35.4%
- Agriculture 22.8%
- Other 21.5%
- Manufacture 5.3%
- Services 15.0%

* Loans that are guaranteed by a small group of clients (usually less than 10) co-contracting debt or constituted by subgroups.

** Loans that are issued to a group of people (usually more than 10) functioning as an independent legal entity.

Practicing what we preach



In December 2008, BlueOrchard became a signatory of the **Principles for Responsible Investment (PRI)**, a set of global best-practices for responsible investment established by the United Nations in partnership with actors of the private corporate and financial world. By adhering to the PRI, BlueOrchard wishes to demonstrate its commitment to sustainable and responsible investment practices and to contribute to their promotion in the wider investment community.

More on PRI at www.unpri.org.

At the end of 2008, BlueOrchard also signed up to the **Client Protection Principles (CPP)**, a microfinance industry-wide initiative coordinated by CGAP which aims to develop codes of conduct and practices to ensure that low-income clients are treated fairly and protected from potentially harmful financial products. While it is microfinance providers themselves that are in a position to apply the Principles with their clients, investment managers like BlueOrchard can encourage compliance and provide positive incentives.

More on the CPP at www.cgap.org/p/site/c/template.rc/1.26.3701



BlueOrchard recently joined the Steering Committee of the

Microfinance Rating and Assessment Initiative (formerly Global Rating Subsidy Service or GRASS). This new rating co-funding service aims to develop the microfinance rating market through a 4-year project designed to encourage at least 800 new MFIs to engage in regular financial and social ratings. The fund grants will help MFIs to overcome the initial cost barrier that many of them face. The project will only be open to MFIs in underserved regions who have yet to fully engage in the rating process for financial ratings, and in all regions for social ratings.

More on the initiative:

<http://www.microfinance.lu/231.html?&L=1>



Last but not least, BlueOrchard became a member of the **European Social Investment Forum (Eurosif)**, a pan-European group whose

mission is to address sustainability through financial markets. Recognised as the premier European forum for sustainable investment, Eurosif's affiliates are drawn from leading pension funds, asset managers, non-governmental organisations (NGOs), trade unions, academic institutes and research providers, together representing assets totalling over EUR 1 trillion. Eurosif produces ground-breaking research, facilitates EU interfacing and European-wide initiatives that integrate environmental, social and governance issues into the financial services sector.

For further information visit: www.eurosif.org.



BlueOrchard Finance S.A. offset carbon emissions

for 2008 in myclimate's Indian "stove and briquetting" project

BlueOrchard Finance S.A. compensated 387 tons of CO₂ emissions produced in 2008 by its staff's air travel and office power consumption by contributing over CHF 15,000 to an efficient biomass stove and briquetting project in India, run under the auspices of the Swiss organisation for climate protection *myclimate*.

Projects developed by myclimate reduce the emissions of greenhouse gases directly at the source. This project is focusing on the densification of biomass to replace coal in brick kiln and iron rod industries as well as to replace LPG (Liquefied Petroleum Gas) and provide efficient smokeless stoves to restaurants, temples, mid-day school programs and hospitals.

More details on the project at:

<http://www.myclimate.org/en/carbon-offset-projects/international-projects/detail/myc-project/15/53.html>

2008 as Seen by the People of BlueOrchard

The primary asset of BlueOrchard is its team of highly qualified and passionate professionals. In 2008, the work force grew to 35 persons based in Geneva, New York and Lima.

We asked our colleagues what they thought were Blue Orchard's principal achievements in 2008 and what they expected for the future.



"2008 was an exciting year with achievements on a number of fronts for the BlueOrchard Private Equity Fund. Despite the difficult context of the financial crisis, the fund grew to reach USD

131 million. We strengthened and complemented the relationships BlueOrchard built over the last decade with a diverse group of microfinance institutions located all around the world. We are particularly proud of the partnerships we forged with mature microfinance institutions through the creation of holding companies, which will enable industry leaders to expand operations through acquisitions or by integrating strong players into a single vehicle. This is a first step towards a much-needed industry consolidation, which will facilitate the expansion of outreach to clients and the provision of the best financial intermediation services at the lowest possible price to micro-entrepreneurs world-wide. We look forward to continue implementing our strategy in 2009. We consider it capable of adapting to new paradigms in the microfinance industry, which a challenging year such as 2009 might bring along."

Xavier Pierluca, Investment Manager,
BlueOrchard Investments Sàrl



"I think what we can be most proud of in 2008 was our ability to weather the worst of storms by doing what we do best – servicing our MFI clients and our investors – despite highly adverse

market conditions. Although fund raising became increasingly difficult, we continued to allocate the

resources we did have to creditworthy clients in need. At the same time, the quality of our lending and monitoring processes was able to provide assurance to investors in an otherwise risky and uncertain environment. I think our biggest challenge now is how to stay a leader in the industry not just by size but in the way we innovate and the contributions we make to society and the communities we serve."

Julie Cheng, Director – Regional Head of Investment
Analysis, BlueOrchard Finance S.A.



"In early 2008 BlueOrchard opened an office in New York to better serve US-based investors and expand our network, along with developing other activities company-wide, such as the

financial advisory services and the SEEDS fund. In spite of changing financial markets, we focused on bringing BlueOrchard's flagship fund, the Dexia Micro-Credit Fund, to this important investor base and successfully launched the BlueOrchard Microfinance Fund for US Investors in early 2009. This is the first time US investors are able to invest in the Dexia Micro-Credit Fund and benefit from its over ten-year track record, proven investment strategy and risk management.

Our expectation for 2009 is that US investors currently committed to microfinance will continue to support it. Our challenge ahead will be to expand the group to those who started to evaluate microfinance in 2007 and 2008 but did not yet make investments. It is important that we encourage those investors to come on board now as microfinance institutions continue to perform well in terms of portfolio quality and profitability. This will not be an easy task as investors presently deal with very difficult issues in their portfolios. But the case for microfinance remains compelling, now more so than ever."

Ann J. Miles, Managing Director,
BlueOrchard Finance USA, Inc.

BlueOrchard's Partners – Shareholders and Investors

Investors and shareholders who have been with us for a while or who newly joined us are valuable interlocutors for BlueOrchard as they help us to improve our services and approaches through their feed-back and questions. We asked a few of them, what they considered as the added value of microfinance investments for their organisation.



"For our Foundation, microfinance is a means to support the sustainable development in less favoured countries by providing loans that will contribute to run income-generating activities.

Our investment in microfinance also adds to our portfolio diversification, while assuring a real return in line with the requirements of a pension fund. These different considerations are coherent with the activities of a retirement planning institution like ours, that can't be content with simply making donations."

Yves Ducommun, Pension Plan Manager,
skycare (Geneva)



"Gray Ghost Ventures is an Atlanta, Georgia-based social impact investment firm funded and guided by Bob Pattillo. The BlueOrchard Microfinance Fund for US Investors fulfills Gray Ghost

Venture's need for a investment vehicle which achieves social impact while still managing our liquidity position effectively. The Dexia Micro-Credit Fund's investment focus on high quality microfinance institutions and its substantial diversification by both country and institution together provide the relative safety we require in a short-term investment vehicle. When the BlueOrchard Fund for US Investors became available, we were glad both to have an investment route into the Dexia Micro-Credit Fund and to be the first US investor in the fund."

Sam Moss, Managing Director,
Gray Ghost Ventures (Atlanta, Georgia, USA)

Designing and making traditional Mongolian boots

Purevkhun, 43 years old, lives near Ulan Bator in Mongolia. He is married and has two teenage children. Since 11 years, he has been fabricating traditional Mongolian boots that are worn for ceremonies and festivities. He employs six persons, including his wife. The boots are sold on different markets in the area. They are made on order; between 50 to 90 pairs each month are put together by hand using high quality leather and traditional designs. In 1999, Purevkhun took out his first loan of Mongolian Tugrik (MNT) 150,000 (about USD 105 or EUR 80) with XacBank to buy leather and tools. By now, he has had well over a dozen loans which allowed him to develop his business, buy raw materials, furniture and tools, but also to buy a place to live with his family and to become the owner of his workshop. His most recent loan amounted to MNT 10 million (ca. USD 7,000 or EUR 5,200).



XacBank started its operations in 1998, as a project under the UN Development Programme "Microstart". In 2001 it became a bank. Since that time the Bank continued to provide accessible and transparent banking services to marginalized citizens in remote rural areas, including the nomadic herders. At the end of 2008, it numbered about 54,973 active borrowers and 113,789 active savers and the average loan balance per borrower was of USD 1,875 (or EUR 1,400). Over 40% of its borrowers were women and nearly 45% living in rural areas. More than one in five of its clients started out below the poverty line. XacBank has maintained business relations with BlueOrchard since 2002 and has received ten loans, seven of which were out of the Dexia Micro-Credit Fund, for a total amount of USD 5.3 million (ca. EUR 4 million), one was from the responsAbility Global Microfinance Fund and two from each BOLD 2006 and BOLD 2007, for a total of USD. 10.6 million equivalent (or EUR 8 million). The BlueOrchard Private Equity fund invested USD 2.18 million in XacBank in 2008.

BlueOrchard's Allies of Success – our Partner Microfinance Institutions

As at 31 December 2008, BlueOrchard Finance S.A. had 305 loans outstanding with 128 microfinance institutions (MFIs) in 37 countries, while BlueOrchard Investments Sàrl was already invested in 8 MFIs, funds and networks. The average number of clients of our partner MFIs was of 72,422 across all portfolios. Since its inception, BlueOrchard has worked with nearly 200 MFIs.

In the course of 2008, BlueOrchard Finance S.A. placed 131 loans for a total volume of over USD 191 million. The average size of the loans disbursed to its partner MFIs was of USD 1.5 million. The average loan size to micro-entrepreneurs from partner MFIs was of USD 1,584 for the Dexia Micro-Credit Fund (the largest and most representative of BlueOrchard's funds).

We asked some leaders of microfinance institutions to tell us about what they thought were the most important developments in 2008 and to comment on their relationship with BlueOrchard.

TCHUMA

"The launch of the Mozambican Association of Microfinance Operators (AMOMIF) was one of the greatest advances in the microfinance sector in Mozambique. The AMOMIF approved its business strategy for 2008-2011 and its operational plan for 2008, established its headquarters in its own facilities and conducted two training courses for trainers in three different places across the country. A course for microfinance agencies' managers was organised for the benefit of its members and other stakeholders. Moreover, an African conference on the theme "Making Microfinance Work in Mozambique" was organised. Last but not least, 6 new players entered the microfinance sector in Mozambique.

We value our relationship with BlueOrchard, who provided us with funding amounting to USD 750,000 for a 3 years term. A very positive aspect of our cooperation is the efficiency with which

BlueOrchard responded and met our request for a loan, without excessive bureaucracy. We have a partnership of professional quality which together leads us to succeed and also strengthens the Mozambican microfinance sector. In the future, we would like BlueOrchard to increase the funding to TCHUMA, and if possible, to extend it in local currency. We would also like them to increase the repayment period to allow TCHUMA more flexibility."

Gildo dos Santos Lucas, Director General, Tchuma, Cooperativa de Credito e Poupanca, SCRL, Mozambique



"The most positive development for Contactar in 2008 was to have extended its reach to areas which were previously excluded from microfinance services, with emphasis on group lending.

We also prioritised financial education. Thanks to the Ford Foundation, we were able to increase the financial know-how of rural businesses, improving their lending and saving capacities. We believe that savings are a great step towards meeting people's needs and that they represent a strategy for development and well-being. Contactar started with the consolidation of self-managed funds and we hope that our clients will build on their savings and reinvest them in their productive activities, so as to increase their income and improve their living conditions: food, health, pensions, education.

We think that BlueOrchard's strongest asset is the mutual trust on which we base our cooperation, as well as their support that goes well beyond the monetary exchanges. They are flexible; they helped whenever it was needed; and they supported the strengthening of our microfinance institution."

Gloria Lucia Bustos Chaves, Directora Ejecutiva, Contactar, Colombia



"Asmitha Microfin Limited has demonstrated six years of strong commitment towards improving the lives of millions of people at the bottom of the pyramid in India through microfinancing services. With a vision to rapidly spread availability of credit services to the unreached across India, Asmitha added the lagging states of Bihar, Chhattisgarh and Jharkhand to its already diverse portfolio in the states of Andhra Pradesh, Orissa, Karnataka and Maharashtra during the past year. Collaborating with BlueOrchard has fuelled and strengthened Asmitha's zeal by way of critical inputs and constructive advice, and by endorsing the institution's vision and commitment. As a global microfinance investor with a sound reputation of supporting microfinance institutions, BlueOrchard's strategic partnership with Asmitha has benefitted it in many areas. Today, Asmitha continues its leadership in the global microfinance industry with ever-evolving efficient systems and excellent financial performance."

Dr. Vidya Sravanthi, Chairperson & Managing Director, Asmitha Microfina Ltd, India



"The most important development in the microfinance sector in 2008 was the full on-setting of the global financial crisis, which created major management challenges for microfinance institutions. These challenges included maintaining portfolio quality despite the overall economic downturn; managing foreign exchange risk in an increasingly volatile environment; as well as managing liquidity and finding means of financing portfolio outreach in the context of frozen capital markets.

At the same time, the financial crisis produced an even greater demand for microfinance services, as unemployed workers turned to entrepreneurship, and as commercial banks in emerging markets retrenched. The dislocation and economic distress now felt in developing countries around the world highlights once again the important part that FINCA plays in creating opportunity and providing stability for our clients, especially in difficult times. Our challenge, and our responsibility, is to ensure that we are institutionally prepared to weather further economic downturn, while continuing to serve our clients to the fullest extent possible.

BlueOrchard is one of FINCA's most important funding partners globally. Its strong expertise in the microfinance industry and ability to do sizeable transactions across a range of countries and regions, and its very efficient and professional approach make BlueOrchard one of the best partners in the world for large MFI networks such as us."

Philip Goodeve, Chief Financial Officer,
FINCA International Inc. Washington D.C., USA



"In 2008, Bosnia and Herzegovina adopted the new Law on Microfinance Institutions in order to create a better environment for the industry. This positive move was reinforced by moving the regulation of microfinance institutions from the Ministry for Social Welfare to the Ministry of Finance and Central Banking Agency.

The majority of the microfinance institutions in Bosnia and Herzegovina showed significant growth in the number of active clients which resulted from a greater penetration of the existing and an expansion into new markets. Most microfinance institutions opened new branches and offices which meant that more clients could easily access their services. The challenge now will be to manage this growth in a healthy manner.

The services improved since some microfinance institutions introduced cash disbursements and repayments in some of their offices. This saved time for clients who did not have to go anymore to banks in order to get or repay their loan.

With the strong competition in the microfinance sector of Bosnia and Herzegovina, it is very important for MI-BOSPO to have reliable partners, especially regarding the availability of funds. BlueOrchard is a respectable institution which shares and supports MI-BOSPO's vision to be the financial provider of choice for women in Bosnia and Herzegovina. This partnership is based on efficient and prompt communication, the transparent flow of information and, most importantly, mutual trust."

Nejira Nalic, Director,
MI-BOSPO, Bosnia and Herzegovina



"In 2008, a number of new partnerships were created throughout the region and beyond at two major meetings gathering the key actors of the microfinance industry that were organised by XacBank in Mongolia: the first Development Finance Association Forum and the 11th MFC conference. In Mongolia itself, XacBank increased the number of micro-borrowers and deepened the outreach of the bank's microfinance services to yet more isolated groups and persons. New group lending products among poor women and uncollateralized micro-loans were piloted throughout the country. Our successful development strategies demonstrate the continued potential for expansion of microfinance services in our region.

We consider BlueOrchard as one of our long-term strategic partners. BlueOrchard not only brings funding solutions to the Bank, but also promotes the Bank in the international microfinance community as a reliable and strong institution. We believe that our strongest asset is the time-proven credibility and understanding in our cooperation."

Bold Magvan,
Chief Executive Officer of XacBank LLC, Mongolia



"In 2008, microfinance has strengthened its links with the mainstream financial markets even further as the inflow of commercial investments increased and as microfinance institutions expanded their services, consolidated their operations and increased their professionalism. Microfinance is setting itself up as a successful example of a reliable way to do classical banking, with a transparency that many commercial banks have failed to provide. This makes it a client-oriented, responsible industry and at the same time distinguishes it as an excellent investment opportunity.

BlueOrchard and VisionFund's microfinance institutions in Eastern Europe have a long-standing partnership and we appreciate that BlueOrchard makes every effort to provide the right financial product for each of our institutions. BlueOrchard plays an important role in contributing to the growth of the microfinance industry by bringing private capital to the institutions."

Gerlof Dekorte,
VisionFund Regional Director, Tbilissi, Georgia

"(...) a host of positive psychological changes inevitably will result from widespread economic security. The dignity of the individual will flourish when the decisions concerning his life are in his own hands, when he has the assurance that his income is stable and certain, and when he knows that he has the means to seek self-improvement."

Reverend Dr. Martin Luther King, "Where do we go from here?", USA, 1967.

"Thank you" to our partners:

Banco Bilbao Vizcaya Argentaria (BBVA)
The Bank of New York Mellon
Banque Privée Edmond de Rothschild Europe
Compagnie Financière Edmond de Rothschild
Credit Suisse
Citigroup
The Consultative Group to Assist the Poor (CGAP)
Dexia Asset Management
Deutsche Bank
Developing World Markets (DWM)
De Pury Pictet Turrettini & Cie.
European Bank for Reconstruction and Development (EBRD)
Finance for Development (FMO)
HSBC
International Finance Corporation (IFC)
KfW Bankengruppe
Morgan Stanley & Co. International Limited
Overseas Private Investment Corporation (OPIC)
Royal Bank of Canada (RBC) Dexia Investors Services
Standard Chartered

BlueOrchard Contacts

BlueOrchard Finance S.A.

32 rue de Malatrex
1201 Geneva, Switzerland
Tel.: +41 22 596 4777
Fax: +41 22 596 4799
info@blueorchard.com

BlueOrchard Investments (Private Equity) Sàrl

32 rue de Malatrex
1201 Geneva, Switzerland
Tel.: +41 22 596 4750
Fax: +41 22 596 4751
infoinvest@blueorchard.com

BlueOrchard Finance USA, Inc.

1140 Broadway, #304
New York, NY 10017, USA
Tel.: +1 212 944 8748
Fax: +1 212 944 8749
info.northam@blueorchard.com

BlueOrchard Finance America Latina S.A.C.

Pasaje Mártir Olaya 129, Of. 1007, Miraflores
Lima, Peru
Tel.: +51 1 242 1199
Fax: +51 1 242 5973
info.latam@blueorchard.com

www.blueorchard.com



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