



Supporting Income-generation among the poor proves to be good business



BlueOrchard focusses on microfinance because it has proven to be an efficient mechanism to enable entrepreneurship and value creation at the grassroots level, with significant positive impact on the living conditions of the working poor in emerging markets.

Major inflows of capital are required to facilitate access to financial services by billions of people; BlueOrchard therefore concentrates its efforts on tapping global and domestic

capital markets through the creation and management of microfinance investment products. Establishing win-win relationships between investors, asset managers, microfinance institutions (MFIs) and their clients is the key to directing sustainable flows of capital to this fast growing and immensely rewarding industry.

With nearly USD 870 million under management at the end of 2008, BlueOrchard is proud to report annual financial returns of its investment products of between 4 and 10% - depending on each microfinance investment vehicles' strategy. We are currently actively engaged with 128 partner MFIs around the world that offer financial services to almost 9 million active borrowers, that is, to the micro-entrepreneurs who are the beneficiaries of our partner MFIs' loans and other services.

For 2009, our ambition is to improve our capacity to collect quantitative and qualitative data on the social performance of our lending activities and to report on it to our stakeholders. In this special edition of the BlueNews, we invite you to learn more about how we are faring at present in this respect.

Investing in microfinance is a socially responsible and sustainable way to contribute to the development of those who are marginalised and underprivileged. We intend to be able to highlight this in facts and figures and we see this publication as a first step in the right direction.

Enjoy your reading!

Jean-Philippe de Schrevel, CEO
BlueOrchard Investments Sarl

Jean-Pierre Klumpp, CEO
BlueOrchard Finance S.A.

Measuring the social performance of commercial microfinance investments

Context

Microfinance's core mission is to improve the lives of poor and marginalised populations by granting them access to financial services. Most notoriously, this means lending small sums at reasonable interest rates, often without collateral, to allow the self-employed market vendor, seamstress, taxi driver, to invest in their activity, increase their income, and thereby improve their family's standard of living. As these small businesses grow, they often offer employment to other members of the community. Other services by MFIs include micro-insurances, which provide a financial cushion in case of sickness, death or disaster. Savings accounts are also extremely important, providing a secure place for clients to save money to cover emergencies, to build better homes or to educate their children. Many MFIs also propose non-financial services, such as health care, childcare, business development training, legal support, etc., or facilitate contacts with organizations in the community that offer such services.

What's more, the provision of microfinance services empowers clients, increasing their self-esteem and independence. The positive effects of microfinance investments can be observed through a multitude of individual success stories. However, in order to demonstrate the socio-economic progress of the final beneficiaries of BlueOrchard's loans and to link this development

to our activities, we need to collect and analyse data that will generate relevant outputs without over-burdening our partners and our staff.

Challenges in measuring and assessing social performance

Gathering evidence to assess on the social performance of microfinance investment vehicles raises a range of questions that need to be addressed to ensure that the reporting is significant and relevant, among which, importantly:

- What indicators should we gather and what do they demonstrate?
- Are the data that we decide to gather readily available with our partner MFIs or at least with a sufficiently representative part of our MFI portfolio? And if not, do we press them to gather it and possibly offer support so they can do it?
- How do we demonstrate the link between our activities, our partners' activities and the socio-economic progress achieved in the communities that receive funding from our partner MFIs?

To address the above challenges, 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 reporting¹.

BlueOrchard's approach

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. Our findings will be increasingly used in our reporting to investors and other stakeholders. We focus on the following elements to assess social performance:

Intent: Does the 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?

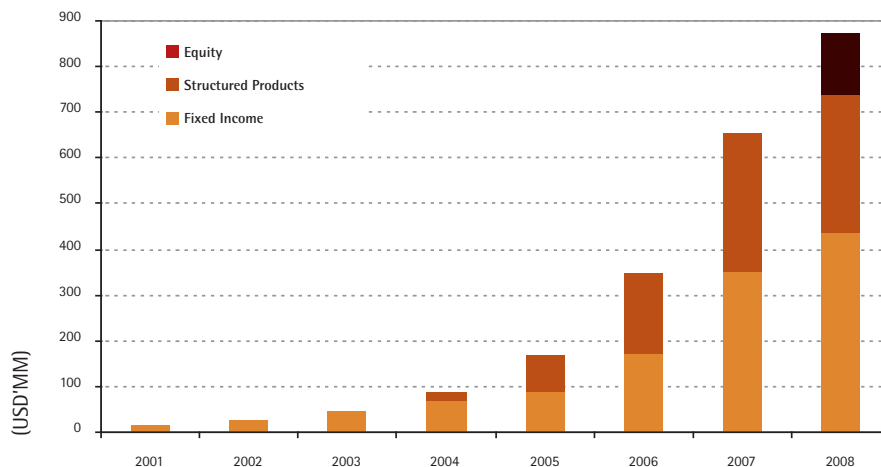
Measuring social impact: Does the MFI initiate or take part in studies to assess the social impact of its work or in evaluations or ratings of its social performance?

1) More on the SPTF on http://www.microfinancegateway.com/resource_centers/socialperformance. MIX expects to begin posting the MFI social performance data by the middle of March to www.themix.org.

The scope of BlueOrchard's investments Growth of BlueOrchard assets under management since inception from March 2001 to December 2008.

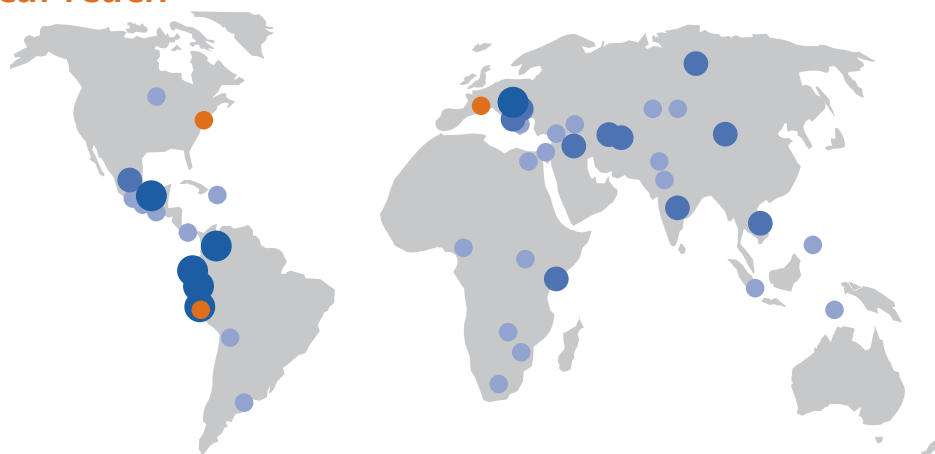
General overview

- As of 1 January 2009, BlueOrchard companies manage total assets of nearly USD 870 million.
- Since inception in 2001 to 31 December 2008, BlueOrchard Finance S.A. has disbursed almost USD 1 billion in over 750 loans to MFIs.
- During its first year of operations in 2008, BlueOrchard Investments has made equity investment commitments of over USD 40 million to 8 MFIs, investment funds and microfinance holding companies.



BlueOrchard's geographical reach

Through its various products, BlueOrchard is currently financing 128 microfinance institutions located in 36 countries. The wide diversification of our portfolios is an important factor for risk management and for strong outreach. The reliability of our portfolios enables us to constantly expand our geographical coverage and our network of partnerships. We finance cooperatives, NGOs, rural banks, non-bank financial institutions, specialized microfinance and second tier lending institutions, in emerging economies.



Situation as of September 2008, figures include both debt and equity placements

- BlueOrchard office
- <2% Countries in which there is exposure of up to 2% of aggregate managed portfolio. The figure for West Africa is regional.
- 2% to 7% Countries in which there is exposure of between 2 to 7% of aggregate managed portfolio
- 7% + Countries in which there is exposure of more than 7% of aggregate managed portfolio



Question to Lynn Martin, director, investor relations:

What information should an investor look at to determine if his or her placement will contribute to the socio-economic development of the final beneficiaries of micro-finance services?

Indicators of social performance of investment should be viewed by investors at two levels. First, investors should look at how managers of microfinance investment vehicles (MIVs), like BlueOrchard, take into account socio-economic benefits in making their lending decisions. Sec-

ond, investors should look at the mission of the microfinance institutions (MFIs) in a given portfolio, and the extent to which the mission is incorporated into the policies, organizational systems and business strategies of the MFIs.

Socially responsible investors will want to understand the extent to which their investment has helped to achieve development goals, how it has improved the standard of living of the micro-borrowers. When examining a MIV or looking at the MFIs in a portfolio, investors might look at the average loan size provided by the MFIs, the type of uses of the loans (e.g. trade, manufacturing, food production etc.), the part of women borrowers, the part of group lending and the part of rural borrowers, which together provide a profile of the micro-borrowers being served. Beyond

the statistics, investors might consider the extent, to which financial services are otherwise unavailable to these clients, client tenure with the MFIs, and indicators of client satisfaction.

As new methodologies are developed to measure the social impact and outcomes, investors will be very interested in understanding the improvement in family and community health, housing and education as measures of the achievement of the social goals of micro-finance.

The socio-economic profile of micro-creditors in brief ¹

- The average loan size made by BlueOrchard Finance S.A.'s partner MFIs to micro-entrepreneurs is of USD 1,650 as of 31 December 2008.
- More than half of the clients of our partner MFIs are women (53 %).
- Nearly half of the MFIs' clients are rural micro-entrepreneurs (40 %).
- About one in four works in agriculture (23 %).
- We monitor the gender mix of the MFIs' client portfolios to measure the proportion of women, who are traditionally more excluded from financial services than men, reached by the institutions.
- We look at the ratio of individual versus group lending to gain a sense of how deep a MFI's outreach is; often very poor clients can only access loans by joining groups that will offer solidarity guarantees.
- We record the breakdown between urban and rural clients, to assess if the MFI is reaching clients in more isolated areas.
- The diversity of products on offer shows that MFIs are meeting the various needs of their clients, although we consider that the majority of loans should be given towards financing income-generating activities.
- Finally, the types of activities financed indicate a wide outreach to different categories of micro-entrepreneurs and the level of support to riskier but essential activities, such as agriculture.

The overall social performance of BlueOrchard's funds and products

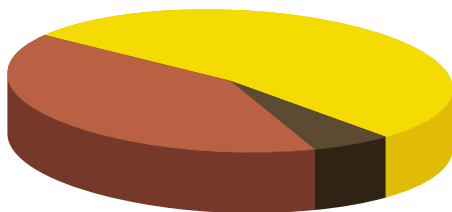
The following charts show the characteristics of BlueOrchard's fund portfolios taken together in terms of social indicators: the gender participation in our partner MFIs' loan portfolios, the types of activities financed by these MFIs, the location of the micro-entrepreneurs, what part the different services and products of the MFIs take and what methodology is followed by the MFIs. The figures are based on a breakdown of active borrowers of the MFIs in BlueOrchard's global portfolio as of 31 December 2008.

¹ These figures relate to total portfolio under management by BlueOrchard Finance S.A. at December 31st, 2008.

The social indicators of BlueOrchard's present data collection

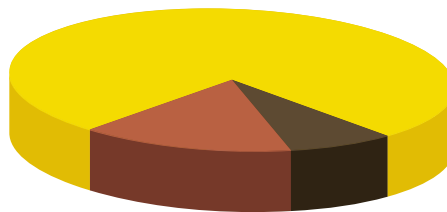
The data that BlueOrchard currently gathers from its partner MFIs is related to their outreach:

Gender



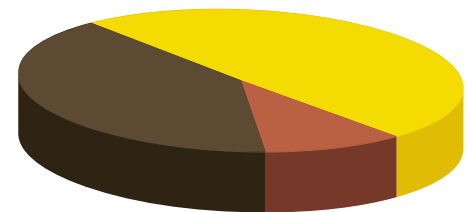
- Female 53.3%
- Male 40.7%
- Legal Entities 5.9%

Methodology



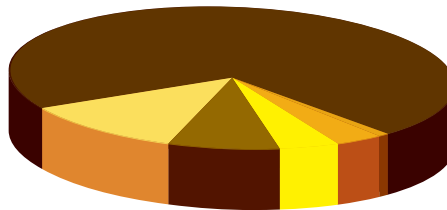
- Individual 76.7%
- Small group* 15.3%
- Large Group** 8.0%

Location



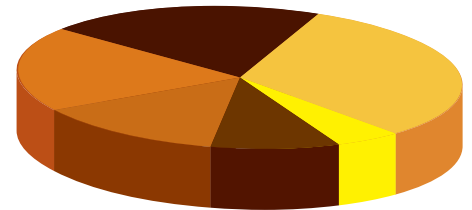
- Urban 49.6%
- Semi-urban 10.4%
- Rural 40.0%

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



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

* 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.



Question to Matteo Marinelli, investment analyst:

How are microfinance institutions (MFIs) in the BlueOrchard portfolio presently monitoring the socio-economic development of their clients?

It begins with the leaders of an MFI: are they committed to a social mission? If so, is it systematically taken into account in the strategic decision-making and planning processes? Has the management team bought into it? If the answers are positive, the MFI will pay attention and dedicate resources to the monitoring of the socio-economic development of their clients. Some MFIs incorporate the social performance analysis into their loan application and accounts management

processes, using various techniques like credit scoring and poverty or housing indexes. Others use a cash-flow type of analysis and only scarcely track the evolution of a particular household's equity and its socio-economic improvements. With the advent of social performance ratings, MFIs will be further encouraged to measure the development of their clients and in a manner that will allow comparisons across the board.

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 micro-finance 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 man-

agers 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?EtL=1>*



Last 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 groundbreaking 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.

Fishing for a living in Iloilo (Philippines)

Cristina and Wilmer Barba live on one of the Western Islands of the Philippines. They have four children between 2 and 22 years of age. As most of their neighbours, they live off fishing. Every morning, Wilmer and his two oldest sons let out their nets at sea. They return to shore before 9 o'clock so that Cristina can take the fish for sale on the main regional market. In 2002, Cristina took a first loan for the family business of PHP 5,000 (not quite EUR 80) from LifeBank Foundation* - the only microfinance institution active locally - to buy fishing nets. She is presently paying off her thirteenth microloan of PHP 20,000 (about EUR 300) which served to buy a motorboat. The Barba family owns two boats and employs a number of relatives in their small business. Unfortunately, one of the boats was heavily damaged by the typhoon of June 2008. With great resilience, the family made the necessary repairs and worked to continue to pay off



their debts and the interests they owe to LifeBank.

* Established in January 2003 by LifeBank Rural Bank, LifeBank Foundation Inc. is a Philippine non-governmental organisation located in Iloilo, in the heart of the Philippines, providing microfinance services to enterprising women. A

very socially oriented MFI, registered as a non-stock non-profit corporation, LifeBank Foundation is a UNITUS affiliate and a client of BlueOrchard since October 2007. LifeBank Foundation also offers micro-insurances in partnership with a local insurance firm. As of November 2008, LifeBank was providing 204,250 clients with loans averaging USD 82.

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BlueOrchard's Microfinance investment vehicles – facts and figures

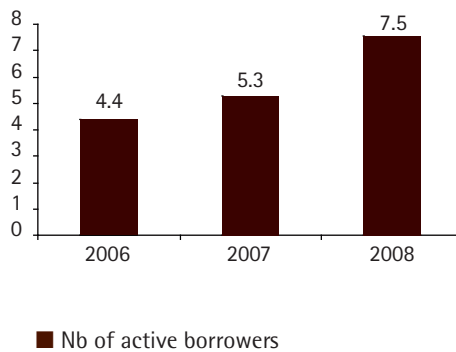
Dexia Micro-Credit Fund – BlueOrchard's flagship commercial investment fund designed to refinance microfinance institutions (MFIs) specialised in financial services to micro-entrepreneurs in emerging markets. It represents 52.3% of the portfolio managed by BlueOrchard. Inception date: September 1998

Net Asset Value USD	385.9 million
Average outstanding loan size to MFI USD	1.8 million
Loan average maturity	19 months
Number of loans outstanding:	193
Number of MFIs with outstanding loans:	97
Number of countries in which there are outstanding loans:	30
Local currencies delivered in the fund (Argentine peso, Colombian peso, Dominican peso, Mexican peso, Peruvian nuevo sol, Philippine Peso, Russian rouble, Thai baht, South African rand). 15% of the loans made from this fund are made in local currency swapped in USD:	9

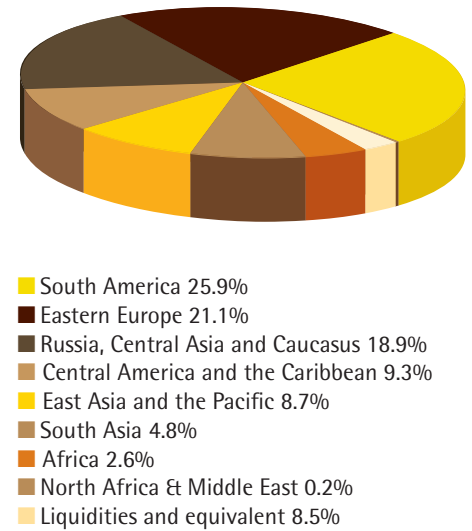
As of 7 January 2009

Share value	ROI 2008
USD	16,537.7
CHF	11,962.7
EUR	12,704.3

Growth of active borrowers (micro-entrepreneurs) in MFIs served with the DMCF



Regional distribution in % of the NAV as of 7 January 2009



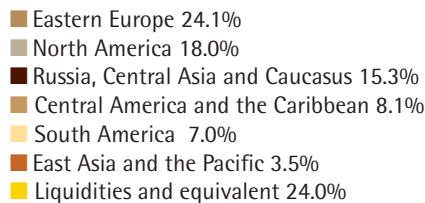
Saint-Honoré Microfinance Fund – The fund is co-managed by BlueOrchard Finance and Edmond de Rothschild Asset Management. It invests in a variety of microfinance institutions including apex institutions. Inception date: November 2005.

Figures in EUR as of 2 January 2009

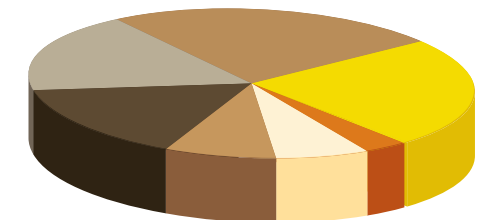
Net Asset Value:	12.1 million
Portfolio maturity:	14 months
Number of loans outstanding:	16
Number of MFIs with outstanding loans:	12
Number of countries in which there are outstanding loans:	9

As of 2 January 2009

Share value	ROI 2008
EUR	5,428.4



Regional distribution in % of the NAV as of 2 January 2009



BBVA Codespa Microfinance fund – A fund used for loans to MFIs in Latin America. BlueOrchard advises BBVA on these investments. Inception date: October 2006.

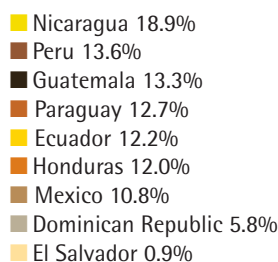
Figures in EUR as of 2 January 2009

Net Asset Value:	27.0 million
Portfolio maturity:	23 months
Number of loans outstanding:	29
Number of MFIs with outstanding loans:	22
Number of countries in which there are outstanding loans:	9

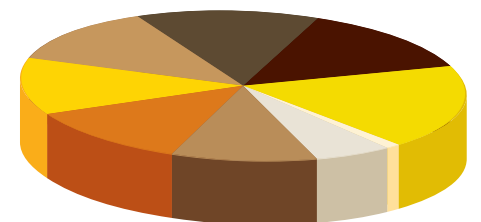
55% of the loans made from this fund are made in local currency

As of 2 January 2009

Share value	ROI 2008
EUR	10,780.1



Regional distribution as % of the portfolio as of 2 January 2009



BlueOrchard Microfinance Securities 1, LLC (BOMS 1 – 2004/2005) – The world's first international structured microfinance product created by BlueOrchard with two partners offered US private and institutional investors an opportunity to acquire notes collateralised by MFI debt obligations. The deal was closed in two tranches (2004 and 2005).

Figures in USD as of 31 December 2008*

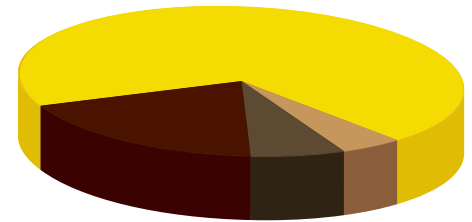
Total Assets:	81.1 million
Portfolio:	74.0 million
Number of loans outstanding:	16
Number of MFIs with outstanding loans:	13
Number of countries in which there are outstanding loans:	7

* unaudited

Yield:

OPIC Notes:	4.45%
A Notes:	4.94%
B Notes:	6.10%
C Notes:	8.27%

Regional distribution as % of the portfolio as of 31 December 2008



■ South America 69.9%
 ■ Central America and the Caribbean 18.6%
 ■ East Asia and the Pacific 6.8%
 ■ Russia, Central Asia and Caucasus 4.7%

BlueOrchard Loans for Development 1 (BOLD 1 – 2006) – A second collateralised debt obligation closed in April 2006 with Morgan Stanley and FMO (the Netherlands Development Finance Company) as partners.

Figures in USD as of 31 December 2008*

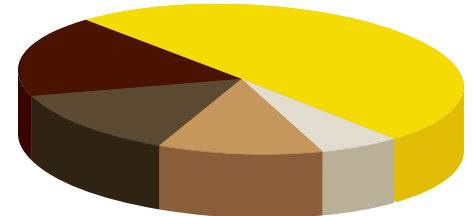
Total Assets:	99.2 million
Portfolio:	96.7 million
Number of loans outstanding:	21
Number of MFIs with outstanding loans:	21
Number of countries in which there are outstanding loans:	13

32.6% of the loans made from this fund are made in local currency

Yield:

A1 notes:	Euribor	3M + 0.75%
A2 notes:		5.59%
A3 notes:		6.02%

Regional distribution as % of the portfolio as of 31 December 2008



■ South America 50.2%
 ■ Russia, Central Asia and Caucasus 18.2%
 ■ Central America and The Caribbean 13.5%
 ■ East Asia and the Pacific 11.9%
 ■ East Europe 6.3%

BlueOrchard Loans for Development 2 (BOLD 2 – 2007) – A third collateralised debt obligation closed in May 2007 with Morgan Stanley and FMO (the Netherlands Development Finance Company) as partners. Like its predecessors, BOLD 2 finances non-guaranteed loans to a diversified portfolio of MFIs. Part of the loans is in local currencies, with exchange rate risks being covered by derivative products. The senior tranches A (USD 44 million) and B (USD 16 million) were rated by Standards & Poors and received respectively AA and BBB scores.

Figures in USD as of 31 December 2008*

Total Assets:	110.2 million
Portfolio:	106.7 million
Number of loans outstanding:	21
Number of MFIs with outstanding loans:	20
Number of countries in which there are outstanding loans:	11

34% of the loans made from this fund are made in local currency

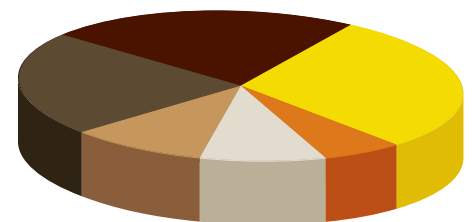
* unaudited

Yield:

A notes:	5.61%
B notes:	6.16%
C notes:	7.73%*

* WA of combine fixed and floating rate.

Regional distribution as % of the portfolio as of 31 December 2008



■ Russia, Central Asia and Caucasus 27.2%
 ■ East Europe 21.2%
 ■ South America 20.6%
 ■ Africa 9.1%
 ■ Central America and the Caribbean 8.2%
 ■ East Asia and the Pacific 5.6%

BlueOrchard Private Equity Fund

The BlueOrchard Private Equity Fund is a SICAV registered in Luxemburg in December 2007. The Fund seeks to forge long-term partnerships with microfinance organisations across the world. It acquires minority stakes in their capital while playing an active governance role by sharing international experience, information, networks, knowledge and taking active part at board level.

It is committed to achieve strong tangible social returns along with market financial returns.

Figures in USD as of 31 December 2008

Total Assets (committed capital):	131.1 million
Total investment committed:	40.4 million, of which 22 million have been disbursed
Number of equity direct investments:	8