



BlueOrchard
Microfinance Investment Managers

Promoting income-generating activities among the poor through private investments in microfinance

Geneva, July 2009



Making sandals in the Philippines
Photo Johann Sauty © BlueOrchard



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Successful micro-entrepreneurs from around the world



Addo Oved Possu Dinas called "Katanga" Cali, Colombia (April 2008).
Photo Johan Sauty © BlueOrchard

Making drums and traditional musical instruments in Cali, Colombia. "Katanga" came to Cali from the Pacific coast 25 years ago, bringing with him the music inspired by his African ancestors. He started fabricating percussions and other instruments used in Afro-American folk music. His three children are now assisting him in his work and his daughter Orica manages the "Katanga Foundation" with him. His drums are made from wood cut on the Pacific coast and animal skins. Katanga is regularly commissioned by the ministry of culture of Colombia to fabricate instruments, form musical ensembles, and organise and animate music festivals throughout Colombia. Women's World Banking (WWB) of Cali in Colombia gave him a first loan 4 years ago of Colombian pesos 3 million (about EUR 1000) to develop his workshop. He presently has an outstanding loan of Colombian pesos 10 million with WWB (about EUR 3500). The credits have allowed him to buy the raw materials and tools to make his instruments and to promote his small business. His ambition is to expand his reach beyond the borders of Colombia and to promote its African heritage culture internationally.

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. WWB Cali is the largest microfinance non-governmental organisation in Colombia and occupies a leading position in the South-West amongst its lower end micro-entrepreneurs. In 2007, the Foundation generated a return on assets of 6.0%, up from 4.9% in 2006 and a return on equity of 25.6% up from 20%. The net income for 2007 increased to USD 11.6 million, up from USD 7 million in 2006. WWB Cali enjoys excellent repayment rates on its loans with a PAR30 of only 1.3% and additional 1.3% including refinanced loans and write offs, as of December 2007. As of April 2008, WWB Cali serves almost 200,000 micro-entrepreneurs who otherwise have little or no access to capital. They work in trading (60%), services (24%) and manufacture (18%). Estimating that each micro-entrepreneur supports a family of four members, WWB Cali helps some 800,000 people to improve access to basic services and commodities, such as food, housing, education and medical services. 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. Clients evidently appreciate the services of the institution as client drop-out rates are almost negligible.



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- About microfinance
- Investing in microfinance
- BlueOrchard, a bridge to microfinance



Growing mushrooms in Bosnia and Herzegovina.
Photo by Johann Sauty © BlueOrchard



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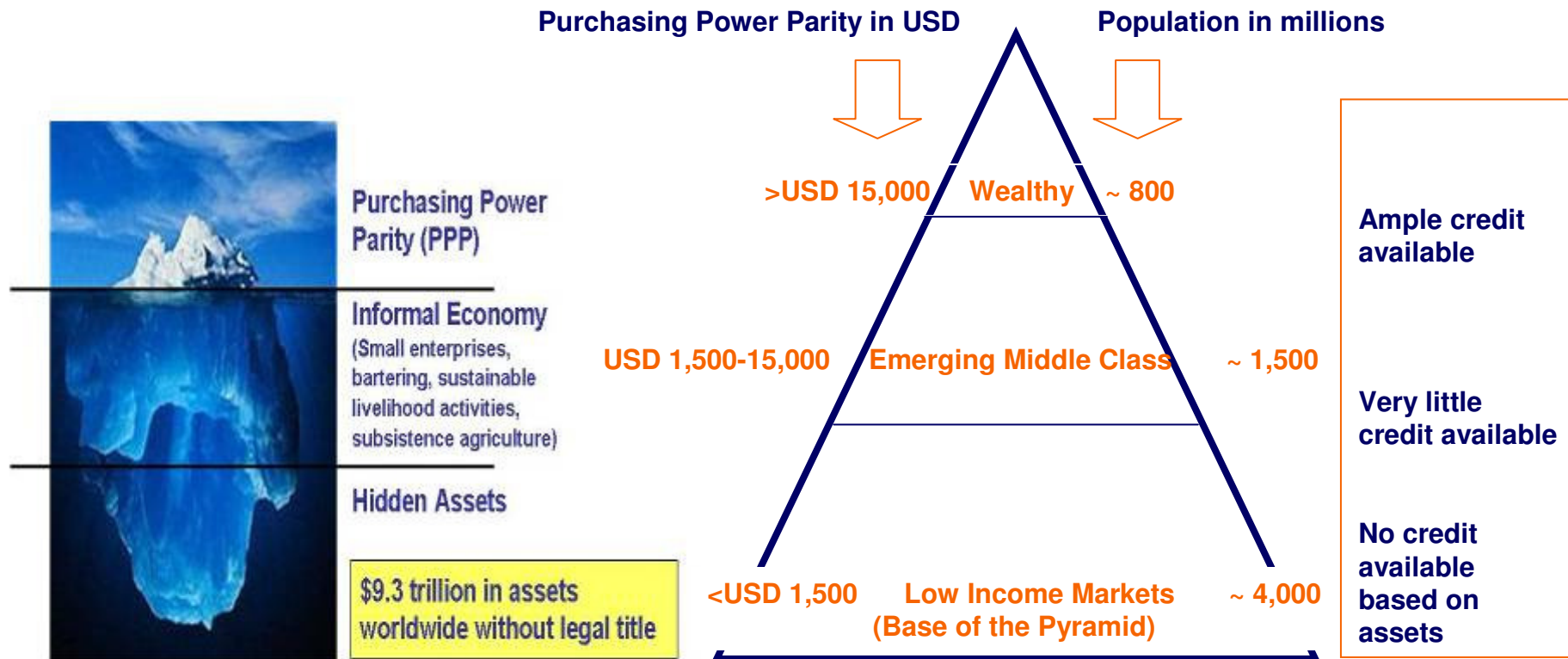
➤ About microfinance



Running a shop from a truck, Mongolia
Photo by Johann Sauty © BlueOrchard



Background: Financial, economic and social inclusions and exclusions – an overview





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“There are still around 1 billion people living at the margins of survival on less than US\$1 a day, with 2.6 billion—40 percent of the world’s population—living on less than US\$2 a day.” UNDP, Human development Report, 2007

What is microfinance and how does it help to fight poverty?

Empowering the poor by supporting their income-generating activities – and more

Microfinance means providing poor families with very small loans (microcredit) to help them engage in productive activities or grow their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.), since the poor and the very poor who lack access to traditional formal financial institutions require a variety of financial products.

Ensuring sustainability through loans and paying financial services

Microcredit came to prominence in the 1980s, although early experiments date back 30 years in Bangladesh, Brazil and a few other countries. Importantly, it avoided the pitfalls of an earlier generation of development lending, by insisting on repayment, by charging interest rates that could cover the costs of credit delivery, and by focusing on client groups whose alternative source of credit was the informal sector. Emphasis shifted from rapid disbursement of subsidized loans to prop up targeted sectors, towards the building up of local, sustainable microfinance institutions to serve the poor. Microcredit has largely been a private (non-profit or commercial) sector initiative and has outperformed other forms of development lending.

Fighting poverty in a lasting manner by improving economic security and quality of life

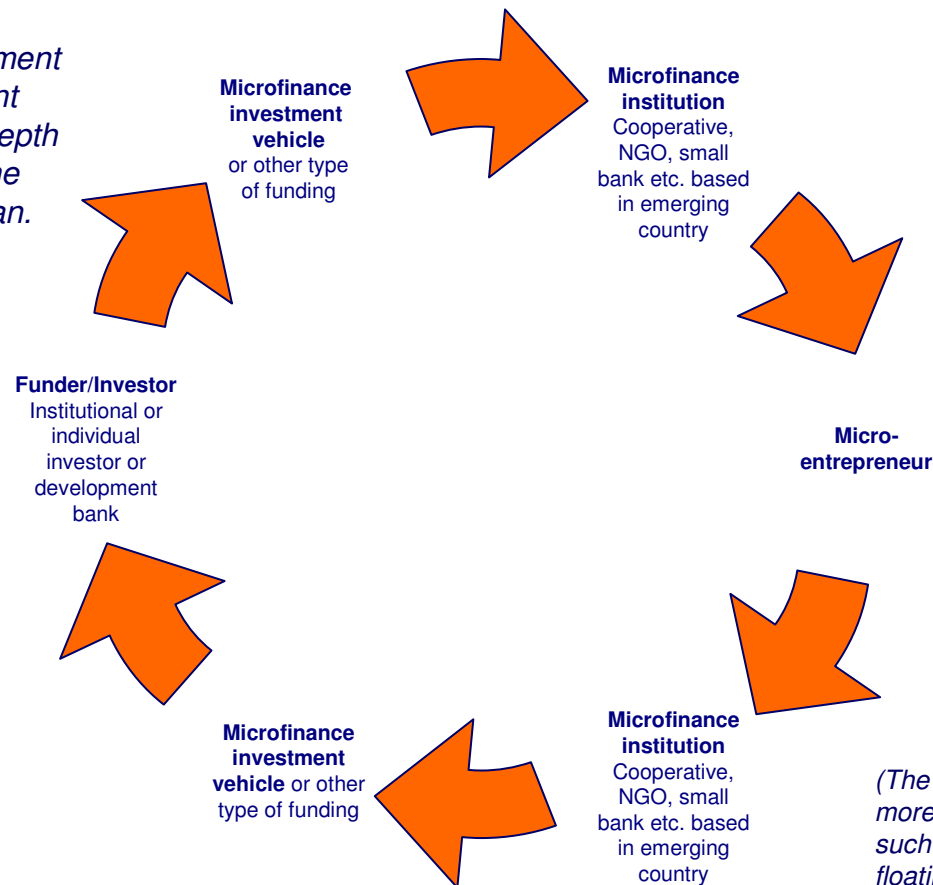
Experience shows that microfinance helps the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change. By providing access to financial services, microfinance plays an important role in the fight against the many aspects of poverty. Income generation from a business helps the business activity expand and also contributes to household income and its attendant benefits of food security, children’s education, health etc.



The microfinance cycle (simplified)

The model below shows – in a simplified manner – how the funds flow from the investor to the micro-entrepreneur, and back, in a commercial microfinance investment scheme.

The decision to make a placement from a microfinance investment vehicle is preceded by an in-depth process of risk analysis and the negotiation of terms for the loan.



The decision of a microfinance institution to grant a credit to a micro-entrepreneur or to a group of micro-entrepreneurs follows a thorough examination of his/her/their project and of their capacity to pay interest and to repay the credit in due time.

(The cycle doesn't show some of the more complex elements of the process, such as exchange rate swaps, fix to floating interest rate swaps, etc.)



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“We need to recognise the reality of the human being’s multiple aspirations. To do so, we have to create a new type of economic activity that pursues other goals than the maximisation of profit – an economic activity entirely dedicated to the resolution of social and environmental problems.” Mohammed Yunus, Noble Peace Prize 2006

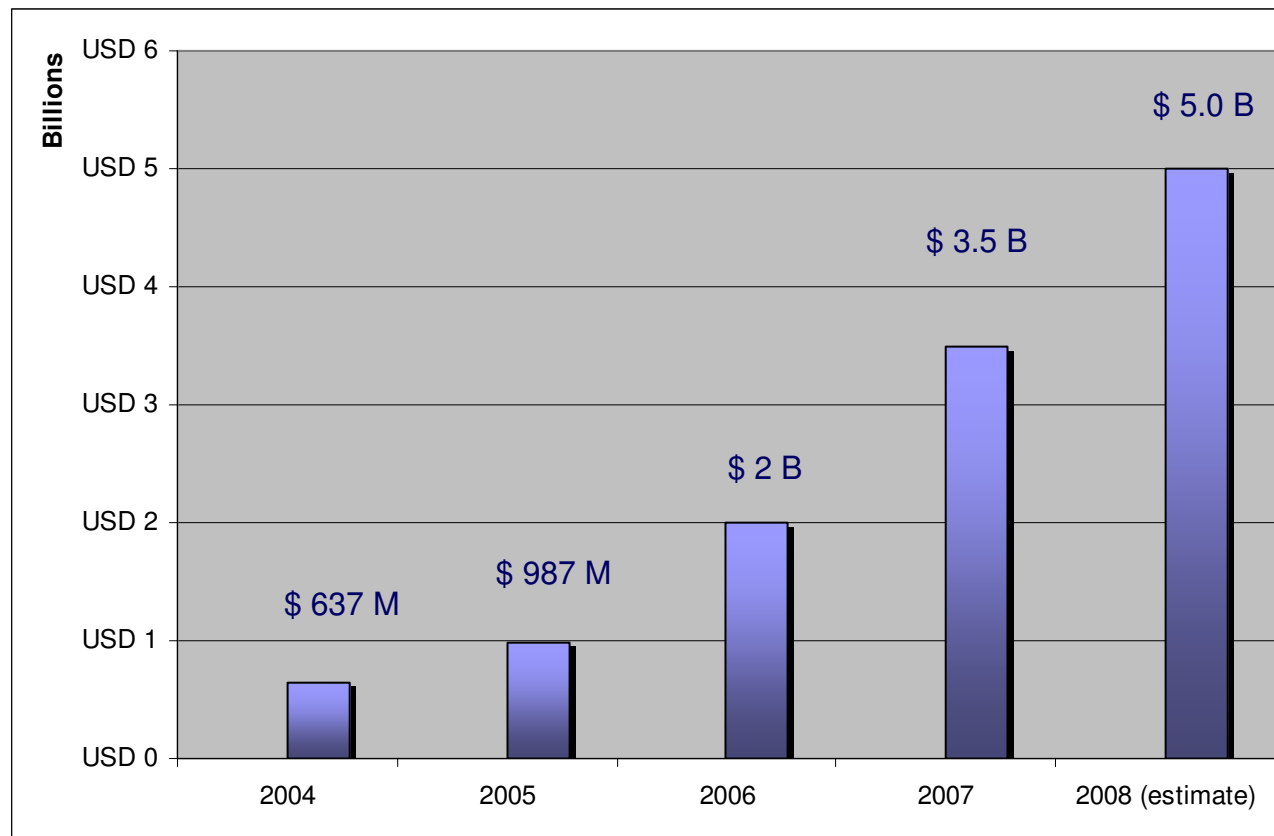
Enormous opportunities – some key figures on the growth of the microfinance sector

- Increasing **reach** of microfinance institutions (MFIs): Number of lenders rose yearly by +25% over past few years. Currently 5-10'000 MFIs world-wide, of which 250-300 are operationally sustainable. ~ 50-100 new ones reaching sustainability each year.
- Growing **confidence** and **commitment** of investors: Stock of foreign capital investment in microfinance trebled to EUR 2.7 billion from 2004 to 2006.
- Resulting in an **unprecedented boom**: Inflowing foreign capital was invested in over 40 microfinance funds in 2005-2008 (CGAP). PlaNet Finance reports ~ 100 specialised microfinance funds world-wide, of which 50-60% in Europe and a dozen with assets over EUR 66 million.
- Over-all impressive **sector growth** of 40-50% per annum over two decades till 2007, still estimated to 20-30% in 2008. Assets under management estimated to be over EUR 3.8 billion as of 31 December 2007. BlueOrchard partner MFIs showed average total asset growth of more than 70% during 2007, 45% in 2008.
- **Opportunities for further development**: An estimated 500 million micro-entrepreneurs around the world need an average of USD 500 credit per year to prosper. MFIs’ financial needs are estimated to be of up to USD 300 billion across all funding sources, including local markets, deposits and international borrowings.

Sources: “Microfinance Banana Skins 2008”, Center for the Study of Financial Innovation, 2008. “Foreign Capital Investments in Microfinance”, Rielle & Foster, CGAP, Feb. 2008. Arnaud Ventura, vice-president of PlaNet Finance, Bilan, 23.04.2008. BlueOrchard. McKinsey study (2006). CGAP 2008 Microfinance Investment Vehicles Survey, September 2008. BlueOrchard.



Microfinance investment vehicles' investments doubled in 2006 and continued to grow in 2007, 2008





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“When you know how to plan and how to organise your life, everything becomes possible. With the loans we took and which we were able to repay in due time, we improved the results of our businesses, we increased our revenues and we enhanced our quality of life. Two of my sons are presently studying at university and I am able to support them thanks to my successful business.” Maria, 63, fruit and vegetable seller in Lima, Peru

Microfinance institutions: investment opportunities and actors of change

Microfinance institutions - a large, diverse market of opportunities

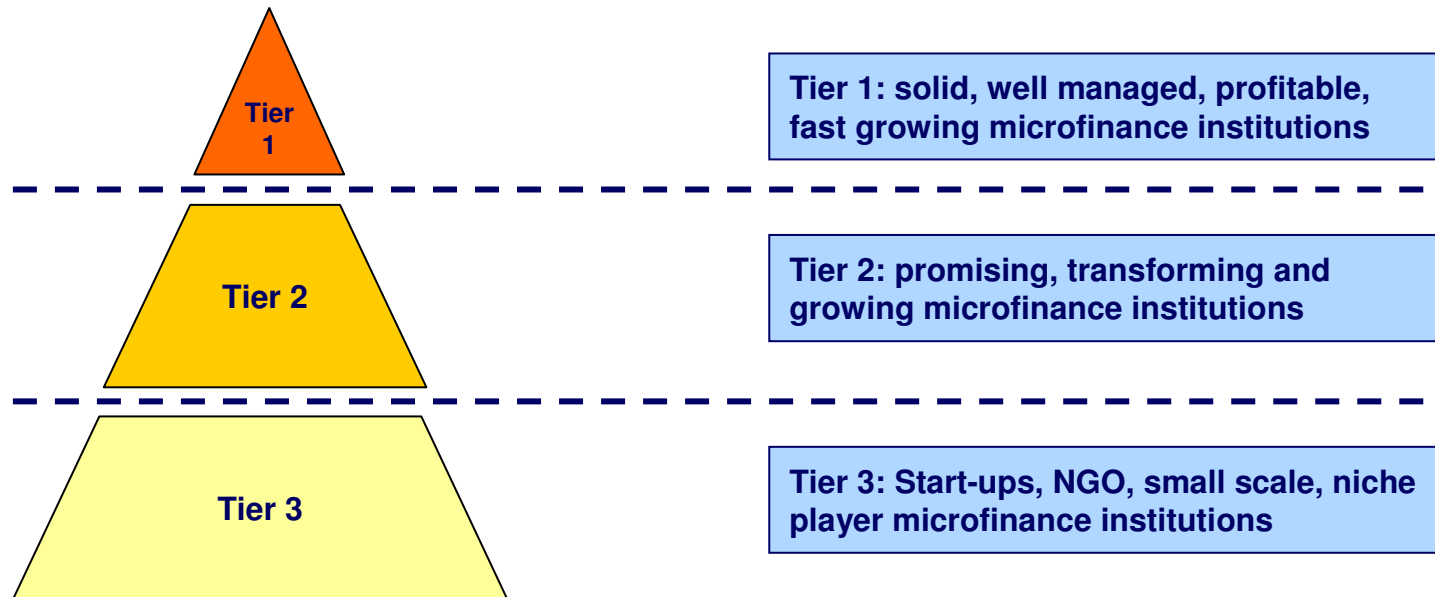
- **Quantity and quality:** More than 1,000 microfinance institutions (MFIs) report to “Mix Market” (www.mixmarket.org)
 - of which approx. 250-300 are viable and mature and ready for foreign commercial investments.
- **Geographical reach:** Viable and mature MFIs are spread across the globe
 - in Latin America, Central and Eastern Europe, Near and Middle East, Northern and Sub-Saharan Africa, Central, South and South East Asia.
- **Variety of “models”:** MFIs come under a variety of legal forms and nature
 - banks, non-bank financial institutions, NGOs, cooperatives.

Microfinance institutions – actors of economic growth and social progress

- **Inclusion:** Providing financial services to the excluded, opens doors for them to the economic market and beyond
 - over 90% of their clients succeed (i.e. pay interests, repay their loans, often take repeat loans). Many increase their revenues, expand their activities, create more employment.
- **Development:** More than financial services
 - most MFIs will also provide professional training, technical support and facilitate access to other services, such as health and social care.
- **Empowerment:** Targeting economically and socially marginalized groups
 - over half of the clients in microfinance are women, about a third are rural entrepreneurs, roughly one in five are food producers.



Microfinance institutions: different levels of maturity today - promising prospects for tomorrow



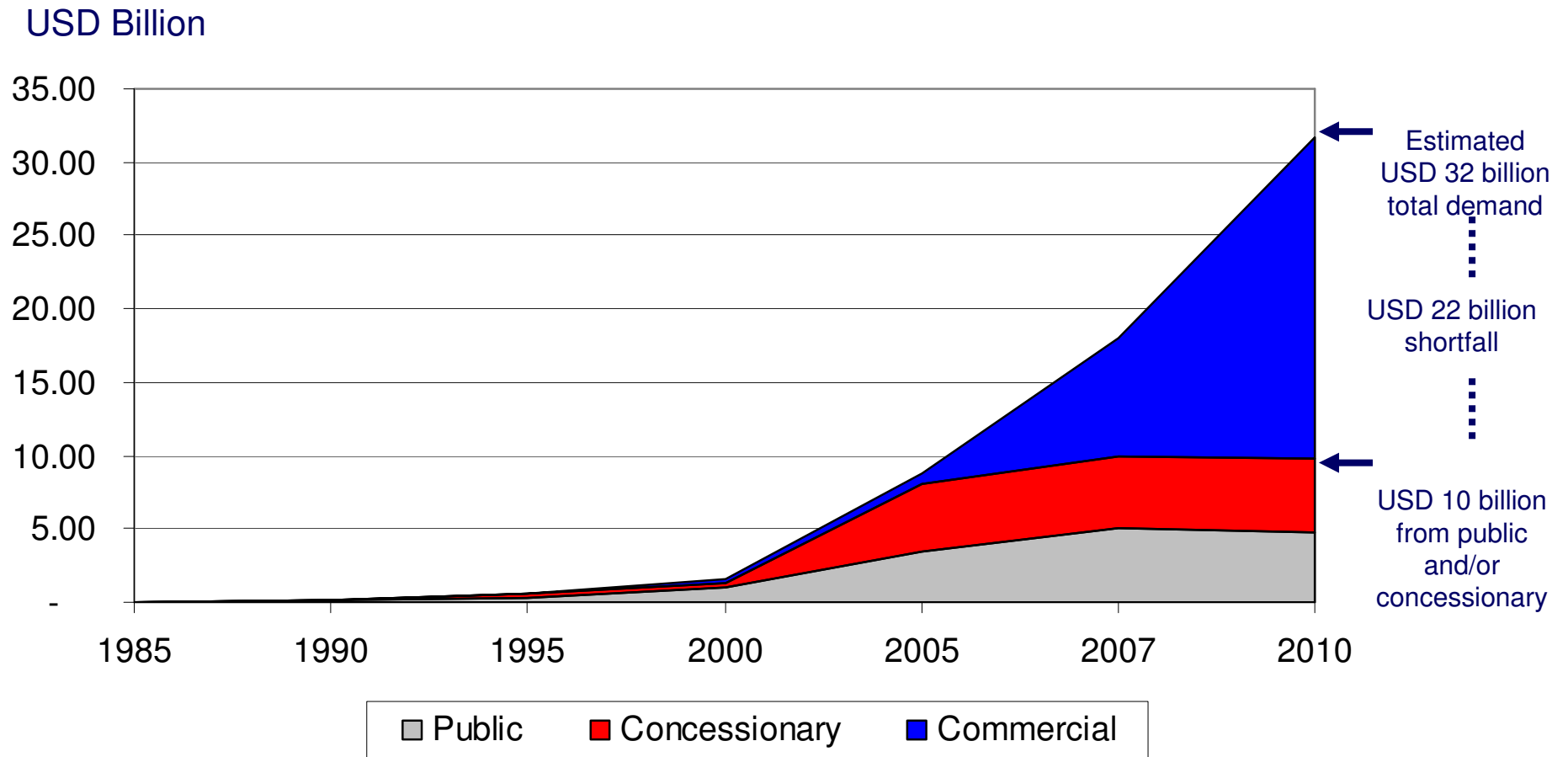
Microfinance institutions borrowing through BlueOrchard are mostly in Tier 1 and 2.

In addition, they fulfill the following criteria:

- they have a minimum 3-year track record (no start-ups);
- their accounts must be externally audited and rated;
- their minimum size should be of USD 1 million in assets;
- operational self-sustainability and profitability.



Worldwide microfinance institutions' demand for debt





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Successful micro-entrepreneurs from around the world



Rubiela Sanchez, Cali, Colombia (April 2008). Photo Johan Sauty © BlueOrchard

Making and selling sweets. The *manjar blanco* is a sweet speciality from Cali in Colombia made from milk mixed with cane sugar that needs to be heated and whipped meticulously at length in big pots. Since 13 years Rubiela Sanchez, with the help of her husband has been making the sweet, at first from her home kitchen by hand with the most simple means, then bit by bit, with machines that the couple developed themselves which allow them to regulate the temperature and the different mixing rhythms to achieve the best results. The couple is now selling their famous *manjar blanco* and other sweets made of milk or with guava fruit in various outlets throughout Cali, notably at bus stations. The Cali sweets are prized as gifts by visitors and residents alike. Rubiela Sanchez and her husband have are faithful clients of the Women's World Bank (WWB) of Cali in Colombia who have helped them not only with loans but also with advise and even publicity that supported the development of their little business.

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➤ Investing in microfinance



Making cabinets in the Philippines
Photo by Johann Sauty © BlueOrchard



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The investor's perspective

- **A truly “alternative” asset class**
 - Low correlation to classic financial markets and therefore to other asset classes in the portfolio
 - High insulation of microfinance from macroeconomic shocks

- **A long term stable investment:**
 - Limited credit risk
 - Low volatility of financial returns

- **A double bottom line:**
 - Social impact
 - Financial returns

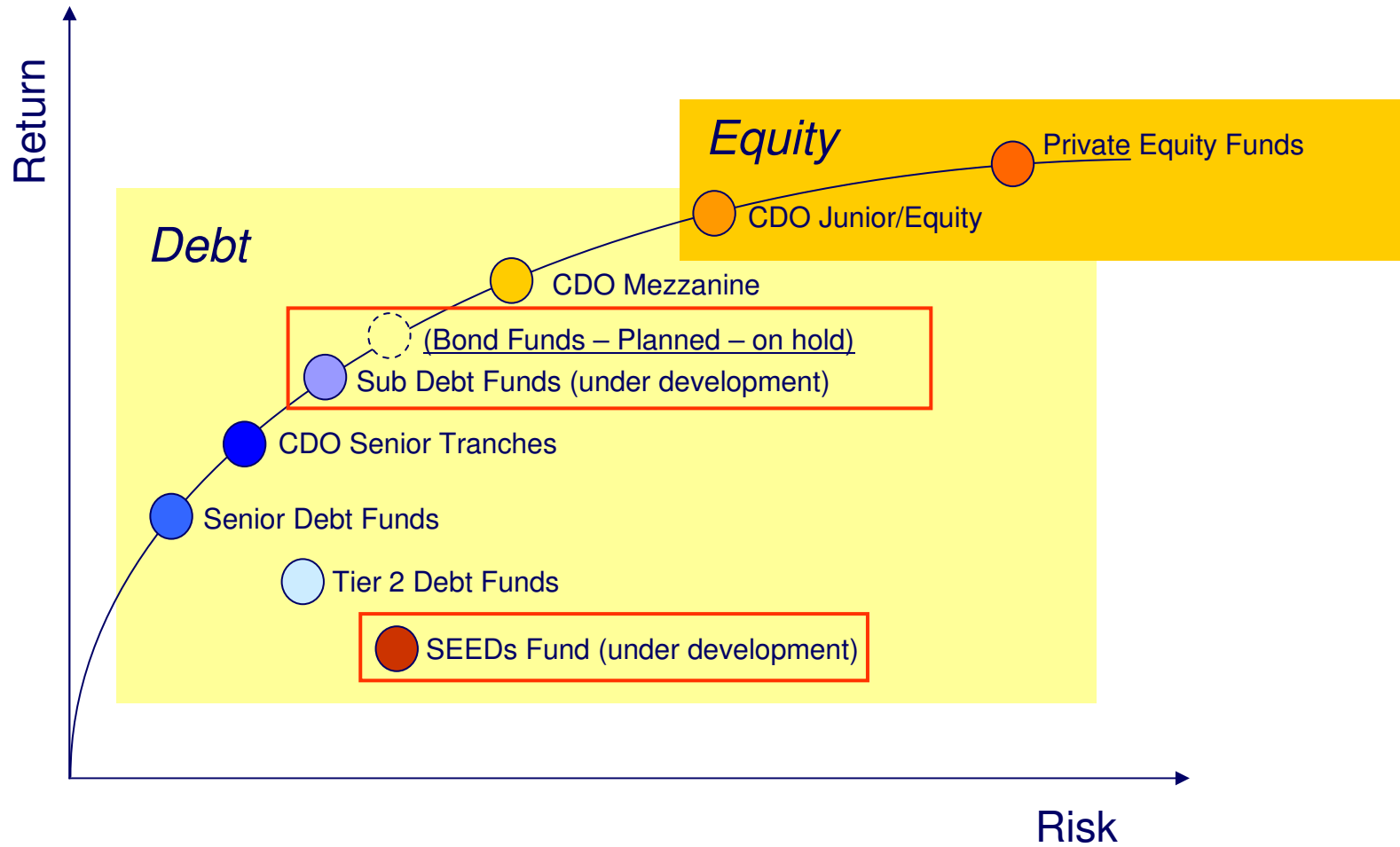
- **Suitable for various groups of investors:**
 - Private investors
 - Institutional investors



Roadside café in Cairo
Photo by Matteo Marinelli © BlueOrchard

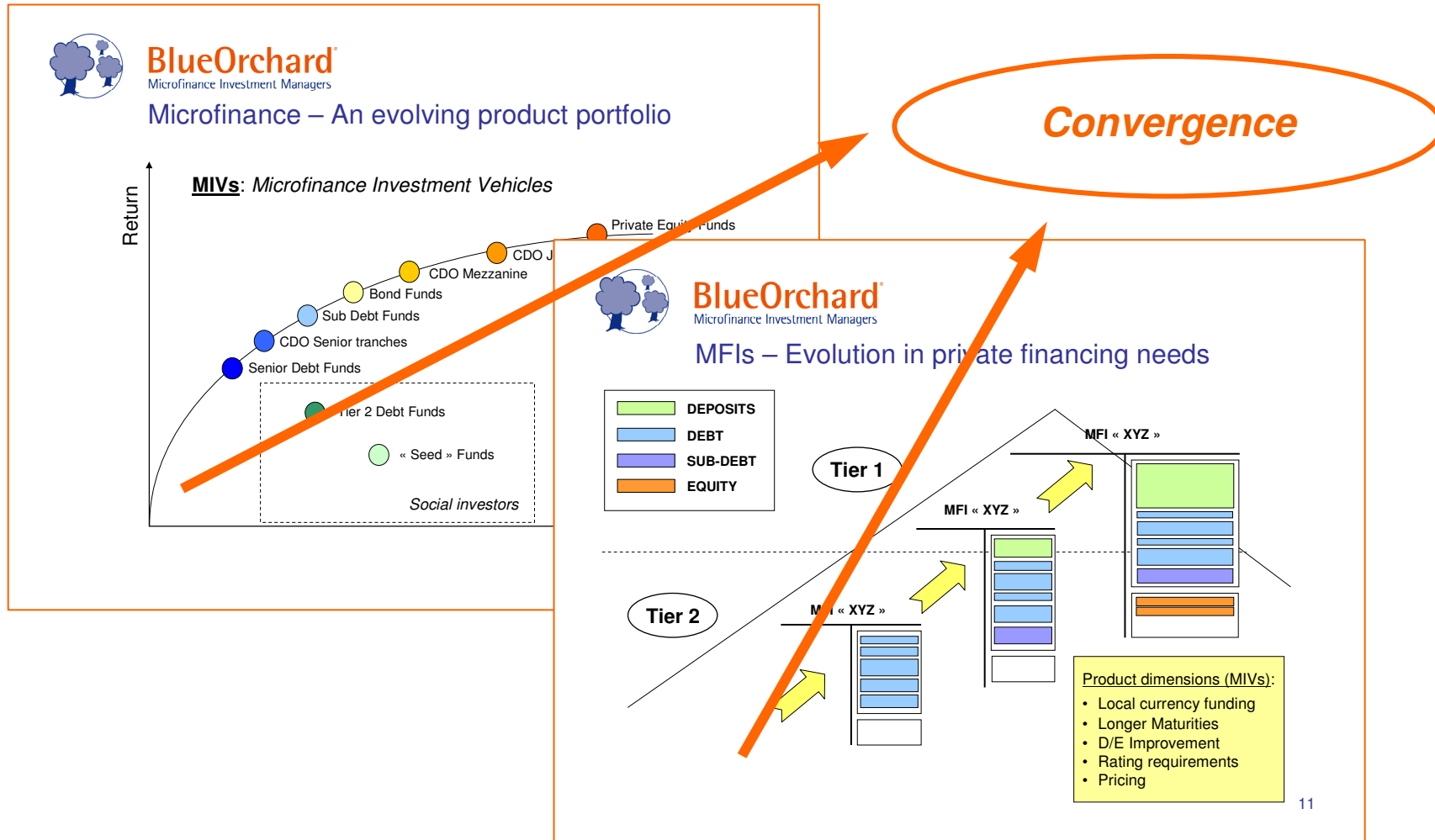


Microfinance investments by risk return profiles



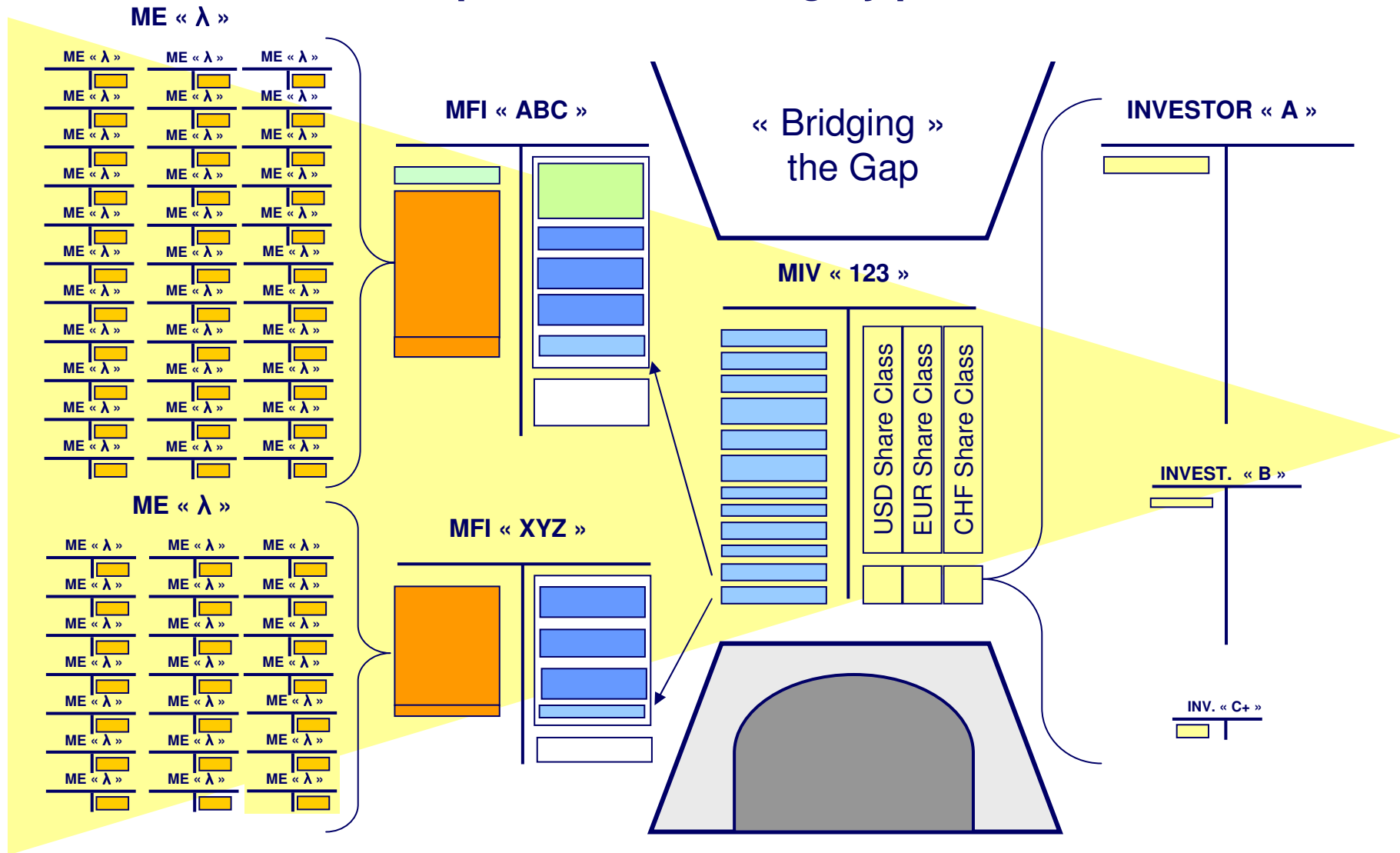


Funding needs and investment opportunities





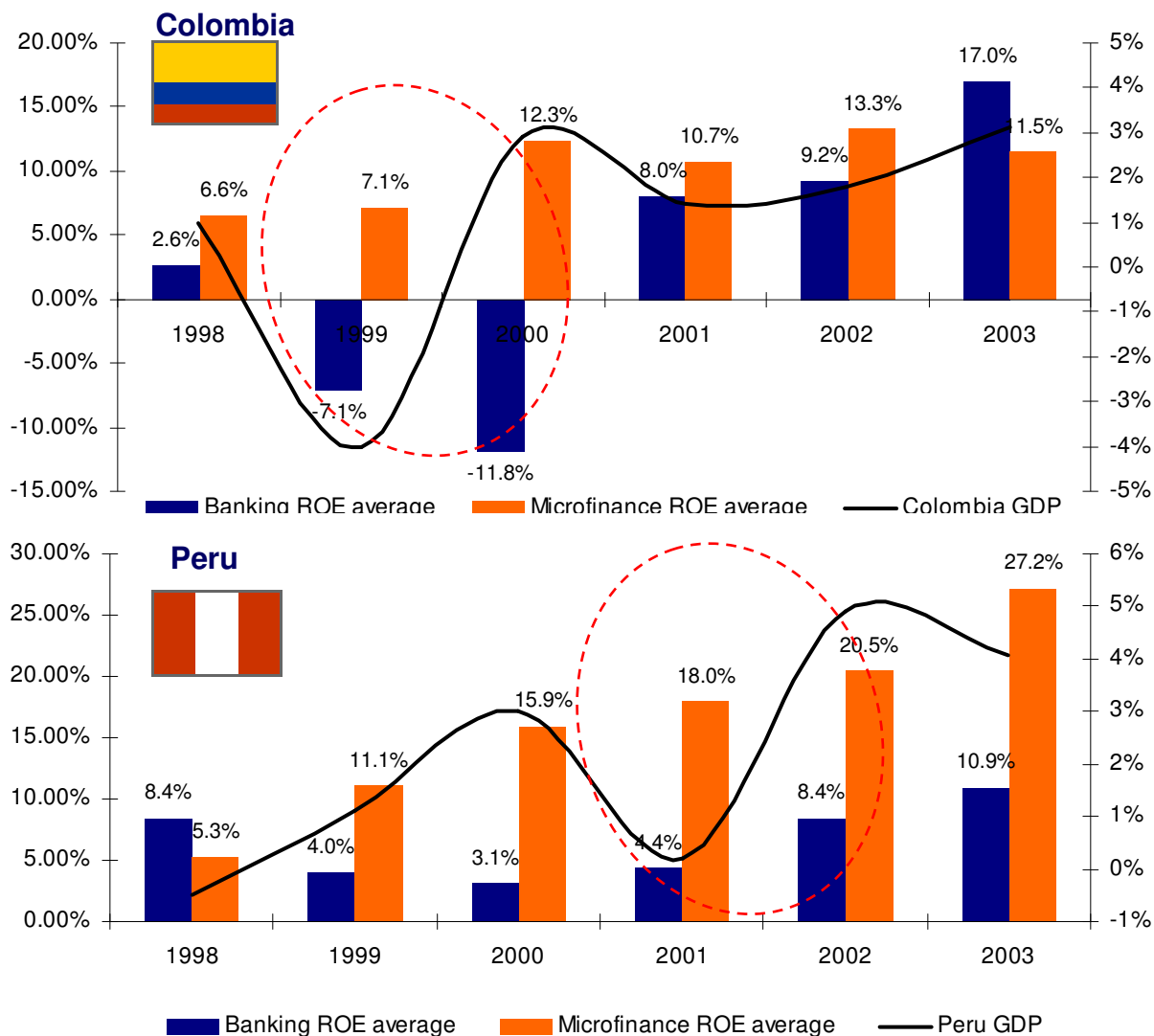
Example of debt funding by private investors





Microfinance: a fairly uncorrelated asset class

Resilience of MFI operations and profitability during economic crises





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Impacts of the credit crunch on micro entrepreneurs



- **Impact on their micro-enterprises:**
 - Limited thanks to autarchy character
 - Limited exposure to inflation
- **Impact on credit terms:**
 - Loans are more expensive
 - Might be more difficult to renew and to increase loan amounts
 - Currency: challenge if local currency devaluates or hard currency loans
- **Possible impact on environment (longer term)**
 - Remittances
 - Food Prices



- **Mitigation elements:**
 - Resilience – used to adverse conditions – “bounce back”
 - “Sectorial” and geographic flexibility
 - Investors want to protect what just emerged (IFIs, SRI, etc.)



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Possible impacts of the credit crunch on microfinance institutions

➤ **A more difficult environment:**

- Increase of cost of funds
- Lack of available funding for « fueling » further growth

➤ **Liquidity related risk factors:**

- Deposits: « runs » in countries where banks are impacted
- Short term credit facilities by local banks: might be cancelled/shortened
- Debt maturing short and mid-term: might not be renewed
- Foreign debt in hard currency: a challenge if local currency devaluates

➤ **Mitigation Elements:**

- Diversified funding is generally the rule
- All markets are not impacted in the same way and not simultaneously
- Open currency positions are kept to a minimum
- MFI management are supported by networks, international financial institutions (IFIs), etc.
- IFIs are monitoring the situation (emergency liquidity facilities – e.g. IADB ELF, Microfinance Enhancement Facility)



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Myagmar Pureusuren, leather sofa bed production, Ulan-Bator, Mongolia (June 2008)
Photo Johan Sauty © BlueOrchard

Fabricating and selling leather sofa beds. Myagmar is 44 years old, married and has a daughter of 24 who recently obtained a University degree in information technology. She started her small enterprise in 1991 with her husband. At first, they were making one to two sofas a week. In 2000, they took their first credit of 150,000 Mongolian Tugrik (MNT), the equivalent of EUR 85, from XacBank. The Pureusuren family and XacBank were mutually satisfied with their good business relations and continued it to this day. The couple is presently paying off its 15th loan amounting to 5 million MNT (about EUR 2,800). Thanks to these loans, they could buy leather and other materials and tools. They were also able to hire more personnel. Now, Myagmar is in charge of administration and management and her husband oversees the fabrication of the furniture and trains the workers. They have four employees. Each year, they train two new young apprentices. Presently, they fabricate more than 30 sofa beds per month and their good reputation reaches well beyond Ulan-Bator. They take orders from all parts of the country and they keep a stand on the city's open-air market.

XacBank - the first commercial bank in Mongolia with a social mission - started its operations in 1998, as a project under the UN Development Programme "Microstart". In 2001 it became a bank. By the end of its first year of operation in 2002, the Bank established its local presence in each of 21 provinces in the country. Since that time the Bank has continued to expand with new branch and extension openings, pursuing its strategy of providing accessible and transparent banking services to marginalized citizens in remote rural areas, including the nomadic herders. XacBank is offering a full range of innovative banking and inclusive financial products as well as personalized customer services targeted at various segments of the national market and supporting the business development in Mongolia. At the end of 2007, it numbered about 60,000 active borrowers and the average loan balance per borrower was of about EUR 950. Over half of its borrowers were women. Over a quarter of its loans amounted to less than EUR 200. More than one in five of its clients started out below the poverty line. XacBank has maintained business relations with BlueOrchard since 2003. The bank has received 9 loans over the past years through BlueOrchard, 6 of which were out of the **Dexia Micro-Credit Fund**. (See: www.xacbank.mn)



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- BlueOrchard,
a bridge to microfinance



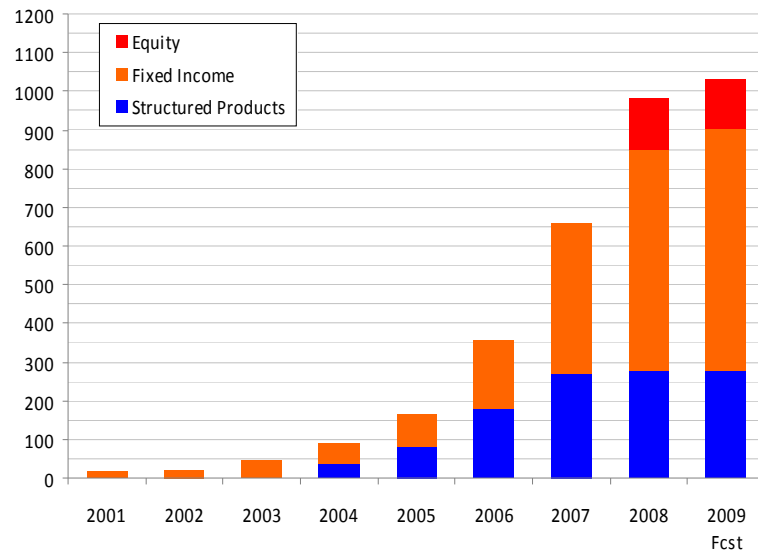
Making honey in Bosnia and Herzegovina
Photos by Johann Sauty © BlueOrchard



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BlueOrchard – world leader in commercial microfinance – at a glance

Total Assets under Management in Mio USD
(as of 31 December 2008, unaudited)



Swiss company specialized in microfinance investment products and services.

Qualified, motivated staff over 30 with presence in Geneva, New York, Lima.

Stable, committed shareholders' base and board.

Wide product range tailored to different financial needs and maturity of microfinance institutions (MFIs). Composed of four debt funds; three collateralized debt obligations (CDOs); and a private equity fund. Newly offers financial advisory to MFIs.

Total investment portfolio: as of 31 December 2008, nearly USD 670 million invested in almost 40 countries and close to 130 MFIs (both loans and equity investments).

Robust track record: over 760 loans made to MFIs since inception in 2001, without any defaults to date.

Targets top 300 MFIs world-wide.

Investors: private banking clients, institutional investors.



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Microfinance vehicles managed or advised by BlueOrchard

➤ Debt Funds:

➤ Dexia Micro-Credit Fund: Senior debt, fully hedged



➤ Saint-Honoré Microfinance fund: Senior debt, fund of funds and MFIs in Tier 1 and 2, hard currency.



➤ BBVA Codespa Microfinanzas : Senior debt, Latin America and Caribbean only, partially unhedged



➤ Microfinance Enhancement Facility (MEF): IFC/KfW_fund for microfinance, co-managed by BlueOrchard (new)

➤ Private Equity Fund:

➤ The BlueOrchard Private Equity Fund: Direct stakes + investments in third party equity funds



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➤ CDOs/CLOs:

➤ BOMSI (USD 87 million)

➤ BOLD 2006 (USD 100 million)

➤ BOLD 2007 (USD 111 million) rated by S&P



Morgan Stanley

Morgan Stanley



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Our flagship product – The pioneer debt fund DMCF

The Dexia Micro-Credit Fund (DMCF) invests in a diversified portfolio of short term loans to leading microfinance institutions globally

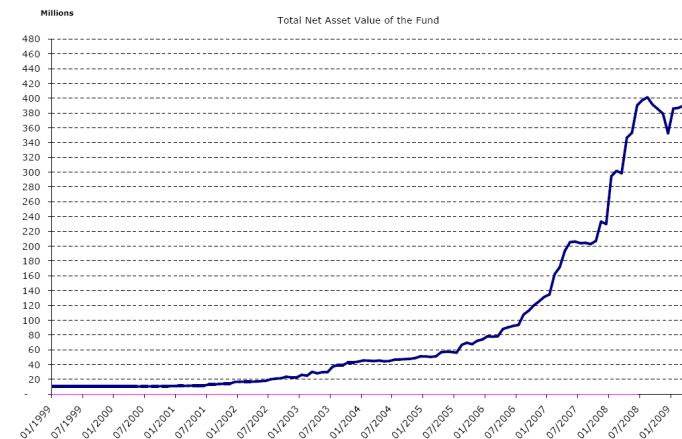
- Maximum loan maturity of 3 years; all loans hedged into USD.
- As of 4 March 2009: UDS 395 million in Assets, USD 389 million in Net Assets; 184 loans to 93 MFIs in 29 countries.
- Since inception, DMCF has invested in 579 loans to 144 MFIs in 39 countries; **no defaults!**
- Annualized return last 3 years of 6.25% in USD net.
- Organized as a Luxemburg SICAV part 2 (mutual fund), with monthly liquidity.

10th Anniversary!



LUXFLAG
microfinance
investment vehicle

Evolution of the Total DMCF NAV (in USD)



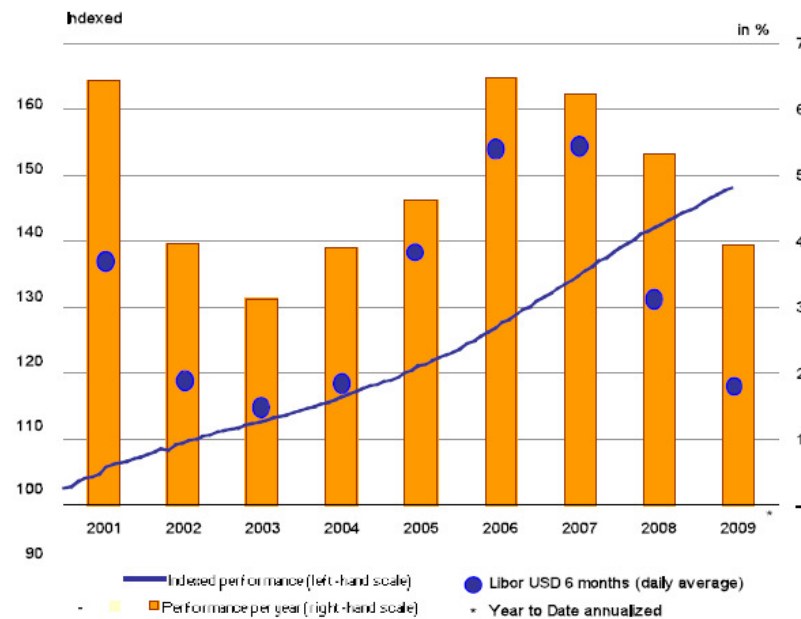


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The Dexia Micro-Credit Fund at a glance – performing well, steadily

The DMCF aims at a return of US 6 months Libor plus 100 to 200 basis points. Since 2001, Investment returns have been constant, showing low volatility and remaining fairly uncorrelated from the mainstream market.

Performance chart - USD share class





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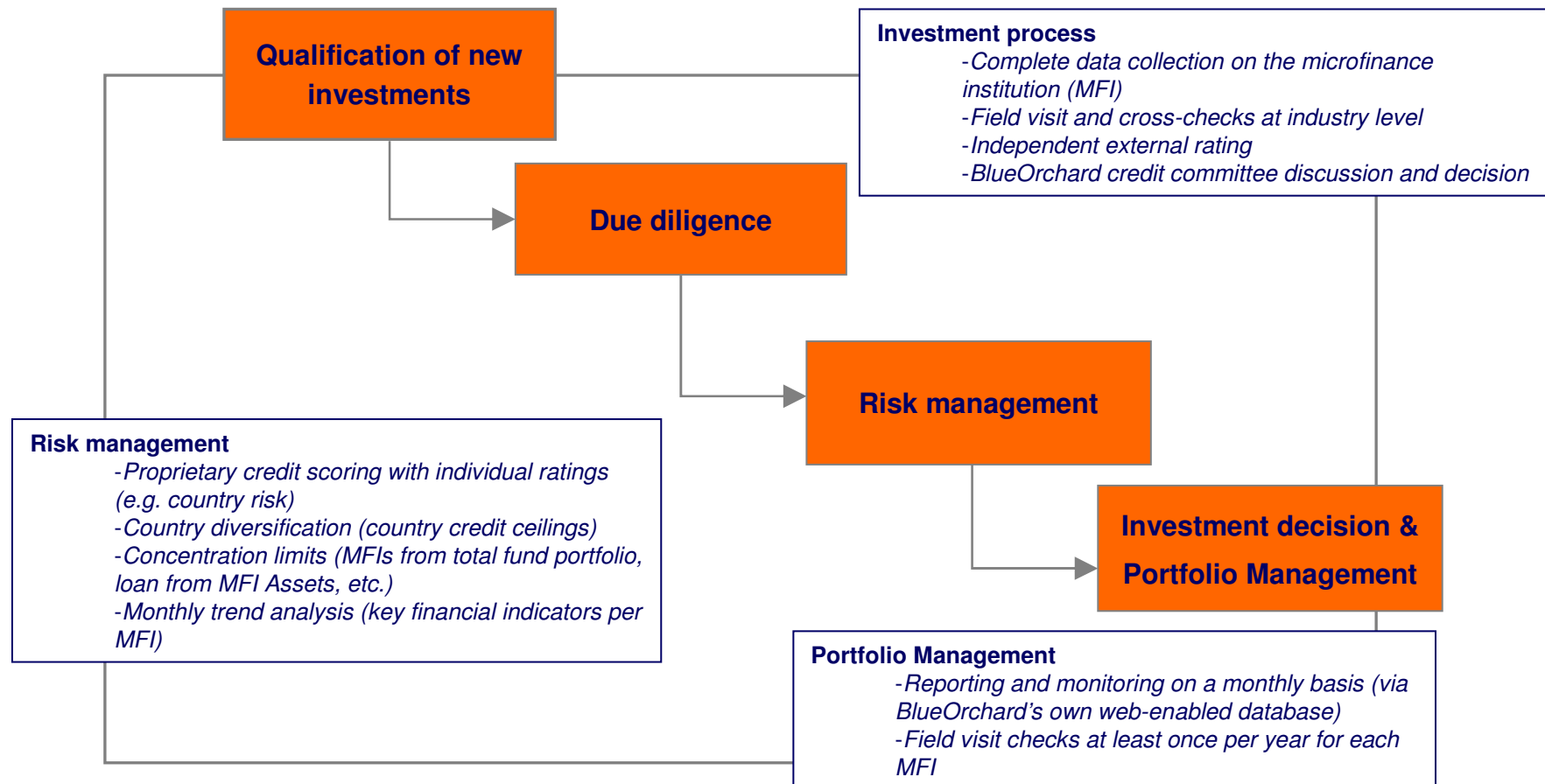
“The microfinance industry is making great strides in improving transparency on microfinance institutions’ social performance, responsible finance and environmental practices. Social reporting standards and social ratings methodology are now available and CGAP is working with donors and investors to launch a social rating initiative to support the development of a social rating market. At the fund level, Luxflag and the Association of Luxembourg fund Industry (ALFI) provide a quality label for the microfinance funds registered in Europe.” Xavier Reille, Lead Microfinance Specialist, The Consultative Group to Assist the Poor (CGAP).

The Dexia Micro-Credit Fund at a glance – social impact indicators

- Microfinance institutions borrowing from the DMCF serve over 7.5 million clients.
- 4 in ten of the beneficiaries were rural, isolated clients in 2008.
- In 2008, over half of the micro-entrepreneurs benefitting of credits were women.
- The average loan granted by microfinance institutions to micro-entrepreneurs from the DMCF was of USD 1,464 in 2008. (figures as of 31 Dec.2008).
- In 2007, almost 20% of the loan volume of microfinance institutions borrowing from the DMCF were destined to agriculture.
- The loans are typically granted to unbanked, low-income, isolated beneficiaries.



The debt products investment process as managed by BlueOrchard - overview





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Our innovative structured finance products – BOMS and BOLD

Example: BlueOrchard Loans for Development 2007 – BOLD 2 (product closed, not for sale)

- Luxembourg investment company, May 2007
- Targeting the best MFI worldwide with 5-year debt at fixed rate
- Total assets: USD 110 million, 20 MFIs, 12 countries, 7 currencies
- Part of portfolio extended in local currency, fully hedged for investors
- Rating of a large rating agency, Standard & Poor's, a first for microfinance!
- Access to mainstream institutional investors
- Manager and servicer: BlueOrchard
- Arranger and placement agent: Morgan Stanley



***Won the FT Award for
Sustainable
Deal of the Year
2008!***



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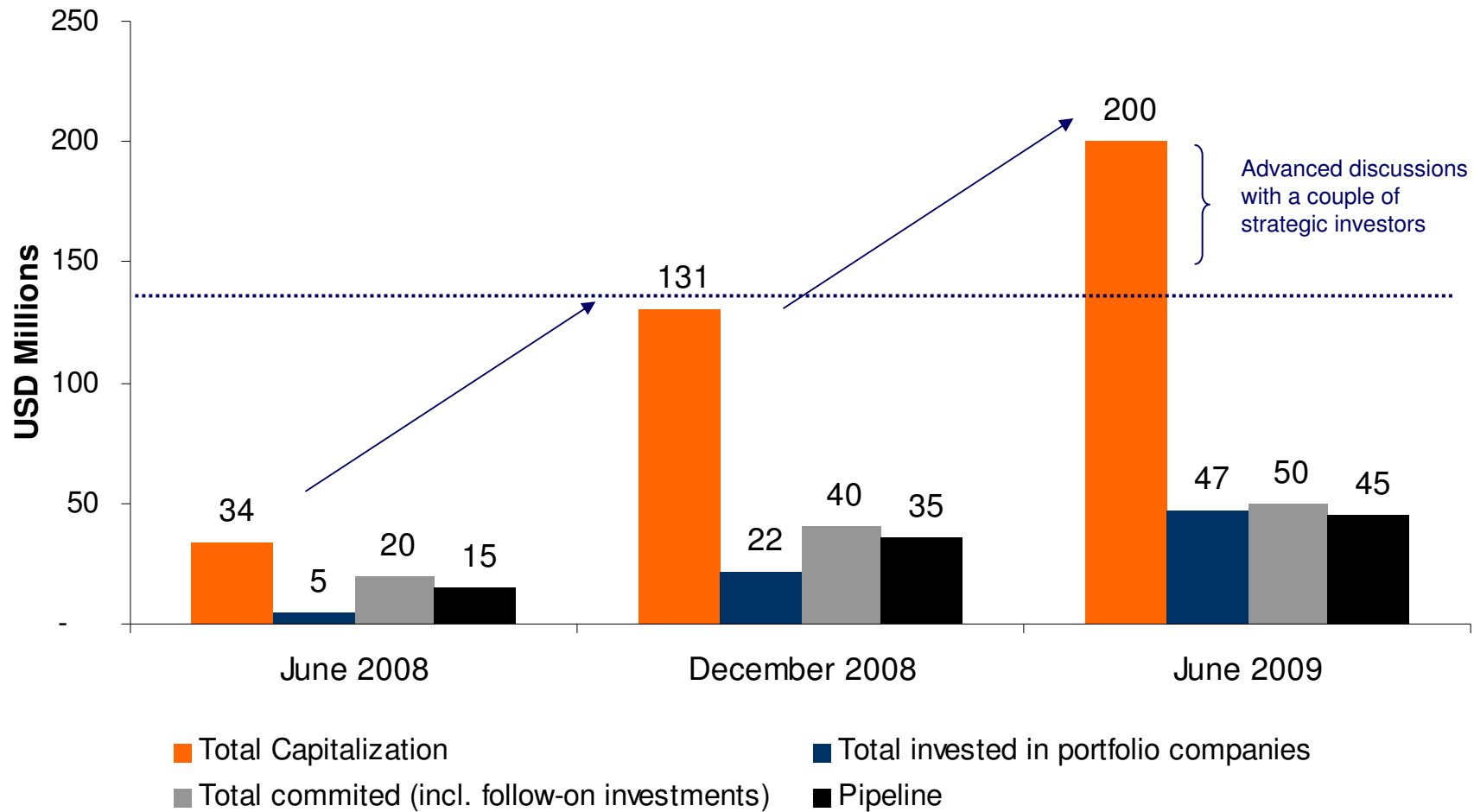
Our private equity fund – A new opportunity in microfinance

- Fast growth of MFIs - Need for capital for further leverage
 - ↘ Target leaders of the industry and offer strengthening of their capital base
- Transformation into regulated intermediary (in order to offer savings products), minimum capital requirements
 - ↘ Target very promising MFI in process of becoming regulated financial intermediaries
- Domestic and international expansion – need for fresh financial resources
 - ↘ Help leading MFIs expand their successful model in adjacent countries
- New countries with very promising untapped markets (China, Brazil, etc.)
 - ↘ Invest in start-up phase alongside other investors and technical assistance providers



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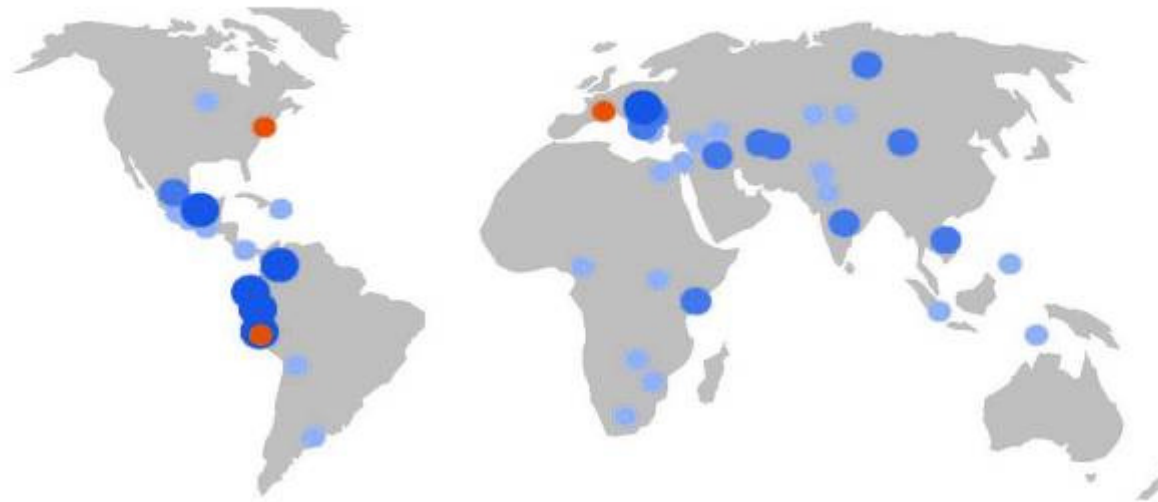
BlueOrchard's Private Equity fund - very active since its launch in December 2007









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BlueOrchard's global reach



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
-



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BlueOrchard's mission

Leading commercial microfinance intermediary

- Providing loans to microfinance institutions (MFIs) - BlueOrchard Finance S.A.
- Investing in the equity of MFIs and microfinance network funds - BlueOrchard Investments S.A.
- Proposing financial advisory services to MFIs

Mission

To empower the poor world-wide and improve their quality of life by promoting income-generating activities through private investments in microfinance.

Philosophy

Microfinance investments can simultaneously produce social progress and financial returns. Microfinance is 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.

Approach

- Provide innovative financial instruments and solutions for private placements in microfinance.
- Create value through solid long-term relationships by providing debt and equity to MFIs.

Values

- Establish trust through transparency.
- Innovate.
- Practice with integrity and professionalism.
- Engage with zeal and enthusiasm.



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BlueOrchard: Our greatest asset - our staff!

- All staff trained originally in business oriented, professional firms
- All came to microfinance by personal choice
- Business standards are applied all the while social goals are pre-eminent



10 nationalities, 10 languages spoken, vast field experience in microfinance



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Raising cattle in Mongolia
Photo Johan Sauty © BlueOrchard



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