BlueOrchard
Impact Investment Managers
Member of the Schroders Group

BlueOrchard Microfinance Fund

Annual Impact Report 2022

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Executive Summary

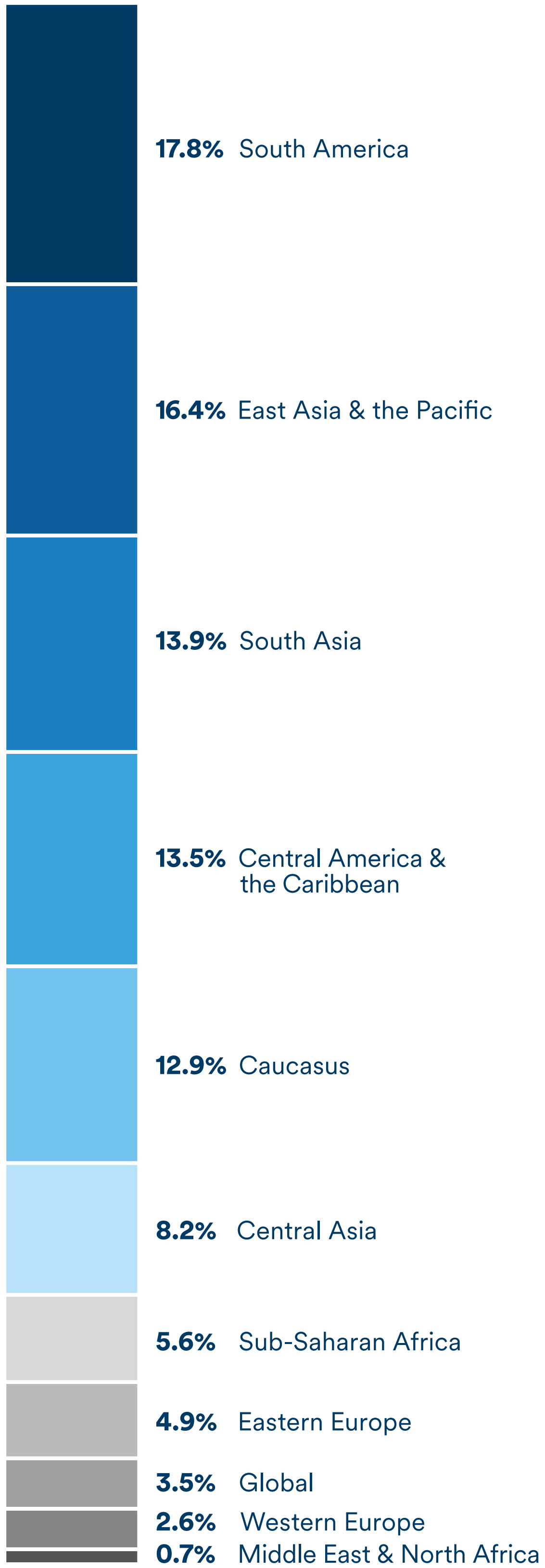
The BlueOrchard Microfinance Fund Impact Report 2022 (the "Report") takes a deep dive into the impact achievements of the BlueOrchard Microfinance Fund (also referred to as the "Fund" or "BOMF") over the past year. This Report is to be read in conjunction with BlueOrchard's Impact Report and with BlueOrchard's extensive impact measurement and management activities as described by numerous publications of the BlueOrchard Academy.

The key components of the Report are: i) an introduction to BlueOrchard, ii) a presentation of the Fund's impact strategy, iii) an overview on BlueOrchard's methodology for measuring and managing impact, and iv) the impact of the portfolio as of December 2022.

The objective of this Report is to highlight what the Fund has achieved in terms of impact to date as well as lessons learned, and how it has contributed to the development of financial inclusion as a sector over 20+ year in 80+ emerging and frontier markets.

The achievements of the Fund over the years are made tangible by its impact footprint, which offers concrete examples of how the Fund's portfolio financial institutions (the "FI(s)") have addressed financial inclusion needs in their own respective markets. Case studies from FI end-clients, namely the entrepreneurs and businesses that receive FI funding, illustrate this point and provide ground level evidence of the Fund's impact. Finally, because we view it as our obligation to learn and apply those lessons, the Report concludes with an overview of what we have seen and taken away from our experience originating, managing, and monitoring a FI portfolio over more than 20 years.

Regional Exposure



Please note while some financial institutions we invest in might have their headquarters in developed countries, the deployment of the loan takes place in emerging markets only, in line with our impact strategy.

Impact Theme: Financial Inclusion

Impact Dashboard (as of 31 December 2022)

55 countries invested in

165 institutions financed

100% investments in Emerging Markets

48% BlueOrchard loans provided in local currency[1]

126.2m jobs created by FIs in the portfolio[2]

25.8m MSMEs[3] supported by FIs in the portfolio

82% female end-beneficiaries

53% rural end-beneficiaries

USD 13.8k average loan size to MSMEs[4]

167.5k Medium **31.4k** Small **3.2k** Micro

[1] Local currencies are hedged on fund level to reduce risk.
[2] Details on the methodology can be found on p. 19.
[3] Micro, Small, and Medium Enterprises.
[4] Details on the classification can be found on p. 19.

About BlueOrchard

BlueOrchard (or “the Firm”) is a leading global impact investment manager and member of the Schroders Group. As a pioneer in the growing field of impact investing, the Firm has a track record of over 20 years across a range of strategies, a global reach of 282 million beneficiaries, and manages the largest commercial microfinance fund in the world (the BlueOrchard Microfinance Fund). As an impact fund manager, we combine social and environmental impact with a positive financial return. BlueOrchard has invested in more than 105 emerging and frontier markets through a network of over 490 financial institutions, 11 companies in the climate insurance sector, and 2 sustainable infrastructure projects. BlueOrchard’s impact investing work aims to generate positive impact in the following areas: inclusive finance, gender equality, education finance, climate insurance, energy efficiency, renewable energy, affordable housing, and sustainable infrastructure. Through the impact generated in these 8 thematic areas, we currently contribute to 15 out of the 17 SDGs[5] across all three ESG[6] dimensions.

BlueOrchard has proven itself time and time again as an investment platform for those seeking real impact, and we have done so over more than two decades by leveraging teams of locally based experts and an outstanding knowledge of our asset classes. Our diverse and global team includes professionals from different cultures, nationalities, and backgrounds, spread across seven offices on four continents. Everyone on the BlueOrchard team, whether in Switzerland, Georgia, Kenya, Luxembourg, Peru, or Singapore is bound by a shared commitment to the real difference impact investing can make.

7 offices | **4** continents | **145+** employees | **52%** female | **35** nationalities | **35+** languages

105+ countries invested in* since inception | **490+** institutions | **USD 10bn** invested | **282m** people reached

Countries invested in* as of 30 December 2022 since inception

Local offices

Contribution to 15 out of the 17 SDGs

Our Impact Track Record

(selection)

2007

LuxFLAG Microfinance Label awarded to BOMF for the first time. BlueOrchard receives it again for BOMF and other funds in subsequent years.

2009

BlueOrchard launches first Social Performance Impact Reporting and Intelligence Tool (SPIRIT).

BlueOrchard becomes signatory to the UN Principles of Responsible Investments.

2014

BlueOrchard supports the creation of the SPI4 Alinus tool for Microfinance Institutions.

2018

BlueOrchard’s women empowerment strategy qualifies for the 2X Challenge. In 2022, BlueOrchard joins 2XCollaborative, a group of the world’s leading gender impact investors.

2019

BlueOrchard actively contributes to the conceptualisation of the Operating Principles for Impact Management, is one of the first signatories, becomes member of its advisory board in 2020, and verifies BOMF and its public assets practice in alignment with them by Tideline/Bluemark in 2020 and 2021.

2020

BlueOrchard contributes to the conceptualisation and launch of GIIN’s IRIS+ Impact Core metrics system.

BlueOrchard launches the B.Impact™ Framework.

2021

BlueOrchard becomes member of the G7 Impact Taskforce, established under the UK’s G7 2021 presidency.

[5] Sustainable Development Goals
[6] Environmental, Social, and Governance

*The last loan in Russia matured in May 2016. Since then, BlueOrchard has strictly avoided exposure in Russia on account to country risks.

All figures are as of December 2022

Impact Integration Across the Investment Process

Impact management is at the heart of BlueOrchard's investment process. The Firm has an investment team of 68 impact investing specialists. In addition, a dedicated team of 10 professionals focuses on the development of our impact practice, processes, and tools. BlueOrchard also maintains a team of technical assistance experts who support our portfolio companies with the implementation of a wide range of value creation projects designed to enhance the impact that our investees can achieve thanks to our contribution as an investor and technical assistance partner.

Impact & Technical Assistance Teams

10 professionals in impact team

3 professionals in technical assistance team

Impact team collaborating with

1 — Investment Strategy
Define impact theme as part of the investment strategy (Theory of Change)
Investment team & Investment solutions

2 — Investment Sourcing
Impact theme driving the selection and filtering the investment universe opportunities
Investment team

3 — Due Diligence
Conduct separate and independent impact & ESG assessments as part of the overall DD process
Pre-condition to disbursement
Investment team, Risk team & Operations team

4 — Monitoring and Engagement
Monitor annual and quarterly impact and ESG data reporting
Engage accordingly through or with investment team
Involve technical assistance for certain strategies for deeper engagement
Investment team & Technical assistance team

5 — Reporting
Report on impact and ESG data to investors, regulators, and the general public
Investor relations team & Communications team

All figures are as of December 2022

The BlueOrchard Microfinance Fund (BOMF)

The BlueOrchard Microfinance Fund (contributes to economic and social development and improves access to financial services to vulnerable communities with a strong focus on micro, small, and medium enterprises (MSMEs) in emerging and frontier markets. Established in 1998, the Fund is a pioneer with a track record of over 20 years in financial inclusion. As of 31 December 2022, the Fund has supported over 1 million MSMEs and is an Article 9 Fund under SFDR[7].

Impact Strategy

BOMF provides senior and subordinated debt to microfinance and other financial institutions in emerging and frontier markets. These in turn cater to the needs of low-income group MSMEs who have difficulty accessing funding. The capital allows individuals and MSMEs to finance their businesses in sectors such as agriculture, trade, and service, as well as paying for school fees and health expenditure. By generating such outputs and outcomes, the Fund aims to contribute to reducing inequality in emerging markets.

Including the Excluded

Financial inclusion is a critical lever for economic and social development. It increases resilience against economic shocks and negative externalities,[8] especially for the poorer and more vulnerable populations. It supports the growth of MSMEs and creates additional jobs. While there has been much progress in financial inclusion with average bank account ownership rising from 51 % in 2011 to 76 % in 2021, there are still 1.4 billion adults without a bank account, and MSMEs still face significant barriers to adequate financial services.

For further details please read:

- Impact Private Equity – Fostering Financial Inclusion in Emerging Markets
- Why investors should care about financial inclusion

Fostering Gender Equality

The vast majority of those unbanked are women (about 800 billion),[9] and financial inclusion plays a powerful role in furthering their economic empowerment. Gender considerations are still relevant, especially after Covid-19 having had a disproportionate effect on women. The majority of people living in extreme poverty are still women and girls, amounting to a staggering 435 million, and crises, ranging from those like Covid-19 to climate change, affect women more due to their structural vulnerability.[10]

Microfinance has played a key role in providing women and their households access to financial services in emerging markets. A large share of microfinance portfolios consists of women, which is also reflected in the Fund – 82 % of end borrowers reached through BOMF are women. To achieve more inclusion of women in microfinance, a traditional gender-neutral approach is often not sufficient: women entrepreneurs are more likely to be rejected for a loan; the amount of the loan is usually lower, and terms are less favourable; and collateral requirements are more stringent than for men. BOMF supports several financial institutions that primarily focus on women clients and empowers more than 22 million women, as demonstrated by client stories.

For further details please read:

- Why tackling gender inequality is key to delivering real financial inclusion

[7] Sustainable Finance Disclosure Regulation. We note that at time of this publication, the updated Level 2 disclosure is awaiting approval with the Commission de Surveillance du Secteur Financier (CSSF)

[8] Moore, Niazi, Rouse, & Kramer (2019)
[9] World Bank Global Findex (2021)
[10] UNDAII figures are as of December 2022

Grace

Animal Farmer, Tanzania

Grace Kissiri is a mother of five and a very proud and independent woman, who has built her wealth from scratch by combining hard work and endurance with considerable patience. What began with just a few cows has gone from strength to strength, and she has now expanded operations to also include fish, pigs, beans, and maize.

←
Trust and Support
Thanks to eight loan cycles over the past 20 years, Grace has been able to grow her business significantly and build her own house. Today, she says that having a financial partner by her side who trusted and supported her made a big difference, allowing her to access credit and expand her business faster than she would have been able to on her own.

→
Positive Impact on Generations
Grace has managed to provide stability and prosperity for her family and an education for her children. Her eldest daughter is attending university and plans to take over her mother's business.

Lucia

**Artisan,
Peru**

Lucia Andrea Vega Prado learned the art of straw weaving at a young age and has now set up a small workshop in her home where she makes purses, cups, and cup holders from palm, junco, and toquilla straw. The straw has a natural colour. Therefore, she dyes it according to her customers' wishes with natural substances such as firewood and alum.

↑
Traditions Passed Down through Generations
The art of straw weaving has passed from generation to generation within Lucia's family. From a very young age, she watched her mother work with the toquilla straw. Today, she is teaching the craft to her own children.

→
An Ambitious Businesswoman
Lucia's plan is to create her own association where she can lead a group of artisans. She also wants to set up a stand with showcases in Catacaos, her hometown and one of the most important tourist regions in northern Peru, where she can display all the handcrafts she makes.

UN Sustainable Development Goals (SDGs) Addressed

Through providing loans to microfinance and other financial institutions targeting low-income groups and MSMEs, the Fund allows them to participate in productive activities and move out of poverty.

Through providing loans to microfinance and other financial institutions targeting women, the Fund allows them to have access to financial services and participate in productive activities, leading to empowerment and inclusion.

Through providing loans to microfinance and other financial institutions targeting SMEs[11], the Fund fosters employment and economic growth through SMEs.

Through providing loans to microfinance and other financial institutions targeting low-income groups or immigrants, the Fund allows them to have access to financial services and participate in productive activities, leading to empowerment and inclusion.

Through providing loans in emerging markets, the Fund mobilizes private capital and promotes the investment viability of the respective regions to strengthen the global partnership to achieve the SDGs.

[11] Small and Medium Enterprises

Impact Risk[12]

The main impact risks associated with financial inclusion debt are:

1) External risk: As we invest in emerging and frontier markets, we face risks posed by the macro environment (e.g., political risk, country risk) that can disrupt our investees' ability to deliver the originally intended impact. On a fund level, we mitigate this risk through diversification across various regions and conduct rigorous assessments on macro risk based on regulatory insights and market intelligence. BlueOrchard's country risk report and the political risk summary of a country is compiled by local staff with direct access to market intelligence and the risk management team.

2) Execution risk: There is always a risk that FIs we invest in do not deliver on the intended activities and outcomes level. We mitigate this risk through extensive on-site due diligence where the impact objectives are discussed in detail and checked for feasibility. Our local presence with seven offices across four continents ensures we are close to our investees, local regulators and policy makers, and have a deep understanding of them that minimises the execution risk.

3) Alignment risk: In case the impact is not locked into the business model of an institution, there is a risk of a misalignment or mission drift. For instance, a FI could diverge from its original mission and address a different target sector that is not aligned with the principles of the Fund. To address this risk, we only select FIs where impact is core to their mission and target group, but also regularly monitor their data through our proprietary system, which will flag any deviations. In addition, the Fund also requires a use of proceeds clause to establish the objective of a Fund investment in each legal agreement.

4) Unexpected impact risk: It is important to acknowledge that despite good intentions, there is a risk that unexpected negative impact is experienced by our end beneficiaries. To prevent any unexpected negative consequences, we conduct a thorough ESG due diligence with a Do No Significant Harm (DNSH) principle. In cases we see gaps, we engage with our investees and collaborate with other impact-driven investors such as development finance institutions (DFIs).
BlueOrchard performs rigorous ESG assessments on their investees, particularly focusing on the "S". We ensure that FIs have appropriate lending and underwriting practices, policies, and procedures that include fair treatment of customers, repayment capacity analyses, and responsible collection practices. The assessment includes criteria such as debt service coverage ratio, loan term (interest rate levels, fixed or floating rates, repayment period), value of collateral, among others.
The development of the formal microfinance sector has contributed to greater consumer protection, including protection against over-indebtedness and transparency through the establishment of credit bureaus and associations of microfinance institutions. As the market grows and financial institutions evolve into receiving banking licenses, much of the MSME sector falls under banking and non-banking regulation and supervision, increasing protection to clients.

[12] A full list of impact risk contains evidence risk, external risk, stakeholder participation risk, drop-off risk, efficiency risk, execution risk, alignment risk, endurance risk, and unexpected impact risk. (Impact Frontiers)

Artisan, Philippines →

Impact Methodology

BlueOrchard has maintained a rigorous ESG and impact management practice and this has been upgraded over time to reflect on our lessons learned and investment experience of the past 20+ years. We have committed significant resources to developing proprietary ESG and impact management tools as well as tracking the Fund's ESG & impact footprint. This has enabled the Fund to deliver both stable financial returns and a clear, demonstrable set of impact results to both our investors and portfolio FIs.

B.Impact™ Framework

In 2020, BlueOrchard launched an updated impact management and ESG assessment framework called B.Impact™. B.Impact™ consists of managing and measuring ESG risks and actual impact performance versus impact potential across asset classes and impact themes. It includes major enhancements in policies and procedures, as well as at product and tool levels, such as the upgraded and rebranded SPIRIT[13] into an impact and ESG assessment tool.

B.Impact™ follows the Operating Principles for Impact Management ("Impact Principles")[14] that were officially released in April 2019 after extensive consultations with asset owners and asset managers, including BlueOrchard. The Impact Principles are a best-in class investment framework that has been designed to embed ESG and impact across all stages of the investment process.

B.Impact™ sets itself apart through its ability to measure and evaluate the social and environmental impact across different types of FIs and projects, including microfinance institutions ("MFIs"), banks, financial technology platforms, insurance technology and underwriting platforms, and a range of other corporate and project-finance borrowers.

In addition, B.Impact™ and its impact measurement and management methodology have been peer reviewed by an independent verifier, BlueMark. BOMF was among the first funds to participate in the verification process for the alignment and rigour of our impact methodology, demonstrating the commitment of BlueOrchard to further advance transparency and integrity and contribute to the development of the impact investing ecosystem.

[13] Social Performance Impact Reporting and Intelligence Tool

[14] The principles are: 1) define strategic impact objective(s) consistent with the investment strategy; 2) manage strategic impact on a portfolio basis; 3) establish the manager's contribution to the achievement of impact; 4) assess the expected impact of each investment, based on a systematic approach; 5) assess, address, monitor, and manage potential negative impacts of each investment; 6) monitor the progress of each investment in achieving impact against expectations and respond appropriately; 7) conduct exits considering the effect on sustained impact; 8) review, document, and improve decisions and processes based on the achievement of impact and lessons learned; 9) publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

B.Impact™ Framework

ESG

Assesses an investment's **risks and practices** in relation to three categories:

- Environment
- Social
- Governance

ESG assessment – conducted using a dedicated tool, the ESG Scorecard, evaluating the practices of investees that could result in ESG and sustainability risks.

Impact

Assesses the **potential impact** of each investment along five dimensions:

- What – Investment Intent
- How Much – Impact KPIs
- Who – End Beneficiaries
- Contribution – Value Added
- Risk – Impact Risks

Impact assessment – conducted using a dedicated tool, the Impact Scorecard, evaluating the potential impact of each investment following the five dimensions of the Impact Management Project (IMP).

SDG

Provides an **SDG mapping and alignment** at investment and fund level:

- SDG Universe
- SDG Material Assessment
- SDG Impact KPIs Matrix
- SDG Reporting

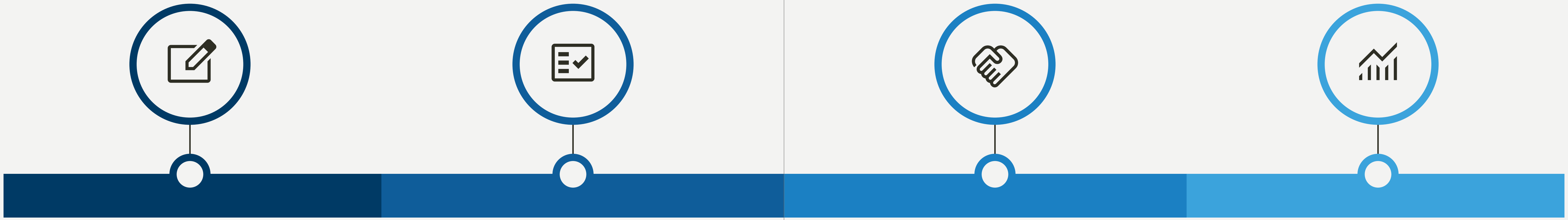
SDG mapping – impact KPIs[15] mapped against the UN SDGs on an investee and fund level.

aligned with

RepRisk · Operating Principles for Impact Management · GIIN · Impact Management Project · Microfinance LuxFLAG Label · Signatory of: PRI Principles for Responsible Investment · United Nations Global Compact

[15] Key Performance Indicator(s)

Impact Integration into the Investment Process



Step 1
Deal Sourcing

During the deal sourcing phase, the impact objective of the Fund serves as a key guidepost in the development of an investment pipeline. In the case of BOMF, the objective is to expand access to financial services to communities in emerging and frontier markets.

Through providing debt capital, the Fund aims to address: SDG 1 No Poverty, SDG 5 Gender Equality, SDG 8 Decent Work and Economic Growth, SDG 10 Reduced Inequalities, SDG 17 Partnerships for the Goals. Only FIs that comply with the ESG criteria of BlueOrchard are eligible for inclusion in the Fund portfolio.

Step 2
Due Diligence

In the due diligence phase, BlueOrchard uses the proprietary B.Impact™ framework to conduct an on-site assessment of the FI's impact. The companies are assessed based on the ESG and Impact Scorecards. Relevant documents like HR policy, code of conduct, and E&S[17] policy, self-reported data, as well as third party data such as RepRisk are used in this process.

While performing the ESG analysis, the Impact Management Team and Investment Team also assess any ESG gaps that, if addressed, would improve the company's processes and practices, as well as increase the probabilities of achieving the Fund's impact target and financial returns. During the above process, areas of potential improvements are identified.

Environmental risks
One area of increasing importance for the Fund is the assessment of environmental risks. While some small-scale microfinance institutions have low environmental risks associated with their portfolio, larger institutions might be more exposed as a result of the composition of their portfolios. We therefore focus on sensitive economic sectors with higher environmental risks and check if the FI's environmental management system can properly mitigate these risks.

Step 3
Deal Negotiation & Approval

For the deal negotiation and approval, the ESG and impact assessment results are discussed alongside the financial and operational analysis at the Credit and Investment Committees. The loan is disbursed only after the ESG and Impact Scorecards are approved by the Impact Management Team. In addition, to address ESG gaps that have been identified as areas of potential improvements, BlueOrchard includes legally binding ESG covenants in the loan contract. Impact targets and respective indicators are also key components of the tracking of impact outputs and outcomes as agreed and negotiated with the investees.

Step 4
Monitoring & Engagement

All companies receiving funding from BlueOrchard managed and advised funds are closely and regularly monitored on both the impact and ESG performance. Due to the specific nature of loans to financial institutions, BlueOrchard uses a proprietary investment management system, BlueOrchard Financial Services (BOFS), which has been in use since 2012 to monitor investments. All companies are required to regularly report a set of pre-defined KPIs informing BlueOrchard of companies' impact and ESG progress. Any material negative or positive change in the business model potentially affecting the environmental, social, or governance factor or the impact targets of an investee can trigger a review of the initial assessment followed by engagement action.

Environmental efforts
One key area of engagement for BOMF nowadays concerns the environmental footprint of the FIs. While some are making huge efforts to measure their carbon footprint, there is still work to do given the complexities of measuring greenhouse gas emissions, especially scope 3. The Fund has started estimating the carbon footprint of FIs through external providers (for example using the Joint Impact Model), and we are also actively engaging with the institutions on measuring their own footprint, as this is the first step towards setting net zero targets.

[17] Environmental & Social Policy

Impact Performance Indicators

As of 31 Dec, 2022[17]

48%
BOMF loans provided in local currency[18]

55
countries invested in

165
institutions financed

25.8m
MSMEs supported by FIs in the portfolio

1m
MSMEs supported by BOMF

439
MSMEs supported by BOMF per million invested

USD 13.8k
Average loan size to MSMEs[19]

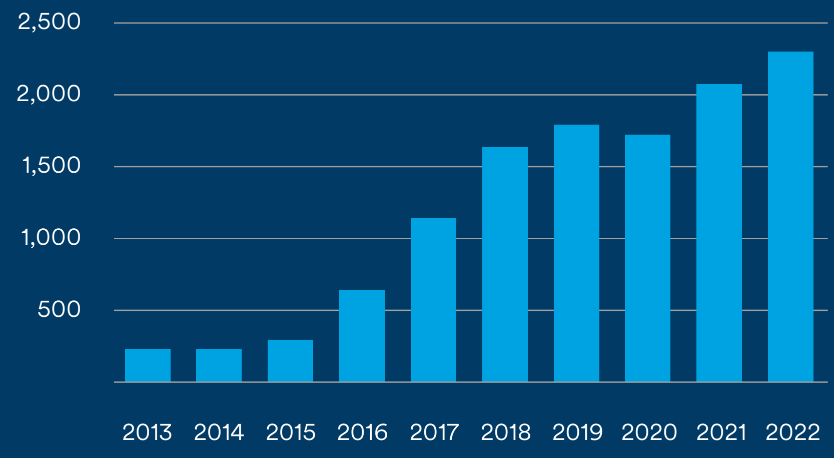
167.5k
Medium

31.4k
Small

3.2k
Micro

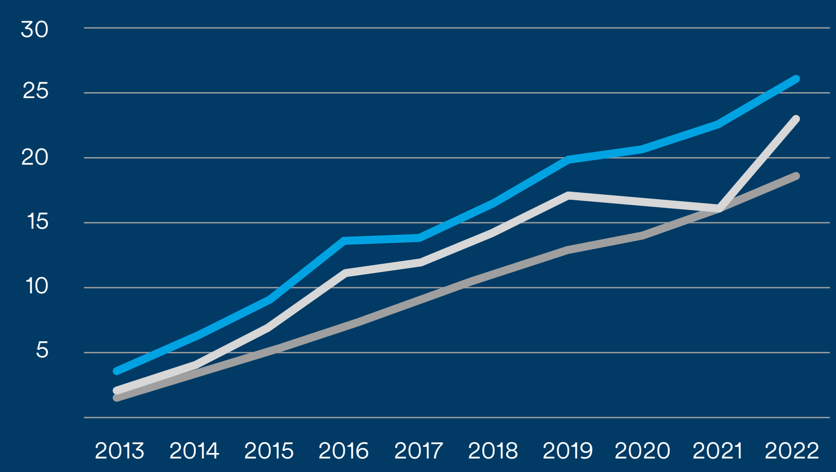
BOMF Investment Volume (trend over the last 10 years)

USD in millions per year



MSMEs supported by FIs in the portfolio

Number in millions per year



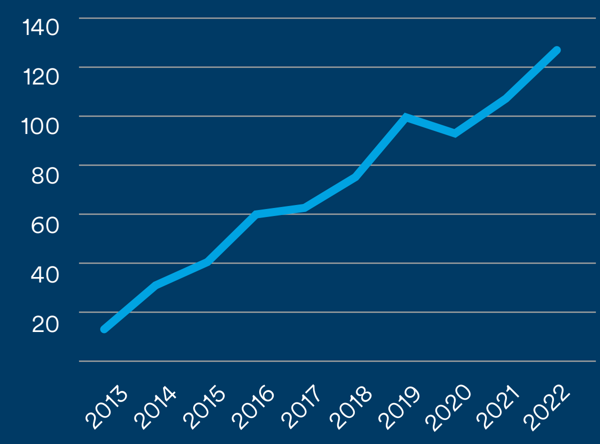
MSMEs supported by FIs in the portfolio
Female led MSMEs supported by FIs in the portfolio
Rural MSMEs supported by FIs in the portfolio

[17] The data is as of 31 December, 2022 and may slightly differ from the December 2022 factsheet since not all end of year data was up to date at the time of publishing the factsheet.

[18] Local currencies are hedged on fund level to reduce risk.
[19] Details on the classification can be found on p. 19.

Jobs Created or Maintained by FIs in the Portfolio

Number in millions per year



126.2m
by FIs in the portfolio

4.4m
by BOMF

Methodology
The size and classification of the underlying MSME clients are based on their loan size at origination (in USD). The following applies:

-Microenterprises
if loan is below USD 15k at origination.

- Small Enterprises
if loan is between USD 15k to USD 150k at origination.

- Medium
if loan is between USD 150k to USD 250k at origination.

For the number of jobs created, the number of MSMEs are multiplied with the average number of employees for each enterprise size category as defined by the IFC[21].

SDG Alignment

25.8m
MSMEs supported by FIs in the portfolio

25.2m
micro-borrowers supported by FIs in the portfolio

USD 13.8k
average loan size to MSMEs[21]
- Medium: 167.5k
- Small: 31.4k
- Micro: 3.2k

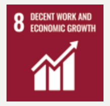
13.7m
rural clients reached by FIs in the portfolio

53%
rural clients reached by FIs in the portfolio

USD 2.3bn
investments in developing countries providing access to financial services

21.3m
female clients reached by FIs in the portfolio[22]

82%
female clients reached by FIs in the portfolio



25.2m
micro-borrowers supported by FIs in the portfolio

595.1k
SMEs supported by FIs in the portfolio

126.2m
job opportunities created or maintained by FIs in the portfolio (estimation based on BOF methodology)

25.8m
MSMEs supported by FIs in the portfolio

25.2m
micro-borrowers supported by FIs in the portfolio:

USD 13.8k
average loan sizes to MSMEs reached by FIs in the portfolio

13.7m
rural clients reached by FIs in the portfolio

53%
rural clients reached by FIs in the portfolio[23]

USD 2.3bn
investments in developing countries providing access to financial services

USD 2.3bn
investments in developing countries providing access to financial services

[20] International Finance Corporation: Small Business, Big Growth, 2021
[21] Details on the classification can be found above.

[22] Based on reported data with 71% data coverage.
[23] Based on reported data with 61% data coverage.

Portfolio Breakdown

As of December 2022, BOMF supports 165 banks and financial institutions, some of them having been in our portfolio and growing with us for over 20 years. The top five holdings are as stated to the right, comprising 13 % of the total portfolio. JSC Credo Bank is a representative case of the kind of financial institutions we invest in, and a case study can be found on page 36.

Top 5 holdings

JSC Credo Bank
Produbanco
KMF
ProCredit Holding
TBC BANK

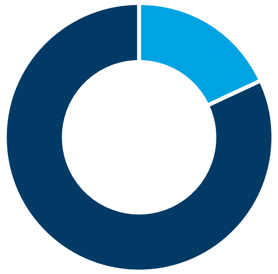
ESG Assessments Breakdown

22%
low ESG risk

78%
medium ESG risk

In line with the investment policy and targets of BOMF, we only invest in financial institutions with low and medium ESG risk. An institution with a medium ESG risk would typically have low to medium sector risk exposure in their lending portfolio as well as a good code of conduct, and social policy to prevent over-indebtedness. An institution with low ESG risk would typically have low or close to no sector risk exposure in their lending portfolio, institutionalised policies and well documented processes in place to manage social risks such as over-indebtedness.

Impact Assessments Breakdown

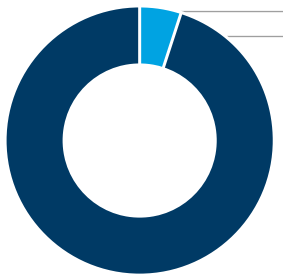


18%
very high impact

82%
high impact

In addition to the ESG criteria, we only invest in financial institutions that fall into the high or very high impact category based on the Impact Scorecard assessments. The evaluation is mainly based on how much potential impact will be created, who is the target beneficiary, and what is our contribution as an investor. An investment with a high impact would typically benefit a large scale of people that were typically underserved, such as rural or female client groups. Investments that fall under the very high impact category are usually in contexts where the clients are particularly underserved, such as in frontier markets or intersectionality of rural and female client groups.

Financial Institution Tier Breakdown



Tier 1
- Well managed and profitable
- Sustainable as a business model
- Min USD 75 million in assets
- Min 5 years in operation

Tier 2*
- Promising
- Transforming and growing
- Min USD 30 million in assets
- Min 3 years in operation

All figures are as of December 2022

*Tier 3 is defined as less than USD 30 million.

Regional Exposure Breakdown

17.8% South America
51% female | 37% rural

16.4% East Asia & the Pacific
81% female | 69% rural

13.9% South Asia
96% female | 62% rural

13.5% Central America & the Caribbean
62% female | 45% rural

12.9% Caucasus
51% female | 33% rural

8.2% Central Asia
43% female | 62% rural

5.6% Sub-Saharan Africa
76% female | 41% rural

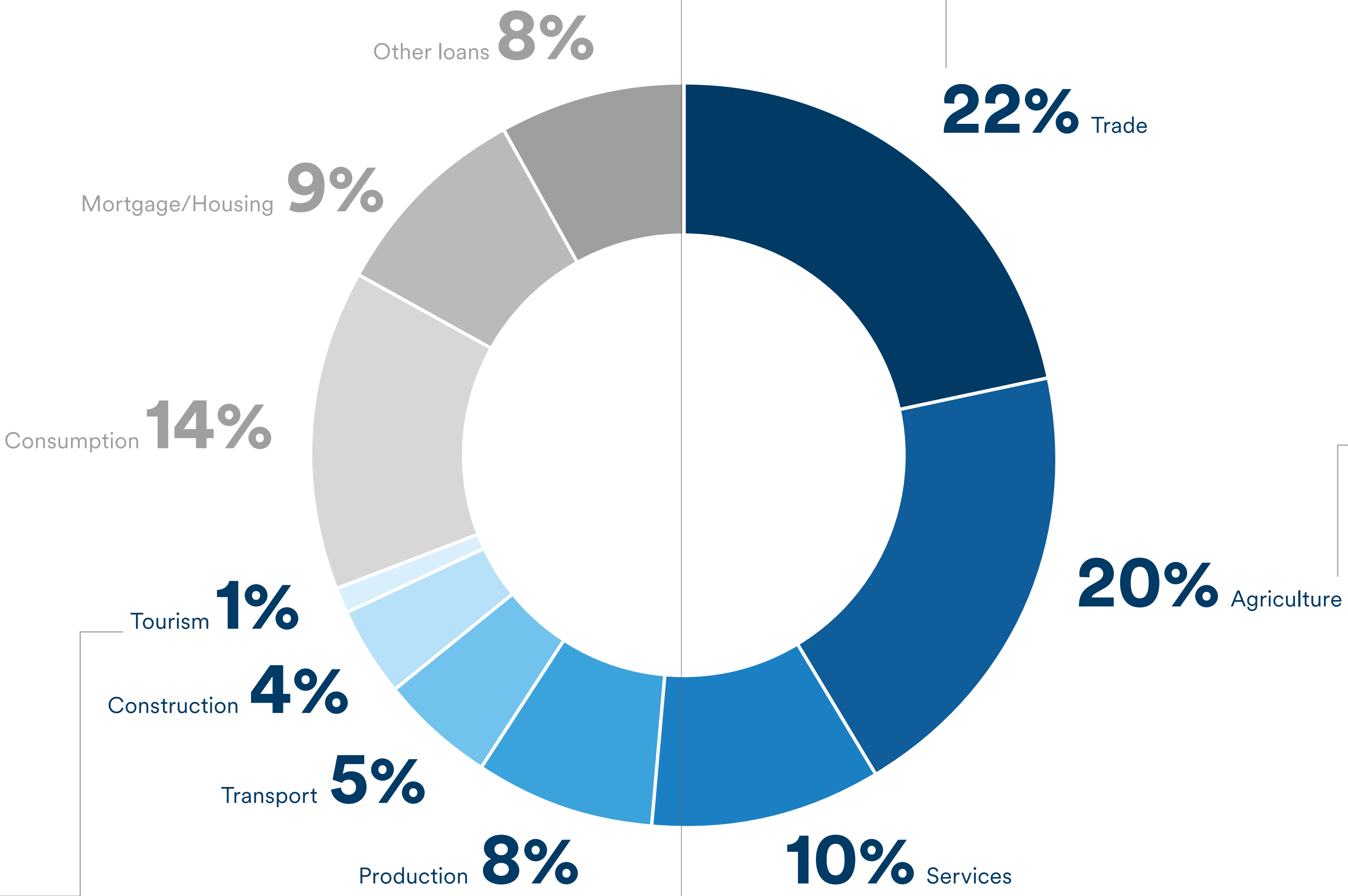
4.9% Eastern Europe
35% female | 43% rural

3.5% Global
2.6% Western Europe
0.7% Middle East & North Africa
60% female | 58% rural

Sector Exposure Breakdown

Viter Laban
Grocery Store Owner, Peru

Vladimir Qarqashadze
Guest House Owner, Georgia



Cesar Salirosas
Fruit and Vegetable Farmer, Peru

Reni Nuraeni
Artisan, Indonesia

Productive loans

Trade
Small shops selling a variety of products, typically employing 1–2 persons. Products will normally include fresh and packed food and small household goods.

Agriculture
Small to medium-sized farms where the owner cultivates different products that are sold on the local market. Producing a variety of crops mitigates risk. These farms may also raise livestock.

Service
Loans to the service sector cover a range of businesses, including selling meals, accounting services for SMEs, or IT services. These loans are typically working capital loans.

Production
Mostly loans to manufacturing such as tailors, handicraft, furniture production, or metal works.

Transport
Asset financing for the acquisition of two-wheeler and three-wheeler vehicles. These are a critical aspect of transportation infrastructure, a major source of employment, and a critical enabler of the digital economy. Another example would be taxi operators or small urban buses.

Construction
Loans to construction companies support part of the construction project – for instance floors, bathrooms, or woodwork. Developers are generally not part of the portfolio.

Tourism
Small hotels or hostels, tourist guides

Other loans

Other
Loans to education providers, health centres, or other specific loans

Consumption
Individual borrowers have a wide range of applications for consumer loans ranging from paying school fees for children, health expenditure, agribusiness, and asset acquisition that enhances the quality of life for households. Several of our investees undertake periodic surveys to check the use of proceeds.

Mortgage/Housing
Loans for housing improvements or incremental housing (building the house in incremental steps) are typically small-size investments that help microentrepreneurs improve the quality of their homes.

Rashida

Tailor, India

Rashida Begam runs a tailor shop in India. Following in the footsteps of her father who was also a tailor but passed away when she was just 18 years old, Rashida decided to open her own tailor shop in 2014. With the help of a microloan of USD 2,800 she was able to develop her business, hire two employees, and purchase two sewing machines.

“The loan has been very helpful. It also meant that I was able to attend a business finance course and get feedback and support in developing my business plan – it was more than just money! As a result of the loan and the changes that I was able to make to my business, things are running very well, and I have not had any financial difficulties in amortizing the loan and paying the interest. Also, I feel much more independent today, something I’m very proud of.”

“I want to build the business up even more, and I think I will probably take out another loan to allow me to do this. My dream is to be known for my great designs and keep things interesting for my clients. I also want to continue supporting my family and hope that one day my daughter may take over the business.”

Carlos

Mango Farmer, Peru

Carlos Ochoa, a 55-year-old farmer and father of four children, owns the Santa Rosa farm in Peru and works in agriculture for more than 20 years. His entire family is dedicated to agriculture, following the family tradition. Carlos used to rent the land, but when he got the opportunity to buy a plot of land, he used his savings to buy it and is today the owner of a farm that employs about 40 workers during harvesting season.

“Before, I grew rice, and now I grow mangos. Before there was more water, so we sowed rice, all of this area was filled with rice paddies. Now, we have water shortages and because of that I grow mangos instead and the entire harvest is exported to Europe and Asia.”

“For the future, I hope to keep growing trees and maintaining the soil quality, and perhaps buy a larger fumigation tank. We get loans every year, and it helps us to work and improve the plantation. It helps us to keep it in good condition and improve the furrows and the roads.”

Thematic Spotlight: Growth of Financial Inclusion and Its Institutions

Since the early days of microfinance in 1970s, the sector has provided access to financial services – primarily loans – to underserved people. It has demonstrated that this group is reliable in their repayment and servicing the poor is possible at commercial terms. According to the World Bank, account ownership among the poorest in low- and middle-income countries has more than doubled from 30 % in 2011 to 67 % in 2021[25]. As countries develop economically, the financing needs of the underserved also shift. Micro and informal sectors recede, while formal SMEs become a larger share of the economy.

MSME Financing as a Key to Resilience

MSMEs play a critical role in the development and resilience of many low-income countries by being the largest employer and boosting job creation, raising income, reducing vulnerability, and increasing investments in human capital. Yet, access to capital is challenging and a limiting factor for growth and development for many of the MSMEs.

Growing Together with our Investees and Their Clients

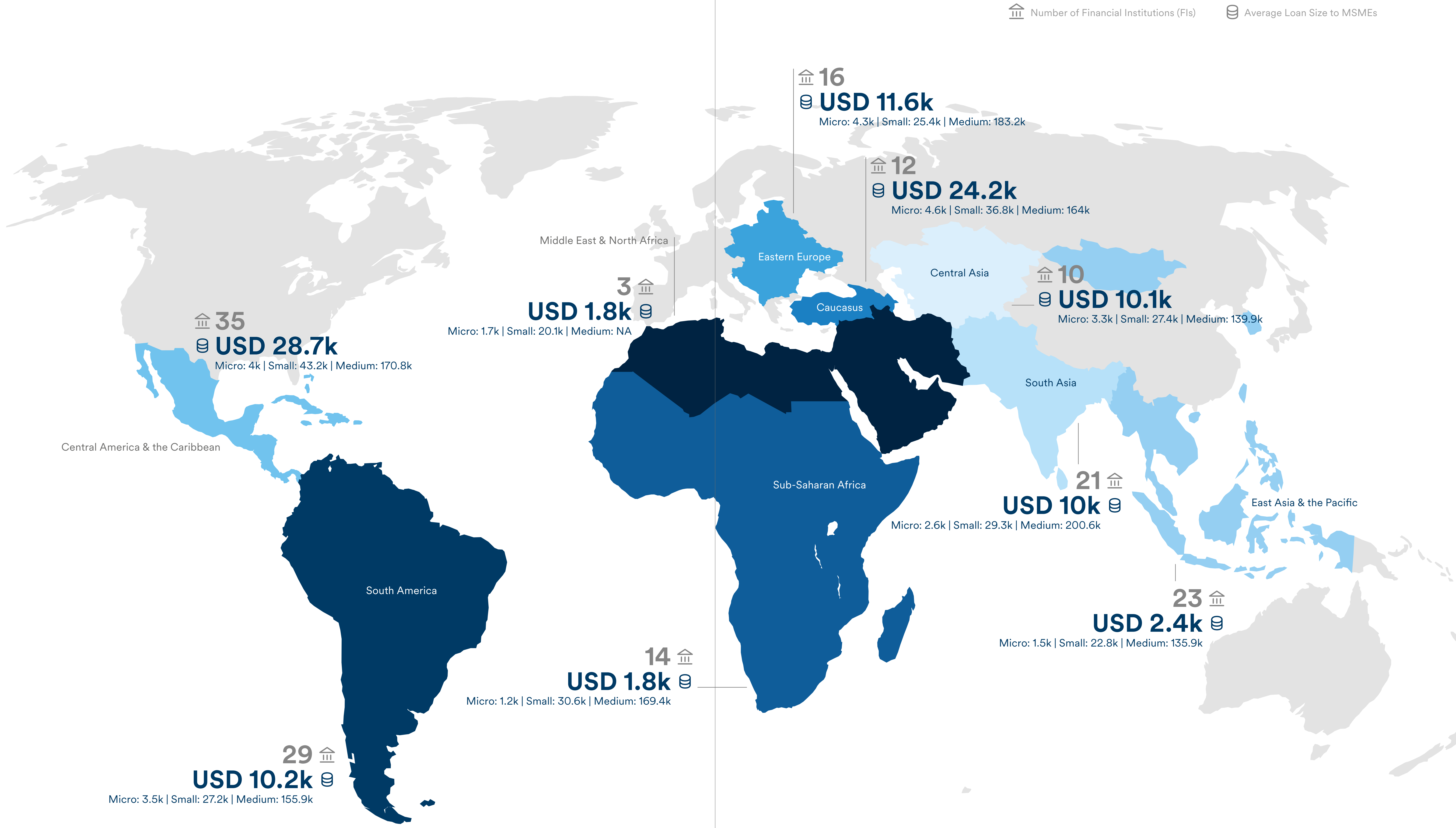
The evolution of BOMF over the last two decades reflects this transition in the needs of end beneficiaries. We have long-standing relationships with many of the FIs in our portfolio, which have grown from smaller microfinance institutions into banks, not only serving more end clients but also accompanying their clients on their growth. As demonstrated by our stories, many end clients who set out with a small loan to start their business are now employing several people and continue to expand their business.

[25] World Bank, 2021

Staying True to the Spirit of Microfinance

At the same time, the spirit of financial inclusion stays the same. Micro enterprise loans are still the majority of MSME loans provided by BOMF, comprising 57 % of the total portfolio. The Fund primarily targets filling a gap in financing need, whether that is a need from micro enterprises or SMEs. Several of our investees demonstrate the story of growing and developing in line with their end clients and their needs, while staying true to their mission of providing financial services to the underserved.

Financial Inclusion Across Regions in BOMF (as of 31 December 2022)



Solidario conmigo

USD 942m
Total Assets

Tier 1

1.5k Employees

562 Loan Officers

53 Branches

Banco Solidario is a leading player in microfinance in Ecuador, offering microcredit and consumer/credit card loans to low-income populations. The bank was founded in 1994, when microfinance was still unique, and was the first micro lending institution in Latin America that did not begin as an NGO.

Over the following 20+ years, Solidario grew from a bank requiring a loan below USD 1 million to a bank in need for a USD 10 million loan in 2022, reflecting the growth and change of needs of the country. Account ownership in Ecuador has risen from 37 % in 2011 to 64 % in 2021[25], and there has been an increasing need for financing SMEs. The average loan size of the bank grew from USD 1,948 to USD 2,698.

Nevertheless, the bank still stays true to its mission: 54 % of its loans still go to micro enterprises, and half of its clients reported monthly household income between USD 385 and 1,000. Further, Solidario introduced a mobile app (SoliAmbiental) that loan officers use to perform social and environmental evaluations of microcredit clients.

310.3k Active Borrowers

USD 2.7k Average Loan Size

54% Female Clients

50% of MSME Lending

[25] World Bank, 2021

Fundación génesis Empresarial
Creemos en ti

USD 411m
Total Assets

Tier 1

3.1k Employees

1.7k Loan Officers

154 Branches

Founded in 1988, Fundación Génesis Empresarial is a microfinance entity specialized in promoting the development of all communities in Guatemala. Génesis provides micro and SME loans, together with financial education and business training to clients and non-client beneficiaries. Specifically, 78 % of the foundation's loan portfolio is dedicated to productive loans under USD 2,000, serving mainly female entrepreneurs (72 % as of December 2022) located in rural areas. In 2021, the foundation was awarded with the financial inclusion Smart Campaign Certification, an initiative that aims at creating an environment in which financial services are delivered safely and responsibly to low-income clients.

Génesis Empresarial grew over the years from an institution serving 130k clients in 2010 to one with over 322k clients as of December 2022. Génesis stays true to its mission of serving mostly rural and female clients, enabled by technology.

The institution makes extensive use of data mining to drive its growth strategy and decisions. It collects social and economic data from clients, which help identifying and monitoring clients' current and potential needs for services and funding and take proactive measures. For example, Génesis collaborates with local SMEs in the construction sector, from which Génesis' clients can acquire materials they need for home improvements or renovations, and then link the purchases to loans that have been pre-qualified. Also, the institution uses smartphones during client visits to simplify and speed up the collection of data, and it implements mobile wallets and self-service ATMs to increase its outreach in rural areas to serve its clients better across the country.

322.4k Active Borrowers

USD 867 Average Loan Size

72% Female Clients

80% Rural Clients

70% of MSME Lending

USD 277m
Total Assets

Tier 1

1.6k Employees

456 Loan Officers

125 Branches

Kinara Capital is a non-banking financial institution established in 2011. The fintech focuses on driving financial inclusion of an underserved segment: the small business entrepreneurs operating in the formal micro-small-medium-enterprise (MSME) sector in India. Kinara offers fast and flexible, collateral-free productive loans which are primarily used for asset purchase and working capital requirements.

Like other regions, India has seen a sharp increase in the number of people gaining access to finance. Account ownership in the country has grown from 35 % in 2011 to 80 % in 2022. One of the contributors to India's growing economy is the MSME sector, which contributes to 30 % of India's GDP and nearly 50 % of country's exports.[27] The MSME sector provides employment to over 120 million in India and is regarded as the backbone of the economy.

Reflecting the changing needs, Kinara Capital's offerings have developed in line. The average loan size grew from USD 4,923 in 2017 to USD 6,917 in 2022, and the fintech has expanded its product offerings to include short-term working capital and bill discounting loans. Its responsiveness to client need was also reflected in the institution's considerable resilience in managing the recent Covid-19 pandemic. Kinara furthered its blended-tech operating model with a new client-facing multilingual myKinara App to overcome the challenges posed by the lockdown and movement restrictions.

The institution maintains a strong social mission as micro-borrowers still constitute 70 % of its loan portfolio. The social impact of Kinara's work has led to over USD 100 million in incremental income generation for the small business entrepreneurs and to over 250k jobs supported in the local economies across 100+ cities in India. Embarking on a new decade of growth, and led by a women-majority leadership, Kinara Capital is a fintech institution dedicated to serving the 'missing middle' credit gap of MSMEs which are largely overlooked by the formal lending institutions in India.

30k
Active Borrowers

USD 6.9k
Average Loan Size

100%
of MSME Lending

[27] Ministry of State for Micro Small and Medium Enterprises, 2022

Female group loan, India →

MBK

USD 400m
Total Assets

Tier 1

6.6k Employees

4.9k Loan Officers

805 Branches

MBK Ventura is a microfinance institution which launched its operations in 2003. Its name "Mitra Bisnis Keluarga" is Indonesian for "Family Business Partners". The institution focuses on low-income women primarily in rural and semi-urban areas, and by the end of December 2022, MBK Ventura had reached over 1.47 million clients, of which 100 % are female and 68 % live in rural areas.

MBK's gross loan portfolio has grown from USD 208 million to USD 325 million between Jan/21 and Jan/23, during which time, the institution has onboarded about 321k new clients. Despite its growth, the institution remains primarily focused on providing working capital loans to women borrowers across Indonesia and is focused on expanding the outreach to newer geographies within Indonesia during 2023.

While the country's economy has been growing, need for microfinance initiatives in the country remains high. 52 % of Indonesians are still excluded from the financial system,[26] which is reflected in MBK Ventura's main products being microfinance loans of approximately USD 100–300. At the same time, the institution actively tries to design other products to meet its clients' needs such as emergency loans offered at zero interest rate, water and sanitation, and improvements of business premises.

1.5m Active Borrowers

USD 209 Average Loan Size

100% Female Clients

68% Rural Clients

100% of MSME Lending

[26] World Bank, 2021

Family Bank
With you, for life

USD 1.1bn
Total Assets

Tier 1

1.7k Employees

93 Branches

Family Bank, founded in 1984 with a strong social mission of serving tea farmers excluded from the banking system, grew from one branch to 93 branches countrywide in Kenya today. The bank became a fully-fledge commercial bank in May 2007, and started growing fast after having achieved the one-billion-shilling mark for the first time in 2013.

Family Bank continues to maintain a focus on MSMEs, primarily in agriculture, education, transport, and trade, enabling businesses that are essential to livelihoods. The loan from BlueOrchard supports the implementation of its 2020–2024 strategy to grow its balance sheet and eventually become a Tier 1 bank in Kenya.

As of December 2022, loans to MSMEs amounted to 30 % of the gross loan portfolio with an average loan size of USD 5,558. In 2021 the bank earned an award as "Best Tier II Bank in Digital Experience & Customer Responsiveness" and in 2019 won "Best SME Bank in Kenya". Furthermore, the bank provides loans to education institutions, reaching a total of 695 institutions from pre-primary and primary institutions to tertiary colleges and universities.

124.9k Active Borrowers

USD 5.6k Average Loan Size

30% of MSME Lending

CREDO BANK

USD 820m
Total Assets

Tier 1

3.5k Employees

900 Loan Officers

81 Branches

JSC Credo Bank is a Georgian bank that focuses on serving MSME businesses, specifically in agriculture or in rural areas. The bank used to be a microfinance institution that started as a World Vision initiative in 1997 and developed over the years into an institution with a banking license in 2017. Credo Bank is the fifth commercial bank in Georgia.

Credo has been a long-standing investee of BOMF since August 2007. The first loan was of USD 300k. Today, the bank is a leader in the Georgian microfinance market with strong corporate governance and a highly qualified management team. Credo has made all payments in full and on time, even in the recent challenging environment.

Despite the growth of Credo, the bank remains true to its mission. MSME lending accounts for 78 % of its portfolio with an average loan size of USD 1,283. The majority of its clients are in rural areas. The bank provided moratorium relief to many of its clients during Covid-19, contributing to the agricultural production and price stability of the sector and the Georgian economy.

361.3k
Active Borrowers

USD 1.3k
Average Loan Size

53%
Female Clients

62%
Rural Clients

78%
of MSME Lending

Dressmaker, Georgia →

Lessons Learned: Resilience of Our Portfolio

In the last few years, there have been many macro, political, and geopolitical events happening that affected the global markets, with the Covid-19 crisis being particularly damaging. The impact of those events was more severe in emerging and frontier markets, especially among those that are financially vulnerable.

Many of our investees have been impacted by short-term liquidity constraints, especially in countries where strict lockdowns were imposed. MSMEs could not operate their businesses normally and sometimes failed to process payments to their lenders. In many of the countries we are invested in, the local government was not in a position to offer significant support to the MSMEs at that time, nor the financial institutions.

Many of the financial institutions, especially the larger ones, took initiative to support their clients and extended payment deferrals to them. This helped many clients overcome the crisis, and today the vast majority of the MSMEs have gone back to normal payment schedules. In some jurisdictions, the governments also came to support, and deferrals have been supported through measures such as relaxation of loan loss provisions.

Even when the local government could not provide aid, our investees have shown resilience in the face of crisis. Many of them have been working in high-inflation and volatile macro- and political environments, and as a result developed strategies to manage business and financial risks throughout such events. For instance, BOMF investees in Ecuador continued to serve their clientele and payments to investors, while the government was defaulting on its debt. Even during the heights of the sovereign debt crisis, none of our Ecuador investees has had any covenant defaults.

Crises also showcased that ensuring responsible lending practices is critical. For us, this has been among our highest priorities. We have applied rigorous due diligence process and investment analysis to ensure that all FIs have appropriate lending and underwriting practices. We have looked at criteria such as debt burden, interest rates, repayment capacity, and profit levels even closer. Processes such as collection practices and monitoring portfolios on branch level have been scrutinised, to especially prevent burdening clients during challenging times.

While the recent macro environment has been challenging for all, the overall volatility has remained stable in the Fund with sovereign defaults having only limited impact on our portfolio. Our investees and our portfolio alike have shown resilience, and this resilience allows us to be optimistic that our investees will continue to weather more storms while staying true to their mission of supporting micro, small, and medium sized businesses that form the backbone of emerging and frontier market economies.

Every challenging market and political situation we have dealt with over the past 20 years has given us a unique opportunity to focus our financing and advisory services towards who needs this most and who can contribute to positive change by reducing inequalities. The job is far from done and our commitment stands by those entrepreneurs that can have their life improved by accessing financial products and services and hence contribute to the socio-economic development in their own countries.

Important Information

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