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Microfinance Investment Advisers

Microfinance

A new commercial investment opportunity ?

UNEP Finance Initiative
Barcelona, 19 May 2005



The economically active poor – a huge need

- c. 2 billion people living under poverty threshold
- c. 500 million micro-enterprises
- c. USD 500 credit need per micro-enterprise per year
- need for credit, but also savings, insurance, pension, transfers
- demand is still largely unmet





Microfinance - a specific market segment

- informal rural & urban areas of emerging markets
- micro and small enterprises
- a very dynamic, grassroots economic sector
- a vast untapped potential – bottom of the pyramid linkage





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Microfinance - a truly commercial approach

- No need for charity but flexible provision of adapted financial services
- No contradiction with social objectives
- Lasting social impact through profitability
- Greater outreach through commercialisation
- Acceleration of growth through K markets access
- Microfinance is a new segment of global finance





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Microfinance - investment impacts

- strong link to family economics
- stimulating grassroots entrepreneurship
- growth of micro and small businesses, job creation
- raising family living standards
- reinforcing self-esteem
- community & financial infrastructures development
- dynamic inter-generational virtuous cycles

⇒ A very efficient way to alleviate poverty,

⇒ 2005, the UN year of Microfinance



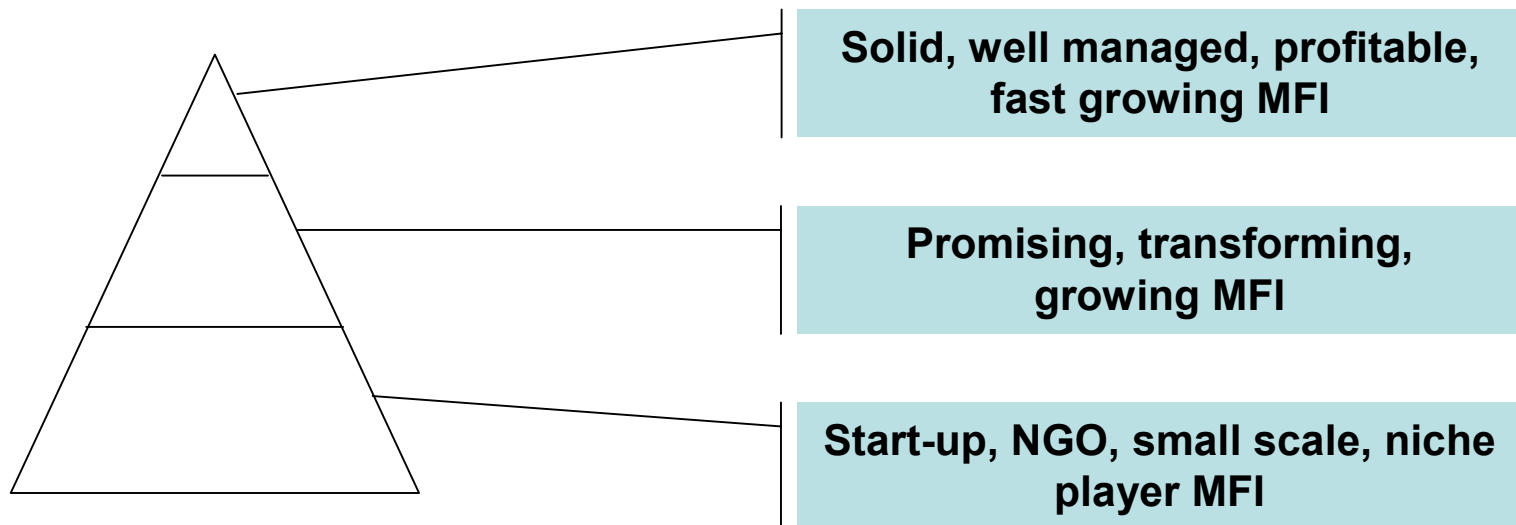
Micro-banks / local financial services providers

- microfinance institutions as specialized financial intermediaries
- different legal formats (banks, NBFC, cooperatives, NGOs, etc.)
- increasingly regulated entities (65% of DMCF clients)
- know intimately the sector in which they operate
- created financial products adapted to target segment
- developed specific delivery channels (ensuring proximity)
- included sophisticated IT developments (ATMs, palm pilots, etc.)



Micro-banks / different segments

- thousands of microfinance programs worldwide
- c. 250 sustainable/commercial micro-banks
- efficient financial intermediation





Micro-banks / strong track record of leaders

- excellent track-record over past 10 to 15 years for leading MFI
 - solid profitability (ROE in the 20s is usual)
 - very fast growth (average DMCF clients = 40% per year over last 3 years)
 - low portfolio at risk (average default rates of 3%), excellent diversification
 - products and services range adapted to client needs
 - low D/E ratios, high solvency
 - very good MIS systems and reporting capabilities
 - solid governance and high professionalism of boards and management
 - access to many commercial sources, no subsidies at all

Micro-banks / examples

December 2004	UMU Uganda	Share India	Compartamos Mexico	TSKI Philippines
Assets	M\$ 17.05	M\$ 32.50	M\$ 133.4	M\$ 11.80
Loan Portfolio	M\$ 10.08	M\$ 28.70	M\$ 101.2	M\$ 7.40
Clients	36,864	328,846	309,637	122,832
Average loan size	\$273	\$87	\$327	\$60
PAR (30 days)	4.5%	0.00%	0.57%	1.65%



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Microfinance - a nascent global financial segment

- Increased attention and specific legislation by regulators
- Audits by superintendents of banks
- External annual audits by recognized local auditors
- Ratings by top rating agencies and specialized rating agencies
- Creation of credit bureaus
- Formation of local intermediaries' associations
- Development of international microfinance networks
- Clear commercialization trend of microfinance
- Multiplication of investment funds both in debt and equity



Microfinance debt - a new asset class ?

- attractive to both institutional and individual investors
- unique combination of social and financial returns within same product
- very high and effective social impact
- appealing financial risk – return profile
- limited credit risk
- High insulation of microfinance sector from macroeconomic shocks
- low correlation with other asset classes in portfolio
- low volatility of financial returns
- attractive fast growing industry

Microfinance - Importance of Global Microfinance Funds

- Provide diversification of funding sources to MFI
- Provide fast and flexible access to funding
- Complement the domestic capital offering
- Serve as catalyst and demonstration effect for local capital
- Maintain demanding reporting standards
- Introduce Microfinance practitioners to new investors' segment
- Provide opportunity to investors of doing well by doing good



BlueOrchard Finance : a specialized asset manager

- Microfinance : not charity, but provision of financial services to specific unattended segment of entrepreneurs (the working poor of the world);
- Our mission : to promote social and economic development through Microfinance by facilitating access to capital markets
- Our philosophy : there is no contradiction between social impact and commercial investments; Profitability is key to sustainability of impact, flows of funds growth and greater outreach
- Our company : A for-profit asset manager created in 2001, based in Geneva; a 10-person team exclusively focused on Microfinance; about \$135 million under management



BlueOrchard Finance – Our adapted product offering

- **Dexia Micro-Credit Fund (Manager)**
 - Luxembourg SICAV part 2, launched in September 1998 by Dexia-BIL
 - Targeting leading and transforming MFI with short term debt (max. 3 years);
 - 6-year track record, over 230 loans made, no default, net USD return 34.3%
 - Total assets : \$ 60 millions, 51 MFI, 21 countries
 - Fast and flexible delivery of loans
- **BlueOrchard Microfinance Securities I, LLC (Manager)**
 - Delaware (USA) Special Purpose Vehicle
 - Targeting the best MFI worldwide with 7-year debt at fixed rate
 - First securitization of portfolio of international loans to MFI
 - Total assets: \$ 80 millions, 14 MFI, 7 countries
 - In collaboration with OPIC and JPMorgan securities / Chase



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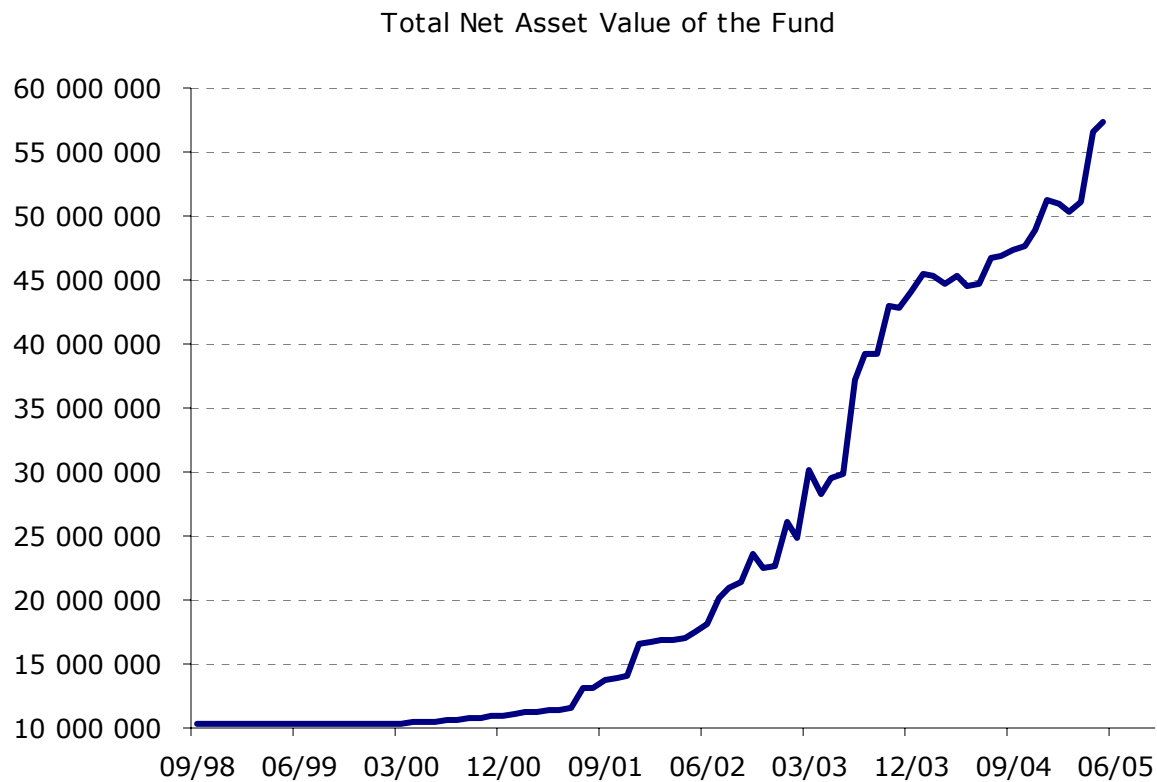
BlueOrchard Finance – Our adapted product offering

- **ResponsAbility Global Microfinance Fund** (Main partner)
 - Luxembourg registered FCP
 - Different debt segments
 - Total assets : \$ 12 millions, Debt : 22 MFI, 12 countries
 - Fund sponsor : Crédit Suisse Bank



Dexia Micro-Credit Fund : NAV (May 2005)

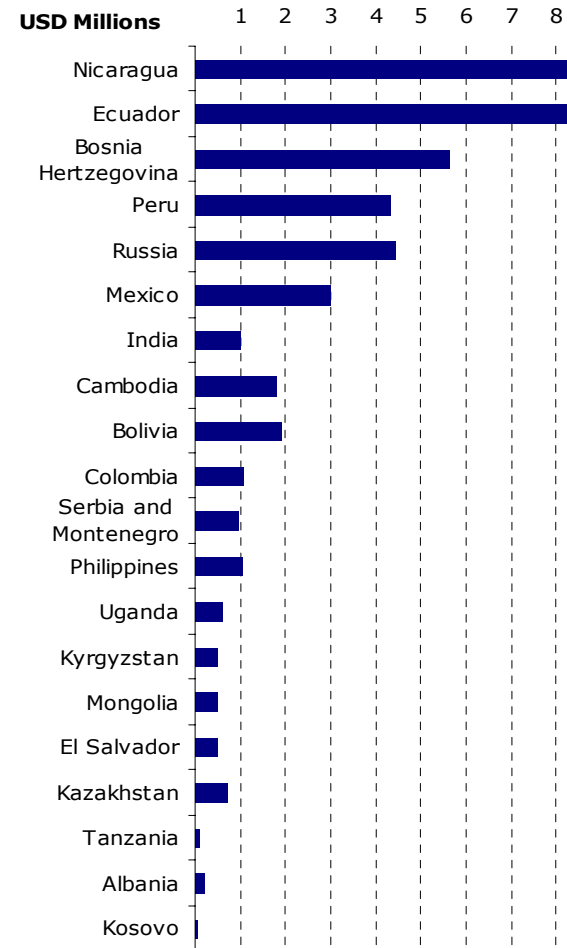
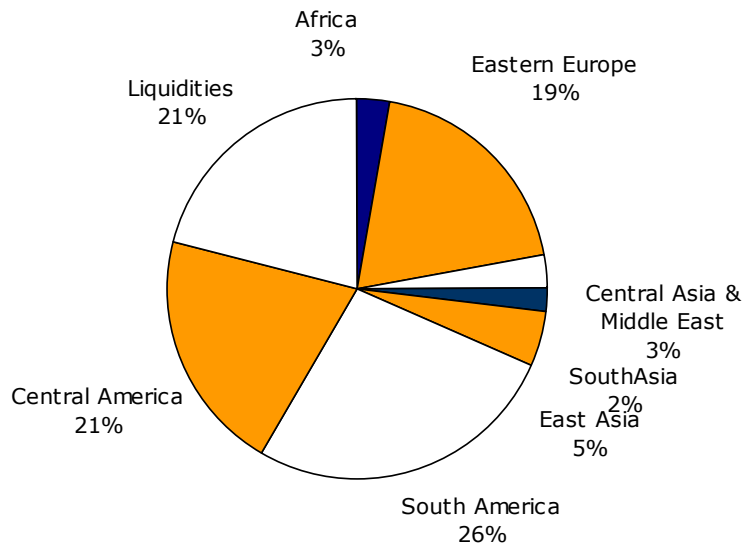
- Only private investors (individual and institutional)
- Very few historical redemptions (long average holding period)
- Increased interest from large institutional investors (pension funds)





Dexia Micro-Credit Fund : portfolio (May 2005)

Geographic diversification



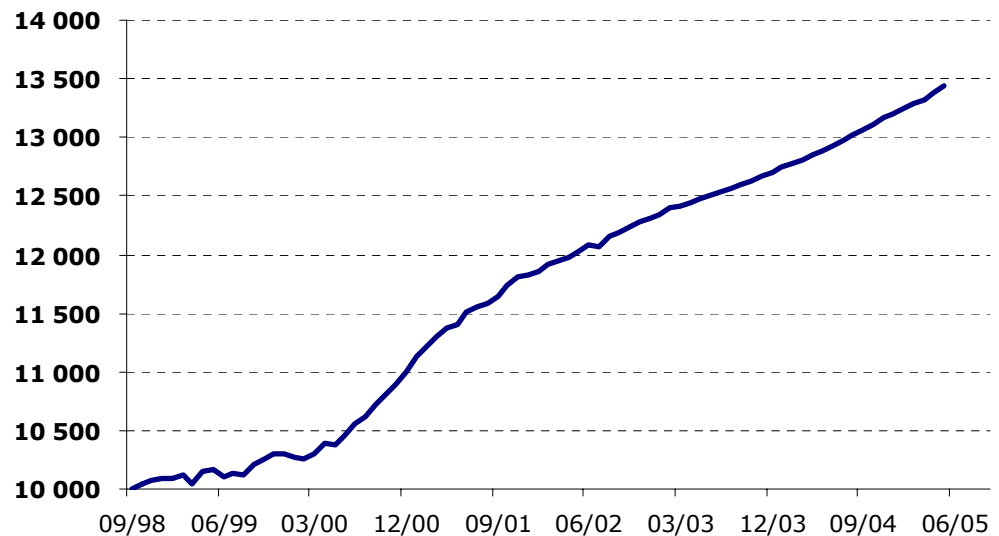


Dexia Micro-Credit Fund : the track record (May 2005)

- Net return of \$Libor + 2% delivered each of the past 5 years
- Very low volatility of financial returns
- No correlation with other asset classes
- Good liquidity (monthly) at no cost

USD Asset Class

•Share price	13,434.5 USD
•Creation date	09/1998
•Cumulated return	34.3%
•2000 ROI	7.77%
•2001 ROI	6.78%
•2002 ROI	4.10%
•2003 ROI	3.21%
•2004 ROI	3.95%
•2005 ROI (YTD)	1.39%
•Last month	0.45%



— Share Price USD



Dexia Micro-Credit Fund

Investment process

- Complete data collection
- Field visits and cross checks at industry level
- Independent external rating
- Credit committee
- Monitoring on a monthly basis (web enabled database)
- Field visit checks at least once per year for each MFI





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Dexia Micro-Credit Fund

Investors' profiles and available services

- both individual (private banking) and institutional
- mid to long-term investment horizon
- interested in unique combination of financial and social returns
- trust based on excellent > 6 year track record
- tickets range from \$10,000 to \$5,000,000
- monthly newsletter detailing performance of fund
- individual presentations possible





One key bottleneck to faster growth

- **Foreign exchange risk**

- Prohibits major entry in entire regions
- Lack of instruments on commercial markets
- When hedging opportunities exist, very expensive
- We need alliance with major financial player or alternative mechanism