

Commercial and sustainable refinancing  
of microfinance institutions worldwide

2006 Annual Report



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## BlueOrchard's Mission

Commercial and sustainable refinancing of microfinance institutions worldwide

Bridging the gap between microfinance and private capital

## BlueOrchard's Values

Innovation – Integrity – Passion – Trust

## BlueOrchard's Philosophy

We firmly believe that microfinance investments can simultaneously produce social and financial returns. This is what makes microfinance both a powerful tool for economic development and a very attractive new asset class, worthy of inclusion in any diversified investment portfolio strategy.

### MRS. PACHAMANGO – PERU

Mrs. Pachamango and her husband have been selling fruits and vegetables for several years. They started as peddlers selling their wares from a bicycle and have moved to a market stall. Her first loan was for 200 soles, or about USD60; the most recent loan she was offered was for an amount of 10,000 soles, or about USD 2,860 to be used for working capital purposes. Thanks to these loans, the business has expanded to four stands in the market and three bicycles for itinerant trading, and hired five additional employees.



# Welcome !

It has been another exciting year for BlueOrchard in 2006. The key characteristics of 2006 were growth :

- Growth in assets increased from CHF 212 mio to CHF 448 mio.
- Growth in staff from 9 to 15 people.
- Growth in numbers of financial products from 4 to 6.

2006 was also the year that our industry saw great international recognition in the form of the Nobel Prize given to Mohammed Yunus for his pioneering microfinance work in Grameen Bank.

But 2006 was also a year of growing competition in our sector. More than \$ 4 billion entered the microfinance market, about half from the private sector and half from development banks and development agencies. Most of this money was placed in the form of loans, and almost all of it in "top tiers", already mature institutions.

In a fast-changing environment, we have to be quick-footed to survive, grow, and prosper. We believe that by aggressively pursuing growth and innovation, we can be one of the bigger private players in the sector. Certainly we like to be the most efficient and credible player.

We are resolved to keep pushing the frontiers of innovative funding for microfinance from the private sector.

We thank you for your interest and support of pursuing this objective, and wish you a passionate reading of this Annual report.



Dr. Ernst A. Brugger  
President



Jack Lowe  
CEO

## BlueOrchard : who we are

BlueOrchard Finance is a Swiss company specialising in the management of microfinance investment products. We assist banks and financial intermediaries who wish to invest in the microfinance industry by offering a comprehensive package of services designed to invest efficiently in this promising sector. This includes initial identification of, and due diligence on, microfinance institutions, as well as continuous monitoring and reporting on their activities and portfolios. BlueOrchard Finance manages the relationship with all the parties involved and strictly adheres to the investment policies and guidelines of its clients.

### **A leading and preferred investment provider to microfinance institutions**

BlueOrchard Finance seeks to develop long-term relationships with microfinance clients and partners by sharing information, knowledge and risks, and by investing jointly in the development of microfinance. BlueOrchard's most important asset is its ability to create value through solid relationships with leading microfinance institutions all over the world. By building trust, listening actively and constantly interacting with institutions in the field, BlueOrchard is able to tailor products and services to fit its clients' needs.

### **A promoter of microfinance to the commercial investment community**

We follow a strict selection mechanism in line with the criteria set out in the investment policies of the microfinance investment products that it manages. This rigorous approach ensures that the portfolios are made up of reliable and sustainable institutions: investment advice is always based on in-depth due diligence, supplemented by the opinions of selected field experts, specialised evaluations companies, rating agencies, networks and international organisations. BlueOrchard's proven track record has convinced an ever-growing number of investors to choose the quality and profitability of a win-win investment: they earn a stable and competitive financial return on their investments while delivering effective social impact in emerging markets by encouraging entrepreneurship at the micro level.

### **CONY ALQUILOZ – NICARAGUA**

Cony Alquilo, aged 45, sells shoes in Mercado Central in the heart of Managua. She owns three stalls, which offer a wide range of footwear. She has been working for several years with Findesa, who gave her a credit line of USD 1,500 and an ordinary individual loan of USD 3,000 over three years. She used these loans to purchase shoes, and to acquire two new stalls next to her first shop. She now has five employees, whom she pays a monthly salary of 1,000 Cordobas. Her business allows her to support her son's education.



## Financial results

Our final profit for 2006 of CHF 232,751.– has enabled us to have a positive cumulated retained earnings for the Company for the first time in its history, but a host of elements prevented us from doing better :

- Lower management fees than in the past
- Many one-time expenses
- Late launches of products
- New hires and training

Our estimates for 2007 remain positive.

Audited Financial Statements Figures in Thousands of CHF	2006	2005
<b>ASSETS UNDER MANAGEMENT</b>	448,105	211,685
<b>PROFIT &amp; LOSS</b>		
Gross margin	4,042	2,524
Personnel costs	2,623	1,642
Depreciation	303	62
Non operating loss (gain)	(79)	(38)
Extraordinary loss (gain)	152	5
All other S, G & A	796	487
Earning Before Interest and Taxes (EBIT)	248	366
Interest and taxes	15	27
<b>Net income</b>	<b>233</b>	<b>339</b>
<b>ASSETS</b>		
Current assets	1,532	1,562
Fixed assets (net)	1,082	443
<b>Total assets</b>	<b>2,614</b>	<b>2,005</b>
<b>LIABILITIES</b>		
Current liabilities	1,141	765
Equity	1,472	1,240
<b>CUMULATIVE RETAIN EARNINGS</b>	<b>17</b>	<b>(216)</b>
<b>ECONOMIC PROFIT</b>		
Net profit on revenues	5%	13%
Return on equity	17%	38%
Return on funds employed	47%	59%
Economic profit	385	327

# Auditor report



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Rapport de l'organe de révision  
à l'assemblée générale ordinaire des actionnaires de

## BLUEORCHARD FINANCE SA GENEVE

En notre qualité d'organe de révision, nous avons vérifié la comptabilité et les comptes annuels (bilan, compte de profits et pertes et annexe) de BlueOrchard Finance SA pour l'exercice arrêté au 31 décembre 2006.

La responsabilité de l'établissement des comptes annuels incombe au conseil d'administration, alors que notre mission consiste à vérifier ces comptes et à émettre une appréciation les concernant. Nous attestons que nous remplissons les exigences légales de qualification et d'indépendance.

Notre révision a été effectuée selon les normes de la profession en Suisse. Ces normes requièrent de planifier et de réaliser la vérification de manière telle que des anomalies significatives dans les comptes annuels puissent être constatées avec une assurance raisonnable. Nous avons révisé les postes des comptes annuels et les indications fournies dans ceux-ci en procédant à des analyses et à des examens par sondages. En outre, nous avons apprécié la manière dont ont été appliquées les règles relatives à la présentation des comptes, les décisions significatives en matière d'évaluation, ainsi que la présentation des comptes annuels dans leur ensemble. Nous estimons que notre révision constitue une base suffisante pour former notre opinion.

Selon notre appréciation, la comptabilité et les comptes annuels ainsi que la proposition relative à l'emploi du bénéfice au bilan sont conformes à la loi suisse et aux statuts.

Nous recommandons d'approuver les comptes annuels qui vous sont soumis.

Genève, le 31 mars 2007

BAKER TILLY SPIESS SA

David Bueche  
Expert-comptable diplômé  
(Réviseur responsable)

Julien Costi

Annexe : comptes annuels (bilan, compte de profits et pertes, proposition relative à la répartition du bénéfice au bilan et annexe)



Membre de la CHAMBRE FIDUCIAIRE

## Organisation highlights

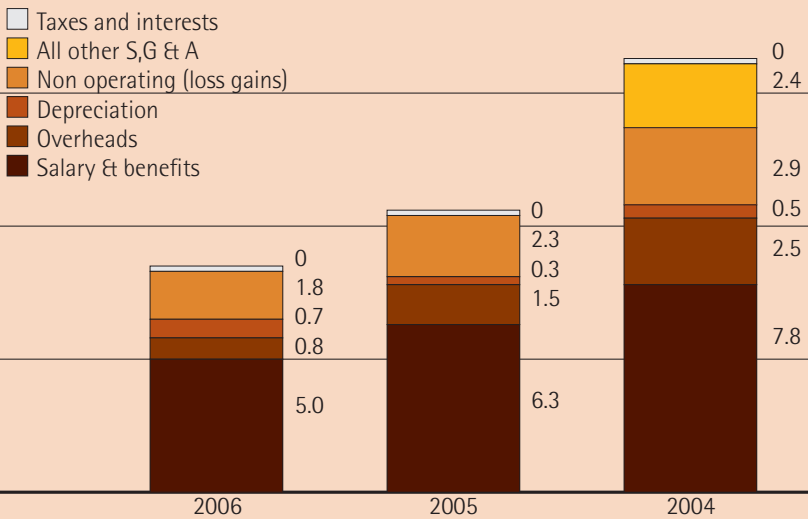
In 2006, BlueOrchard added 6 new persons to the staff. The main step was to hire 4 new young analysts and train them with our senior group for the same regions as their senior advisor. This innovation has worked very well and two of these analysts now have their own territories.

We also shored up the administrative staff with a new administrative assistant.

Finally, we contracted a half time outside person for computer configurations, trouble shooting, and reporting requirements.

We also concentrated more activity in New York, where Ann Miles has been appointed USA Regional Director.

### COSTS VS ASSETS UNDER MANAGEMENT (%): A STEADY REDUCTION



**LUXFLAG**  
microfinance  
investment vehicle

The Luxembourg Fund Labeling Agency (LuxFLAG) is an independent organization, awarding a distinctive label to eligible microfinance investment vehicles. The Dexia Micro-Credit Fund (DMCF) granted a LuxFLAG Label: the DMCF is the oldest microfinance fund in Luxembourg, with a track record going back to 1998. It is promoted by Dexia Banque International in Luxembourg (BIL) with BlueOrchard as the microfinance portfolio manager.

Source: LuxFLAG press release

# The Microfinance Market

**Microfinance is becoming a new asset class and an integral part of mainstream finance.**

It is no wonder that microfinance is now quickly gaining momentum : about 10,000 institutions are engaged in it today throughout the world. Sustainability is the key to the long-term effort, and this in turn is based on the economic longevity of the microfinance institutions themselves.

The microfinance market is becoming more competitive with large inflows of "new money" flooding the sector. This affects interest rates and we have had to lower our management fees as a result.

What is alarming is that most of the money ends up with the already sustainable MFIs, and very little with "second tiers" MFIS who need additional funding.

This "crowding out" phenomenon is forced by the multilateral institutions ; it is an issue that must be sorted out to make the market really efficient.

In this environment, BlueOrchard is a key player.

## FUNDING SUPPLY (USD EQUIVALENT)

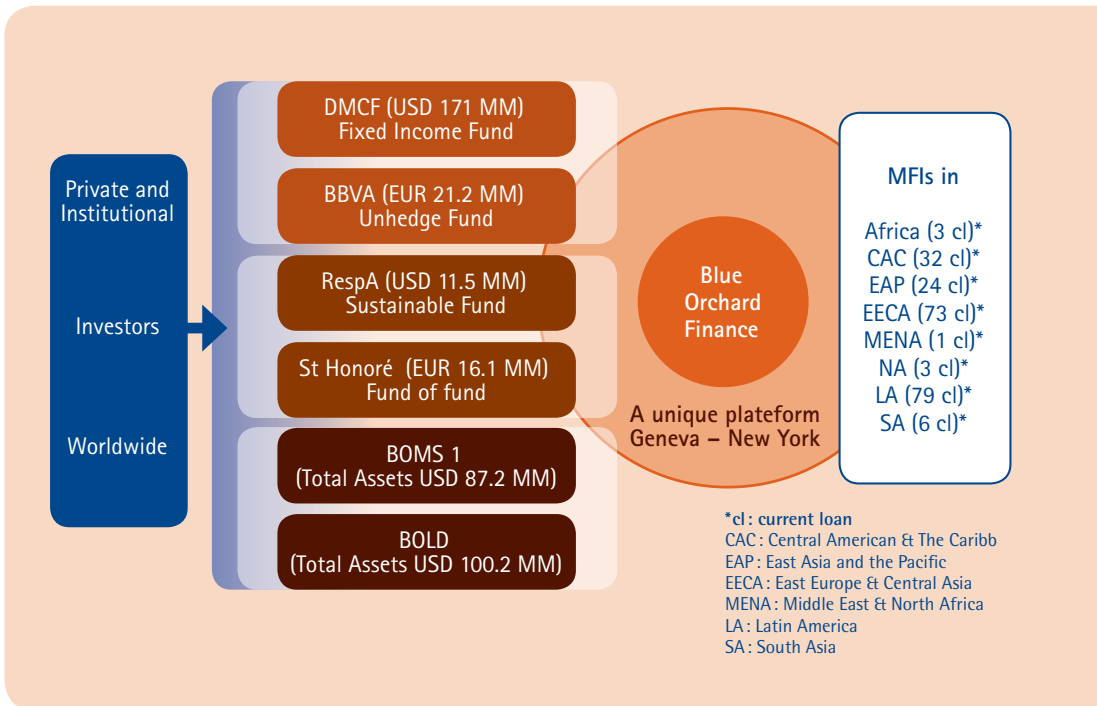
### Sum of Assets under management

### Sum of Portfolio

Manager	Total	Manager	Total	%of AuM
BlueOrchard	404,312,686	BlueOrchard	294,345,921	73%
Omidyar	400,000,000	EFSE	194,937,172	54%
EFSE	362,876,344	Oikocredit	126,169,157	41%
Oikocredit	304,242,000	responsAbility Fund	89,587,358	93%
FINNFUND	212,447,550	Gray Ghost	75,000,000	100%
ResponsAbility Microfinance		ResponsAbility Microfinance		
Leaders Fund	101,858,101	Leaders Fund	52,487,479	52%
ResponsAbility Fund	96,154,726	DOEN	51,185,111	65%
KFW	85,400,000	ASN-Novib Fund	46,184,250	
Calvert Foundation	80,000,000	Triodos-Doen Foundation	45,224,046	
DOEN	79,148,153	HTF	37,170,600	
Gray Ghost	75,000,000	CORDAID	34,644,104	

Source : MixMarket (as of May 31<sup>st</sup>, 2007)

## Our products



As of December 31<sup>st</sup>, 2006

### BlueOrchard : Born to innovate

Our clientele falls into three categories :

- Large MFIs, where rates are already very competitive.
- Smaller, but sustainable MFIs, where decent rates still exist.
- Funds, cooperatives, and networks investing further downstream in smaller MFIs.

Loans are made from our full panoplie of funds, with Dexia and the CDOs in the first category above, Dexia in the second, and St Honoré in the third one.

In May 2006, we launched a second CDO for \$ 99 million, with 23 MFIs, 4 local currency loans, and 13 countries. Distributed by Morgan Stanley, this was worldwide the first securitisation taken on by a prestigious international investment banking house.

The Dexia Microcredit Fund has had huge recent inflows, and has therefore been temporarily closed. Local currency loans are roughly 18% of total assets invested. Net Asset Value at May 2nd, 2007 was \$ 205 mio.

BOMS I is operating normally, with all payments on time, and no default to date.

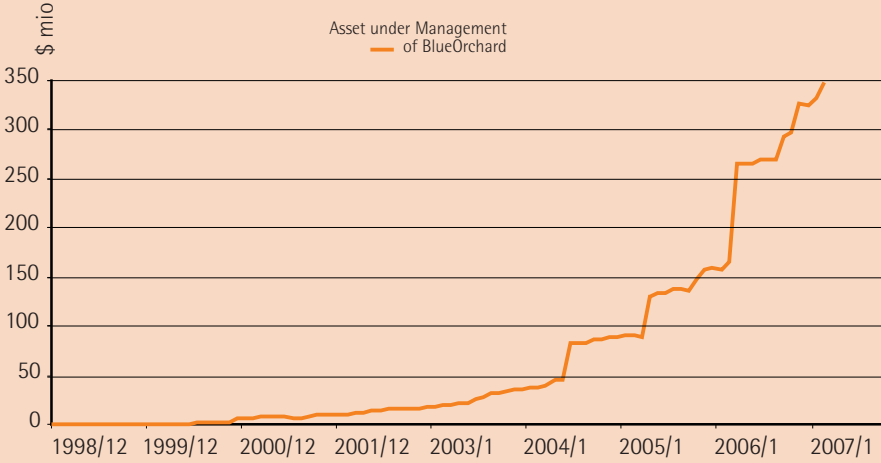
The St Honoré Fund is now at € 16.3 mio Euros and is 55% invested. Compagnie Financière wants to raise the total amount of finding to € 25-30 mio Euros.

The BBVA local currency Latin America fund has made 3 investments as of March 31<sup>st</sup>, 2007. Assets are € 20 mio Euros.

# Our portfolio : snapshot

## BLUEORCHARD : A STORY OF GROWTH...

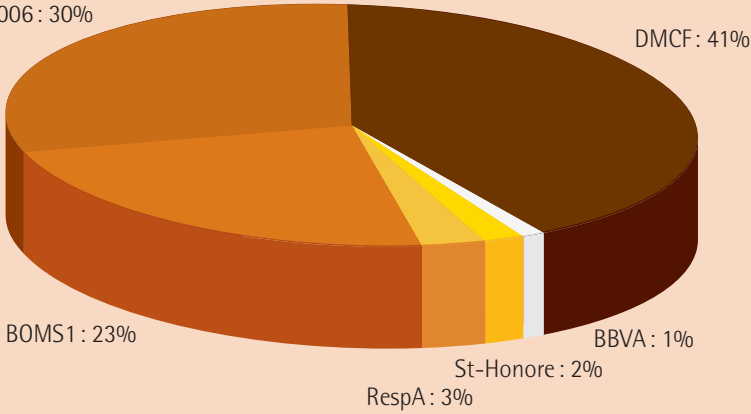
As of March 31st, the breakdown of the portfolio shows that we were highly diversified and present worldwide.



## BREAKDOWN BY PRODUCTS : INNOVATION HAS BEEN THE KEY

As of March 31st, 2007

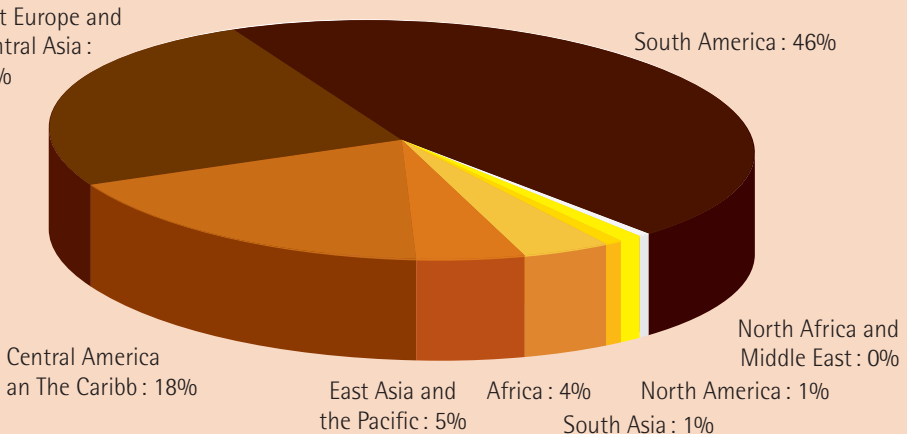
BOLD-2006 : 30%



## BREAKDOWN BY REGION : GREATER GEOGRAPHIC DIVERSIFICATION THAN EVER BEFORE

As of March 31st, 2007

East Europe and Central Asia : 25%



## BLUEORCHARD : A TREND OF INCREASING IMPACT

Indicators of the social and financial effect of BluOrchard products

	2006	2005	2004
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### KEY SOCIAL INDICATORS

Number of MFIs in portfolio	84	64	52
Average employees in MFIs	365	267	211
Average active borrowers per MFI	50,586	33,494	26,281
USD loan size to micro-entrepreneurs	1,471	1,359	

### KEY INVESTMENT CATEGORIES

Percent of Women	50.5	47.7	
Percent of Rural investments	36.8	35.7	

### FINANCIAL TRENDS

MFIs Portfolio at risk above 30 days	3.2	3.4	4.1
Number of investments placed	175	156	128
Number of countries in our portfolio	27	24	20
Return on investment* of DMCF: – USD	6.56%	4.70%	3.95%
– EUR	4.38%	3.60%	4.40%
– CHF	2.68%	2.05%	2.74%

*As of March 31<sup>st</sup>, 2007*

## Appendix

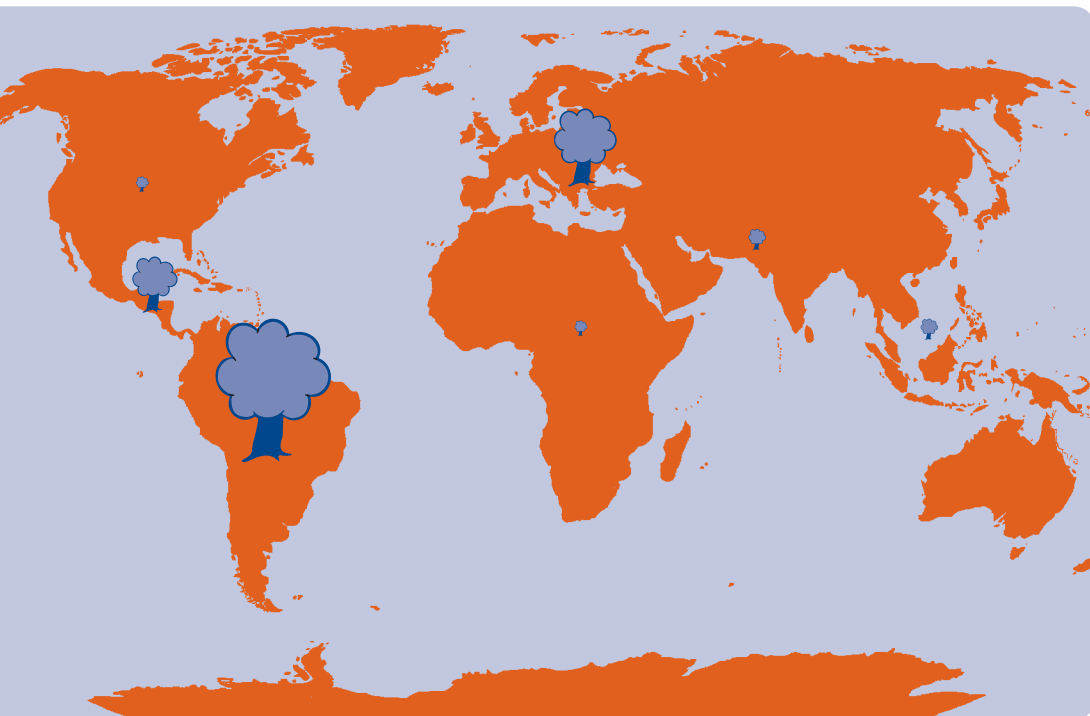
### Partners

- Dexia Asset Management
- Banque Privée Edmond de Rothschild
- ResponsAbility
- BBVA
- Morgan Stanley
- JP Morgan
- Citigroup
- Deutsche Bank
- DWM

### Rating agencies

- Microrate
- Microfinanza
- S&P
- M-Cril

## Heat map of our investments



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