



Dexia's Commitment to Microfinance

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short term has no future





Dexia's support to microfinance through investment The Dexia Micro-Credit Fund - DMCF

1 – Missions

2 – Investment process

3 – Financial impacts

4 – Social impacts

5 – Key success factors

6 – Main expectations



Dexia's support to microfinance through donation The Dexia Foundation Belgium

The Dexia Micro-Credit Fund (DMCF) celebrates its 10 years of steady growth

The mission of the DMCF

The DMCF seeks to achieve an attractive return for investors while providing important social impacts, including poverty alleviation, empowerment of the working poor and the strengthening of inclusive financial systems

Financial objectives

- Provide attractive historical returns
- Provide attractive historical risk profile
 - Lower volatility than traditional emerging markets
 - Low correlation with other asset classes
 - Low default rate

Social objectives

- Contribute to growth in emerging economies
- Fighting poverty in a lasting manner by improving economic security and quality of life
- Empower marginalised groups (servicing women, rural entrepreneurs, food producers)

Launched in 1998 and considered a real innovation at the time, the DMCF is the industry leader in commercial microfinance today. (US\$391M of AUM)

Two leading pioneers of the microfinance sector behind the DMCF

Presentation of Dexia AM and BlueOrchard Finance

Dexia AM ...

- European asset manager with US\$150B of AUM
- 4 production centers (Belgium, France, Luxemburg, Australia) and 17 distribution centers
- 640 employees
- European leadership in SRI with US\$26B of AUM
 - 12 years of experience; team of 20 dedicated analysts

BlueOrchard Finance ...

- One of the leading companies worldwide in microfinance with US\$740M of AUM
- Swiss-based company with presence in Geneva and Lima (Peru)
- 30 employees
- Close relationships with institutional investors (pension funds, foundations, etc) and HNWI

... Sharing the management of the fund

- In Sept 1998, Dexia AM launched Dexia Micro-Credit Fund, as the 1st fund worldwide providing commercial finance to microfinance institutions (MFIs) in emerging market
- Since 2001, the fund is managed by BlueOrchard Finance, while Dexia AM is the promotor in charge of liquidity management & fund operations and RBC Dexia is the administrator.

Main features of the DMCF investment process

Investment process

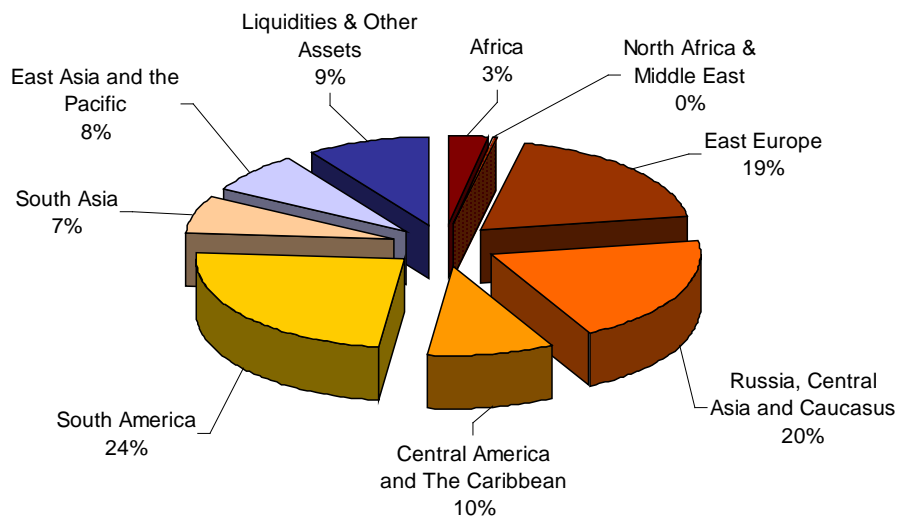
- The DMCF invests **up to 90%** of the fund's total assets in debt instruments:
 - Of **up to 3 years** in maturity issued by MFIs
 - Located in **Africa, Asia, Eastern & Central Europe and Latin America**
- The **remaining 10%** of total assets is invested in **short-term money market funds** by Dexia AM
- A **team of 12 analysts** based in Geneva and Lima is responsible for initiating contact with MFIs:
 - Analyzing the institutions and proposing investments to **credit committee** for inclusion in the fund
- The BlueOrchard team emphasizes the importance of **on-site due diligence, monthly performance monitoring and long-term relationships** with its MFI borrowers

The DMCF invests globally in emerging economies

Geographical distribution of the portfolio

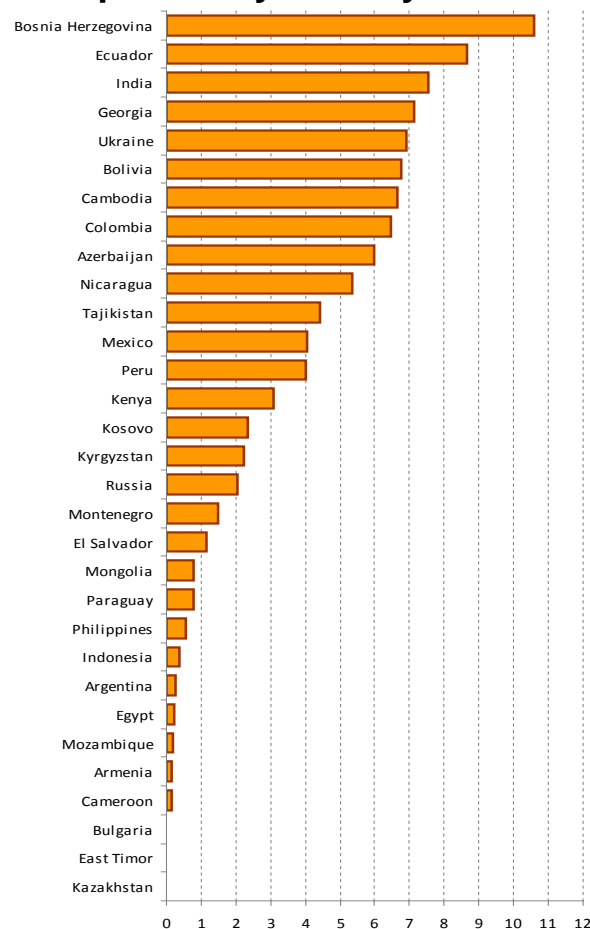
- The DMCF invests globally in mostly emerging economies
 - 31 countries
 - with about 100 MFIs in the portfolio

Geographical distribution of the portfolio



As of Sept 3, 2008

Exposure by country in % of NAV

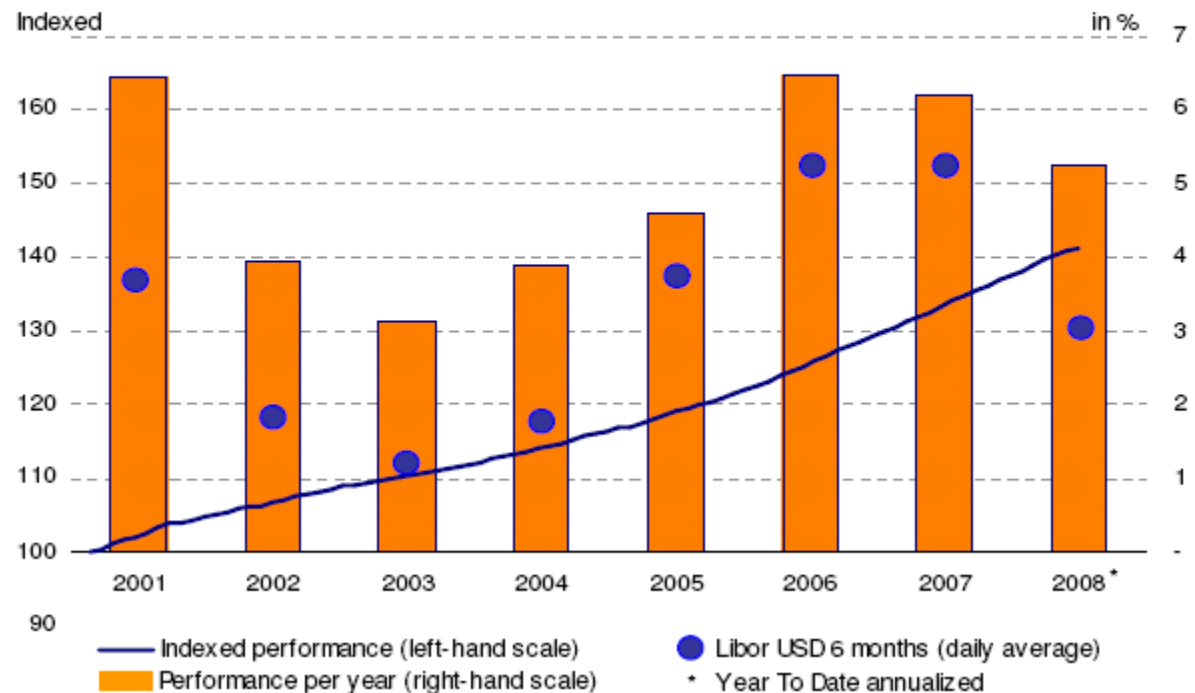


The DMCF has continuously delivered steady and regular performances

Financial impacts

- The DMCF aims at a return in excess of 6 month US\$ Libor +100 to 200 basis points
- Since 2001, investment returns have been consistent, showing low volatility and remaining fairly uncorrelated from the mainstream markets

Performance chart - USD share class



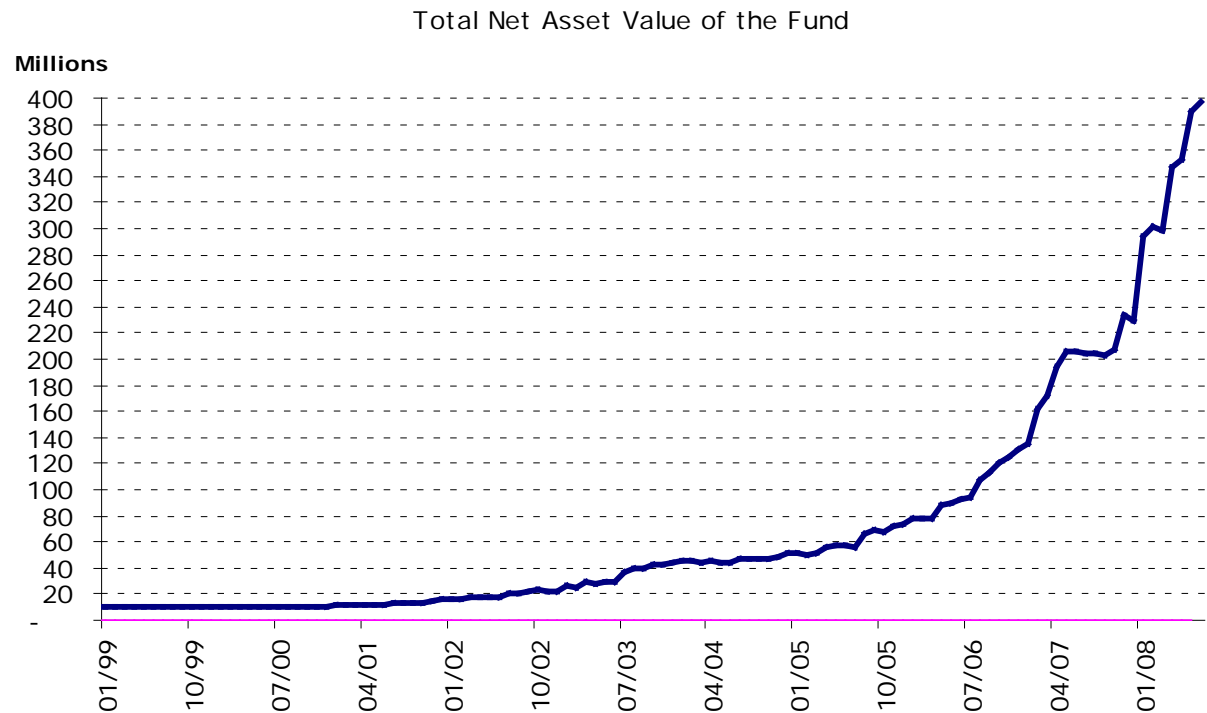
- The DMCF's USD share class 5-year annualized performance is 5.22% (as of Sept 3, 2008)

The DMCF posted very few historical redemptions

Financial impacts

- Only private investors (individual and institutional)
- Shareholders consider the DMCF as a « buy and hold » investment
- Increased interest from large institutional investors (pension funds)

- US\$ 391M of AUM
(as of Sept 3, 2008)



The DMCF generated significant social impacts since inception

Social impacts

- Since inception, the DMCF has invested in **552 loans** in **41 countries**, serving over **7 million clients**
- **40%** of the beneficiaries were **rural, isolated clients** in 2007
- Over **50%** of the micro-entrepreneurs benefiting from credits were **women** in 2007
- The **average loan** granted to micro-entrepreneurs was **US\$873** in 2007
- In 2007, almost **20% of the loan volume** were destined to **agriculture**
- The loans are typically granted to **unbanked, low-income, isolated beneficiaries**

DMCF is offering a stable and competitive financial return on investments ...
... while delivering effective social impacts in emerging markets

Since inception, the DMCF did not post any default in the 552 loans to MFIs

Key success factors

The « 0 default » rate has been reached thanks to a strong monitoring of the DMCF:

- **Specialized teams** at BlueOrchard
- **Breadth of experience and strong relationships with over 150 MFIs, built over a 10-year period** (on-site visits, cross checks, key financial indicators per MFI, etc)
- Complete **transparency** of information on underlying loans
- **Country diversification**
- **Concentration limits** (MFIs from total fund portfolio, loan from MFI assets, etc)
- **Proprietary Credit Scoring** with individual ratings



In 2007 and 2008, the Luxembourg Fund Labelling Agency (LuxFLAG) delivered its label to the Dexia Micro-Credit Fund, making it one of the first microfinance funds to receive this distinction.

- Microfinance will **continue to rise**, though at a slightly **more moderate pace**
 - From an average annual asset growth of 50-70% in 2002-2007 to a reasonable 20-30% by 2020
 - With an increasing interest from **large institutional investors** (pension funds, etc) as well as **from retail investors**, both seeking diversification in their investments, decorrelation and limited volatility,
- We expect a **critical mass of MFIs over time** to become capable of absorbing foreign funding
- However, there is a need to **remain vigilant** for the potential impact of the current global financial crisis on MFIs investments in microfinance funds, particularly in terms of refinancing risk



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Dexia Foundation Belgium

Mission:

- The mission of the Dexia Foundation Belgium is focused on philanthropy and solidarity.

One of the two axes the Foundation is focusing on: **Microcredit**

In this area, the Foundation **cooperates with 2 specialised organisations** (NGO)

(95% of the microcredit market in Belgium):

- **Credal** (French speaking part)
- **Hefboom** (Dutch speaking part)

Target:

- People who have been **excluded** from traditional bank credit (people who are credit blacklisted, the unemployed, people who are bankrupt, people with very low income etc.).

Context: 16% of Belgians live below the poverty line (1.5 million people).



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Two types of Microcredit are allowed:

- For **self-employed people** who want to create a business or expand an existing business
- For **private individuals** who need to buy durable goods

Main reason behind its success:

- To guarantee success for such a project → **SUPPORT**
 - However, support is costly ⇔ not a profitable activity ⇔ requires subsidies
- This is where Dexia Foundation Belgium comes in:
 - We provide **subsidies** to cover the working costs of the 2 organisations
 - We have **volunteers** who help individuals with business plans, follow-up, setting up a household budget, etc
- Very low default rate: less than 4%

Dexia as investor

- Dexia rose to 5% into the capital of BlueOrchard
- Dexia became a member of the Administration Council of this organisation

Dexia as a support for microfinance through a donation

- In Belgium, the Foundation is encouraging employees to engage in voluntary service - projected 30 volunteers or more at the end of the year
- Dexia Group is currently reflecting on the **further development of its commitment in microfinance** on an European scale.

- The Dexia strategy incorporates sustainable development:
 - Our strategy is built on a sense of the long term and a respect for the general interest. Within this framework, **sustainable development is part of our core vision and values**, i.e. respect, ambition and passion.



• **Global 100 Most Sustainable Corporations in the World**, awarded to Dexia for the fourth year in a row by the extra-financial ratings agency *Innovest Strategic Value Advisors*

• Dexia Banque Privée voted **Best Private Bank for “ethical investments”** according to the *Euromoney* study for the third year in a row

• Dexia AM awarded top **AAA** rating for its expertise in **Socially Responsible and Sustainable Investment** by *Altedia Investment Consulting* in 2008

