IMPORTANT NOTICE

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IMPORTANT: You must read the following before continuing. The following applies to the Offering Circular dated 31 May 2007 (the **Offering Circular**), which is attached to this electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE OFFERING CIRCULAR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND BLUEORCHARD LOANS FOR DEVELOPMENT S.A. (THE **ISSUER**) HAS NOT REGISTERED AND DOES NOT INTEND TO REGISTER AS AN INVESTMENT COMPANY UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **INVESTMENT COMPANY ACT**). THE SECURITIES ARE BEING OFFERED AND SOLD: (1) WITHIN THE UNITED STATES IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**) ONLY TO PERSONS THAT ARE BOTH **QUALIFIED INSTITUTIONAL BUYERS** (EACH A **QIB**) WITHIN THE MEANING OF RULE 144A ACTING FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB AND QUALIFIED PURCHASERS (EACH A **QP**) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, AND THE RULES THEREUNDER; AND (2) OUTSIDE OF THE UNITED STATES TO PERSONS OTHER THAN U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**)) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. WITHIN THE UNITED KINGDOM, THE OFFERING CIRCULAR IS DIRECTED ONLY AT PERSONS WHO (a) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS OR (b) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE FINANCIAL SERVICES AND MARKET ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS **RELEVANT PERSONS**). THE OFFERING CIRCULAR MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE OFFERING CIRCULAR RELATES ARE AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE "*PLACEMENT AND SALE*" AND "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*" IN THE ATTACHED OFFERING CIRCULAR.

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The Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the Offering Circular, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Offering Circular by electronic transmission, (c) you are either (i) not a U.S. person (within the meaning of Regulation S) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia or (ii) both a QIB and a QP and (d) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments and/or (ii) is a high net worth entity falling within Article 49(2)(a) to (e) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

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Offering Circular **Dated 31 May 2007**

BLUEORCHARD LOANS FOR DEVELOPMENT S.A.
(ACTING IN RESPECT OF COMPARTMENT 1)
BOLD 2007-1
$110,200,000 EQUIVALENT MICROFINANCE LOAN SECURITIZATION

Notes	Initial Principal Amount	Ratings (S&P)	Interest Rate	Maturity Date	Issue Price
A1	£6,300,000	AA	6.330%	June 2014	100%
A2	€2,200,000	AA	EURIBOR +0.400%	June 2014	100%
A3	U.S.$28,500,000	AA	USD LIBOR +0.400%	June 2014	100%
B1	£1,250,000	BBB	6.851%	June 2014	100%
B2	€1,450,000	BBB	EURIBOR +0.950%	June 2014	100%
B3	U.S.$12,000,000	BBB	USD LIBOR +0.950%	June 2014	100%
C1	£10,050,000	N/A	8.519%	June 2014	100%
C2	€700,000	N/A	EURIBOR +2.450%	June 2014	100%
C3	U.S.$21,000,000	N/A	USD LIBOR +2.500%	June 2014	100%
X	U.S.$7,700,000	N/A	Variable	June 2014	100%

This Offering Circular has been prepared for the purpose of giving information about the issue of Series 2007-1 Notes by BlueOrchard Loans For Development S.A. (the **Issuer**) which will comprise the £6,300,000 Class A1 Fixed Rate Notes due June 2014 (the **Class A1 Notes**), the €2,200,000 Class A2 Floating Rate Notes due June 2014 (the **Class A2 Notes**), the U.S.$28,500,000 Class A3 Floating Rate Notes due June 2014 (the **Class A3 Notes** and together with the Class A1 Notes and the Class A2 Notes, the **Class A Notes**), the £1,250,000 Class B1 Fixed Rate Notes due June 2014 (the **Class B1 Notes**), the €1,450,000 Class B2 Floating Rate Notes due June 2014 (the **Class B2 Notes**), the U.S.$12,000,000 Class B3 Floating Rate Notes due June 2014 (the **Class B3 Notes** and together with the Class B1 Notes and the Class B2 Notes, the **Class B Notes**), the £10,050,000 Class C1 Fixed Rate Notes due June 2014 (the **Class C1 Notes**), the €700,000 Class C2 Floating Rate Notes due June 2014 (the **Class C2 Notes**), the U.S.$21,000,000 Class C3 Floating Rate Notes due June 2014 (the **Class C3 Notes** and together with the Class C1 Notes and the Class C2 Notes, the **Class C Notes**), and the U.S.$7,700,000 Class X Variable Rate Notes due June 2014 (the **Class X Notes** and together with the Class A Notes, the Class B Notes and the Class C Notes, the **Notes**). The persons in whose name the Notes are registered shall be defined as the **Noteholders**. The Issuer has created a compartment (as referred to in article 62 of the Luxembourg act dated 22 March 2004 on securitisation) under which the Notes will be issued (**Compartment 1**).

Interest is payable on the Notes, beginning in September 2007 and thereafter quarterly in arrear on the 10th day in June, September, December and March in each year, unless such day is not a Business Day, in which case interest shall be payable on the following Business Day (each such date, a **Note Payment Date**). The **Interest Period** for each Note Payment Date is the period from and including the Issue Date to but excluding the first Note Payment Date, and each successive period from and including a Note Payment Date to but excluding the next succeeding Note Payment Date. Interest on the Class A1 Notes shall accrue at an annual rate of 6.330% per annum. Interest on the Class A2 Notes shall accrue at an annual rate of the Eurozone Interbank Offered Rate (**EURIBOR**) for deposits in euro for three months plus 0.400% per annum. Interest on the Class A3 Notes shall accrue at an annual rate of the London Interbank Offered Rate (**USD LIBOR**) for deposits in U.S. dollars for three months plus 0.400% per annum. Interest on the Class B1 Notes shall accrue at an annual rate of 6.851% per annum. Interest on the Class B2 Notes shall accrue at an annual rate of EURIBOR for deposits in euro for three months plus 0.950% per annum. Interest on the Class B3 Notes shall accrue at an annual rate of USD LIBOR for deposits in U.S. dollars for three months plus 0.950% per annum. Interest on the Class C1 Notes shall accrue at an annual rate of 8.519% per annum. Interest on the Class C2 Notes shall accrue at an annual rate of EURIBOR for deposits in euro for three months plus 2.450% per annum. Interest on the Class C3 Notes shall accrue at an annual rate of USD LIBOR for deposits in U.S. dollars for three months plus 2.500% per annum. Interest on the Class X Notes shall accrue at a variable rate as described in this Offering Circular.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**), or any state securities laws and unless so registered may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the applicable state securities laws. Accordingly, the Notes are being offered and sold (A) in the United States only to persons who are both qualified institutional buyers (as defined and in reliance on Rule 144A under the Securities Act (**Rule 144A**)) and qualified persons (as defined and in reliance on Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the **Investment Company Act**)), and the rules and regulations thereunder and (B) outside the United States to persons other than U.S. persons in offshore transactions in reliance on Regulation S. For a description of certain restrictions on resales or transfers, see "*Transfer Restrictions and Investor Representations*" below.

The Notes will be obligations of the Issuer only. The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations of, or the responsibility of, or guaranteed by, any of BlueOrchard Finance S.A., Morgan Stanley & Co. International plc, the Trustee, the Account Bank, the Cash Manager, the Principal Paying Agent, the Registrar, the Transfer Agent, the Luxembourg Account Bank, the Irish Paying Agent, the Swap Counterparty, the Corporate Services Provider (each as defined herein), any company in the same group of companies as BlueOrchard Finance S.A. or Morgan Stanley & Co. International plc or any other party to the transaction documents. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of BlueOrchard Finance S.A., the Trustee, the Account Bank, the Cash Manager, the Principal Paying Agent, the Registrar, the Transfer Agent, the Luxembourg Account Bank, the Irish Paying Agent, the Swap Counterparty or the Corporate Services Provider or Morgan Stanley & Co. International plc or by any person other than the Issuer.

An investment in the Notes involves certain risks. For a discussion of the risks affecting the Notes see "*Risk Factors*" in this Offering Circular.

Sponsor

BlueOrchard®
Microfinance Investment Managers

Sole Arranger and Lead Manager

Morgan Stanley

IMPORTANT NOTICE

This document constitutes a prospectus (the **Prospectus**) for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the **Prospectus Directive**).

Application has been made to the Irish Financial Services Regulatory Authority (the **IFSRA**), as competent authority (the **Competent Authority**) under Directive 2003/71/EC, for the Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Class A Notes, the Class B Notes and the Class C Notes to be admitted to the Official List and trading on its regulated market. Such approval relates only to the Class A Notes, the Class B Notes and the Class C Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. The Class X Notes will be unlisted.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

The Notes of each Class sold in reliance on Rule 144A will be represented on issue by a global note in registered form for each such Class of Note (the **Rule 144A Global Notes**). The Notes of each Class sold in reliance on Regulation S will be represented on issue by a global note in registered form for each such Class of Note (the **Regulation S Global Notes** and, together with the Rule 144A Global Notes, the **Global Notes**). Each Class of Notes denominated in U.S. dollars may be represented by either a Rule 144A Global Note or a Regulation S Global Note. Each Class of Notes denominated in euro or sterling will only be represented by a Regulation S Global Note.

The Issuer will maintain a register, in which it will register in the name of BT Globenet Nominees Limited as nominee for Deutsche Bank AG, London Branch, as common depositary (the **Common Depositary**) for Euroclear Bank S.A./N.V. (**Euroclear**), and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), as owner of the Regulation S Global Notes and as owner of the Rule 144A Global Notes. Transfers of all or any portion of the interests in the Global Notes may be made only through the register maintained by the Issuer. Each of Euroclear and Clearstream, Luxembourg will record the beneficial interests in the Global Notes (**Book-Entry Interests**). Book-Entry Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear or Clearstream, Luxembourg, and the persons that have accounts with Euroclear or Clearstream, Luxembourg (**Participants**). Except in the limited circumstances described under "*Description of the Notes – Issuance of Definitive Notes*", the Notes will not be available in definitive form (the **Definitive Notes**). Definitive Notes will be issued in registered form only.

The distribution of this Offering Circular (the **Offering Circular**) and the offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by the Issuer, the Sponsor, the Trustee, the Account Bank, the Cash Manager, the Principal Paying Agent, the Registrar, the Transfer Agent, the Luxembourg Account Bank, the Irish Paying Agent, the Swap Counterparty, the Corporate Services Provider or Morgan Stanley & Co. International plc that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this Offering Circular as a prospectus for the purposes of the Prospectus Directive by the competent authority, no action has been taken by the Issuer, the Sponsor, the Trustee, the Account Bank, the Cash Manager, the Principal Paying Agent, the Registrar, the Transfer Agent, the Luxembourg Account Bank, the Irish Paying Agent, the Swap Counterparty, the Corporate Services Provider or Morgan Stanley & Co. International plc which would permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or

sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and Morgan Stanley & Co. International plc has represented that all offers and sales by it will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer and Morgan Stanley & Co. International plc to inform themselves about and to observe any such restrictions.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the **Commission**), any State Securities Commission or any other regulatory authority within the United States, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is unlawful.

The Notes have not been and will not be registered under the Securities Act. The Dollar Notes will be offered and sold in the United States only to a limited number of persons who are both qualified institutional buyers in reliance on Rule 144A and qualified persons under Section 2(a)(51) of the Investment Company Act and in accordance with any applicable laws of any state. The Notes will also be contemporaneously offered and sold outside the United States to persons other than U.S. persons in offshore transactions in reliance on Regulation S. There is no undertaking to register the Notes under U.S. state or federal securities law. Until 40 days after the commencement of the offering, an offer or sale of the notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A or pursuant to another exemption from the registration requirements of the Securities Act.

The Notes cannot be resold in the United Sates or to, or for the account or benefit of, U.S. persons unless they are registered under the Securities Act or an exemption from registration is available. For a description of certain restrictions on resales and transfers, see "*Transfer Restrictions and Investor Representations*" below.

Each initial and subsequent purchaser of the Notes will be deemed by its acceptance of such notes to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of the Notes as set forth therein and described in this Offering Circular and, in connection therewith, may be required to provide confirmation of its compliance with such resale and other transfer restrictions in certain cases. See "*Transfer Restrictions and Investor Representations*" below.

To the extent communicated in the United Kingdom, this promotion is directed only at investment professionals, high net worth companies and other businesses of the type set out in Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and sophisticated investors within the meaning of Article 50 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and other persons to whom this communication may be lawfully communicated, and the services described in this promotion are available only to such persons. This promotion is not directed at any other UK persons, and must not be acted upon by any other UK persons.

The risk characteristics of the Class B Notes, the Class C Notes and the Class X Notes differ from those of the Class A Notes generally. **In this respect and more generally, particular attention is drawn to the section herein entitled "*Risk Factors*".**

The Issuer accepts responsibility for all the information contained in this Offering Circular, except for the information contained under the headings "*The Sponsor and the Servicer*" and "*The Swap Counterparty*". To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The information in this Offering Circular is accurate only as of the date of this Offering Circular, regardless of the time of delivery of this Offering Circular or any sale of Notes. You should rely only on the information contained in this Offering Circular.

The Sponsor accepts responsibility for the information contained under the heading *"The Sponsor and the Servicer"* and to the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained under the heading *"The Sponsor and the Servicer"* is in accordance with the facts and does not omit anything likely to affect the import of such information.

Morgan Stanley & Co. International plc accepts responsibility for the information contained under the heading *"The Swap Counterparty"* and to the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained under the heading *"The Swap Counterparty"* is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation in connection with the offering or sale of the Notes other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Sponsor, the Trustee, the Account Bank, the Cash Manager, the Principal Paying Agent, the Registrar, the Transfer Agent, the Luxembourg Account Bank, the Irish Paying Agent, the Swap Counterparty, the Corporate Services Provider or Morgan Stanley & Co. International plc or any of their respective affiliates or advisers. Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the offering of the Notes shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or the Sponsor or in the other information contained herein since the date hereof. None of the Trustee, the Account Bank, the Cash Manager, the Principal Paying Agent, the Registrar, the Transfer Agent, the Luxembourg Account Bank, the Irish Paying Agent, the Swap Counterparty, the Corporate Services Provider or Morgan Stanley & Co. International plc makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes.

This Prospectus, including its Appendices, uses reports published by the Economist Intelligence Unit (**EIU**) regarding Serbia and Montenegro, Cambodia, Peru, Georgia, Azerbaijan, Kenya, Bosnia and Hercegovina, Nicaragua, Russia, Colombia and Mongolia (see the Appendix to this Offering Circular). Information on the global microfinance industry is provided by the Consultative Group to Assist the Poor (**CGAP**). Each of these sources may have their own definitions for a particular market or market segment, and accordingly, the information obtained from one source might not be comparable with other sources. In addition, all information provided herein regarding the microfinance institutions or their affiliates to which this Offering Circular applies (each a **Participating MFI** and collectively, the **Participating MFIs**) was derived from data provided by the participating MFIs. Where information has been sourced from the EIU, CGAP or a Participating MFI, information has been adequately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

None of the Participating MFIs nor any of their affiliates, and none of the governments of their countries of origin, have reviewed or participated in the preparation of this Offering Circular.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations, other than as contained in this Offering Circular, and if given or made such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Sponsor or Morgan Stanley & Co. International plc or any of them to subscribe for or purchase any of the Notes in any jurisdiction where such action would be unlawful and neither this Offering Circular, nor any part thereof, may be used for or in connection with any offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Payments of interest and principal in respect of the Notes will be subject to any applicable withholding taxes without the issuer being obliged to pay additional amounts therefor.

Descriptions in this Offering Circular of the Agency Agreement, Note Placement Agreement, Trust Deed, Deed of Charge, Cash Management Agreement, Servicing Agreement, Swap Agreements, Account Bank Agreement, Term Loan Agreements and other documents do not purport to be complete, and all relationships among the parties to these agreements described in this Offering Circular are subject to the actual text of the agreements being summarized. Reference should be made to such documents for full and complete details of their contents, all of which are available for review upon request to the Issuer or the Sponsor.

In this Offering Circular all references to **pounds**, **sterling**, **GBP** and **£** are references to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland (the **United Kingdom** or **UK**). References in this Offering Circular to **dollars**, **USD** or **$** are to the lawful currency for the time being of the United States of America (the **United States** or **U.S.**). References in this Offering Circular to **euro**, **eur** or **€** are references to the single currency introduced at the start of the third stage of European Economic and monetary union on 1 January 1999 pursuant to the treaty establishing the European Communities, as amended from time to time.

Notwithstanding anything herein to the contrary, from the commencement of discussions with respect to the transaction contemplated by this Offering Circular, all persons may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction described herein and all materials of any kind (including opinions and other tax analyses) that are provided to such persons relating to such tax treatment and tax structure, except to the extent that any such disclosure could reasonably be expected to cause this offering not to be in compliance with securities laws. For purposes of this paragraph, the tax treatment of this transaction is the purported or claimed U.S. federal income tax treatment of this transaction and the tax structure of this transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of this transaction.

AVAILABLE INFORMATION

The Issuer will agree that, for so long as any of the Notes sold in the United States in reliance on Rule 144A remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish, upon request of a holder of such a Note or of any beneficial owner or by any prospective purchaser designated by such holder or beneficial owner the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the Issuer is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the **Exchange Act**), or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

ENFORCEABILITY OF JUDGMENTS

The Issuer is a public limited liability company registered in Luxembourg and its executive offices and administrative activities are located outside the United States. All of the Issuer's assets are located outside the United States. None of the officers and directors of the Issuer are residents of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or any such person not residing in the United States with respect to matters arising under the federal securities law of the United States or any state or other jurisdiction within the United States, or to enforce against them judgments of courts of the United States predicated upon the civil liability provisions of such securities laws. There is doubt as to the enforceability in Luxembourg, in original actions or in actions for the enforcement of judgment of U.S. courts, of civil liabilities predicated solely upon such securities laws.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE STATE OF NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD LOOKING STATEMENTS

Certain matters contained herein are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such statements appear in a number of places in this Offering Circular, including with respect to assumptions on prepayment and certain other characteristics of the Loans, and reflect significant assumptions and subjective judgments by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans", or similar terms. Consequently, future results may differ from the Issuer's expectations due to a variety of factors. Moreover, past financial performance should not be considered a reliable indicator of future performance and prospective purchasers of the Notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer. Morgan Stanley & Co. International plc has not attempted to verify any such statements, nor do they make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements. Neither the Issuer nor Morgan Stanley & Co. International plc assumes any obligation to update these forward-looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements.

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OVERVIEW OF TRANSACTION

Overview

BlueOrchard Loans for Development S.A. (the **Issuer**) is a securitisation of 20 unsecured loans (each a **Loan** and collectively, the **Loans**) made to microfinance institutions (**MFIs**) and/or their affiliates (together the **Borrowers**) based in 12 developing countries (the **Transaction**). The average Loan size is $5.3 million and the Loans range from $1.3 million to $10.0 million. MFIs extend small loans to poor micro-entrepreneurs who have limited access to other sources of credit. The loans made by the Participating MFIs as part of the Transaction average between $124 and $3,299. The Participating MFIs currently serve approximately 1.1 million micro-entrepreneurs.

The portfolio of Loans (the **Loan Portfolio**) is sourced and serviced by BlueOrchard Finance S.A., a specialist microfinance investment manager and advisor (**BlueOrchard**). BlueOrchard manages the Dexia Micro-Credit Fund, the Saint-Honoré Microfinance Fund sponsored by La Compagnie Financière Edmond de Rothschild Banque, BBVA Codespa Microfinanzas, FIL sponsored by BBVA and it is the debt advisor to the ResponsAbility Global Microfinance Fund. It has advised on and monitored over 450 loans to MFIs for those investment vehicles. BlueOrchard also sponsored BlueOrchard Microfinance Securities I (**BOMS I**), an OPIC-guaranteed securitisation issued in July 2004, and BlueOrchard Loans For Development 2006-1 S.A., a microfinance loan securitization arranged by Morgan Stanley & Co. International plc and issued in April 2006, each of which is described in further detail below.

The assets of the Issuer that are allocated to Compartment 1 will principally consist of the Loans made on the Issue Date (as defined below). Payments of principal and interest on the Notes are sourced from payments of principal and interest on the Loans. The Issuer has granted security over all its assets, including the Loans, to the Trustee for the benefit of the Noteholders and other secured creditors, in each case to the extent allocated to Compartment 1. The Term Loan Agreements (as defined below) under which the Loans are made are governed by the laws of England and Wales.

OVERVIEW OF LOANS

As at the date of this Offering Circular, the Loan Portfolio is expected to comprise the following Loans with the following characteristics:

Originator	Country	Size (USD MM)	USD Interest Rate	Original Currency
AgroInvest VFI doo Podgorica	Montenegro	5.20	8.21%	Euro
AMRET	Cambodia	2.00	8.25%	US Dollar
Confianza	Peru	3.00	10.17%	Peruvian Nuevo Sol
Constanta	Georgia	4.00	9.00%	US Dollar
Crear Arequipa	Peru	5.00	9.17%	Peruvian Nuevo Sol
CredAgro	Azerbaijan	2.00	9.00%	US Dollar
EBS	Kenya	10.00	8.75%	US Dollar
EDYFICAR	Peru	3.00	9.17%	Peruvian Nuevo Sol
EKI	Bosnia	6.50	7.96%	Euro
FDL	Nicaragua	3.00	9.00%	US Dollar
Finca	Russia	6.00	9.30%	Russian Roubles
Findesa	Nicaragua	6.00	8.60%	US Dollar
MFBA	Azerbaijan	8.00	8.75%	US Dollar
Mikrofin	Bosnia	5.20	7.96%	Euro
Partner	Bosnia	10.00	8.50%	Euro
ProCredit	Georgia	5.20	8.21%	US Dollar
Vision Fund AgroInvest doo Podgorica (on behalf of AgroInvest Fund Serbia)	Montenegro	1.30	8.21%	Euro
WWB Medellin	Colombia	5.00	8.55%	Colombian Peso
WWB Popayan	Colombia	10.00	8.55%	Colombian Peso
Xac Bank	Mongolia	5.00	8.00%	Mongolian Tugrik
Total		106.70		

PARTIES

Issuer:

BlueOrchard Loans for Development S.A., a *société anonyme* (public limited liability company) incorporated on 30 April 2007 under the laws of the Grand Duchy of Luxembourg as a single purpose entity in Luxembourg. The Issuer has its registered office at 7, Val Sainte-Croix, L-1371 Luxembourg and is registered with the Luxembourg trade and companies register (RCS) under number B. 127644. The Issuer has a share capital of U.S.$50,000, all of which will is held by a Dutch foundation *(stichting)* STICHTING THORIET BOLD (**BOLD Holdings**). The Issuer is a regulated securitisation vehicle *(organisme de titrisation agréé)* within the meaning of and governed by the Luxembourg law of 22 March 2004 on securitisation (the **Luxembourg Securitisation Act**). The Notes (as defined below) are issued by the Issuer acting in respect of its Compartment 1 (as defined below under "*Compartment 1*"). All assets and liabilities relating to the Notes will be allocated to Compartment 1.

The Issuer's exclusive business is to enter into one or more securitisation transactions within the meaning of the Luxembourg Securitisation Act. The Issuer's principal activities will be to issue the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class B1 Notes, the Class B2 Notes, the Class B3 Notes, the Class C1 Notes, the Class C2 Notes, the Class C3 Notes and the Class X Notes (each a **Note** and collectively, the **Notes**) described herein and to use the proceeds raised thereby, net of certain start-up and administrative costs (the **Net Funds Raised**), for the purpose of making Loans to MFIs and/or their affiliates (**Borrowers**). The Issuer has contracted with the Servicer (as defined below) to service and administer the Loan Portfolio on behalf of the Issuer.

Sponsor:

BlueOrchard, incorporated in Switzerland, which is in the business of, *inter alia*, arranging finance for MFIs.

Servicer:

BlueOrchard, or its successors and assigns. The Servicer will service the Loan Portfolio and supervises the work of other ongoing transaction agents. This includes collecting payments under the Loans, monitoring compliance by the Borrowers with their obligations under the Loans and enforcing the Loans. The Servicer will have the ability to appoint sub-servicers as needed.

Corporate Services Provider:

Structured Finance Management (Luxembourg) S.A. The Corporate Services Provider will maintain the share register of the Issuer on behalf of the Issuer. Structured Finance Management (Luxembourg) S.A. will provide a registered office to the Issuer and is also responsible for

ensuring that the Issuer complies with general corporate existence requirements, such as relevant public filings, preparation of accounts and arranging audits.

Trustee:	Deutsche Trustee Company Limited
Registrar and Transfer Agent:	Deutsche Bank Luxembourg S.A.
Currency Swap Counterparty:	Morgan Stanley & Co. International plc (**MSI**).
Interest Rate Swap Counterparty :	MSI
Principal Paying Agent:	Deutsche Bank AG, London Branch
Irish Paying Agent:	Deutsche International Corporate Services (Ireland) Limited
Irish Listing Agent:	Deutsche Bank Luxembourg S.A.
Luxembourg Account Bank/Custodian and Account Bank/Sub-Custodian:	Deutsche Bank Luxembourg S.A. will act as Luxembourg account bank to the Issuer (the **Luxembourg Account Bank**) and as the custodian (the **Custodian**) of the Issuer's bank accounts. Deutsche Bank AG, London Branch will act as the account bank (the **Account Bank**) and as sub-custodian (the **Sub-Custodian**) performing the obligations of the Luxembourg Account Bank and the Custodian delegated to it pursuant to the terms of a subcustody agreement (the **Subcustody Agreement**). However the Custodian will remain responsible for such obligations. The Luxembourg Account Bank, on behalf of the Issuer, will maintain with the Account Bank one or more transaction accounts in euro, Dollar, Sterling and Roubles (respectively, the **Euro Account**, the **Dollar Account**, the **Sterling Account** and the **Rouble Account**, and together the **Issuer Accounts**).
Cash Manager:	Deutsche Bank AG, London Branch will act as cash manager to the Issuer (the **Cash Manager**) and provides cash management services.
External Auditor *(réviseur d'entreprises)*:	BDO Compagnie Fiduciaire S.A., Luxembourg (member of the *Institut des Réviseurs d'Entreprises* in Luxembourg)

DESCRIPTION OF THE LOANS

Loan Maturity:	Subject to the exception below, the principal amount of each Loan will be payable in a single instalment on the Loan Payment Date falling in June 2012. The Loan to be made to EKI in Bosnia will amortize in four equal quarterly instalments from September 2011 to June 2012.

Loan Disbursements:	Subject to the exceptions below, the principal amount of each Loan will be disbursed to the related Borrower on the Issue Date. The Loans to be made to Confianza in Peru, Findesa in Nicaragua, WWB Medellin and WWB Popayan in Colombia will be disbursed to them on 1 June 2007 and the Loan to be made to ProCredit in Georgia will be disbursed to it on 15 June 2007. U.S.$1 million of the Loan to be made to AMRET in Cambodia will be disbursed to it on the Issue Date and the remaining U.S.$1 million of such Loan will be disbursed to it on 15 June 2007. The Loans to be made to Borrowers in Colombia will be made by Dexia Micro-Credit Fund on the Issue Date and will be immediately acquired by the Issuer at such time. Any Loan amounts from the proceeds of the issue of Notes not disbursed to Borrowers on the Issue Date will be held in the Dollar Account until the date of such disbursement. Any Loan amounts which are not disbursed in accordance with and at the times provided in the related Term Loan Agreement (the **Outstanding Note Proceeds**) will be distributed as a prepayment to Noteholders on the following Note Payment Date. See "*Risk Factors— Risks related to the Borrowers and the Loans—Loan Disbursements*" below for additional information.
Loan interest rate (weighted average of the Loan Portfolio):	8.60%
Issue Date:	31 May 2007

DESCRIPTION OF THE NOTES

Classes of Notes	The Notes will comprise the following Classes: • £6,300,000 Class A1 Fixed Rate Notes due June 2014; • €2,200,000 Class A2 Floating Rate Notes due June 2014 ; • U.S.$28,500,000 Class A3 Floating Rate Notes due June 2014; • £1,250,000 Class B1 Fixed Rate Notes due June 2014 ; • €1,450,000 Class B2 Floating Rate Notes due June 2014 ;

- U.S.$12,000,000 Class B3 Floating Rate Notes due June 2014;
- £10,050,000 Class C1 Fixed Rate Notes due June 2014;
- €700,000 Class C2 Floating Rate Notes due June 2014 ;
- U.S.$21,000,000 Class C3 Floating Rate Notes due June 2014; and
- U.S.$7,700,000 Class X Variable Rate Notes due June 2014,

all as further described herein.

The Class A1 Notes, the Class B1 and the Class C1 Notes are collectively referred to as the **Sterling Notes**. The Class A2 Notes, the Class B2 Notes and the Class C2 Notes are collectively referred to as the **Euro Notes**. The Class A3 Notes, the Class B3 Notes, the Class C3 Notes and the Class X Notes are collectively referred to as the **Dollar Notes**.

Class A1 Notes

Principal Amount:	£6,300,000
Currency:	Sterling (£)
Issue Price:	100%
Interest Rate:	The Class A1 Notes will bear interest at a fixed rate of 6.330% per annum.
Interest Accrual Method:	Actual/Actual (ISMA)
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class A2 Notes

Principal Amount:	€2,200,000

Currency:	Euro (€)
Issue Price:	100%
Interest Rate:	The Class A2 Notes will bear interest at a floating rate of three-month EURIBOR plus the related margin
Interest Accrual Method:	Actual/360
Margin:	0.400%
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class A3 Notes

Principal Amount:	$28,500,000
Currency:	U.S. dollars ($)
Issue Price:	100%
Interest Rate:	The Class A3 Notes will bear interest at a floating rate of three-month USD LIBOR plus the related margin
Interest Accrual Method:	Actual/360
Margin:	0.400%
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class B1 Notes

Principal Amount:	£1,250,000

Currency:	Sterling (£)
Issue Price:	100%
Interest Rate:	The Class B1 Notes will bear interest at a fixed rate of 6.851% per annum.
Interest Accrual Method:	Actual/Actual (ISMA)
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class B2 Notes

Principal Amount:	€1,450,000
Currency:	Euro (€)
Issue Price:	100%
Interest Rate:	The Class B2 Notes will bear interest at a floating rate of three-month EURIBOR plus the related margin
Interest Accrual Method:	Actual/360
Margin:	0.950%
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class B3 Notes

Principal Amount:	$12,000,000
Currency:	U.S. dollars ($)
Issue Price:	100%

Interest Rate:	The Class B3 Notes will bear interest at a floating rate of three-month USD LIBOR plus the related margin
Interest Accrual Method:	Actual/360
Margin:	0.950%
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class C1 Notes

Principal Amount:	£10,050,000
Currency:	Sterling (£)
Issue Price:	100%
Interest Rate:	The Class C1 Notes will bear interest at a fixed rate of 8.519% per annum.
Interest Accrual Method:	Actual/Actual (ISMA)
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class C2 Notes

Principal Amount:	€700,000
Currency:	Euro (€)
Issue Price:	100%

Interest Rate:	The Class C2 Notes will bear interest at a floating rate of three-month EURIBOR plus the related margin
Interest Accrual Method:	Actual/360
Margin:	2.450%
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class C3 Notes

Principal Amount:	$21,000,000
Currency:	U.S. dollars ($)
Issue Price:	100%
Interest Rate:	The Class C3 Notes will bear interest at a floating rate of three-month USD LIBOR plus the related margin
Interest Accrual Method:	Actual/360
Margin:	2.500%
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012

Class X Notes

Principal Amount:	$7,700,000
Currency:	U.S. dollars ($)

Entitlement	Each of the Class X Notes will bear an entitlement to receive a payment in respect of residual amounts available for such purpose in accordance with the applicable priorities of payment (and for payments of interest on any Note Payment Date, see "*Interest*" below). The Class X Notes will not be redeemed on any Note Payment Date unless all other Classes of Notes have been redeemed in full. Following payment of or provision for all higher ranking items in the applicable Priorities of Payments, if there are no available amounts to be applied as residual payments in order to redeem the Class X Notes in full, the holders of the Class X Notes will have no further claim against the Issuer. BlueOrchard Finance S.A. will purchase $200,000 in principal amount of Class X Notes on the Issue Date.
Issue Price:	100%
Interest:	The amount of interest payable on each Class X Note on any Note Payment Date shall be calculated by the Cash Manager and shall be equal to the amount of Available Revenue Funds available at item 11 of the Revenue Priority of Payments and item 15 of the Post-Loan Default Priority of Payments, divided by the number of Class X Notes outstanding and rounded down to the nearest cent.
Note Payment Dates:	Quarterly, on 10 June, 10 September, 10 December and 10 March of each year, or if such day is not a Business Day, on the following Business Day, commencing on the Note Payment Date in September 2007 and terminating on the Note Payment Date in June 2014 or earlier redemption date
Payment Date Convention:	Following business day
Legal Final Maturity Date:	The Note Payment Date in June 2014
Expected Final Maturity Date:	The Note Payment Date in June 2012
Business Days:	New York, London, Luxembourg and TARGET
Denominations:	Euro Notes: €50,000 and integral multiples of €1,000 thereafter Sterling Notes: £50,000 and integral multiples of £1,000 thereafter Dollar Notes: $100,000 and integral multiples of $1,000 thereafter

Form of Notes:

The Notes will be issued in registered form and may under no circumstances be converted into Notes in bearer form.

The Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A under the Securities Act.

The Dollar Notes may only be offered and sold in the United States or to U.S. persons in private transactions to persons who are both qualified institutional buyers within the meaning of Rule 144A under the Securities Act (**QIBs**) and qualified purchasers (**QPs**) as defined in Section 2(a)(51) of the Investment Company Act. The Notes sold in reliance on Rule 144A will be represented by a Rule 144A Global Note. Notes offered and sold outside the United States in reliance on Regulation S will be represented by Regulation S Global Notes. The Global Notes will be registered in the name of a Common Depositary for Euroclear and for Clearstream, Luxembourg. Beneficial interests in the Global Notes will be shown on, and transfers thereof are effected only through, records maintained in book-entry form by Euroclear or Clearstream, Luxembourg and their respective Participants. In limited circumstances, beneficial interests in the Global Notes will be exchangeable for Definitive Notes.

The Dollar Notes may not be offered, sold or transferred at any time to a U.S. Person or a person in the United States unless such person is a QIB and a QP. Sales or other transfers of the Notes which would require the Issuer to register as an "investment company" under the Investment Company Act will be void and will not be honoured by the Issuer and the Issuer may, in its discretion, redeem such Notes or compel any such holder to transfer such Note to a person that is a QIB and a QP meeting the requirements set forth herein and in the Investment Company Act or to a non-U.S. person outside the United States.

Status of the Notes:

The Notes will be constituted by the Trust Deed which is governed by the laws of England and Wales. The Class A Notes will rank in priority to the Class B Notes, the Class C Notes and the Class X Notes, the Class B Notes will rank in priority to the Class C Notes and the Class X Notes and the Class C Notes will rank in priority to the Class X Notes, in point of security and as to payment of both interest and principal in accordance with the applicable priority of payments. Each subclass of Class A Notes will rank *pari passu,* without preference, among themselves, each subclass of Class B Notes will rank *pari passu,* without preference, among themselves and each

subclass of Class C Notes will rank *pari passu,* without preference, among themselves.

Ratings:

It is expected that the Notes will, on issue, be assigned the following ratings:

Class	**S&P**
Class A1 Notes	AA
Class A2 Notes	AA
Class A3 Notes	AA
Class B1 Notes	BBB
Class B2 Notes	BBB
Class B3 Notes	BBB

The Class C Notes and Class X Notes will not be rated.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P).

Listing:

Application has been made to the Irish Stock Exchange for the Class A Notes, the Class B Notes and the Class C Notes to be listed on the Official List and admitted to trading on its regulated market. Such approval relates only to the Class A Notes, the Class B Notes and the Class C Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area.

The Class X Notes will be unlisted.

Rights of Noteholders:

The Noteholders will have no rights with regard to the day-to-day management and operations of the Issuer.

Upon the occurrence of a Note Event of Default (as defined herein), the Noteholders of each Class of Notes (other than the Class X Notes) will have the right to direct the Trustee to accelerate the Notes of their Class, on the understanding that the Class B Noteholders will have no right to so direct the Trustee unless all of the Class A Notes have been redeemed in full and the Class C Noteholders will have no right to so direct unless all of

the Class A Notes and the Class B Notes have been redeemed in full. The Class X Noteholders will not be able to direct the Trustee to take action under the Trust Deed.

If any party wishes to amend or modify any of the documents to which the Issuer is a party, such party may do so only if, in the opinion of the Trustee, such amendment or modification is not materially prejudicial to the interests of the Noteholders (other than the Class X Noteholders) provided that any such amendment or modification shall be subject to the receipt by the Trustee of a Class X Consent Notice (as defined below) in relation thereto, unless the Trustee is satisfied that such amendment or modification would not be prejudicial to the Class X Noteholders. If the Trustee is unable to determine that such amendment or modification is materially prejudicial to the interests of the Noteholders (other than the Class X Noteholders), then the Noteholders will be able to give direction by way of an extraordinary resolution as to whether the Trustee should consent to such amendment or modification. Any such resolution by the Noteholders of any Class of Notes (other than the Class X Notes) will only be effective if it is also approved by the Noteholders of the Classes of Notes ranking more senior to it and provided further that the effectiveness of such resolution shall be subject to the receipt by the Trustee of a Class X Consent Notice (as defined below) in relation thereto, unless the Trustee is satisfied that such resolution would not be prejudicial to the Class X Noteholders.

The Trustee is not required at any time to have regard to the interests of the Class X Noteholders or to act upon or comply with any direction or request of any Class X Noteholder (other than in respect of a Class X Consent Notice). No extraordinary resolution of a Class of Noteholders (other than the Class X Noteholders) to authorise or sanction a modification or a waiver or authorisation of any breach or proposed breach of any provisions of the Trust Deed or any other Transaction Documents shall be binding on the Class X Noteholders unless the Class X Noteholders, as applicable, have confirmed in writing to the Trustee that their interests will not be materially prejudiced thereby (a **Class X Consent Notice**) or the Trustee is satisfied such extraordinary resolution would not be materially prejudicial to the interests of the Class X Noteholders.

Prescription: Where applicable to a Note, claims in respect of principal and interest payable on redemption in full of the relevant Notes will become void unless presentation for payment is made within a period of 5 years, in the case of interest, and 10 years, in the case of principal, from the relevant date in respect of the relevant payment.

Amortization:

Pass through redemption of amortization and any principal prepayments and redemption in full under the Loans.

Cash Waterfall/Priority of Payments:

Revenue Priority of Payments

Subject to Condition 9, Available Revenue Funds will be applied on each Note Payment Date (i) unless the Post-Loan Default Priority of Payment applies, (ii) until enforcement of the Security pursuant to the Deed of Charge occurs or (iii) until such time as there are no secured amounts of the Issuer outstanding, in making such payments and provisions in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full and to the extent that such withdrawal does not cause the Issuer Accounts to become overdrawn):

1. *first,* to pay *pari passu* and *pro rata*, when due the remuneration payable to the Trustee or any agent, delegate or other appointee thereof (plus value added tax, if any) and any costs, charges, liabilities and expenses incurred by them under the provisions of or in connection with the Trust Deed, the Deed of Charge or any other Transaction Document or any of them together with interest as provided in the Trust Deed or the Deed of Charge;

2. *second,* to pay when due amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable by the Issuer to third parties and incurred without breach by the Issuer pursuant to the Trust Deed or the Deed of Charge and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Note Payment Date;

3. *third,* to pay amounts due to the Swap Counterparty under the Swap Agreements, in respect of amounts received from the Swap Counterparty to pay interest on the Notes (other than Subordinated Swap Amounts);

4. *fourth,* to pay *pari passu* and *pro rata* amounts due to the Principal Paying Agent, the Irish Paying Agent, the Registrar and the Transfer Agent under the Agency Agreement, the Account Bank and the Luxembourg Account Bank under the Account Bank Agreement and the Subcustody Agreement, the Cash Manager under the Cash Management Agreement and the Corporate Services Provider under the Corporate Services

Agreement;

5. *fifth,* to pay the servicing fee payable to the Servicer (plus value added tax, if any) calculated as set forth in the Servicing Agreement;

6. *sixth,* (A) first, to pay *pari passu* and *pro rata* amounts (other than in respect of principal) payable in respect of the Class A Notes, including interest due but not paid on any previous Note Payment Date (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class A Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet the interest then due on the relevant subclass of the Class A Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling (as the case may be), an amount is obtained which is insufficient to pay interest due on the relevant subclass of Class A Notes to apply further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall;

7. *seventh,* (A) first, to pay *pari passu* and *pro rata* amounts (other than in respect of principal) payable in respect of the Class B Notes, including interest due but not paid on any previous Note Payment Date (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class B Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling in the spot exchange market in order to meet the interest then due on the relevant subclass of Class B Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling, an amount is obtained which is insufficient to pay interest due on relevant sub-class of the Class B Notes to apply further amounts in exchange for euro and/or sterling in the spot exchange market in order to meet such shortfall;

8. *eighth,* (A) first, to pay *pari passu* and *pro rata* amounts (other than in respect of principal) payable in respect of the Class C Notes, including interest due but not paid on any previous Note

Payment Date (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class C Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling in the spot exchange market in order to meet the interest then due on the relevant subclass of Class C Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling, an amount is obtained which is insufficient to pay interest due on relevant sub-class of the Class C Notes to apply further amounts in exchange for euro and/or sterling in the spot exchange market in order to meet such shortfall;

9. *ninth,* to credit the Reserve Fund with the Scheduled Reserve Fund Contribution, until the balance of the Reserve Fund reaches the Reserve Fund Required Amount, after which, if the balance standing to the credit of the Reserve Fund on such Note Payment Date is less than the Reserve Fund Required Amount, to credit the Reserve Fund with the lesser of (A) all amounts available at this item 9 of the Revenue Priority of Payments and (B) the difference between the balance standing to the credit of the Reserve Fund and the Reserve Fund Required Amount;

10. *tenth,* to pay Subordinated Swap Amounts;

11. *eleventh,* to pay amounts (other than in respect of principal) payable in respect of the Class X Notes; and

12. *twelfth,* to pay any remaining amount to the Issuer or other persons entitled thereto.

Available Revenue Funds means on any Note Payment Date, all amounts standing to the credit of the Issuer Accounts representing (i) payments of interest and other fees due from time to time under the Loans in the Loan Portfolio and other amounts received by the Issuer in respect of the Loans other than the amounts representing payments of principal under the Loans, (ii) recoveries of interest from defaulting Borrowers under Loans being enforced, (iii) recoveries of principal from Borrowers under any Continuing Defaulted Loan to the extent that the same, when aggregated with the aggregate of the amounts applied in redemption of the Notes pursuant to Condition 9.2(c) in respect of such Continuing Defaulted Loan would exceed the outstanding principal amount of such Continuing Defaulted Loan at the time that it became

a Continuing Defaulted Loan, (iv) interest earned by the Issuer on the Issuer Accounts and (v) receipts by the Issuer from the Swap Counterparty that represent interest payable under the Notes, but excluding, for the avoidance of doubt, any amounts standing to the credit of the Commitment Fees Ledger, the Excluded Swap Termination Ledger, the ledger to which Excess Swap Collateral Amounts are recorded (the **Swap Collateral Ledger**) and the ledger to which amounts of the Reserve Fund are credited (the **Reserve Fund Ledger**), unless amounts from any such ledger are transferred to the Dollar Account in order to be applied as Available Revenue Funds in accordance with the Cash Management Agreement (and for such purpose, any Available Revenue Funds in any currency other than U.S. Dollars shall be translated on the relevant Note Payment Date into U.S. Dollars at the rate of U.S.$ 1.3484 per € 1.00, U.S.$1.9819 per £ 1.00 or U.S.$0.0387 per RUR 1.00, as the case may be).

The **Excluded Swap Termination Amounts** are the amounts paid to the Issuer by the Swap Counterparty upon termination of the relevant Swap (as defined in "*Risk Factors—Interest rate risk*" below). These will be deposited in a separate ledger of the Dollar Account (the **Excluded Swap Termination Ledger**) and will only become available to be applied under the relevant Priority of Payments if these amounts are not used within 30 days of receipt by the Issuer in order to enter into a replacement swap transaction.

The **Excess Swap Collateral Amounts** are amounts equal to the value of the collateral (or the applicable part of any collateral) provided by the Swap Counterparty to the Issuer in respect of the Swap Counterparty's obligations to transfer collateral to the Issuer under the relevant Swap Agreement which is in excess of the Swap Counterparty's liability under the relevant Swap Agreement as at the date of termination of the relevant Swap Agreement or which it is otherwise entitled to have returned to it under the terms of the relevant Swap Agreement.

Principal Priority of Payments:

Subject to Condition 9, unless the Post-Loan Default Priority of Payment applies or until enforcement of the Security pursuant to the Deed of Charge or until such time as there are no Notes outstanding, Actual Redemption Funds will be applied as follows:

1. *first,* to pay the amounts due to the Swap Counterparty under the Swap Agreements in respect of amounts received from the Swap Counterparty to pay principal on the Notes, together with any swap breakage costs incurred as

a result of acceleration or prepayment of a Loan;

2. *second,* (A) first, to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class A Notes (such amounts to be paid pro rata according to the respective principal entitlements of the Class A Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet the principal then due on the relevant subclass of the Class A Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant subclass of Class A Notes to apply further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall;

3. *third,* (A) first, to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class B Notes (such amounts to be paid pro rata according to the respective principal entitlements of the Class B Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet the principal then due on the relevant subclass of the Class B Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant subclass of Class B Notes to apply further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall;

4. *fourth,* (A) first, to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class C Notes (such amounts to be paid pro rata according to the respective principal entitlements of the Class C Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling (as the case may be) in the spot

exchange market in order to meet the principal then due on the relevant subclass of the Class C Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant subclass of Class C Notes to apply further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall; and

5. *fifth,* to the holders of the Class X Notes in respect of principal of the Class X Notes.

Actual Redemption Funds means on any Note Payment Date, all amounts standing to the credit of the Issuer Accounts representing (i) principal receipts from Borrowers under the Loans in the Loan Portfolio, (ii) recoveries of principal from Borrowers under Loans (but excluding recoveries of principal from Borrowers under any Continuing Defaulted Loan to the extent that the same, when aggregated with the aggregate of the amounts applied in redemption of the Notes pursuant to Condition 9.2(c) in respect of such Continuing Defaulted Loan, would exceed the outstanding principal amount of such Continuing Defaulted Loan at the time that it became a Continuing Defaulted Loan), (iii) Outstanding Note Proceeds and (iv) any amounts transferred to the Dollar Account in order to be applied as Actual Redemption Funds in accordance with the Cash Management Agreement (and for such purpose, any Actual Redemption Funds in any currency other than U.S. Dollars shall be translated on the relevant Note Payment Date into U.S. Dollars at the rate of U.S.$1.3484 per € 1.00, U.S.$1.9819 per £1.00 or U.S.$0.0387 per RUR 1.00, as the case may be).

Post-Loan Default Priority of Payments

Subject to Condition 9, on each Note Payment Date where a Loan has become a Continuing Defaulted Loan (i) until all relevant Notes have been prepaid in accordance with Condition 9.2(c) or (ii) until enforcement of the Security pursuant to the Deed of Charge occurs or (iii) until such time as there are no secured amounts of the Issuer outstanding, Available Revenue Funds and Actual Redemption Funds will be applied in making such payments and provisions in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full and to the extent that such withdrawal does not cause the Issuer Accounts to become overdrawn):

1. *first,* to pay *pari passu* and *pro rata*, when due the remuneration payable to the Trustee or any agent,

delegate or other appointee thereof (plus value added tax, if any) and any costs, charges, liabilities and expenses incurred by them under the provisions of or in connection with the Trust Deed, the Deed of Charge or any other Transaction Document or any of them together with interest as provided in the Trust Deed or the Deed of Charge;

2. *second,* to pay when due amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable by the Issuer to third parties and incurred without breach by the Issuer pursuant to the Trust Deed or the Deed of Charge and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Note Payment Date;

3. *third,* to pay amounts due to the Swap Counterparty under the Swap Agreements, in respect of amounts received from the Swap Counterparty to pay interest on the Notes (other than Subordinated Swap Amounts);

4. *fourth,* to pay amounts due to the Swap Counterparty under the Swap Agreements in respect of amounts received from the Swap Counterparty to pay principal on the Notes, together with any swap breakage costs incurred as a result of acceleration or prepayment of a Loan;

5. *fifth,* to pay *pari passu* and *pro rata* amounts due to the Principal Paying Agent, the Irish Paying Agent, the Registrar and the Transfer Agent under the Agency Agreement, the Account Bank and the Luxembourg Account Bank under the Account Bank Agreement and the Subcustody Agreement, the Cash Manager under the Cash Management Agreement and the Corporate Services Provider under the Corporate Services Agreement;

6. *sixth,* to pay the servicing fee payable to the Servicer (plus value added tax, if any) calculated as set forth in the Servicing Agreement;

7. *seventh,* (A) first, to pay *pari passu* and *pro rata* amounts (other than in respect of principal) payable in respect of the Class A Notes, including interest due but not paid on any previous Note Payment Date (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class A Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been

so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet the interest then due on the relevant subclass of the Class A Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling (as the case may be), an amount is obtained which is insufficient to pay interest due on the relevant subclass of Class A Notes to apply further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall;

8. *eighth,* (A) first, to pay amounts (other than in respect of principal) payable in respect of the Class B Notes, including interest due but not paid on any previous Note Payment Date (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class B Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling in the spot exchange market in order to meet the interest then due on the relevant subclass of Class B Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling, an amount is obtained which is insufficient to pay interest due on relevant subclass of the Class B Notes to apply further amounts in exchange for euro and/or sterling in the spot exchange market in order to meet such shortfall;

9. *ninth,* (A) first, to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class A Notes (such amounts to be paid pro rata according to the respective principal entitlements of the Class A Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet the principal then due on the relevant subclass of the Class A Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant subclass of Class A Notes to apply further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in

order to meet such shortfall;

10. *tenth,* (A) first, to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class B Notes (such amounts to be paid pro rata according to the respective principal entitlements of the Class B Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet the principal then due on the relevant subclass of the Class B Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant subclass of Class B Notes to apply further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall;

11. *eleventh,* (A) first, to pay amounts (other than in respect of principal) payable in respect of the Class C Notes, including interest due but not paid on any previous Note Payment Date (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class C Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling in the spot exchange market in order to meet the interest then due on the relevant subclass of Class C Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling, an amount is obtained which is insufficient to pay interest due on relevant subclass of the Class C Notes to apply further amounts in exchange for euro and/or sterling in the spot exchange market in order to meet such shortfall;

12. *twelfth,* (A) first, to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class C Notes (such amounts to be paid pro rata according to the respective principal entitlements of the Class C Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro and/or sterling (as the case may be) in the spot

exchange market in order to meet the principal then due on the relevant subclass of the Class C Notes and (B) second, to the extent that in relation to any spot exchange for euro and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant subclass of Class C Notes to apply further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall;

13. *thirteenth,* to credit the Reserve Fund with the Scheduled Reserve Fund Contribution, until the balance of the Reserve Fund reaches the Reserve Fund Required Amount, after which, if the balance standing to the credit of the Reserve Fund on such Note Payment Date is less than the Reserve Fund Required Amount, to credit the Reserve Fund with the lesser of (A) all amounts available at this item 13 of the Post-Loan Default Priority of Payments and (B) the difference between the balance standing to the credit of the Reserve Fund and the Reserve Fund Required Amount;

14. *fourteenth,* to pay Subordinated Swap Amounts;

15. *fifteenth,* to pay amounts (other than in respect of principal) payable in respect of the Class X Notes; and

16. *sixteenth,* to the holders of the Class X Notes in respect of principal of the Class X Notes; and

17. *seventeenth,* to pay any remaining amount to the Issuer or other persons entitled thereto.

Post-enforcement Priority of Payments

Priority of payments upon enforcement of security following a Note Event of Default and enforcement of the security (the **Post-enforcement Priority of Payments**):

1. *first,* to pay, *pari passu* and *pro rata,* any remuneration then due to the Trustee or any Receiver or other appointee thereof and all amounts due in respect of legal fees and other costs, charges, liabilities, losses, damages, proceedings, claims and demands then incurred by the Trustee or such Receiver or other appointee thereof together with interest thereon (plus value added tax, if any);

2. *second,* to pay amounts due to the Swap Counterparty under the Swap Agreements other

than Subordinated Swap Amounts;

3. *third*, to pay, *pari passu* and *pro rata*, the fees, costs, interest, expenses and liabilities due to the Principal Paying Agent, the Irish Paying Agent, the Registrar and the Transfer Agent under the Agency Agreement, the Account Bank and the Luxembourg Account Bank under the Account Bank Agreement and the Subcustody Agreement, the Cash Manager under the Cash Management Agreement and the Corporate Services Provider under the Corporate Services Agreement;

4. *fourth*, to pay any amount due to the Servicer pursuant to the Servicing Agreement;

5. *fifth*, to pay, *pro rata* and *pari passu*:

   (a) (A) amounts (other than in respect of principal) payable in respect of the Class A Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class A Noteholders) and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro or sterling, as applicable, in the spot exchange market in order to meet the interest then due on the relevant subclass of the Class A Notes; and (B) to the extent that in relation to any spot exchange for euro or sterling, as applicable, an amount is obtained which is insufficient to pay interest due on the relevant subclass of Class A Notes to apply such further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall (provided that all euro amounts or sterling amounts received pursuant to exchange in the spot market are to be applied in payment of interest due in respect of the relevant Class A Notes); and

   (b) (A) *first*, to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class A Notes (such amounts to be paid pro rata according to the respective principal entitlements of the Class A Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount

which would have been so payable by the Issuer under such Swap Agreement in exchange for euros and/or sterling (as the case may be) in the spot exchange market in order to meet the principal then due on the relevant subclass of the Class A Notes and (B) *second,* to the extent that in relation to any spot exchange for euros and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant sub-class of Class A Notes, to apply further amounts in exchange for euros and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall (provided that all euro or sterling amounts, as applicable, received pursuant to exchange in the spot market shall be applied in redemption of the Class A1 Notes or the Class A2 Notes, as the case may be) until the Class A Notes are redeemed in full;

6. sixth, to pay, *pro rata* and *pari passu*:

   (a) (A) amounts (other than in respect of principal) payable in respect of the Class B Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class B Noteholders) and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro or sterling, as applicable, in the spot exchange market in order to meet the interest then due on the relevant subclass of the Class B Notes; and (B) to the extent that in relation to any spot exchange for euro or sterling, as applicable, an amount is obtained which is insufficient to pay interest due on the relevant subclass of Class B Notes to apply such further amounts in exchange for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall (provided that all euro amounts or sterling amounts received pursuant to exchange in the spot market are to be applied in payment of interest due in respect of the relevant Class B Notes); and

(b) (A) *first,* to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class B Notes (such amounts to be paid *pro rata* according to the respective principal entitlements of the Class B Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euros and/or sterling (as the case may be) in the spot exchange market in order to meet the principal then due on the relevant subclass of the Class B Notes and (B) *second*, to the extent that in relation to any spot exchange for euros and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant sub-class of Class B Notes, to apply further amounts in exchange for euros and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall (provided that all euro or sterling amounts, as applicable, received pursuant to exchange in the spot market shall be applied in redemption of the Class B1 Notes or the Class B2 Notes, as the case may be) until the Class B Notes are redeemed in full;

7. seventh, to pay, *pro rata* and *pari passu*:

(a) (A) amounts (other than in respect of principal) payable in respect of the Class C Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the Class C Noteholders) and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euro or sterling, as applicable, in the spot exchange market in order to meet the interest then due on the relevant subclass of the Class C Notes; and (B) to the extent that in relation to any spot exchange for euro or sterling, as applicable, an amount is obtained which is insufficient to pay interest due on the relevant subclass of Class C Notes to apply such further amounts in exchange

for euro and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall (provided that all euro amounts or sterling amounts received pursuant to exchange in the spot market are to be applied in payment of interest due in respect of the relevant Class C Notes); and

(b) (A) *first,* to pay *pari passu* and *pro rata* amounts in respect of principal payable in respect of the Class C Notes (such amounts to be paid *pro rata* according to the respective principal entitlements of the Class C Noteholders), and if the relevant Swap Agreement is not in place, to apply such amounts up to the amount which would have been so payable by the Issuer under such Swap Agreement in exchange for euros and/or sterling (as the case may be) in the spot exchange market in order to meet the principal then due on the relevant subclass of the Class C Notes and (B) *second,* to the extent that in relation to any spot exchange for euros and/or sterling (as the case may be), an amount is obtained which is insufficient to pay principal due on the relevant sub-class of Class C Notes, to apply further amounts in exchange for euros and/or sterling (as the case may be) in the spot exchange market in order to meet such shortfall (provided that all euro or sterling amounts, as applicable, received pursuant to exchange in the spot market shall be applied in redemption of the Class C1 Notes or the Class C2 Notes, as the case may be) until the Class C Notes are redeemed in full;

8. *eighth*, to pay Subordinated Swap Amounts;

9. *ninth,* to pay all amounts of principal and interest payable in respect of the Class X Notes until the Class X Notes are fully redeemed; and

10. *tenth,* to pay any remaining amounts to the Issuer or to any other person entitled thereto.

The amounts available to be applied under the Post-enforcement Priority of Payments are all receipts of the Issuer together with all amounts properly standing to the credit of its bank accounts, in each case to the extent allocated to Compartment 1 (see "*—Compartment 1*" below).

Reserve Fund:

On each Note Payment Date the Issuer shall deposit into the Reserve Fund at item 9 of the Revenue Priority of Payments or at item 13 of the Post-Loan Default Priority of Payments, as applicable, 0.125 per cent of the aggregate principal amount of the Notes as at the Issue Date (the **Scheduled Reserve Fund Contribution**), until the balance of the Reserve Fund is equal to the equivalent of 1% per cent. of the initial aggregate principal amount of Notes (the **Reserve Fund Required Amount**). On each Note Payment Date thereafter and where the Post-Loan Default Priority of Payments applies (if the balance standing to the credit of the Reserve Fund on such Note Payment Date is less than the Reserve Fund Required Amount), the Issuer shall deposit into the Reserve Fund at item 9 of the Revenue Priority of Payments or item 13 of the Post-Loan Default Priority of Payments the lesser of (i) all amounts available at item 9 of the Revenue Priority of Payments or item 13 of the Post-Loan Default Priority of Payments and (ii) the difference between the balance standing to the credit of the Reserve Fund and the Reserve Fund Required Amount.

If on any Note Payment Date, amounts available at item 9 of the Revenue Priority of Payments or item 13 of the Post-Loan Default Priority of Payments are insufficient to meet the Reserve Fund Required Amount, the Reserve Fund Required Amount on the next Note Payment Date shall not be made to account for the deficit on the previous Note Payment Date and, in case of the Revenue Priority of Payments, the Scheduled Reserve Fund Contribution on the next Note Payment Date will not be increased by the amount of such deficit. However, this will not prejudice any replenishment of the Reserve Fund on the next Note Payment Date in accordance with the relevant Priority of Payments.

The Reserve Fund will be applied, prior to the enforcement of the security given by the Issuer, in or towards satisfying any payments under the Revenue Priority of Payments (down to item 8) or the Post-Loan Default Priority of Payments (down to item 12) that the Issuer's receipts would otherwise be insufficient to meet (in accordance with the Revenue Priority of Payments or the Post-Loan Default Priority of Payments as the case may be). Following the enforcement of the security given by the Issuer, the Reserve Fund will be applied in or towards satisfaction of any unsatisfied claims of secured creditors, in accordance with the Post-enforcement Priority of Payments as described above.

On any Note Payment Date on which the Notes are redeemed in full, the Reserve Fund will be available to be applied under the Revenue Priority of Payments generally.

Commitment Fee:

An amount representing a commitment fee equal to 0.25% of the initial principal amount of the relevant Loan (each a **Commitment Fee**) shall be paid by each Borrower for its respective Loan. The Commitment Fees will be held by the Issuer in a separate ledger of the Euro Account or the Dollar Account, depending on whether the Commitment Fees are paid in U.S. dollars or euro (each a **Commitment Fees Ledger**).

Upon the occurrence of an Event of Default as such term is defined in the relevant Term Loan Agreement (a **Loan Event of Default**) or another event that will allow the Issuer (or the Servicer on its behalf) to accelerate the related Loan, the Commitment Fee of the defaulting Borrower shall be transferred to the Dollar Account for use by the Issuer in accordance with the relevant Priority of Payments (in the case of Commitment Fees in euro, after having exchanged the relevant euro amount for Dollars against the "spot" rate at which euro are converted into Dollars). If no Loan Event of Default or other event that will allow the Issuer (or the Servicer on its behalf) to accelerate the related Loan occurs with respect to any Borrower, then the Commitment Fee paid by that Borrower that is refundable under the relevant Term Loan Agreement shall be returned to that Borrower on the maturity date of the relevant Loan.

Subordinated Swap Amounts:

Subordinated Swap Amounts include payments of indemnified tax to the Swap Counterparty and termination payments arising as a result of a termination caused by an event of default by the Swap Counterparty pursuant to the Swap Agreements or as a result of a ratings downgrade with respect to the Swap Counterparty.

Tax Events:

The Issuer is entitled, at its option, to redeem the Notes if any withholding tax is imposed on payments of interest under the Notes as a result of a change of law in its jurisdiction.

However, the Class X Notes cannot so be redeemed on any Note Payment Date unless all other Classes of Notes are being or have been redeemed in full.

Tax:

No gross-up on any payments due under the Notes.

Acceleration or Prepayment:

In the event of acceleration or prepayment of one or more Loans, the proceeds shall be applied as principal receipts in accordance with the relevant Priority of Payments. In addition, a failure to disburse the applicable Loan funds to Confianza in Peru, Findesa in Nicaragua, ProCredit Georgia in Georgia or AMRET in Cambodia on the related disbursement dates occurring after the Issue Date or to any other Borrower on the Issue Date will cause a

prepayment on the Notes. See "*Loan Maturity*" and "*Loan Disbursements*", above.

In the event that on any Note Payment Date any Loan is contractually in arrears for either (i) more than 6 months and for an amount equal to or more than 25 per cent. of the interest payment due for 3 months or (ii) more than 3 months and for an amount equal to or more than 50 per cent. of the interest payment due for 3 months (a **Continuing Defaulted Loan**), the Issuer shall redeem in accordance with the Post-Loan Default Priority of Payments:

(a) the Class A Notes in an amount equal to the lower of (i) the Principal Amount Outstanding on such Note Payment Date under the Class A Notes and (ii) the principal outstanding under the Continuing Defaulted Loan on such Note Payment Date;

(b) the Class B Notes in an amount equal to the lower of (i) the Principal Amount Outstanding on such Note Payment Date under the Class B Notes and (ii) the difference between (A) the principal outstanding under the Continuing Defaulted Loan on such Note Payment Date and (B) the amounts paid under paragraph (a) above (to the extent that such difference results in a negative amount, the Class B Notes shall not be redeemed); and

(c) the Class C Notes in an amount equal to the lower of (i) the Principal Amount Outstanding on such Note Payment Date under the Class C Notes and (ii) the difference between (A) the principal outstanding under the Continuing Defaulted Loan on such Note Payment Date and (B) the amounts paid under paragraphs (a) and (b) above (to the extent that such difference results in a negative amount, the Class C Notes shall not be redeemed).

Security for the Notes:

Fixed and floating charges governed by the laws of England and Wales will be taken over the Issuer's interests in the Loans, any bank accounts opened by the Issuer, the Issuer's interest in the Transaction Documents and all other assets of the Issuer, in each case to the extent allocated to Compartment 1 (see "*Compartment 1*" below).

Note Events of Default:

As set out in Condition 12. These include, among others:

(a) Failure by the Issuer to pay any amount then due and payable under the Class A Notes or, provided that there are no Class A Notes outstanding, the

Class B Notes or, provided that there are no Class A Notes or Class B Notes outstanding, the Class C Notes (in each case, subject to certain grace periods);

(b) The insolvency or enforcement of any security against or the imposition of any moratorium on the Issuer; and

(c) Failure to comply with obligations which might have a material adverse effect on Noteholders.

An event which would, with the passage of time, giving of notice, determination of materiality or the satisfaction of any other condition would be a Note Event of Default, will be a **Potential Note Event of Default**, the occurrence of which will permit the Trustee to take certain actions to preserve the interests of the Noteholders (including, among other things, requiring the Servicer (and other service providers) to act at the Trustee's direction, but not to accelerate the Notes or to enforce the security). If following the occurrence of a Note Event of Default the Trustee accelerates the indebtedness due under the Notes and enforcement of the security, then the Post-enforcement Priority of Payments will apply (and the Revenue Priority of Payments, the Principal Priority of Payments and the Post-Loan Default Priority of Payments, as the case may be, will cease to apply).

Upon the occurrence of a Note Event of Default, there shall be a termination payment to or from a Swap Counterparty under any Swap Agreement affected by such Note Event of Default.

Limited Recourse:

(1) Sums payable to the secured creditors of the Issuer in respect of the Issuer's obligations to such creditors shall be limited to the lesser of (a) the aggregate amount of all sums otherwise due and payable to such creditors of the Issuer and (b) the aggregate amounts received, realised or otherwise recovered by or for the account of the Issuer in respect of the secured property, whether pursuant to enforcement of the security or otherwise, net of any sums which are payable by the Issuer in accordance with the priorities of payments in priority to sums payable to such creditors of the Issuer; and

(2) Upon realisation in full of all the assets allocated to Compartment 1 of the Issuer (whether arising from an enforcement of the security or otherwise) the Trustee and the other secured creditors of the Issuer acting in respect of Compartment 1 shall have no further claim against the Issuer in respect of any unpaid amounts and such unpaid amounts

shall be extinguished and discharged in full.

Non-petition:

As between the Trustee and the Noteholders, only the Trustee may enforce the provisions of the Transaction Documents (to the extent that it is able to do so). No Noteholder shall be entitled to proceed directly against the Issuer or any other person to enforce any provisions of the Transaction Documents unless the Trustee having become bound to take proceedings fails to do so within a reasonable period and such failure is continuing.

Compartment 1:

The board of directors of the Issuer has created in respect of the Notes a specific compartment (**Compartment 1**) in respect of the Notes to which all assets, rights, claims and agreements (including the Transaction Documents and the rights arising thereunder) will be allocated. Compartment 1 is a separate part of the Issuer's assets and liabilities. The assets comprised in Compartment 1 are exclusively available to satisfy the rights of the holders of the Notes and the rights of the creditors whose claims have arisen at the occasion of the creation, the operation or the liquidation of Compartment 1, as contemplated by the articles of incorporation of the Issuer.

Luxembourg Securitisation Act:

The parties to the Transaction Documents and the persons subscribing to or otherwise acquiring the Notes (together, the **Transaction Parties**) will expressly acknowledge and accept that the Issuer (i) is subject to the Luxembourg Securitisation Act and (ii) has created Compartment 1 to which all assets, rights, claims and agreements (including the Transaction Documents and the rights arising thereunder) will be allocated. The Transaction Parties will acknowledge and accept the subordination, the waterfall and the priority of payments provisions included in the issuance documentation relating to the Notes. Furthermore, the Transaction Parties will acknowledge and accept that they have only recourse to the assets of Compartment 1 and not to the assets allocated to other compartments created (or to be created) by the Issuer. The Transaction Parties will acknowledge and accept that once all the assets allocated to Compartment 1 have been realised, they will not entitled to take any further steps against the Issuer to recover any further sums due and the right to receive any such sum shall be extinguished. The Transaction Parties will accept not to attach or otherwise seize the assets of the Issuer allocated to Compartment 1 or to other compartments of the Issuer or other assets of the Issuer. In particular, the Transaction Parties shall not be entitled to petition or take any other step for the winding-up of the Issuer.

Governing law:

The Notes will be governed by the laws of England and Wales.

Transaction Documents:	Offering Circular Trust Deed Agency Agreement Deed of Charge Cash Management Agreement Servicing Agreement Master Definitions Schedule Swap Agreements Subcustody Agreement Corporate Services Agreement Account Bank Agreement Term Loan Agreements Loan Transfer Agreement

RISK FACTORS

You should review the following risks carefully before making a decision to invest in the Notes. An investment in the Notes is highly speculative and involves a substantial risk of total loss of investment. We cannot give you any assurance that you will be able to sell the Notes at any time in the future or that, if you do so, you will receive a return on your investment. You should only participate in this offering if you can afford to lose your entire investment in the Notes. The order in which the risks appear is not intended as an indication of their relative weight or importance. In addition to any information regarding the Issuer contained in your due diligence, you should consider the following risks:

Risks related to the Borrowers and the Loans

Credit risks of micro-loans

Except for the Reserve Fund (as defined below) and other cash assets of the Issuer (including the Commitment Fees, the Excess Swap Collateral Amounts and the Excluded Swap Termination Amounts), all of the Issuer's investments will be Loans to the Participating MFIs and/or their affiliates that extend credit to micro-entrepreneurs and micro-enterprises in developing countries. The Participating MFIs will use funds directly or indirectly received from the Issuer to make loans to micro-entrepreneurs, most of whom have incomes below the applicable poverty level and little or no previous credit history with commercial or other lenders, or to refinance other borrowing used to make loans to such micro-entrepreneurs. These micro-loans typically are not secured by any collateral or other type of traditional guarantee. There is no assurance that the micro-clients will be able to repay the micro-loans, and as a consequence, payments on the Loans may be adversely affected.

MFI information

The financial and other information concerning the Participating MFIs on which the Issuer relies in selecting and monitoring the Participating MFIs is provided primarily by the Participating MFIs themselves. There is no assurance that this information is or will be accurate and complete. BlueOrchard exercises normal care and diligence in assessing the accuracy and completeness of this information, including on-site visits, but makes no representation or warranty in this regard.

Local currency issues

The Loans issued by the Issuer to the Borrowers will be denominated in U.S. dollars (**USD**), Peruvian nuevo soles (**PEN**), Russian roubles (**RUR**), Colombian pesos (**COP**), Mongolian tugriks (**MNT**) and euro (**EUR**). The Loans to be made to Participating MFIs in Colombia, Mongolia and Peru will be denominated in COP, MNT and PEN, respectively, but payments on those Loans will be made by the relevant Borrower in a U.S. dollar amount pegged to the COP, the MNT and the PEN, respectively, at the relevant central bank's fixing rate determined at or around the time the relevant payment is to be made. The Notes, however, will be denominated in U.S. dollars and/or euro and/or sterling. The Issuer is therefore exposed to exchange rates between RUR, COP, MNT and PEN on the one hand and U.S. dollars and/or euro and/or sterling on the other hand, as well as exchange rates between euro (in respect of the euro-denominated Notes), U.S. dollars (in respect of the U.S. dollar-denominated Notes) and sterling (in respect of the sterling-denominated Notes). In order to mitigate the Issuer's currency exchange rate exposure, the Issuer will enter into currency swaps (the **Currency Swaps**) with MSI (the **Swap Counterparty**), with respect to RUR, COP, MNT and PEN, pursuant to an ISDA 1992 Master Agreement (Multicurrency-Cross Border) dated on or about the Issue Date between such parties (each, a **Currency Swap Agreement** and, together, the **Currency Swap Agreements**). The Currency Swaps may be deliverable (involving actual exchange of the relevant currencies) or non-deliverable (with settlement in U.S. dollars by reference to a benchmark exchange rate). In some cases, Participating MFIs will denominate micro-loans in

local currency even though their Loans will be denominated in U.S. dollars or their Loans will be denominated in their local currency (but payments on those Loans being required to be made in a U.S. dollar amount pegged to the relevant local currency at the relevant central bank's fixing rate). These Participating MFIs may be exposed to declines in the value of the local currency against the value of the U.S. dollar. While the Borrowers may enter into hedging arrangements, there is no contractual obligation that they do so and, if they do so, that such arrangements will be sufficient. This risk exists in relation to the Participating MFIs in Colombia, Mongolia, Peru, Georgia, Cambodia, Azerbaijan, Kenya and Nicaragua, which will be exposed to declines in the value of their local currency relative to the U.S. dollar if they are unable to convert their local currency into U.S. dollars at a rate that (expressed in their local currency per U.S. dollar) is the same as or lower than the relevant central bank's fixing rate.

A number of the Participating MFIs intend to denominate the micro-loans made with the proceeds of the Loans in U.S. dollars and/or euro. However, micro-clients in some countries operate their businesses in local currency and thus will be exposed to the risk of impaired debt service ability in the event of sharp decline in the value of the local currency against the U.S. dollar and/or euro. Other micro-clients, typically those in countries where Participating MFIs disburse in U.S. dollars and/or euro, operate in mixed U.S. dollar/local currency or euro/local currency.

In addition, there can be no assurance that the local government in any jurisdiction of a Borrower will not impose strict foreign exchange controls on, or block entirely, transactions to convert local currency to foreign currency or transactions to deliver local currency. Such restrictions could impede micro-clients from obtaining the necessary U.S. dollars or euro (as relevant) to service their obligations to a Participating MFI, as well as impede the Participating MFI's ability to service its Loan. The Swaps do not mitigate against these risks.

If the Issuer fails to make timely payments of amounts due under any of the Currency Swaps, then (subject to certain rights of the Issuer to defer payments under the Deliverable Swaps and Note Currency Swaps (as defined below under "*The Transaction Documents—Swap Agreements*")) it will have defaulted under the relevant Swap Agreement and the Swap Counterparty will have the right to terminate such Currency Swap Agreement and the Swap Counterparty will no longer be obliged to make payments to the Issuer under such Currency Swap Agreement. In addition, if one or more Loans is in default and, as a result, the Issuer is unable to make payments in full on the relevant Deliverable Swap and/or Note Currency Swap then the Issuer shall terminate such swap in an amount proportionate to the principal amount of the defaulted Loan. If a Currency Swap is terminated as described in this paragraph, then a payment may be due to the Swap Counterparty in respect of such termination.

If the Swap Counterparty terminates a Currency Swap or if the Swap Counterparty defaults in its obligations to make payments of amounts in U.S. dollars or euro or sterling (as relevant) equal to the full amount to be paid to the Issuer on the payment dates under a Note Currency Swap (which fall on the Note Payment Dates for the Notes), the Issuer will be exposed to changes in the relevant currency exchange rates and could have insufficient U.S. dollar and/or euro and/or sterling funds to enable it to make payments under the Notes.

If the Swap Counterparty defaults under a Currency Swap, the Issuer will have the right under certain circumstances to terminate that Currency Swap. If the Currency Swap Agreement is terminated, there can be no assurance that a suitable swap counterparty could be so obtained at all or on reasonable terms even though the Issuer is obliged to use the swap termination amounts received in order to enter into a replacement currency swap agreement. Unless a suitable replacement swap is entered into, the Issuer would be exposed to currency exchange risks in connection with the Notes.

Payments of interest and the ultimate payment principal under the Loan to XacBank in Mongolia will be initially denominated in MNT. On the Loan Payment Date in June 2009, the Non-deliverable Swap with respect to the MNT entered into on or about the Issue will terminate and this will result in

a principal swap settlement at that time. However, at that time, the Issuer will use its best efforts basis to procure that a replacement swap will be provided, provided that the interest rate to be received by the Issuer under such replacement swap is the same or better than the interest rate that would have been received on the agreed rate for a Loan denominated in U.S. Dollars. If no such replacement swap is provided at that time, the Loan will be converted in a Loan denominated in U.S. dollars.

No more than 20% of the principal amount of the Loans in the Loan Portfolio is based in any one country (see the Appendix to this Offering Circular for country background information) and no Loan to any single Borrower represents more than 10% of the Loans.

Activities of the clients of the Participating MFIs

The activities undertaken by clients of the Participating MFIs, and the standards that apply to those activities, may differ significantly from the activities and standards generally undertaken by clients of more mainstream financial institutions in developed and developing countries. Certain activities of a Participating MFI's clients that are legal and acceptable in the country in which that Participating MFI is located may not be legal or deemed acceptable in other jurisdictions, including countries in which prospective investors are located. Prospective investors should be aware that the proceeds of their Notes may be used to finance such activities.

Regulatory environment and transparency of the Participating MFIs

Some of the Participating MFIs are non-governmental organizations (**NGOs**). NGOs typically are not subject to a specific regulatory regime, nor do they have reporting requirements to a particular regulatory authority. Other Participating MFIs that are not NGOs may be subject to materially less stringent regulatory requirements than in developed countries. The scope and content of such regulations vary by country and depends, *inter alia*, upon the type of legal existence that an MFI may take in a particular country.

The "best practices" that are followed by entities in developed and other developing countries may differ from, and be significantly more developed and more stringently enforced than, the general business, internal controls and corporate governance practices in the countries where the Participating MFIs operate. In addition, the type and quantity of information collected and used by the Participating MFIs to assess potential new clients and to monitor current clients may be materially different, and significantly less, than such information as it is typically provided to credit institutions in developed countries. Moreover, as part of its ongoing reporting and monitoring services, BlueOrchard may not have, and may not be able to obtain, detailed information regarding how the Participating MFIs' loan funds are used by the Participating MFIs. As a result of the above factors, there may be relatively more limited and less transparent information available regarding the Participating MFIs, and the clients of the Participating MFIs, than for more mainstream financial institutions and related entities in a potential investor's home country.

Rapid growth of the Participating MFIs

Many of the Participating MFIs have experienced in recent years, and continue to experience, high rates of growth. These rates of growth often exceed the rates of growth of other entities providing financial services in the countries in which the Participating MFIs are located and in other developed and developing countries. They include, *inter alia,* number of clients, number of Participating MFI branches and/or agencies, number of micro-loans made, geographic scope of the Participating MFIs' activities and average loan size per client. There is no assurance that any of the Participating MFIs have, or will have, sufficient manpower, skill levels and/or financial resources to sustain such growth in the future. This could adversely impact the ability of Participating MFIs to carry out sufficient due diligence procedures on new borrowers, monitor existing borrowers or make collections on micro-loans, which could adversely impact the ability of Participating MFIs to make

payments on the Loans. The ability of the Issuer to make payments on the Notes could therefore be adversely affected.

Continuing defaulted loans

In the event that on any Note Payment Date any Loan is a Continuing Defaulted Loan, the Issuer pay an amount equal to the lower of (i) the Principal Amount Outstanding on a Class of Notes on such Note Payment Date and (ii) the principal outstanding under the Continuing Defaulted Loan on such Note Payment Date to the Class A Notes, the Class B Notes and the Class C Notes in that order, as described above under "*Transaction Summary—Acceleration or Prepayment*". This will cause a prepayment of principal on that Note Payment Date to such Notes and may reduce the yield to such Noteholders.

Loan maturity

The Loans to be made pursuant to the Transaction are on average of longer duration than most loans made to the Borrowers by banks. Loans of longer duration may carry more risk, due to the longer period of time in which a Loan Event of Default or other event that will allow the Issuer (or the Servicer on its behalf) to accelerate the related Loan may occur. As a result, the Loans to be issued pursuant to the Transaction may carry more risk than loans made to the Borrowers previously. There can be no guarantee that the past performance of the loans to the Borrowers is indicative of the performance of the Loans in the Transaction.

Loan disbursements

The Loans to be made to Confianza in Peru, Findesa in Nicaragua, WWB Medellin and WWB Popayan in Colombia will be disbursed to them on 1 June 2007 and the Loan to be made to ProCredit in Georgia will be disbursed to it on 15 June 2007. U.S.$1 million of the Loan made to AMRET in Cambodia will be disbursed to it on the Issue Date and the remaining U.S.$1 million of such Loan will be disbursed to it on 15 June 2007.

Any Loan amounts from the proceeds of the issue of Notes not disbursed to Borrowers on the Issue Date will be held in the Dollar Account until the date of such disbursement. The Outstanding Note Proceeds will be distributed as a prepayment of principal on the following Note Payment Date to the Class A Notes, the Class B Notes, the Class C Notes and the Class X Notes, in that order, and may reduce the yield to such Noteholders.

Disclosure and accounting standards

Emerging markets entities may not be subject to uniform accounting, auditing and financial reporting standards and auditing practices and requirements, or such standards, practices and requirements may not be comparable to those applicable to companies in developed countries. Standards of disclosure in certain developing countries where Participating MFIs are located are materially less stringent than those of the United States or the European Union (the **EU**). In addition, local generally accepted accounting principles (**GAAP**) or International Financial Reporting Standards (**IFRS**) in certain developing countries differ in certain significant respects from U.S. GAAP or IFRS and may not present an accounting of an MFI's financial condition and prospects that accords with U.S. GAAP standards or IFRS. No reconciliation to U.S. GAAP or IFRS has been made for the financial information of Participating MFIs presented in the Appendix to this Offering Circular.

Interest rate risk

The Issuer will receive interest in respect of the Loans at a fixed rate and, where relevant, will convert the interest amounts received into U.S. dollars and/or euro and/or sterling so that, net, the

Issuer receives a fixed rate of interest in U.S. dollars, euro and/or sterling. Some of the Notes accrue interest at a floating rate of interest in euro or U.S. dollars. In order to mitigate the Issuer's resulting interest rate exposure, the Issuer will enter into interest rate Swaps (the **Interest Rate Swaps** and, together with the Currency Swaps, the **Swaps**) pursuant to the interest rate swap agreements between the Issuer and MSI (the **Interest Rate Swap Agreements** and, together with the Currency Swap Agreements, the **Swap Agreements**).

If the Issuer fails to make timely payments of amounts due under any of the Interest Rate Swaps, then it will have defaulted under such Interest Rate Swaps and MSI will have the right to terminate such Interest Rate Swaps. MSI is only obliged to make payments to the Issuer under an Interest Rate Swap as long as the Issuer complies with its payment obligations under such Interest Rate Swap.

If MSI terminates an Interest Rate Swap or if MSI defaults in its obligations to make payments of amounts in euro equal to the full amount to be paid to the Issuer on the payment dates under an Interest Rate Swap, the Issuer will be exposed to interest rate rises and could have insufficient funds to enable it to make payments under the Notes.

If MSI defaults under an Interest Rate Swap, the Issuer will have the right under certain circumstances to terminate the Interest Rate Swap. Upon such termination, the Issuer is obliged to obtain a replacement swap. There can be no assurance that a suitable swap counterparty could be so obtained at all or on reasonable terms. Unless a suitable replacement swap is entered into, the Issuer would be exposed to interest rate risks in connection with the Notes.

Risks related to the Swaps

Termination Payments on the Swaps

If a Swap terminates, the Issuer may be obliged to make a termination payment to the Swap Counterparty. The amount of the termination payment will be based on the cost of the Swap Counterparty entering into a replacement currency swap agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment due under such Swap pursuant to the relevant Swap Agreement.

Except where the Swap Counterparty has caused the Swap to terminate as a result of the Swap Counterparty's own default or ratings downgrade, any termination payment due by the Issuer following termination of a Swap (including any extra costs incurred (for example, from entering into "spot" currency or interest rate swaps) if the Issuer cannot immediately enter into a replacement currency swap transaction) may rank senior to the Notes. If the Swap Counterparty has caused the Swap to terminate as a result of the Swap Counterparty's own default or ratings downgrade, or if the Issuer is required to make any payment of indemnified tax to the Swap Counterparty, any termination payment due by the Issuer following termination of the Swap or any such payment of indemnified tax will rank senior to the Class X Notes.

Therefore, if the Issuer is obliged to make a termination payment to the Swap Counterparty or pay any other additional amounts as a result of the termination of the Currency Swap or is required to make any payment of indemnified tax to the Swap Counterparty, this could affect the Issuer's ability to make timely payments on the Notes.

In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, investors may be adversely affected.

In the event that, upon termination of the relevant Swap, the Swap Counterparty is obliged to make a termination payment to the Issuer, such termination payment must be deposited into the Excluded Swap Termination Ledger and must be used within 30 days of receipt by the Issuer in order to enter

into a replacement swap transaction or otherwise these Excluded Swap Termination Amounts will become available to be applied under the relevant Priority of Payments.

Irrespective of any enforcement of the security under the Deed of Charge, any Excluded Swap Collateral Amounts will be paid to the Swap Counterparty in accordance with the relevant Swap Agreement from the Dollar Account and the Swap Collateral Ledger shall be debited accordingly.

Risks related to the Notes

Book-Entry Interests

Unless and until Definitive Notes are issued in exchange for the Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of Notes under the Trust Deed. After payment to the Principal Paying Agent, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

BT Globenet Nominees Limited will be the registered holder of the Notes represented by the Rule 144A Global Notes and will be the sole legal Noteholder of the Rule 144A Global Notes under the Trust Deed while such Notes are represented by the Rule 144A Global Notes.

BT Globenet Nominees Limited will be the registered holder of the Notes represented by the Regulation S Global Notes and will be the sole legal Noteholder of the Regulation S Global Notes under the Trust Deed while such Notes are represented by the Regulation S Global Notes.

The Dollar Notes may be represented by either a Rule 144A Global Note or a Regulation S Global Note, while the Euro Notes and the Sterling Notes will be represented only by Regulation S Global Notes. Accordingly, each person owning a Book-Entry Interest must rely on the relevant procedures of Euroclear and/or Clearstream, Luxembourg and, if such person is not a Participant in such entities, on the procedures of the Participant through which such person owns its interest, to exercise any right of a Noteholder under the Trust Deed.

Payments of principal and interest on, and other amounts due in respect of, the Global Notes will be made by the Principal Paying Agent to BT Globenet Nominees Limited (as nominee of the Common Depositary as depository for Euroclear and Clearstream, Luxembourg) in the case of the Regulation S Global Notes and the Rule 144A Global Notes. Upon receipt of any payment from the Principal Paying Agent, Euroclear and Clearstream, Luxembourg, as applicable, will promptly credit Participants' accounts with payment in amounts proportionate to their respective ownership of Book-Entry Interests as shown on their records. The Issuer expects that payments by Participants or indirect payments to owners of Book Entry Interests held through such Participants or persons that hold interests in the Book-Entry Interests through Participants (**Indirect Participants** will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in "street name", and will be the responsibility of such Participants or Indirect Participants). None of the Issuer, the Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, the Book-Entry Interests or for maintaining, supervising or reviewing any records relating to such Book-Entry Interests.

Unlike Noteholders, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by or on behalf of the Issuer for consents or requests by or on behalf of the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their Participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon

the occurrence of an Issuer Event of Default under the Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear and Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the relevant provisions described herein under Terms and Conditions of the Notes. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among Participants of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective Participants of their respective obligations under the rules and procedures governing their operations.

Certain transfers of Notes or interests therein may only be effected in accordance with, and subject to, certain transfer restrictions and certification requirements.

Noteholders may not be able to sell or transfer the Notes

The Notes will be offered and sold in the United States in a private placement only to qualified institutional buyers in reliance on Rule 144A and outside the United States in offshore transactions primarily in reliance on Regulation S. As such, the Notes will not be registered with the Commission or any state securities commission or similar governing body. The Notes cannot be resold in the United States by the holders of Notes in the absence of such registration or an exemption therefrom. No Note may be sold or transferred unless such sale or transfer is made to a QP. The Trust Deed provides additional restrictions on the transfer of Notes. See "*Transfer Restrictions and Investor Representations*" below.

Investment Company Act

The Issuer has not and will not be registered with the Commission as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on Section 3(c)(7) of the Investment Company Act. Section 3(c)(7) of the Investment Company Act provides for an exemption from registration for issuers (a) whose outstanding securities (other than, with respect to non U.S. issuers only, securities sold to non U.S. persons under Regulation S) are beneficially owned only by "qualified purchasers" (within the meaning given to such term in the Investment Company Act and the rules thereunder) and (b) which do not make a public offering of their securities in the United States. No opinion or no action position has been requested of the Commission with respect to the Issuer's qualification for this exemption.

Each beneficial owner of a Note will be required to represent that it understands and agrees that any purported transfer of such Notes to a purchaser (including without limitation, the transfer of Notes to such beneficial owner) that is not a "qualified purchaser" will be null and void *ab initio* and the Issuer retains the right to redeem or resell any Notes sold to any purchaser (including, without limitation, such beneficial owner) unless such purchaser is a "qualified purchaser" at the time it purchases such Notes.

If the Commission or a court of competent jurisdiction were to find that the Issuer is required, but in violation of the Investment Company Act, had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (i) the Commission could apply to a district court to enjoin the violation; (ii) investors in the Issuer could sue the Issuer and recover any damages caused by the violation; and (iii) any contract to which the Issuer is party that is made in, or whose performance involves, a violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the

purposes of the Investment Company Act. Should the Issuer be subjected to any or all of the foregoing, the Issuer could be materially and adversely affected.

Long-term illiquid investment

The expected final maturity of the Notes is approximately seven years following the Issue Date. Principal repayment of the Notes will not occur until the principal is repaid on the Loans which, with the exception of one Loan, will be paid in one lump sum. A market for the Notes is not expected to develop at any time. The Notes are intended for investors who purchase and hold the Notes to maturity. Under normal circumstances, holders of the Notes will be able to redeem their investment only upon the maturity of the Notes.

The Notes are not guaranteed

The Notes are obligations of the Issuer only and do not represent an interest in or obligation of BlueOrchard, Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Trustee Company Limited, MSI and any of their respective affiliates or any other party or governmental body. The Issuer will depend solely on receiving timely payments of principal and interest on the underlying Loans from the Borrowers in order to make payments on the Notes. The micro-loans made by the Participating MFIs have not been pledged to the Issuer. No guarantees have been made by the Issuer, BlueOrchard, Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Trustee Company Limited or MSI that payments will be made on the underlying Loans. There is no guarantee, insurance policy or standby letter of credit being issued in connection with this offering that would guarantee payment on the Notes.

Subordination of the Class B Notes, Class C Notes and Class X Notes

The Class B Notes are subordinate in right of payment to the Class A Notes. The Class C Notes are subordinate in right of payment to the Class A Notes and the Class B Notes. The Class X Notes are subordinate in right of payment to the Class A Notes, the Class B Notes and the Class C Notes. Payments of principal and interest will be made in accordance with the relevant Priority of Payments. Principal and interest received by the Issuer on the Loans will be used to pay principal and interest on the Class A Notes and to pay other fees and expenses before principal and interest is paid on the Class B Notes, the Class C Notes or on the Class X Notes. Furthermore, interest will be paid on the Class X Notes on any Note Payment Date only to the extent that any required payments have been made to the Reserve Fund. There is no assurance that subordination of the Class B Notes, the Class C Notes, the Class X Notes and the Reserve Fund will protect holders of the Class A Notes from all risk of loss.

In respect of the interests of Noteholders, the Trust Deed contains provisions requiring the Trustee to have regard to the interests of the Noteholders (other than the Class X Noteholders) as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise) but requiring the Trustee in any such case to have regard only to (i) (for as long as there are any Class A Notes outstanding) the interests of the Class A Noteholders if, in the Trustee's sole opinion, there is a conflict between the interests of the Class A Noteholders (or any subclass thereof) and those of the Class B Noteholders and the Class C Noteholders and (ii) (for as long as there are any Class B Notes outstanding) the interests of the Class B Noteholders if, in the Trustee's sole opinion, there is or may be a conflict between the interests of the Class B Noteholders (or any sub-class thereof) and the interests of the Class C Noteholders. The rights of the Class B Noteholders will not prevail unless all of the Class A Notes have been redeemed or if approval from the Class A Noteholders has been obtained, as the case may be. The rights of the Class C Noteholders will not prevail unless all of the Class A Notes and the Class B Notes have been redeemed or if approval from the Class A Noteholders and the Class B Noteholders has been obtained, as the case may be. The Trustee is not required at any time to have regard to the interests of the Class X Noteholders or

to act upon or comply with any direction or request of any Class X Noteholder (other than in respect of a Class X Consent Notice).

Although the Class A Notes will receive first in order of priority and as senior ranking Note to the Class B Notes, the Class C Notes and the Class X Notes the benefit of the Reserve Fund as well as the benefit of the subordination of the Class B Notes, the Class C Notes and the Class X Notes in the event the Issuer experiences any cash flow deficiency, payment of certain fees and expenses is senior to payment of principal and interest on the Class A Notes. **All Classes of the Notes are speculative and entail a high degree of risk.**

Taxation

Each Noteholder will assume and will be solely responsible for any and all taxes of any jurisdiction or governmental or regulatory authority, including, without limitation, any state or local taxes or other like assessment or charges that may be applicable to any payment to it in respect of the Notes. See "*Luxembourg Taxation*", "*EU Directive on the Taxation of Savings Income*" and "*United States Federal Income Taxation*" below for additional information.

Withholding on the Notes; No gross-up

The Issuer expects that payments of principal and interest in respect of the Notes will ordinarily not be subject to any withholding tax in Luxembourg. In the event that withholding or deduction of any taxes from payments of principal or interest in respect of the Notes is required by law in any jurisdiction, the Issuer will not be under any obligation to make any additional payments to the holders of any Notes in respect of such withholding or deduction.

Security

The Issuer will rely solely on monies received or recovered on the Loans (whether by way of scheduled payments, enforcement or otherwise) or under the Swap Agreements to enable it to make payments in respect of the Notes. There can be no assurance that the amount payable on any early redemption or enforcement of the security for the Notes will be equal to the original issue price or the outstanding principal amount of the Notes. Any shortfall in payments due to the Noteholders will be borne in accordance with the relevant Priority of Payments and any claims of the Noteholders remaining after a mandatory redemption of the Notes or a realization of the security and application of the proceeds as aforesaid shall be extinguished. If the security created as required by the Deed of Charge is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest due on the Notes. None of BlueOrchard, Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Trustee Company Limited or MSI has any obligation to any Noteholder for payment of any amount owing by the Issuer in respect of the Notes.

Reliance on Third Parties

The Issuer will be a party to contracts with a number of third parties that have agreed to perform services in relation to the Notes. For example, the Servicer will agree to service the Loans, the Cash Manager will agree to provide cash management services, the Swap Counterparty will agree to provide the currency and/or interest rate swaps, the Corporate Services Provider will agree to provide corporate services and the Principal Paying Agent will agree to provide payment services in connection with the Notes. In the event that any of these parties were to fail to perform their obligations under the respective agreements to which they will be a party, Noteholders may be adversely affected.

Ratings

The expected ratings of the Class A Notes and the Class B Notes are set out in this Offering Circular under the heading "*Ratings*". The ratings that will be assigned to any Class of Notes are based on the Loans and other relevant structural features of the transaction. These ratings reflect only the view of the rating agency engaged by the Issuer. The Class C Notes and the Class X Notes will not be rated.

The ratings that will be assigned to the Class A Notes and the Class B Notes do not represent any assessment of the yield to maturity that a Noteholder may experience or, in certain circumstances, the possibility that Noteholders may not recover their initial investments if unscheduled receipts of principal result from a prepayment, a default and acceleration or from the receipt of funds with respect to any Loan default.

The ratings that will be assigned to the Class A Notes and the Class B Notes will address the likelihood of full and timely receipt by any of the Noteholders of interest on such Notes and the likelihood of receipt by such Noteholders of principal of the Notes by the Final Maturity Date.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon the other ratings, the market value and/or the liquidity of the Notes of any Class.

Credit rating agencies could seek to rate the Notes (or any Class of them) without having been requested to do so by the Issuer, and if such unsolicited ratings are lower than the comparable ratings assigned to the Class A Notes and the Class B Notes by the rating agency engaged by the Issuer, those unsolicited ratings could have an adverse effect on the market value and/or liquidity of the Notes of any Class. In this Offering Circular, all references to ratings in this Offering Circular are to ratings assigned by S&P as the rating agency engaged by the Issuer.

Expenses

Provision will be made for the payment of the Issuer's expenses in connection with the Transaction and each Class of Notes. To the extent that any unanticipated or extraordinary costs and expenses of the Issuer that are payable by the Issuer arise in connection with the Notes or otherwise, the Issuer may have insufficient or no available funds to pay such costs and expenses and there is a risk that payments to the Noteholders may be adversely affected thereby and that the Issuer might become insolvent as a result thereof.

Emerging Markets Risks

The Borrowers are located in emerging markets countries. Investing in emerging markets countries involves certain systemic and other risks and special considerations which include (but are not limited to):

(a) risks associated with political, regulatory, economic and fiscal uncertainty, including the risk of nationalization or expropriation of assets and any risk of war and revolution and natural events;

(b) fluctuations of currency exchange rates, including significant devaluation of local currency;

(c) high rates of inflation;

(d) confiscatory taxation, taxation of income or other taxes or restrictions imposed with respect to investments in foreign nations; and

(e) economic and political risk, including potential foreign exchange controls (which may include suspension of the ability to transfer currency from a given country and repatriation of investment) and restrictions on the repatriation of funds.

In addition, Borrowers in developing countries operate in political, economic, social and business environments substantially different from and typically less favourable than those of the United States, the EU and other developed countries. Adverse developments in any of these environments may impair certain Participating MFIs' ability to make, analyze, supervise, record or collect on micro-loans or to function successfully in other businesses in which they operate to the extent that some or all of the Borrowers are unable to service their Loans. In addition, other developed and/or developing countries may take military or political action against any of the countries in which the Borrowers are located, including the imposition of economic or other sanctions, that could have a negative impact upon the Participating MFIs, the value of the Loans and/or the ability of an investor to hold the Notes.

Specific economic risks in certain developing countries where Borrowers are located include, but are not limited to, the following: decline in economic growth reducing the opportunities of micro-entrepreneurs to service their micro-loan obligations; high inflation reducing the real value of investments; and sharp fluctuations in interest rates rendering uncertain or unfavourable the micro-loan terms. In addition, certain of the countries where Borrowers are located have experienced high rates of inflation, devaluation of local currency and foreign exchange controls in the past, and there is no guarantee that similar events will not occur during the term of the Loans.

Additional specific government actions in certain developing countries that could elevate the risk of the Borrowers located there being able to service the Loans include foreign investment controls and adverse changes in regulatory structures and anti-usury laws. MFIs, including the Participating MFIs, typically charge higher interest rates than commercial banks due to higher operating costs. Governments have in the past, and may in the future, impose anti-usury laws or impose usury ceilings on interest rates that could lower the returns on the Loans, could make it financially unviable for the Participating MFIs to operate and/or could render some of the Loans unenforceable. Furthermore, the countries in which the Participating MFIs are located may have less certain and/or developing regulatory environments, with the corresponding risks of potential changes in law, less certain administration of law and/or less certain enforceability of judgments. There may be no treaty or agreement between a country in which a Participating MFI operates and the United Kingdom stipulating the recognition and/or enforcement in one country of court rulings passed in the other country. As a result, it may be difficult or impossible to enforce the judgments of English courts in any country in which a Participating MFI operates that has no such treaty or agreement.

In addition, the value of the Loans could be adversely affected by generalized social and/or political instability in the home or neighbouring countries of certain Participating MFIs and adverse relationships with neighbouring countries. See the Appendix to this Offering Circular for additional information about the countries in which the Borrowers operate.

Natural disasters and pandemics

Some of the countries in which the Borrowers are located are relatively less equipped than more developed countries to deal with natural disasters such as floods, tsunamis, hurricanes and earthquakes and pandemics such as avian influenza (bird flu). Such countries may not efficiently and quickly recover from such event, which could have a materially adverse effect on the Borrowers' ability to service the Loans.

Many borrowing clients of the Participating MFIs are engaged in agricultural activities. A disease affecting livestock, such as bird flu, could materially affect such clients' ability to repay their loans to the Participating MFIs. In addition, if bird flu, HIV-AIDS or another disease reaches pandemic proportions among human populations, borrowing clients of the Participating MFIs may suffer an

increased mortality rate or may be unable to work because they are ill or need to take care of others who are ill, which could have a materially adverse impact on the performance of the Participating MFIs and/or the Loans.

Risks related to the Issuer and other Transaction Parties

Conflicts of interest

The interests of the Sponsor, the Servicer and the Noteholders may conflict. The Sponsor, the Servicer, related entities or their respective management teams may engage in fund management, financing, advisory or other businesses with or affecting MFIs and their affiliates that compete with the Participating MFIs and their affiliates, or may have other business with Participating MFIs and their affiliates unrelated to the Transaction.

Risks relating to the Servicer

Notwithstanding the provision of information to potential investors for the purpose of investing in the Notes, purchasers of the Notes may not have an opportunity to evaluate for themselves all the relevant economic, financial and other information regarding the management decisions to be made by the Servicer acting on behalf of the Issuer and, accordingly, will be dependent upon the judgment and ability of the Servicer in making management decisions on behalf of the Issuer over time. No assurance can be given that the Servicer, acting on behalf of the Issuer, will be successful in making management decisions beneficial to the Noteholders.

A change in Servicer may adversely affect collections on the Loans

A change in Servicer may result in a temporary disruption of servicing with respect to the Loans and therefore with respect to the payments on the Notes. There can be no assurance that a replacement servicer would perform to the satisfaction of the Noteholders at a level equal to that of BlueOrchard. Similarly, if the Servicer were to fail to perform its duties adequately, there is no assurance that a replacement servicer would be found and/or begin to perform its duties before the interests of the Noteholders were adversely affected.

Inexperience of BlueOrchard regarding Loan Events of Default

BlueOrchard has managed and monitored over 450 loans to microfinance institutions over the past six years, and has, as of the date of this Offering Circular, experienced no event of default on any of these transactions. However, the historical performance of BlueOrchard and/or the transactions that it manages and monitors may not be indicative of future performance. There can be no guarantee that a Loan Event of Default (as such term is defined in the relevant Term Loan Agreement) or another event that will allow the Issuer (or the Servicer on its behalf) to accelerate the related Loan will not occur. Because the ability of BlueOrchard to deal with defaults by Borrowers has not been tested in the past, there can be no guarantee that should any Loan Event of Default or other event that will allow the Issuer (or the Servicer on its behalf) to accelerate the related Loan occur in the future, BlueOrchard would be adequately prepared to deal with such default, which may negatively affect the value of the Notes.

No person is obligated to update this Offering Circular

The information and disclosure contained herein speaks only as of the date hereof. Neither BlueOrchard, Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Trustee Company Limited, MSI or any of their respective affiliates nor any other party or governmental body has an obligation to update the information contained herein.

Forward-looking statements

This Offering Circular contains "forward-looking statements." Forward-looking statements give the Issuer's current expectations of forecasts of future events with respect to the Issuer or the Loan Portfolio. All statements other than statements of current or historical fact contained herein, including statements regarding the future financial position, and projected revenues and costs are forward-looking statements. The words "anticipate," "expect," "believe," "continue," "estimate," "intend," "forecast," "may," "plan," "will," and similar expressions, as they relate to the Issuer, the Sponsor and the Servicer are intended to identify forward-looking statements. Forward-looking statements also include, but are not limited to, information regarding the future economic and financial condition of the Participating MFIs and the other Borrowers or the countries where they are domiciled and the assumptions regarding the performance on these plans and objectives by the Issuer. The forward-looking statements contained herein represent and describe goals for the Issuer, and the achievement of these goals is subject to a variety of risks and assumptions and numerous factors beyond the control of the Issuer such as the future economic prosperity of the Borrowers or the countries where they are domiciled.

Any of the forward-looking statements herein may turn out to be wrong. In light of the risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed herein may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

The forward-looking statements speak only as of the date made. The Issuer undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Risks related to the Issuer

Luxembourg Securitisation Act and Compartments

The Issuer is established as a *société de titrisation* within the meaning of the Luxembourg Securitisation Act which provides that claims against the Issuer by its investors will be limited to the net assets included in the compartment under which they have invested. Furthermore, under the Luxembourg Securitisation Act, the proceeds of a particular issue of securities are available only for distribution to the specified investors and other creditors relating to such issue (each such party, an **Issue Party**). A creditor of the Issuer may have claims against the Issuer in respect of more than one issue of securities (each, an **Issue**), in which case the claims in respect of each individual Issue will be limited to the assets relating to such Issue only.

The board of directors of the Issuer (the **Board**) may establish one or more compartments (together the **Compartments** and each a **Compartment**) each of which is a separate and distinct part of the Issuer's estate (*patrimoine*) and which may be distinguished by the nature of acquired risks or assets, the terms and conditions of the relevant securities (the **Relevant Conditions**). The Relevant Conditions of the securities issued in respect of, and the specific objects of, each Compartment shall be determined by the Board. Each investor shall be deemed to fully adhere to, and be bound by, the Relevant Conditions applicable to the relevant securities and the articles of incorporation of the Issuer.

Subject to any particular rights or limitations for the time being attached to any securities, if the net assets of a Compartment are liquidated, the proceeds thereof shall be applied in the order set out in the Relevant Conditions.

The rights of holders of securities issued in respect of a Compartment and the rights of creditors are limited to the assets of that Compartment, where these rights relate to that Compartment or have arisen as a result of the constitution, the operation or the liquidation of the relevant Compartment.

The assets of a Compartment are exclusively available to satisfy the rights of holders of securities issued in relation to that Compartment and the rights of creditors whose claims have arisen as a result of the constitution, the operation or the liquidation of that Compartment.

As between all the investors, each Compartment is deemed to comprise assets of a separate entity.

Fees, expenses and other liabilities incurred on behalf of the Issuer but which do not relate specifically to any Compartment shall, unless otherwise determined by the Board, be general liabilities of the Issuer and shall not be payable out of the assets of any Compartment. The Board shall ensure, to the extent possible (although there is no guarantee that the Board will be able to achieve this), that creditors of such liabilities waive recourse to the assets of any Compartment.

The Board shall establish and maintain separate accounting records for each of the Compartments of the Issuer. The assets of each Compartment (the **Issue Assets**) may include the proceeds of the issue of the securities of the relevant Issue, the relevant underlying/collateral and the relevant Issue documentation. The fees, costs and expenses in relation to the securities of each Issue are allocated to the Compartment relating to the relevant Issue in accordance with the Relevant Conditions. Investors of an Issue will have recourse only to the Issue Assets relating to the relevant Issue. The rights of all holders of an Issue will be restricted to the Issue Assets for such Issue.

Limited recourse

The right of investors of any Issue issued in respect of, and allocated to, each Compartment to participate in the assets of the Issuer is limited to the Issue Assets relating to such Issue. If the payments received by the Issuer in respect of the Issue Assets are not sufficient to make all payments due in respect of the securities, then the obligations of the Issuer in respect of the securities of that Issue will be limited to the Issue Assets of the Compartment in respect of that Issue, as specified in the Conditions. The Issuer will not be obliged to make any further payment for any securities in excess of amounts received upon the realisation of the Issue Assets in respect of that Issue. Following application of the proceeds of realisation of the relevant Issue Assets in accordance with the relevant Conditions, the claims of the relevant investors and any other Issue Parties for any shortfall shall be extinguished and the relevant investors and the other Issue Parties (and any person acting on behalf of any of them) may not take any further action to recover such shortfall. In particular, no such party will be able to petition for the winding up of the Issuer. Failure to make any payment in respect of any such shortfall shall in no circumstances constitute an event of default under the Relevant Conditions. Any shortfall shall be borne by the investors and any other Issue Party of the relevant Issue in respect of which the securities have been issued according to the priorities specified in the Relevant Conditions.

To give effect to the provisions of the Luxembourg Securitisation Act under which the Issue Assets of a Compartment are available only for the Issue Parties for the relevant Issue relating to that Compartment, the Issuer will seek to contract with parties on a "limited recourse" basis such that claims against the Issuer in relation to each Issue would be restricted to the Issue Assets of the Compartment for the relevant Issue.

Consequences of winding-up proceedings

If the Issuer fails for any reason to meet its obligations or liabilities (that is, if the Issuer is unable to pay its debts and may obtain no further credit), a creditor may be entitled to make an application for the commencement of insolvency proceedings against the Issuer. The commencement of such proceedings may in certain conditions, entitle creditors to terminate contracts with the Issuer and claim damages for any loss arising from such early termination. The commencement of such proceedings may result in the Issuer's assets (including the Issue Assets of all the Issue) being realised and applied to pay the fees and costs of the liquidator, debts preferred by law and debts payable in insolvency, before any surplus is distributed to the investors. In the event of proceedings

being commenced, the Issuer may not be able to pay the full redemption amount, any amount of interest, any cash settlement amount and any other or alternative amounts anticipated by the Conditions in respect of any Issue of securities. The Issuer will seek to contract only with parties who agree not to make application for the commencement of winding-up or similar proceedings against the Issuer.

BACKGROUND ON THE MICROFINANCE INDUSTRY

CGAP, a microfinance industry organization housed at the World Bank, is a global resource centre for microfinance standards, operational tools, training, and advisory services. Its members - including bilateral, multilateral, and private funders of microfinance programs – focus on making financial systems more available to the poor. CGAP has provided the following information on the microfinance industry (beginning with the sub-heading "*Microfinance*" and concluding with the sub-heading "*Impact of microfinance on its clients*"), which the Sponsor believes is helpful in understanding the sector. More information on CGAP can be found online at www.cgap.org.

Microfinance

"Microfinance is the supply of loans, savings, and other basic financial services to the poor. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, savings, pensions, insurance, and money transfer services.

"The poor rarely access services through the formal financial sector. They address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal commercial and non-commercial money-lenders but usually at a very high cost to borrowers. Savings services are available through a variety of informal relationships like savings clubs, rotating savings and credit associations, and mutual insurance societies that have a tendency to be erratic and insecure.

"Providers of financial services to the poor include donor-supported, non-profit non-government organizations (NGOs), co-operatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; wire services; post offices; and other points of sale. NGOs and other non-bank financial institutions have led the way in developing workable credit methodologies for the poor and reaching out to large numbers of the poor. Throughout the 1980s and 1990s, these programs improved upon the original methodologies and bucked conventional wisdom about financing the poor. They have shown that the poor repay their loans and are willing and able to pay interest rates that cover the costs of providing the loans.

"Financial services for the poor have proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes, and reduce their vulnerability to economic stress. However, with nearly one billion people still lacking access to basic financial services, especially the very poor, the challenge of providing financial services to them remains. Convenient, safe, and secure deposit services are a particularly crucial need."

Microfinance institutions

"A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, methodology, and sustainability. However, all share the common characteristic of providing financial services to a clientele poorer and more vulnerable than traditional bank clients.

"Historical context can help explain how specialized MFIs developed over the last few decades. Between the 1950s and 1970s, governments and donors focused on providing subsidized agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. During the 1980s, micro-enterprise credit concentrated on providing loans to poor women to invest in tiny businesses, enabling them to accumulate assets and raise household income and welfare. These experiments resulted in the emergence of NGOs that provided financial services for the poor. In the 1990s, many of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach.

"An MFI can be broadly defined as any organization – credit union, down-scaled commercial bank, financial NGO, or credit co-operative – that provides financial services for the poor."

Microfinance clients

"The clients of microfinance – female heads of households, pensioners, displaced persons, retrenched workers, small farmers, and micro-entrepreneurs – fall into four poverty levels: destitute, extreme poor, moderate poor, and vulnerable non-poor. While repayment capacity, collateral availability, and data availability vary across these categories, methodologies and operational structures have been developed that meet the financial needs of these client groups in a sustainable manner.

"More formal and mainstream financial services including collateral-based credit, payment services, and credit card accounts may suit the moderate poor. Financial services and delivery mechanisms for the extreme and moderate poor may utilize group structures or more flexible forms of collateral and loan analysis. Serving the destitute is more challenging (and impossible for many financial service providers), but innovative schemes, such as the Bangladesh Rural Advancement Committee's IGVGD program, have opened up pathways to economic activity and access to financial services for them.

"The client group for a given financial service provider is primarily determined by its mission, institutional form, and methodology. Banks that scale down to serve the poor tend to reach only the moderate poor. Credit union clients range from the moderate poor to the vulnerable non-poor, although this varies by region and type of credit union. NGOs, informal savings and loan groups, and community savings and credit associations have a wide range of client profiles. Of the more than 150 microfinance providers that report to the MicroBanking Bulletin, those lending to individuals tend to reach the moderate poor, with an average loan balance divided by GNP per capita of 91%."

Impact of microfinance on its clients

"Poor people, with access to savings, credit, insurance, and other financial services, are more resilient and better able to cope with the everyday crises they face. Even the most rigorous econometric studies have proven that microfinance can smooth consumption levels and significantly reduce the need to sell assets to meet basic needs. With access to micro-insurance, poor people can cope with sudden increased expenses associated with death, serious illness, and loss of assets.

"Access to credit allows poor people to take advantage of economic opportunities. While increased earnings are by no means automatic, clients have overwhelmingly demonstrated that reliable sources of credit provide a fundamental basis for planning and expanding business activities. Many studies show that clients who join and stay in programs have better economic conditions than non-clients, suggesting that programs contribute to these improvements. A few studies have also shown that over a long period of time many clients do actually graduate out of poverty.

"By reducing vulnerability and increasing earnings and savings, financial services allow poor households to make the transformation from "every-day survival" to "planning for the future." Households are able to send more children to school for longer periods and to make greater investments in their children's education. Increased earnings from financial services lead to better nutrition and better living conditions, which translates into a lower incidence of illness. Increased earnings also mean that clients may seek out and pay for health care services when needed, rather than go without or wait until their health seriously deteriorates.

"Microfinance programs have generally targeted poor women. By providing access to financial services only through women – making women responsible for loans, ensuring repayment through women, maintaining savings accounts for women, providing insurance coverage through women – microfinance programs send a strong message to households as well as to communities. Many qualitative and quantitative studies have documented how access to financial services has improved the status of women within the family and the community. Women have become more assertive and confident. In regions where women's mobility is strictly regulated, women have become more visible and are better able to negotiate the public

sphere. Women own assets, including land and housing, and play a stronger role in decision-making. In some programs that have been active over many years, there are even reports of declining levels of violence against women.

"Although access to financial services opens up possibilities of improving the economic conditions of the poor, in some cases, clients can be left worse-off. Ill-advised credit can lead to too much debt. Sustainable financial services that improve the conditions of the poor depend on a clear vision of sustainability, on careful program design, on efficient operations, and very importantly, on constantly trying to understand and meet client needs."

Funding Sources for Microfinance Institutions

MFI funding traditionally is drawn from numerous categories of funding sources, including donations and low-cost loans from philanthropic sources and from government or multilateral aid agencies. Rapid growth of microfinance institutions and in the number of clients served by them is increasing the demand for financing. In recent years, the field has seen an increase of for-profit funding sources.

Microfinance risk management techniques

Micro lending methodologies and practices differ widely between MFIs. However, BlueOrchard advises that some risk management techniques frequently employed by MFIs include the following:

(a) **Small amounts**. A micro entrepreneur below the poverty level logically is more capable of repaying a smaller loan than a larger one.

(b) **Large client pools**. Even small MFIs typically lend to thousands of clients, minimizing the impact of each individual default.

(c) **Group lending**. Many MFIs ask groups of borrowers to form and to vouch for each others' loans.

(d) **Forced savings**. Many MFIs require borrowers to segregate a portion of their micro-loan in a savings account.

(e) **Frequent repayments**. In many cases, micro-loans amortize at least partially on a weekly basis.

(f) **Frequent contact**. In many cases, MFIs ask borrowers to meet as often as once a week with loan officers.

(g) **Business planning**. Often, MFIs assist micro-entrepreneurs to create and/or update business plans.

(h) **Short maturity**. Typically, micro-loans mature in less than 12 months.

(i) **Cleanup**. Microloans often are not rolled over but are amortized down to zero before being reauthorized.

(j) **Participation in credit bureaus**. Many MFIs participate in local credit bureaus set up to enable MFIs to track borrowers' and potential borrowers' credit histories and status.

(k) **Use of management information systems**. Many MFIs use computerized record keeping in order tracking repayments or delays in payment.

(l) **Internal audit**. Many MFIs use an internal audit function to oversee the financial side of their operations and to limit the opportunities for error or fraud.

(m) **Tracking portfolio at risk**. Many MFIs track the ratio of loans with payment delays of more than 30 days plus any refinanced loans as a percentage of their total loan base.

(n) **Maintenance of a relatively large loan loss reserve**. Leading MFIs maintain a loan loss reserve (a percentage of the gross loan portfolio that has been provisioned for in the event of loss from defaults) that is in excess of their existing portfolio at risk, and are thus better prepared to absorb potential losses.

Microfinance credit quality features

Credit quality differs widely among MFIs. However, as a group MFIs with higher credit qualities tend to exhibit the following characteristics:

(a) **Micro-loan default rates**. According to Microrate[1], a specialized rating agency for microfinance institutions that has been evaluating MFIs since 1997, as of 31 December 2005, the 30 leading MFIs from Latin America showed an average write-off ratio (actual credit losses experienced by the MFIs) of 1.0%. For the 20 Participating MFIs (based on information provided by the Participating MFIs to BlueOrchard), the average write-off for the year ended December 2006 was 0.6%.[2]

(b) **Capital adequacy**. Leading MFIs are well-capitalized on a ratio basis. According to Microrate, the 30 leading Latin American MFIs had an average debt/equity ratio of 3.8 as of 31 December 2005. As of 31 December 2006, the unaudited average debt/equity ratio (based on information provided by the Participating MFIs to BlueOrchard) for the 20 Participating MFIs was 4.2[2].

(c) **Solvency and liquidity**. MFIs tend to have a short maturity loan book (the average maturity of a microloan is typically less than 18 months).

(d) **Client base and growth**. Leading MFIs typically benefit from a large and diversified client base. As of 31 December 2006, the Participating MFIs served over 1,110,000 clients in 12 different countries. MFI clients have activities in urban and rural areas and across a number of sectors including trade, agriculture, and small-scale service and manufacturing. With an average client growth rate of 60% in 2006[2], and the market conditions and demographics of the regions served, the Sponsor expects the growth of the Participating MFIs' client base to continue.

(e) **Correlation with the formal economy**. The economic activity in the informal sector, into which most micro-loans flow, may not correlate with international or domestic economic and political developments or with other traditional asset classes.

[1] Microrate Benchmark Table December 2004; http://www.microrate.com/ENGLISHsite/PDF/Comparison%20Table%201204%20eng.pdf
[2] Based on unaudited management reports.

SOURCES AND USE OF PROCEEDS

The table below shows the sources and uses of funds for the Transaction as at the Issue Date:

Sources	US$
Class A Notes	44,000,000
Class B Notes	16,500,000
Class C Notes	42,000,000
Class X Notes	7,700,000
Total	110,200,000

Uses	US$
Loans	106,700,000
Closing Costs	3,500,000
Total	110,200,000

THE ISSUER

Introduction

The Issuer is a *société anonyme* (public limited liability company), incorporated on 30 April 2007 under the laws of the Grand Duchy of Luxembourg, having its registered office at 7, Val Sainte-Croix, L-1371 Luxembourg and registered with the Luxembourg trade and companies register under number B. 127644. The telephone number of the Issuer at its registered office is +352 22 11 90. The Issuer has a share capital of U.S.$50,000 represented by 310 ordinary shares with no par value. All of the shares of the Issuer are held by a Dutch foundation *(stichting)* (**BOLD Holdings**), STICHTING THORIET BOLD, having its registered office in Amsterdam. Information regarding the share ownership of BOLD Holdings is described under "*Initial Capitalization of the Issuer*" below. The Issuer is a regulated securitisation vehicle *(organisme de titrisation agréé)* within the meaning of and governed by the Luxembourg Securitisation Act. The Notes are issued by the Issuer acting in respect of its Compartment 1.

Since the date of the Issuer's incorporation, the Issuer has not commenced operations other than in respect of entering into transactions relating to the origination and acquisition of the Loan Portfolio on the Issue Date, and no financial statements have been made up for the Issuer.

Corporate Purpose of the Issuer

The principal activities of the Issuer are those which are set out in the Issuer's corporate objects clause, which is clause 4 of the Issuer's articles of incorporation.

The Issuer has been established as a special purpose vehicle for the purpose of entering into, performing and serving as a vehicle for, any securitisation transactions as permitted under the Luxembourg Securitisation Act.

The Issuer may acquire or assume, directly or through another entity or vehicle, the risks relating to the holding or ownership of claims, receivables and/or other goods or assets (including securities of any kind), either movable or immovable, tangible or intangible, and/or risks relating to liabilities or commitments of third parties or which are inherent to all or part of the activities undertaken by third parties, by issuing securities (*valeurs mobilières*) of any kind whose value or return is linked to these risks. The Issuer may assume or acquire these risks by acquiring, by any means, claims, receivables and/or other goods or assets, by guaranteeing the liabilities or commitments of third parties or by binding itself in any other way. The method that will be used to determine the value of the securitised assets will be set out in the relevant issue documentation proposed by the Issuer.

The Issuer may, within the limits of the Luxembourg Securitisation Act and for as long as it is necessary to facilitate the performance of its corporate objects, proceed, so far as they relate to securitisation transactions, to (i) the acquisition, holding and disposal, in any form, by any means, whether directly or indirectly, of participations, rights and interests in, and obligations of, Luxembourg and foreign companies, (ii) the acquisition by purchase, subscription, or in any other manner, as well as the transfer by sale, exchange or in any other manner of stock, bonds, debentures, notes and other securities or financial instruments of any kind (including notes or parts or units issued by Luxembourg or foreign mutual funds or similar undertakings and exchangeable or convertible securities) and receivables, claims or loans or other credit facilities and agreements or contracts relating thereto, and (iii) the ownership, administration, development and management of a portfolio of assets (including, among other things, the assets referred to in (i) and (ii) above) in accordance with the provisions of the relevant issue documentation.

The Issuer may, within the limits of the Luxembourg Securitisation Act, borrow in any form and enter into any type of loan agreement. It may issue notes, bonds (including exchangeable or convertible securities and securities linked to an index or a basket of indices or shares), debentures, certificates, shares, beneficiary parts, warrants and any kind of debt or equity securities, including under one or more issue programmes. The

Issuer may lend funds including the proceeds of any borrowings and/or issues of securities, within the limits of the Luxembourg Securitisation Act and provided such lending or such borrowing relates to securitisation transactions, to its subsidiaries or affiliated companies or to any other company (including microfinance institutions located in emerging countries).

The Issuer may, within the limits of the Luxembourg Securitisation Act, give guarantees and grant security over its assets in order to secure the obligations it has assumed for the securitisation of those assets or for the benefit of investors (including their trustee or representative, if any) and/or any issuing entity participating in a securitisation transaction of the Issuer. The Issuer may not pledge, transfer, encumber or otherwise create security over some or all of its assets or transfer its assets for guarantee purposes, unless permitted by the Luxembourg Securitisation Act.

The Issuer may enter into, execute and deliver and perform any swaps, futures, forwards, derivatives, options, repurchase, stock lending and similar transactions for as long as such agreements and transactions are necessary to facilitate the performance of the company's corporate objects. The Issuer may generally employ any techniques and instruments relating to investments for the purpose of their efficient management, including, but not limited to, techniques and instruments designed to protect it against credit, currency exchange, interest rate risks and other risks.

The Board is entitled to create one or more compartments (representing the assets of the Issuer relating to an issue by the Issuer of securities), in each case, corresponding to a separate part of the Issuer's estate.

The descriptions above are to be understood in their broadest sense and their enumeration is not limiting. The corporate objects of the Issuer shall include any transaction or agreement which is entered into by the Issuer, provided it is not inconsistent with the foregoing enumerated objects.

In general, the Issuer may take any controlling and supervisory measures and carry out any operation or transaction which it considers necessary or useful in the accomplishment and development of its corporate objects to the largest extent permitted under the Luxembourg Securitisation Act.

Directors

The directors of the Issuer and their respective business addresses and principal business activities are:

Name	*Address*	*Business Activities*
Mr. Jack Lowe	32 rue de Malatrex CH-1201 Geneva, Switzerland	Chief Executive Officer, BlueOrchard Finance S.A.
Mr. Jean-Philippe de Schrevel	32 rue de Malatrex CH-1201 Geneva, Switzerland	Director, BlueOrchard Finance S.A.
Mr. Alexis Kamarowsky	7, Val Sainte-Croix L-1371 Luxembourg	Director, Luxembourg International Consulting S.A.
Mr. Federigo Cannizzaro di Belmontino	7, Val Sainte-Croix L-1371 Luxembourg	Director, Luxembourg International Consulting S.A.
Mr. Jean-Marc Debaty	7, Val Sainte-Croix L-1371 Luxembourg	Director, Luxembourg International Consulting S.A.

In accordance with the Corporate Services Agreement, Structured Finance Management (Luxembourg) S.A. as Corporate Services Provider will provide corporate services to the Issuer.

The principal outside activities of Mr. Kamarowsky, Mr. Cannizzaro di Belmontino and Mr. Debaty may be significant with respect to the Issuer to the extent that Luxembourg International Consulting S.A. provides professional administration, management and directorial services to other companies similar in nature to the Issuer. To the extent that a conflict between Luxembourg International Consulting S.A. and the Issuer exists, there may be a conflict of interest between the private interests of these Directors (or any one of them) and those of the Issuer.

No corporate governance regime to which the Issuer would be subject exists in Luxembourg as at the date of this Offering Circular.

Financial Year

The current financial year of the Issuer will end on 31 December 2007.

Initial Capitalization of the Issuer

The following table shows the initial unaudited capitalization of the Issuer as at the date hereof, adjusted for the issue of the Notes:

Share Capital of the Issuer	**U.S.$**
Authorized	
The Issuer has no authorised share capital	
Issued	
310 Ordinary Shares of no par value, all of which are fully paid-up	50,000

All of the shares of the Issuer are held by BOLD Holdings.

Borrowings

The Notes	$106,700,000

As at the date hereof, save as disclosed herein, the Issuer has no loan capital outstanding or created but unissued, no term loans outstanding and no other borrowings or indebtedness in the nature of borrowing nor any contingent liabilities or guarantees.

Commitment Fee

In addition to the equity contributions set forth above, each Borrower will pay to the Servicer on behalf of the Issuer a commitment fee equal to 0.25% of the principal amount of such Borrower's Loan (the **Commitment Fee**) in consideration of the Issuer's (or, with respect to the Participating MFIs in Colombia, Dexia Micro-Credit Fund's) commitment to make the Loans subject to sufficiency of funds at the Issue Date and the satisfaction of all other conditions precedent set forth in the Term Loan Agreements. The Servicer will transfer the Commitment Fees to the relevant Commitment Fees Ledger on the Issue Date. To the extent that the Commitment Fees are refundable to a Borrower pursuant to the relevant Term Loan Agreement, this amount will be taken out of the Dollar Account (or, in the case of Commitment Fees paid in euro, the Euro Account) and the relevant Commitment Fees Ledger will be debited with such amount. In the event that the Servicer notifies the Cash Manager of a Loan Event of Default or another event that will allow the Servicer to accelerate the related Loan, the Cash Manager shall debit the relevant Commitment Fees Ledger and credit the Dollar Account with an amount equal to the Commitment Fees in respect of the Loan

to which the Loan Event of Default or other event that will allow BlueOrchard to accelerate the related Loan relates (but in case of Commitment Fees in euros, after having exchanged the relevant euro amount for Dollars against the "spot" rate at which euros are converted into Dollars).

Financial Statements

The financial year of the Issuer is the calendar year save that the first financial year is from the date of incorporation to 31 December 2007 and the second financial year is from 1 January 2008 to 31 December 2008. The Issuer will publish its first audited financial statements in respect of the period ending on 31 December 2007. The Issuer will not prepare interim financial statements.

In accordance with Articles 72, 74 and 75 of the Luxembourg act dated 10 August 1915 on commercial companies, as amended, Issuer is obliged to publish its annual accounts on an annual basis following approval of the annual accounts by the annual general meeting of the shareholders. The ordinary general meeting of shareholders takes place annually on the fourth Thursday in March of each year or, if such day is not a Business Day, the next following Business Day at 10.00 am at the registered office of the Issuer or at such other place as may be specified in the convening notice. The first ordinary general meeting of shareholders is scheduled to take place in 2008.

Any future published annual audited financial statements prepared for the Issuer will be obtainable free of charge from the specified office of the Principal Paying Agent in London and the Irish Paying Agent in Dublin.

The Issuer has not commenced operations since its date of incorporation and no financial statements have been made up as at the date hereof.

Auditors

The external auditors (*réviseurs aux comptes*) of the Issuer, which have been appointed by a resolution of the Board dated 29 May 2007 are BDO Compagnie Fiduciaire S.A. and belong to the Luxembourg institute of auditors (*Instituts des réviseur d'entreprises).*

THE TRANSACTION DOCUMENTS

The Issuer will enter into a number of agreements on the Issue Date. These include the following:

Servicing Agreement

Under the terms of the Servicing Agreement, by and among the Issuer, the Servicer, and the Trustee (the **Servicing Agreement**), BlueOrchard will act as Servicer of the Loans. The Servicer services the Loans, which activities include being responsible for substantially all of the communications with Borrowers on behalf of the Issuer, including monitoring of risk factors, collection and analysis of reports, including monthly, semi-annual and annual statements, annual on-site due diligence, verification of continuing representations and warranties, verification of covenants, and communications regarding payments of principal and interest.

Under the terms of the Servicing Agreement, the Servicer will instruct each Borrower to transfer electronically each payment under the Loans to the Issuer's Dollar Account, Euro Account or Rouble Account, as appropriate.

The Servicer shall instruct each Borrower that all payments relating to such Borrower's Loan be electronically transferred from the Borrower's account to (i) in the case of the Loans denominated in Dollars or the Loans denominated in COP, MNT and PEN (the **Dollar Loans**), the Dollar Account; (ii) in the case of the Loans denominated in euro (the **Euro Loans**), the Euro Account and (iii) in the case of the Loans denominated in RUR (the **Rouble Loans**), the Rouble Account. If, notwithstanding such instruction, the Servicer receives any such payment in a different account, the Servicer will remit such payment to the Dollar Account or to the Swap Counterparty, as applicable, on the same Business Day as receipt.

Under the terms of the Servicing Agreement, the Servicer will provide services according to an agreed schedule of servicing policies and procedures. In addition, the Servicer will be responsible for the provision of a quarterly report to the Cash Manager which will include, *inter alia,* information about the performance of the Loans (including any defaults and recoveries thereupon) and deposits to and disbursements from the Issuer Accounts.

The Servicer will be paid a quarterly servicing fee at the annual rate of 69.75 basis points of the aggregate original principal balance of the Loans, such fee to be payable in arrear, provided, however, that for the first Note Payment Date, the servicing fee shall equal the product of (i) 1/360, (ii) the number of days from and including the Issue Date to but excluding the next succeeding Note Payment Date, (iii) 0.60 per cent. and (iv) the original aggregate principal balance of the Loans.

The Servicer's fees will be paid as part of the relevant Priority of Payments. The Servicing Agreement sets forth representations, covenants, indemnities and other responsibilities of the Servicer and the manner in which the Servicer may be replaced.

The Servicer may be terminated for, *inter alia,* failure to cause any payment which it receives or which is paid to be deposited in accordance with the Cash Management Agreement and/or to the appropriate party, failure to deliver certain information to the Trustee, failure to observe or perform any covenant or agreement as set forth in the Servicing Agreement without remedy for 60 days following the Servicer's knowledge of such failure, the failure to address a Note Event of Default with a recovery procedure and the insolvency of the Servicer.

The Servicing Agreement will be governed by the laws of England and Wales.

Trust Deed

The Notes will be issued pursuant to a Trust Deed, to be dated on or about the Issue Date, between the Issuer and Deutsche Trustee Company Limited as Trustee (the **Trust Deed**). The Trustee will be appointed pursuant to the Trust Deed to represent the interests of the Noteholders. The Trust Deed provides for various obligations and covenants of the Issuer and defines the circumstances under which the Notes may be accelerated. The Trust Deed also contains the form of Global Notes as well as the terms and conditions of the Notes.

The Trust Deed will be governed by the laws of England and Wales.

Cash Management Agreement

Under the cash management agreement dated on or about the Issue Date (the **Cash Management Agreement**) by and among the Issuer, the Servicer, the Cash Manager, BOLD Holdings and the Trustee, the Cash Manager will receive all proceeds and disburses certain payments on behalf of the Issuer from the Issue Date to liquidation of the Issuer. Any amendment to the cash waterfall provisions of the Cash Management Agreement will require the consent of the Swap Counterparty while the related Swap Agreements are outstanding.

The Cash Management Agreement will be governed by the laws of England and Wales.

Agency Agreement

Under the agency agreement dated on the Issue Date (the **Agency Agreement**) by and between the Issuer, the Principal Paying Agent, Irish Paying Agent and the Registrar, the Paying Agents will agree to make payments on the Notes and distribute notices to Noteholders, and the Registrar will agree to maintain a register of Noteholders and effect transfers in the Notes on the register.

Pursuant to the Agency Agreement, the Principal Paying Agent may resign its appointment or the Issuer (with the consent of the Trustee) may revoke the appointment, in each case by not less than 60 days' written notice, which notice expires not less than 30 days before a Note Payment Date. The Issuer (with the consent of the Trustee) may also terminate the appointment without notice if at any time an event of insolvency, liquidation or similar event occurs with respect to the Principal Paying Agent. A successor agent may be appointed by the Issuer (with the consent of the Trustee). In the event of the resignation of an agent, under certain conditions, such agent may appoint a successor with the prior written approval of the Issuer and the Trustee. Upon appointment of a successor, such successor shall, without any further act, deed or conveyance, become vested with all the authority, rights, powers, trusts, immunities, duties and obligations of its predecessor. No resignation or revocation of an appointment will become effective until a new appointment has been made.

The Agency Agreement will be governed by the laws of England and Wales.

Deed of Charge

The security for the Notes will be created pursuant to, and on the terms of, a deed of charge to be dated on or about the Issue Date (the **Deed of Charge**) by and among, *inter alios*, the Issuer and the Trustee, in favour of the Trustee on trust for the Noteholders and other secured creditors of the Issuer. The Notes will be secured by first ranking fixed security interests over all of the Issuer's interests, rights and entitlements under and in respect of the Loans, the Transaction Documents to which it is a party, any bank accounts opened by the Issuer and all other contracts, agreements, deeds and documents entered into by the Issuer from time to time, in each case to the extent allocated to Compartment 1. The Notes will also be secured by a floating charge (ranking after the fixed security referred to above) over the whole of the undertaking, property and assets of the Issuer which are allocated to Compartment 1 and which are not, at any time, covered by the fixed security described above. As a matter of English law, certain of the charges created by the Deed of Charge

that are expressed as fixed charges may only take effect as floating charges. The Deed of Charge contains provisions regulating the priority of application of the charged assets described above (and proceeds thereof) among the persons entitled thereto after enforcement of the security by the Trustee.

The Deed of Charge will governed by the laws of England and Wales (provided that any terms which are particular to the laws of Luxembourg shall be construed in accordance with Luxembourg law).

Corporate Services Agreement

Under the Corporate Services Agreement, to be dated on or about the Issue Date (the **Corporate Services Agreement**), by and among the Corporate Services Provider, the Issuer, the Sponsor and the Trustee, the Corporate Services Provider will provide corporate services to the Issuer.

The Corporate Services Agreement will be governed by Luxembourg law.

Account Bank Agreement and Subcustody Agreement

The Account Bank Agreement, to be dated on or about the Issue Date (the **Account Bank Agreement**), by and among the Issuer, the Account Bank, the Luxembourg Account Bank, the Cash Manager and the Trustee, governs the operation of the Issuer Accounts. Pursuant to the Subcustody Agreement, to be dated on or about the Issue Date by and among the Luxembourg Account Bank, as custodian, the Account Bank, as sub-custodian, and the Issuer, the Luxembourg Account Bank will delegate its responsibilities to the Account Bank, although it will remain liable to the Issuer for such obligations and for the actions of the Account Bank. The Account Bank, as sub-custodian, will hold the Issuer Accounts on behalf of the Luxembourg Account Bank.

The Luxembourg Account Bank will, on behalf of the Issuer, open a Dollar Account, a Euro Account, a Sterling Account and a Rouble Account, each to be held with the Account Bank. The Issuer Accounts will be operative on or before the Issue Date.

The Account Bank Agreement and the Subcustody Agreement will be governed by the laws of England and Wales.

Swap Agreements

The Issuer will enter into Currency Swaps (which may be deliverable (**Deliverable Swaps**) or non-deliverable (**Non-deliverable Swaps**) and include the note currency swaps (the **Note Currency Swaps**)) and Interest Rate Swaps with the Swap Counterparty. In general, the Swaps will be designed to do the following:

- Deliverable Swaps to be entered into with MSI: to protect the Issuer against changes in the Russian rouble to U.S. dollar or euro to U.S. dollar exchange rates in respect of Loans advanced in Russian roubles or euro;

- Non-deliverable Swaps to be entered into with MSI: to protect the Issuer against changes in the PEN, the COP and the MNT, respectively, to U.S. dollar exchange rates in respect of Loans advanced in PEN, COP and MNT to Participating MFIs in Peru, Colombia and Mongolia, respectively;

- Note Currency Swaps to be entered into with MSI: to protect the Issuer against changes in the U.S. dollar to euro and/or sterling exchange rates in respect of the Issuer's obligation to make payments in euro and/or sterling to Noteholders; and

- Interest Rate Swaps to be entered into with MSI: to hedge against the possible variance between the fixed interest rates received by the Issuer under the Loans (after conversion into U.S. dollars or euro via the Currency Swaps, if applicable) and the floating rate of interest payable on floating rate Notes.

Deliverable Swaps

Some of the Loans will be denominated in Russian roubles or euro. However, the Notes will be denominated in U.S. dollars, euro and/or sterling. To deal with the potential currency mismatch between (i) its receipts and liabilities in respect of those Loans and (ii) its receipts and liabilities under the Notes, the Issuer will, pursuant to the terms of the Deliverable Swaps, swap its receipts and liabilities in respect of those Loans on terms that (when combined with any relevant Note Currency Swap or Interest Rate Swap) match the Issuer's obligations under the Notes.

Under each Deliverable Swap, on the Issue Date MSI will pay to the Issuer an amount in Russian roubles or euro equal to the principal amount required to be advanced under the related Loan and the Issuer will pay to MSI an equivalent amount in U.S. dollars, converted by reference to the swap rate of exchange. On each Note Payment Date, the Issuer will pay to MSI an amount in Russian roubles or euro (as applicable) equal to the interest due in respect of the corresponding loan interest period under the relevant Loan and MSI will pay to the Issuer an amount in U.S. dollars calculated by applying the fixed rate specified in the relevant Swap to the relevant U.S. dollar amount initially paid by the Issuer. If the Issuer has insufficient funds to make such payment because it has not received the corresponding payment on the Loans then it will pay to the MSI that portion of the interest amount that it has actually received and MSI shall reduce the payment that it makes in proportion. On or before the day that is 30 calendar days following the day on which such reduced payments were made, the Issuer shall either make up the shortfall in the payment in respect of the previous Note Payment Date (and MSI will make the corresponding payment) or the Issuer shall terminate a portion of the Deliverable Swap in an amount which is proportionate to the ratio of (a) the shortfall to (b) the total amount due. On any such termination a termination payment may be due from one party to the other in respect of the terminated portion.

Other than in respect of the Deliverable Swaps hedging the Loan to EKI Bank, under which such payments will be made in instalments corresponding with scheduled amortisation of that Loan, on the final maturity date of the relevant Loan (assuming such Loan has not defaulted), the Issuer will pay to MSI an amount equal to the Russian rouble or euro amount initially paid by MSI on the Issue Date and MSI will pay to the Issuer an amount in U.S. dollars equal to the amount initially paid by the Issuer on the Issue Date.

Non-deliverable Swaps

The Loans to be made to Participating MFIs in Colombia, Mongolia and Peru are denominated in COP, MNT and PEN, respectively, but the Loans will be disbursed and payments on those Loans will be made by the relevant Borrower in a U.S. dollar amount pegged to the COP, the MNT and the PEN, respectively, at the relevant central bank's fixing rate determined at or around the time the relevant disbursement or payment is to be made. The Notes, however, will be denominated in U.S. dollars and/or euro and/or sterling. The Issuer will therefore be exposed to exchange rates between COP, MNT and PEN on the one hand and euro (in respect of the euro-denominated Notes), U.S. dollars (in respect of the U.S. dollar-denominated Notes) and sterling (in respect of the sterling-denominated Notes) on the other hand. To deal with the potential currency mismatch between (i) its receipts and liabilities in respect of those Loans and (ii) its receipts and liabilities under the Notes, the Issuer will, through exchanges of COP, MNT and PEN for U.S. dollars under Non-deliverable Swaps, swap its receipts and liabilities in respect of those Loans on terms that (when combined with any relevant Note Currency Swaps or Interest Rate Swaps) match the Issuer's obligations under the Notes. Pursuant to the terms of the Non-deliverable Swaps, on each Note Payment Date, the Issuer will pay to the Swap Counterparty the excess (if any) of (A) an amount equal to the U.S. dollar interest received in respect of the corresponding loan interest period under the relevant Loan over (B) an amount in U.S. dollars calculated by applying the fixed rate specified in the relevant Swap to the U.S. dollar equivalent of the principal amount of the relevant Loan as specified in the relevant Swap or the Swap Counterparty will pay to the Issuer the excess (if any) of (B) over (A). If the Issuer has insufficient funds to make such payment because it has not received the corresponding payment on the Loans then it will pay to the Swap Counterparty that portion of the due amount that it has actually received. On or before the day that is 30 calendar days following the day on which such reduced payments were made, the Issuer shall either make up the shortfall in the payment in respect of the previous Note Payment Date or the Issuer shall terminate a

portion of the relevant Non-deliverable Swap in an amount which is proportionate to the ratio of (a) the shortfall to (b) the total amount due. On any such termination a termination payment may be due from one party to the other in respect of the terminated portion.

On the final maturity date of the relevant Loan (assuming such Loan has not defaulted), the Issuer will pay to the Swap Counterparty the excess (if any) of (C) an amount equal to the U.S. dollar principal received under the relevant Loan over (D) an amount in U.S. dollars equivalent to the initial principal amount of the relevant Loan or the Swap Counterparty will pay to the Issuer the excess (if any) of (D) over (C).

Payments of interest and the ultimate payment of principal under the Loan to XacBank in Mongolia will be initially denominated in MNT. On the Loan Payment Date in June 2009, the Non-deliverable Swap with respect to the MNT entered into on or about the Issue Date will terminate and will result in a principal swap settlement at that time. However, at that time, the Issuer will use its best efforts basis to procure that a replacement swap will be provided, provided that the interest rate to be received by the Issuer under such replacement swap is the same or better than the interest rate that would have been received on the agreed rate for a Loan denominated in U.S. Dollars. If no such replacement swap is provided at that time, the Loan will be converted in a Loan denominated into U.S. dollars.

Note Currency Swaps

Some of the Notes will be denominated in euro and/or sterling. However, some of the Loans will be denominated in U.S. dollars and the Issuer's receipts under the Deliverable Swaps and Non-deliverable Swaps in respect of the remaining Loans are also denominated in U.S. dollars. To deal with the potential currency mismatch between (i) its receipts and liabilities in respect of those Loans, Deliverable Swaps and Non-deliverable Swaps and (ii) its receipts and liabilities under the Notes, the Issuer will, through Note Currency Swaps, swap its receipts and liabilities in respect of those Loans, Deliverable Swaps and Non-deliverable Swaps on terms that (when combined with any relevant Interest Rate Swap) match the Issuer's obligations under the Notes. The Issuer will exchange U.S. dollars received under the relevant Loans, Deliverable Swaps and Non-deliverable Swaps for euro and/or sterling at the rate set when the Note Currency Swaps were entered into (the **Note Currency Swap Rate**). Pursuant to the terms of the Note Currency Swaps, on the Issue Date, the Issuer will pay to MSI the proceeds of the sale of the euro- and/or sterling-denominated Notes less any amounts required to be advanced under the euro-denominated Loans and MSI will pay to the Issuer an equivalent amount in U.S. dollars calculated by reference to the Note Currency Swap Rate. On each Note Payment Date, the Issuer will pay to MSI an amount equal to the U.S. dollar amount due in respect of the corresponding loan interest period under the relevant Loan, Deliverable Swap or Non-deliverable Swap and MSI will pay to the Issuer an amount in euro and/or sterling equal to the interest amount due on the Notes (less the amount received by the Issuer by way of interest under the euro-denominated Loans). If the Issuer has insufficient funds to make such payment, then it will pay to MSI that portion of the interest amount that it has actually received and MSI shall reduce the payment that it makes in proportion. On or before the day that is 30 calendar days following the day on which such reduced payments were made, the Issuer shall either make up the shortfall in the payment in respect of the previous Note Payment Date (and the MSI will make the corresponding payment) or the Issuer shall terminate a portion of the relevant Note Currency Swap in an amount which is proportionate to the ratio of (a) the shortfall to (b) the total amount due. On any such termination a termination payment may be due from one party to the other in respect of the terminated portion.

Pursuant to the terms of the Note Currency Swaps and subject to defaults on the Loans, the initial exchange of euro and/or sterling amounts for U.S. dollar amounts will be reversed in accordance with scheduled amortisation of the Loans and Notes.

Interest Rate Swap Agreements

The Loans will bear interest at a fixed rate while some of the Notes will bear interest at a rate based on a floating rate plus a margin. In order to hedge this interest rate risk, the Issuer will enter into the Interest Rate Swaps with MSI.

Under the terms of each Interest Rate Swap, the Issuer will pay to MSI on each Note Payment Date an amount equal to the excess (if any) of the amount due under the Loans or, if such amount is not denominated in the same currency as the Notes, the Note Currency Swaps in respect of the relevant Interest Period (X) over an amount determined by reference to the relevant floating rate (Y) and MSI will pay to the Issuer an amount equal to the excess (if any) of Y over X. If the Issuer has insufficient funds to make such payment because it has not received the corresponding payment on the Loans or the Note Currency Swaps then it will pay to MSI that portion of the due amount that it has actually received. On or before the day that is 30 calendar days following the day on which such reduced payments were made, the Issuer shall either make up the shortfall in the payment in respect of the previous Note Payment Date or the Issuer shall terminate a portion of the Interest Rate Swap in an amount which is proportionate to the ratio of (a) the shortfall to (b) the total amount due. On any such termination a termination payment may be due from one party to the other in respect of the terminated portion.

General

The Swap Counterparty will enter into an ISDA Master Agreement 1992 (Multicurrency - Cross Border) with the Issuer and evidence each Swap with a Confirmation pursuant to such ISDA Master Agreement.

The Swap Counterparty will be obliged to make payments under each Swap Agreement without any withholding or deduction of taxes unless required by law. If any such withholding or deduction is required by law, the Swap Counterparty will be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Issuer will equal the full amount the Issuer would have received had no such withholding or deduction been required or, if such withholding or deduction is a withholding or deduction which will or would be or become the subject of any tax credit, allowance, set-off, repayment or refund to the Swap Counterparty, the Issuer shall use all reasonable endeavours to reach agreement to mitigate the incidence of tax on the Swap Counterparty. The Issuer will similarly be obliged to make payments under each Swap Agreement without any withholding or deduction of taxes unless required by law and is similarly obliged to pay additional amounts and the Swap Counterparty will similarly be obliged to use reasonable endeavours to reach agreement to mitigate the incidence of tax on the Issuer. Such additional amounts (referred to as payments of indemnified tax) are payable subordinate to amounts payable on the Class A Notes, the Class B Notes and the Class C Notes.

Each Swap Agreement will provide, however, that if due to action taken by a relevant taxing authority, action brought in a court of competent jurisdiction or any change in tax law, either the Issuer or the Swap Counterparty will, or there is a substantial likelihood that it will, on the next payment date, be required to pay additional amounts in respect of tax under the Swap Agreement or will, or there is a substantial likelihood that it will, receive payment from the other party from which an amount is required to be deducted or withheld for or on account of tax (a **Swap Tax Event**), the Swap Counterparty will use its reasonable efforts to transfer its rights and obligations to another of its offices, branches or affiliates or a suitably rated third party to avoid the relevant Swap Tax Event. If no such transfer can be effected, the relevant Swap Agreement may be terminated pursuant to its terms. Each Swap Agreement contains certain other limited termination events and events of default which will entitle either party to terminate the Swap Agreement.

For the avoidance of doubt, the Fixed Rate Day Count Fraction with respect to the Swap Agreements will be Actual/Actual, which means that interest is calculated on the basis of the actual number of days elapsed in a year of 365 days if the related Interest Period ends in a non-leap year or 366 days if the related Interest Period ends in a leap year, as the case may be.

If, at any time, (A) (i) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Swap Counterparty are assigned a rating (a **Swap Counterparty Short-Term Rating**) of less than A-3 by S&P, or (ii) if the Swap Counterparty does not have a Swap Counterparty Short-Term Rating, the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Swap Counterparty are assigned a rating (a **Swap Counterparty Long-Term Rating**) of less than BBB by S&P or (B) any such long-term rating is withdrawn by S&P, then such party is required to:

(a) obtain a guarantee of its obligations under the relevant Swap Agreement from a third party whose Swap Counterparty Short-Term Rating is A-3 or above or whose Swap Counterparty Long-Term Rating is BBB or above, as applicable, by S&P; or

(b) provide collateral in the form of cash or securities or both in support of its obligations under the relevant Swap Agreement in an amount or value determined in accordance with the terms of the relevant Swap Agreement; or

(c) transfer all its rights and obligations under the relevant Swap Agreement to a replacement third party provided that such third party's (or that third party's credit support provider's) Swap Counterparty Short-Term Rating is A-3 or above or Swap Counterparty Long-Term Rating is BBB or above, as applicable, by S&P, and if the Swap Counterparty fails to take one of the steps set out in (a) to (c) above within 30 days of the relevant downgrade, the Issuer will be entitled to terminate the relevant Swap Agreement.

Term Loan Agreements

The Issuer and the Servicer will also be parties to a term loan agreement (each, a **Term Loan Agreement** and collectively, the **Term Loan Agreements**) with each Borrower, pursuant to which the Issuer funds each Loan (except that for Loans to Borrowers in Colombia, Dexia Micro-Credit Fund will act as lender of record under each Term Loan Agreement in which case such Loan will be transferred to the Issuer on the Issue Date as described below under "—*Loan Transfer Agreement*").

Certain provisions of the Term Loan Agreements are described under the heading "*The Loans*" in this Offering Circular. The Term Loan Agreements are governed by the laws of England and Wales.

Loan Transfer Agreement

As described in this Offering Circular under "*The Loans*," the Loans made to Participating MFIs in Colombia will initially be made by Dexia Micro-Credit Fund. Immediately after disbursement of such Loans, Dexia Micro-Credit Fund will transfer the relevant Term Loan Agreements to the Issuer pursuant to a loan transfer agreement (the **Loan Transfer Agreement**), to be dated the Issue Date, between the Issuer, the Servicer, the Trustee and Dexia Micro-Credit Fund.

The Loan Transfer Agreement will be governed by the laws of England and Wales.

Fees

Expected ongoing fees paid to the various service providers, other than the Servicer, are estimated to be approximately $112,000 per year.

DESCRIPTION OF THE NOTES

General

Each Class of Dollar Notes will, on the Issue Date, be represented by a Regulation S Global Note and a Rule 144A Global Note. Each Class of Euro Notes and Sterling Notes will, on the Issue Date be represented by a Regulation S Global Note. All capitalised terms not defined in this paragraph shall be as defined in the "*Terms and Conditions of the Notes*".

The Regulation S Global Notes and the Rule 144A Global Notes will be deposited on or about the Issue Date with the Common Depositary, as the depositary for both Euroclear and Clearstream, Luxembourg.

The Rule 144A Global Notes and the Regulation S Global Notes will be registered in the name of BT Globenet Nominees Limited, as the nominee of the Common Depositary for both Euroclear and Clearstream, Luxembourg. The Issuer will procure the Registrar to maintain a register in which it will register BT Globenet Nominees Limited as the holder of the Rule 144A Global Notes and as the holder of the Regulation S Global Notes.

Dollar Notes represented by Rule 144A Global Notes may only be sold to persons who are "qualified institutional buyers" as defined in Rule 144A of the Securities Act and who are also "qualified purchasers" (within the meaning of Section 2(a)(51) of the Investment Company Act and the rules thereunder).

Upon confirmation by the Common Depositary that it has custody of the Global Notes, Euroclear and/or Clearstream, Luxembourg, as the case may be, will record Book-Entry Interests representing beneficial interests in the Global Notes attributable thereto.

Book-Entry Interests in respect of Global Notes will be recorded in denominations of £50,000, €50,000 or $100,000, depending on the currency of denomination, and integral multiples of £1,000, €1,000 and $1,000 in excess thereof (an **Authorised Denomination**). Ownership of Book-Entry Interests will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg Participants or Indirect Participants, including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect Participants shall also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts to be credited shall be designated by MSI. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

So long as BT Globenet Nominees Limited is the registered holder of the Global Notes underlying the Book-Entry Interests, BT Globenet Nominees Limited will be considered the sole Noteholder of the Global Notes for all purposes under the Trust Deed. Except as set forth under "*—Issuance of Definitive Notes*" below, Participants or Indirect Participants will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive registered form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and Indirect Participants must rely on the procedures of the Participants or Indirect Participants through which such person owns its interest in the relevant Book-Entry Interests, to exercise any rights and

obligations of a holder of Notes under the Trust Deed. See "—*Action in Respect of the Global Notes and the Book-Entry Interests*" below.

Unlike legal owners or holders of the Notes, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by the Issuer or consents or requests by the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their Participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Issuer Event of Default under the Global Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear or, Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the Conditions. There can be no assurance that the procedures to be implemented by Euroclear and, Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

Unless and until Book-Entry Interests are exchanged for Definitive Notes, the Global Notes held by the Common Depositary may not be transferred except as a whole by the Common Depositary to a successor of the Common Depositary.

Purchasers of Book-Entry Interests in a Global Note will hold Book-Entry Interests in the Global Notes relating thereto. Investors may hold their Book-Entry Interests in respect of a Global Note directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set forth under "—*Transfers and Transfer Restrictions*" below), if they are Participants in such systems, or indirectly through organisations which are Participants in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in each Global Note on behalf of their Participants through securities accounts in the respective Participants' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among Participants of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Note Trustee or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective Participants of their respective obligations under the rules and procedures governing their operations.

Payments on Notes

Payment of principal of and interest on, and any other amount due in respect of, the Global Notes will be made in dollars (in respect of the Dollar Notes), euros (in respect of the Euro Notes) and sterling (in respect of the Sterling Notes) by or to the order of the Principal Paying Agent on behalf of the Issuer to the Common Depositary or its nominee as the registered holder thereof with respect to the Global Notes. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for its share of any amounts paid by or on behalf of the Issuer to the Common Depositary or their nominees in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the Common Depositary, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or of Clearstream, Luxembourg. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the

accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

Information Regarding Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg have advised the Issuer as follows:

Euroclear and Clearstream, Luxembourg each hold securities for their Participants and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective Participants, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities.

Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depository and custodial relationships. The respective systems of Euroclear and of Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective Participants may settle trades with each other.

Participants in both Euroclear and Clearstream, Luxembourg are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an Participant of either system.

An Participant's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective Participants, and have no record of or relationship with persons holding through their respective Participants.

The Issuer understands that under existing industry practices, if either the Issuer or the Note Trustee requests any action of owners of Book-Entry Interests or if an owner of a Book-Entry Interest desires to give instructions or take any action that a holder is entitled to give or take under the Trust Deed, Euroclear or Clearstream, Luxembourg, as the case may be, would authorise the Participants owning the relevant Book-Entry Interests to give instructions or take such action, and such Participants would authorise Indirect Participants to give or take such action or would otherwise act upon the instructions of such Indirect Participants.

Redemption

In the event that any Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the nominee of the Common Depositary, and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Principal Paying Agent for cancellation. Appropriate entries will be made in the Register. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of a Global Note in part, selection of the relevant Book-Entry Interest relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, on a *pro rata* basis (or on such basis at Euroclear or Clearstream, Luxembourg, deems fair and appropriate). Upon any redemption in part, the Principal Paying Agent will mark down the schedule to such Global Note by the principal amount so redeemed.

Cancellation

Cancellation of any Note represented by a Global Note and required by the Conditions to be cancelled following its redemption or otherwise will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant schedule thereto and the corresponding entry on the Register.

Transfers and Transfer Restrictions

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its Participants. See "—*General*", above.

Each Rule 144A Global Note will bear a legend substantially identical to that appearing under "*Transfer Restrictions and Investor Representations*" below, and the holder of any Rule 144A Global Note or any Book-Entry Interest in such Rule 144A Global Note will undertake that it will not transfer such Notes except in compliance with the transfer restrictions set forth in such legend.

Each Regulation S Global Note will bear a legend substantially identical to that appearing under "*Transfer Restrictions and Investor Representations*".

During the period prior to the date that is 40 days after the date of the later of the commencement of the Offering and the completion of the distribution (the **Distribution Compliance Period**), a book-entry interest in a Dollar Note represented by a Regulation S Global Note may be transferred to a person who takes delivery in the form of a book-entry interest in the Rule 144A Global Note of the same class but only upon receipt by the Registrar of written certification from the transferor (in the form provided in the Trust Deed) to the effect that such transfer is being made to a person whom the transferor reasonably believes is purchasing for its own account or for an account or accounts as to which it exercises sole investment discretion and that such person and such account or accounts is a "qualified institutional buyer" within the meaning of Rule 144A that is also a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act and the rules thereunder, in each case, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. A book-entry interest in a Rule 144A Global Note of one class may be transferred to a person who takes delivery in the form of a book-entry interest in the Regulation S Global Note of the same class but only upon receipt by the Registrar of another certification from the transferor (in the form provided in the Trust Deed) to the effect that such transfer is being made to a person that is not a U.S. Person in an offshore transaction pursuant to Rule 903 or 904 of Regulation S.

Issuance of Definitive Notes

Holders of Book-Entry Interests in a Rule 144A Global Note or Regulation S Global Note will be entitled to receive Definitive Notes in exchange for their respective holdings of Book-Entry Interests if (i) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do so cease to do business and no alternative clearing system satisfactory to the Trustee is available, or (ii) as a result of any amendment to, or change in, the laws or regulations of Luxembourg (or of any political subdivision thereof) or of any authority therein or thereof having power to tax, or in the interpretation or administration by a revenue authority or a court or in the application of such laws or regulations, which becomes effective on or after the Issue Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive registered form. Any Definitive Notes issued in exchange for Book-Entry Interests in a Rule 144A Global Note or a Regulation S Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to

ownership of the relevant Book-Entry Interests. Holders of Definitive Notes issued in exchange for Book-Entry Interests in Rule 144A Global Note or a Regulation S Global Note, as the case may be, will not be entitled to exchange such Definitive Note for Book-Entry Interests in a Regulation S Global Note or a Rule 144A Global Note, as the case may be. Any Notes issued in definitive form will be issued in registered form only and will be subject to the provisions set forth under "—*Transfers and Transfer Restrictions*".

Action in Respect of the Global Notes and the Book-Entry Interests

Not later than ten days after receipt by the Issuer of any notices in respect of the Global Notes or any notice of solicitation of consents or requests for a waiver or other action by the holder of the Global Notes, the Issuer will deliver to Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date Euroclear and Clearstream, Luxembourg will be entitled to instruct the Issuer as to the consent, waiver or other action, if any, pertaining to the Book-Entry Interests or the Global Notes and (c) a statement as to the manner in which such instructions may be given. Upon the written request of Euroclear and Clearstream, Luxembourg, as applicable, the Issuer shall endeavour insofar as practicable to take such action regarding the requested consent, waiver or other action in respect of the Book-Entry Interests or the Global Notes in accordance with any instructions set forth in such request. Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under "—*General*", above, with respect to soliciting instructions from their respective Participants.

Reports

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Notes or the Book-Entry Interests. See also Condition 16 (Notices) of the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Global Notes and the Definitive Notes issued in respect of the Notes:

The £6,300,000 Class A1 Fixed Rate Notes due June 2014 (the **Class A1 Notes**), the €2,200,000 Class A2 Floating Rate Notes due June 2014 (the **Class A2 Notes**), the U.S.$28,500,000 Class A3 Floating Rate Notes due June 2014 (the **Class A3 Notes** and, together with the Class A1 Notes and the Class A2 Notes, the **Class A Notes**), the £1,250,000 Class B1 Fixed Rate Notes due June 2014 (the **Class B1 Notes**), the €1,450,000 Class B2 Floating Rate Notes due June 2014 (the **Class B2 Notes**), the U.S.$12,000,000 Class B3 Floating Rate Notes due June 2014 (the **Class B3 Notes** and, together with the Class B1 Notes and the Class B2 Notes, the **Class B Notes**), the £10,050,000 Class C1 Fixed Rate Notes due June 2014 (the **Class C1 Notes**), the €700,000 Class C2 Floating Rate Notes due June 2014 (the **Class C2 Notes**), the U.S.$21,000,000 Class C3 Floating Rate Notes due June 2014 (the **Class C3 Notes** and, together with the Class C1 Notes and the Class C2 Notes, the **Class C Notes**) and the U.S. $7,700,000 Class X Variable Rate Notes due June 2014 (the **Class X Notes** and, together with the Class A Notes, the Class B Notes and the Class C Notes, the **Notes**) of BlueOrchard Loans for Development S.A., acting in respect of Compartment 1 (the **Issuer**) will be constituted by a Trust Deed (the **Trust Deed**) to be dated 31 May 2007 (the **Issue Date**) and to be made between the Issuer and Deutsche Trustee Company Limited (the **Trustee**, which expression shall include its successor(s) and any other additional trustee under the Trust Deed or, as the case may be, the Deed of Charge (as defined below)) as trustee for the holders of the Notes (the **Noteholders**) and as security trustee for the Secured Creditors.

The security for the Notes will be created pursuant to, and on the terms set out in, a deed of charge to be dated on or about the Issue Date (the **Deed of Charge**, which expression includes such deed of charge as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) dated on or about the Issue Date and made between, *inter alios*, the Issuer and the Trustee.

Capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions Schedule to be dated the Issue Date and to be executed by the Issuer, BlueOrchard Finance S.A., MSI, Deutsche Bank Luxembourg S.A., Deutsche Trustee Company Limited, Deutsche Bank AG, London Branch and Structured Finance Management (Luxembourg) S.A. (the **Master Definitions Schedule**).

The issue of the Notes was authorised by a resolution of the Board of Directors of the Issuer passed on 29 May 2007.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the Deed of Charge, the Master Definitions Schedule, the Cash Management Agreement, the Account Bank Agreement and the Agency Agreement to be dated the Issue Date (the **Agency Agreement**) and to be made between the Issuer, the Registrar and other Agents and the Trustee will be available for inspection during normal business hours by the Noteholders at the registered office for the time being of the Trustee, being at the Issue Date of the Notes at Winchester House, 1 Great Winchester Street, London EC2N 2DB, England and at the specified office of each of the Agents. The Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed, the Deed of Charge, the Master Definitions Schedule, the Cash Management Agreement, the Account Bank Agreement and the Agency Agreement applicable to them.

*The owners shown in the records of Euroclear Bank S.A./N.V. **(Euroclear)** and Clearstream Banking, société anonyme **(Clearstream, Luxembourg)** of book-entry interests in Notes represented by Global Notes will be entitled to the benefit of, will bound by, and will be deemed to have notice of, all the provisions of the Trust Deed, the Deed of Charge, the Master Definitions Schedule, the Cash Management Agreement, the Account Bank Agreement and the Agency Agreement applicable to them.*

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes of each Class issued outside the United States to non-U.S. persons in reliance on Regulation S shall be represented initially by a global note in registered form of the relevant Class (each, a **Regulation S Global Note**).

The Notes of each Class issued in the United States or to, or for the account of, U.S. persons in private transactions to persons who are both qualified institutional buyers within the meaning of Rule 144A under the Securities Act (**QIBs**) and qualified purchasers as defined in Section 2(A)(51) of the Investment Company Act (**QPs**) will be represented by a global note in registered form of the relevant class (each, a **Rule 144A Global Note**).

The Regulation S Global Notes and the Rule 144A Global Notes shall be deposited on behalf of the subscribers of the Notes with, and registered in the name of a nominee for, a bank depositary common to both Euroclear and Clearstream, Luxembourg on terms that such depositary shall hold the same for the account of each Participant (as defined below). A Global Note will be exchanged for Notes of the relevant Class in definitive registered form (the **Definitive Notes**) only if either of the following applies:

(i) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do so cease business and no alternative clearing system satisfactory to the Trustee is available; or

(ii) as a result of any amendment to, or change in, the laws or regulations of Luxembourg (or of any political subdivision thereof) or of any authority therein or thereof having power to tax, or in the interpretation or administration by a revenue authority or a court or in the application of such laws or regulations, which becomes effective on or after the Issue Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive registered form.

If Notes in definitive form are issued in respect of Notes originally represented by the Global Notes, the beneficial interests represented by the Regulation S Global Note of each Class and by the Rule 144A Global Note of each Class shall be exchanged by the Issuer for Notes of such Classes in definitive form (the **Regulation S Definitive Notes** and **Rule 144A Definitive Notes** respectively).

Definitive Notes of each Class (which, if issued, will be in the denominations set out below) will be serially numbered and will be issued in registered form only.

The denominations of the Notes in global and (if issued) definitive form will be as follows:

(a) Dollar Notes: $100,000, plus integral multiples of $1,000 thereafter;

(b) Euro Notes: €50,000, plus integral multiples of €1,000 thereafter; and

(c) Sterling Notes: £50,000, plus integral multiples of £1,000 thereafter.

The Class A3 Notes, the Class B3 Notes, the Class C3 Notes and the Class X Notes are referred to herein as the **Dollar Notes**. The Class A2 Notes, the Class B2 Notes and the Class C2 Notes are referred to herein as the **Euro Notes**. The Class A1 Notes, the Class B1 Notes and the Class C1 Notes are referred to herein as the **Sterling Notes**. References to **Notes** shall include the Global Notes and the Definitive Notes.

Any reference to a Class of Notes or Noteholders shall be reference to the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class B1 Notes, the Class B2 Notes, the Class B3 Notes, the Class C1 Notes, the Class C2 Notes, the Class C3 Notes or the Class X Notes, as the case may be, or the respective holders thereof.

The Notes are not issuable in bearer form and may under no circumstances be converted into notes in bearer form.

1.2 Title

For so long as all of the Notes of each Class are represented by a Global Note and such Global Note is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each a **Participant**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression **Noteholders** and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the nominee for the common depositary (the **Relevant Nominee**) in accordance with and subject to the terms of the Global Notes. Each Participant must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee. Title to a Definitive Note shall pass only by and upon registration in the Register.

For purposes of Luxembourg law, the ownership of the Global Notes and Definitive Notes is established exclusively by the registration of the ownership in the Register held at the registered office of the Issuer. Therefore, the Issuer will procure that the Registrar will inform the Issuer promptly on any change made to the Register in order to enable the Issuer to maintain an up-to-date copy of the Register at its registered office. For the avoidance of doubt, in case of discrepancies between the Register and the copy of the Register held by the Issuer, the version of the Register held at the Issuer's registered office will prevail.

2. TRANSFERS OF NOTES AND ISSUE OF NOTES

2.1 Transfers

(a) A Note may be transferred by depositing the Definitive Note or the Global Note issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

(b) Prior to the expiry of the Distribution Compliance Period, a beneficial interest in a Regulation S Global Note may only be offered or sold to, or for the account or benefit of, (i) a U.S. Person if such person is an Eligible Investor at the time it purchases such Notes or (ii) a non-U.S. Person in an offshore transaction in accordance with Regulation S and if such interest is exchanged for a Definitive Note in accordance with the transfer restrictions set out herein and included in the legend of such Definitive Note.

(c) Resales of the Notes represented by Rule 144A Global Notes or Rule 144A Definitive Notes within the United States or to, or for the benefit or account of, U.S. persons may only be made to Eligible Investors in private transactions exempt from the registration requirements of the Securities Act and meeting the requirements of the exemption specified in Section 3(c)(7) of the Investment Company Act.

Eligible Investors are defined for the purposes hereof as a QIB that is also a QP purchasing for its own account or for the account of a QIB that is a QP, in a transaction meeting the requirements of Rule 144A of the Securities Act in a principal amount of not less that $100,000 for the purchaser and for each account for which it is acting.

(d) In addition to the transfer restrictions set out herein, no beneficial owner of an interest in a Global Note will be able to exchange or transfer that interest (whether for Notes in definitive form or otherwise), except in accordance with the applicable procedures of Euroclear or Clearstream, Luxembourg, as the case may be. In addition, the Global Notes and the Definitive Notes will be subject to certain restrictions on transfer set out in a legend or legends thereon and the detailed regulations concerning transfers in the Agency Agreement and upon compliance with such reasonable requirements as the Issuer and the Registrar may prescribe (including an opinion of U.S. counsel that any such transfer is in compliance with any applicable securities or other laws of the United States).

(e) Transfers and other dispositions of Notes may only be made in accordance with Section 3(c)(7) and with this Condition2.1. In order to ensure compliance with this limitation, the registration of such transfer or disposition may be refused if, as a result of such transfer or disposition, the holder of the Notes is a U.S. Person is not an Eligible Investor. Any transfer or other disposition of such Notes that would, in the sole determination of the Issuer, require the Issuer to register as an "investment company" under the provisions of the Investment Company Act, will be void *ab initio* and such transfer or other disposition will not be honoured by the Registrar or the Trustee. In addition, at no time may any Notes issued by the Issuer be owned beneficially by a U.S. person who is not an Eligible Investor at the time it purchases such Notes. Accordingly, any transferee or other holder in such a transaction will not be entitled to any rights as a registered holder of such Notes.

(f) The Registrar shall inform the Issuer promptly about any transfer of the Global Notes or the Definitive Notes in order to enable the Issuer to update the copy of the Register held at its registered office. For the avoidance of doubt, in the case of discrepancies, entries in that Register prevail over entries in the Register held by the Registrar.

2.2 Delivery of new Notes

Each new Note to be issued upon transfer of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Note, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or, as the case may be, the Agent with whom a Note is deposited in connection with a transfer is located.

Except in the limited circumstances described in Condition 1.1, owners of interests in the Notes represented by Global Notes will not be entitled to receive physical delivery of Definitive Notes. Issues of Definitive Notes upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

Where some but not all of the Notes in respect of which a Note is issued are to be transferred a new Note in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Note, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

Registration of a Definitive Note on transfer will be effected without charge by the Registrar, but subject to payment of (or the giving of such indemnity as the Registrar may require for) any tax or other government charges which may be imposed in relation to it.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer, the Registrar or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

3. STATUS

The Notes are direct, unconditional obligations of the Issuer and (subject as stated above) rank and are secured pursuant to the Deed of Charge. Pursuant to the terms of the Deed of Charge, the Notes of each Class will rank *pari passu*, without any preference, among Notes of the same Class, but (i) the Class A Notes will rank senior to the Class B Notes, the Class C Notes and the Class X Notes in point of security and as to payments of principal and interest, (ii) the Class B Notes will rank senior to the Class C Notes and the Class X Notes in point of security and as to payments of principal and interest and (iii) the Class C Notes will rank senior to the Class X Notes in point of security and as to payments of principal and interest. Each subclass of Class A Notes will rank *pari passu,* without preference, among themselves, each subclass of Class B Notes will rank *pari passu,* without preference, among themselves and each subclass of Class C Notes will rank *pari passu,* without preference, among themselves.

4. COVENANTS

Save with the prior written consent of the Trustee or as provided in or envisaged by these Conditions or any of the other Transaction Documents, the Issuer shall not, so long as any Note remains outstanding (as defined in the Trust Deed):

(a) create or permit to subsist any mortgage, standard security, pledge, guarantee, lien, charge, other security interest or encumbrance whatsoever or any right granting a payment priority in relation to any obligation of any person (unless arising by operation of law) upon the whole or any part of its assets (including any uncalled capital) or its undertakings, present or future other than those assets which are allocated to a compartment within the meaning of the Luxembourg Securitisation Act;

(b) under the Compartment 1 transfer, sell, assign, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do so;

(c) under the Compartment 1, permit any person, other than itself and the Trustee, to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

(d) under the Compartment 1, have an interest in any bank account, other than the bank accounts maintained pursuant to the Account Bank Agreement or the Cash Management Agreement;

(e) under the Compartment 1, carry on any business other than as described in the Offering Circular relating to the issue of the Notes and the related activities described therein or as

contemplated in the Transaction Documents relating to the issue of the Notes and the making or acquisition of the Loans under the relevant Term Loan Agreements;

(f) under the Compartment 1, incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness or obligation of any person;

(g) consolidate or merge with any other person or convey or transfer its properties allocated to the Compartment 1 or assets allocated to the Compartment 1 substantially as an entirety to any other person (or any other of its compartments within the meaning of the Luxembourg Securitisation Act);

(h) under the Compartment 1, permit the validity or effectiveness of any of the Trust Deed or the Deed of Charge or the priority of the security interests created thereby to be amended, terminated, postponed or discharged, or permit any other person whose obligations form part of the Security (as defined in Condition 6) to be released from such obligations;

(i) have any employees or premises or subsidiaries;

(j) pay any dividend or make any other distribution to its shareholders or issue any further shares or alter any rights attaching to its shares at the date of the Deed of Charge;

(k) purchase or otherwise acquire any Notes;

(l) cause its "centre of main interests" (as that term is defined in article 3(1) of Council Regulation (EC/1346/2000) on Insolvency Proceedings, as amended (the **Regulation**)) to be located in any jurisdiction other than Luxembourg nor establish any offices, branches or other permanent establishments (as defined in the Regulation) nor register as a company in any jurisdiction other than Luxembourg;

(m) engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles; or

(n) issue additional Notes or other securities unless the Issuer further relies on Section 3(c)(7) of the Investment Company Act to maintain its exemption from registration as an "investment company" under the Investment Company Act, including compliance with Condition 2.1 and this Condition 4(n) with respect to such additional Notes or securities.

5. CONFLICT BETWEEN THE CLASSES OF NOTES

Each of the Trust Deed and the Deed of Charge contains provisions requiring the Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee to have regard: (i) (for so long as there are any Class A Notes outstanding) only to the interests of the Class A Noteholders if, in the Trustee's sole opinion, there is or may be a conflict between the interests of the Class A Noteholders (or any subclass thereof), the Class B Noteholders (or any subclass thereof) and the interests of the Class C Noteholders (or any subclass thereof) or (ii) (for so long as there are any Class B Notes outstanding) subject to (i) above, the Class B Noteholders if, in the Trustee's sole opinion, there is or may be a conflict between the interests of the Class B Noteholders (or any subclass thereof) and the interests of the Class C Noteholders (or any subclass thereof). Subject as provided in Condition 17.1 and 17.2, the Trustee is not required at any time to have regard to the interests of the Class X Noteholders.

Except where expressly provided otherwise, so long as any of the Notes remains outstanding, the Trustee is not required to have regard to the interests of any other persons (other than the Class or Classes of Noteholders described above) entitled to the benefit of the Security.

The Trust Deed and the Deed of Charge each contains provisions limiting the powers of the Class B Noteholders, the Class C Noteholders and the Class X Noteholders, *inter alia,* to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution (as defined in the Trust Deed) according to the effect thereof on the interests of the Class A Noteholders and provisions limiting the powers of the Class C Noteholders and the Class X Noteholders, inter alia, to request or direct the Trustee to take any action or to pass an Extraordinary Resolution according to the effect thereof on the interests of the Class B Noteholders. Except in certain circumstances set out in Condition 17, the Trust Deed and the Deed of Charge contain no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders, the Class C Noteholders and the Class X Noteholders irrespective of the effect thereof on their interests.

The Trustee is not required at any time to comply with any direction or request of any Class X Noteholder and, in relation to the exercise of such powers, authorities and discretions, the Trustee shall have no liability to such persons as a consequence of so acting.

The Trust Deed and Condition 17 below also contain provisions regarding the resolution of disputes between the Class A Noteholders, the Class B Noteholders and the Class C Noteholders.

6. SECURITY

As security for, *inter alia*, the payment of all monies payable in respect of the Notes, the Issuer has entered into the Deed of Charge creating, *inter alia*, the following security interests (the **Security**) in favour of the Trustee for itself and on trust for the other persons to whom secured amounts are outstanding (the **Secured Creditors**):

(a) an assignment by way of first fixed security of all of the Issuer's right, benefit and interest under those Transaction Documents to which the Issuer is a party, including:

  (i) the Term Loan Agreements;

  (ii) the Swap Agreements;

  (iii) the Servicing Agreement;

  (iv) the Corporate Services Agreement;

  (v) the Cash Management Agreement;

  (vi) the Account Bank Agreement;

  (vii) the Subcustody Agreement;

  (viii) the Loan Transfer Agreement; and

  (ix) the Agency Agreement,

  and such other documents as are expressed to be subject to the security interests created under the Deed of Charge;

(b) a first ranking fixed charge (which may take effect as a floating charge) over all of the Issuer's right, title, interest and benefit, present and future, in and to any bank account of the Issuer relating to or in respect of the Compartment 1 of the Issuer and any amounts

deposited from time to time therein (which security interests may take effect as a floating charge and thus the expenses of any liquidation or administration, the claims of certain preferential creditors and the beneficiaries of the prescribed part (if any) will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders);

(c) a first ranking fixed charge (which may take effect as a floating charge) over all of the Issuer's right, title, interest and benefit in and to all authorised investments made by or on behalf of the Issuer from time to time in accordance with the relevant Transaction Documents, including all monies, income and proceeds payable thereunder (which security interests may take effect as a floating charge and thus the expenses of any liquidation or administration, the claims of certain preferential creditors and the beneficiaries of the prescribed part (if any) will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders); and

(d) a first floating charge over the whole of the undertakings, property and assets, present and future of the Issuer not already subject to any fixed charge or assignment as described in (a), (b) and (c) above (provided that such undertakings, property and assets are allocated to Compartment 1),

all as more particularly set out in the Deed of Charge.

7. INTEREST

7.1 Note Payment Dates

The Notes bear interest on their outstanding principal amount from and including the Issue Date payable quarterly in arrear on the 10th day in June, September, December and March in each year, unless such day is not a Business Day (as defined in Condition 7.3(e)), in which case interest shall be payable on the next day which is a Business Day. The period from and including the Issue Date to but excluding the first Note Payment Date, and each successive period from and including a Note Payment Date to but excluding the next succeeding Note Payment Date, is called an **Interest Period**. The first payment (for the first Interest Period) shall be made on the Note Payment Date in September 2007 and the last payment (for the last Interest Period) shall be made on the Note Payment Date in June 2014.

7.2 Interest Accrual

(a) Each Note (other than the Class X Notes) will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest will continue to accrue as provided in the Trust Deed.

In such event, interest will continue to accrue on such unpaid amount (before as well as after any judgment) at the rate applicable to such Note up to (but excluding) the date on which payment in full of the relevant amount of principal is made or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof that such payment will be made, provided that, subsequently, payment is in fact duly made.

(b) Payments on the Class X Notes will cease to be payable in respect of each Class X Note upon the date that all amounts received by the Trustee in respect of the Notes, including amounts recovered from the assets of the Issuer following enforcement by the Trustee under Condition 13, have been distributed according to the Priorities of Payment.

7.3 **Rate of Interest**

The Class A1 Notes, the Class B1 Notes and the Class C1 Notes shall bear interest on their outstanding principal amount at the rates of 6.330 per cent., 6.851 per cent. and 8.519 per cent. per annum, respectively (each, a **Fixed Rate of Interest**).

The rate of interest payable from time to time in respect of the Class A2 Notes, the Class B2 Notes and the Class C2 Notes (the **Euro Floating Rate of Interest**) will be determined on the basis of the following provisions:

(a) On each Interest Determination Date (as defined below), the Agent Bank will determine the Euro Screen Rate (as defined below) at approximately 11.00 a.m. (London time) on that Interest Determination Date. If the Euro Screen Rate is unavailable, the Agent Bank will request each of the Reference Banks (as defined below) to provide the Agent Bank with the 3-month EURIBOR (as defined below) which appears on the Reuters page EURIBOR01 (or such other page as may replace that page on that service) at approximately 11.00 a.m. (London time) on the Interest Determination Date in question and for the Representative Amount (as defined below).

(b) The Rate of Interest for the Interest Period shall be the Euro Screen Rate plus the Margin (as defined below) or, if the Euro Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Agent Bank of such rates, plus the Margin.

(c) If fewer than two rates are provided as requested, the Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by at least two major banks in London, selected by the Agent Bank, at approximately 11.00 a.m. (London time) on the first day of such Interest Period for loans in euro to leading European banks for a period of three months which appears on the Reuters page EURIBOR01 (or such other page as may replace that page on that service) commencing on the first day of such Interest Period and for the Representative Amount, plus the Margin. If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be determined as at the last preceding Interest Determination Date.

(d) The Margin (the **Margin**) in relation to the Class A2 Notes, the Class B2 Notes and the Class C2 Notes is 0.400 per cent., 0.950 per cent. and 2.450 per cent. per annum, respectively.

The rate of interest payable from time to time in respect of the Class A3 Notes, the Class B3 Notes and the Class C3 Notes (the **USD Floating Rate of Interest** and, together with each Fixed Rate of Interest and the Euro Floating Rate of Interest, the **Rate of Interest**) will be determined on the basis of the following provisions:

(a) On each Interest Determination Date (as defined below), the Agent Bank will determine the USD Screen Rate (as defined below) at approximately 11.00 a.m. (London time) on that Interest Determination Date. If the USD Screen Rate is unavailable, the Agent Bank will request each of the Reference Banks (as defined below) to provide the Agent Bank with the 3-month USD LIBOR (as defined below) which appears on the Reuters page LIBOR01 (or such other page as may replace that page on that service) at approximately 11.00 a.m. (London time) on the Interest Determination Date in question and for the Representative Amount (as defined below).

(b) The Rate of Interest for the Interest Period shall be the USD Screen Rate plus the Margin (as defined below) or, if the USD Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Agent Bank of such rates, plus the Margin.

(c) If fewer than two rates are provided as requested, the Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by at least two major banks in London, selected by the Agent Bank, at approximately 11.00 a.m. (London time) on the first day of such Interest Period for loans in U.S. dollars to leading European banks for a period of three months which appears on the Reuters page LIBOR01 (or such other page as may replace that page on that service) commencing on the first day of such Interest Period and for the Representative Amount, plus the Margin. If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be determined as at the last preceding Interest Determination Date.

(d) The Margin (the **Margin**) in relation to the Class A3 Notes, the Class B3 Notes and the Class C3 Notes is 0.400 per cent., 0.950 per cent. and 2.500 per cent. per annum, respectively.

In these Conditions, except where otherwise defined, the expression:

(i) **Banking Day** means, in respect of any city, any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in that city;

(ii) **Business Day** means a day which is both a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Luxembourg and New York City and a TARGET Settlement Day;

(iii) **Euro Screen Rate** means the rate for three month deposits in euro (**3-month EURIBOR**) which appears on the Reuters page EURIBOR01 (or such replacement page on that service which displays the information);

(iv) **Euro-zone** means the region comprised of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957);

(v) **Interest Determination Date** means with respect to the Class A2 Notes, the Class B2 Notes and the Class C2 Notes, the second TARGET Settlement Day before the commencement of the Interest Period and with respect to the Class A3 Notes, the Class B3 Notes and the Class C3 Notes, the second Banking Day in London before the commencement of the Interest Period;

(vi) **Reference Banks** means the principal London office of each of four major banks engaged in the London interbank market selected by the Agent Bank, provided that, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such;

(vii) **Representative Amount** means an amount, in relation to any quotation of a rate for which a Representative Amount is relevant, that is representative for a single transaction in the relevant market at the relevant time;

(viii) **TARGET Settlement Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open; and

(ix) **USD Screen Rate** means the rate for three month deposits in U.S. dollars (**3-month USD LIBOR**) which appears on the Reuters page LIBOR01 (or such replacement page on that service which displays the information).

7.4 Determination of Interest Amount

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, but in no event later than the third Business Day thereafter, determine the amount payable in respect of interest on the principal amount of each Class of Notes (other than the Class X Notes) (the **Interest Amount**) for the relevant Interest Period. The Interest Amount shall be determined by applying the relevant Rate of Interest to the principal amount of such Class of Note (other than the Class X Notes), multiplying the sum by, (a) in the case of the Class A1 Notes, the Class B1 Notes and the Class C1 Notes, by Actual/Actual (ISMA) (as defined below), (b) in the case of the Class A2 Notes, the Class B2 Notes and the Class C2 Notes, by the actual number of days in the Interest Period concerned divided by 360 (**Actual/360**) and (c) in the case of the Class A3 Notes, the Class B3 Notes and the Class C3 Notes, by Actual/360 and, in each case, rounding the resultant figure to the nearest U.S.$0.01, €0.01 or £0.01 (half of U.S.$0.01, €0.01 or £0.01 being rounded upwards). **Actual/Actual (ISMA)** means (in reference to Rule 251 of the statutes, by-laws, rules and recommendations of the International Securities Market Association as published in April 1999 and as applied to straight and convertible notes issued after December 31, 1998) (i) where the number of days in the relevant accrual period is equal to or shorter than the determination period during which such accrual period ends, the number of days in such accrual period divided by the product of (A) the number of days in such determination period and (B) the number of distribution dates that would occur in one calendar year or (ii) where the accrual period is longer than the determination period during which the accrual period ends, the sum of (1) the number of days in such accrual period falling in the determination period in which the accrual period begins divided by the product of (x) the number of days in such determination period and (y) the number of distribution dates that would occur in one calendar year and (2) the number of days in such accrual period falling in the next determination period divided by the product of (x) the number of days in such determination period and (y) the number of distribution dates that would occur in one calendar year; where "determination period" means the period from and including one calculation date to but excluding the next calculation date and "calculation date" means, in each year, each of those days in the calendar year that are specified in these Conditions as being the scheduled Note Payment Dates.

7.5 Publication of Rate of Interest and Interest Amount

The Principal Paying Agent shall cause the Rate of Interest and the Interest Amount for each Interest Period and the relative Note Payment Date to be notified to the Issuer and the Trustee (by no later than the first day of each Interest Period) and to be published in accordance with Condition 16 (Notices) as soon as possible after their determination, and in no event later than the second Business Day thereafter. Publication of the Rate of Interest and the Interest Amount shall be at the cost of the Issuer. The Interest Amount and Note Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

7.6 Determination by the Trustee

The Trustee shall, if the Agent Bank defaults at any time in its obligation to determine the Rate of Interest or Interest Amount in accordance with the above provisions, determine the Rate of Interest or, as the case may be, Interest Amount, the former at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in

all the circumstances and the latter in the manner provided in Condition 7.4 and the determinations shall be deemed to be determinations by the Principal Paying Agent.

7.7 Notifications, etc. to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Reference Banks (or any of them), the Principal Paying Agent or the Trustee, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Agents and all Class A Noteholders, Class B Noteholders, Class C Noteholders and Class X Noteholders and (in the absence as referred to above) no liability to the Issuer or the Class A Noteholders, Class B Noteholders, Class C Noteholders and Class X Noteholders shall attach to the Reference Bank (or any of them), the Principal Paying Agent, or, if applicable, the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

7.8 Agent Bank

The Issuer shall procure that, so long as any of the Floating Rate Notes remains outstanding, there is at all times an Agent Bank for the purposes of the Floating Rate Notes and the Issuer may, subject to the prior written approval of the Trustee, terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Rate of Interest and the Interest Amount for any Interest Period, the Issuer shall, subject to the prior written approval of the Trustee, appoint the London office of another major bank engaged in the London interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor approved in writing by the Trustee having been appointed.

7.9 Interest on the Class X Notes

The amount of interest payable on each Class X Note on any Note Payment Date shall be calculated by the Cash Manager on or prior to each Note Payment Date and shall be equal to the amount of Available Revenue Funds available at item (k) of the Revenue Priority of Payments or item (o) of the Post-Loan Default Priority of Payments set forth in the Cash Management Agreement, divided by the number of Class X Notes outstanding and rounded down to the nearest cent. Payments of interest on the Class X Notes will be subordinated to interest due and payable on the Class A Notes, the Class B Notes and the Class C Notes, the funding of the Reserve Fund and the payment of other fees and expenses of the Issuer as set forth in the Revenue Priority of Payments and the Post-Loan Default Priority of Payments.

8. PAYMENTS

8.1 Payments in respect of Notes

Payment of principal and interest will be made by wire transfer to the account of the Noteholder as provided in the Register. Payments of principal and payments of interest due otherwise than on a Note Payment Date will only be made against surrender of the relevant Note at the specified office of any of the Agents. Interest on Notes due on a Note Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the **record date**) being the fifteenth day before the relevant Note Payment Date.

For the purposes of this Condition, a Noteholder's registered account means the euro, U.S. dollar or sterling (as applicable) account maintained by or on behalf of it with a bank that processes payments in euro, sterling or U.S. dollars (as applicable), details of which appear on the register of Noteholders at the close of business, in the case of principal and interest due otherwise than on a Note Payment Date, on the second Business Day (as defined below) before the due date for payment and, in the

case of interest due on a Note Payment Date, on the relevant record date, and a Noteholder's registered address means its address appearing on the register of Noteholders at that time.

8.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment.

8.3 No Commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

8.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on a Note Payment Date, if later, on the Business Day on which the relevant Note is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day or if the Noteholder is late in surrendering its Note (if required to do so) or if a cheque mailed in accordance with this Condition 8 arrives after the due date for payment.

If payment of principal is improperly withheld or refused or default is otherwise made in payment thereof on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note will be paid in accordance with this Condition 8.

In this Condition, **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, Luxembourg and New York City and a day on which the TARGET System is open and, in the case of presentation of a Note, in the place in which the Note is presented.

8.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

8.6 Payment of Interest

If interest is not paid in respect of a Note of any Class (other than a Class X Note) on the date when due and payable (other than because the due date is not a Business Day), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note until such interest and interest thereon are available for payment and notice thereof has been duly given.

8.7 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar and, for so long as any Floating Rate Notes remain outstanding, an Agent Bank;

(b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority); and

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Except where otherwise provided in the Trust Deed, the Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents, the Transfer Agent or the Registrar or their specified offices to be given to the Noteholders in accordance with Condition 16 (Notices).

9. REDEMPTION

9.1 Redemption at Maturity

Unless previously redeemed and cancelled as provided below, the Issuer will redeem the Notes at their principal amount together with accrued interest on the Note Payment Date falling in June 2014.

9.2 Early Redemption

(a) In the event that any of the Loans are repaid in whole prior to the Note Payment Date falling in June 2012, due to a scheduled repayment or a prepayment permitted under such Loans, principal repaid on the Loans will be applied on the Note Payment Date on which such principal is received in the Dollar Account or, if such date is not a Note Payment Date, on the next following Note Payment Date to redeem the Notes in accordance with the Principal Priority of Payments or the Post-Loan Default Priority of Payments set forth in the Cash Management Agreement and the Deed of Charge.

(b) In the event that any proceeds of the Notes are not disbursed in accordance with, and at the times provided in, the related Term Loan Agreement, the Outstanding Note Proceeds will be applied on the Note Payment Date following the date on which such Outstanding Note Proceeds should have been disbursed to redeem the Notes in accordance with the Principal Priority of Payments or the Post-Loan Default Priority of Payments set forth in the Cash Management Agreement and the Deed of Charge.

(c) In the event that on any Note Payment Date any Loan is contractually in arrears for either (i) more than 6 months and for an amount equal to or more than 25 per cent. of the interest payment due for 3 months or (ii) more than 3 months and for an amount equal to or more than 50 per cent. of the interest payment due for 3 months (a **Continuing Defaulted Loan**), the Issuer shall redeem on such Note Payment Date in accordance with the Post-Loan Default Priority of Payments:

  (i) the Class A Notes in an amount equal to the lower of (y) the Principal Amount Outstanding on such Note Payment Date of the Class A Notes and (z) the principal outstanding under the Continuing Defaulted Loan on such Note Payment Date (to the extent not paid on a previous Note Payment Date or previous Note Payment Dates);

  (ii) the Class B Notes in an amount equal to the lower of (y) the Principal Amount Outstanding on such Note Payment Date of the Class B Notes and (z) the difference between (A) the principal outstanding under the Continuing Defaulted Loan on such Note Payment Date and (B) the amounts paid under paragraph (i) above (to the extent that such difference results in

a negative amount, the Class B Notes shall not be redeemed) (in case of (z), to the extent not paid on a previous Note Payment Date or previous Note Payment Dates); and

(iii) the Class C Notes in an amount equal to the lower of (y) the Principal Amount Outstanding on such Note Payment Date of the Class C Notes and (z) the difference between (A) the principal outstanding under the Continuing Defaulted Loan on such Note Payment Date and (B) the amounts paid under paragraphs (i) and (ii) above (to the extent that such difference results in a negative amount, the Class C Notes shall not be redeemed) (in case of (z), to the extent not paid on a previous Note Payment Date or previous Note Payment Dates).

9.3 Optional Redemption for Taxation or Other Reasons

If:

(a) by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Issue Date, on the next Note Payment Date, the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any Class of the Notes (other than because the relevant holder has some connection with Luxembourg other than the holding of Notes of such Class) any amount for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Luxembourg or any political sub-division thereof or any authority thereof or therein;

(b) by reason of a change in law or regulation or a change of the position of the *Commission de surveillance du secteur financier* as to the activities that a company which is subject to the Luxembourg Securitisation Act may carry out which change becomes effective on or after the Issue Date, it has become or will become unlawful for the Issuer to make, fund or allow to remain outstanding all or any advances made or to be made by it under the Term Loan Agreements; or

(c) by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Issue Date, on the next Note Payment Date, the Borrowers would be required to deduct or withhold from any payment of principal, interest or other sum due and payable pursuant to the Term Loan Agreements any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Luxembourg or any political sub-division thereof or any authority thereof or therein,

then the Issuer shall, if the same would avoid the effect of the relevant event described in subparagraph (a), (b) or (c) above, appoint a Paying Agent in another jurisdiction or use its reasonable endeavours to arrange the substitution of a company incorporated and/or tax resident in another jurisdiction approved in writing by the Trustee as principal debtor under the Notes and as lender under the Term Loan Agreements, provided that the Trustee is satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders of any Class (other than the Class X Noteholders).

If the Issuer satisfies the Trustee immediately before giving the notice referred to below that one or more of the events described in subparagraph (a), (b) or (c) is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such a substitution, then the Issuer may, on any Note Payment Date and having given not more than 60 nor less than 30 days' notice (which notice shall be irrevocable) (or, in the case of an event described in subparagraph (b) above, such shorter period expiring on or before the latest date permitted by relevant law) to the Noteholders in accordance with Condition 16 (Notices) and to the Trustee and having certified to the Trustee that it will have the necessary funds to pay all principal and interest due in respect of the

Notes (other than the Class X Notes) on the relevant Note Payment Date and to discharge all other amounts required to be paid by it on the relevant Note Payment Date ranking *pari passu* or senior to the Notes (other than the Class X Notes), redeem all, but not some only, of the Notes at their respective principal amounts outstanding together with accrued but unpaid interest up to but excluding the date of redemption.

9.4 Regulatory Redemption or Compulsory Resales

The Issuer shall have the right at any time, at the expense and risk of the holder of any Notes held by or on behalf of a person who is not an Eligible Investor at the time it purchases, to (i) redeem such Notes, in whole or in part, to permit the Issuer to avoid registration under the Investment Company Act or (ii) require such holder to sell such Notes to an Eligible Investor or to a non-U.S. person outside the United States. Prior to any such redemption pursuant to (i) above, the Issuer will provide to the Trustee satisfactory evidence that each redemption is necessary in order to avoid registration under the Investment Company Act. The determination of which Notes shall be redeemed pursuant to (i) above or sold pursuant to (ii) above in any particular case shall be made at the discretion of the Issuer, provided that any redemption is subject to it having certified to the Trustee that it will have the necessary funds to pay all principal and interest due in respect of the Notes being redeemed on the relevant Note Payment Date and to discharge all other amounts ranking *pari passu* or senior to the Notes (other than the Class X Notes) required to be paid by it on the relevant Note Payment Date. Any such redemption of Notes (other than the Class X Notes) shall be made at their principal amount together with interest accrued to but excluding the date of redemption.

9.5 Cancellations

(a) All Notes which are redeemed will forthwith be cancelled, and accordingly may not be reissued or resold.

(b) The entitlement of Class X Notes to receive payment of principal and interest is contingent on the Notes (other than the Class X Notes) remaining outstanding and any amounts available after payment of or provision for all higher ranking items in the applicable Priorities of Payment. After redemption in full of the Notes of all Classes (other than Class X Notes) and there being no amounts available after payment of or provision for all higher ranking items in the applicable Priorities of Payment, the Class X Notes shall be cancelled and will no longer constitute a claim against the Issuer.

9.6 Notices Final

Upon the expiry of any notice as is referred to in Condition 9.3 the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

10. TAXATION

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any relevant Paying Agent is required by applicable law to make any payment in respect of the Notes subject to any such withholding or deduction. In that event and without prejudice to Clause 9.3, the Issuer or such Paying Agent shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither any Paying Agent nor the Issuer will be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

11. PRESCRIPTION

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the relevant date in respect of the relevant payment.

After the date on which a payment under a Note becomes void in its entirety, no claim may be made in respect thereof. In this Condition, the **relevant date**, in respect of a payment under a Note, is the date on which the payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of that payment has not been duly received by the Principal Paying Agent or the Trustee (as the case may be) on or prior to such date) the date on which the full amount of such monies having been so received, notice to that effect is duly given to the Noteholders.

12. EVENTS OF DEFAULT

12.1 The Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in aggregate principal amount of the Class A Notes then outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders shall (subject in each case to being indemnified and/or secured to its satisfaction and subject to Condition 12.2 and 12.3 below) (but, in the case of the happening of any of the events described in subparagraphs (b) to (f) inclusive (other than a winding-up of the Issuer which is not pursuant to an amalgamation, reorganisation or reconstruction referred to below) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders unless the Trustee was so requested by the holders of at least 25 per cent. in aggregate principal amount of the Class A Notes then outstanding or so directed by an Extraordinary Resolution of the Class A Noteholders) give notice (a **Class A Note Acceleration Notice**) to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events (**Events of Default**):

(a) if default is made in the payment of any principal or interest due in respect of the Class A Notes or any of them and the default continues for a period of three days in the case of principal or five days in the case of interest; or

(b) the Issuer failing duly to perform or observe any other obligation binding upon it under the Notes, the Trust Deed, the Deed of Charge or any other Transaction Document and, in any such case (except where the Trustee certifies that, in its sole opinion, such failure is incapable of remedy when no notice will be required), such failure is continuing for a period of 20 days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(d) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Class A Noteholders; or

(e) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or

documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of it, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the Issuer is not discharged within 14 days; or

(f) if actions or steps has been taken or is intended by it or (so far it is aware) by any other person for a bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), suspension of payments (*sursis de paiement*), a moratorium of any indebtedness, judicial management, receivership, administration, provisional supervision, supervision or reorganisation, a composition with creditors (*concordat préventif de faillite*) or a controlled management (*gestion contrôlée*), a fraudulent conveyance (*actio pauliana*), general settlement with creditors or any analogous proceedings (by way of voluntary arrangement, scheme of arrangement or otherwise) or the appointment of a liquidator (*liquidateur*), judicial manager, bankruptcy receiver (*curateur*) and/or manager, administrator (*commissaire*), judge-commissioner (*juge-commissaire*), administrative receiver, compulsory manager, provisional supervisor, supervisor or other similar officer in respect of it.

12.2 Provided that there are no Class A Notes Outstanding, the Trustee in its absolute discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class B Notes or if so directed by or pursuant to an Extraordinary Resolution of the Class B Noteholders shall, (subject, in each case, to being indemnified and/or secured to its satisfaction) give notice (a **Class B Note Acceleration Notice**) to the Issuer declaring the Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

(a) if default is made in the payment of any principal or interest due in respect of the Class B Notes or any of them and the default continues for a period of three days in the case of principal or five days in the case of interest; or

(b) the occurrence of any of the events in Condition 12.1 above provided that the references to Class A Notes and Class A Noteholders shall be read as references to Class B Notes and Class B Noteholders respectively.

12.3 Provided that there are no Class A Notes and no Class B Notes Outstanding, the Trustee in its absolute discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class C Notes or if so directed by or pursuant to an Extraordinary Resolution of the Class C Noteholders shall, (subject, in each case, to being indemnified and/or secured to its satisfaction) give notice (a **Class C Note Acceleration Notice**) to the Issuer declaring the Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

(a) if default is made in the payment of any principal or interest due in respect of the Class C Notes or any of them and the default continues for a period of three days in the case of principal or five days in the case of interest; or

(b) the occurrence of any of the events in Condition 12.1 above provided that the references to Class A Notes and Class A Noteholders shall be read as references to Class C Notes and Class C Noteholders respectively.

In this Condition, a **Note Acceleration Notice** means any of the Class A Note Acceleration Notice, the Class B Note Acceleration Notice or the Class C Note Acceleration Notice. For the avoidance of doubt, upon any Note Acceleration Notice being given by the Trustee in accordance with this Condition 12, all the Notes then outstanding shall immediately become due and repayable, without further action or formality, at their Principal Amount Outstanding together with accrued interest thereon as provided in the Trust Deed.

13. ENFORCEMENT

13.1 The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, Deed of Charge, the Notes or any other Transaction Documents to which it is a party and, at any time after the occurrence of an Event of Default, the Trustee may at its discretion take such steps as it may think fit to enforce the Security constituted by the Deed of Charge, but it shall not be bound to take any such proceedings or any other action unless (a) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Class A Notes then outstanding or, if no Class A Notes remain outstanding, by an Extraordinary Resolution of the Class B Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Class B Notes then outstanding or, if no Class A Notes and no Class B Notes remain outstanding, by an Extraordinary Resolution of the Class C Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Class C Notes then outstanding and (b) it shall have been indemnified and/or secured to its satisfaction.

13.2 No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

14. LIMITED RECOURSE

If the amounts received by the Trustee in respect of the Notes, including amounts recovered from the assets of the Issuer, following their enforcement by the Trustee under Condition 13 (such amounts, for the purposes of this Condition 14, the **proceeds**) are insufficient, after payment of all claims ranking in priority to the Class A Notes, the Class B Notes, the Class C Notes and the Class X Notes, to pay in full all Principal Amount Outstanding and interest and any other amounts whatsoever in respect of the Class A Notes, the Class B Notes, the Class C Notes and the Class X Notes, the proceeds shall be applied first in paying any accrued interest and second in paying any Principal Amount Outstanding in accordance with the Post-enforcement Priority of Payments set forth in the Cash Management Agreement. If the proceeds are insufficient to pay all accrued interest and Principal Amount Outstanding then to the extent that the proceeds are insufficient, and notwithstanding any other provision of these Conditions or the Transaction Documents, the Issuer's liability to pay any amounts exceeding the amount of the proceeds (after application of the proceeds in or towards payment of all amounts ranking in priority to the Class A Notes, the Class B Notes, the Class C Notes and the Class X Notes) shall be extinguished and shall not thereafter revive.

15. REPLACEMENT NOTES

If any Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer and the Registrar may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

16. NOTICES

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. Any notice shall be deemed to have been given on the seventh day after being so mailed.

Whilst the Notes are represented by Global Notes, notices to Noteholders will be valid if mailed as described above, or, at the option of the Issuer, if delivered to Euroclear and/or Clearstream, Luxembourg for communication by them to the Noteholders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg as aforesaid shall be deemed to have been given on the day of such delivery.

17. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

17.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders of any Class (other than the Class X Notes) to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes of the relevant Class (other than the Class X Notes) for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes of the relevant Class held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes of the relevant Class for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders of any Class (other than the Class X Notes) will be binding on all Noteholders of the relevant Class, whether or not they are present at the meeting.

The Class X Noteholders shall not be entitled to call, or request the Issuer or Trustee to call, meetings or to pass resolutions (including Extraordinary Resolutions).

In the case of a single meeting of the Class A Notes, the Principal Amount Outstanding of any Class A1 Note and any Class A2 Note shall be converted into Dollars at the relevant Currency Exchange Rate.

In the case of a single meeting of the Class B Notes, the Principal Amount Outstanding of any Class B1 Note and any Class B2 Note shall be converted into Dollars at the relevant Currency Exchange Rate.

In the case of a single meeting of the Class C Notes, the Principal Amount Outstanding of any Class C1 Note and any Class C2 Note shall be converted into Dollars at the relevant Currency Exchange Rate.

No Extraordinary Resolution of the Class B Noteholders (other than any such Extraordinary Resolution referred to in Condition 17.2) shall take effect for any purpose while any Class A Notes remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders or the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders.

No Extraordinary Resolution of the Class C Noteholders (other than any such Extraordinary Resolution referred to in Condition 17.2) shall take effect for any purpose while any Class A Notes

and any Class B Notes remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class A Noteholders and the Class B Noteholders or the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders and the Class B Noteholders.

No Extraordinary Resolution of any Class of Noteholders (other than the Class X Noteholders) shall be binding on the Class X Noteholders unless the Class X Noteholders, as applicable, have provided to the Trustee a Class X Consent Notice or the Trustee is satisfied such Extraordinary Resolution would not be materially prejudicial to the interests of the Class X Noteholders.

The provisions of articles 86 to 97 of the Luxembourg act dated 10 August 1915 on commercial companies, as amended, shall not apply in respect of the Notes.

17.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or any other Transaction Document to which it is a party, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders of any Class (other than the Class X Noteholders)) provided that any such modification, waiver, authorisation or determination shall be subject to the receipt by the Trustee of a Class X Consent Notice in relation thereto, unless the Trustee is satisfied that such modification, waiver, authorisation or determination would not be materially prejudicial to the interests of the Class X Noteholders, or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven (to the satisfaction of the Trustee) error.

No Extraordinary Resolution of the Class A Noteholders to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or these Conditions shall take effect unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class B Noteholders and the Class C Noteholders or the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class B Noteholders and the Class C Noteholders.

17.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination or substitution), the Trustee shall have regard to the general interests of the Noteholders (other than the Class X Noteholders) (or any Class thereof) as a Class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

17.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 16 (Notices).

18. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

18.1 Indemnification of the Trustee

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

18.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer or any other party and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer or any other party, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or the other secured creditors, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons whether or not on behalf of the Trustee.

19. SERVICING

In the event that the Servicer resigns or a Servicer Termination Event occurs, the Trustee may at its discretion convene a meeting of Noteholders of each Class in accordance with the Trust Deed and Condition 17.1 (Meeting of Noteholders) at which the Trustee may request the Noteholders of each Class to select a successor Servicer by Extraordinary Resolution.

20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

20.1 Governing Law

The Trust Deed, the Transaction Documents and the Notes are governed by, and will be construed in accordance with, the laws of England and Wales.

20.2 Jurisdiction of English Courts

The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Notes and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has, in the Trust Deed and the Transaction Documents, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee and the Noteholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed or the Notes respectively (together referred to as **Proceedings**) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

20.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Structured Finance Management Limited, at 35 Great St. Helen's, London EC3A 6AP, England, as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

21. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

22. SECURITISATION ACT 2004

The persons subscribing to or otherwise acquiring the Notes expressly acknowledge and accept that the Issuer (i) is subject to the Luxembourg Securitisation Act and (ii) has created Compartment 1 in respect of the issue of the Notes to which all assets, rights, claims and agreements (including these presents and the rights arising hereunder) will be allocated. The persons subscribing to or otherwise acquiring the Notes expressly acknowledge and accept the subordination provisions and the Priority of Payments set forth in the Transaction Documents. The persons subscribing to or otherwise acquiring the Notes acknowledge and accept that they have only recourse to the assets of Compartment 1 and not to the assets allocated to other compartments created by the Issuer. The persons subscribing to or otherwise acquiring the Notes acknowledge and accept that once all the assets allocated to Compartment 1 have been realised, they are not entitled to take any further steps against the Issuer to recover any further sums due and the right to receive any such sum shall be extinguished. The persons subscribing to or otherwise acquiring the Notes accept not to attach or otherwise seize the assets of the Issuer allocated to Compartment 1 or to other compartments of the Issuer or other assets of the Issuer. In particular, the persons subscribing to or otherwise acquiring the Notes shall not be entitled to petition or take any other step for the winding-up or the bankruptcy of the Issuer.

PRINCIPAL PAYING AGENT AND AGENT BANK

Deutsche Bank AG, London Branch
Winchester House,
1 Great Winchester Street,
London EC2N 2DB

REGISTRAR, TRANSFER AGENT AND IRISH LISTING AGENT

Deutsche Bank Luxembourg S.A.
2, boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

IRISH PAYING AGENT

Deutsche International Corporate Services (Ireland) Limited
5 Harbourmaster Place
International Financial Services Centre
Dublin 1, Ireland

and/or such other or further Principal Paying Agent and other Paying Agents, Registrar and Transfer Agents and/or specified offices as may from time to time be appointed by the Issuer with the written approval of the Trustee and notice of which has been given to the Noteholders.

THE LOANS

The Loans will be extended on or about the Issue Date pursuant to the Term Loan Agreements. The net proceeds of the Notes will be disbursed, and the proceeds from the issuance of the Notes fully invested, on or about the Issue Date, except that the Loans made to Confianza in Peru, Findesa in Nicaragua, WWB Medellin and WWB Popayan in Colombia will be disbursed to them on 1 June 2007 and the Loan to be made to ProCredit in Georgia will be disbursed to it on 15 June 2007, and U.S.$1 million of the Loan made to AMRET in Cambodia will be disbursed to it on the Issue Date and the remaining U.S.$1 million of such Loan will be disbursed to it on 15 June 2007. Any Loan amounts from the proceeds of the issue of Notes not disbursed to Borrowers on the Issue Date will be held in the Dollar Account until the date of disbursement. Any Loan amounts which are not disbursed in accordance with the related Term Loan Agreement will be distributed as a prepayment to Noteholders on the following Note Payment Date.

Each Borrower shall use the proceeds of its Loan solely for the funding of its or its affiliates' microfinance programs, which may include the funding of micro-loans (as such term is defined in the Term Loan Agreement of the Borrower), investments in staff, branches and other infrastructure to support its or its affiliates' microfinance lending programs. The Borrower shall not use Loan funds to fund any loan that is not a micro-loan under its or its affiliates' microfinance lending program, and any such funds applied towards the repayment of existing borrowing incurred by the Borrower shall be used solely to repay funds borrowed in order to make micro-loans.

Each MFI was chosen for inclusion among the Borrowers only after substantive due diligence was performed by the Servicer. The amount of each Loan is between $2 million equivalent and $10 million equivalent.

The Loans to be issued by the Issuer (or, in the case of the Loans made to Borrowers in Colombia, which will be issued by Dexia Micro-Credit Fund and immediately transferred to the Issuer on the Issue Date) to the Borrowers are denominated in U.S. dollars, COP, RUR, MNT, PEN and euro but payments and disbursements on those Loans made to Participating MFIs in Colombia, Mongolia and Peru are made by the Borrowers in a U.S. dollar amount pegged to the COP, the MNT and the PEN, respectively, at the relevant central bank's fixing rate. In order to comply with the relevant Colombian banking regulations, and in compliance with such regulations, the Loans made to Participating MFIs in Colombia will be made initially by Dexia Micro-Credit Fund, which is legally authorized by Colombian regulations to accept foreign currency payments. Immediately after disbursement, Dexia Micro-Credit Fund will transfer the relevant Term Loan Agreements to the Issuer pursuant to the Loan Transfer Agreement. In some cases, Participating MFIs denominate micro-loans in local currency even though their Loans are denominated in U.S. dollars or euro. A number of the Participating MFIs intend to denominate the micro-loans made with the proceeds of the Loans in U.S. dollars or euro.

Payments of interest and the ultimate payment principal under the Loan to XacBank in Mongolia will be initially denominated in MNT. On the Loan Payment Date in June 2009, the Non-deliverable Swap with respect to the MNT entered into on or about the Issue will terminate and this will result in a principal swap settlement at that time. However, at that time, the Issuer will use its best efforts basis to procure that a replacement swap will be provided, provided that the interest rate to be received by the Issuer under such replacement swap is the same or better than the interest rate that would have been received on the agreed rate for a Loan denominated in U.S. Dollars. If no such replacement swap is provided at that time, the Loan will be converted in a Loan denominated in U.S. dollars. Any payment from the Issuer or the Swap Counterparty with respect to the Non-deliverable Swap that terminates in June 2009 will occur as described above under the heading "*The Transaction Documents—Swap Agreements—Non-deliverable Swaps.*"

Payments of interest on the Loans will be made on the 1st day of June, September, December and March or the following business day (as such term is defined in the related Term Loan Agreement), commencing on 1 September 2007.

Each Loan will be an unsecured senior obligation of the Borrower, ranking *pari passu* with all other unsecured senior debt of that Borrower.

With the exception of one Participating MFI, EKI in Bosnia, the Loans will have a bullet maturity of five years. The Loan to be made to EKI provides for the principal amount of that Loan to be repaid in four equal instalments to be made quarterly from September 2011 to June 2012.

Loan interest rates will be fixed and range from 8.0% to 10.2% per annum. The weighted average interest rate of the Loan Portfolio will be approximately 8.60% per annum.

In the case of prepayment on a Loan, the prepayment amount (**the Prepayment Amount**) will be paid in accordance with the relevant Term Loan Agreement. The Prepayment Amount will be equal to the sum of (i) the prepayment fee (the **Prepayment Fee**), which will be equal to the principal amount of the Loan being prepaid multiplied by the interest rate multiplied by the number of days between the date of such prepayment (the **Prepayment Date**) and the maturity date (as defined in the relevant Term Loan Agreement) over 360, with respect to such payment, (ii) interest on the prepaid principal amount of the Term Loan to the Prepayment Date, and (iii) where appropriate, the Swap Breakage Fee (as defined in the relevant Term Loan Agreement), which shall cover the cost of terminating that part of the notional amount of the swap (if any) which relates to such Loan.

Loan Events of Default and Acceleration

Loan Events of Default or other events that will allow the Issuer (or the Servicer on its behalf) to accelerate the related Loan will generally include, *inter alia*:

(a) failure of the Borrower to make any payment when due for more than seven Business Days after the date when due;

(b) the Borrower's making of any representation or warranty which proves to have been incorrect, false or misleading in any material respect when made or deemed made;

(c) failure of the Borrower to comply with any other agreement, term, covenant or condition of its Term Loan Agreement;

(d) the occurrence and continuation of an event which has any material adverse effect on the enforceability of the Term Loan Agreement or is material and adverse to the business of the Borrower or its ability to perform its obligations under the Term Loan Agreement (each, a **Material Adverse Change**, as specifically defined in the Borrower's Term Loan Agreement);

(e) the entrance against the Borrower of one or more final judgments or orders involving the payment of money in an aggregate amount greater than 20% of the Borrower's total net assets;

(f) a change in the Borrower's credit risk rating or assessment to "D" or "SD" (default/selective default) by S&P; and

(g) the occurrence of a default or event of default under the terms of any other agreement involving borrowed money or the extension of credit or any other indebtedness under which the Borrower may be obligated as a borrower or guarantor where the amount of such indebtedness exceeds the lesser of $1,000,000 or 10% of the Borrower's net assets.

Upon the occurrence of an Event of Default under any Loan, the Servicer will be authorized to take such action as is called for in the defaulting Borrower's Term Loan Agreement, including acceleration of the defaulting Borrower's Loan.

Loan documentation will include standard covenants, events of default, conditions precedent, representations and warranties, reporting requirements, indemnities and gross-up provisions. Additional covenants generally include, *inter alia*:

(a) maintenance of a capital adequacy ratio of 12% (unless otherwise agreed by the Servicer);

(b) maintenance of a Loan to total assets ratio not greater than 25% (unless otherwise agreed by the Servicer); and

(c) maintenance of a debt rating from a rating agency (on the terms set forth in the relevant Term Loan Agreement).

Payments on the Loans

Payments on the Loans will be made directly from each Borrower to the relevant Issuer Account, and the Cash Manager will on or after the Loan Payment Date transfer the amounts received from the Borrowers in respect of the Loans denominated in PEN, COP, MNT or RUR to the Swap Counterparty and ensure that the amounts received from the Swap Counterparty under the Swap Agreements in respect thereof are paid into the relevant Issuer Account (and deposited to the Excluded Swap Termination Ledger, as applicable) according to the terms of the Cash Management Agreement.

PARTICIPATING MFIS

Aggregate assets of the 20 Participating MFIs exceed $1.5 billion, among approximately 1.1 million borrowing clients as of year end 2006. Weighted average annual client growth of these institutions in 2006 was approximately 64%. Their average loan size per client was approximately $1,600 with a weighted average portfolio at risk (loans with payments greater than 30 days in arrears) of approximately 1.8% and a risk coverage ratio (the adjusted loan loss reserve covering the related portfolio at risk over 30 days) averaging approximately 290%. The Participating MFIs had operational self-sufficiency ratios averaging approximately 131%. Their financial leverage (debt to equity ratio) averaged approximately 4.5. The amounts in this paragraph are weighted averages based on the size of the Loan and are based on unaudited information as of 31 December 2006 provided to the Sponsor by the Participating MFIs.

Additional information about the Participating MFIs is provided in the Appendix to this Offering Circular.

THE SPONSOR AND SERVICER

BlueOrchard is a Swiss company specializing in the management of microfinance investment funds. It seeks to develop long-term relationships with microfinance institutions and partners. The company is focused on bridging the gap between these institutions and the international capital markets. In addition, it assists financial market participants – banks, fund managers and others – to access investment opportunities in the microfinance field. This includes the initial identification and due diligence of microfinance institutions and the continuous monitoring and reporting of their activities and portfolios.

BlueOrchard follows lending decisions with frequent monitoring and oversight of the MFIs, which are obligated under loan contracts to BlueOrchard Finance S.A.'s clients. As of 31 December 2006, BlueOrchard Finance S.A. had commercial relationships with approximately 100 microfinance institutions in 28 emerging economies. Moreover, it currently has over 700 microfinance institutions in its database and its analysts visit over 120 microfinance institutions annually. BlueOrchard has clients in Central and South America, South Asia, South East Asia, Central Asia, Africa, the Middle East, Russia and the Balkans.

Funds under Management

BlueOrchard has been the co-manager of the Dexia Micro-Credit Fund since 2001. This fund offers loans in U.S. dollars and euro to MFIs with an average maturity of 20 months. As a short- to medium-term hard currency emerging markets fixed-income fund, it aims to offer investors a financial return higher than six month EURIBOR, as well as a social return as the beneficiaries are low-income entrepreneurs in emerging economies. As of 31 December 2006, the Dexia Micro-Credit Fund had a net asset value in excess of $131 million across its U.S. dollar, Swiss franc and euro share classes. From 2000-2006, the U.S. dollar share class of the Dexia Micro-Credit Fund has provided an average annual return of 5.2% to investors. BlueOrchard is also the principal microfinance investment advisor to the ResponsAbility Global Microfinance Finance, sponsored by Credit Suisse, Luxembourg, and BBVA Codespa Microfinanzas, FIL, sponsored by BBVA, and is co-manager of the St. Honoré Microfinance Fund, sponsored by La Compagnie Financière Edmond de Rothschild Banque.

BlueOrchard has managed and monitored over 450 fixed income transactions for the above investment vehicles, and has experienced no event of default to date. However, the historical performance of BlueOrchard. and the Dexia Micro-Credit Fund may not be indicative of future performance, and the performance of the Dexia Micro-Credit Fund may not correlate to the performance of the Loan Portfolio.

BlueOrchard Microfinance Securities I

BOMS I, a securitization undertaken by BlueOrchard, which closed in July 2004 and May 2005, allowed BlueOrchard to extend a total of $81.25 million in 7-year loans to 14 different MFIs in Latin America, Eastern Europe and Asia. This transaction marked the first time that debt obligations backed by a portfolio of loans to microfinance institutions were issued in the capital markets. The BOMS I Notes were comprised of three tranches with different risk and return levels and were sold to private institutional and individual investors. The senior tranche of BOMS I Notes totalled $48.4 million and was guaranteed by OPIC, a United States development agency.

The structure of BOMS I provided MFIs with access to long-term financing and a significant amount of capital (the average loan size was more than $5 million) without guarantees and at fixed interest rates. BOMS I allowed investors to have access to a diversified portfolio of MFIs.

The average delinquencies experienced by the MFIs in the BOMS I transaction increased from approximately 1.74% as of 31 December 2005 to approximately 2.13% as of 31 December 2006. As of 31 December 2006, there have been no defaults of interest or principal by an MFI in the transaction. Portfolio growth across the BOMS I portfolio reached an average of approximately 47% for the year ended 31 December 2006 and client outreach increased by approximately 26% on average during the same period. As

of 31 December 2006, gross portfolio yield was approximately 29%, while return on equity averaged approximately 23%.

BlueOrchard Loans for Development 2006-1

BlueOrchard Loans for Development 2006-1 (**BOLD 2006-1**) was a $99.2 million microfinance securitisation funding $96.6 million of pre-arranged loans to 21 MFIs in 13 developing countries in Latin America, Eastern Europe and Asia. 67% of the portfolio was in Latin America, 24% in Eastern Europe and 12% in Asia. BOLD 2006-1 was the first Microfinance CLO transaction arranged by an investment bank (MSI), allowing mainstream ABS investors to buy into microfinance.

The BOLD 2006-1 notes totalled $99,148,531 equivalent and were denominated in euro, sterling and U.S. dollars. The Class A notes were listed in Ireland and the class B notes were underwritten by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (**FMO**).

The average delinquencies experienced by the MFIs in the BOLD 2006-1 transaction increased from approximately 1.75% as of 31 December 2005 to approximately 2.02% as of 31 December 2006. As of 31 December 2006, there have been no defaults of interest or principal by an MFI in the transaction. Portfolio growth across the BOLD 2006-1 portfolio reached an average of approximately 59% for the year ended 31 December 2006 and client outreach increased by approximately 39% on average during the same period. As of 31 December 2006, gross portfolio yield was approximately 31%, while return on equity averaged approximately 22%.

BlueOrchard Finance S.A.'s Investment Selection Process

BlueOrchard follows a strict selection mechanism in line with the criteria set out in the investment policies of the microfinance investment funds which it advises. BlueOrchard believes its rigorous approach ensures that the portfolios are composed of reliable and sustainable MFIs. During BlueOrchard's five-year experience as a microfinance advisory firm, it has developed a comprehensive methodology for monitoring and managing relationships with MFIs, which it intends to employ as Servicer of the Loans.

Among its client and networking base, BlueOrchard has selected leading microfinance institutions in their respective countries based on reputation, track record and performance. Loan offers to those MFIs were sent in the preceding months. These included MFIs in South and Central America, Eastern Europe, Asia, Africa and the Middle East.

BlueOrchard maintains an investment advice scoring system for MFIs based on thorough on-site evaluation of risk and performance dimensions. Risk analysis includes country and industry analysis as well as in-depth specific risk assessment focusing on governance, finance and operations. Performance dimensions cover the "double bottom line" (social performance and financial performance) of each microfinance program.

BlueOrchard Finance S.A.'s Selection Process for BlueOrchard Loans for Development S.A.

BlueOrchard, as Sponsor and Servicer, has undertaken due diligence of each Participating MFI and believes that each Participating MFI has satisfied BlueOrchard's creditworthiness requirements and is a reputable participant in the microfinance industry in its country. A majority of the Participating MFIs are current or former clients of a microcredit fund that BlueOrchard advises and/or participated in the previous securitizations by BlueOrchard Microfinance Securities I and BOLD 2006-1.

Among the issues relevant to the Sponsor in selecting the Participating MFIs are the following:

(a) financial sustainability;

(b) size of capital base;

(c) leverage (debt to equity ratio);

(d) size of microcredit client base;

(e) market positioning and strategy;

(f) ratio of micro-loan assets to other loan assets;

(g) asset, portfolio and client base growth rates;

(h) quality of management;

(i) record of meeting financial obligations;

(j) pursuit of accepted best practices in the microfinance industry;

(k) strong financial management;

(l) familiarity to the Servicer;

(m) transparency of financial accounting;

(n) willingness to undergo a rating by a recognized rating agency;

(o) willingness and ability to hedge currency mismatch between the Borrower's Loan and the on-lending that the Borrower provides to its clients, if required;

(p) quality of micro-loan portfolio;

(q) strong internal control and audit functions; and

(r) portion of microlending which reaches an underserved client base.

Under the terms of the Loans, among other requirements, each Borrower will be required to:

(a) report financial information on a monthly basis;

(b) maintain a ratio of capital to risk-weighted assets (as such terms are defined in the Basle Capital Accord of July 1988, as amended) of not less than 12% (unless otherwise agreed by the Servicer);

(c) maintain at all times a ratio of the outstanding principal amount of the Advance to Total Assets not greater than 25% (unless otherwise agreed by the Servicer); and

(d) maintain a rating from a rating agency (as such term is defined in the relevant Term Loan Agreement) by delivering confirmation of such rating every 12 months to the Servicer, provided that the Servicer may at its option extend such period to 24 months.

BlueOrchard Finance S.A. as Servicer

BlueOrchard. has past loan servicing experience, having serviced the loans under BOMS I and BOLD 2006-1 and monitored the loans of its other portfolio investments. BlueOrchard as Servicer is not affiliated with the Issuer other than providing two of the five directors of the Issuer as described herein. BlueOrchard underwent a servicer review in March 2007 by S&P. Full details of this report may be viewed at www.standardandpoors.com.

BlueOrchard Finance S.A's Management Team

Jack Lowe, Chief Executive Officer: Before joining BlueOrchard, Mr. Lowe has had a long entrepreneurial career which has taken him to eight different countries and into a range of businesses. His career began in the Far East, where he opened with Japanese colleagues the McKinsey & Co. office in Tokyo. After coming to Switzerland in 1974, he started several franchising businesses, and in 1986, upon the sale of these businesses, became a partner of Montgomery Securities, where he was responsible for developing their international business activities, including venture and private equity funds outside the U.S. Upon the sale of Montgomery to Bank of America in 1997, he acquired several medium-sized businesses he now controls, some of which are outside Europe in emerging markets. Mr. Lowe holds an MBA in Finance and a BA in Political Science, both from Stanford University

Jean-Philippe de Schrevel, Founder and Managing Director: Mr. de Schrevel was the manager of the Dexia Micro-Credit Fund for Dexia Asset Management before co-founding BlueOrchard in March 2001. Prior to that, he was an associate with McKinsey & Co, the operations director of a micro-bank in Argentina and a microfinance consultant on-site and for the United Nations. He holds a MA in Economics from Université Notre-dame de la Paix in Namur, Belgium, and a MBA from the Wharton School of the University of Pennsylvania.

Antoine Melo, Director of Finance and Administration: Mr. Melo was the Finance and Administration Manager at Universal Corporation, a worldwide leader in trading commodities, from 2002 to 2004. From 2000 to 2002, Mr. Melo worked at Reuters where he was a Project and Operation Support Executive. He has also worked on various engineering missions around the world. Mr. Melo is a leader of a microfinance project at the International Federation of Terre des Hommes, a non-profit organization working to promote children's rights and equitable development. Mr. Melo holds an MA in Engineering from the Swiss Federal School of Technology in Lausanne, Switzerland and an MBA from the HEC of the University of Lausanne, Switzerland.

Ann Miles, Director, U.S.: Prior to joining BlueOrchard, Ms. Miles managed the Financial Products and Services team at Women's World Banking, a non-profit organization based in New York. Women's World Banking is a network of 55 microfinance and other financial institutions engaged in microfinance. Ms. Miles spent 18 years at Citigroup working in various groups including Financial Institutions and the Private Bank. She graduated with a BA in Economics from Drew University. Ms. Miles is a member of the Board of Women Advancing Microfinance and she serves on the external investment committee of the Calvert Foundation.

BlueOrchard also has a team of eight analysts based in Geneva who are responsible for monitoring the MFIs in BlueOrchard Finance S.A.'s portfolio, including the Participating MFIs. The Management Team and the analysts collectively form the Credit Committee of BlueOrchard, which is responsible for making all decisions regarding BlueOrchard's Loan Portfolio.

Lisa Sherk, Director of the Investment Analyst Team: Prior to working in the field of microfinance, Ms. Sherk spent 14 years working in investment management in emerging markets fixed income. Most recently, she was a managing director at the Atlantic Advisors, an independent fund advisory company in New York and held previous positions as an investment professional at Wasserstein Perella and Swiss Bank Corporation. Ms. Sherk holds a MA in International Affairs from Columbia University and a BA in Economics and History from McGill University.

Julie Cheng, Senior Investment Analyst: Before joining BlueOrchard, Ms. Cheng worked as a consultant researching socially responsible investment in emerging markets and working with MFIs in Kenya and Haiti. She started her career as an investment banker in the debt origination group of Smith Barney in New York. Ms. Cheng holds a BA in economics from Cornell University and an MBA from the Haas School of Business, University of California, Berkeley.

Sandra Mai Hamilton, Senior Investment Analyst: Prior to joining BlueOrchard, Ms. Hamilton worked with LFS Financial Systems, where she was assigned to the management team of a greenfield microfinance institution, the MicroFinance Bank of Azerbaijan, from 2002 to 2004. She held prior positions at Deutsche Bank AG London Global Cash Management and Bankers Trust Co. London working with financial institutions in the CIS. Ms. Hamilton holds a BSc (Hons) from the University of Surrey (UK) in Economics and Russian, and an MA in East European Studies from the University of London School of Slavonic and East European Studies.

Camilo Mendez, Senior Investment Analyst: Prior to joining BlueOrchard, Mr. Mendez worked for Moody's rating agency as an analyst for structured finance transactions in Latin America from 2002 to 2005. In this position, he focused primarily on securitizations related to Mexico's low-income housing sector and servicer quality ratings for financial institutions in Latin America. Mr. Mendez holds a BA in History and Latin American Studies from Oberlin College and a MA in international economics from Johns Hopkins University School of Advanced International Studies.

Bernhard Eikenberg, Investment Analyst: Before joining the field of microfinance, Mr. Eikenberg was an Associate at JP Morgan in London. He spent more than four years marketing interest rate derivatives and credit and currency products, advising hedge funds on macroeconomic trading strategies and national treasuries on liability management. Subsequently, he held various positions with NGOs, as a consultant to an organisation promoting sustainable tourism development in Central America, and most recently advising an MFI in Morocco on strategies to manage foreign currency and interest rate exposure. Mr. Eikenberg holds a BSc in Economics from the London School of Economics, UK, and an MA in Public Administration from the School of International and Public Affairs at Columbia University, USA.

Pauline de Saint Gerand, Investment Analyst: Before joining BlueOrchard, Ms. De Saint Gerand worked for the United Nations Development Program (UNDP) in Cuba, where she was in charge of managing local economic development programmes. She mainly focused on empowering small and medium enterprises by providing loans and building local capacities in finance and business planning. Prior to this, she spent two years as a Major Donors Fundraiser at UNICEF in Paris and held various positions in the area of economic development as a Programme Manager with NGOs in Latin America and Asia. She started her career in microfinance in Cambodia, working for GRET, an NGO, on a micro-insurance programme. Ms. De Saint Gerand holds a MSc in Management from Lyon Graduate Business School, France, and an MBA from Schulich School of Business, York University, Canada, with a specialization in non-profit management and leadership.

Julie Hubert Moulin, Investment Analyst: Prior to joining BlueOrchard, Ms. Hubert Moulin worked with BNP Paribas Switzerland in Commodities Finance. From 2005 to 2006, she was a Relationship Manager in the trade finance team responsible for oil traders in the CIS, and from 2003 to 2005, the credit analyst in charge of oil and gas counterparts with the credit structured team responsible for commodities clients in the CIS. Ms. Hubert-Moulin holds a Masters Degree from the French Institute of Petroleum and the Moscow Gubkin University in Petroleum Economics and Management, and is a graduate of Sciences-Po Paris.

Catalina Robledo Botero, Investment Analyst: Ms. Robledo's interest in microfinance started during a short-term consultancy project with OXFAM Private Sector Team addressing the impact of global banks in microfinance. Before joining BlueOrchard in 2006, she spent three months in India working for the Centre for Microfinance Research in Chennai on the development of educational products by microfinance institutions. Based on this field work, she wrote her masters dissertation on the role of microfinance in education financing in developing countries. Prior to this, she completed several internships with the United Nations Economic Commission for Latin America in Bogotá and Transparency International in London. Ms. Robledo holds a MSc in Development Management from the London School of Economics and a BA in Economics and Political Science from McGill University, Canada.

Matteo Marinelli, Investment Analyst: Mr. Marinelli joined BlueOrchard in March 2006 as an operations associate; he was promoted to Investment Analyst in October 2006. Prior to joining BlueOrchard he worked with several microfinance institutions and consulting firms including Banyan Global in Afghanistan, MEDA

in Tanzania, FAO in Thailand and WHO in Serbia. He has received field training from Grameen Bank in Bangladesh and the Boulder Microfinance Training Programme. His masters dissertation addressed the issue of microfinance in post conflict countries in the Balkan region, where he spent several months collecting data in Kosovo, Croatia, Serbia and Bosnia Herzegovina. Mr. Marinelli holds a MSc. in Economics from Bocconi University, Italy, and diplomas from the London School of Economics, University of California at Berkeley and New York University, USA.

Equity holders and the **Board of Directors** of BlueOrchard include professionals from leading institutions from the banking sector, small business development, international organizations, development finance organizations and the academic arena.

Ernst A. Brugger, President of the Board of Directors, is a founding partner and the President of BHP – Brugger and Partners Ltd, a consulting firm specialized in sustainability strategies for private and public organizations. He is also chairman of Sustainable Performance Group, Switzerland's largest sustainability mutual fund, member of the executive committee of the International Red Cross, Vice-President of the board of Henry Dunant Centre for Humanitarian Dialogue, and Professor at Zurich University. In his role as co-founder and CEO of The Sustainability Forum Zurich and in his project work he advocates the implementation of long-term strategy, sustainability and good governance in business and politics. Over the past 20 years he has carried out numerous consultancy tasks for various Swiss and international companies and institutions in Europe, Latin America, Africa and Asia. Mr. Brugger holds a Ph.D. and a post-doctoral thesis in Economics from Zurich University, Switzerland. He is currently a Professor at Zurich University and a visiting Professor at Stanford University.

The other members of the Board of Directors of BlueOrchard are Marc Beaujean, Pierre Boppe, Anne Chevalley, Melchior de Muralt, Bülent Gültekin, Kathryn Imboden, Alexandre de Lesseps, André Roelants, Michael Southam and Martin Velasco.

Financial Information

BlueOrchard had total assets of $2.2 million as of 31 December 2006. BlueOrchard's net income on its business activities for the year ended 31 December 2006 was $193,183.

BlueOrchard had total assets of $1.874 million as of 31 December 2005. BlueOrchard's net income on its business activities for the year ended 31 December 2005 was $338,000.

THE ACCOUNT BANK, LUXEMBOURG ACCOUNT BANK, IRISH PAYING AGENT, CASH MANAGER, TRUSTEE AND REGISTRAR

The Principal Paying Agent, Account Bank, Custodian and Cash Manager

Deutsche Bank Aktiengesellschaft (**Deutsche Bank**) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. Deutsche Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the **Deutsche Bank Group**).

Deutsche Bank AG London is the London branch of Deutsche Bank AG. On 12 January 1973, Deutsche Bank AG filed in the United Kingdom the documents required pursuant to section 407 of the Companies Act 1948 to establish a place of business within Great Britain. On 14 January 1993, Deutsche Bank registered under Schedule 21A to the Companies Act 1985 as having established a branch (Registration No. BR000005) in England and Wales. Deutsche Bank AG London is an authorized person for the purposes of section 19 of the Financial Services and Markets Act 2000. In the United Kingdom, it conducts wholesale banking business and through its Private Wealth Management division, it provides holistic wealth management advice and integrated financial solutions for wealthy individuals, their families and selected institutions

As of 31 December 2006, Deutsche Bank's issued share capital amounted to Euro 1,343,406,103.04 consisting of 524,768,009 ordinary shares of no par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all the German Stock Exchanges. They are also listed on the New York Stock Exchange. The Management Board has decided to pursue delisting on certain stock exchanges other than Germany and New York in order to benefit from the integration of financial markets. In respect of the stock exchanges Amsterdam, Brussels, London, Luxembourg, Paris, Vienna, Zurich and Tokyo, this decision has completely been implemented.

As of 31 December 2006, Deutsche Bank Group had total assets of EUR 1,126,230 million, total liabilities of EUR 1,093,422 million and total shareholders' equity of EUR 32,808 million on the basis of United States Generally Accepted Accounting Principles. The consolidated financial statements for fiscal years starting 1 January 2007 will be prepared in compliance with the International Financial Reporting Standards (IFRS).

Deutsche Bank's long-term senior debt has been assigned a rating of AA- (outlook positive) by S&P, Aa3 (outlook stable) by Moody's Investors Services, Inc. and AA- (outlook stable) by Fitch Ratings.

The Trustee

Deutsche Trustee Company Limited (**DTCL**) is an English investment management firm registered under company number 338230 and regulated by the Financial Services Authority. DTCL is a Trust Corporation and acts as Trustee for Eurobond issues, other forms of complex financing structures and loan capital issues and as agent for the service of process. DTCL has an authorised share capital of £5,150,000 and is wholly owned by its ultimate parent Deutsche Bank AG.

The Registrar, Transfer Agent, Luxembourg Account Bank, Custodian and Irish Listing Agent

Deutsche Bank Luxembourg S.A. was established on 12 August 1970 as a public limited liability company (*société anonyme*) under the name "Compagnie Financière de la Deutsche Bank", in the Grand Duchy of Luxembourg in accordance with the Luxembourg act dated 10 August 1915 on commercial companies, as amended. The notarial act of incorporation was published on 27 August 1970 in the *Mémorial C-142, Recueil des Sociétés et Associations* (the **Mémorial C**). The original name of Deutsche Bank Luxembourg S.A. was changed to Deutsche Bank Compagnie Financière Luxembourg S.A. on 11 October 1978 and it its present name on 16 March 1987. The articles of incorporation of Deutsche Bank Luxembourg S.A. have been most recently amended by a notarial deed of 31 May 2006 published in the Mémorial C under number C-1605 of 24 August 2006 on page 77011. Deutsche Bank Luxembourg S.A. was incorporated for an unlimited duration. The registered office of Deutsche Bank Luxembourg S.A. is established at 2, boulevard Konrad Adenauer, L-1115 Luxembourg (telephone no. (+352 421. 22-1). Deutsche Bank Luxembourg S.A. is registered with the Luxembourg trade and companies register under number B.9164.

The share capital of Deutsche Bank Luxembourg S.A. amounts to EUR215 million and is divided into 860,000 registered shares. The share capital is fully paid up. Each share entitles to one vote at shareholders' meetings. Deutsche Bank AG owns directly or indirectly 100 per cent. of the share capital of Deutsche Bank Luxembourg S.A.

Deutsche Bank Luxembourg S.A. is focused on the Euro-lending business, including short-term lending to German customers and medium- and long-term financing for international customers. Deutsche Bank Luxembourg S.A. also operates in the Euro money market as well as in foreign exchange. With regard to Private Wealth Management besides asset management, a wide product range is offered to the internationally-orientated private customer. As at 31 December 2004 Deutsche Bank Luxembourg S.A. had 336 employees.

The Irish Paying Agent

Deutsche International Corporate Services (Ireland) Ltd. is an Irish company. The registered office of the Irish Paying Agent is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland. Deutsche International Corporate Services (Ireland) Ltd. is authorised by the Central Bank of Ireland. The directors of Deutsche International Corporate Services (Ireland) Ltd. as of the date of this Offering Circular are Michael Whelan, Conor Blake, Paul McNaughton and Andreas Tautscher. The telephone number of the Irish Paying Agent is +353 1 6806000 and the facsimile number is +353 1 6806050.

THE SWAP COUNTERPARTY

Morgan Stanley & Co. International plc

MSI, incorporated in England and Wales, is a wholly owned subsidiary of Morgan Stanley which conducts forward payment business, including interest rate swaps, exchange rate swaps and interest rate guarantees with institutional clients. The principal office of MSI is located at 25 Cabot Square, Canary Wharf, London E14 4QA.

The long-term, unsecured, unsubordinated debt obligations of MSI are rated "Aa3" by Moody's and "AA-" by S&P, and the short-term, unsecured, unsubordinated debt obligations of MSI are rated "P-1" by Moody's and "A-1+" by S&P.

RATINGS

The Class A Notes and the Class B Notes are expected, on issue, to be assigned the following ratings by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgment, circumstances (including, without limitation, a reduction in the credit rating of the Swap Counterparty) in the future so warrant.

Class of Notes	Rating
Class A1	AA
Class A2	AA
Class A3	AA
Class B1	BBB
Class B2	BBB
Class B3	BBB

S&P will monitor the ratings it has assigned to the Class A Notes and the Class B Notes while they are outstanding, as well as the credit estimates it has assigned to each Borrower while the related Loan is outstanding.

Neither the Class C Notes nor the Class X Notes will be rated.

PLACEMENT AND SALE

MSI has, pursuant to a note placement agreement dated 30 May 2007 between MSI and the Issuer (the **Note Placement Agreement**), agreed with the Issuer (subject to certain conditions) to exercise its best efforts in soliciting the purchase by purchasers of the Notes.

The Issuer will pay an amount of approximately U.S.$1,360,494 of commissions with respect to the aggregate principal amount of the Notes (with the principal amount of the Class A1 Notes, Class A2 Notes, Class B1 Notes, Class B2 Notes, Class C1 Notes and Class C2 Notes being converted into U.S. dollars at the relevant Currency Swap Rate).

The Issuer has also agreed to reimburse MSI certain fees and expenses in connection with the issue of the Notes.

The Note Placement Agreement is subject to a number of conditions and may be terminated by MSI in certain circumstances prior to payment for the Notes to the Issuer. The Issuer has agreed to indemnify MSI against certain liabilities in connection with the issue of the Notes.

Other than admission of the Class A Notes, the Class B Notes and the Class C Notes to the Irish Stock Exchange, no action has been taken by the Issuer or MSI which would or is intended to permit a public offering of the Notes, or possession or distribution of this Offering Circular or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

MSI has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

This Offering Circular does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and unless so registered may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered and sold (i) in the United States only to persons who are both qualified institutional buyers (as defined in and pursuant to Rule 144A under the Securities Act) and qualified purchasers within the meaning of Section 2(a)(51) of the Investment Company Act, as amended, and the rules thereunder and (ii) outside the United States to persons other than U.S. persons (as defined in and pursuant to Regulation S under the Securities Act). Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

MSI has agreed that, except as permitted by the Note Placement Agreement (as the case may be), it will not offer, sell or deliver the Notes (i) as part of its distribution at any time or (ii) prior to the end of the Distribution Compliance Period, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. See "*Transfer Restrictions and Investor Representations*" below.

MSI, through its selling agents which are registered broker-dealers in the United States, may place Notes in the United States to a limited number of "qualified institutional buyers" (as defined in Rule 144A under the

Securities Act) only, pursuant to Rule 144A under the Securities Act, who are also qualified purchasers within the meaning of Section 2(a)(51) of the Investment Company Act, as amended, and the rules thereunder.

The Issuer has agreed that, for so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish, upon request of a holder of such a note or of any beneficial owner or of any prospective purchaser designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the Issuer is not a reporting company under section 13 or 15(d) of the Exchange Act or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A or pursuant to another exemption from the registration requirements under the Securities Act.

United Kingdom

MSI has represented, warranted and agreed with the Issuer, *inter alia,* that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ireland

MSI has represented and agreed that:

(a) it has complied and will comply with all applicable provisions of the Investment Intermediaries Act 1995 (as amended) with respect to anything done by it in relation to the Notes or operating in, or otherwise involving, Ireland and, in the case of a manager acting under and within the terms of an authorisation to do so for the purposes of EU Council Directive 93/22/EEC of 10 May 1993 (as amended or extended), it has complied with any codes of conduct made under the Investment Intermediaries Act 1995 (as amended) and, in the case of a manager acting within the terms of an authorisation granted to it for the purposes of EU Council Directive 2000/12/EC of 20 March 2000 (as amended or extended), it has complied with any codes of conduct or practice made under Section 117(1) of the Central Bank Act, 1989 of Ireland (as amended); and

(b) in connection with offers or sales of Notes, it has only issued or passed on, and will only issue or pass on, in Ireland, any document received by it in connection with the issue of such Notes to persons who are persons to whom the documents may otherwise lawfully be issued or passed on.

The Grand Duchy of Luxembourg

In relation to the Grand Duchy of Luxembourg (**Luxembourg**), which has implemented the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the **Prospectus Directive**) by the Luxembourg act dated 10 July 2005 relating to prospectuses for securities (the **Prospectus Act 2005**), MSI has represented and agreed that it has not made and will not make an offer of Notes to the public in Luxembourg, except that it may make an offer of Notes to the public in Luxembourg:

(a) in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the *Commission de surveillance du secteur financier* (the **CSSF**), as competent authority in Luxembourg or, where appropriate, approved in another Member State of the European Economic Area which has implemented the Prospectus Directive and notified to the CSSF, all in accordance with the Prospectus Directive and ending on the date which is twelve months after the date of such publication;

(b) at any, time, to legal entities which are authorised or regulated to operate in the financial markets (including, credit institutions, investment firms, other authorised or regulated financial institutions, insurance companies, undertakings for collective investment and their management companies, pension and retirement funds and their management companies, commodity dealers as well as entities not so authorised or regulated whose corporate purpose is solely to invest in securities);

(c) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organisations);

(d) at any time, to any legal entities which have two or more of (i) an average number of employees during the financial year of at least 250, (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in their last annual or consolidated accounts;

(e) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Prospectus Act 2005) recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the CSSF; and

(f) at any time, in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to articles 5 and 30 of the Prospectus Act 2005.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in Luxembourg means the communication in any form by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to these Notes.

TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

Offers and Sales

The Notes (including interests therein represented by a Rule 144A Global Note, a Rule 144A Definitive Note or a Book-Entry Interest and interests therein represented by a Regulation S Global Note or a Regulation S Definitive Note or a Book-Entry Interest) have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act (**U.S. persons**)) except pursuant to an effective registration statement or in accordance with an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. Accordingly, the Notes (and any interests therein) are being offered and sold: (1) in the United States only to a limited number of persons who are both QIBs in transactions exempt from the registration requirements of the Securities Act and QPs and in accordance with any state securities laws and (2) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act.

Investor Representations and Restrictions on Resale

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed as follows (terms used below that are defined in Rule 144A, Regulation S or the Investment Company Act have the meanings given to them in Rule 144A, Regulation S or the Investment Company Act):

(1) (A) it is a QIB and a QP and is acquiring such Notes for its own account or as a fiduciary or agent for other QIBs and QPs for investment purposes and not for distribution in violation of the Securities Act, and it is able to bear the economic risk of an investment in the Notes and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of purchasing the Notes, or (B) it is not a U.S. person (as defined in Regulation S under the Securities Act) and is acquiring such Notes for its own account or as a fiduciary or agent for other non-U.S. persons in an offshore transaction (as defined in Regulation S under the Securities Act) pursuant to an exemption from registration provided by Regulation S under the Securities Act;

(2) such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will resell or transfer such Notes only (i) to a person whom the seller reasonably believes is a QIB and a QP acquiring the Notes for its own account or as a fiduciary or agent for others (which others must also be QIBs and QPs) to whom notice is given that the resale or other transfer is being made in reliance on Rule 144A or (ii) to a purchaser acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided, that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;

(3) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (1) above, (iii) such transferee shall be deemed to have represented (a) as to its status as a QIB and a QP or a purchaser acquiring the Notes in an offshore transaction (as the case may be), (b) if such transferee is a QIB and a QP, that such transferee is acquiring the Notes for its own account or as a fiduciary or agent for others (which others also must be QIBs and QPs), (c) if such purchaser is acquiring the Notes in an offshore transaction, that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, and (d) that such transferee is not an underwriter within the

meaning of Section 2(11) of the Securities Act, and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;

(4) such purchaser is acquiring such Notes as principal for its own account for investment and not for sale in connection with any distribution thereof, such beneficial owner was not formed for the specific purpose of investing in such Notes or any other securities of the Issuer, and additional capital or similar contributions were not specifically solicited from any person owning a beneficial interest in such beneficial owner for the purpose of enabling such beneficial owner to purchase any Notes and is not a (1) corporation; (2) partnership, (3) common trust fund or (4) special trust, pension, profit sharing or other retirement trust fund or plan in which the shareholders, equity owners, partners, beneficiaries, beneficial owners or participants, as applicable, may designate the particular investments to be made or the allocation of any investment among such shareholders, equity owners, partners, beneficiaries, beneficial owners or participants, and such beneficial owner represents and agrees that it will not hold such Notes for the benefit of any other person and will be the sole beneficial owner thereof for all purposes and that it will not sell participation interests in such Notes or enter into any other arrangement pursuant to which any other person will be entitled to a beneficial interest in the distributions on such Notes and further that such Notes purchased directly or indirectly by it constitute an investment of no more than 40% of such beneficial owner's assets after giving effect to its purchase of Notes and/or other securities of the Issuer. Such beneficial owner is not an investment company that relies on the exclusion from the definition of "investment company" provided by Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (or a foreign investment company under Section 7(d) thereof relying on Section 3(c)(1) or 3(c)(7) with respect to its holders that are U.S. Persons), which was formed on or before April 30, 1996, unless it has received the consent of its beneficial owners who acquired their interests on or before April 30, 1996, with respect to its treatment as a "qualified purchaser" (within the meaning of Section 2(a)(51) of the Investment Company Act and the rules thereunder) in the manner required by Section 2(a)(51)(g) of the Investment Company Act and the rules and regulations thereunder. Such beneficial owner understands and agrees that any purported transfer of such Notes to a purchaser (including without limitation, the transfer of Notes to such beneficial owner) that does not comply with the requirements of this paragraph or paragraph (1) above will be null and void ab initio and the Issuer retains the right to redeem or resell any Notes sold to any purchaser (including, without limitation, such beneficial owner) unless such purchaser complies with this paragraph and paragraph (1) above;

(5) with respect to purchasers of the Class X Notes, no part of the assets to be used to purchase such Class X Notes (as the case may be) constitutes assets of (A) any employee benefit plan or other plan (including an individual retirement account) subject to Title I of ERISA or Section 4975 of the Code or (B) any governmental, church or non-US plan subject to federal, state, local or non-US laws which are substantially similar to Title I of ERISA or Section 4975 of the Code (**Similar Law**), unless under this subsection (B) the purchase and holding of such Notes would not result in a violation of any applicable Similar Law; and

(6) with respect to purchasers of the Class A Notes, the Class B Notes and the Class C Notes, either (A) no part of the assets to be used to purchase such Notes to be purchased by it constitutes assets of any employee benefit plan or other plan (including an individual retirement account) subject to Title I of ERISA or Section 4975 of the Code or any governmental, church or non-US plan subject to Similar Law or (B) all or part of the assets to be used to purchase such Notes to be purchased by it constitute assets of one or more employee benefit plans or other plans (including an individual retirement account) subject to Title I of ERISA or Section 4975 of the Code or a governmental, church or non-US plan and the use of such assets to purchase such Notes will not constitute, cause or result in the occurrence of a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of any applicable Similar Law.

The Regulation S Notes that represent interests sold outside the United States to purchasers that are not U.S. persons (as defined in Regulation S) in compliance with Regulation S will bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES."

Set out below is a form of notice which may be used to notify the transferees of the foregoing restrictions on transfer. Such notice will be set out in the form of a legend on each Rule 144A Global Note. Additional copies of such notice may be obtained from the Principal Paying Agent, the Registrar or the Transfer Agent.

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY STATE SECURITIES LAWS, AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED OR SOLD IN VIOLATION OF THE SECURITIES ACT OR SUCH STATE LAWS. THIS NOTE MAY BE TRANSFERRED ONLY IN INITIAL PRINCIPAL AMOUNTS OF £50,000 OR €50,000 OR $100,000, DEPENDING ON ITS CURRENCY OF DENOMINATION, AND INTEGRAL MULTIPLES OF £1,000 OR €1,000 OR $1,000 IN EXCESS THEREOF. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER AND MORGAN STANLEY & CO. INTERNATIONAL PLC THAT IT WILL RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE, AS A MATTER OF U.S. LAW, ONLY (A) (1) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**), TO (I) A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A (A **QUALIFIED INSTITUTIONAL BUYER**), WHO IS ALSO A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 2(a)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **INVESTMENT COMPANY ACT**) (A **QUALIFIED PURCHASER**), AND THE RULES THEREUNDER THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST BE QUALIFIED INSTITUTIONAL BUYERS AND QUALIFIED PURCHASERS) TO WHOM NOTICE IS GIVEN THAT THE RESALE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A AND (II) THAT (I) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER, AND ADDITIONAL CAPITAL OR SIMILAR CONTRIBUTIONS WERE NOT SPECIFICALLY SOLICITED FROM ANY PERSON OWNING A BENEFICIAL INTEREST IN SUCH BENEFICIAL OWNER FOR THE PURPOSE OF ENABLING SUCH BENEFICIAL OWNER TO PURCHASE ANY NOTES, (II) IS NOT AN INVESTMENT COMPANY THAT RELIES ON THE EXCLUSION FROM THE DEFINITION OF "INVESTMENT COMPANY" PROVIDED BY SECTION 3(c)(1) OR SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT (OR A FOREIGN INVESTMENT COMPANY UNDER SECTION 7(d) THEREOF RELYING ON SECTION 3(c)(1) OR 3(c)(7) WITH RESPECT TO ITS HOLDERS THAT ARE U.S. PERSONS), WHICH WAS FORMED ON OR BEFORE APRIL 30, 1996, UNLESS IT HAS RECEIVED THE CONSENT OF ITS BENEFICIAL OWNERS WHO ACQUIRED THEIR INTERESTS ON OR BEFORE APRIL 30, 1996, WITH RESPECT TO ITS TREATMENT AS A QUALIFIED PURCHASER IN THE MANNER REQUIRED BY SECTION 2(a)(51)(C) OF THE INVESTMENT COMPANY ACT AND THE RULES AND REGULATIONS THEREUNDER, (III) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS, (IV) IS NOT A CORPORATION, PARTNERSHIP, COMMON TRUST FUND, SPECIAL TRUST, PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE SHAREHOLDERS, EQUITY OWNERS, PARTNERS, BENEFICIARIES, BENEFICIAL OWNERS OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE OR THE ALLOCATION OF ANY INVESTMENT AMONG SUCH SHAREHOLDERS, EQUITY OWNERS,

PARTNERS, BENEFICIARIES, BENEFICIAL OWNERS OR PARTICIPANTS, AS APPLICABLE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION (V) IS NOT AN ENTITY THAT, IMMEDIATELY SUBSEQUENT TO ITS PURCHASE OR OTHER ACQUISITION OF A BENEFICIAL INTEREST IN THIS NOTE, WILL HAVE INVESTED MORE THAN 40% OF ITS ASSETS IN BENEFICIAL INTERESTS IN THIS NOTE AND/OR IN OTHER SECURITIES OF THE ISSUER, (VI) UNDERSTANDS, ON BEHALF OF ITSELF AND EACH PERSON FOR WHICH IT IS ACTING, THAT THE ISSUER MAY RECEIVE A LIST OF EUROCLEAR PARTICIPANTS AND/OR CLEARSTREAM, LUXEMBOURG PARTICIPANTS HOLDING NOTES (I.E. BENEFICIAL INTERESTS IN THE GLOBAL NOTES) FROM EUROCLEAR AND/OR CLEARSTREAM, LUXEMBOURG AND ANY OTHER DEPOSITORY THROUGH WHICH THE NOTES (OR BENEFICIAL INTERESTS THEREIN) MAY BE HELD, AND (VII) AGREES TO PROVIDE NOTICE TO ANY SUBSEQUENT TRANSFEREE OF THE TRANSFER RESTRICTIONS PROVIDED IN THIS LEGEND, (2) TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), AND WHO IS NOT ACQUIRING THE NOTE FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES; AND (B) WITH RESPECT TO THE CLASS X NOTES, TO A PURCHASER WITH RESPECT TO WHOM NO PART OF THE ASSETS TO BE USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF (I) ANY EMPLOYEE BENEFIT PLAN OR OTHER PLAN (INCLUDING AN INDIVIDUAL RETIREMENT ACCOUNT) SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), OR SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**) OR (II) ANY GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO FEDERAL, STATE, LOCAL OR NON-US LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE (**SIMILAR LAW**), UNLESS UNDER THIS SUBSECTION (II) THE PURCHASE AND HOLDING OF SUCH NOTES WOULD NOT RESULT IN A VIOLATION OF ANY APPLICABLE SIMILAR LAW; AND, (C) WITH RESPECT TO THE CLASS A NOTES, THE CLASS B NOTES AND THE CLASS C NOTES, TO A PURCHASER WITH RESPECT TO WHOM (X) NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN OR OTHER PLAN (INCLUDING AN INDIVIDUAL RETIREMENT ACCOUNT) SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE OR ANY GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO SIMILAR LAW, OR (Y) PART OR ALL OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTE ASSETS OF AN EMPLOYEE BENEFIT PLAN OR OTHER PLAN (INCLUDING AN INDIVIDUAL RETIREMENT ACCOUNT) SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE OR A GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO SIMILAR LAW IF AND ONLY IF THE USE OF SUCH ASSETS WILL NOT CONSTITUTE, CAUSE OR RESULT IN THE OCCURRENCE OF A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF ANY APPLICABLE SIMILAR LAW, PROVIDED THAT THE AGREEMENT OF THE HOLDER HEREOF IS SUBJECT TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF THE PURCHASER'S PROPERTY SHALL AT ALL TIMES BE AND REMAIN WITHIN ITS CONTROL. THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES UNDERTAKEN OR REPRESENTED BY THE HOLDER, FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OR RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE AND ANY BENEFICIAL OWNER OF ANY INTEREST THEREIN SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON) AND AGREES TO TRANSFER THIS NOTE

ONLY IN ACCORDANCE WITH ANY SUCH AMENDMENT OR SUPPLEMENT IN ACCORDANCE WITH APPLICABLE LAW IN EFFECT AT THE DATE OF SUCH TRANSFER.

Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.

LUXEMBOURG TAXATION

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the Laws) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the Territories), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15% during the first three-year period starting 1 July 2005, at a rate of 20% for the subsequent three-year period and at a rate of 35% thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 15%.

Luxembourg resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the Law) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10%.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

Under Council Directive 2003/48/EC on the taxation of savings income, EU Member States are required to provide to the tax authorities of another Member State details of payments of interest (and other similar income) paid by a person within its jurisdiction to or for an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

UNITED STATES FEDERAL INCOME TAXATION

Any U.S. federal tax discussion in this Offering Circular was not intended or written to be used, and cannot be used, by any taxpayer for purposes of avoiding U.S. federal income tax penalties that may be imposed on the taxpayer. Any such tax discussion was written to support the promotion or marketing of the Notes to be issued or sold pursuant to this Offering Circular. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

The following is a general summary of the principal U.S. federal income tax consequences that may be relevant with respect to the purchase, ownership and disposition of the Notes. This summary addresses only the U.S. federal income tax considerations of U.S. Noteholders that are initial purchasers and purchase the Notes at the issue price pursuant to this offering and that will hold the Notes as capital assets. It is not a comprehensive description of all the tax considerations that may be relevant to a decision to purchase Notes. In particular, this summary does not address tax considerations applicable to holders that are subject to special tax rules, including, without limitation, the following: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in securities or currencies; (iv) tax-exempt entities; (v) regulated investment companies; (vi) persons that will hold the Notes as part of a "hedging" or "conversion" transaction or as a position in a "straddle" or as a part of a "synthetic security" or other integrated transaction for U.S. federal income tax purposes; (vii) persons that own (or are deemed to own) 10% or more of the voting shares of the Issuer; (viii) partnerships or other pass-through entities or persons who hold the Notes through partnerships or other pass-through entities; (ix) persons that have a "functional currency" other than the U.S. dollar; and (x) persons who have ceased to be U.S. citizens or to be taxed as resident aliens. Further, this summary does not address alternative minimum tax consequences or the indirect tax consequences applicable to the holders of equity interests in a holder of Notes.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Offering Circular. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For the purposes of this summary, a U.S. Noteholder is a beneficial owner of Notes that is, for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation or other entity treated as a corporation, created or organized in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (x) a court within the United States is able to exercise primary supervision over its administration and (y) one or more United States persons have the authority to control all of the substantial decisions of such trust. A Non-U.S. Noteholder is a beneficial owner of Notes (other than a partnership) that is not a U.S. Noteholder.

No rulings have been sought from the United States Internal Revenue Service (**IRS**) regarding the matters discussed herein and there can be no assurance that the IRS will agree with the conclusions expressed. This discussion is a general summary and does not cover all tax matters that may be important to a particular investor. **Prospective investors should consult their own tax advisers regarding the proper treatment of the Notes for U.S. federal income tax purposes, including the consequences of agreeing to characterize the Class A Notes, the Class B Notes and the Class X Notes, respectively, in a manner consistent with the treatment described herein, and the tax consequences of an investment in the Notes under the federal, state and local laws of the United States and any other jurisdiction where the investor may be subject to taxation in light of their particular situation.**

Characterization of the Notes

The proper U.S. federal income tax treatment of the Notes will depend upon whether the Notes are classified as debt or equity for U.S. federal income tax purposes. There are no authorities addressing similar

transactions involving securities issued by an entity with terms similar to those of the Notes. As a result, certain aspects of the U.S. federal income tax consequences of an investment in the Notes are not certain.

It is likely that the Class A Notes, the Class B Notes and the Class C Notes will be treated as debt for U.S. federal income tax purposes. The Issuer intends to take the position that the Class A Notes, the Class B Notes and the Class C Notes represent debt for U.S. federal income tax purposes.

Although the Class X Notes are issued in the form of debt, given the subordination level and other terms of the Class X Notes, it is likely that the Class X Notes will be treated as equity in the Issuer for U.S. federal income tax purposes. The Issuer intends to take the position that the Class X Notes represent equity in the Issuer for U.S. federal income tax purposes. As a result of such characterization, a U.S. Noteholder of a Class X Note would be treated as owning an equity interest in a passive foreign investment company (a **PFIC**) for U.S. federal income tax purposes. Accordingly, a U.S. Noteholder of Class X Notes may be subject to adverse tax consequences upon the sale, retirement, or other disposition of, or the receipt of certain types of distributions on, the Class X Notes as discussed under "*Tax Considerations Applicable to Notes treated as Equity*" below.

Except as otherwise stated, the discussion below assumes that the Class A Notes, the Class B Notes and the Class C Notes will be treated as debt (**Debt Notes**) and the Class X Notes will be treated as equity in the Issuer (**Equity Notes**) for U.S. federal income tax purposes. **Prospective investors should consider the tax consequences of investing in the Notes and should consult their own tax advisers regarding the proper treatment of the Notes and the consequence of agreeing to treat the Class A Notes, the Class B Notes and the Class C Notes as debt and the Class X Notes as equity in the Issuer for U.S. federal income tax purposes in light of their particular circumstances.**

Tax Considerations Applicable to Notes Treated as Debt

Payments of Interest

It is expected that the Debt Notes will be issued with no more than a de minimis amount of OID for U.S. federal income tax purposes. Accordingly, interest on a Debt Note will generally be taxable to a U.S. Noteholder as ordinary income at the time it is received or accrued, depending on the U.S. Noteholder's method of accounting for U.S. federal income tax purposes.

A U.S. Noteholder utilising the cash method of accounting for U.S. federal income tax purposes that receives an interest payment denominated in a currency other than U.S. dollars (a **Foreign Currency**) will be required to include in income the U.S. dollar value of that interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

If interest on a Debt Note is payable in a Foreign Currency, an accrual basis U.S. Noteholder may determine the amount of the interest income to be recognized in accordance with either of two methods. Under the first accrual method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, the part of the period within the taxable year. Under the second accrual method, the U.S. Noteholder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. If the last day of the accrual period is within five business days of the date the interest payment is actually received, an electing accrual basis U.S. Noteholder may instead translate that interest payment at the exchange rate in effect on the day of actual receipt. Any election to use the second accrual method will apply to all debt instruments held by the U.S. Noteholder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Noteholder and will be irrevocable without the consent of the IRS.

A U.S. Noteholder utilising either of the foregoing two accrual methods will recognize ordinary income or loss with respect to accrued interest income on the date of receipt of the interest payment denominated in a

Foreign Currency (including a payment attributable to accrued but unpaid interest upon the sale, exchange or other disposition of a Debt Note). The amount of ordinary income or loss will equal the difference between the U.S. dollar value of the interest payment received (determined on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during that accrual period (as determined under the accrual method utilised by the U.S. Noteholder).

Foreign Currency received as interest on the Debt Notes will have a tax basis equal to its U.S. dollar value at the time the interest payment is received. Gain or loss, if any, realized by a U.S. Noteholder on a sale or other disposition of that Foreign Currency will be ordinary income or loss and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Interest income on the Debt Notes will be treated as foreign source income for U.S. federal income tax purposes, which may be relevant in calculating a U.S. Noteholder's foreign tax credit limitation for U.S. federal income tax purposes. Subject to certain conditions and limitations, foreign country income tax withheld on interest may be deducted from taxable income or credited against a U.S. Noteholder's U.S. federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. Interest paid in taxable years beginning before 1 January 2007 will generally be "passive" or "financial services" income, while interest paid in taxable years beginning after 31 December 2006 will generally be "passive category" or "general category" income. The foreign tax credit rules are complex, and U.S. Noteholders should consult their own tax advisers regarding the availability of a foreign tax credit and the application of the limitation in their particular circumstances.

Sale, Exchange or Other Disposition of the Debt Notes

A U.S. Noteholder's tax basis in a Debt Note will generally equal its "U.S. dollar cost," which will generally be the U.S. dollar value of the purchase price on the date of purchase. A U.S. Noteholder will generally recognize gain or loss on the sale, exchange or other disposition of a Debt Note equal to the difference between the amount realized on the sale, exchange or other disposition and the tax basis in the Debt Note. The amount realized on the sale, exchange or other disposition of a Debt Note for an amount of Foreign Currency will be the U.S. dollar value of that amount on (i) the date the payment is received in the case of a cash basis U.S. Noteholder, or (ii) the date of disposition in the case of an accrual basis U.S. Noteholder.

Gain or loss recognized by a U.S. Noteholder on the sale, exchange or other disposition of a Debt Note that is attributable to changes in currency exchange rates will be ordinary income or loss and will constitute principal exchange gain or loss. Principal exchange gain or loss will equal the difference between the U.S. dollar value of the U.S. Noteholder's purchase price of the Debt Note in Foreign Currency determined on the date of the sale, exchange or other disposition, and the U.S. dollar value of the U.S. Noteholder's purchase price of the Debt Note in Foreign Currency determined on the date the U.S. Noteholder acquired the Debt Note. The foregoing principal exchange gain or loss will be realized only to the extent of the total gain or loss realized by the U.S. Noteholder on the sale, exchange or other disposition of the Debt Note, and will generally be treated as from sources within the United States for U.S. foreign tax credit limitation purposes.

Any gain or loss recognized by a U.S. Noteholder in excess of principal exchange gain or loss recognized on the sale, exchange or other disposition of a Debt Note will generally be U.S. source capital gain or loss. **Prospective investors should consult their own tax advisers with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates that hold the Debt Notes for more than one year) and capital losses (the deductibility of which is subject to limitations).**

A U.S. Noteholder will have a tax basis in any Foreign Currency received on the sale, exchange or other disposition of a Debt Note equal to the U.S. dollar value of the Foreign Currency at the time of the sale, exchange or other disposition. Gain or loss, if any, realized by a U.S. Noteholder on a sale, exchange or other disposition of that Foreign Currency will be ordinary income or loss and will generally be income from sources within the United States for foreign tax credit limitation purposes.

Tax Considerations Applicable to Notes Treated as Equity

Payments of Interest

Subject to the PFIC rules described below, the gross amount of any payment by the Issuer of cash or property (including any amounts withheld in respect of any applicable withholding tax) with respect to an Equity Note will be taxable to a U.S. Noteholder as a dividend to the extent of the Issuer's current and accumulated earnings and profits as determined under U.S. federal income tax principles. The U.S. Noteholder will not be eligible for any dividends received deduction in respect of the dividend otherwise allowable to corporations. Payments in excess of earnings and profits will be non-taxable to the U.S. Noteholder to the extent of, and will be applied against and reduce, the U.S. Noteholder's adjusted tax basis in the Equity Notes. Distributions in excess of earnings and profits and such adjusted tax basis will generally be taxable to the U.S. Noteholder as capital gain from the sale or exchange of property. The Issuer does not maintain calculations of its earnings and profits under U.S. federal income tax principles. Accordingly, any payment will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as a capital gain under the rules described above. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution. Payments made by the Issuer with respect to an Equity Note will not be eligible for the reduced income tax rate applicable to certain U.S. non-corporate shareholders that receive "qualified dividends" paid by U.S. corporations and "qualified foreign corporations".

The gross amount of any payments made in Foreign Currency will be included in the gross income of a U.S. Noteholder in an amount equal to the U.S. dollar value of the Foreign Currency, regardless of whether the Foreign Currency is converted into U.S. dollars. If the Foreign Currency is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize Foreign Currency gain or loss in respect of the payment. If the Foreign Currency received is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the Foreign Currency equal to its U.S. dollar value on the date of receipt. Gain or loss, if any, realized by a U.S. Noteholder on a sale or other disposition of that Foreign Currency will be ordinary income or loss and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Payments with respect to an Equity Note received by a U.S. Noteholder will be treated as foreign source income for U.S. federal income tax purposes, which may be relevant in calculating a U.S. Noteholder's foreign tax credit limitation for U.S. federal income tax purposes. Subject to certain conditions and limitations, foreign country income tax withheld on such payments may be deducted from taxable income or credited against a U.S. Noteholder's U.S. federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. Payments made in taxable years beginning before 1 January 2007 will generally be "passive" or "financial services" income, while dividends paid in taxable years beginning after 31 December 2006 will generally be "passive category" or "general category" income. The foreign tax credit rules are complex, and U.S. Noteholders should consult their own tax advisers regarding the availability of a foreign tax credit and the application of the limitation in their particular circumstances.

Sale, Exchange or Other Disposition of the Equity Notes

Subject to the PFIC rules described below, a U.S. Noteholder will generally recognize gain or loss for U.S. federal income tax purposes upon the sale, exchange or other disposition of Equity Notes in an amount equal to the difference between the U.S. dollar value of the amount realized from such sale, exchange or other disposition and the U.S. Noteholder's tax basis for such Equity Notes. A U.S. Noteholder's tax basis of its Equity Notes is generally its U.S. dollar cost. Such gain or loss will be a capital gain or loss and will generally be treated as from sources within the United States. **Prospective investors should consult their own tax advisers with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates that held the Equity Notes for more than one year) and capital losses (the deductibility of which is subject to limitations).**

A U.S. Noteholder will have a tax basis in any Foreign Currency received on the sale, exchange or other disposition of an Equity Note equal to the U.S. dollar value of the Foreign Currency at the time of the sale, exchange or other disposition. Gain or loss, if any, realized by a U.S. Noteholder on a sale, exchange or other disposition of that Foreign Currency will be ordinary income or loss and will generally be from sources within the United States for foreign tax credit limitation purposes.

Redemption of Equity Notes

The redemption of Equity Notes by the Issuer will be treated as a sale of the redeemed Equity Notes by the U.S. Noteholder (which, subject to the PFIC rules described below, is taxable as described above under "*Sale, Exchange or Other Disposition of the Equity Notes*") or, in certain circumstances, as a distribution to the U.S. Noteholder (which, subject to the PFIC rules described below, is taxable as described above under "*Distributions*").

Passive Foreign Investment Company ("PFIC") Considerations

The Issuer will be treated as a PFIC for U.S. federal income tax purposes in any taxable year in which a U.S. Noteholder holds Equity Notes. A corporation organised outside the United States generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either: (i) at least 75% of its gross income is "passive income", or (ii) on average at least 50% of the gross value of its assets is attributable to assets that produce "passive income" or are held for the production of passive income. In arriving at this calculation, the Issuer must also include a *pro rata* portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest. Passive income for this purpose generally includes dividends, interest, royalties, rents, annuities and gains from commodities and securities transactions.

Pursuant to the PFIC rules, upon receipt of a distribution on, or sale of, Equity Notes, a U.S. Noteholder will be required to allocate to each day in its holding period with respect to the Equity Notes, a pro rata portion of any distributions received on the Equity Notes which are treated as "excess distributions" (generally, any distributions received by the U.S. Noteholder on the Equity Notes in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Noteholder in the three preceding taxable years or, if shorter, the U.S. Noteholder's holding period for the Equity Notes). Any amount of an excess distribution (which term includes gain on the sale of stock) treated as allocable to a prior taxable year is subject to U.S. federal income tax at the highest applicable rate of the year in question, plus an interest charge on the amount of tax deemed to be deferred. Moreover, as discussed above, an individual U.S. Noteholder would not be entitled to the reduced maximum income tax rate applicable to certain "qualified dividends" under U.S. tax legislation.

Information Reporting Requirements. Under U.S. federal income tax law and regulations, certain categories of United States persons must file information returns with respect to their investment in the equity interests of a foreign corporation. Generally, unless an exemption applies, U.S. Noteholders would need to file an IRS Form 926 (*Return by a U.S. Transferor of Property to a Foreign Corporation*) with respect to their acquisition of the Equity Notes. The failure to file such IRS Form 926 may subject such U.S. Noteholder to a maximum penalty of $100,000 except in the case of intentional disregard. In addition, because the Issuer is a PFIC, each U.S. Noteholder of Equity Notes will be required to make an annual return on IRS Form 8621 (*Return by Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund*), reporting distributions received and gains realized with respect to that PFIC interest. **U.S. Noteholders should consult their own tax advisers regarding any U.S. federal income tax information reporting requirements that are attributable to such U.S. Noteholder's ownership of the Equity Notes.**

Prospective purchasers are urged to consult their own tax advisers regarding the status of the Issuer as a PFIC, and the consequences of an investment in a PFIC.

Alternative Characterization of the Class X Notes

It is possible, although unlikely, that the Class X Notes, consistent with their form, could be treated as debt rather than equity in the Issuer for U.S. federal income tax purposes. If the Class X Notes were characterized as debt instruments, the Class X Notes could be treated as contingent payment debt instruments (**CPDIs**) subject to the "non-contingent bond method" under the U.S. Treasury Regulations governing CPDIs (the **CPDI Regulations**). The CPDI Regulations generally require a U.S. Noteholder of a CPDI subject to the non-contingent bond method to include future contingent and non-contingent interest payments in income as such interest accrues (as original issue discount (**OID**)) based upon a projected payment schedule that reflects the yield of a comparable non-contingent debt instrument issued by the Issuer. Under this characterization, a U.S. Noteholder would be required to accrue amounts of OID in income prior to the receipt of payments of such amounts. Further, under the CPDI Regulations, any gain or loss such U.S. Noteholder recognizes on the sale, exchange or retirement of a CPDI will generally be treated as ordinary income or loss, except that a portion of any loss recognized could be treated as capital loss (depending on the circumstances). Any gain or loss realized on the sale or exchange of a Note subject to the CPDI Regulations generally will be U.S. source income or loss for U.S. foreign tax credit purposes. Prospective investors are urged to consult their own tax advisers regarding the characterization of the Class X Notes and the application and consequences of the CPDI Regulations to the Class X Notes.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments on the Notes and proceeds of the sale, exchange or other disposition of the Notes to U.S. Noteholders. The Issuer, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the U.S. Noteholder fails to furnish the U.S. Noteholder's taxpayer identification number, to certify that such U.S. Noteholder is not subject to backup withholding, or otherwise to comply with the applicable requirements of the backup withholding rules. Certain U.S. Noteholders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Non-U.S. Noteholders may be required to comply with applicable certification procedures to establish that they are not United States persons for U.S. federal income tax purposes in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a U.S. Noteholder generally may be claimed as a credit against such U.S. Noteholder's U.S. federal income tax liability, provided that the required information is timely and duly furnished to the IRS. **Prospective investors in the Notes should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.**

IRS Disclosure Reporting Requirements

U.S. Treasury Regulations (the **Disclosure Regulations**) meant to require the reporting of certain tax shelter transactions (**Reportable Transactions**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the Disclosure Regulations, it may be possible that certain transactions with respect to the Notes may be characterized as Reportable Transactions requiring a holder to disclose such transaction, such as a sale, exchange, retirement or other taxable disposition of a Note that results in a loss that exceeds certain thresholds and other specified conditions are met. Prospective investors in the Notes should consult with their own tax advisers to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (*Reportable Transaction Disclosure Statement*).

UNITED STATES ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and Section 4975 of the Code impose certain restrictions on (a) employee benefit plans as defined in Section 3(3) of ERISA which are subject to Title I of ERISA, (b) plans described in Section 4975(e)(1) of the Code, including individual retirement accounts or Keogh plans, or (c) any entities whose underlying assets include plan assets by reason of a plan's investment in such entities (each a **Plan**), and persons who have certain specified relationships to such Plans (the **parties in interest**) under ERISA and "**disqualified persons**" under the Code (collectively, **Parties in Interest**)). ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA and prohibits certain transactions between a Plan and Parties in Interest with respect to such Plan. It is possible that an investment in such Notes by a Plan (or with the use of the assets of a Plan) could be treated as a prohibited transaction under ERISA or Section 4975 of the Code (e.g. the sale of the Notes or the extension of credit pursuant to the Notes). Such transaction however, may be subject to a statutory or administrative exemption. Such exemptions may not, however, apply to all of the transactions that could be deemed prohibited transactions in connection with an investment by a Plan.

The U.S. Department of Labour (the "**DOL**") has issued prohibited transaction class exemptions, or "**PTCEs**," that may apply to the acquisition and holding of the Notes. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts), and PTCE 96-23 (relating to transactions effected by in-house asset managers). There can be no assurance that any of these PTCE or any other exemption (including, without limitation, the service provider exemption in Section 408(b)(17) of ERISA and new Section 4975(d)(20) of the Code) will be available with respect to any particular transaction involving the Notes.

Certain other employee benefit plans which are not Plans including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non-U.S. plans (as described in Section 4(b)(4) of ERISA)) may be subject to federal, state, local or other laws or regulations which are substantially similar to the prohibited transaction provisions of ERISA or Section 4975 of the Code (**Similar Law**). Fiduciaries of such plans should consult with their counsel before purchase any of the Shares or any interest therein.

Under Section 3(42) of ERISA and regulations issued by the DOL, when a Plan acquires 25 per cent or more of any class of equity in an entity, the underlying assets owned by that entity will be treated as if they were plan assets of such Plans, unless an exception otherwise applies. If the assets of the Issuer were deemed to be plan assets of such Plans, the Issuer would be subject to certain fiduciary obligations under ERISA, and certain transactions that the Issuer might enter into, or may have entered into, in the ordinary course of business might constitute or result in non-exempt prohibited transactions under ERISA and Section 4975 of the Code. The Issuer intends to take the position that the Class A Notes and Class B Notes and the Class C Notes represent debt for U.S. federal income tax purposes. However, although the Class X Notes are issued in the form of debt, given the subordination level and other terms of the Class X Notes, it is likely that the Class X Notes will be treated as equity in the Issuer for U.S. federal income tax purposes.

Accordingly, each purchaser of the Class A Notes, the Class B Notes and the Class C Notes will be deemed to have represented and agreed that (i) either it is not purchasing or holding such Class A Notes, Class B Notes and Class C Notes with the assets of any Plan or any governmental, church or non-U.S. plan or that one or more exemptions applies such that the use of such assets will not result in a prohibited transaction under ERISA or Section 4975 of the Code or a violation under any applicable Similar Law, and (ii) with respect to transfers, it will either not transfer such Notes to a transferee purchasing such Notes with the assets of any Plan or a governmental, church or non-US plan, unless one or more exemptions applies such that the

use of such assets will not result in a nonexempt prohibited transaction under ERISA or Section 4975 of the Code or any applicable Similar Law. Any Plan fiduciary that proposes to cause a Plan to purchase or hold such Class A Notes, Class B Notes and Class C Notes should consult with its counsel with respect to the potential applicability of ERISA and the Code to such investment and whether any exemption would be applicable and determine on its own whether all conditions of such exemption or exemptions have been satisfied. Each purchaser and/or holder of Class X Notes will be deemed to have represented and agreed that either (i) it is not purchasing or holding such Class X Notes with the assets of any Plan or (ii) it is using the assets of a governmental, church or non-US plan and its purchase and holding of the Class X Notes will not violate any applicable Similar Law.

GENERAL INFORMATION

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following:

Notes	Reg S ISIN	Rule 144 ISIN	Reg S Common Code	Rule 144A Common Code
Class A1 Notes	XS0304074668	—	030407466	—
Class A2 Notes	XS0304080046	—	030408004	—
Class A3 Notes	XS0304076523	XS0304085433	030407652	030408543
Class B1 Notes	XS0304075715	—	030407571	—
Class B2 Notes	XS0304081366	—	030408136	—
Class B3 Notes	XS0304091241	XS0304086084	030409124	030408608
Class C1 Notes	XS0304076010	—	030407601	—
Class C2 Notes	XS0304085193	—	030408519	—
Class C3 Notes	XS0304091753	XS0304086241	030409175	030408624
Class X Notes	XS0304077091	XS0304362378	030407709	030436237

No Litigation

The Issuer is not involved, and has not been involved, in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had since the date of its incorporation a significant effect on the Issuer's financial position.

Accounts

Since the date of its incorporation the Issuer has not commenced operations other than in respect of entering into transactions relating to the origination and acquisition of the Loan Portfolio on the Issue Date and has not produced accounts.

Documents Available

Copies of the following documents may be inspected at the specified offices of the Irish Paying Agent and the Principal Paying Agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for the term of the Notes:

(a) the currently effective articles of incorporation of the Issuer;

(b) the Trust Deed;

(c) the Agency Agreement;

(d) the Deed of Charge;

(e) the Cash Management Agreement;

(f) the Servicing Agreement;

(g) the Swap Agreements;

(h) the Master Definitions Schedule;

(i) the Account Bank Agreement;

(j) the Term Loan Agreements;

(k) the Note Placement Agreement;

(l) the Subcustody Agreement;

(m) the Loan Transfer Agareement;

(n) the Offering Circular; and

(o) any other Transaction Document.

Copies of the above documents will be available electronically.

Post Issuance Reporting

The Issuer intends to provide post issuance transaction information regarding the Class A Notes, the Class B Notes and the Class C Notes to be admitted to trading on the Irish Stock Exchange. No later than five days following each payment date of the Loans, the Servicer (on behalf of the Issuer) shall deliver to the Cash Manager and the Trustee all information necessary for the Cash Manager and Trustee to perform their duties under the Cash Management Agreement and the Trust Deed, respectively. The information reported by the Servicer shall include, *inter alia,* information regarding principal collections, interest collections, delinquencies and defaults, and recoveries and net defaults with respect to each of the Loans.

Irish Paying Agent

Deutsche International Corporate Services (Ireland) Limited has been appointed as Irish Paying Agent for the Issuer and in such capacity will perform transfer and paying agency services in relation to the Notes as set out in the Agency Agreement provided however that such duties and responsibilities shall be performed:

(a) only with respect to Notes held by residents of Ireland; and

(b) only in the event that no entity is performing the duties of principal paying agent in relation to the Notes.

Expenses

The total expenses related to the admission to trading on the Irish Stock Exchange are estimated to be approximately U.S.$21,000.

APPENDIX:

INFORMATION ABOUT THE PARTICIPATING MFIS

Each of the Participating MFIs has a unique background and status in the microfinance sector in the country in which it operates. The following summaries provide some relevant background regarding the performance of each of the Participating MFIs on a stand-alone and comparative basis. The information on the microfinance sector in the countries in which the Participating MFIs are located is provided by BlueOrchard and is based on its internal MFI servicer reports. The financial information that follows each of the Participating MFI summaries is provided from the three most recent years for which audited financial information is available. All of the Participating MFI summaries and financial information relating to the Participating MFIs in this Appendix have been provided by BlueOrchard based on information provided to BlueOrchard Finance S.A. by the Participating MFIs. The information sourced from the Participating MFIs has been adequately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by the Participating MFIs, no facts have been omitted which would render the reproduced information inaccurate or misleading. The information provided by BlueOrchard regarding financial information dated as of 31 December 2006 is unaudited and may be subject to revision over time. No reconciliation to U.S. GAAP or IFRS has been made for the financial information of Participating MFIs presented in this Appendix. All financial information provided is in U.S. dollars unless otherwise indicated. The Loan Portfolio is expected to comprise the Loans and their related characteristics as described below.

Each country has a own distinct economic and political environment and a distinct environment for the operation of MFIs and its. The following summaries also provide some relevant background regarding the countries in which the Participating MFIs operate. The country information summaries are all taken verbatim from The Economist Intelligence Unit's **(EIU)** Country by Country Reports and Forecasts (www.eiu.com). These comprise the sections "Outlook" to the table "Annual indicators". The sections "MF demand" and "MF Supply" are provided by BlueOrchard.

OVERVIEW PARTICIPATING MFI AND LOAN INFORMATION

Glossary of Terms

Term	Explanation
Portfolio Yield	Adjusted Financial Revenue from Loan Portfolio/ Adjusted Average Gross Loan Portfolio
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)
PAR > 30	Outstanding balance, loans overdue> 30 Days/ Adjusted Gross Loan Portfolio
YTD Write Off Ratio	Value of loans written-off/ Adjusted Average Gross Loan Portfolio
Risk Coverage Ratio	Adjusted Loan Loss Reserve/ PAR > 30 Days
National Rating	Rating that only compares a company to its national peers, not comparable internationally
Local Currency Rating	Company's ability to pay back its local currency debt
EDPYME	Empresa de desarrollo de la pequeña y micro empresa, a non-bank financial institution
LLC Licensed Company	A government authority has provided an MFI a license to operate, and therefor, the MFI is regulated by that authority
Financiera	Non-bank financial intermediary, entitled to take savings and deposits as well as to lend

Borrower	Country	Area	Loan Size ($MM)	Legal Type	Regulated	Loan Currency	% of Portfolio
Procredit Georgia	Georgia	E.Europe	10.0	Bank	Yes	US Dollars	9.37%
MFBA	Azerbaijan	E.Europe	8.0	Bank	Yes	US Dollars	7.50%
Agroinvest VFI doo Podgorica	Montenegro	E.Europe	5.2	LLC, Licensed Company [1]	Yes	Euros	4.87%
Vision Fund AgroInvest doo Podgorica (on behalf of AgroInvest Fund Serbia)	Montenegro	E.Europe	1.3	LLC, Licensed Company	Yes	Euros	1.22%
EKI	Bosnia	E.Europe	6.5	NGO [2]	No	Euros	6.09%
Partner	Bosnia	E.Europe	6.5	NGO	No	Euros	6.09%
Mikrofin	Bosnia	E.Europe	5.2	NGO	No	Euros	4.87%
Constanta	Georgia	E.Europe	4.0	NGO (Foundation)	No	US Dollars	3.75%
Finca Russia	Russia	E.Europe	6.0	Closed Joint Stock Co	No	Russian Roubles	5.62%
CredAgro	Azerbaijan	E.Europe	2.0	NBFI (LTD) [3]	Yes	US Dollars	1.87%
XacBank	Mongolia	Asia	5.0	Bank	Yes	Mongolian Tugriks	4.69%
AMRET	Cambodia	Asia	2.0	LLC, Licensed Company	Yes	US Dollars	1.87%
WWB Popayan	Colombia	Latam	10.0	NGO	No	Colombian Pesos	9.37%
Findesa	Nicaragua	Latam	6.0	Financiera [4]	Yes	US Dollars	5.62%
Crear Arequipa	Peru	Latam	5.0	EDYPME	Yes	Peruvian Soles	4.69%
WWB Medellin	Colombia	Latam	5.0	NGO	No	Colombian Pesos	4.69%
Confianza	Peru	Latam	3.0	EDYPME [5]	Yes	Peruvian Soles	2.81%
EDYFICAR	Peru	Latam	3.0	EDYPME	Yes	Peruvian Soles	2.81%
FDL	Nicaragua	Latam	3.0	NGO	No	US Dollars	2.81%
Equity Bank (EBS)	Kenya	Africa	10.0	Bank	Yes	US Dollars	9.37%
Total			**106.7**				100.0%

Notes

1. A government authority has provided an MFI a license to operate, and therefore, the MFI is regulated by that authority
2. Non-governmental organisation
3. Non-bank financial institution
4. Non-bank financial intermediary, entitled to take savings and deposits as well as to lend
5. *Empresa de desarrollo de la pequeña y micro empresa*, a non-bank financial institution

Country	% of Portfolio[1]
Azerbaijan	9.37%
Bosnia	17.06%
Cambodia	1.87%
Colombia	14.06%
Georgia	13.12%
Kenya	4.69%
Mongolia	6.09%
Montenegro/Serbia	8.43%
Nicaragua	10.31%
Peru	5.62%
Russia	9.37%
Total	100.0%

1. Weighted average percentage based on the initial principal amount of the related Loan

Borrower	Outstanding Portfolio Dec 06	Number of Borrowers	Average Credit per Client	PAR >30	YTD Write Off Ratio	Risk Coverage Ratio	Active Savers/ Depositors
	($ MM)	2006	($)	(%)	(%)	(%)	
Vision Fund AgroInvest doo Podgorica (on behalf of AgroInvest Fund Serbia)	41.3	22,655	1,823	0.3	0.1	383	na
AgroInvest VFI doo Podgorica	29.4	13,986	2,103	0.1	0.1	751	na
AMRET	17.6	141,957	124	0.1	0.0	858	91
Confianza	37.8	33,317	1,134	2.9	0.9	137	-
Constanta	20.1	19,621	1,025	0.5	1.0	405	na
Crear Arequipa	29.0	26,119	1,111	3.4	0.9	128	-
CredAgro	9.8	2,831	3,450	0.4	0.1	303	na
EDPYME Edyficar	79.3	90,923	872	3.5	1.3	127	-
EKI	61.2	28,078	2,179	0.3	0.5	650	na
Equity Bank	164.3	252,147	652	7.0	1.1	63	1,014,474
Finca Russia	19.2	8,591	2,234	0.8	1.4	189	na
Findesa	88.4	49,474	1,787	2.0	0.9	127	37,576
Fondo de Desarrollo Local	44.4	61,500	722	1.3	0.7	185	-
MFBA	47.5	16,376	2,899	0.5	1.1	454	4,415
Mikrofin	66.1	28,840	2,294	0.3	0.1	807	na
Partner	60.9	33,193	1,834	0.8	0.7	278	na
ProCredit Georgia	184.5	57,151	3,229	1.9	0.9	206	139,927
WWB Medellin	30.5	41,178	741	2.0	0.4	115	-
WWB Popayan	80.9	137,828	587	0.8	0.3	113	-
XacBank	51.3	51,822	991	1.0	0.1	79	82,868
Average	**58.2**	**55,879**	**1,590**	**1.5**	**0.6**	**318**	**106,613**
Weighted Average	**72.8**	**64,205**	**1,635**	**1.8**	**0.7**	**288**	**118,403**

INFORMATION ABOUT THE PARTICIPATING MFIS, by area

LATIN AMERICA

1. Colombia

Outlook for 2007-08

After winning re-election in May 2006, the president, Alvaro Uribe, will remain in power until 2010. In spite of a strengthened popular mandate and a working majority in Congress, his political capital is diminishing. Reported links between several of Mr Uribe's congressional supporters and the demobilised Autodefensas Unidas de Colombia (AUC) will tarnish the president's reputation and detract from the legislative agenda. Despite some improvements, public security will remain poor, particularly in some rural areas. A negotiated end to the conflict with the Fuerzas Armadas Revolucionarias de Colombia (FARC) is unlikely. The Economist Intelligence Unit expects Mr Uribe to retain a prudent economic policy. GDP growth will slow gradually, but remain solid, averaging 4.5% in 2007-08. The current account deficit will widen to 2.4% of GDP in 2008, but will be fully financed by strong investment inflows.

The political scene

A Supreme Court investigation linked to several of Mr Uribe's congressional supporters to the demobilised paramilitary AUC, damaging unity within the ruling coalition. There were negative developments in the security situation. The demobilised AUC broke off the peace agreement in December after Mr Uribe moved 59 AUC leaders to a high security prison. Hopes for a hostage exchange with the FARC were dashed when a car bomb injured 23 people at a military university in the capital, Bogotá, in October.

Economic policy

Economic policy remained prudent following the expiration of the loan agreement with the IMF in November. Windfall oil revenue and higher tax revenue supported the fiscal accounts, while the government made progress on reforms to tackle structural weaknesses in the public finances. Currency appreciation helped keep inflation low, but monetary policy was tightened to dampen price pressures arising from strong domestic demand.

The domestic economy

GDP growth reached 7.7% year on year in the third quarter of 2006, driven by domestic demand, reflecting low interest rates and high levels of confidence. Consumer price inflation fell to 4.2% in October, before rising marginally to 4.3% in November, well within the target range of 4-5% set for 2006.

Foreign trade and payments

Export revenue grew by 14% in January-September, but the import bill accelerated even faster, driven by sustained consumer demand. The falling trade surplus caused the current-account deficit to widen; according to the most recent data, the deficit reached US$962m in the first half of 2006.

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[a]	2006[b]
GDP at market prices (CoPs trn)	203.5	228.5	256.4	284.5	315.3
GDP (US$ bn)	81.2	79.4	97.5	122.6	133.7
Real GDP growth (%)	1.9	3.9	4.9	5.3	6.1
Consumer price inflation (av; %)	6.3	7.1	5.9	5.0	4.3
Population (m)	43.5	44.2	44.9	45.6	46.3
Exports of goods fob (US$ m)	12,316.0	13,813.0	17,225.0	21,728.0	24,763.2
Imports of goods fob (US$ m)	12,079.0	13,257.0	15,878.0	20,134.0	24,092.4
Current-account balance (US$ m)	-1,358.0	-974.0	-938.0	-1,982.0	-2,216.5
Foreign-exchange reserves excl gold (US$ m)	10,732.0	10,784.0	13,394.0	14,787.0	15,865.5
Total external debt (US$ bn)	33.2	37.0	37.7	34.8[b]	35.1
Debt-service ratio, paid (%)	39.4	44.6	33.0	39.2[b]	28.2
Exchange rate (av) CoPs:US$	2,504.7	2,877.5	2,628.4	2,321.1	2,358.6

[a] Actual, [b] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

Date of EIU Report: January 2007

Microfinance industry demand situation:

As a result of the long-term war (over 50 years), mostly in remote areas, large numbers of Colombians have migrated to the cities, many leaving behind farming or trading activities. This has created a large population that relies exclusively on the informal economy; the potential number of micro-entrepreneurs can be conservatively estimated at 3 million. The current government has understood the need to provide financial services to this population and the importance of having these services provided by trusted financial institutions. Thus, the Uribe government has been encouraging traditional banks to start lending to poor people also, smaller amounts, and so the banks have started to become competitors to the MFIs, although they have not entered the market full-fledged. However, these activities are still greatly concentrated in urban areas and so microfinance demand in rural areas is still largely unmet.

Microfinance industry supply situation:

In the absence of a detailed regulatory framework for microfinance in Colombia, most of the operators are NGO's, although as of December 2005 commercial banks (primarily Caja Social) have the lion's share (approx. 60%) of what legally constitutes microfinance. However, they tend to concentrate on higher loan amounts as compared to the NGOs and rarely lend less than USD 1000, where as most of the NGOs have average loans size of approx. USD 500-800. The 5 Women's World Banking affiliates are among the largest NGOs and work as non-profit entities governed by private law.. Recently, strongly encouraged by the government with attractive incentives, commercial banks and pension schemes are also starting to enter the market, downscaling sometimes quite aggressively in the microfinance market. The government has recently changed regulations to remove a MF commission on loans but allow for higher rates. Unfortunately, the commissions were often charged up-front so these changes may have a negative impact on margins at least in the short run.

(a) **WWB Medellin**

Loan: $5.0 million (4.69% of Loan Portfolio)

WWB Medellin, an NGO established in 1985, is a member of the Women's World Banking network and is regionally focused in Medellin and the province of Antioquia (population of 6 million). The MFI currently has 17 branches in 8 cities in Antioquia and Caldas. They realized strong financial results with ROE above 20% in 2006. They are currently in the process of forming a microfinance bank in which is expected to merge with WWB Bogota, another affiliate of Women's World Banking. BBVA's foundation will contribute 51% equity into this new bank. It is expected that the proposal will be presented to the Superintendency of Banks in May 2007.

As of December 2006, WWB Medellin had total assets of $32.1 million and an outstanding loan portfolio of $30.5 million. It serves approximately 41,178 borrowers. Its portfolio quality is strong with PAR greater than 30 days of 2.0% and a write-off ratio of 0.4%. WWB Medellin received a 'A-' rating from Microrate as of March 2007.

WWB Medellin	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	32.1	18.0	12.3
Total loan portfolio ($MM)	30.5	16.3	10.9
Portfolio yield (%)	30.4	23.0	38.1
Portfolio at risk >30 days (%)	2.0	2.3	2.4
Average loan size per client ($)	741	620	490
Operational self-sufficiency (%)	122.3	116.4	123.4
Debt to equity ratio	4.6	3.2	2.3
Return on equity	24.0	10.5	18.9

(b) **WWB Popayán**

Loan: $10.0 million (9.37% of Loan Portfolio)

The Fundación Mundo Mujer Popayán (WWB Popayán) was established in 1989 as an affiliate of the WWB network. It is a non-profit organization governed by a board of trustees. WWB Popayán is the second largest NGO MFI in Colombia (after WWB Cali) and the market leader for small microfinance loans in the regions that it covers. WWB Popayán was awarded the IADB Excellence in Microfinance Award in 2000 and the Ford Foundation's award for innovation in rural lending in 2004.

As of December 2006, WWB Popayán had total assets of $85.6 million and an outstanding portfolio of $80.9 million. It serves approximately 137,828 borrowers primarily in south-western Colombia. Its portfolio quality is excellent; as of December 2006 its PAR-30 was 0.8% and 0.1% loans were written off. WWB Popayan has a 'A+' rating from Microrate as of December 2005.

WWB Popayán	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	85.6	50.2	34.2
Total loan portfolio ($MM)	80.9	45.5	30.3
Portfolio yield (%)	31.2	35.4	43.0
Portfolio at risk >30 days (%)	0.8	0.8	1.1
Average loan size per client ($)	587	474	425
Operational self-sufficiency (%)	140.2	168.5	136.7

Debt to equity ratio	1.7	1.0	0.9
Return on equity	16.2	25.0	18.7

2. Nicaragua

Outlook for 2007-08

Nicaragua's institutional framework will remain fragile throughout the forecast period and politics will be turbulent as the incoming president, Daniel Ortega of the Frente Sandinista de Liberación Nacional (FSLN; the Sandinistas), will not control a majority in the legislature. This will force him to maintain his alliance with the right-wing Partido Liberal Constitucionalista (PLC). Disputes between the two parties will cause periodic institutional impasse. The Economist Intelligence Unit has premised its forecast on the assumption that Mr Ortega will move rapidly to restore consumer and investor confidence. He will spend much of his first year in office negotiating a new poverty reduction and growth facility (PRGF) with the IMF, along the lines of the agreement which expired at the end of 2006. GDP growth will slow in 2007, owing to political uncertainty which will dampen investment spending. Growth will recover marginally in 2008. Inflation will gradually decline towards 7% by the end of the forecast period. The external deficits will remain large, but, with donor support, a balance-of-payments crisis is unlikely.

The political scene

Mr Ortega won the November 5th presidential election, largely thanks to a split on the right of the political spectrum. His pact with Arnoldo Alemán of the Partido Liberal Constitucionalista (PLC) is set to continue, as Mr Ortega will need the PLC to pass legislation in the National Assembly where the FSLN has minority position. The PLC remains under the control of Mr Alemán despite his convicted status. No cabinet appointments have been announced yet.

Economic policy

Following his election Mr Ortega made an effort to assure investors that investments and property rights would be respected. The PRGF ended successfully in December and the IMF was set to initiate a relationship with the new government.

The domestic economy

According to the activity index published by the Banco Central de Nicaragua (BCN, the Central Bank), growth slowed further in the third quarter. Annual inflation continued to ease and stood at 7% in October. The issue of an irregular electricity supply was set to demand Mr Ortega's immediate attention.

Foreign trade and payments

Slower import growth helped to stem the widening of the trade deficit in the first nine months of 2006. The current-account deficit was largely unchanged. The Inter-American Development Bank (IDB) announced an agreement in principle to forgive Nicaraguan debt.

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[a]	2006[b]
GDP at market prices (C bn)	57.4	62.0	71.7	82.2	92.6
GDP(US$ bn)	4.0	4.1	4.5	4.9	5.3
Real GDP growth (%)	0.8	2.5	5.1	4.0	3.5
Consumer price inflation (av; %)	3.7	5.3	8.5	9.6	9.0

Population (m)[c]	5.3	5.5	5.6	5.8	5.9
Exports of goods fob (US$ m)	917	1,050	1,365	1,552	1,714
Imports of goods fob (US$ m)	-1,834	-2,021	-2,440	-2,865	-3,202
Current-account balance (US$ m)	-699	-651	-696	-800	-883
Foreign-exchange reserves excl gold (US$ m)	448	502	668	728	723
Total external debt (US$ bn)	6.5	6.9	5.1	5.0[b]	3.8
Debt-service ratio, paid (%)	9.9	10.6	5.8	5.1[b]	5.4
Exchange rate (av) C:US$	14.25	15.10	15.94	16.73	17.58

[a] Actual, [b] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

Date of EIU Report: January 2007

Microfinance industry demand situation:

Nicaragua is the poorest country of Central America, with a GDP per capita of USD 2'900 in 2005 (est.). The majority of the population relies on its own efforts to earn enough to live on, rather than on state assistance or on stable employment. In this country of 5.6 millions people, the potential microfinance market is estimated at 1.5 to 2 millions. There is a strong demand for micro-credit and basic financial services, as well in rural as in urban areas, even if the latter starts to show some signs of saturation. Furthermore, Nicaraguan micro-entrepreneurs will continue to seek financing as the economy as whole has significant growth potential. The newly ratified CAFTA agreement has created opportunities for some microentrepreneurs. For example, small rural cattle ranchers are able to obtain a better price for their meat as these sell their meat to cooperatives who in turn export this meat to the US and El Salvador. This has created opportunities for MFIs to help finance the expansion of this activity.

Microfinance industry supply situation:

The formal Nicaraguan banking sector is made up of seven Nicaraguan banks, one Panamanian bank, seven financial companies and one regulated microfinance institution. Due to the lack of focus on microentrepreneurs from formal banks, MFIs play a fundamental role in the country. Banco de Finanzas is the only main stream bank currently downscaling its credits activities. Findesa and Procredit Bank are the largest and the only two regulated MFIs in the country and Findesa plans to transform into a bank whilst FAMA is also in the process of transforming into a regulated institution. There are also approximately 25 NGOs offering micro-financial services. Some of them plan to become regulated non-banking financial institutions. This high number of actors implies strong competition, especially in urban areas, among MFIs offering a full range of financial services. However, growth continues to be solid (between 40-50% p.a.), overall levels of profitability remain high in comparison to its neighbouring countries and Nicaragua's Microfinance market continues to be the most dynamic market in Central America.

The Central Bank imposes a ceiling on interest rates. However, it doesn't affect competition because of the legal differentiated commission fees MFIs can add on to this fixed rate. Currently, there is no microfinance specific law, which leaves some uncertainty as to how a future government may choose to regulate these activities. Consequently, the regulated MFIs will have a better competitive position than the smaller MFIs, under such as scenario, as their activities are already regulated by the bank regulators.

(a) **FINDESA**

Loan: $6.0 million (5.62% of Loan Portfolio)

The NGO FINDE (Associación Fondo del Instituto Nicaraguense de Desarollo or Nicaraguan Institute of Development (INDE) Fund, www.findesa.com.ni) began operations in 1993 as a program of INDE with additional funding from private Nicaraguan investors and the German Agency for Development (Deutsche Gesellschaft für Technische Zusammenarbeit, GTZ) and with the support of the Inter-American Development Bank (IDB). FINDE was active as a financial services provider in urban and rural areas and focused on micro-, small- and medium-sized entrepreneurs. In July 1998, FINDE became a regulated legal entity which was a first step before its transformation into a limited liability company that would be better suited to meet the growing financial needs of FINDE clients. FINDESA (Financiera Nicaraguense de Desarollo S.A.) was created in February 2002 and acquired the assets, liabilities and equity of FINDE. Its new status allows FINDESA to offer, among other products, savings and deposits; the stated goal of FINDESA is to be a sustainable and secure institution providing financial solutions to micro, small and medium companies. FINDESA is currently the second largest microfinance provider in Nicaragua (after ProCredit Nicaragua).

As of 31 December 2006, FINDESA had an outstanding portfolio of $88.4 million and outstanding loans to approximately 49,474 clients. Its financial performance and portfolio quality are strong, with PAR-30 of 2.0%, write-offs of 0.9% as at December 2006. Fitch Ratings assigned Findesa a long-term local BBB+ rating in March 2006.

FINDESA	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	116.2	76.4	46.5
Total loan portfolio ($MM)	88.4	57.8	33.2
Portfolio yield (%)	30.9	31.4	36.2
Portfolio at risk >30 days (%)	2.0	1.4	1.1
Average loan size per client ($)	1,787	1,957	1,452
Operational self-sufficiency (%)	122.4	120.8	123.5
Debt to equity ratio	8.1	8.3	7.8
Return on equity	34.2	32.7	33.3

(b) **FDL**

Loan: $3.0 million (2.81% of Loan Portfolio)

The Fondo de Desarrollo Local (Local Development Fund, or FDL) was created in 1993 under the auspices of the Development Institute of the Central American University Nitlapan in Managua. This university entity was formally established as a non-profit organization in 1997 with an initial capital investment of $10,000. Six of its ten founders are Jesuit priests. The institution evolved from a research department to into an NGO, with a market oriented approach that nevertheless adhered to its initial development and Christian values. Today, FDL is the largest NGO microfinance institution in Nicaragua. Its main focus continues to be the support of rural development, even as FDL diversified its activities in urban areas to benefit from their strong growth; as of December 2006, 83% of its portfolio is in rural areas and 60% of the portfolio as agricultural loans. The close relation with the university allows FDL to test new methodologies, without bearing all the development costs of these new approaches. Since 2003, the MFI also manages a credit program in Honduras.

As of 31 December 2006, FDL had an outstanding portfolio of $44.4 million and made loans to approximately 61,500 clients. FDL's PAR-30 is 1.3% and write-offs represent 0.7% of its outstanding portfolio. In April 2006 Microfinanza gave FDL an AA- rating, and FDL was awarded the IDB's Excellence in Microfinance award in 2005.

FDL	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	55.2	42.1	24.2
Total loan portfolio ($MM)	44.4	34.5	19.7
Portfolio yield (%)	32.1	34.9	31.9
Portfolio at risk >30 days (%)	1.3	1.1	1.9
Average loan size per client ($)	722	714	672
Operational self-sufficiency (%)	116.4	117.0	106.3
Debt to equity ratio	4.6	4.6	3.5
Return on equity	30.3	34.8	19.4

3. Peru

Outlook for 2007-08

The president, Alan García of the centre-left Partido Aprista Peruano (Apra), will continue to enjoy a comfortable level of popular support. Having gained the backing of the country's business sector, Mr García will maintain policy continuity and continue to implement the investor-friendly policies of the past decade. Unlike his disastrous first term as president (1985-1990), Mr García has inherited a strong economy and is fortunate to be in power at a time of record-high mineral prices. The extra revenue provided by strong economic growth will enable him to implement his social policies, but will also raise expectations. With over half of the population living in poverty, Mr García will focus on attempting to reduce inequalities by boosting public spending, primarily through investment in basic infrastructure, such as water connections, sanitation and road construction. Nevertheless, Mr García will pursue a broadly pro-market economic policy and will not jeopardise Peru's hard-won fiscal stability. Economic growth will be driven by the Camisea natural-gas project, as well as by growing exports of minerals, textiles and agricultural produce. Vigilant monetary policy and a stable currency will help to keep inflation anchored around the 2.5% central target. The current-account surplus will narrow in 2007-08 in line with softening commodity prices.

The political scene

Independent candidates performed well in the November elections. Direct government mediation of social disputes has kept Mr García's popularity high. A controversial law governing NGOs has been enacted.

Economic policy

In January-September the non-financial public sector (NFPS) posted an accumulated surplus of 3.7% of GDP, a threefold increase compared with the same period of 2005. Congress has approved a budget for 2007, which will increase spending by 14.3% compared with the 2006 budget.

The domestic economy

Real GDP grew by 8.7% year on year in the third quarter, led by non-primary sectors, such as construction and non-primary manufacturing. Private investment grew by 16.6% year on year, while private consumption grew by 6.4%. Inflation is estimated to have undershot the Central Bank's inflation target in 2006. The exchange rate has continued to appreciate.

Foreign trade and payments

Export earnings grew by 37% year on year to US$18.9bn in January-October, driven by price increases, while imports rose by 22% to US$12.1bn. The current-account surplus reached US$1.2bn (5.1% of GDP).

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[a]	2006[b]
GDP at market prices (Ns bn)	198.9	211.5	237.8	261.6	296.1
GDP(US$ bn)	56.6	60.8	69.7	79.4	90.4
Real GDP growth (%)	5.2	3.9	5.2	6.4	7.5
Consumer price inflation (av; %)	0.2	2.3	3.7	1.6	2.0
Population (m)	26.7	27.1	27.5	27.9	28.4
Exports of goods fob (US$ m)	7,713.9	9,090.7	12,809.2	17,336.3	23,149.8
Imports of goods fob (US$ m)	7,421.8	8,237.8	9,804.8	12,076.1	14,258.4
Current-account balance (US$ m)	-1,117.4	-957.9	19.3	1,105.1	3,044.6
Foreign-exchange reserves excl gold (US$ m)	9,339.1	9,776.8	12,176.4	13,599.4	14,370.5
Total external debt (US$ bn)	28.0	29.8	31.3	30.1[b]	29.1
Debt-service ratio, paid (%)	33.0	21.3	16.8	23.9[b]	10.1
Exchange rate (av) Ns:US$	3.52	3.48	3.41	3.30	3.28

[a] Actual, [b] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

Date of EIU Report: January 2007

Microfinance industry demand situation:

Peru has a population of 29 million with an official unemployment rate of approximately 8.0% but an estimated underemployment of nearly 50% and wide regional disparities. As a result, large segments of the population rely on work in the informal sector to provide household income. According to market studies, there are an estimated 6.5 million micro-enterprises in the country. With strong growth in the microfinance sector in the past several years, however, the risk of client overindebtedness has become increasingly concerning, as the number of clients with credits at more than one microfinance institution has grown to an estimated 30-40% and even higher in urban areas.

Microfinance industry supply situation:

Peru has a large number of organizations providing services to microentrepeneurs and has one of the most competitive and dynamic microfinance markets in the world. Unlike in other countries, a significant part of the market (51%) is catered to by banks, particularly Banco de Credito and Banco del Trabajo, as well as MiBanco, the sole specialized microfinance bank. If microfinance is

currently a marginal part of activities of mainstream banks (at around 5% of total credit extended by banks), it is also a growing one. After private banks, 13 Municipal Savings and Loans Companies (CMACs) represent the largest sector, accounting for 33% of the microfinance market, followed by 14 EDPYMES, non-bank financial institutions mostly founded by NGOs, that specialize in microfinance and represent 10% of the market. The vast majority of microfinance providers in Peru are regulated and supervised by the Banking Superintendency and there are three credit bureaus utilized by all regulated and some non-regulated players.

There is some concern that under the new Garcia administration the state-owned Banco de la Nacion may become involved in the provision of microfinance services, either directly or as a second tier institution (a role already filled by COFIDE). Several MFIs have already signed agreements with Banco de la Nacion whereby they will use BN's branches to provide lending services to clients - the risk of the portfolio would remain with the MFI, and they would pay a fee to BN (2.5%) for the use of their facilities. Importantly, however, BN is mandating that the interest rate charged on these loans be approximately 20% lower than the rates charged by the MFIs from their regular branches, which may make things complicated regarding client relations/communication, particularly in circumstances in which the BN branches are not far from the MFI's regular branches.

(a) **Confianza**

Loan: $3.0 million (2.81% of Loan Portfolio)

Confianza was founded as an NGO in 1993 by the local NGO SEPAR. The NGO transformed into an Edpyme (Entidad Para el Desarrollo de la Pequeña y Micro Empresas, or small- and micro-enterprise development entity) in 1997. As an Edpyme, it is regulated by the Peruvian Superintendency of Banks. Based in the central sierra of Peru, with its headquarters in the city of Huancayo, Confianza is the third largest Edpyme in the country by portfolio size (there are 14 Edpymes in total). It has operations in the departments of Huancayo, Junin, Huancevalica, and Uyacali. In November 2003, Confianza opened an office in the eastern cone of Lima to attend to the many clients who travel from the sierra into Lima.

Shareholding of Confianza is diverse among local and international groups. As at December 2006, SEPAR holds the largest share (23.55%, along with a majority of voting shares), followed by Incofin (17.31%), Oikocredit (16.63%), Volksvermogen (11.73%), ASEP/Agrobanco (5.94%), Novib (5.75%), SIDI (3.17%), Alterfin (2.39%), Antares (1.92%) and remaining shareholders include management and staff members (9.90%).

As of 31 December 2006, Confianza had total assets of $53.7 million and an outstanding portfolio of $37.8 million. It serves approximately 33,317 clients. Equilibrium, a Peruvian rating agency, gave Confianza a 'C+' rating in September 2006. Confianza has the fourth highest portfolio quality amongst the Edpyme MFIs in Peru, with PAR-30 of 2.9% and loan write-offs of 0.9%.

Confianza	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	53.7	28.7	17.0
Total loan portfolio ($MM)	37.8	22.1	13.7
Portfolio yield (%)	32.6	34.2	36.2
Portfolio at risk >30 days (%)	2.9	3.5	4.5
Average loan size per client ($)	1,134	917	856
Operational self-sufficiency (%)	111.4	128.1	112.3
Debt to equity ratio	6.1	4.8	4.7
Return on equity	11.8	22.5	6.4

(b) **Crear Arequipa**

Loan: $5.0 million (4.69% of Loan Portfolio)

Crear Arequipa began as a program of the NGO Habitat Peru in 1992 and transformed into an Edpyme in 1998. Habitat Peru continues to own 23.45% of Crear Arequipa with nine local businessmen holding the balance.

Arequipa is among the most competitive cities of Peru in terms of microfinance services. Crear Arequipa is currently the third largest MFI operating in the area and targets a slightly lower end of the microfinance client market. Crear Arequipa opened its first office in Lima in 2001 in order to diversify geographically away from the very competitive sector in Arequipa and to serve the many clients that travel between the two cities.

As of 31 December 2006, Crear Arequipa had total assets of $37.6 million and an outstanding portfolio of $29.0 million. Its portfolio quality is among the most robust and stable in the Edpyme sector. As of December 2006, Crear Arequipa's PAR greater than 30 days was 3.4% and its write off ratio was 0.9%. Microrate rated them 'a-' as of December 2005.

Crear Arequipa	12/2006	12/2005	12/2004
Total assets ($MM)	37.6	20.0	12.5
Total loan portfolio ($MM)	29.0	16.5	10.5
Portfolio yield (%)	36.6	35.2	41.5
Portfolio at risk >30 days (%)	3.4	3.1	3.9
Average loan size per client ($)	1,111	973	1,041
Operational self-sufficiency (%)	137.5	133.5	133.4
Debt to equity ratio	5.8	6.3	5.0
Return on equity	34.6	33.3	30.1

(c) **EDYFICAR**

Loan: $3.0 million (2.81% of Loan Portfolio)

EDYFICAR (www.edyficar.com.pe) was created by CARE Peru in 1998 and registered under Peruvian law as an Edpyme. In addition to making micro-, small and medium sized business loans, EDYFICAR also participates in MiVivienda, a national program supporting the rehabilitation and construction of houses. CARE Peru maintains majority shareholding of the institution, with 83% of voting shares. Other shareholders include Microvest.

EDYFICAR is the largest Edpyme in Peru, with over 40% of the Edpyme market, and has a broad national presence, operating in 15 different branches in the country. While it rarely holds the largest market share of MFIs in the places that it operates, it has a solid position in most regions of the country, with 16 agencies, and 18 "special offices" that are intended to convert to full-service agencies once they reach a critical size.

As of 31 December 2006, EDYFICAR had an outstanding portfolio of $79.3 million and served approximately 90,923 clients. Its PAR30 at year-end was 3.5% and its write off ratio was 1.3%. The Edpyme is solidly profitable, posting an ROE in 2006 of 28.4%. In September 2006, EDYFICAR received a rating of 'B-' from Class and Associates, a Peruvian rating agency.

EDYFICAR	12/2006	12/2005	12/2004
Total assets ($MM)	96.7	68.1	50.1
Total loan portfolio ($MM)	79.3	55.0	41.6
Portfolio yield (%)	36.3	34.6	37.4
Portfolio at risk >30 days (%)	3.5	3.9	4.8
Average loan size per client ($)	872	843	883
Operational self-sufficiency (%)	132.7	133.4	114.8
Debt to equity ratio	4.9	5.2	5.0
Return on equity	28.4	27.7	16.1

EASTERN EUROPE AND CIS STATES

4. Azerbaijan

Outlook for 2007-08

The Economist Intelligence Unit's forecast assumes that the president, Ilham Aliyev, will continue to consolidate his authority by sidelining potential political rivals and replacing them with loyalists. This will provide him with a solid base of support from which to contest the 2008 presidential election, which he is likely to win. The government will use revenue from the oil sector to raise spending on wages and infrastructure. However, fiscal loosening and growing inflows of foreign exchange from oil exports will necessitate a tightening of monetary policy. As there are only limited sterilisation tools available, the authorities will continue to allow the currency to appreciate nominally against the US dollar, in an attempt to dampen inflationary pressure. Base-period effects will result in slowdown in real GDP growth from 34.5% in 2006 to around 20% in 2007, and to 11% in 2008. The current-account surplus will rise, as high oil prices coincide with growing export volumes.

The political scene

A court has found a former official from the Ministry of the Interior guilty, along with 25 other suspects, of kidnap and assault. The government has evicted two newspapers from their premises and has clamped down on the rebroadcast of foreign stations. A dispute over gas prices has strained relations with Russia.

Economic policy

State budget revenue and expenditure rose by 97% and 67% year on year, respectively, in January-November 2006. The government is targeting further large increases (of around 58%) in the 2007 budget. The oil windfall, in conjunction with the rise in government spending, has led to a huge increase in monetary indicators.

The domestic economy

For the second consecutive year Azerbaijan has recorded the world's fastest growth rate: the economy expanded by 34.5% in real terms in 2006. A 50% increase in oil output drove growth, and there were spillover effects in sectors such as retail trade and communications. Inflation came in at 11.4% at end-2006. The manat has continued to appreciate in nominal and real terms.

Foreign trade and payments

Azerbaijan's trade surplus (customs basis) exceeded US$1bn in January-November 2006, owing to rising oil production and export capacity. Markets outside the Commonwealth of Independent States took 86% of Azerbaijan's exports in this period, up to 80% a year

earlier. Income debits are rising as foreign investors remit profits and dividends.

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[a]	2006[b]
GDP at market prices (Manat bn)	6.1	7.1	8.5	11.9	17.7
GDP(US$ bn)	6.2	7.3	8.7	12.6	19.9
Real GDP growth (%)	10.6	11.2	10.2	26.4	34.5
Consumer price inflation (av; %)	2.8	2.1	6.7	9.6	8.3[a]
Population (m)	8.2	8.3	8.3	8.4	8.5
Exports of goods fob (US$ m)	2,304.9	2,624.6	3,743.0	7,649.0	12,394.4
Imports of goods fob (US$ m)	1,823.3	2,723.1	3,581.7	4,349.9	5,176.4
Current-account balance (US$ m)	-768.4	-2,020.9	-2,589.2	167.4	2,215.7
Foreign-exchange reserves excl gold (US$ m)	720.5	802.8	1,075.1	1,177.7	2,200.0
Total external debt (US$ bn)	1.5	1.7	2.0	2.2[b]	2.5
Debt-service ratio, paid (%)	6.3	7.0	5.8	3.8[b]	2.4
Exchange rate (av) Manat:US$	0.97	0.98	0.98	0.95	0.89

[a] Actual, [b] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

Date of EIU Report: February 2007

Microfinance industry demand situation:

With most active MFIs in Azerbaijan focusing so far primarily on urban areas, there are an estimated 670,000 rural households which have potential demand for micro loans. The banking sector is relatively strong and well regulated, but continues to prefer focusing on high-end corporate clients.

Microfinance industry supply situation:

There exists a relatively well organised and developed microfinance industry in Azerbaijan. Most existing MFIs were established as of 1993 when peace was restored to the republic following the war with Armenia.

There are currently 14 organisations involved in microfinance, including one Microfinance Bank (shareholders are EBRD, IFC, KfW, BSTDB and LFS and managed by a German consultancy LFS), one KfW downscaling programme called GAF and involving 5 active local commercial banks, and several microfinance institutions. Market leaders are considered to be the Microfinance Bank of Azerbaijan (MFBA) and FINCA Azerbaijan.

None of the 14 organisations provide full national coverage. Competition is strong in urban areas, in the trade sector, but very low in rural areas.

The Azerbaijan Microfinance Association (AMFA) collects quarterly data on member and non-member MFIs. It also provides assistance in organising training for loan officers and management (cooperation with MFC Poland) and lobbying parliament to represent the industry's interest. In particular, it is involved in the development of the new microfinance law which is currently under review in Parliament. All non-bank MFIs are registered as Credit Organisations and regulated by the National Bank of Azerbaijan since 2002.

AMFA data as at September 2006:

- FINCA Portfolio Outstanding USD 16.4 million with 43,220 clients
- MFBA Portfolio Outstanding USD 35.4 million with 11,398 clients
- GAF Portfolio Outstanding USD 18.2 million with 3,426 clients
- CredAgro Portfolio Outstanding USD 6.8 million with 2,112 clients
- WorldVision AzerCredit Portfolio Outstanding USD 3.7 million with 7,536 clients
- Viator (Norwegian Humanitarian Enterprise) USD 2.7 million with 8,231 clients
- Normicro (Norwegian Refugee Council) USD 1.9 million with 4,280 clients
- Finance for Development (Oxfam) USD 1.8 million with 3,424 clients

The total outstanding portfolio of AMFA members as at September 2006 is USD 108 million representing more than 97 thousand active loans.

One MFI active in the autonomous Nakhichevan area - ADRA founded by the 7th Adventist Church - had its operations effectively sabotaged by the local government who successfully pressured clients to not reimburse loans. Repayment problems started in Q2 2004. In June 05, ADRA had USD 946,304 portfolio outstanding, which is mostly now all PAR. Unconfirmed information says that FINCA will be taking over this portfolio.

(a) **CredAgro**

Loan: $2.0 million (1.87% of Loan Portfolio)

CredAgro, a non-banking credit organization, was established in May 2000 as a USAID funded project (Azeri Rural Credit Project) with technical assistance from ACDI-VOCA, a U.S. based rural development organization. Its headquarters are in Baku and CredAgro has 6 branches and 3 sub-offices covering north, south and west Azerbaijan. In 2002, CreditAgro was registered as a limited company and obtained a license from the National Bank of Azerbaijan. In 2005, CredAgro's assets were transferred from USAID to ACDI-VOCA.

At 31 December 2006, CredAgro's total assets were $10.0 million and they had an outstanding loan portfolio of $9.8 million. They served 2,831 clients their portfolio quality during 2006 was very strong with PAR 30 0.4% and write offs 0.1% versus loan loss reserve ratio of 1.3%. As of June 2006, CredAgro had a 'BBB' rating from Microfinanza.

CredAgro	12/2006	12/2005	12/2004
Total assets ($MM)	10.0	5.5	4.1
Total loan portfolio ($MM)	9.8	5.3	3.8
Portfolio yield (%)	22.2	20.8	21.1
Portfolio at risk >30 days (%)	0.4	0.6	0.9
Average loan size per client ($)	3,450	4,089	3,578
Operational self-sufficiency (%)	177.7	185.1	197.6
Debt to equity ratio	0.9	0.18	0.0
Return on equity	9.1	3.6	10.0

(b) **Micro Finance Bank of Azerbaijan (MFBA)**

Loan: $7.0 million (7.50% of Loan Portfolio)

The Micro Finance Bank of Azerbaijan (MFBA, www.mfba.az) was licensed in October 2002 by the National Bank of Azerbaijan (NBA) as a commercial bank. MFBA started as a

credit-only institution and introduced account operations and savings on a test basis in the first quarter of 2005.

MFBA is owned by five shareholders: the EBRD; the IFC; the Black Sea Trade and Development Bank; KfW Development Bank, the development agency of the German government; and LFS Financial Systems GmbH, a German consulting company that is also responsible for management of the bank. MFBA's charter capital is $6.85 million, placing it amongst the largest banks in Azerbaijan. The bank expects to nearly triple its current outstanding portfolio by the end of 2007 and has regional expansion plans as well; its staff is growing in line with its aggressive growth plans.

As of 31 December 2006, MFBA operated 10 branches and had an outstanding portfolio of $47.5 million, representing loans to approximately 16,376 clients. Its PAR-30 was 0.5% while its write-off ratio was 1.1%. M-CRIL gave MFBA a provisional rating of A- in November 2005. An updated rating is planned for May 2007.

MFBA	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	55.4	21.9	8.9
Total loan portfolio ($MM)	47.5	17.9	7.1
Portfolio yield (%)	30.0	31.1	25.9
Portfolio at risk >30 days (%)	0.5	2.4	8.6
Average loan size per client ($)	2,899	3,286	2,513
Operational self-sufficiency (%)	96.7	115.2	101.6
Debt to equity ratio	7.2	2.2	0.4
Return on equity[1]	-5.0	2.3	0.1

5. Bosnia and Hercegovina

Outlook for 2007-08

The lengthy process of forming governments at all levels in Bosnia and Hercegovina (BiH) following the nationwide elections held in October 2006 is nearing completion. Amid heavy international pressure, the main political forces have agreed to form a seven-party coalition at central state level. However, the new government will find it hard to reach a consensus on the internationally backed reform agenda, especially restructuring the entities' police forces and amending BiH's constitution to strengthen state-level institutions. This in turn will probably lead to further delays in signing the EU stabilisation and association agreement (SAA). The currency board arrangement will stay in place during the Economist Intelligence Unit's 2007-08 forecast period. Inflation rose sharply after the introduction of value-added tax (VAT) in 2006, but will fall back in 2007-08. Strong investment will drive annual average real GDP growth of 5.4%. The annual current-account deficit will remain large, at almost 14% of GDP.

The political scene

A new government led by the Alliance of Independent Social Democrats (SNSD) has taken office in Republic Srpska (RS). The main political forces in BiH have agreed to form a seven-party coalition at state level, with Nikola Spiric of the SNSD as prime minister. There is still no new government in the Federation. The European Commission has criticised BiH's progress in fulfilling the criteria for an SAA.

Economic policy

Indirect tax revenue exceeded projections in 2006, but disputes over its distribution continued. The IMF and the World Bank have reiterated their concerns about BiH's fiscal stability. Telekom Srbija (Serbia) is poised to buy the RS operator, Telekom Srpske, for a higher than expected €646m (US$844m). The Federation is moving more slowly on privatisation.

The domestic economy

Growth in industrial output and construction accelerated in late 2006, especially in the RS. Nominal wage growth remained strong in both entities. Inflation fell more sharply in the RS in late 2006. Bank lending slowed.

Foreign trade and payments

BiH ran a merchandise trade deficit of KM5.5bn (US$3.66 bn) in January-November 2006, a drop of 15% from the year-earlier period, as exports grew much faster than imports. The current-account deficit in January-September was 32% lower year on year, at KM1.54bn. BiH has agreed to join an expanded Central European Free-Trade Agreement (CEFTA).

Annual indicators

	2002[a]	**2003[a]**	**2004[a]**	**2005[a]**	**2006[b]**
GDP at market prices (KM bn)	11.6	12.3	14.7	15.7	17.9
GDP at market prices (US$ bn)	5.6	7.1	9.3	10.0	11.5
Real GDP growth (%)	5.0	4.1	5.8	5.0	5.3
Retail price inflation (av; %)	0.4	0.6	0.4	3.7	8.0
Population (m)	3.9	3.9	3.9	3.9	3.9
Exports of goods fob (US$ m)	1,110	1,478	2,087	2,590	3,450
Imports of goods fob (US$ m)	-4,449	-5,637	-6,656	-7,545	-7,900
Current-account balance (US$ m)	-1,191	-1,831	-1,840	-2,156	-1,595
Reserves excl gold (US$ m)	1,321	1,796	2,408	2,531	3,200
Total external debt (US$ bn)	2.5	2.6	3.2	3.7[b]	4.0
Exchange rate (av) KM:US$	2.08	1.73	1.58	1.57	1.56

[a] Actual, [b] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

Date of EIU Report: January 2007

Microfinance industry demand situation:

Unemployment and underemployment remain very high throughout the country, with official estimates of still approximately 40% (grey economy may reduce actual unemployment to 25-30%). Many microfinance clients are returnees who have come home following the war to find no available jobs and have needed to start small businesses to earn their livelihood. Many of these businesses are very small scale agricultural ventures.

The microfinance market is becoming saturated in many areas, with risks of overindebtedness growing, particularly in urban zones: Incidence of "shared clients" is anywhere from 30-90% of any given MFI's portfolio. Improvements have been made in the past couple of years with the local credit bureau, LRC, but information is still not always timely or complete (banks, for instance, do not report to the LRC).

Microfinance industry supply situation:

There are an estimated 50 Microfinance institutions in Bosnia, which, given the country's population of approximately 4 million, results in a very crowded and competitive sector. Among these 50 institutions, the 12 institutions that form the Association of Microfinance Institutions in Bosnia control approximately 90% of the market. Of these, the "top three" institutions -- Mikrofin, EKI and Partner -- account for approximately 50%. ProCredit Bank is also becoming a much more important player in this segment, and at year-end 2006 had a gross portfolio of approximately USD 155 million, larger than the largest MCOs.

With the passage of the new law on microfinance in 2006, it is expected that most of the larger MFIs will convert to for-profit companies over 2007, while some of the smaller institutions will opt to be not-for-profit foundations. Long-awaited mergers among the MFIs may start to develop once the law is in place, and due to the increasing maturation of the market. As such, at the end of December 2006, Mikrofin acquired Benefit. MFIs have been increasingly borrowing from commercial versus concessional funders over the years, and main funders to the sector include RaiffeisenBank, who often requires at least observer status on the board of directors, HypoBank, Dexia Micro-Credit Fund, Oikocredit and Triodos. Funding from the World Bank LIP II ended in 2006, while funding from USAID's LAMP is being converted to equity during the year. The EBRD, IFC and AECI have recently become involved in lending to MFIs in Bosnia, and in the case of EBRD and IFC, with some interest in equity participation after the institutions transform.

(a) **EKI**

Loan: $6.5 million (6.09% of Loan Portfolio)

EKI (Economic Credit Institution, www.mkoeki.com) began operations as a project of World Vision International, a U.S.-based NGO, in February 1996. Pursuant to the passage of the microfinance law in Bosnia Herzegovina in 2001, EKI became registered as a local microcredit organization, a not-for-profit institution permitted to extend credit to small scale enterprises and individuals of up to 30,000 Bosnian convertible marks (KM) (approximately $15,000). While EKI initially focused on providing credit to the small- and medium-enterprise sector, over the past three years EKI has increasingly moved towards lending to individual microentrepreneurs. A significant amount of EKI's funding originated from World Vision in the form of donated equity and from its involvement in the World Bank's Local Initiatives Project (LIP). It now funds itself primarily increasingly through commercial sources, including local commercial banks and international lenders.

EKI is currently among the three largest MFIs in Bosnia. Ten EKI branches cover approximately 80% of the country in both the Serb and Bosnian Croat regions and in both rural and urban zones. In addition to its microbusiness and small- and medium-enterprise lending, EKI is also part of a UN project to provide housing loans to returnees coming back to Bosnia after the country's civil war in the 1990s.

As of 31 December 2006 it had an outstanding portfolio of $61.2 million and served 28,078 clients. Portfolio quality of the institution has been consistently excellent, and PAR-30 is currently 0.3%. Planet Rating gave EKI an 'A-' rating in March 2006.

EKI	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	63.4	33.5	28.3
Total loan portfolio ($MM)	61.2	31.6	26.1
Portfolio yield (%)	23.6	20.3	12.3
Portfolio at risk >30 days (%)	0.3	0.4	0.4

Average loan size per client ($)	2,179	1,399	1,388
Operational self-sufficiency (%)	143.5	135.5	142.2
Debt to equity ratio	3.4	3.4	3.1
Return on equity	51.7	23.5	18.5

(b) **Mikrofin**

Loan: $5.2 million (4.87% of Loan Portfolio)

Mikrofin was established in 1997 under the World Bank's Local Initiatives Project. The founder, CARE, ceased all direct involvement in 1999. Mikrofin is currently a not-for-profit organization and has been operating as a local microfinance organization since 2002.

Mikrofin is the largest MFI in Bosnia in terms of assets, portfolio size and number of clients. The institution is one of the few MFIs in Bosnia to come from the Serbian Republic which is poorer than the Bosnian Federation. Its strategy is to be the pre-eminent provider of microfinance in the Serbian portion of the country, but with a large presence in both areas of the country. As of 31 December 2006, Mikrofin operated with 36 offices, with approximately one-third of the portfolio in the Bosnian Federation and two-thirds in the Serbian Republic.

With the passage of the new Microfinance law in Bosnia in June 2006, Mikrofin has decided that it will transform into a for-profit shareholding company or LLC so that it can offer a wider range of products to its clients and attract more funding. It is expected that the transformation will occur in mid-2007.

On 1 January 2007 Mikrofin took over MCO Benefit (the second merger in the Bosnian microfinance sector). The registration process of the merger was completed in mid-February 2007.

Mikrofin had an outstanding portfolio of $66.1 million serving 28,840 clients as of 31 December 2006, with the largest components in agriculture and unregistered businesses. Mikrofin has consistently excellent PAR indicators with PAR>30 under 0.5% and write offs of 0.1%. They have a 'A' rating from PlanetRating as of August 2006.

Mikrofin	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	74.5	38.5	29.8
Total loan portfolio ($MM)	66.1	35.5	29.1
Portfolio yield (%)	19.8	20.3	23.6
Portfolio at risk >30 days (%)	0.3	0.2	0.2
Average loan size per client ($)	2,294	1,740	2,072
Operational self-sufficiency (%)	140.5	155.2	168.6
Debt to equity ratio	3.0	2.1	1.6
Return on equity	31.0	20.6	28.9

(c) **Partner**

Loan: $6.5 million (6.09% of Loan Portfolio)

Partner was initiated as a project of Mercy Corps/ Scottish Aid in April 1997 and converted to a MicroCredit Organization in 2000/2001 with the passage of the microfinance laws in the Bosnian Federation and Serbian Republic.

Partner's headquarters are in Tuzla, but it operates on a national level, with 42 branches nationwide split between the Bosnian Federation and the Serbian Republic, offering individual loans to Bosnians of all ethnic backgrounds. It aims to further consolidate its position as one of the top three microfinance providers in the country, along with Mikrofin and EKI. Currently it is the second largest MicroCredit Organization by number of clients and by assets size after Mikrofin and in third place after Mikrofin and EKI in terms of portfolio size.

In 2006 Partner grew significantly, adding 6 more branches and increasing the number of clients by nearly 50%. It has a relatively aggressive expansion strategy, and is in takeover talks with some smaller MFIs (in 2004, it conducted the only merger/takeover in the Bosnian MFI sector to such date, absorbing the smaller BosVita) At 31 December 2006, Partner had an outstanding loan portfolio of $60.9 million and served 33,193 clients. After recovery from a fraud in spring 2005 (which resulted in a 2.8% write-off of portfolio at year-end 2005), portfolio quality indicators have improved significantly and PAR>30 is now 0.8%. They have a 'A' rating from PlanetRating as of Feb. 2004 and a new rating is planned for the second half of 2007.

Partner	12/2006	12/2005	12/2004
Total assets ($MM)	66.8	38.9	31.6
Total loan portfolio ($MM)	60.9	34.9	28.9
Portfolio yield (%)	23.9	26.1	27.5
Portfolio at risk >30 days (%)	0.8	1.2	0.6
Average loan size per client ($)	1,834	1,704	1,470
Operational self-sufficiency (%)	142.6	143.2	149.1
Debt to equity ratio	2.6	2.2	2.0
Return on equity	36.2	25.8	24.4

6. Georgia

Outlook for 2007-08

The Economist Intelligence Unit expects the president, Mikhail Saakashvili, to dominate the political scene over the forecast period and to win comfortably the presidential election scheduled in 2008. Supporters of the late prime minister, Zurab Zhvania, are likely to become increasingly marginalised, in view of Mr Saakashvili's ambitions to control the most important governmental posts. We expect the authorities to implement the easiest of the economic reforms on their agenda quickly, but the more difficult structural reforms will probably be subject to delay. We forecast that annual average real GDP growth will slow to just below 7% in 2007-08, from an estimated 8% in 2006, as the effects of the Russian economic blockade dampen economic activity. Although it will remain high, the current-account deficit is expected to decline gradually as a percentage of GDP over the forecast period, as higher invisibles surpluses offset a widening trade deficit.

The political scene

Russia re-established diplomatic ties with Georgia in January, but overall relations remain tense. Agreement on the construction of a regional railway linking Turkey, Georgia and Azerbaijan could herald a period of increased economic and political collaboration between the three countries. After a series of well-publicised allegations of property rights breaches, Mr Saakashvili pledged to draft legislation dealing with the issue.

Economic policy

A delay in December to the start of natural gas shipments from the Shah Deniz gasfield forced Georgia to source most of its gas requirement for 2007 from Russia's Gazprom at the latter's asking price of US$235 per 1,000 cu metres. In December parliament adopted the 2007 budget, which projects an increase in the state budget deficit to Lari366m (US$209m), from Lari48m in 2006.

The domestic economy

Real GDP growth was 8.6% year on year in the first three quarters of 2006, with available figures suggesting stronger manufacturing, trade and transport activity in the third quarter. Inflation fell from its 14.5% year-on-year peak in July to 8.8% in December. Broad currency appreciation continued.

Foreign trade and payments

The current-account deficit doubled to US$364m in the third quarter of 2006, from US$182m a year earlier, as a result of a widening trade deficit brought on by the Russian trade embargo and high energy prices. Turkey supplanted Russia as Georgia's main trade partner in 2006.

Annual indicators

	2002[a]	**2003**[a]	**2004**[a]	**2005**[a]	**2006**[b]
GDP at market prices Lari bn	7.5	8.6	9.8	11.6	13.4
GDP US$ bn	3.4	4.0	5.1	6.4	7.5
Real GDP growth (%)	5.5	11.1	5.9	9.3	8.0
Consumer price inflation (av; %)	5.6	4.8	5.7	8.2	9.2[a]
Population (m)	4.6	4.6	4.5	4.5	4.5
Exports of goods fob (US$ m)	603.4	830.5	1,092.1	1,472.4	1,656.4
Imports of goods fob (US$ m)	-1,092.3	-1,468.7	-2,007.6	-2,686.3	-3811.4
Current-account balance (US$ m)	-234.2	-382.5	-423.1	-751.9	-1,130.5
Foreign-exchange reserves excl gold (US$ m)	202.2	196.2	386.7	478.6	930.8
Exchange rate (av) Lari: US$	2.20	2.15	1.92	1.81	1.78[a]

[a] Actual, [b] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

Date of EIU Report: March 2007

Microfinance industry demand situation:

Estimated at 200,000 borrowers by Chemonics in 2003. Microfinanza estimates in April 2006 that the current microfinance sector (including ProCredit Georgia) serves more than 60,000 clients.

Microfinance industry supply situation:

There are several providers of microfinance services in Georgia, listed by loan portfolio outstanding as at Jan 07:

- ProCredit Bank Georgia – USD 180 million - registered as a bank and licensed by the National Bank of Georgia
- Constanta - USD 19.6 million - NGO and not supervised
- Finca Georgia - USD 7.4 million - NGO and not supervised (as at Aug 05)

- Georgian Rural Development Fund ex. ACDI-VOCA - USD 2.5 million - NGO and not supervised (as at Aug 05)
- Credo Foundation (World Vision) - USD 2.4 million - NGO and not supervised
- Crystal Fund - USD 1.5 million - NGO and not supervised (as at Sept 06)
- Small Business Development Fund (Oxfam) – 1.6 million – NGO and not supervised.

In addition, there is an EBRD downscaling project for micro and small- and medium-enterprise finance (**SELP**). The leading commercial banks of Georgia are partner banks in the SELP programme.

There are also Credit Unions which benefit from a World Bank assistance programme, but which are poorly run and many of which are bankrupt.

A microfinance association was only just established in Summer 2005, in order to lobby the government on the Microfinance Law which became effective in winter 2006. In line with this Law, all organisations involved in microfinance operations will have to register as for-profit companies and be licensed by the National Bank of Georgia. The law does not allow for deposit-taking activities. This means that all microfinance institutions are currently considering status changes in order to transform from their current status of foundation or NGO.

A credit bureau was recently created by commercial banks (including ProCredit Bank). Plans are underway for MFIS to also participate in the credit bureau. Given an increasingly competitive environment in microfinance services in urban areas, a fully functioning credit bureau will be a very positive asset for the health of the sector.

(a) **Constanta**

Loan: $4.0 million (3.75% of Loan Portfolio)

Constanta was launched by Save The Children in 1997 with initial funding from UNHCR and USAID. Constanta Foundation was registered as a non-profit foundation in 1999 and it is not subject to banking supervision. Constanta has 18 offices covering main urban and rural centres At 31 December 2006, Constanta had an outstanding loan portfolio of $20.1 million and it served 19,621 clients. Its PAR>30 days was 0.5% and write offs were 1% representing a good recovery from portfolio quality problems experienced in 2004. Since then Constanta instituted many organizational changes replacing their head of internal audit and hiring a new Credit Manager from ProCredit. They have a rating from PlanetRating of 'B+' as of December 2006.

Constanta	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)		8.5	5.9
Total loan portfolio ($MM)		16.5	10.5
Portfolio yield (%)		35.2	41.5
Portfolio at risk >30 days (%)		3.1	3.9
Average loan size per client ($)		973	1,041
Operational self-sufficiency (%)		133.5	133.4
Debt to equity ratio		6.3	5.0
Return on equity		33.3	30.1

(b) **ProCredit Bank**

Loan: $10.0 million (9.37% of Loan Portfolio)

ProCredit Bank (www.procreditbank.ge) began operations in May 1999 as the Microfinance Bank of Georgia under management of the German consulting firm IPC (International Project Consult Group). The bank was renamed ProCredit when all of the banks managed by IPC were consolidated into one holding, the ProCredit Holding. The ProCredit Holding Group is an international group of 19 financial institutions, which have a similar ownership structure and share a common corporate mission and focus: to provide micro, small and medium-sized enterprises with reliable access to credit and other banking services. IPC continues to manage ProCredit Bank.

ProCredit Bank is a development-oriented, full-service bank. In credit operations ProCredit Bank focuses on micro-, small- and medium-sized enterprises. ProCredit Bank has also become one of the top 3 banks in Georgia in terms of outstanding loan portfolio. ProCredit Bank shareholders include ProCredit Holding, KfW, German Georgian Fund, IFC, IPC, EBRD and Commerzbank.

At 31 December 2006, ProCredit Bank's outstanding portfolio was $184.5 million and included approximately 57,151 clients. Its PAR-30 was 1.9% while its PAR-180 was 0.7%. The bank serves its client through a national network of 32 branches, employs 257 loan officers and a total staff of 1,198. Fitch Ratings gave ProCredit Bank an international scale, long-term foreign currency rating of 'B' in November 2006.

ProCredit Bank	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	253.6	186.0	101.7
Total loan portfolio ($MM)	184.5	134.3	68.8
Portfolio yield (%)	26.6	23.4	25.7
Portfolio at risk >30 days (%)	1.9	1.4	1.8
Average loan size per client ($)	3,229	3,625	4,222
Operational self-sufficiency (%)	114.1	108.9	110.3
Debt to equity ratio	4.1	4.5	4.6
Return on equity	10.4	6.0	5.0

7. Montenegro

Since its population narrowly chose independence in the referendum of May 2006, Montenegro is now a separate country from Serbia. As of March 2007, the Economist Intelligence Unit has not prepared a separate country report for Montenegro. Please see "*Serbia*" below for related information.

Microfinance industry demand situation:

The population of Montenegro is roughly 600,000 with some 16% (2006) unemployment and some 12% (2003) living below the poverty line. The country continues to recover from the Yugoslav break-up and the imposition of UN sanctions which left a majority of the country living below the poverty line.

Microfinance industry supply situation:

The microfinance field is small, due to the relatively small population of the country (less than 1 million inhabitants). There are only a handful of institutions in the microfinance sector: AI, Alter Modus, an NGO that operates in urban areas and Opportunity Bank. A number of commercial banks

have also established a presence in the country recently but do not target the microfinance market. Licensed MFIs are regulated by the Central Bank of Montenegro.

(a) **AgroInvest VFI doo Podgorica**

Loan: $5.2 million (4.87% of Loan Portfolio)

AgroInvest VFI doo Podgorica (**AgroInvest NGO**) was established in 1999 and it transferred its microfinance operations to a new limited liability company, AgroInvest VFI (Vision Fund International) in 2005. AgroInvest VFI is owned by Vision Fund AgroInvest doo Podgorica, a holding company based in Montenegro and ultimately owned by Vision Fund International, a holding company created by World Vision, a U.S. based relief and development organization. Vision Fund International owns all of the World Vision limited liability companies engaged in microfinance.

At 31 December 2006, AgroInvest NGO had total assets of $30.4 million and an outstanding loan portfolio of $29.4 million serving 13,986 clients. Its portfolio quality was strong with PAR>30 days at 0.1% and write offs of 0.1%. AgroInvest NGO has a total staff of 114 of which 28 are loan officers working in 5 branches. AgroInvest NGO holds a 'A-' rating from PlanetRating as of March 2006.

AgroInvest NGO	12/2006	12/2005	12/2004
Total assets ($MM)			
Total loan portfolio ($MM)			
Portfolio yield (%)			
Portfolio at risk >30 days (%)			
Average loan size per client ($)			
Operational self-sufficiency (%)			
Debt to equity ratio			
Return on equity			

8. Russia

Outlook for 2007-08

The president, Vladimir Putin, is expected to adhere to the constitutional ban on a third term in office and to step down in 2008. Although overall stability is unlikely to be seriously threatened, the presidential succession could lead to some political turbulence as rival factions in the Kremlin compete for influence. Real GDP growth will slow somewhat in 2007-08, although high oil prices will continue to underpin domestic demand and limit the extent of the output slowdown. Strong unsterilised foreign-exchange inflows mean that inflation will ease only moderately. The current-account surplus will narrow gradually, but is projected still to amount to about US$64bn (4.9% of GDP) in 2008.

The political scene

Mr Putin attracted attention in February for his strong criticism of the US at a conference in Munich. Political parties have been preparing for the March 11th regional elections, which will test the potential of the new Justice Russia party and shed light on the parliamentary election prospects of the Union of Rightist Forces (SPS). Sergei Ivanov has been promoted to first deputy prime minister. He and Dmitry Medvedev, the other first deputy prime minister, are still the most likely to succeed Mr Putin. Differences with the EU over energy

threaten the conclusion of a new partnership and co-operation agreement (PCA). Energy disputes with Belarus have dimmed prospects for a "union state" even further. In early 2007 Mr Putin visited India and, for the first time, the Middle East.

Economic policy

The government has adjusted downwards its 2007 oil price forecast. The 2006 federal budget deficit was Rb2trn (US$73.5bn, around 7.5% of GDP). The authorities plan to set up a national development bank and to liberalise domestic energy prices more rapidly. Rosoboronexport has become an arms trade monopolist. The Russian Central Bank (RCB) has cut its refinancing rate. Regulations for initial public offerings (IPOs) are now no longer likely to tighten. Plans to join the World Trade Organisation (WTO) appear to be on track.

The domestic economy

Real GDP increased by 6.7% in 2006. Real wages rose by 14%, and unemployment fell to 7.3% of the workforce. Year-end inflation slowed to 9% in 2006, and the rouble appreciated in real effective terms. Services drove growth in 2006, and industry and agriculture lagged. Bank profits rose by 40%.

Foreign trade and payments

Favourable prices pushed the trade in goods surplus to US$140bn and the current-account surplus to US$96bn in 2006. Strong domestic demand brought sharp growth in import volumes. The capital account was in surplus.

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[a]	2006[a]
GDP at market prices (Rb bn)[b]	10,818	13,243	17,048	21,615	26,621
GDP(US$ bn)[b]	345.1	431.5	591.7	764.2	978.7
Real GDP growth (%)[b]	4.7	7.3	7.2	6.4	6.7
Consumer price inflation (av; %)	15.8	13.7	10.9	12.7	9.7
Population (m)	145.0	144.2	143.5	142.8	142.3[c]
Exports of goods fob (US$ m)	107,302	135,930	183,207	243,569	302,300
Imports of goods fob (US$ m)	-60,965	-76,069	-97,383	-125,303	-162,700
Current-account balance (US$ m)	29,116	35,410	58,592	83,347	95,600
Foreign-exchange reserves excl gold (US$ m)	44,054	73,175	120,809	175,891	295,757[c]
Total external debt (US$ bn)	147.4	175.5	197.3	258.5[c]	292.9[c]
Debt-service ratio, paid (%)	11.1	11.7	9.7	13.8[c]	15.8[c]
Exchange rate (av) Rb:US$	31.35	30.69	28.81	28.28	27.20

[a] Actual, [b] Includes statistical discrepancy, [c] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

Date of EIU Report: March 2007

Microfinance industry demand situation:

80% of small- and medium-enterprises in Russia are micro-entrepreneurs with less than 10 employees and USD 250,000 annual turnover. Micro businesses are the preferred legal form of business in Russia as small enterprises can benefit from simplified taxation rules and registration process.

According to researches conducted by the Russian SME Resources Centre under the funding of USAID, the potential demand for microfinance services stands at approx. 2.5 million micro-entrepreneurs. Current outreach stands at 5% according to the Russian Microfinance Centre (about USD 4 billion).

Microfinance industry supply situation:

Microfinance is a relatively young phenomenon in Russia and started to develop in the 1990s after the collapse of the USSR. There are basically four types of MFIs:

- Commercial, State or Rural Banks: this includes universal banks with downscaling programs (VTB), specialized micro and small businesses banks (KMB) and newly transformed MFIs into full fledged bank (Forus Bank).
- Micro-lending Institutions: they often operate on a not-for-profit basis and are registered as NGOs, branches of international NGOs and Funds. MFIs with an NGO status were established with the assistance of donor programs; whilst funds are usually largely financed from the regional budget. Some of these institutions are transforming into Limited Liability Companies (Finca Samara / ZAO Finca), NBFI (RWMN NGO / RWMN NDKO) or banks (Fora Fund / Forus Bank) to enhance their ability to access commercial funding. NGOs in Russia have been experiencing difficulties due to the legal ambiguities associated with their status and the nature of their activities. Most NGOs MFIs are registered as non-commercial organizations and their operations are governed by the Civil Code, although they carry out banking commercial activities.
- Memberships-Based Organizations: this includes rural credit cooperatives and credit unions (which are predominantly urban and split between credit consumer cooperatives of citizens and credit consumer cooperatives) as well as apex institutions funding these organizations (RCCDF, Centurion Capital). Cooperatives provide financial services to their members only, and are mainly financed by their savings. They have experienced huge growth in terms of number of organization and membership base over the last years. Currently, more than 60% of market operators are cooperatives. Cooperatives are not supervised despite their activity of members' deposit collection. There is currently no one law governing all types of credit unions. Only credit consumer cooperatives of citizens and rural credit cooperatives are registered under Federal Laws; whilst credit consumer cooperatives are registered under the Civil Code.

  On a geographical standpoint, scale and outreach of microfinance operations in Russia remain limited. Pilot operations have been established in Siberia and the Far East; however, the majority remains concentrated in the Western part of the country and mostly in urban areas. RCCDF represents an exception, going deep into rural areas through existing rural credit cooperatives.

(a) **ZAO Finca Russia**

Loan: $3.0 million (5.62% of Loan Portfolio)

ZAO Finca Russia (**ZAO Finca**) is a closed joint stock company that represents the merger of three FINCA International partners: Finca Samara (est. 1999), Finca Tomsk (est. 2000) and Finca Novosibirsk (est. 2003). Finca International is a U.S. based network of microfinance institutions. It establishes new microfinance institutions and provides technical assistance to support their growth and capacity building. ZAO Finca maintains a regional presence in the central region of the Russian Federation through 6 branches. It employs 212 staff of which 91 are loan officers.

At December 2006, ZAO Finca had total assets of $24.5 million and an outstanding loan portfolio of $19.2 million serving 8,591 clients. Its portfolio quality was strong with PAR greater than 30 days of 0.6% and write offs of 1.4%. ZAO Finca has a 'B' rating from PlanetRating which was received in 2006.

Finca	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	24.5	12.2	9.6
Total loan portfolio ($MM)	19.2	10.2	8.3
Portfolio yield (%)	41.6	10.6	N/A
Portfolio at risk >30 days (%)	0.8	1.0	0.2
Average loan size per client ($)	2,234	2,003	642
Operational self-sufficiency (%)	107.6	95.1	N/A
Debt to equity ratio	2.9	1.7	0.5
Return on equity	31.3	-2.7	N/A

9. Serbia

Outlook for 2007-08

There is a risk of a new election if the Democratic Party (DS), the Democratic Party of Serbia (DSS) and the G17 Plus fail to form a government by the mid-May deadline. Coalition talks have been hampered by the distraction of the Kosovo status process, poor relations among the reformist parties, and disputes over the prime ministership and other key posts. However, fears that a new election would lead to further gains by the Serbian Radical Party (SRS) are likely to galvanise the reformist bloc into a deal before the deadline. Overshadowing everything will be the decision on the future status of Kosovo, which may lead to regional instability. The EU may restart talks with Serbia on a stabilisation and association agreement (SAA), but this too will be overshadowed by the Kosovo issue, and influenced by Serbia's co-operation with the International Criminal Tribunal for former Yugoslavia (ICTY). The Economist Intelligence Unit forecasts annual average real GDP growth of 5.5% in 2007-08. Year-end retail price inflation is expected to drop to 5% in 2008. The annual current-account deficit will remain large, at more than 10% of GDP in 2007-08.

The political scene

The January 21st election resulted in a majority for reformist, broadly pro-EU parties, although the SRS remained the largest single party. Serbia has rejected a plan by UN envoy Martii Ahtisaari that clearly points towards independence for Kosovo. The International Court of Justice (ICJ) has ruled that Serbia was not guilty of genocide during the 1992-95 war in Bosnia and Hercegovina (BiH).

Economic policy

The IMF has expressed concern at fiscal loosening and rapid wage growth. The outgoing government has agreed to sell mining and metals concern RTB Bor to Cuprom (Romania). The National Bank of Serbia (NBS, the central bank) has made further cuts in its key policy rate, which now stands at 11.5%.

The domestic economy

Real GDP growth was 5.7% in 2006. Real net wage growth rose to 25% year on year in January 2007, reflecting large pre-election wage increases for public-sector workers. Year-on-year retail price inflation fell to 5.2% in February. The dinar's nominal appreciation against the

euro and US dollar has come to an end for now.

Foreign trade and payments

Serbia ran a (fob-fob) trade deficit in its balance of payments of US$6.2bn in 2006, up by 17,8% year on year. With the services, income and current transfers balances also deteriorating, the current-account deficit rose by 64%, to US$3.7bn. The deficit was covered by record net foreign direct investment of US$4.4bn.

Annual indicators

	2002[a]	**2003[a]**	**2004[a]**	**2005[a]**	**2006[b]**
GDP at market prices (RSD bn)[c]	1,020.1	1,171.6	1,431.3	1,750.0[b]	2,084.2
GDP(US$ bn)	15.9	20.4	24.4	26.0[b]	31.2
Real GDP growth (%)	4.2[b]	2.5[b]	8.4[b]	6.2[b]	5.7
Retail price inflation (av; %)	21.4	11.7	9.8	17.3	12.7[a]
Population (m)[d]	7.5	7.5	7.5	7.4[b]	7.4
Exports of goods fob (US$ m)	2,412.0	2,477.0	3,897.0	4,647.0	6,487.0[a]
Imports of goods fob (US$ m)	6,320.0	7,324.0	10,944.0	10,210.0	12,715.0[a]
Current-account balance (US$ m)	-1,731.0	-1,928.0	-2,922.0	-2,088.0	-3,653.9[a]
Foreign-exchange reserves excl gold (US$ m)	2,165.0	3,410.4	4,095.8	5,597.7	11,638.9[a]
Total external debt (US$ bn)	11.6	14.4	14.7	16.3	17.7
Debt-service ratio, paid (%)[e]	7.5	11.6	16.7	19.4	18.8
Exchange rate (av) RSD:US$	64.19	57.44	58.69	67.21	66.88[a]

[a] Actual, [b] Economist Intelligence Unit estimates, [c] Excludes Kosovo from 1999, [d] Excludes Kosovo, [e] Includes Motenegro. © Reproduced by permission of the Economist Intelligence Unit.

Date of EIU Report: April 2007

Microfinance industry demand situation:

The population of Serbia is roughly 10 million with some 30% unemployment. Although banks are serving the urban centres, there is still a market amongst downmarket clients in urban areas while the populations in rural areas and more remote areas remains largely untapped.

Microfinance industry supply situation:

There is no separate or dedicated microfinance regulation in Serbia. Non/bank institutions are not allowed to offer credit directly to clients but most operate through an intermediary bank. No regulations are expected in the short-mid term. These regulations, as well as Serbia's particular bank regulations and foreign exchange regulations make the country a difficult environment for MFIs to operate in. Currently, there are only three large MFIs operating in Serbia (AI, Microfund and MDF, the UN program). ProCredit Bank is the strongest competitor among banks operating in the sector, although there is increasing competition from other banks interested in going down market. There are also some 38 banks operating in the country with the majority targeting higher income brackets and corporate lending.

(a) **Vision Fund AgroInvest doo Podgorica (on behalf of AgroInvest Fund Serbia)**

Loan: $1.3 million (1.22% of Loan Portfolio)

Vision Fund AgroInvest doo Podgorica (**VFAI**) is the parent company of AgroInvest Fund Serbia. VFAI will execute the related Term Loan Agreement on behalf of AgroInvest Fund Serbia, an MFI located in Serbia.

VFAI is part of the AgroInvest Group which is comprised of five entities (one holding company based in Montenegro, one LLC and one NGO in each of the territories). The holding company is 100% owned by Vision Fund International (VFI). VFAI is 100% owner of the MFI in Montenegro, AI Montenegro, and the MFI in Serbia, AgroInvest Fund Serbia.

VFAI is an LLC registered in Montenegro in November 2004.

VFAI	12/2006	12/2005	12/2004
Total assets ($MM)	43.3	21.1	9.6
Total loan portfolio ($MM)	41.3	18.4	8.3
Portfolio yield (%)	26.5	27.5	39.0
Portfolio at risk >30 days (%)	0.3	0.1	0.2
Average loan size per client ($)	1,823	1,252	642
Operational self-sufficiency (%)	163.5	160.1	171.9
Debt to equity ratio	1.6	0.5	0.5
Return on equity	15.9	12.9	16.8

ASIA

10. Cambodia

Outlook for 2007-08

The prime minister and vice-chairman of the Cambodian People's Party (CPP), Hun Sen, will remain firmly in control in 2007-08. The National United Front for an Independent, Neutral, Peaceful and Co-operative Cambodia (FUNCINPEC), the junior party in the ruling coalition led by the CPP, will enjoy closer ties with the CPP following the ousting in 2006 of the president of FUNCINPEC, Prince Norodom Ranariddh, who had a troubled relationship with Hun Sen. However, the CPP will retain the upper hand. The main opposition Sam Rainsy Party (SRP) will continue to be strongly critical of Hun Sen's administration. The pace of economic reform is unlikely to pick up rapidly, and corruption will remain a serious problem. Economic growth will slow, as the competitiveness of the important garment sector is limited. Falling fuel prices will help to restrain inflation in 2007-08.

The political scene

In a further blow to his future role in politics, Prince Ranariddh has been sentenced in absentia to 18 months in prison for breach of trust. The stage has been set for the commune council elections on April 1st; the CPP is the only party to field candidates in all communes. The US has criticised Cambodia's human rights record, and has highlighted the growing problem of land grabbing, an issue on which Hun Sen has recently talked tough. The US has confirmed that it will resume direct aid to the Cambodian government.

Economic policy

The government has received strong criticism from foreign donors for its failure to make speedy progress in putting in place anti-corruption legislation. However, Hun Sen has said that the draft legislation is in its final stages. The government's budget deficit has widened, owing to rapid growth in current expenditure.

The domestic economy

Investment applications soared in the second quarter of 2006 owing to

a large construction project, but applications dropped back in the following quarter to a level similar to the average in 2005. Inflation has slowed sharply, and the riel has strengthened against the US dollar.

Foreign trade and payments

Export revenue reached a quarterly high in the third quarter of 2006. Imports of construction materials and fuel have also risen. International reserves reached nearly US$1.2bn at end-2006.

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[a]	2006[b]
GDP at market prices (CR bn)	16,768.0	18,250.0	21,141.0	25,350.0	28,016.6
GDP (US$ bn)	4.3	4.6	5.3	6.2	6.8
Real GDP growth (%)	6.2	8.6	10.0	13.4	7.2
Consumer price inflation (av; %)	3.2	1.2	3.8	5.8	4.8[a]
Population (m)	13.3	13.5	13.8	14.1	14.4
Exports of goods fob (US$ m)	1,770	2,087	2,589	2,910	3,369
Imports of goods fob (US$ m)	-2,361	-2,668	-3,270	-3,928	-4,522
Current-account balance (US$ m)	-109	-236	-185	-356	-387
Foreign-exchange reserves excl gold (US$ m)	776	816	943	953	1,157[a]
Exchange rate (av) CR:US$	3,912.08	3,973.33	4,016.25	4,092.50	4,103.25[a]

[a] Actual, [b] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

Date of EIU Report: March 2007

Microfinance industry demand situation:

The educational system and the economy of Cambodia were widely destroyed by the war and the Khmer Rouge regime while obviously, a very large portion of the population fell into poverty. Microentrepreneurship has therefore flourished since the early nineties as the main way to make a living. Today, according to the 2006 national summit on microfinance, only 16% of the eligible market is currently being served. Of the 13.5 million population, there are 2.8 million households, 70% of which, or 1.96 million households, could be considered potential microfinance credit clients. As for savings, only 10-20% of population currently uses savings services in the country leaving 80% of the market still unserved.

Microfinance industry supply situation:

Cambodian Microfinance Alliance tracks the larger MFIs (there are some 50 registered MFIs in the country), 15 of which are licensed as of February 2007 and serve some 600,000 clients. There are also many small-scale NGO programs. ACLEDA is currently the only bank engaged in microfinance. Most MFI activity is concentrated along the Tonle Sap and in major cities like Phnom-Penh, Siem Reap, Battambang and Sihanoukville. There are still underserved rural areas, but these tend to be more costly to serve given existing (poor) infrastructure. Competition appears to have intensified in the country over the past year, due in part to an increasing availability of foreign funds into the sector and aggressive growth plans by several of the larger MFIs. There is currently no Credit Bureau in Cambodia.

(a) **AMRET**

Loan: $2.0 million (1.87% of Loan Portfolio)

AMRET started operations in 1991 as an experimental GRET (a French based NGO) project and transformed into a private limited company and regulated microfinance institution in 2001. The initial capital was provided by two shareholders, the French organizations, GRET (81%) and SIDI.

AMRET does both individual and group lending. Initially, AMRET served the rural areas exclusively, but it has expanded into urban areas primarily in attempts to tap urban savings. AMRET's average loan size is in the lower half of the market. Longer term it plans to transform into a bank.

At 31 December 2006, AMRET had total assets of $22.8 million and an outstanding loan portfolio of $17.6 million which served 141,957 clients. Its portfolio quality is quite strong with PAR>30 days at 0.1% and a write off ratio of 0%. They were rated 'A-' by Microfinanzas in October 2006.

AMRET	12/2006	12/2005	12/2004
Total assets ($MM)	22.8	15.6	9.9
Total loan portfolio ($MM)	17.6	11.6	7.9
Portfolio yield (%)	39.6	41.5	42.6
Portfolio at risk >30 days (%)	0.1	0.1	0.1
Average loan size per client ($)	124	96	75
Operational self-sufficiency (%)	140.9	130.7	131.0
Debt to equity ratio	2.8	2.3	1.6
Return on equity	26.6	23.1	18.6

11. Mongolia

Outlook for 2007-08

The political scene is set to remain volatile as the government struggles to assert its legitimacy. Tensions could rise within the governing coalition led by the Mongolian People's Revolutionary Party (MPRP). The next general election is due by mid-2008, but the government may have to bring this forward. Real GDP will grow by 5.5-6.5% a year in 2007-08, largely driven by continued flows of foreign direct investment into the mining sector. Poverty reduction will remain a policy priority.

The political scene

The prime minister, Miyegombyn Enkhbold, survived a no-confidence motion in October 2006. Mr Enkhbold visited Turkey and China in November. While in China, Mr Enkhbold denied that Mongolia was setting up camps to house North Korean refugees.

Economic policy

The president, Nambaryn Enkhbayar, vetoed the 2007 budget on account of a Tg250m (US$212,000) allocation of public funds to each parliamentary constituency that he considers to be unconstitutional. The new budget contained provisions to alleviate poverty. The sell-off of state assets has continued and Mongolia continues to receive inflows of preferential loans.

The domestic economy

Industrial production grew by a brisk 32% year on year in real terms in January-August 2006, although mining production contracted during

the period. The robust economy has triggered a real estate boom in the capital, Ulaanbaatar. Hedge funds are also looking for investment opportunities in Mongolia. Rapid borrowing growth – most of which is short term – is, however, increasing the country's vulnerability to economic shocks. Livestock numbers reached record levels in 2006, but this threatens to aggravate problems of overgrazing.

Foreign trade and payments

Balance-of-payments data from the Bank of Mongolia (BOM, the central bank) indicate that the country recorded a current-account surplus of US$140.2m in the first half of 2006, a considerable improvement on the deficit recorded the same period of 2005. This strong performance reflected two consecutive quarters of merchandise trade surpluses, which in turn were largely driven by copper and gold exports.

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[a]	2006[b]
GDP at current prices (Tg bn)[c]	1,329.5	1,549.1	1,976.9	2,316.4	n/a
GDP (US$ m)[c]	1,197.4	1,348.5	1,667.8	1,921.8	n/a
Real GDP growth (%)[c]	4.0	5.6	10.6	6.2	7.5
Consumer price inflation (av; %)[d]	1.8	4.6	11.0	12.7	n/a
Population (m)[c]	2.55	2.58	2.61	n/a	n/a
Merchandise exports fob (US$ m)[e]	524.0	615.9	869.7	1,064.9	n/a
Merchandise imports fob (US$ m)[e]	690.7	801.0	1,021.1	1,148.4	n/a
Current-account balance (US$ m)[c]	-158.0	-148.1	-24.6	n/a	n/a
Reserves excl gold (year-end; US$ m)[c]	349.5	236.1	236.3	430.1	n/a
Total external debt (US$ m)[c]	978.0	1,237.0	1,360.0	1,380.0	n/a
Exchange rate (av; Tg:US$)[c]	1,110.3	1,146.5	1,185.3	1,205.3	1,180.0

[a] Actual, [b] Economist Intelligence Unit estimates, [c] IMF, *International Financial Statistics*; *Mongolia: Selected Issues and Statistical Appendix*; World Bank, *Mongolia Macroeconomic Brief*, [d] Asian Development Bank, [e] Bank of Mongolia. © Reproduced by permission of the Economic Intelligence Unit.

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Microfinance industry demand situation:

According to UNDP 2004 sub-sector review of microfinance in Mongolia, 70% of households can be qualified as clients of microfinance. According to a survey of public opinion published by the Central Bank of Mongolia in 2005, 67% of the 5,341 respondents have a general idea of microfinance. Of these, 60% stated that they have access to micro-loans. Most of micro-loans are used for trading and service businesses, with a significant portion going to agriculture-related businesses including animal herding or husbandry.

Microfinance industry supply situation:

Mongolia's 2.6 million population is well served with 17 commercial banks, 137 non-bank financial institutions and 570 savings and loans associations, all registered with the Bank of Mongolia.

The country has two specialized microfinance banks – Khan Bank, the largest, and successor to the former state agricultural bank, and XacBank, which together control an estimated 75% of microfinance loans outstanding.

As at December 2006:

- Khan Bank, outstanding portfolio USD 201.9 million
- XacBank USD 51 million

The leading NFBI is considered to be CreditMongol, funded originally by UNDP, but its development has stagnated due to governance issues.

(a) **Xac Bank**

Loan: $5.0 million (4.69% of Loan Portfolio)

Xac Bank (www.xacbank.org) began operations in 1998 as a UNDP/Microstart project. It was established as a full-service commercial bank in October 2001, after a merger with a non-bank financial institution serving small- and medium- enterprises. Currently the shareholders of Xac Bank are XAC-GE LLC (99.78%), of which the main shareholders are: the NGO Mercy Corps (20.06%), a local company Tuushin LLC (14.36%), ShoreCap International (12.45%), Triodos Bank (12.44%) and MicroVest (10.22%) . The bank's aim is to dedicate a minimum of 51% of its portfolio to micro- and small-sized loans.

As of 31 December 2006, Xac Bank had an outstanding portfolio of $51.3 million and served approximately 51,822 clients. Its PAR-30 stood at 1.0% and write-offs at 0.1%. Planet Rating gave Xac Bank an 'A' rating in April 2006 and they also received a 'Ba2' rating from Moody's in December 2006.

Xac Bank	**12/2006**	**12/2005**	**12/2004**
Total assets ($MM)	76.6	48.3	28.2
Total loan portfolio ($MM)	51.3	31.0	18.1
Portfolio yield (%)	33.1	35.0	40.6
Portfolio at risk >30 days (%)	1.0	0.5	0.4
Average loan size per client ($)	991	662	567
Operational self-sufficiency (%)	118.3	120.6	122.7
Debt to equity ratio	7.2	5.2	5.5
Return on equity[(1)]	17.8	19.6	19.7

AFRICA

12. Kenya

Outlook for 2007-08

The president, Mwai Kibaki, plans to seek to second term in 2007, probably as the candidate of the new Narc-Kenya party, although this has yet to be confirmed. His main challenger is set to come from the Orange Democratic Movement-Kenya (ODM-Kenya), but the party will struggle to choose a leader among several competing heavyweights. Economic policy will continue to be guided by an IMF-style policy framework, although the Fund will not approve further loans until the government takes concrete action against corruption. Economic growth is forecast to remain robust, at 5.5% in 2007, owing to broad-based expansion, before declining to 5.2% in 2008 as result of infrastructure bottlenecks. The current-account deficit is forecast to edge down to 5.1% of GDP in 2008, from 5.7% of GDP in 2007, as import growth slows while export growth and tourism earnings grow strongly.

The political scene

The president has brought two ministers back to the cabinet after a ten-

month suspension over alleged corruption. The authorities have absolved key ministers from involvement in the Anglo-Leasing scandal, provoking an outcry from anti-graft fighters. A faction of the Kenya African National Union (KANU), under Nicholas Biwott, took over the party in November, ousting Uhuru Kenyatta, but the courts have reversed the process pending a full hearing. Speculation has been mounting over whether the Kibaki camp will call an early election to try to take advantage of disunity within the opposition.

Economic policy

The government has pushed ahead with privatisation in 2006/07, floating 18% of Mumias Sugar on the stock exchange in December. The planned flotation of 40% of Kenya Reinsurance may be delayed, however, after top managers were sacked because of corruption. The government has launched a new private-sector development strategy designed to improve the business environment.

The domestic economy

Real GDP is estimated to have increased by 5.7% in 2006, owing to strong performances in tourism, telecommunications, transport, trade and construction. Inflation averaged 14.5% in 2006, owing to the twin pressures of high food and fuel prices. Mombasa port is expected to switch to a 24-hour opening, to relieve congestion, and a private firm has taken over the rail network.

Foreign trade and payments

Kenya's current-account deficit increased to US$1.6bn in the year to October 2006, owing mainly to the surge in imports. The third-party textile provision under AGOA has been extended until 2012 in order to boost garment exports.

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[a]	2006[b]
GDP at market prices (KSh bn)	1,022.2	1,136.3	1,282.5	1,415.2	1,679.0
GDP (US$ bn)	13.0	15.0	16.2	18.7	23.3
Real GDP growth (%)	0.6	3.0	4.9	5.8	5.7
Consumer price inflation (av; %)	2.0	9.8	11.7	10.3	14.5
Population (m)	32.0	32.7	33.5	34.3	35.1
Exports of goods fob (US$ m)	2,162.0	2,412.2	2,720.7	3,239.8	3,534.2
Imports of goods fob (US$ m)	3,159.0	3,554.8	4,350.7	5,408.1	6,755.9
Current-account balance (US$ m)	-117.7	146.3	-353.0	-495.1	-1,505.1
Foreign-exchange reserves excl gold (US$ m)	1,068.0	1,481.9	1,519.3	1,798.8	2,500.0
Total external debt (US$ bn)	6.2	6.9	6.8	6.5[b]	6.7
Debt-service ratio, paid (%)	15.5	15.9	8.4	7.7[b]	7.6
Exchange rate (av) KSh:US$	78.75	75.94	79.17	75.55	72.10

[a] Actual, [b] Economist Intelligence Unit estimates. © Reproduced by permission of the Economic Intelligence Unit.

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Microfinance industry demand situation:

Kenya has a population of about 30 million, 1.3 million of who are categorized as small or microentrepeneurs. Although competition in the urban areas, primarily in and around Nairobi is

intense, there is unmet demand, especially in the rural areas, and poorer areas of the country, which are less well-served than easily accessible towns. GDP per capita USD 1100.

Microfinance industry supply situation:

A microfinance bill was published in June 2006 and will be submitted to parliament when it resumes its 4Q session. An approval is expected, by first quarter 2007. The bill would require a license for all deposit taking microfinance institutions and require a minimum capital requirement of 6 million KES, (90,000 USD). There are also restrictions on ownership (one owner cannot have more than 25% ownership) and for physical premises.

There are an estimated 100 plus organizations providing microfinance services in Kenya, including about 10-20 larger MFIs and a few commercial banks. In addition there are some 4,000 SACCOs (Savings and Credit Cooperatives) providing, by definition, savings and credit services to its members (membership was 2.9 million in 1999). Services are provided mostly in urban and peri-urban areas, with limited penetration into the rural areas.

(a) **EBS**

Loan: $10.0 million (9.37% of Loan Portfolio)

EBS was founded as Equity Building Society in 1984 and began operations in mortgage financing to low and middle income earners.

In 1993, in the midst of a decade of poor performance in the banking sector, EBS was declared technically insolvent by the Central Bank. The Board of Director's responded with a turnaround strategy oriented on moving away from mortgages towards to savings mobilization and microcredit.

By 2000, the bank was on firmer footing and in 2001, Africap, an African microfinance equity fund (investors include Triodos, Calmeadow, BIO, FMO, IFC, DFID), became the single largest shareholder of EBS, purchasing 120 million or 16% of shares. The institution completed transfer of its and assets and liabilities into a newly registered commercial bank effective 31 December 2004 in response to customer demand for financial services not allowed under the Building Societies Act. In 2005, EBS acquired the banking business of Industrial Development Bank and became a member of the National Payment System.

In August 2006, the bank's 2,500 shareholders listed all 90.5 million shares on the bourse without raising additional funds. The principal shareholders have agreed not to sell their shares for two years. The first day of trade resulted in average share price increasing 137% above the recommended price from 70KES to 166KES.

The Bank's top shareholders include: Britak Investment (10.93%), the Managing Director, (7.32%), ESOP (5.52%), and Africap (5.52%).

EBS is a member of AMFI, Kenya Bankers' Association, Africa Rural Agricultural Credit Association, WWB, GNBI, and Microfinance Network.

At 31 December 2006, EBS had total assets of $287.9 million and an outstanding loan portfolio of $164.3 million serving 252,147 borrowers. Portfolio quality is somewhat weak with PAR>30 days of 7.0% and a write off ratio of 1.1%. By January 2007, PAR>30 days had improved to 6.4%. At July 2006, Global Credit Rating rated EBS 'A'.

EBS	12/2006	12/2005	12/2004
Total assets ($MM)	287.9	158.3	86.3
Total loan portfolio ($MM)	164.3	81.3	39.9
Portfolio yield (%)	19.1	42.0	44.3
Portfolio at risk >30 days (%)	7.0	24.3	16.5
Average loan size per client ($)	652	739	469
Operational self-sufficiency (%)	146.0	133.1	122.1
Debt to equity ratio	8.2	6.2	4.3
Return on equity	59.3	24.8	15.5

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