

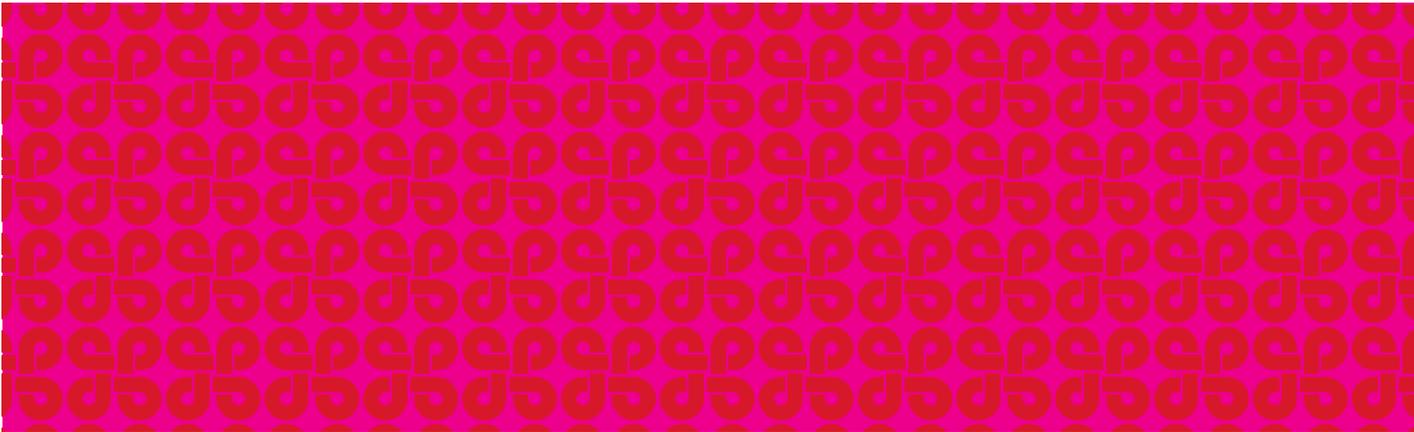


# Entrepreneurship in North Africa

LMDF takes a closer look at microfinance in Morocco

Audited annual report as at 31 March 2015

*Rapport annuel révisé au 31 mars 2015*



In collaboration with



Directorate for Development Cooperation and Humanitarian Affairs



Subscriptions for shares issued by the Fund may only be accepted on the basis of the current prospectus accompanied by the latest annual report and the latest semi-annual report, if more recent. Such documents can be obtained free of charge at the registered office of the Fund or downloaded from the website [www.lmdf.lu](http://www.lmdf.lu)

**ISIN Codes / Codes ISIN**

**Class C shares: LU0456967404**

**Class B shares: LU0456966935**

LMDF has been granted the LuxFLAG Microfinance Label

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The pictures in the present report show clients and staff of the microfinance institution INMAA in Morocco as well as the festivities around the fifth anniversary of LMDF.  
*Les photos présentées dans ce rapport montrent les clients et les employés de l'institution de microfinance INMAA au Maroc, ainsi que les photos des festivités autour du 5ème anniversaire du LMDF*

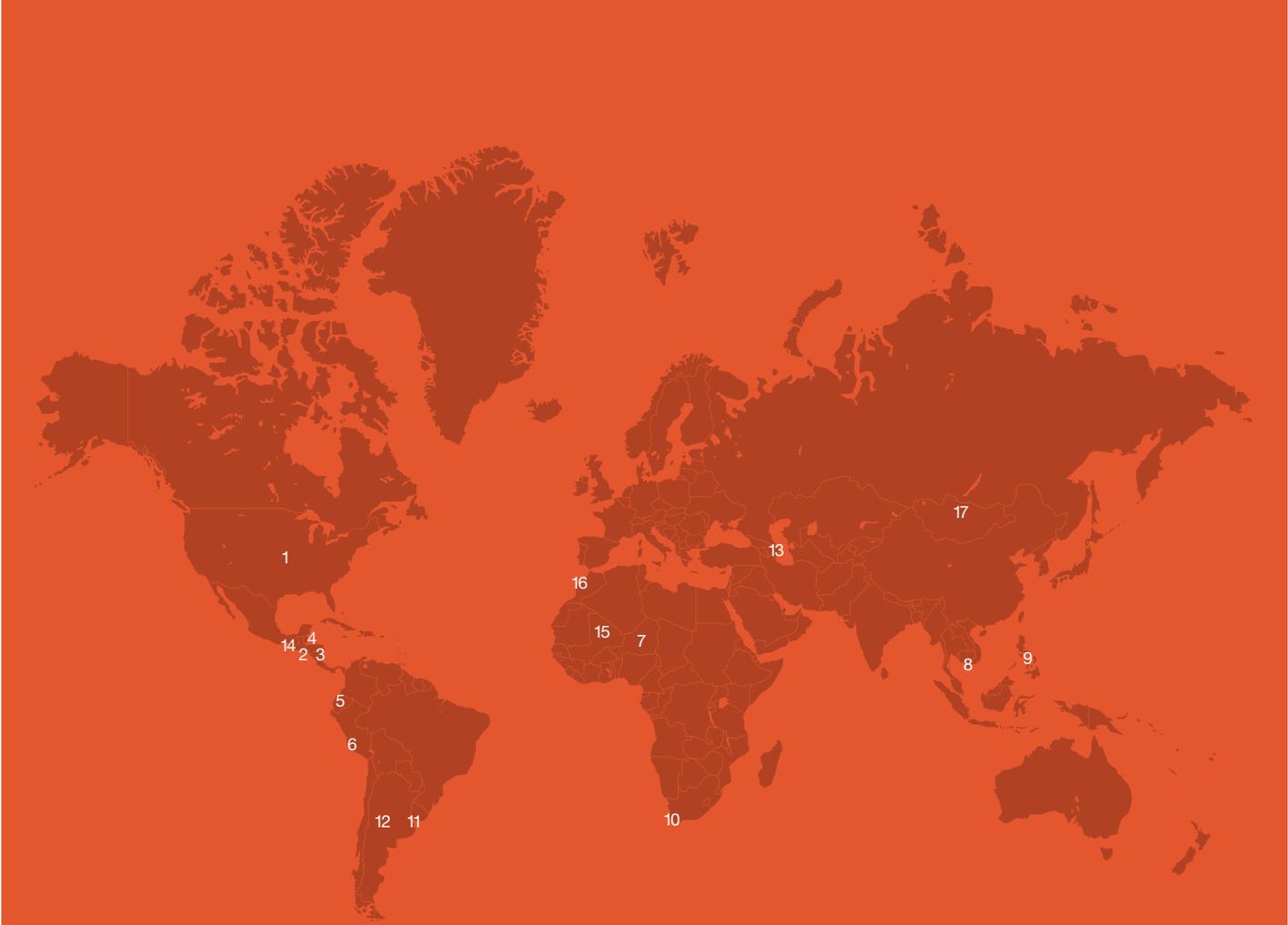
© Photos: INMAA // LMDF

## LMDF in figures // en chiffres

31 March 2015 // 31 mars 2015

<b>EUR 17.5 million</b> Investments in microfinance	<b>76%</b> Women
<b>28</b> Microfinance institutions financed directly	<b>EUR 1,198</b> Average disbursed micro-loan
<b>3</b> Regional funds and support structures	<b>29,965</b> Micro-entrepreneurs financed by LMDF
<b>17</b> Countries	<b>139</b> Number of university students financed
<b>1</b> Service provider	<b>50%</b> Micro-loans for services and small trade
<b>62%</b> Latin America	<b>31%</b> Agricultural activities
<b>23%</b> Southeast and Central Asia	<b>7%</b> Production and crafts
<b>13%</b> Sub-Saharan and North Africa	<b>12%</b> Other uses
<b>2%</b> Developed countries	<b>EUR 559,000</b> Average exposure per MFI
<b>19%</b> Financing in local currency	<b>3.1%</b> Return Class A shares
<b>539,048</b> Micro-entrepreneurs financed by partner MFIs	<b>4.1%</b> Return Class B shares
<b>EUR 325 million</b> Total micro-loan portfolio of partner MFIs	<b>3.0%</b> Return Class C shares

Note: The figures stated in this section of the report relating to information received from microfinance institutions are as at 30 June 2014 and largely based on unaudited information. The calculations follow, wherever applicable, the Microfinance Investment Vehicles Disclosure Guidelines as published by CGAP in 2010.



1	USA	MFX Solutions Higher Education Finance Fund LP	8	Cambodia	Maxima Mikroheranhvatho Intean Poalroath Rongroeurng SAMIC
2	El Salvador	PADECOMSM Crédito AMC OPTIMA	9	Philippines	Gata Daku MPC KPS-SEED
3	Nicaragua	Pro Mujer PANA PANA MiCrédito FUNDESER	10	South Africa	Tembeka Social Investment
4	Honduras	Pilarh OPDF	11	Uruguay	Microfin
5	Ecuador	Fundación Alternativa Coop. Maquita Cushunchic FACES	12	Argentina	Pro Mujer
6	Peru	IDESI Nacional CREDIFLORIDA FONDESURCO	13	Azerbaijan	FINCA
7	Niger	ASUSU	14	Guatemala	ASDIR ADISA
			15	Mali	Soro Yiriwaso
			16	Morocco	AMSSF / MC INMAA
			17	Mongolia	Khan Bank

Learn more about LMDf's portfolio of MFIs: [www.lmdf.lu](http://www.lmdf.lu)

# Report of the Board of Directors to the shareholders

The Board of Directors is pleased to present this report on its fifth year of operations.

In 2014/15, LMDF has focused on building its position as a social purpose investment vehicle that can both:

- contribute to the alleviation of poverty and
- deliver stable returns to its investors.

The Fund has advanced well on both fronts, maximising its social impact by achieving its stated priority for the year of becoming fully invested by year-end.

In terms of financial performance, investments in microfinance have grown by 40% from EUR 12.5 million at the last year-end to EUR 17.5 million at March 31, 2015. Cash and cash equivalents have been reduced to the level of 11% of net assets as prescribed in the Prospectus, compared to 25% at the end of last year, thereby relieving the Fund of the burden of unproductive cash in the current market conditions of historically low interest rates. Target returns for the year for all classes of shares have been achieved, and stand at 3.1% (Class A), 4.1% (Class B) and 3.0% (Class C).

Financial returns in the year have benefitted not only from the increase in income-producing investments, but also from the strengthening of the US dollar against the Euro, which is the Fund's reporting currency; a reversal of the dollar's strength is therefore likely to have a negative impact on future earnings. The Fund uses forward currency contracts and swaps to mitigate foreign exchange risk related to its investments and will continue to monitor the situation closely.

Net assets of the Fund have increased by some 16% from EUR 17.1 million to EUR 19.8 million, thanks to additional investment by shareholders of EUR 2.1 million and the net result for the year.

In terms of social impact, LMDF this year prepared a comprehensive and innovative report ("Driving Social Impact through Microfinance") which explains in some detail the social impact achieved over its five years of existence. The report also addresses some of the questions frequently raised by investors about microfinance, and deals openly and transparently with some of the challenges facing the sector. This landmark report constitutes essential reading for all who are interested in LMDF and the results of its activities.

The explanations and strong positive messages given in the report, on how the investments of LMDF in support of developing microfinance institutions (MFIs) reach deserving entrepreneurs, were further emphasised in May 2015, when representatives of two MFIs in which LMDF invests, and one of their entrepreneur clients, attended the fifth anniversary celebration of LMDF's operations. Their stories of innovation and hard work on the road to success in the face of poverty and adversity provided an inspiring demonstration of LMDF's *raison d'être*.

## **Corporate governance**

The Board of Directors is responsible, in accordance with the terms of the Articles of Association and the Prospectus for the overall management and control of the Fund and for implementing the Investment Objectives and Policy of the Fund. The day to day management of the Fund has been delegated to Kaspar Wansleben, Executive Director. The Board has selected and retained ADA (Appui au Développement Autonome a.s.b.l.) as its investment adviser to provide the services of identification, evaluation and selection of investment and disinvestment opportunities as well as the review, supervision and monitoring of its microfinance investments.



Mr. Nima Ahmadzadeh and Mr. Richard Philippart resigned as directors of the Fund respectively in February and April 2015. Mr. Michel Haas and Mr. Manuel Tonnar have subsequently been coopted to the Board.

The Board has established the following committees whose role is to support and make recommendations to the Board in their areas of activity.

The **Investment Committee**, which has five members, considers recommendations from the investment adviser on investment and disinvestment opportunities.

The **Risk Committee**, which has three members, provides direction, advice and oversight with regard to LMDF's risk management and reporting framework, including risk policies, processes and controls.

The **Marketing Committee**, which has two members, oversees the Fund's marketing strategy including the development of the shareholder base.

The **Employment Committee**, which has three members, reviews the objectives, performance and remuneration of management.

The Board has resolved that membership of the above Committees may be open to non-directors on a limited basis, to the extent that the majority of the members of each Committee are directors of the Fund.

The members of the Board do not receive any remuneration as directors, apart from the reimbursement of expenses incurred for Fund business and approved in advance by the Board.

#### **The Alternative Investment Fund Managers Directive**

The Alternative Investment Fund Managers Directive ("AIFMD" or "the Directive") was transposed into Luxembourg law on 12 July 2013 and became effective on 22 July 2013. In October 2013, the Fund has registered as a self managed Fund; as the net assets of the Fund remain below the threshold of EUR 100 million, the AIFMD reporting requirements for the Fund are limited.

The Board wishes to thank the shareholders for their continued support.

The Board of Directors  
June 12, 2015

Kenneth Hay  
Chairman



## Vision

LMDF aims to contribute to the alleviation of poverty by supporting organizations that empower people and stimulate entrepreneurship, with a particular focus on the most excluded. The Fund facilitates access to responsible finance by building sustainable links between investors, microfinance institutions and ultimate beneficiaries.

## Mission

In order to realize its Vision, LMDF

- Constitutes an attractive investment proposition by balancing stable financial returns to investors with the provision of responsible financial services to the poor.
- Specializes in facilitating the growth of promising emerging microfinance institutions which address the financial needs of marginalized communities and individuals in developing countries.
- Enables the development of micro-entrepreneurs in areas where unmet needs are largest, particularly among women, youth and rural populations.
- Is accessible to public, institutional and retail investors; is accountable for reaching both social and financial objectives; and is transparent in its reporting.

## Résumé / Zusammenfassung

*Le Luxembourg Microfinance and Development Fund vient de célébrer son cinquième anniversaire. Les actionnaires, les institutions de microfinance, les micro-entrepreneurs et les prestataires de services ont assisté aux événements, illustrant ainsi la diversité des acteurs qui œuvrent pour LMDF. A cette occasion, Abdelfadel Lhoussaine, un micro-entrepreneur du Maroc est venu présenter son parcours. Vous trouverez dans les pages qui suivent des informations sur l'institution de microfinance (IMF) INMAA qui, en fournissant des micro-crédits à Abdelfadel, lui a permis de construire son restaurant et d'entreprendre de nouveaux projets.*

*Lors de l'exercice précédent, LMDF a poursuivi ses activités d'investissement : onze crédits supplémentaires ont été attribués, dont six augmentations de financement de partenaires existants et cinq en faveur de nouvelles IMF. Ainsi, au 31 mars 2015, 90% des encours du Fonds étaient investis en microfinance (le maximum permis dans le Prospectus) contre 73% lors de la clôture précédente. Au 31 mars 2015, 62% des investissements du fonds étaient effectués en Amérique latine, 13% en Afrique, 23% en Asie et 2% dans les pays développés.*

*Dans l'ensemble, le portefeuille d'investissements du Fonds a augmenté de 39% pour atteindre 17.9 millions d'euros, contre 12.8 millions d'euros fin mars 2014 et les actifs nets du LMDF atteignent 19.8 millions d'euros contre 17.3 millions d'euros un an auparavant.*

*Le résultat financier de cette dernière année s'est considérablement amélioré comparé à l'année précédente, notamment en raison des investissements supplémentaires dans les IMF et de l'appréciation du dollar par rapport à l'euro. Le rendement annuel est de 3.1% pour la classe A, 4.1% pour la classe B et 3.0% pour la classe C.*

*La revue des principaux risques auxquels le Fonds est exposé n'a pas soulevé de risques particuliers.*

Vor Kurzem feierte der Luxembourg Microfinance and Development Fund seinen fünften Geburtstag. Aktionäre, Mikrofinanzinstitutionen, Kleinstunternehmer und Dienstleister nahmen an den Feierlichkeiten teil. Abdelfadel Lhoussaine, Kleinstunternehmer aus Marokko schilderte seinen Weg in die wirtschaftliche Unabhängigkeit. In diesem Jahresbericht betrachten wir die Arbeit der Mikrofinanzinstitution (MFI) INMAA genauer. INMAA vergab die Kleinstkredite die Abdelfadel erlaubten sein Restaurant und Gastbetrieb aufzubauen.

Der Fonds setzte im abgelaufenen Jahr seine Investitionstätigkeit fort. Es wurden elf Kredite vergeben, sechs zur Aufstockung der Finanzierung von bestehenden MFI Partnern und fünf zur Finanzierung neuer MFIs. Am Bilanzstichtag sind somit 90% des Nettovermögens in Mikrofinanz investiert, eine deutliche Steigerung im Vergleich zum Stichtag 31. März 2014 (73%), und genau an der durch das Prospekt definierten Obergrenze. Geographisch verteilt sich das Portfolio auf 62% in Lateinamerika, 13% in Afrika, 23% in Asien und 2% in entwickelten Ländern.

Insgesamt erhöhten sich die Mikrofinanzinvestitionen des Fonds um 39% auf EUR 17.9 Millionen gegen EUR 12.8 Millionen Anfang des Jahres und den Nettovermögen erreicht EUR 19.8 Millionen im Vergleich zu EUR 17.3 Millionen Ende März 2015.

Das finanzielle Ergebnis des Jahres verbesserte sich im Vorjahresvergleich wesentlich. Die Ertragstreiber sind die höhere Investitionsquote des Fonds zusammen mit der Stärkung des US-Dollars gegenüber dem Euro. Die Jahresrendite beträgt 3.1% für Klasse A, 4.1% für die Klasse B und 3.0% für Klasse C Aktionäre.

Das Risikoprofil des Fonds bleibt weitgehend unverändert und es bestehen keinen wesentlichen Einzelrisiken.

# Management report on activities

The Luxembourg Microfinance and Development Fund (LMDF) and its sole sub-fund, the Social Venture Capital Sub-Fund, celebrated its fifth anniversary in May. Many shareholders, investees, partners and service providers attended the events, illustrating the diversity of actors assembled around LMDF.

For the anniversary, LMDF invited Abdelfadel Lhoussaine, a micro-entrepreneur from Morocco, as a special guest. In this report we take a closer look at INMAA, the Moroccan microfinance institution providing the micro-loans that have allowed Abdelfadel to build his restaurant and guesthouse business and to continue embarking on new entrepreneurial ventures. The partnership between INMAA and Abdelfadel illustrates how microfinance can lead to lasting change.

## **/ Investment activities**

The main priority during the financial year was to increase the investment quota of the Fund and become fully invested. At year end, 90% of net assets were invested in microfinance while liquid assets constituted 11% (the Fund intends to keep a minimum of 10% in liquid assets). This constitutes a substantial improvement over the previous year-end when only 73% of net assets were invested in microfinance.

In absolute terms, loans to microfinance institutions increased from EUR 12.8 million to EUR 17.9 million, an increase of 39%. The Fund finalized 11 transactions with an average size of EUR 460,000, confirming our focus on smaller transaction sizes and smaller microfinance institutions (MFIs). Six of the

11 transactions concerned MFIs that were already in the portfolio, either renewing a maturing loan or increasing our financing to follow the MFI's growth.

Latin America remains the Fund's main region in terms of geography, concentrating 62% of all investments (59% at the previous year-end) in eight countries (Graph 1). LMDF has remained active in Southeast Asia (16% at year-end compared to 15% last year) and North Africa (4% compared to 6% last year). The share of Central Asian investments increased from 4% to 7% with Mongolia added as a portfolio country. The biggest change is in investments in Sub-Saharan Africa. The last investment in Togo matured and was not renewed, lowering the share of the region from 14% last year to 9% this year.

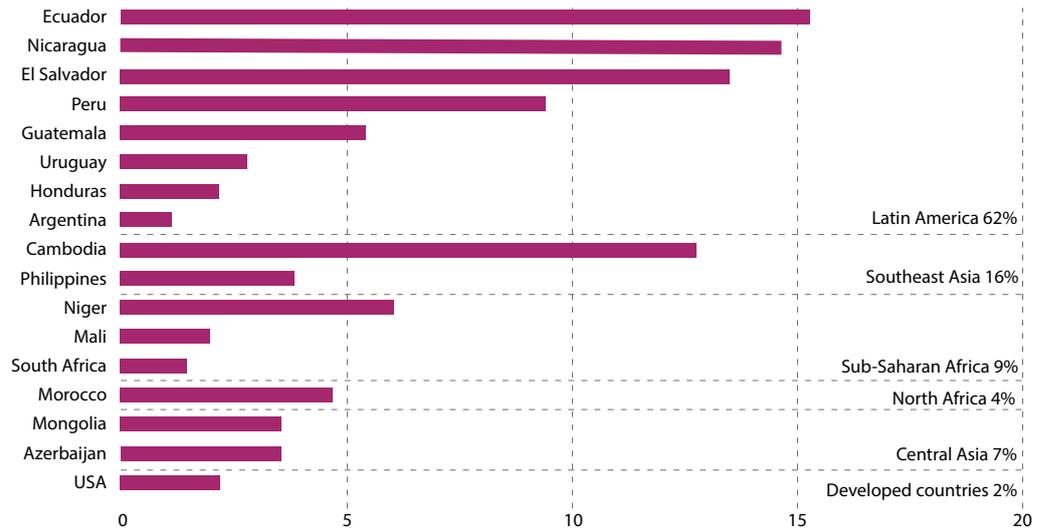
Sub-Saharan Africa remains an important region in relation to LMDF's vision and mission. The Fund is currently reviewing its strategy in that regard.

Graph 2 shows LMDF's investment portfolio by country and market segments. Micro-Rate, an information provider, has published benchmarks of what constitutes the lower, medium and higher market segment in microfinance. Graph 2 clearly shows that LMDF's focus is on the lower market segments, meaning that it ultimately reaches people who tend to be poorer and more excluded compared to the mainstream microfinance market.

## **/ Social objectives**

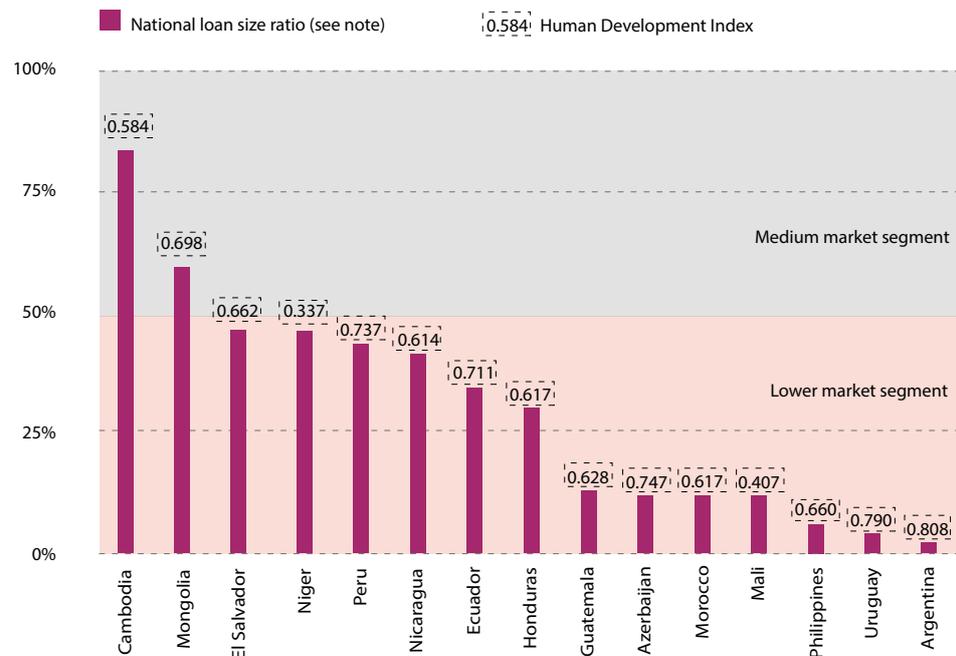
The Human Development Index (Graph 2) shows that LMDF is active in a variety of

GRAPH 1:  
MICROFINANCE INVESTMENTS BY REGION AND COUNTRY  
(in % of microfinance portfolio)



Source: LMDF analysis as at 31/03/2015

GRAPH 2:  
NATIONAL LOAN SIZE RATIO AND HUMAN DEVELOPMENT INDEX BY COUNTRY



Note: National Loan Size Ratio is the average loan size granted by microfinance institutions in each country divided by the GDP per capita.

Source: LMDF analysis of data submitted by MFIs as at 31 December 2014, excluding certain indirect investment in microfinance; International Monetary Fund estimated GDP per capita 2015, converted into EUR; United Nations Development Program Human Development Index 2014; Market segments derived from MicroRate (2014): Performance and Social Indicators for Microfinance Institutions

countries from relatively well-off Argentina to Niger which ranks 187 out of 187 countries. It is interesting to note that the micro-loan sizes, measured as a percentage of GDP, are very small in richer countries such as Argentina, Uruguay or Azerbaijan, illustrating that poor people with unmet financial needs exist in all sorts of contexts.

During the year, LMDF undertook a comprehensive review of its social performance. The results have been published in a separate report, “Driving Social Impact Through Microfinance: Social Performance Report 2010 – 2015”, available for download on our website. The report reviews three key areas: (1) what are the Fund’s social objectives; (2) how are those objectives reflected in the Fund’s operations and governance; and (3) what are the results after five years?

To measure results, LMDF chose eight indicators applied across the portfolio. Industry benchmarks are available for five of those indicators. The analysis confirms LMDF’s focus on lesser developed countries and MFIs addressing the needs of poorer populations. Women account for 72% of all clients (high compared to all microfinance funds), and a quarter of all micro-loans

finance small-holder agriculture. Many MFIs also offer services beyond credit, with 39% proposing savings services. And most deliver services efficiently while respecting the basic rights of clients.

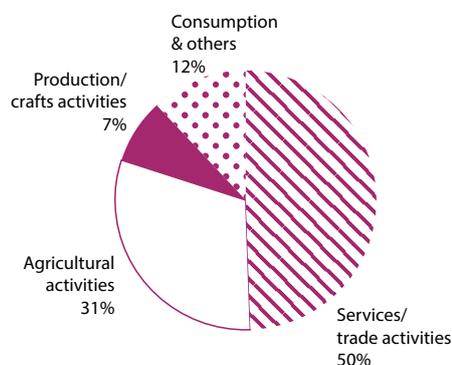
### / Financial performance

The higher investment quota improved the Fund’s financial performance despite the fact that the Fund started the year almost 17% below the investment target of 90% of net assets (Graph 6). The other positive influence was the appreciation of the US dollar and currencies managed in relation to the US dollar compared to the Fund’s currency, the euro. Income from microfinance and liquid assets was 7.2% of average net assets, compared to 6.0% during the previous financial year (before foreign exchange hedging, impairment and operating costs).

Net returns during the financial year were 3.1% for Class A, 3.0% for Class C and 4.1% for Class B shareholders (Graph 7).

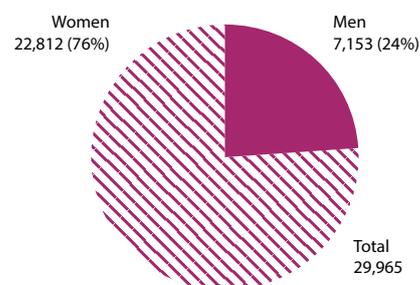
The challenge to ensure stable returns on those levels in the coming years is to become more efficient as an intermediation mechanism. LMDF’s total net assets increased by

GRAPH 3:  
ECONOMIC PURPOSE OF MICRO-CREDITS FINANCED BY LMDF (in %)



Source: LMDF analysis of weighted average data provided by partner MFIs as at 31/12/2014

GRAPH 4:  
ACTIVE MICRO-ENTREPRENEURS FINANCED BY LMDF



Source: LMDF analysis of weighted average data provided by partner MFIs as at 31/12/2014



Nahza started a pottery shop to increase her income // INMAA

16% to 19.8 million euros, but the higher investment quota increased the variable costs so that the total expense ratio (“TER”) decreased only very slightly from 3.6% to 3.5%.

**/ Risk review**

During the year ended 31 March 2015 the Fund continued to closely monitor the situation of a number of MFIs and countries.

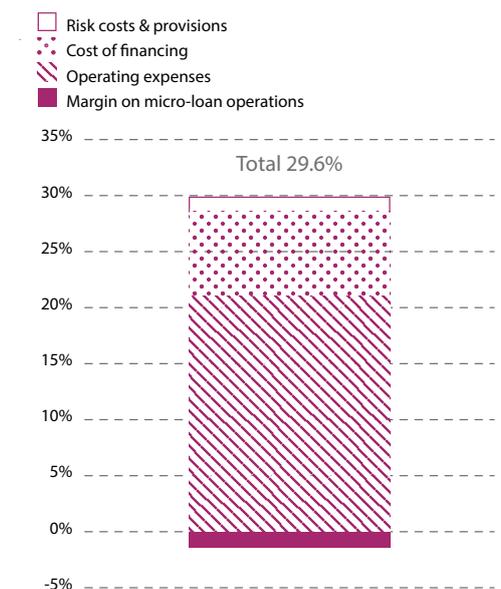
**- Credit risks**

Average exposure to microfinance institutions increased slightly from 2.6% to 2.8% of total net assets with a maximum exposure of 6.5% to the MFI Maquita in Ecuador. The average exposure is EUR 560,000 per MFI, which represents an increase of 30% compared to the year end 31 March 2014. This is mainly explained by large senior loans granted at the end of 2014 (SAMIC, FUNDESER) and a number of smaller loans maturing (CECA in Togo, for example).

The Fund made a provision in March 2014 on the loan granted to the MFI Crediflorida in Peru. Increased risks of default were caused by the impact of coffee rust on many of the MFI’s clients, mostly smallholder coffee farmers. As at 31 March 2015 the situation

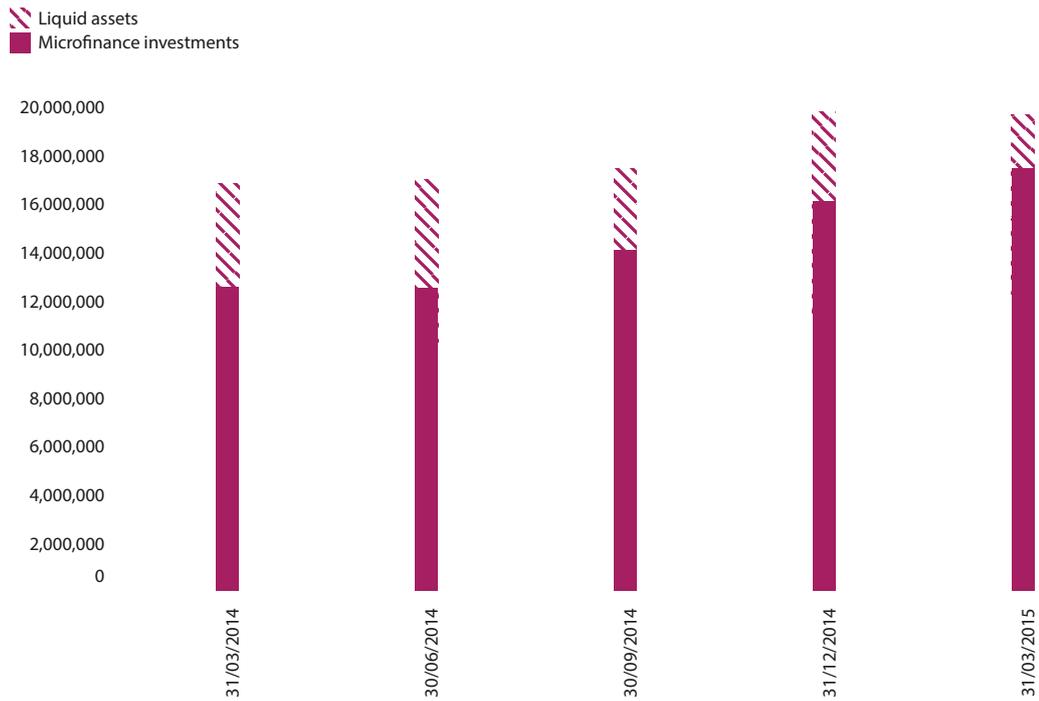
is stable, and the Board decided to maintain the provision of 10% of the principal amount outstanding pending further improvements.

**GRAPH 5:  
COMPONENTS OF MFIs' INTEREST  
RATES CHARGED TO CLIENTS**



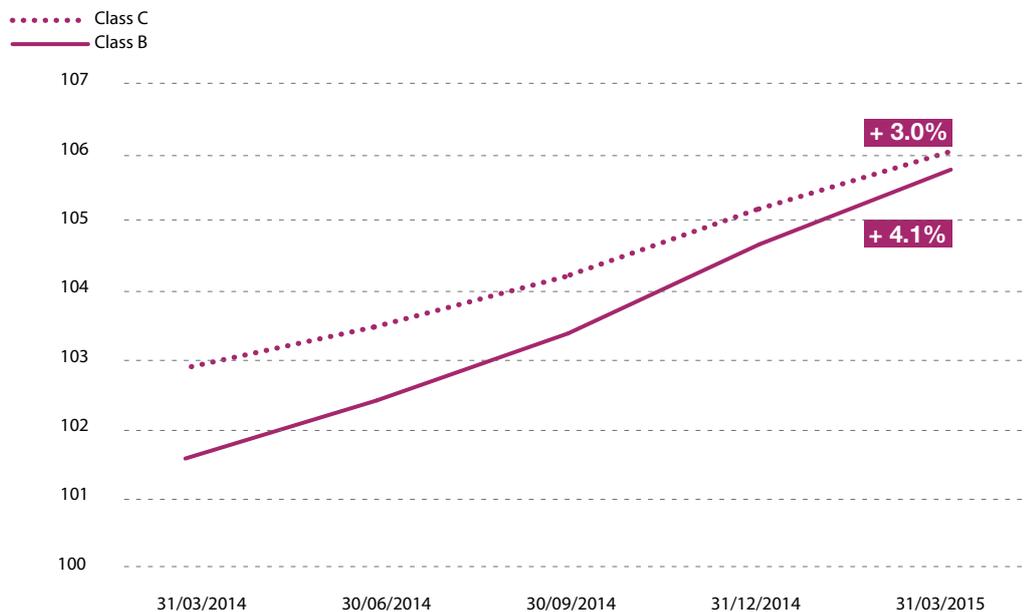
Source: LMDF analysis of weighted average data provided by partner MFIs as at 30/09/2014

GRAPH 6:  
LIQUID ASSETS AND MICROFINANCE INVESTMENTS (in EUR)



Source: LMDF analysis

GRAPH 7:  
DEVELOPMENT OF NAV PER SHARE OF CLASS B AND CLASS C SHARES DURING THE  
LAST 12 MONTHS (in EUR)



Source: LMDF analysis



The Fund made a provision in March 2015 against its exposure to the microfinance institution IDESI in Peru. IDESI is facing a number of strategic challenges in a competitive market. The provision accounts for 10% of the outstanding principal amount.

#### - Currency risk

The Fund was impacted by the 22% appreciation of the US dollar in relation to the euro during the financial year. US dollar denominated investments constitute 67% of the Fund's total investments and a number of other currencies move in close relation to the US dollar, including the Philippine peso, Peruvian nuevo soles or Nicaraguan córdobas. The currency appreciation increased the Fund's income since the Fund's hedging policy covers the principal but not the interest income.

LMDF will maintain its conservative approach to currency risks and will work on refining its hedging strategy.

#### - Country risks

During the reporting period, the Fund invested for the first time in Mongolia and exited Togo. Peru and El Salvador are the most important countries in LMDF's portfolio, each accounting for 13% of total net assets each. The average country exposure increased from 4.6% of total net assets at the end of March 2014 to 5.3% at the end of March 2015. The five most important countries concentrate 57% of total net assets, a significant increase over 47% of total net assets at the end of March 2014.

#### / Outlook

Management sees three priorities for the next years:

1. To ensure that the Fund is an effective financing tool and that new funds flowing into LMDF are quickly converted into microfinance investments;
2. To increase the size of LMDF to ensure that it is a more viable instrument in the long term and which responds to the financing needs we see. Some of the increase in volume is likely to come from existing shareholders, but we also hope to welcome many new shareholders over the next months and years;
3. To increase the efficiency of the Fund, measured through the total expense ratio, i.e., the relation between the total fund size and our operating costs.

These are the strategic priorities for the microfinance sub-fund. At the same time LMDF has decided to expand its activities and is currently working on the concept for a second sub-fund dedicated to forestry and climate change.

As always, we very much welcome your comments or questions.

Kaspar Wansleben  
Executive Director  
(kaspar@lmdf.lu)

Note: The figures stated in this report are historical and partly based on unaudited information received from microfinance institutions. Such figures are not necessarily indicative of future performance. The calculations follow, wherever applicable, the Microfinance Investment Vehicles Disclosure Guidelines as published by CGAP in 2010.

# 1 Microfinance institution in focus

## INMAA, Morocco

**INMAA, Institution Marocaine d'Appui à la Micro-entreprise, is a promising microfinance institution in Morocco that launched its first microcredit program in the remote region of Ouarzazate.**

INMAA started operating in 2001 and has gained considerable experience in starting and managing microcredit programs. INMAA is a not-for-profit organization with a strong focus on rural areas. It now operates in three different regions through 26 branches, focusing on the creation and growth of income-generating activities of the clients. INMAA provides individual loans as well as group loans that are tailored to the client's needs with different objectives: ensure growth of economic activities; finance livestock and agricultural activities; increase rural tourism; and respond to the credit needs of small businesses. Today, INMAA serves more than 7,000 clients, of which 46% are women. INMAA aims to reach 15% of youth among its clients.

INMAA, together with many other MFIs, was impacted by the over-indebtedness crisis in 2008 when excessive lending and lax credit standards led to widespread default on

microloans. Consequently, INMAA established measures to ensure that it grants loans in the best interest of its clients. For example, several counter-checks are affected in order to detect indicators of over-indebtedness. Another measure is increased transparency of the terms and conditions of micro-loans, such as a clear disclosure of the interest rate payable. INMAA has also endorsed the Client Protection Principles developed by the SMART Campaign.

In January 2014, LMDF granted a EUR 300,000 loan to INMAA to facilitate the MFI's growth. Several projects have been undertaken together since the beginning of the partnership, including a case study published in the Fund's social performance report (released in February 2015) and for LMDF's fifth anniversary.



## 2 Four questions to

Hammou Moustain,

General Manager of INMAA



**Mr. Moustain, could you share with us INMAA's development as an MFI, especially in regard of the impact of the microfinance crisis in Morocco on your operations?**

INMAA, Institution Marocaine d'Appui à la Micro-entreprise, is a not-for-profit organization specialized in the field of microcredit. It is regulated by the law of associations (Dahir 1958) and by the law 18-97 that controls the microcredit sector in Morocco. It was created in 1999 at the initiative of the Moroccan Association for Solidarity and Development (AMSED). Licensed to practice microcredit in 2000, it began to operate in 2001 in the southeast of Morocco.

INMAA's history can be summarized in three main phases:

- 2000-2007: creation and growth phase
- 2008-2011: crisis characterized by an increase of unpaid debts and losses
- 2012 to today: controlled growth phase

Thanks to the commitment of its Board of Directors, its operational teams and its national and international partners, INMAA has overcome the crisis and, through a clean-up

of its loan portfolio, improved the management information system and invested in training its team. These efforts have allowed us to get through the crisis.

**Prevention of over-indebtedness is a central part of what responsible microfinance is about.**

**How do you address this phenomenon?**

INMAA has set its main goal to be a leading player in responsible microfinance in Morocco and a leading institution with regard to client protection. Prevention of over-indebtedness is a fundamental concern for INMAA and strongly influences its credit methodology.

INMAA effectively finances only income generating activities and ensures, through detailed analysis, the capacity of the client to invest the loan amount and generate the cash flows required for the repayment. As part of our methodology we regularly provide training in financial education to clients with a specific module dedicated to understanding the management of debt.

**"We offer our financial services to the poor in the areas hardest to reach."**

**INMAA operates in three agricultural regions that are very distant from each other.**

**What are the challenges of having customers in remote rural areas and how do you cope with them?**

INMAA operates in very remote areas; some of our branches are 700 km away from the main office. Our motto is 'we offer our financial services to the poor in the areas hardest to reach'. This strategy of course implies additional costs.

Therefore we encounter three main challenges: (1) Serving customers with responsible terms and conditions; (2) developing specific products responding to customer's needs; and (3) recruiting and retaining competent and dedicated field staff.

A number of principles allow us to respond to these challenges. We work in a decentralized way. Regional management has significant decision-making powers. At the same time we have established strong ex-post controls and an effective IT system. We also develop innovative financing products responding to real needs.

We are developing, for example, a specific product for members of cooperatives on which we will publish details shortly. Finally, we have prioritized recruitment of staff with sensitivity to our social mission while adapting our human resource policies to value human capital.

**How do you see the cooperation with LMDF?**

LMDF's financing comes at an interest rate that is considered relatively high in relation to the local funding market. Yet these costs need to be seen in relation to the benefits: We benefit from technical assistance programs (through ADA) including a social audit, trainings, exchange of experience with peers or study trips. We are happy to continue deepening our exemplary partnership.

*Translated from French into English by LMDF*



46% of INMAA's clients are women // INMAA



Derouich produces milk // INMAA



Small shops play an important role in the Moroccan economy // INMAA

## 3 The story of

Abdelfadel Lhoussaine,  
Moroccan micro-entrepreneur



LMDF is a social investment fund linking the Luxembourgish Development Cooperation, the Ministry of Finance, the financial sector, civil society as well as many citizens to microfinance institutions and micro-entrepreneurs in developing countries. This alliance allows us to select MFIs with a strong social mission in order to improve the lives of micro-entrepreneurs, the ultimate clients. We spend time and effort on the analysis of what is really happening on the ground.

### Building a business

Abdelfadel Lhoussaine is the son of a shepherd from the region of Tinghir in Morocco, the southern part of the Atlas Mountains.

Despite his low level of studies and thanks to his experience in the restoration sector, he was able to transform this father's house into his own restaurant called "La Petite Gorge" in 2010. His dream of having his own restaurant was supported by the microfinance institution INMAA, which had believed in his project since the beginning. Indeed, in 2008 when a lack of money threatened the project, INMAA offered access to microcredit which allowed for Abdelfadel to build and equip his restaurant.

The charm of the establishment, the excellent location next to a tourist road and — of course — the personalized services offered (please refer to website TripAdvisor for details) have been the right elements to make the restaurant successful. As a true entrepreneur Abdelfadel is concerned about diversifying the services he can provide and so built a number of guestrooms adjacent to the restaurant.

We are also convinced that transparency is important. This year, for the fifth anniversary of the Fund, we had the great pleasure to welcome Monsieur Abdelfadel Lhoussaine, a Moroccan micro-entrepreneur and client of the institution INMAA, to Luxembourg. He is just one of 29,965 micro-entrepreneurs financed by LMDF. His story may not represent the diversity this implies, yet Abdelfadel can still provide us with his reality and life as an example for what we want to achieve in the end.

This was again possible through a microloan from INMAA. Abdelfadel won the National Prize for Micro-entrepreneurs in Morocco in 2013.

In his day-to-day work, he is assisted by his wife and employs waiters for peak periods in the restaurant where most of the clients are tourists. These loans granted by INMAA have improved his revenues significantly, enabling him to diversify his business and to provide private schooling for his three daughters.

Moreover, and in a true entrepreneurial spirit, Abdelfadel has plenty of projects in mind. The one he is working on now is to open a youth hostel not far from his current location to offer low-cost lodging to backpackers.

LMDF certainly wishes a lot of success for this new project.

Visit his website: [www.lapetitegorge.com](http://www.lapetitegorge.com)



*Abdelfadel's restaurant in Tinghir, 7 years after he received the first loan from INMAA // INMAA*



*Most of his clients are tourists // INMAA*



*The view of the Todgha Gorge from the terrace // INMAA*

# Fifth anniversary of the Fund

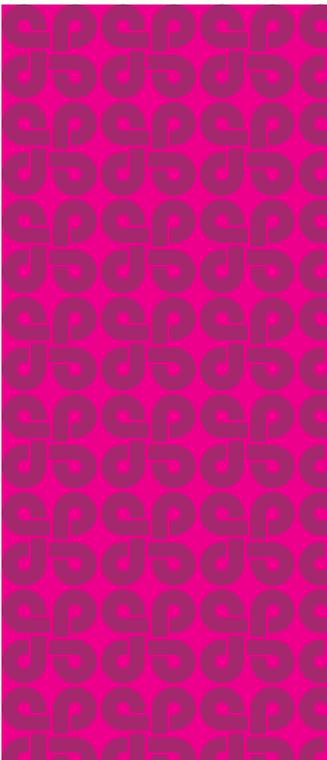
## *Cinquième anniversaire du Fonds*

To mark its fifth anniversary, LMDF organized several events together with its partners: the Banque Internationale à Luxembourg, the Banque et Caisse d'Épargne de l'État and the BGL BNP Paribas.

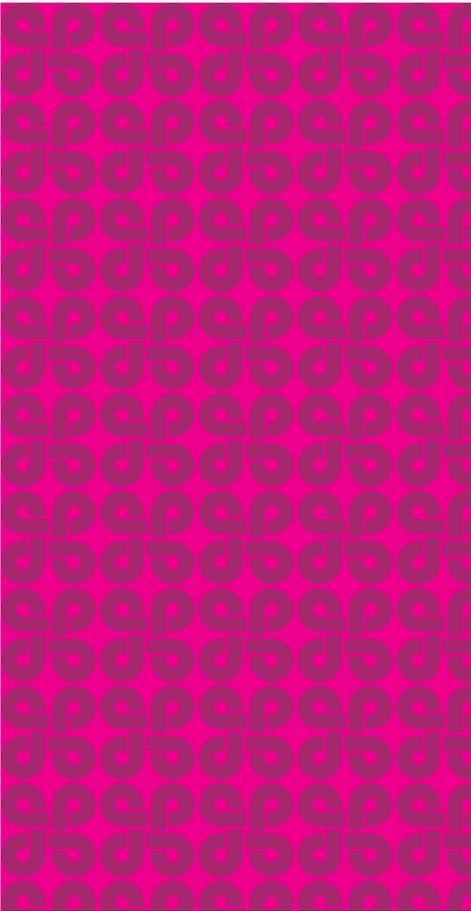
A ceremony was held on 7 May 2015 and gathered many shareholders with the Minister for Development Cooperation and Humanitarian Action, Romain Schneider; the General Manager of the MFI Asusu S.A. from Niger, Ms Réki Moussa; and Abdelfadel Lhoussaine.

LMDF would like to thank the many participants and guests of the different events. We were very proud to celebrate our fifth anniversary together with all of you who have helped build LMDF, be it as shareholders, members of the Board of Directors, service providers, microfinance institutions, micro-entrepreneurs and, of course, LMDF's small team.

Thank you for being part of this adventure.



*LMDF's fifth anniversary at the Banque et Caisse d'Épargne de l'État // LMDF*



*Kenneth Hay, LMDf's president and Cooperation Minister Romain Schneider // LMDf*



*Yves Kuhn, CIO of the BIL and Réki Moussa, CEO Asusu // LMDf*



*Réki Moussa and Karin Schintgen, BGL BNP Paribas // LMDf*

# Statutory information

## Organisation

### Registered Office // Domicile

2, place de Metz  
L-1930 Luxembourg

### Trade Register Number // Registre de commerce et des sociétés

R.C.S. Luxembourg B 148.826

### Board of Directors // Conseil d'administration

#### Chairman - Président

Kenneth Hay

Independent

#### Vice chairmen - Vice présidents

Hedda Pahlson-Moller  
Robert Wagener

Independent  
ADA - Appui au Développement Autonome asbl

#### Members - Membres

Nima Ahmadzadeh<sup>(2)</sup>  
Viviane Clauss  
Marc Elvinger  
Richard Philippart

Ministry of Finance  
Banque de Luxembourg  
Independent  
Development Cooperation Department,  
Ministry of Foreign Affairs  
Banque Internationale à Luxembourg  
ADA - Appui au Développement Autonome asbl  
Banque et Caisse d'Épargne de l'État  
Executive Director

Raoul Stefanetti<sup>(1)</sup>  
Luc Vandeweerd  
Paolo Vinciarelli  
Kaspar Wansleben

#### Investment Committee Comité d'investissement

Nima Ahmadzadeh<sup>(2)</sup>  
Marc Elvinger  
Hedda Pahlson-Moller  
Richard Philippart  
Olivier Selis<sup>(3)</sup>  
Luc Vandeweerd

#### Risk Committee Comité de risque

Kenneth Hay  
Raoul Stefanetti  
Paolo Vinciarelli

#### Marketing Committee Comité de marketing

Viviane Clauss  
Hedda Pahlson-Moller

#### Employment Committee Comité d'emploi

Nima Ahmadzadeh<sup>(2)</sup>  
Kenneth Hay  
Richard Philippart

(1) From 3 July 2014

(2) Until 5 February 2015

(3) From 21 October 2014, external committee member from BGL BNP Paribas

#### Investment advisor // Conseiller en investissement

ADA - Appui au Développement Autonome asbl  
39, rue Glesener  
L-1631 Luxembourg

#### **Microfinance expertise // Expertise en microfinance**

Arranger and Servicer to Micro, Small & Medium Enterprises Bonds S.A.  
Symbiotics SA  
75, rue de Lyon  
CH-1203 Geneva

General Partner of the Higher Education Finance Fund LP  
OMTRIX Inc.  
Oficentro La Virgen No.2, Edificio 1, Piso 1  
Zona Industrial de Pavas,  
San José, Costa Rica

#### **Custodian and Paying Agent // Banque dépositaire et agent de paiement**

Banque et Caisse d'Épargne de l'État  
1, place de Metz  
L-2954 Luxembourg

#### **Administrative Agent, Registrar and Transfer Agent**

##### **Administration centrale et agent de transfert**

European Fund Administration S.A.  
2, rue d'Alsace  
L-1017 Luxembourg

#### **Auditors // Réviseur d'entreprises agréé**

KPMG Luxembourg. Société coopérative  
39, Avenue John F. Kennedy  
L-1855 Luxembourg

#### **Legal Advisors // Conseiller légal**

Elvinger, Hoss & Prussen  
2, place Winston Churchill  
L-1340 Luxembourg

#### **Distributors // Distributeurs**

Banque de Luxembourg S.A.  
14, boulevard Royal  
L-2449 Luxembourg

BGL BNP Paribas S.A.  
50, avenue J.F. Kennedy  
L-2951 Luxembourg

Banque et Caisse d'Épargne de l'État  
1, place de Metz  
L-2954 Luxembourg

Fortuna Banque s.c.  
130, boulevard de la Pétrusse  
L-2330 Luxembourg

#### **Foreign Currency Settlement Agent // Agent de compensation en devise**

INTL FCStone LTD,  
Moor House, 1<sup>st</sup> Floor, 120 London Wall  
London EC2Y 5ET  
United Kingdom

#### **Foreign Currency Hedging Provider // Contrepartie de couverture de risque de change**

MFx Solutions, Inc.  
1050 17<sup>th</sup> St. NW, Suite 550  
Washington DC, 20036  
United States of America

Banque et Caisse d'Épargne de l'État  
1, place de Metz  
L-2954 Luxembourg

#### **Identity numbers // Code d'identité**

Class B shares  
ISIN: LU0456966935  
Bloomberg: LMDSVGB:LX  
Telekurs: 10633787

Class C shares  
ISIN: LU0456967404  
Bloomberg: LMDSVCC:LX  
Telekurs: 10633788

# Report of the independent auditor

## *Rapport du réviseur d'entreprises agréé*



To the Shareholders of  
Luxembourg Microfinance and Development Fund SICAV  
2, Place de Metz  
L-1930 Luxembourg

### **REPORT OF THE REVISEUR D'ENTREPRISES AGREE**

Following our appointment by the annual general meeting of the Shareholders dated July 03, 2014, we have audited the accompanying annual accounts of Luxembourg Microfinance and Development Fund SICAV and its sub-fund, which comprise the statement of net assets and the statement of investments and other net assets as at March 31, 2015 and the statement of operations and other changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### ***Responsibility of the Board of Directors for the financial statements***

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Responsibility of the Réviseur d'Entreprises agréé***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of Luxembourg Microfinance and Development Fund SICAV as at March 31, 2015, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

***Other matter***

Supplementary information included in the annual report has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of the financial statements taken as a whole.

Luxembourg, June 12, 2015

KPMG Luxembourg  
Société coopérative  
Cabinet de révision agréé



Jane Wilkinson

# Audited financial statements

## *Etats financiers révisés*

### // 1 **Statement of net assets** *État des actifs nets*

as at 31 March 2015 // au 31 mars 2015

Assets – Actif	Notes	EUR
Shares (and equity-type securities) in regional microfinance investment vehicles <i>Actions (et instruments similaires) dans des structures régionales d'investissements en microfinance</i>		190,550
Shares (and equity-type securities) in microfinance institutions and service providers <i>Actions (et instruments similaires) dans des institutions de microfinance et structures de support</i>		187,402
Loan agreements with microfinance institutions <i>Contrats de prêt avec des institutions de microfinance</i>	6, 7	15,895,976
Notes backed by loans to microfinance institutions <i>Notes financées par des prêts aux institutions de microfinance</i>	8	1,211,048
Deferred charges <i>Charges constatées d'avance</i>	9	10,382
Cash at banks <i>Avoir en banques</i>		1,902,041
Savings account <i>Compte d'épargne</i>		205,357
Receivable on portfolio <i>À recevoir sur le portefeuille</i>		539,714
Interest receivable on bank accounts <i>Intérêts à recevoir sur avoirs en banque</i>		616
<b>Total assets</b> <b>Somme des actifs</b>		<b>20,143,086</b>

The accompanying notes form an integral part of this report.



Mariam opened a pharmacy in her town, creating a micro-entreprise which benefits the whole village in terms of access to health care // INMAA

Liabilities – Passif	Notes	EUR
Accrued expenses <i>Provision pour frais à payer</i>	9	206,036
Unrealised depreciation on forward foreign exchange contracts <i>Moins-value non réalisée sur change à terme</i>	5	59,699
Unrealised depreciation on swap contracts <i>Moins-value non réalisée sur contrats de swap</i>	5	51,848
<b>Total liabilities</b> <b>Somme des passifs</b>		<b>317,583</b>
<b>Net assets at the end of the year</b> <b>Actifs nets à la fin de la l'année</b>		<b>19,825,503</b>
A Class shares outstanding <i>Nombre d'actions en circulation de la Classe A</i>		168,238.537
Net asset value per A Class share <i>Valeur nette d'inventaire par action de la Classe A</i>		25.25
B Class shares outstanding <i>Nombre d'actions en circulation de la Classe B</i>		129,279.922
Net asset value per B Class share <i>Valeur nette d'inventaire par action de la Classe B</i>		105.95
C Class shares outstanding <i>Nombre d'actions en circulation de la Classe C</i>		17,715.880
Net asset value per C Class share <i>Valeur nette d'inventaire par action de la Classe C</i>		106.08

## // 2 Statement of operations and other changes in net assets État des opérations et des variations des actifs nets

from 1 April 2014 to 31 March 2015  
du 1er avril 2014 au 31 mars 2015

Income – Revenus	Notes	EUR
Interest on microfinance loan agreements <i>Intérêts sur contrats de prêt en microfinance</i>		1,328,755
Net interest paid on swap contracts <i>Intérêt net payé sur contrat swap</i>		(88,091)
<b>Net interest on microfinance loan agreements <i>Intérêts nets sur contrats de prêts en microfinance</i></b>		<b>1,240,664</b>
Commission on microfinance loan agreements <i>Commission sur contrats de prêts en microfinance</i>		39,126
Interest on bank accounts <i>Intérêts bancaires</i>		6,472
Other income <i>Autres produits</i>		1,756
<b>Total income <i>Somme des revenus</i></b>		<b>1,288,018</b>
Expenses – Frais		
Advisory fees <i>Frais du conseiller en investissement</i>	3	265,994
Salary and wages of the fund management <i>Charges salariales de gestion du fonds</i>	3, 12	164,447
Custodian fees <i>Commission de la banque dépositaire</i>		17,527
Central administration costs <i>Frais de l'administration centrale</i>		76,231
Banking charges and other fees <i>Frais bancaires et charges liées</i>		1,255
Transaction fees <i>Frais de transaction</i>		14,750
Audit fees <i>Frais de révision</i>		16,675
Other administrative costs <i>Autres charges administratives</i>	9	73,786
Subscription duty <i>Taxe d'abonnement</i>	4	0
<b>Total expenses <i>Total des frais</i></b>		<b>630,665</b>
<b>Net investment income <i>Résultat net d'investissement</i></b>		<b>657,353</b>

The accompanying notes form an integral part of this report.

<b>Net realised gain/(loss)</b> <i>Bénéfice/(perte) net(te)</i>	<b>Notes</b>	<b>EUR</b>
On investments <i>Sur investissements</i>		(19)
On forward foreign exchange contracts <i>Sur contrats de change à terme</i>		(2,886,710)
On foreign currency transactions <i>Sur opérations de change</i>		192,414
<b>Realised result</b> <i>Bénéfice/(perte) net(te) réalisé(e)</i>		<b>(2,694,315)</b>
<b>Net variation of the unrealised gain/(loss)</b> <i>Variation de la plus-value/(moins-value) nette non réalisée</i>		
<i>On investment portfolio / Sur portefeuille d'investissements</i>		
Variation of impairment on microfinance loans <i>Variation de provisions sur prêts microfinance</i>	6	(63,325)
Variation of valuation of equity investments <i>Variation de la valorisation des investissements en capital</i>		(49,293)
Variation due to changes in the foreign exchange rate <i>Variation due à l'évolution du taux de change</i>		3,037,304
<b>Total variation on investment portfolio</b> <i>Variation totale sur portefeuille d'investissements</i>		<b>2,924,686</b>
On forward foreign exchange contracts <i>Sur contrats de change à terme</i>		(22,932)
On cross-currency swap contracts <i>Sur contrats de swap de taux et change à terme</i>		(195,387)
On foreign exchange transactions <i>Sur opérations de change</i>		91
<b>Unrealised result</b> <i>Bénéfice/(perte) net(te) non réalisé(e)</i>		<b>2,706,458</b>
<b>Result of operations</b> <i>Résultat net des opérations</i>		<b>669,496</b>
Subscriptions <i>Souscriptions</i>		2,120,774
Redemptions <i>Rachats</i>		(35,196)
<b>Total changes in net assets</b> <i>Variation globale de la valeur nette d'inventaire</i>		<b>2,755,074</b>
<b>Total net assets at the beginning of the year</b> <i>Valeur nette d'inventaire au début de l'année</i>		<b>17,070,429</b>
<b>Total net assets at the end of the year</b> <i>Valeur nette d'inventaire à la fin de l'année</i>		<b>19,825,503</b>

### // 3 Statistical information *Informations statistiques*

as at 31 March 2015 // au 31 mars 2015

#### Total net assets – Actifs nets EUR

As at 31.3.2015 19,825,503  
*Au 31.3.2015*

#### Number of A Class shares – Nombre d'actions de la Classe A en circulation

Outstanding at the beginning of the year 148,286.423  
*Au début de l'année*

Issued during the year 19,952.114  
*Émises durant l'année*

Redeemed during the year 0.000  
*Rachetées durant l'année*

Outstanding at the end of the year 168,238.537  
*À la fin de l'année*

#### Net asset value per A Class share *Valeur nette d'inventaire par action de la Classe A*

As at 31.3.2015 25.25  
*Au 31.3.2015*

#### Number of B Class shares – Nombre d'actions de la Classe B en circulation

Outstanding at the beginning of the year 114,688.975  
*Au début de l'année*

Issued during the year 14,590.947  
*Émises durant l'année*

Redeemed during the year 0.000  
*Rachetées durant l'année*

Outstanding at the end of the year 129,279.922  
*À la fin de l'année*

#### Net asset value per B Class share *Valeur nette d'inventaire par action de la Classe B*

As at 31.3.2015 105.95  
*Au 31.3.2015*

The accompanying notes form an integral part of this report.



El Mekki contracted a loan for his store at one of the 26 agencies of INMAA // INMAA

**Number of C Class shares – Nombre d'actions de la Classe C en circulation**

Outstanding at the beginning of the year <i>Au début de l'année</i>	17,185.402
Issued during the year <i>Émises durant l'année</i>	870.478
Redeemed during the year <i>Rachetées durant l'année</i>	(340.000)
Outstanding at the end of the year <i>À la fin de l'année</i>	17,715.880

**Net asset value per C Class share  
*Valeur nette d'inventaire par action de la Classe C***

As at 31.3.2015 <i>Au 31.3.2015</i>	106.08
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## // 4 Statement of investments and other net assets État du portefeuille-titres et autres actifs nets

as at 31 March 2015 // au 31 mars 2015

Instrument // Microfinance institution	Notes	Country	Maturity
Financial instruments not admitted to an official stock-exchange listing nor dealt in on another regulated market			
<b>Investments in regional microfinance funds or similar entities</b>			
Higher Education Finance Fund LP		USA	N/A
<b>Shares (and equity-type securities) in microfinance institutions and service providers</b>			
MFx Solutions LLC		USA	N/A
<b>Subordinated loan agreements with microfinance institutions</b>			
Fundación Alternativa para el Desarrollo		ECUADOR	30/06/2016
Fundación Alternativa para el Desarrollo		ECUADOR	28/02/2018
<b>Loan agreements with microfinance institutions</b>			
Asusu SA		NIGER	18/10/2018
SAMIC Plc		CAMBODIA	31/10/2018
Financiera Fundeser S.A.		NICARAGUA	12/12/2018
Sociedad Cooperativa de Ahorro y Crédito AMC de RL de CV		EL SALVADOR	25/07/2017
Pro Mujer Inc, sucursal de Nicaragua		NICARAGUA	22/10/2017
Cooperativa de Ahorro y Crédito la Florida	6	PERU	30/11/2017
La Cooperativa de Ahorro y Crédito Maquita Cushunchic Ltda.	7	ECUADOR	13/05/2015
L'Association Marocaine de Solidarité sans Frontières/Micro-Crédit		MOROCCO	31/12/2018
Optima Servicios Financieros , S.A		EL SALVADOR	31/10/2016
Microfinanzas del Uruguay SA		URUGUAY	15/12/2017
Empresa para el apoyo y desarrollo de la micro y pequeña empresa urbana y rural - MICREDITO S.A.		NICARAGUA	15/01/2019
Fundación de Apoyo Comunitario y Social del Ecuador		ECUADOR	13/07/2018
Fundación de Apoyo Comunitario y Social del Ecuador		ECUADOR	31/08/2016
Intean Poalroath Rongroeurng Co. Ltd.		CAMBODIA	31/08/2018
Intean Poalroath Rongroeurng Co. Ltd.		CAMBODIA	28/02/2018
La Asociación Nacional de Institutos de Desarrollo del Sector Informal IDESI Nacional	6	PERU	31/10/2015
La Cooperativa de Ahorro y Crédito Maquita Cushunchic Ltda.	7	ECUADOR	14/11/2017
Optima Servicios Financieros , S.A		EL SALVADOR	31/10/2017
Proyectos y Iniciativas Locales para el Autodesarrollo Regional de Honduras OPDF		HONDURAS	30/06/2016
Asociación para el Desarrollo Integral de San Antonio Ilorenango		GUATEMALA	16/03/2019
Soro Yirwaso		MALI	14/03/2017
L'Institution Marocaine d'appui à la Micro-entreprise		MOROCCO	31/01/2019
La Cooperativa de Ahorro y Crédito Maquita Cushunchic Ltda.	7	ECUADOR	13/05/2015
La Asociación de Desarrollo Integral Rural ASDIR		GUATEMALA	29/11/2018
Maxima Mikroheranhvatho Co Ltd		CAMBODIA	15/08/2015
La Asociación de Desarrollo Integral Rural ASDIR		GUATEMALA	28/02/2019
La Sociedad Cooperativa PADECOMSMCREDITO de RL de CV		EL SALVADOR	28/02/2018
Asociación Fondo De Desarrollo Regional - FONDESURCO		PERU	10/06/2017
Asociación Fondo De Desarrollo Regional - FONDESURCO		PERU	26/01/2018
Pro Mujer Inc, sucursal de Nicaragua		NICARAGUA	30/09/2015
Gata Daku Multi-Purpose Cooperative		PHILIPPINES	29/04/2016
Tembeka Social Investment Company		SOUTH AFRICA	31/01/2016
KPS-Small Enterprise and Economic Development Inc		PHILIPPINES	31/01/2017
La Sociedad Cooperativa PADECOMSMCREDITO de RL de CV		EL SALVADOR	30/04/2015
Fundación Pro Mujer Argentina		ARGENTINA	15/04/2015
La Asociación para el Desarrollo de la costa Atlántica		NICARAGUA	15/02/2018
Gata Daku Multi-Purpose Cooperative		PHILIPPINES	29/04/2015
<b>Notes</b>			
Micro, Small & Medium Enterprises Bonds SA - Khan Bank	8	MONGOLIA	10/03/2017
Micro, Small & Medium Enterprises Bonds SA - FINCA	8	AZERBAIJAN	10/03/2017
<b>Sub total</b>			
<b>Net accrued interest on swap contract</b>			
<b>Sub-total</b>			
<b>Cash at banks, term deposits and savings accounts</b>			
<b>Other net assets / liabilities</b>			
<b>Total net assets</b>			

The accompanying notes form an integral part of this report.

Currency	Interest rate // commission	Quantity // Nominal value	Valuation	Value in EUR	Accrued interest in EUR	Total value in EUR	% of NAV
USD	-	315,570	0.64818	190,550	-	190,550	1.0%
USD	-	187,090	1.07524	187,402	-	187,402	0.9%
USD	11.0%	200,000	100%	186,315	5,124	191,439	1.0%
USD	11.0%	200,000	100%	186,315	1,765	188,080	0.9%
XOF	9.5%	650,000,000	100%	993,477	42,995	1,036,472	5.2%
USD	9.0%	1,000,000	100%	931,576	34,468	966,044	4.9%
USD	8.5%	1,000,000	100%	931,576	23,975	955,551	4.8%
USD	7.3%	1,000,000	100%	931,576	12,028	943,603	4.8%
USD	8.0%	650,000	100%	605,524	21,261	626,785	3.2%
USD	9.0%	700,000	90%	586,893	0	586,893	3.0%
USD	7.5%	600,000	100%	558,945	10,480	569,426	2.9%
EUR	7.0%	500,000	100%	500,000	8,750	508,750	2.5%
USD	7.9%	500,000	100%	465,788	15,434	481,222	2.4%
USD	8.0%	500,000	100%	465,788	9,523	475,311	2.4%
USD	9.0%	500,000	100%	465,788	8,734	474,521	2.4%
USD	8.8%	500,000	100%	465,788	8,604	474,392	2.4%
USD	9.0%	500,000	100%	465,788	3,726	469,514	2.4%
USD	8.0%	500,000	100%	465,788	3,209	468,997	2.4%
THB	11.5%	16,000,000	100%	457,777	4,533	462,310	2.3%
USD	7.0%	525,000	90%	440,170	0	440,170	2.2%
USD	7.5%	450,000	100%	419,209	11,965	431,174	2.2%
USD	7.9%	400,000	100%	372,630	12,511	385,141	1.9%
USD	8.0%	391,842	100%	365,030	7,301	372,331	1.9%
USD	8.0%	380,000	100%	353,999	1,180	355,179	1.8%
XOF	10.0%	217,500,000	100%	332,433	1,570	334,003	1.7%
EUR	7.0%	300,000	100%	300,000	3,500	303,500	1.5%
USD	8.0%	300,000	100%	279,473	8,508	287,981	1.4%
USD	8.0%	300,000	100%	279,473	7,577	287,050	1.4%
USD	8.0%	300,000	100%	279,473	2,733	282,205	1.4%
USD	8.0%	300,000	100%	279,473	1,925	281,398	1.4%
USD	8.0%	300,000	100%	279,473	1,899	281,372	1.4%
PEN	12.5%	900,000	100%	270,588	10,335	280,923	1.4%
PEN	13.2%	900,000	100%	270,588	6,251	276,839	1.4%
NIO	15.3%	7,500,000	100%	262,662	0	262,662	1.3%
PHP	11.0%	12,000,000	100%	250,115	11,693	261,808	1.3%
ZAR	14.0%	3,200,000	100%	246,103	5,742	251,845	1.3%
PHP	11.8%	11,000,000	100%	229,272	4,415	233,688	1.2%
USD	8.0%	225,000	100%	209,605	6,987	216,590	1.1%
ARS	53.0%	1,500,000	100%	158,447	38,490	196,937	1.0%
USD	9.0%	200,000	100%	186,315	2,049	188,365	1.0%
PHP	10.0%	8,000,000	100%	166,744	6,948	173,691	0.9%
USD	5.2%	650,000	100%	605,524	2,070	607,595	3.1%
USD	5.7%	650,000	100%	605,524	1,968	607,493	3.1%
				<b>17,484,977</b>	<b>372,226</b>	<b>17,857,202</b>	<b>90.1%</b>
					<b>(41,820)</b>	<b>(41,820)</b>	<b>(0.2)%</b>
					<b>330,405</b>	<b>17,815,382</b>	<b>89.9%</b>
						<b>2,107,398</b>	<b>10.6%</b>
						<b>(97,277)</b>	<b>(0.5)%</b>
						<b>19,825,503</b>	<b>100.0%</b>

## // 5 Breakdown of microfinance investments and evolution of NAV Répartition des investissements en microfinance et évolution de la VNI

### / Total exposure per counterparty Exposition agrégée par contrepartie

as at 31 March 2015 // au 31 mars 2015

Aggregated exposure to	Note	Amount (EUR)	% of total net assets
La Cooperativa de Ahorro y Crédito Maquita Cushunchic Ltda.	7	1,288,581	6.5%
Asusu SA		1,036,472	5.2%
SAMIC Plc		966,044	4.9%
Financiera Fundeser S.A.		955,551	4.8%
Fundación de Apoyo Comunitario y Social del Ecuador		943,906	4.8%
Sociedad Cooperativa de Ahorro y Crédito AMC de RL de CV		943,603	4.8%
Intean Poalroath Rongroeurng Co. Ltd.		931,307	4.7%
Pro Mujer Inc, sucursal de Nicaragua		889,447	4.5%
Optima Servicios Financieros , S.A		866,363	4.3%
MSME Bonds SA - Khan Bank Mongolia		607,595	3.1%
MSME Bonds SA - FINCA Azerbaijan		607,493	3.1%
Cooperativa de Ahorro y Crédito La Florida		586,893	3.0%
La Asociación de Desarrollo Integral Rural ASDIR		568,448	2.8%
Asociación Fondo De Desarrollo Regional - FONDESURCO		557,762	2.8%
L'Association Marocaine de Solidarité sans Frontières/Micro-Crédit		508,750	2.5%
La Sociedad Cooperativa PADECOMSMCREDITO de RL de CV		497,962	2.5%
Microfinanzas del Uruguay SA		475,311	2.4%
Empresa para el apoyo y desarrollo de la micro y pequeña empresa urbana y rural - MICREDITO S.A.		474,521	2.4%
La Asociación Nacional de Institutos de Desarrollo del Sector Informal IDESI Nacional		440,170	2.2%
Gata Daku Multi-Purpose Cooperative		435,499	2.2%
Fundación Alternativa para el Desarrollo		379,519	1.9%
Proyectos y Iniciativas Locales para el Autodesarrollo Regional de Honduras OPDF		372,331	1.9%
Asociación para el Desarrollo Integral de San Antonio Ilotenango		355,179	1.8%
Soro Yiriwaso		334,003	1.7%
L'Institution Marocaine d'Appui à la Micro-Entreprise		303,500	1.5%
Maxima Mikroheranhvatho Co Ltd		282,205	1.4%
Tembeka Social Investment Company		251,845	1.3%
KPS-Small Enterprise and Economic Development Inc		233,688	1.2%
Fundación Pro Mujer Argentina		196,937	1.0%
Higher Education Finance Fund LP		190,550	1.0%
La Asociación para el Desarrollo de la Costa Atlántica		188,365	1.0%
MFX Solutions LLC		187,402	0.9%
<b>Total Portfolio</b>		<b>17,857,202</b>	<b>90.1%</b>

*/Geographical breakdown of microfinance investments  
Répartition géographique des investissements en microfinance*

as at 31 March 2015 // au 31 mars 2015

Geographical classification	Amount (EUR)	% of total net assets
Ecuador	2,612,005	13.2%
Nicaragua	2,507,884	12.6%
El Salvador	2,307,930	11.6%
Cambodia	2,179,556	11.0%
Peru	1,584,825	8.0%
Niger	1,036,472	5.2%
Guatemala	923,626	4.7%
Morocco	812,250	4.1%
Philippines	669,187	3.4%
Mongolia	607,595	3.1%
Azerbaijan	607,493	3.1%
Uruguay	475,311	2.4%
USA	377,952	1.9%
Honduras	372,331	1.9%
Mali	334,003	1.7%
South Africa	251,845	1.3%
Argentina	196,937	1.0%
<b>Total Portfolio</b>	<b>17,857,202</b>	<b>90.1%</b>

*/Breakdown of microfinance investments by currency  
Répartition des investissements en microfinance par devise*

as at 31 March 2015 // au 31 mars 2015

Currency	Amount (EUR)	% of total net assets
United States Dollar	13,273,774	67.0%
West African CFA Franc	1,370,475	6.9%
Euro	812,250	4.1%
Philippine Peso	669,187	3.4%
Peruvian Nuevo Sol	557,762	2.8%
Thai Baht	462,310	2.3%
Nicaraguan Córdoba	262,662	1.3%
South African Rand	251,845	1.3%
Argentine Peso	196,937	1.0%
<b>Total Portfolio</b>	<b>17,857,202</b>	<b>90.1%</b>



For INMAA, the priority is to follow the clients' projects // INMAA

/Evolution of the net asset value per share  
*Évolution de la valeur nette d'inventaire par action*

in EUR <i>en EUR</i>	NAV/share as at 31.3.2015 <i>VNI/action au 31.3.2015</i>	NAV/share as at 31.3.2014 <i>VNI/action au 31.3.2014</i>	NAV/share as at 31.3.2013 <i>VNI/action au 31.3.2013</i>	Initial subscription price <i>Prix de souscription initial</i>
Class A shares <i>Actions de la Classe A</i>	25.25	24.49	24.39	25.00
Class B shares <i>Actions de la Classe B</i>	105.95	101.76	100.64	100.00
Class C shares <i>Actions de la Classe C</i>	106.08	102.95	102.54	100.00
<b>Total net assets <i>Actifs nets</i></b>	<b>19,825,503</b>	<b>17,070,429</b>	<b>14,327,282</b>	

	Performance financial year 2014 - 15 <i>Rendement de l'année 2014 - 15</i>	Performance financial year 2013 - 14 <i>Rendement de l'année 2013 - 14</i>	Performance financial year 2012 - 13 <i>Rendement de l'année 2012 - 13</i>	Performance since inception <i>Rendement depuis lancement</i>
Class A shares <i>Actions de la Classe A</i>	3.1%	0.4%	1.2%	1.0%
Class B shares <i>Actions de la Classe B</i>	4.1%	1.1%	2.2%	6.0%
Class C shares <i>Actions de la Classe C</i>	3.0%	0.4%	1.1%	6.1%

## // 6 Notes to the audited financial statements *Notes aux états financier révisés*

as at 31 March 2015 // au 31 mars 2015

### GENERAL INFORMATION

#### / A Structure of the Fund

Luxembourg Microfinance and Development Fund, SICAV (the "Fund" or the "SICAV") is an investment company organised as a public limited company (société anonyme) under the laws of the Grand Duchy of Luxembourg and qualified as a "société d'investissement à capital variable" (SICAV). The Fund is authorised as an undertaking for collective investment ("UCI") under Part II of the law of 17 December 2010 relating to undertakings for collective investment (the "Law"). The Fund is internally managed and has been registered on 31 January 2014 by the CSSF as an Alternative Investment Fund Manager ("AIFM") falling under the de-minimis rule of Article 3 of the Luxembourg law of 12 July 2013 ("AIFM Law").

The Fund was incorporated in Luxembourg on 7 October 2009 with an initial capital of EUR 31,000 divided into 1,240 fully paid up shares with no par value. The capital of the Fund is equal at all times to the net assets of the Fund. The Articles were published in the Mémorial on 2 November 2009 and the Fund is registered under trade register number R.C.S. Luxembourg B 148826. The Fund is incorporated for an unlimited period.

The Fund is an open-ended fund. Accordingly, the Fund is authorised to issue an unlimited number of shares, all of which are without par value.

The Fund is an umbrella fund and as such may operate separate Sub-Funds, each of which is represented by one or more classes of shares (each, a "Class"). The Sub-Funds are distinguished by their specific investment policy or any other specific features. At the date of this report, the Fund had created one Sub-Fund, the Luxembourg Microfinance and Development Fund – Social Venture Capital Sub-Fund.

The Fund may issue three classes of shares, namely Class A shares, Class B shares and Class C shares, each targeting different types of investors, evidencing a different level of risk, offering a target return and evidencing a different level of involvement in the Fund's governance. The initial subscription period for Class A and Class B shares ended on 18 December 2009. The initial subscription period for Class C shares ended on 31 March 2010.

The base currency of the Fund is the Euro and all the financial statements of the Fund are presented in Euro. The financial year of the Fund ends on 31 March in each year.

Copies of the Articles, the latest financial reports and

the latest annual report may be obtained without cost on request from the Fund.

Copies of the material agreements mentioned in the Prospectus may be reviewed during normal business hours on any business day at the registered office of the Fund.

#### / B Investment Objective

Luxembourg Microfinance and Development Fund aims at contributing to the alleviation of poverty in developing countries through the provision of permanent and adapted financial services to marginalized communities and individuals. The Fund invests in promising microfinance institutions ("MFIs") that have a positive social impact so that these institutions reach financial autonomy. In pursuance of its objectives, the Fund may invest in MFIs, in networks or associations of MFIs, in regional funds, in microfinance investment vehicles ("MIVs") and in other microfinance-related products.

The Fund has two principal objectives, social and financial: help socially-oriented MFIs to become long-term viable enterprises that reach more poor people and offer better services, and generate sufficient income to sustain its own operations and give its shareholders a financial return that at least compensates for inflation.

The Fund strives to provide tailor-made and innovative solutions to needy MFIs, coupling its own financial assistance with technical support from external consultants. It deliberately focuses on niche activities, activities where potential needs of MFIs are large, but current supply is scarce.

The Sub-Fund does not directly engage with the end clients of the MFIs (micro-entrepreneurs, small savers and insurance policy holders). This activity requires local presence and local knowledge and is best done by locally implanted MFIs.

The Fund invests primarily but not exclusively in the following financial instruments:

- Various credit products such as senior loans, term deposits, promissory notes and bonds;
- Equity and quasi-equity instruments;
- Issuance of guarantees and letters of credit;
- Participating interests in loans or guarantees to regional and other microfinance investment vehicles.

The Sub-Fund invests in the developing countries of Africa, Asia and Latin America.

## NOTE 1

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### / A Presentation of Financial Statements

The Fund invests a significant part of its assets in financial instruments denominated in currencies other than the Euro. Often, the Fund contracts a cross-currency interest rate swap or forward foreign exchange contract to limit the exposure of the Fund to the movements of the currency in relation to the Euro. In the case of debt instruments, the cost of hedging such exposure strongly influences the interest rate the Fund charges to microfinance institutions.

The interest income on microfinance loan agreements in the statement of operation and other changes in net assets includes the interest charges to microfinance institutions to cover the hedging costs of the respective currency. The impact of the valuation of the hedging instruments is presented in the net realised gain/loss and the variation of the unrealised gain/loss.

#### / B Valuation of Financial Instruments

Debt instruments not listed or dealt in on any stock exchange or any other regulated market that operates regularly, is recognized and open to the public will be valued at the nominal value. Accrued interest from microfinance loan agreements are presented separately. Such value will be adjusted, if appropriate, to reflect e.g. major fluctuations in interest rates in the relevant markets or the appraisal by the Board of Directors of the credit worthiness of the relevant debt instrument.

Capital participations not listed or dealt in on any stock exchange or any other regulated market that operates regularly, is recognized and open to the public, will be valued at their reasonably foreseeable sales price determined prudently and in good faith pursuant to procedures established by the Board of Directors. Such procedures include, in order of preference:

- Up to the first year following the Sub-Fund's acquisition, the capital participations will be valued at cost;
- After the first year of holding, the value of the capital participation will be estimated with reference to prices of equity transactions or issues of new shares involving the same MFI within a reasonable time period of the valuation date. Such a time period is determined by an assessment of the Board of Directors whether material changes within the MFI or in its operating environment have occurred since the date such transaction took place;
- If such transactions are not available or deemed not representative of fair value, the value of the capital participation should be estimated with reference to the price-to-book ratio at which the Sub-Fund acquired the capital participation;

- In case the Sub-Fund has entered into negotiations to sell a capital participation to a third party, the capital participation may be valued at its expected sales price if the disclosure is judged appropriate by the Board of Directors in view of the ongoing negotiations.

The value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash dividends and interest declared or accrued and not yet received is deemed to be the full amount thereof, unless in case the same is unlikely to be paid or received in full, in which case the value thereof is arrived at after making such discount as may be considered appropriate in such case to reflect the true value thereof.

The value of securities that are listed on any stock exchange or dealt in on any regulated, recognized, open to the public and regularly functioning market is based on the last available price.

The value of units or shares in UCIs is based on their last-stated net asset value. Other valuation methods may be used to adjust the price of these units or shares if, in the opinion of the Fund, there have been changes in the value since the net asset value had been calculated or the valuation method used by the UCIs is not appropriate to reflect the fair value thereof.

Cross-currency swaps or foreign forward exchange contracts that are materially linked to any underlying loan instrument are valued using the spot exchange rate for the notional. The difference between the spot and forward rates are amortized until the maturity of the instrument. Such valuation approach is changed if a credit risk materializes in the form of an impairment. The part of the SWAP or forward foreign exchange contract notional then exceeding the valuation of the underlying loan is valued using a marked to market approach, if the position cannot be closed.

The value of all assets and liabilities not expressed in the reference currency of a Sub-Fund will be converted into the reference currency of such Sub-Fund at the rate of exchange ruling in Luxembourg as at the relevant Valuation Day. If such quotations are not available, the rate of exchange will be determined in good faith by or under procedures established by the Board of Directors.

The Board of Directors, in its discretion, may permit some other methods of valuation to be used, if it considers that such valuation better reflects the fair value of any asset of the Fund.

### **/ C Allocation of Net Asset Value Among Share Classes**

#### **Preferred Return on Class B shares**

The preferential return to Class B shares is allocated if and only if the Sub-Fund's result of operations since the last valuation, both with and without impairment risk on microfinance, shows a profit.

In such case, the net profit generated by the Sub-Fund since the last valuation day is first allocated to Class B shares until the first of the following is attained:

- The remuneration reaches the total net profit since last valuation;
- The equivalent of 1% p.a. interest on Class B shares' NAV;
- If an impairment provision booked before or on the last valuation day is reduced, the profit since the last valuation day without the income from reducing such provision.

The remaining profit, if any, is allocated among the three share Classes according to their respective proportions in the Sub-Fund's total NAV.

#### **Microfinance Impairment Risk**

Class A shares shall cover the net loss allocated to Class C shares since the last valuation day, if such loss arises from the impairment of microfinance related investments until Class A share capital is nil. Only a reduction in the Sub-Fund's microfinance investments resulting from the deterioration of the financial conditions of the counterparty is considered as a microfinance impairment.

The Fund reserves the right to suspend subscriptions in Class C shares within the Sub-Fund, if the NAV allocated to Class A shares is less than 20% of the combined NAV of Class C and Class A shares.

#### **/ D Dividends**

The primary investment objective of the Fund is to achieve long-term growth. The Fund's operating plan in general does not contemplate payment of dividends to shareholders.

### **NOTE 2 SHARES**

The Board is authorised, without limitation, to issue an unlimited number of fully paid up shares at any time without reserving a preferential right to subscribe for the shares to be issued for the existing shareholders. The following share Classes are available for subscription, each targeting different types of investors evidencing a different level of risk, offering a different target return and involvement in the Fund's governance.

#### **Class A shares:**

Class A shares are reserved for subscription by the Luxembourg Government, ADA and such other investors as may be approved by the existing Class A shareholders. Class A shares entitle their holders to propose a common list of proposed directors for appointment to the Board by the General Meeting of shareholders. Class A shares are not redeemable.

- Risk profile: Junior
- Target return: Above inflation rate targeted by the ECB over the medium term

#### **Class B shares:**

No restrictions for investors in Class B shares exist. Class B shares entitle their holders to earn a 1 percentage point p.a. higher return than Class A shares and Class C shares to the extent possible.

- Risk profile: Mezzanine
- Target return: Above inflation rate targeted by the ECB over the medium term plus 1 percentage point p.a.

#### **Class C shares:**

Class C shares are reserved for subscription for private individuals and private non-profit organizations which are subject to the consent of the Board of Directors. Class C shares entitle their holders to avoid under certain conditions risks emanating from impairment of the microfinance investments of the Sub-Fund which will be covered by Class A shares.

- Risk profile: Senior
- Target return: Above inflation rate targeted by the ECB over the medium term

### **NOTE 3**

#### **ADVISORY AND MANAGEMENT FEES**

##### **/ A Advisory fees**

On 15 December 2009, the SICAV concluded an investment advisory agreement with ADA - Appui au Développement Autonome a.s.b.l.

Per such agreement, the investment advisor is entitled to receive, out of the assets of the Fund, a yearly fee of a maximum of 2% of the Sub-Fund's average net asset value, 0.25% of which is linked to the performance of the microfinance assets of the SICAV.

Total investment advisory and portfolio related fees amount, for the year ended, to EUR 265,994 or 1.5% of the average net asset value of the SICAV. Of the total investment advisory fees, EUR 27,692 are linked to the performance of the microfinance assets.



## / B Forward foreign exchange contracts

The Fund has also contracted foreign currency forwards to hedge currency exposures of the movements of the respective currencies in relation to EUR. The counterparty for trades in relation to such hedges is the Banque et Caisse d'Épargne de l'État (USD, ZAR) and MFX Solutions Inc.

Forward foreign exchange contracts							
In relation to loan with MFI	Currency purchased	Amount purchased	Currency sold	Amount sold	Maturity date	Unrealized appreciation / (depreciation), (in EUR)	Remaining amortization of notional until maturity (in EUR)
Asusu SA	EUR	947,234	XOF	650,000,000	20/4/15	(46,243)	1,550
Fondesurco	EUR	227,577	PEN	900,000	11/6/15	(43,011)	2,004
Loans in USD	EUR	14,108,352	USD	15,000,000	16/6/15	149,113	N/A
Pro Mujer Nicaragua	EUR	209,214	NIO	7,500,000	30/9/15	(53,448)	9,644
Fondesurco	EUR	242,817	PEN	900,000	27/1/16	(27,772)	(8,130)
Tembeka	EUR	229,295	ZAR	3,200,000	29/1/16	(16,807)	(14,608)
Soro Yiriwaso	EUR	154,080	XOF	107,500,000	14/3/16	(10,226)	4,621
Soro Yiriwaso	EUR	150,838	XOF	110,000,000	14/3/17	(17,289)	10,903
<b>Sub-total</b>						<b>(65,683)</b>	<b>5,984</b>
<b>Total</b>							<b>(59,699)</b>

## NOTE 6

### IMPAIRMENTS ON MICROFINANCE LOANS

During the previous financial year the Board of Directors of the Fund decided to establish a provision of 10% of the outstanding principal of the loan to the microfinance institution Crediflorida in Peru (USD 700,000 loan) and to account for interest income on a cash basis only. Crediflorida's activities are concentrated on the financing of coffee farmers which have been significantly impacted by unusual climatic conditions and coffee rust. As at the reporting date, Crediflorida had paid all interest and principal due. The Board of Directors has decided to maintain the provision until the situation of the MFI improves substantially.

During the financial year the Board of Directors reviewed, based on the Fund's asset valuation guidelines, the loan granted to the microfinance institution IDESI Nacional and decided to establish a provision of 10% of the outstanding principal and to account for interest income on a cash basis only. IDESI Nacional is currently undergoing a number of strategic challenges which may impact their ability to repay the loan to LMDF. As at the reporting date, IDESI Nacional had paid all interest and principal due.

## NOTE 7

### COMPLIANCE WITH INVESTMENT RESTRICTIONS OF THE PROSPECTUS

The Fund's Prospectus establishes a maximum exposure of EUR 1.25 million to financial instruments issued by the same issuer until the Fund reaches EUR 25 million in net assets. As at the reporting date, the exposure towards La Cooperativa de Ahorro y Crédito Maquita Cushunchic Ltda (Maquita) exceeds such threshold by EUR 38,581 or 3%. The excess is solely caused by the rapid appreciation of the US dollar in relation to the Euro. The microfinance institution Maquita repaid two loans to the Fund on 14 May 2015, thereby reducing LMDF's exposure below the threshold prescribed in the Prospectus (Note 16).

## NOTE 8

### SUBSCRIBED NOTES ISSUED BY MICRO, SMALL & MEDIUM ENTERPRISES BONDS S.A., LUXEMBOURG

The Board of Directors of the Fund resolved in their meeting on 19 March 2014 to authorize the subscription to Notes backed by loans to microfinance institutions issued by the Luxembourg company Micro, Small & Medium Enterprise Bonds S.A. ("MSME Bonds") in several issues up to EUR 1,000,000. The Notes are listed on the official list of the Luxembourg Stock Exchange Euro MTF market. Arranger and Servicer to MSME Bonds is Symbiotics S.A., a Swiss-based, specialised microfinance advisor and asset manager. Subsequent to the decision of the Board of Directors, the Fund subscribed:

USD 650,000 in Notes 11-L. The issue totals USD 8,650,000 (ISIN XS1051929831) and is backed by a loan granted by MSME Bonds to the microfinance institution FINCA Azerbaijan.

USD 650,000 in Notes 12-L. The issue totals USD 8,900,000 (ISIN XS1055195322) and is backed by a loan granted by MSME Bonds to the microfinance institution Khan Bank LLC in Mongolia.

## NOTE 9

### DETAIL OF ACCRUED AND OTHER EXPENSES

As at the reporting date, accrued and payable expenses consisted of the following (in EUR):

Investment advisory fees	70,839
Investment related fees to the investment advisor	59,036
Audit fees	16,675
Office rent and charges	14,169
Administration fees	13,590
Custodian fees	6,850
Transaction related fees due to the custodian	5,250
Correspondent fees	4,423
Transaction related fees due to the administrator	4,000
Representation fees	3,919
Domiciliation fees	3,125
Transfer agency fees	2,840
VAT services fees	750
Information technology expenses	570
<b>Total</b>	<b>206,036</b>

For the reporting year, other administration costs consisted of the following (in EUR):

Travel expenses	11,840
Marketing and public relations fees	10,777
Board of directors and committee expenses	10,171
Information technology	8,996
Membership fees	7,777
VAT services	6,498
CSSF annual fee	6,000
Representation expenses	4,328
Rating and labelling fees	4,139
Post and telecommunication	3,175
Miscellaneous expenses	1,164
Expert fees	476
Other fees	200
Legal fees	(1,755)
<b>Total</b>	<b>73,786</b>

For the reporting year, other deferred charges consisted of the following (in EUR):

VAT receivable	5,882
CSSF taxes	4,500
<b>Total</b>	<b>10,382</b>



Patrick Losch, private investor interviews Abdelfadel Lhoussaine, micro-entrepreneur // LMDF

## NOTE 10

### TOTAL EXPENSE RATIO

Average net asset value during the year ended on 31 March 2015 (in EUR)	17,990,097
Total expenses for the period 1 April 2014 until 31 March 2015 (in EUR)	630,665

<b>Total expense ratio (annualized)</b>	<b>3.5%</b>
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## NOTE 11

### FOREIGN EXCHANGE RATES

The principal exchange rates rounded to four decimals applied at the reporting date are as follows:

1 EUR =	23.3261	HNL	(Honduran Lempira)
1 EUR =	99.1868	KES	(Kenyan Shilling)
1 EUR =	28.5538	NIO	(Nicaraguan Córdoba)
1 EUR =	3.3261	PEN	(Peruvian Nuevo Sol)
1 EUR =	47.9779	PHP	(Philippine Peso)
1 EUR =	1.0735	USD	(United States Dollar)
1 EUR =	654.2678	XOF	(West African CFA Franc)
1 EUR =	13.0027	ZAR	(South African Rand)
1 EUR =	34.9515	THB	(Thai Baht)
1 EUR =	9.4669	ARS	(Argentine Peso)

## NOTE 12

### STAFF

During the reporting year ended on 31 March 2015, the SICAV employed one full-time staff recruited on 1 October 2009 and one part-time staff recruited on 5 November 2012. The SICAV also employed two interns from 1 September 2014 for six months. The employment contracts do not include any variable remuneration linked to the performance of the Fund.

## **NOTE 13**

### **COMMITMENTS**

#### **/ A Commitments of shareholders to subscribe shares**

The Fund has concluded a number of subscription agreements with shareholders and other parties. In line with the terms of such agreements, Class A shareholders have subscribed EUR 500,000 and Class B shareholders EUR 1.25 million in Class A and Class B shares during the financial year.

As at the reporting date, all commitments have been called upon.

#### **/ B Commitments of the Fund to invest**

The Fund has concluded a number of agreements to invest in financial instruments in the future. As at the year-end, the Fund is committed:

To invest USD 1.5 million in the Higher Education Finance Fund L.P. ("HEFF"), of which USD 1.2 million have not yet been called upon. The commitment period of HEFF ends on 14 December 2016;

Through a loan agreement signed on 20 March 2015, to invest USD 500,000 in a senior, unsecured loan to the microfinance institution Organización de Desarrollo Empresarial Femenino Financiera S.A. (ODEF), Honduras. The loan was disbursed at the beginning of April 2015;

Through a loan agreement signed on 26 March 2015, to invest USD 650,000 in a senior, unsecured loan to the microfinance institution Chamroeun Microfinance Ltd, Cambodia. The loan has been disbursed at the beginning of April 2015.

## **NOTE 14**

### **RELATED PARTY TRANSACTIONS**

The SICAV considers each shareholder controlling 20% or more of total voting rights or any entity forming part of the key management of the Fund, including its directors, as a related party. During the reporting year, the SICAV conducted the following material transactions with related parties, excluding subscription of shares and commitments to subscribe shares in the future:

The SICAV has concluded an investment advisory agreement with ADA with the remuneration structure disclosed in Note 3.

The SICAV also sub-leases an office and certain services in the "Maison de la Microfinance", a building leased by ADA at 39, rue Glesener, Luxembourg Ville. The Board of Directors of the SICAV estimate the rent to correspond to a rent agreed in an arm's length transaction with an unrelated party.

The Executive Director of the Fund has been appointed as a board member of the microfinance currency risk management company MFX Solutions Inc. In its relations with all clients, MFX Solutions Inc. applies a standardized pricing model approved by a Pricing Committee. The Executive Director does not form part of such Pricing Committee.

## **NOTE 15**

### **SHARE TRANSACTIONS OF DIRECTORS**

The directors of the SICAV have not undertaken share transactions during the reporting year. One close family member of a director has subscribed 390 Class C shares with the NAV 30 September 2014.



## NOTE 16 SUBSEQUENT EVENTS TO 12 JUNE 2015

On 14 April 2015 the Fund received the resignation of Richard Philippart from the Board of Directors and the Investment and Employment Committees. Effective on 28 May 2015, the Board of Directors co-opted Manuel Tonnar, Deputy Director of the Development Cooperation Department of the Ministry of Foreign Affairs, and Michel Haas, Ministry of Finance, as members of the Board of Directors.

On 28 April 2015, LMDF and the Banque et Caisse d'Epargne de l'Etat agreed on a credit line of EUR 500,000 for liquidity management purposes. The Fund's Board had resolved to put such instrument in place in order to mitigate the liquidity risk arising from the mismatch in maturities between microfinance assets and potential shareholder redemptions. The Fund's microfinance and liquid assets held at the custodian bank have been pledged as a security for the credit line.

On 14 May 2015, the microfinance institution Maquita repaid USD 900,000 to the Fund, reducing the exposure of financial instruments issued by the same issuer below the limits prescribed in the Prospectus (Note 7).

Imprint

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Luxembourg Microfinance  
and Development Fund

5<sup>th</sup>

ANNIVERSARY  
2010-2015

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