

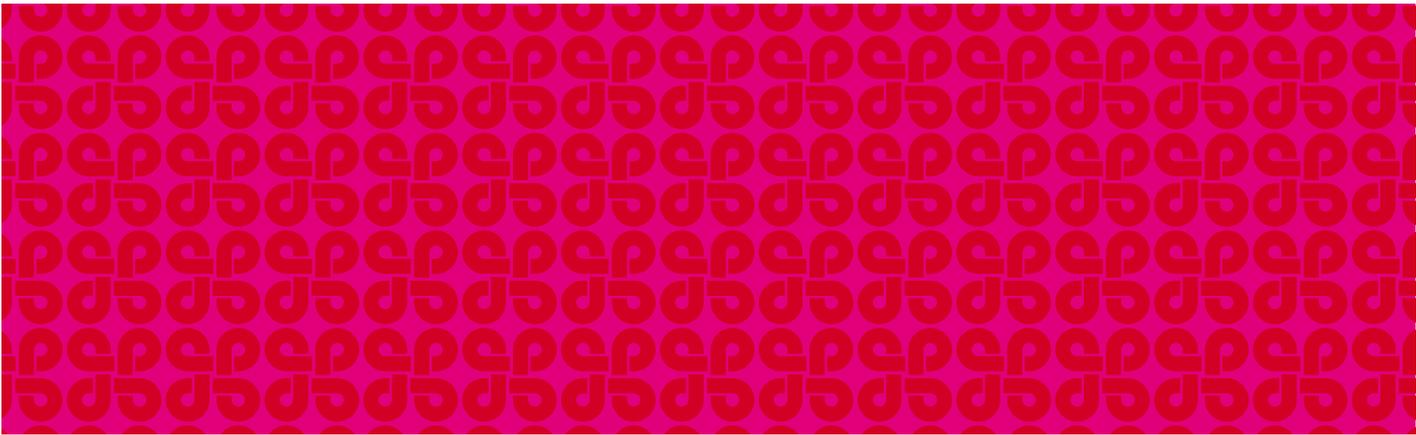


Technology

Showcase: Mobile teller machines in rural microfinance

Unaudited semi-annual report
for the period from 1 April 2012 to 30 September 2012

Rapport semestriel non révisé
pour la période du 1^{er} avril 2012 jusqu'au 30 septembre 2012



In collaboration with



LMDF has received the



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The photos in the present report show clients and staff of the microfinance institution Gata Daku Multi-Purpose Cooperative in the Philippines.
Les photos présentées dans ce rapport montrent les clients et les employés de l'institution de microfinance Gata Daku MPC aux Philippines.

LMDF in figures // en chiffres

30 September // 30 septembre 2012

EUR 9.2 million

Investments in microfinance

20

Direct investments in microfinance institutions

4

Indirect investments in microfinance institutions

15

Countries

1

Service provider

56%

Central & Latin America

28%

Sub-Saharan Africa

13%

Southeast Asia

3%

Developed countries

47%

Financing in local currency

268,400

Micro-entrepreneurs financed by partner MFIs

EUR 122.5 million

Total micro-loan portfolio of partner MFIs

76%

Women

EUR 952

Average outstanding micro-loan

20,919

Micro-entrepreneurs financed by LMDF

56%

Micro-loans for services and small trade

23%

Agricultural activities

6%

Production and crafts

15%

Other uses

1,987

Employees of partner MFIs

EUR 280,121

Average direct investment per MFI

0.7%

Return Class A Shares year to date

1.1%

Return Class B Shares year to date

0.6%

Return Class C shares year to date

Note: The figures stated in this section of the report relating to information received from microfinance institution are as at 30 June 2012 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 | Togo | CECA
FECECAV |
| 2 | El Salvador | Padecomsm Credito
AMC | 9 | Kenya | Jitegemea Credit Scheme |
| 3 | Nicaragua | Prestanic
Pro Mujer | 10 | Niger | ASUSU
Taanadi |
| 4 | Honduras | Pilarh OPDF | 11 | Cambodia | Maxima Mikroheranhvatho
CBIRD Micro Finance
Intean Poalroath Rongroeurng |
| 5 | Ecuador | Fundación Alternativa
Coop. Maquita Cuchunchic
FACES | 12 | Philippines | Gata Daku MPC |
| 6 | Peru | IDESI Nacional
COAC CIDERURAL | 13 | South Africa | Tembeka Social Investment Company |
| 7 | Mali | Soro Yiriwaso | 14 | Uruguay | Microfin |
| | | | 15 | Argentina | Pro Mujer |

REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS RAPPORT DU CONSEIL D'ADMINISTRATION AUX ACTIONNAIRES

*// 1 Message from the chairman of the board
Message du président du conseil d'administration*

Dear Shareholders,

Every six months, LMDF reports on its progress. We take this opportunity to report in detail not only about the financial results but more importantly on the non-financial aspects that make LMDF unique as a development and poverty alleviation tool. This is part of our mission and reflects our permanent concern about our social responsibility and the social impact we are looking for.

Being transparent about what we do and how we do it, is not only a way to contribute to more transparency in the microfinance investment industry. It is also a way to better explain to our shareholders the usefulness of their investment and contributes to a better understanding of the diversity of microfinance. In addition, with this level of transparency and our willingness to share our knowledge, we invite other microfinance investment vehicles to learn from our experience. We are proud of our innovations even if the Fund remains on a small scale. In that sense, LMDF's transparency reflects its strong social focus and its pioneer role within the microfinance investment funds industry.

Among the facts and examples presented on the following pages, this report focuses on Gata Daku, a microfinance institution active in the Philippines. You will discover how this institution has been able to integrate mobile technologies in order to improve its efficiency and service quality in rural areas. This example opens new perspectives for the microfinance industry both in terms of outreach in rural areas and in terms of quality and cost of services for micro-finance end-users.

While we are approaching 10 million Euros invested in microfinance, the Fund evolves towards sustainability as planned. Even if this remains half way from its estimated maturity size, we have seen to what extent LMDF has already opened new paths to better serve microfinance institutions. A recent example is the first guarantee issued in favor of Microfin, Uruguay, which allows the institution to access local currency funding from a local bank at cheaper conditions than through any hedging mechanism currently available.

On track to reach this first milestone in terms of volume, it is time to go one step further. Therefore, I count on all our partners, distributors and existing shareholders to invite new shareholders to join and secure the necessary funding needed for the coming years.

I would like to thank all parties involved in LMDF for the tremendous work that has been done so far and I look forward for the coming six months to see LMDF evolving towards its objective.

Yours sincerely,

Axel de Ville
Chairman of the Board

// 2 Résumé/Zusammenfassung

Au cours de ces six derniers mois, LMDF a continué à étendre ses opérations. Six nouveaux financements pour les institutions de microfinance partenaires existantes ainsi que pour les nouvelles ont augmenté le portefeuille des investissements de 32%, s'élevant à 9,2 millions d'euros. Cette croissance est principalement due à l'expansion de l'activité en Amérique Latine. Les activités en Afrique étaient en diminution, et l'ensemble du portefeuille en Asie est resté stable.

Dans ce rapport, nous illustrons comment l'institution de microfinance Gata Daku au Philippines utilise la technologie au service de ses clients ainsi que pour la réduction des risques et des coûts. Nous vous souhaitons également beaucoup de plaisir à la lecture de l'interview avec Jinky Flores, la gérante de la coopérative.

En tant que fonds social, LMDF veille à qui profitent les financements au final. Près de 22000 micro-entrepreneurs et petits agriculteurs dans 15 pays bénéficient directement des activités du Fonds. La part de financements des activités agricoles est de 23%.

La performance financière s'est nettement améliorée grâce à un ratio plus élevé des investissements en microfinance et des ratios de coûts moindres. Au 30 septembre, 80% de la valeur nette d'inventaire («VNI») étaient investis dans la microfinance. La VNI par action de la Classe B a augmenté de 1,1% et celle de la Classe C de 0,6% pendant les six mois précédant le 30 septembre.

Le profil de risque est caractérisé par la diversification des investissements dans les institutions de microfinance (en moyenne 3% de la VNI par IMF) et les risques liés aux pays (en moyenne un peu plus de 5% de VNI par pays). Le Fonds continue de mener une politique conservatrice en ce qui concerne les risques de change.

LMDF hat in den letzten sechs Monaten seine Aktivitäten kontinuierlich ausgebaut. Sechs neue Finanzierungen für bestehende und neue Mikrofinanz-Partnerinstitutionen steigerten das investierte Portfolio um 32% auf 9,2 Millionen Euro. Dieses Wachstum resultierte hauptsächlich aus dem Ausbau der Finanzierungen in Lateinamerika. Die Aktivitäten in Afrika waren rückläufig und der Anteil der asiatischen Mikrofinanzinstitutionen am Gesamtportfolio blieb stabil.

Im Fokusteil dieses Berichtes zeigen wir, wie die Mikrofinanzinstitution Gata Daku von den Philippinen Technologie zum Nutzen der Kunden und zur Reduzierung von Risiken und Kosten einsetzt. Wir wünschen auch viel Spaß beim Lesen des Interviews mit Jinky Flores, der Geschäftsführerin dieser Genossenschaft.

LMDF gibt als sozialer Fonds acht, wen die Finanzierung letztendlich erreicht. Fast 22.000 Kleinunternehmer und Landwirte in 15 Ländern profitieren direkt von den Aktivitäten des Fonds. Der Anteil der Finanzierung von landwirtschaftlichen Aktivitäten liegt bei 23%.

Das finanzielle Ergebnis hat sich wesentlich verbessert angesichts einer höheren Investitionsquote und niedrigeren Kosten. 80% des Nettoinventarwerts („NIW“) waren zum 30. September in Mikrofinanz investiert. Der Nettoinventarwert pro Anteil der Klasse B stieg um 1,1% und der Klasse C um 0,6% in den sechs Monaten bis zum 30. September.

Das Risikoprofil zeichnet sich durch Diversifizierung der Investitionen in Mikrofinanzinstitutionen (im Schnitt 3% des NIW) und der Länderrisiken aus (im Schnitt etwas über 5% des NIW). Der Fonds verfolgt weiterhin eine konservative Politik was Währungsrisiken betrifft.



// 3 Activity report *Rapport d'activité*

Dear Shareholders and interested readers,

Luxembourg Microfinance and Development Fund's only compartment, the Social Venture Capital Sub-Fund ("LMDF"), has continued to invest in promising microfinance institutions ("MFI") during the last six months. The microfinance portfolio has expanded from EUR 6.9 million end of March to EUR 9.1 million end of September (+32%).

In the last annual report, LMDF analyzed the growth rates of our partner MFIs as most of them emerged from the global economic crisis. We are seeing an impressive return of growth both in terms of number of clients and micro-credit portfolio.

LMDF has accompanied the growth of the MFIs by providing additional financing. During the last six months, four out of six investments were with MFIs which LMDF had already financed before.

New partners are the Sociedad Cooperativa de Ahorro y Credito AMC ("AMC") in El Salvador and Asociación Pro Mujer Argentina. AMC is a well-established MFI with a long history of providing inclusive financial services in the Eastern part of El Salvador. Pro Mujer Argentina is active in the North of the country where the microfinance sector is still relatively small. Pro Mujer focuses on the needs of poor women, often immigrants from neighboring Bolivia.

Growth in LMDF's portfolio was strongest in Latin America during the reporting period. Additional investments in Ecuador and Uruguay and new investments in El Salvador and Argentina increased the share of the region. As at 30 September 56% of the microfinance portfolio is invested in Latin America (up from 46% in March).

LMDF also issued its first guarantee for the benefit of Microfinanzas del Uruguay.

The guarantee was the investment instrument of choice because it lowered the effective interest rate for the MFI compared to a hedged local currency loan and established a refinancing link with a local bank.

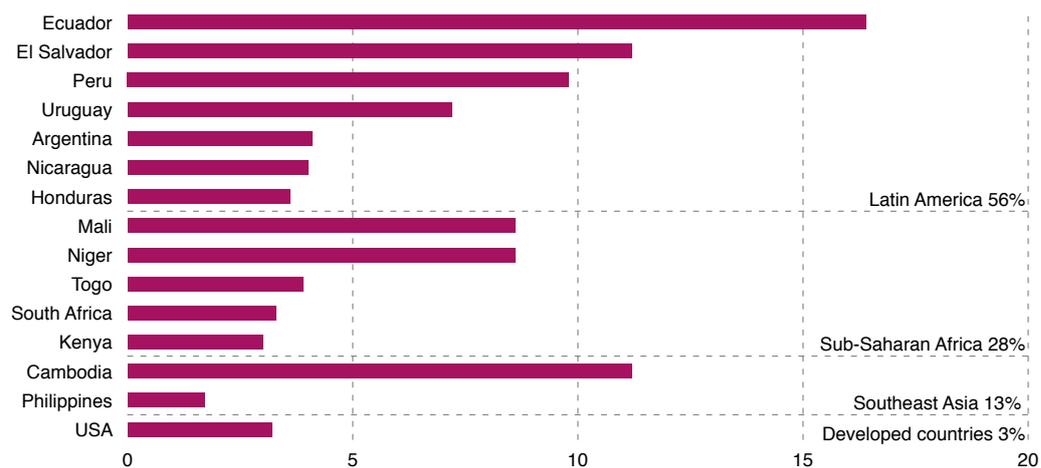
Despite our focus on Africa, LMDF did not identify suitable investments in new or existing MFIs. Parts of two loans to African MFIs became due and were repaid, lowering the weight of investments in Africa to 28% (from 39% in March). LMDF continues to actively search for promising MFIs in Sub-Saharan Africa.

Faced with strong demand from our Cambodian partner MFIs, LMDF approved two additional loans. In the context of a competitive microfinance market, the MFIs IPR and CBIRD are increasingly specializing in rural and agricultural financing. LMDF had conditioned additional financing on the establishment of a credit bureau as one important element in avoiding over-indebtedness of clients. The Cambodian credit bureau is now operational. Asia now accounts for 13% of LMDF's total microfinance portfolio. The thematic focus of this report is on technology. As an example we illustrate how technology helps the rural MFI Gata Daku Multi-Purpose Cooperative to become more efficient while reducing risks and offering better services to clients.

LMDF now reaches almost 21,000 micro-entrepreneurs in 15 countries. The relative shift towards Latin America has led to an increase in the average loan size (EUR 952 compared to EUR 786 in March). Agricultural activities continue to be an important part of the activities financed by our partners (23% of total micro-credits end of September). 76% of all clients are women, demonstrating a focus on those most excluded from access to financial services.

For the fourth time, LMDF publishes the average interest rate our partners charge their clients (Graph 5). The average rate increases slightly to 31% (up from 28% in March).

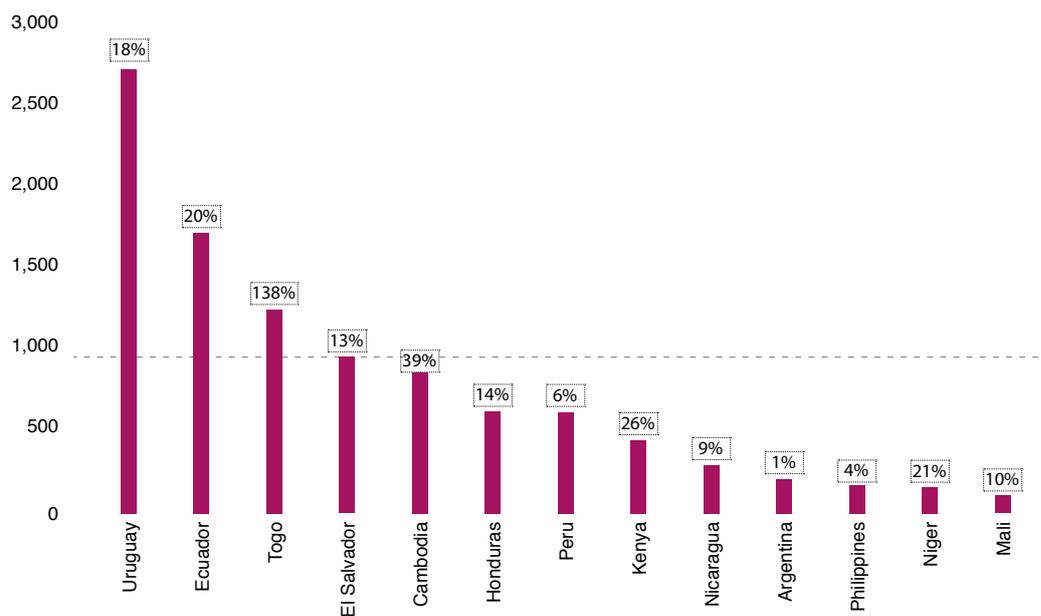
GRAPH 1:
MICROFINANCE INVESTMENTS BY REGION AND COUNTRY
(IN % OF MICROFINANCE PORTFOLIO)



Source: LMDF analysis as at 30/09/2012

GRAPH 2:
AVERAGE OUTSTANDING MICRO-CREDIT SIZE BY COUNTRY

■ Average outstanding by country (EUR) - - - Average micro-loan amount LMDF
Average outstanding loan in % of GDP per capita (PPP, EUR)



Source: LMDF analysis of data submitted by MFIs as at 30 June 2012, excluding certain indirect investment in microfinance; International Monetary Fund estimated GDP per capita at purchasing-power-parity end of 2011, converted into EUR with current exchange rates.

Operating expenses continue to explain the largest part of the rate, accounting for more than 20%. The average profit margin of partners from the micro-credit portfolio continues to be very slim, clearly countering any claim that our partners are generating excess profits at the expense of the poor.

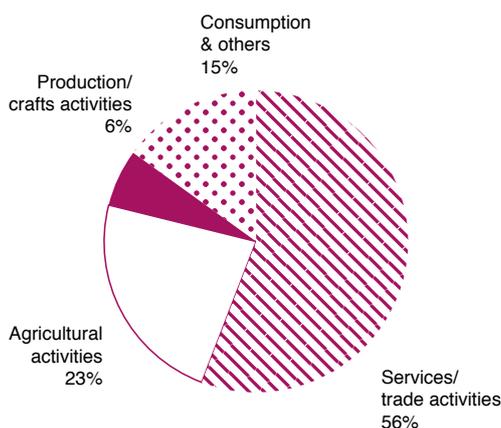
/ Financial performance

The growth in the microfinance portfolio to EUR 9.2 million positively impacted financial returns. End of September, 80% of the net asset value was effectively invested in microfinance. Per LMDF's Prospectus, the Fund must keep at least 10% of total net assets in liquid assets.

Gross return of microfinance and liquid assets (ignoring realized and unrealized results) have increased significantly to 7.2% (annualized) up from 4.6% in the financial year 2011-12. Gross return does not take into account the hedging costs of LMDF, but illustrates well the evolution in the financial performance of the Fund before costs. The total expense ratio has declined significantly to 3.5% of NAV compared to 4.2% during the financial year 2011-12, partly because of one-off effects.

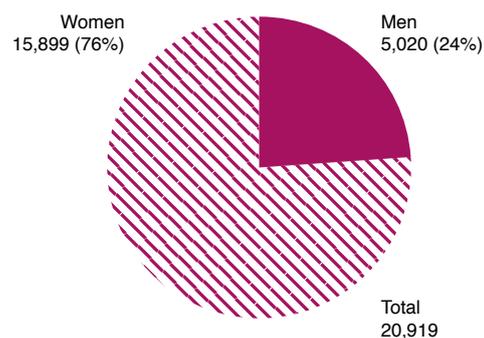
Overall, the financial return falls still short of the inflation target but has improved considerably over the previous period. Net asset value per Class B shares increased by 1.1% during the last six months, Class C shares by 0.6% and Class A shares by 0.7%.

GRAPH 3:
ECONOMIC ACTIVITIES OF MICRO-ENTREPRENEURS (IN %)



Source: LMDF analysis of weighted average data provided by partner MFIs as at 30/06/2012

GRAPH 4:
ACTIVE MICRO-ENTREPRENEURS FINANCED BY LMDF



Source: LMDF analysis of weighted average data provided by partner MFIs as at 31/12/2011

/ Risk review

- Credit risks

With 25 partner institutions in 15 countries, LMDF continues to have a well-diversified portfolio for a Fund with only EUR 11.5 million in total net assets. The highest individual exposure is 6.8% of NAV to AMC in El Salvador, a fairly large microfinance institution by LMDF's standards. The average exposure to each MFI is less than 3% of NAV.

LMDF continues to monitor closely the partner MFI Soro Yiriwaso in Mali. The country context is difficult and the risk has increased considerably that even well-functioning MFIs have no longer access to financing.

During previous financial periods, LMDF had written off the loans granted to the MFIs AMYPES in El Salvador and Miselini in Mali. Recovery of the loan to AMYPES is still subject to litigation with a final ruling expected during the coming months.

- Currency risks

LMDF continues to apply a conservative currency risk policy. Loans are only offered in local currency when hedging instruments are available and feasible in terms of pricing.

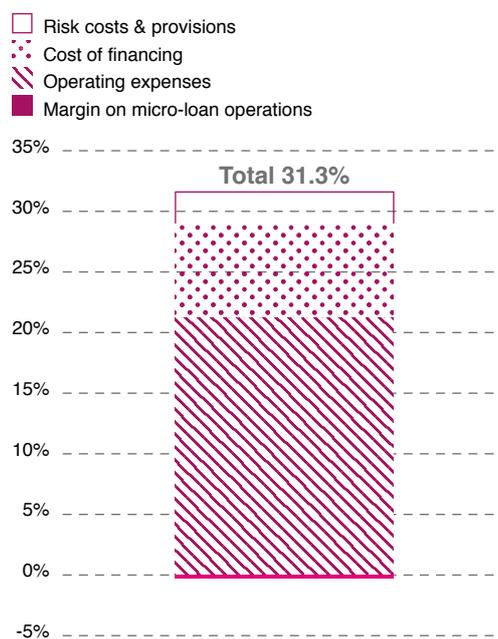
In two cases, LMDF has diverged from its strict policy in order to render a transaction viable in terms of interest rates: (1) the local currency loan to the MFI CIDERURAL in Peru is only partly hedged and (2) 12.5% of the loan in Honduran Lempiras to the MFI Pilarh OPDF remains unhedged. These exposures remain small compared to the overall size of LMDF and have so far benefited the Fund financially.

- Country risks

End of September, LMDF invests in 15 countries. The exposure ranges from 13.1% of NAV in Ecuador to 1.3% of NAV in the Philippines. The average exposure is slightly higher than 5% of NAV, reflecting a well-diversified portfolio in line with the 15% limit established in the Prospectus.

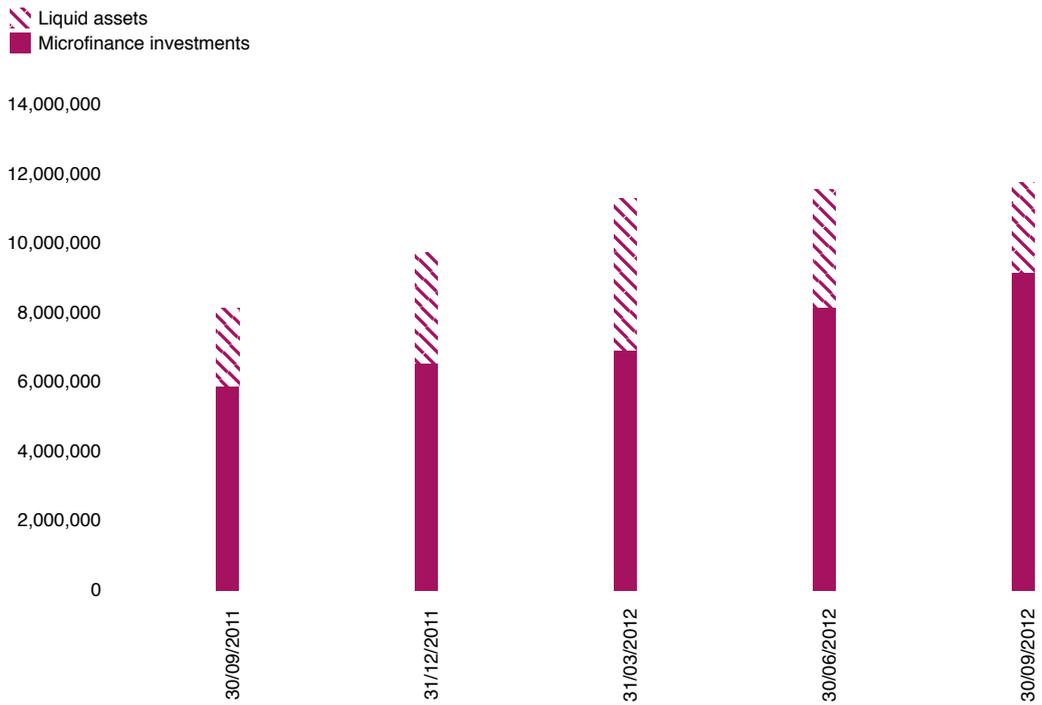
LMDF continues to monitor closely the evolution of the situation in Mali. Microfinance institutions suffer from a slowdown in economic activities and a withdrawal of national and international funders.

GRAPH 5:
COMPONENTS OF MFI'S INTEREST
RATES CHARGED TO CLIENTS



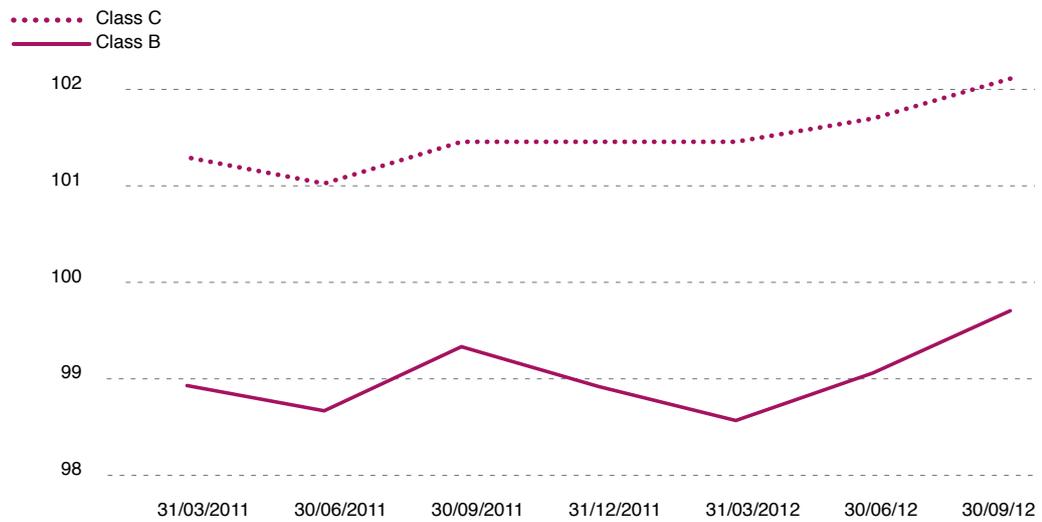
Source: LMDF analysis of weighted average data provided by partner MFIs as at 30/06/2012

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



Source: LMDf analysis

GRAPH 7:
DEVELOPMENT OF NAV OF CLASS B AND CLASS C SHARES



Source: LMDf analysis



A rice farmer and client of Gata Daku in her field // Gata Daku Multi-Purpose Cooperative

/ Outlook

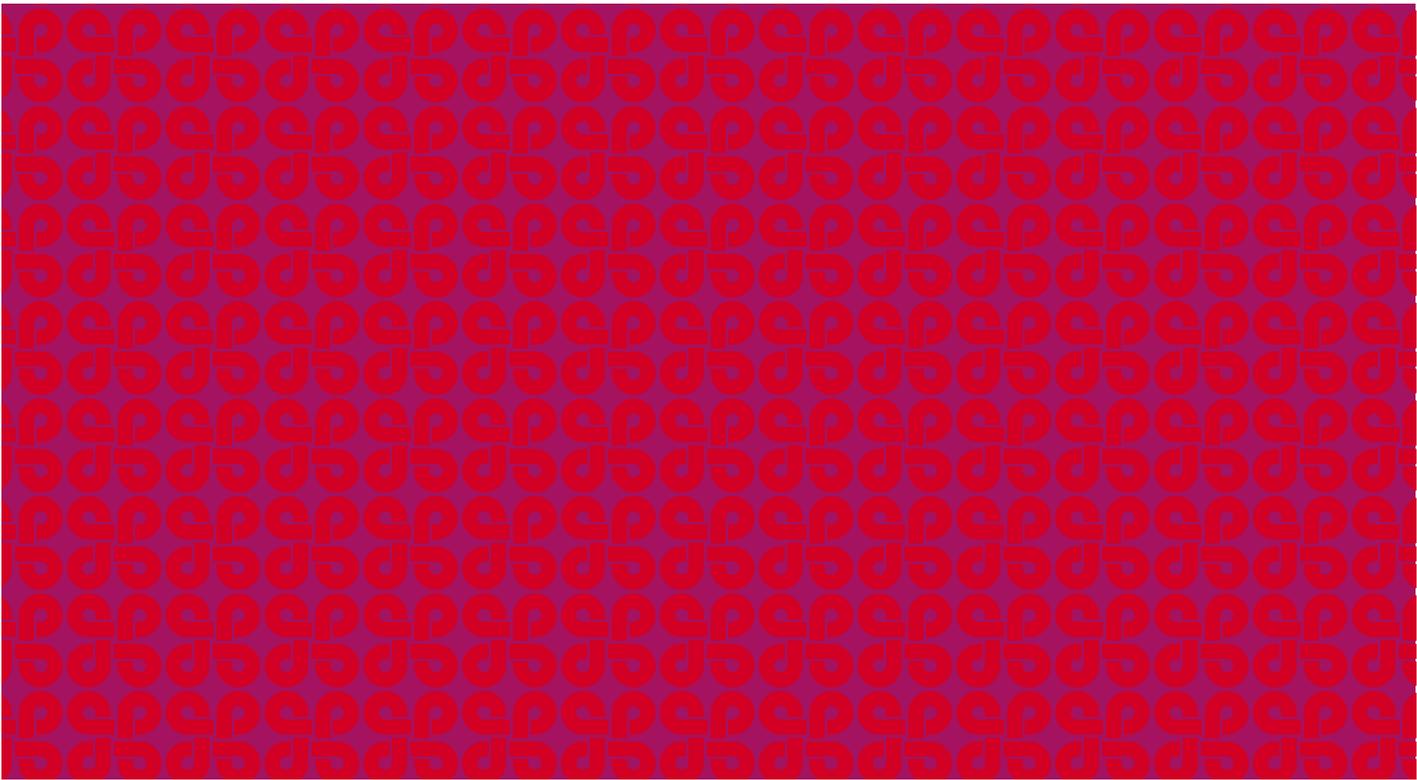
The 32% growth on the microfinance portfolio through investments in four existing and two new MFIs during the last six months illustrates the financing needs in LMDF's niche. We anticipate this trend to continue for foreseeable future and are excited about the contribution LMDF can make towards financial inclusion.

We very much welcome comments and questions from shareholders and interested readers,

Yours sincerely,

The Board of Directors &
The Executive Director
Kaspar Wansleben
(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 indicative of future performance. The calculations follow, wherever applicable, the Microfinance Investment Vehicles Disclosure Guidelines as published by CGAP in 2010.



A local community in Mindanao, the Southern Island of the Philippines // Gata Daku Multi-Purpose Cooperative



This client of Gata Daku has a small kiosk // Gata Daku Multi-Purpose Cooperative



The two women sell ice cream // Gata Daku Multi-Purpose Cooperative



A micro-credit group // Gata Daku Multi-Purpose Cooperative

1 Use of technology in rural microfinance

Showcase of the use of mobile teller machines at Gata Daku Multi-Purpose Cooperative in the Philippines.

Gata Daku Multi-Purpose Cooperative (Gata Daku MPC) was looking for ways to increase the quality of services for members, increase efficiency and reduce risks for its rural savings and credit products. The MFI finally decided to adopt a mobile based technology, mobile teller machines. These small terminals are issued to each loan officer. At the same time, each client received an electronic identification card. The terminal is linked via the mobile phone network (GPRS) to the IT system of the cooperative.

When the loan officers visit the members each transaction (repayment of loans or savings) is entered into the mobile teller machine after identification with the electronic membership card. The member then receives a paper receipt printed by the machine. The loan officer collects the cash amount and the transaction is entered in real time in the IT system at headquarters. Each member can also enquire the account balances or repayment schedules and the loan officer has direct access to the credit history.

For the clients, the system allows localized access to key information for which they previously needed to travel to the closest branch office. Jinky Flores, the general manager of Gata Daku MPC, describes the advantage: "We are bringing our office to the door step of our members."

The advantages for the microfinance institution are several. One key motivation was the reduction of fraud risk by credit officers. The cash amount received from each client is immediately entered into the IT system and the loan officer needs to deposit the total amount the same day at the branches. Another advantage is increased security. Managers can monitor in real time how much cash each loan officer is carrying. If certain thresholds are met, they may send support staff to collect the cash from the officers, reducing the risk of a robbery.

Finally, the system allowed Gata Daku MPC to increase efficiency by significantly reducing the number of manual entries in the system. Previously paper slips were returned to the branches where they needed to be entered manually into the system.

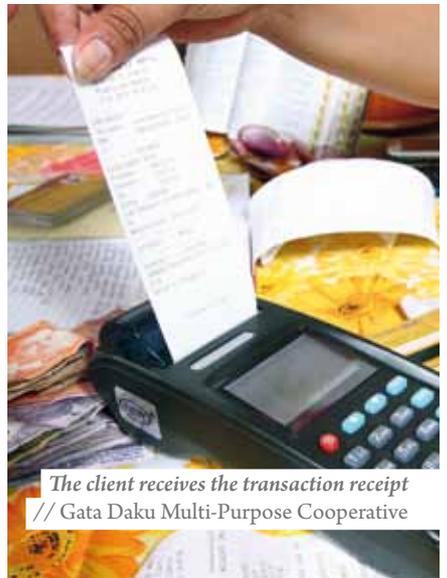
The principal drawback of the system is that it requires full mobile coverage. The phone network does not reach all areas of Gata Daku MPC's operations. But discussions with the local telephone operator are underway to obtain full coverage as soon as possible.



The electronic card identifies the client // Gata Daku Multi-Purpose Cooperative



The cash flow is entered into the MTM // Gata Daku Multi-Purpose Cooperative



The client receives the transaction receipt // Gata Daku Multi-Purpose Cooperative

2 Microfinance institution in focus

Gata Daku Multi-Purpose Cooperative, Philippines

Gata Daku Multi-Purpose Cooperative was created in 1992 in the Gata Daku village (meaning big coconut village) by local farmers who wanted to join forces to buy goods in bulk.

Quickly, the cooperative realized that the financial needs of the community were not met and it started accessing credit lines from the Land Bank of the Philippines for on-lending in agricultural activities.

From those local beginnings, Gata Daku MPC has developed considerably and today counts more than 15,000 members and 117 employees. The MFI provides a very wide range of financial services, from dedicated credit products for fishery to savings services for the youth, just to name a few. Important to LMDF is that Gata Daku MPC is a leading provider of quality financial products to small shopkeepers, farmers and other micro-entrepreneurs in a remote region of the Philippines.

Next to financial services the MFI also features internet access and photocopies, a cafeteria, a travel agency, a small shop and even a sports studio. These services illustrate the focus of the institution on creating tangible benefits for its members.

Since 2008, the cooperative has been led by

Jinky Flores (see interview on the following pages). Jinky has modernized systems and processes including the introduction of a new IT system which allows for the integration of technology including the use of mobile teller machines for each loan officer and electronic identification cards for each member.

Gata Daku MPC has also introduced the Progress out of Poverty Index, a social performance measurement system which tracks the evolution of clients through a set of simple questions and indicators. The integration of the social performance measurement in the new IT system will allow Gata Daku MPC but also funders like LMDF to measure change in the lives of micro-entrepreneurs.

LMDF was one of the first foreign funders of Gata Daku Multi-Purpose Cooperative with a PHP 20 million loan (ca. EUR 380,000) disbursed in two tranches. Disbursement of the second tranche is conditional upon Gata Daku MPC improving certain aspects of its governance and reaching key performance indicators.

Gata Daku Multi-Purpose Cooperative: Key figures (all monetary items in EUR)

	First evaluation LMDF	Current situation
Information as at	12/2009	06/2012
Number of active clients	11,966	15,017
% women	88%	66%
Number of employees	108	117
Total micro loan portfolio	1.6 million	2.7 million
Total own funds	0.5 million	0.9 million
Profit (annualized)	49,436	64,853

3 Four questions

to Jinky Flores,

General Manager of Gata Daku MPC



Jinky Flores, can you present to us briefly Gata Daku Multi-Purpose Cooperative (GDMPC), its history, social focus and some key figures?

The need to have cheap and affordable consumer goods in the locality was the initial motivation behind the creation of Gata Daku Multi-Purpose Cooperative (GDMPC). The pioneering 32 cooperators pooled their resources and put-up a consumer store in the Gata Daku commune. The initial capital was only PHP 32,000 (ca. EUR 600 at today's exchange rate) in March 1992. In 1994, the cooperative started providing loan facilities to its members for rice production and agri-livelihood projects through refinancing from the Land Bank of the Philippines.

In its early stage, the cooperative was under pressure in dealing with arrears due to natural calamities and vulnerabilities of the organization and the lives of the members. But through a strong belief in God's grace and guidance, GDMPC was able to institute changes in its operations through a committed and competent management team, the member's buy-in of the vision and mission and the installation of appropriate systems and procedures for our operations.

In 1999, our office was moved to the closest town where the cooperative started developing strategies to become a financially viable organization. Management and staff worked hard to recover losses. Simultaneously we defined a clear direction, increased profes-

sionalism and built partnerships with other institutions and cooperative networks. All these led the cooperative to its currently successful path.

GDMPC has a good track record with local and foreign partners. To date, GDMPC has more than 14,000 members (both regular and associate) coming from 26 municipalities covering 4 provinces in our region. GDMPC was recognized by the following awards:

2007 NLDC - Most Outstanding Finalist in Mindanao

2008 Sipag Awards of NLDC - Most Outstanding Partner in Mindanao

2009 Most Supportive Cooperative in the Implementation of CARP in our region

2009 Sipag Award - Special Citation for being noteworthy performance in promoting outreach

2010 Sipag Award - Most Outstanding Partner in Mindanao and National Winner

Today, GDMPC is using an efficient Management Information System and works with an electronic payment system using mobile teller machines to enter transactions in real time. These technological advances increase efficiency, security and convenience both for the cooperative and the members. We have 5 automated teller machines (ATMs), another area where we are innovating. Financially, Gata Daku now has Peso 218 million in assets (ca. EUR 4 million), a Peso 154 million loan portfolio (EUR 2.9 million) and an equity of Peso 49 million (EUR 0.9 million).

What is the value added of your microfinance model for your clients and how does it differ from your competitors? And how do you monitor your social performance?

GDMPC distinguishes itself in two areas: (1) in the area of transparency and systems and (2) by having introduced a loyalty reward system for members.

Our Management Information System features general ledger, loans and savings modules. It is a web-based system that includes online payment of member's loan, share capital as well as savings deposit through small payment terminals or mobile teller machines (MTM). We have issued MTMs to all account officers in the field together with electronic cards for each member. The MTMs can also accommodate balance inquiry using

the member card. Our desire is to deliver our services in an efficient and transparent way. Now we are bringing our office to the doorstep of our members.

The other important innovation is our loyalty rewards system. In addition to paying interest on share capital and patronage refund of 70% of our net surplus, we also provide additional rewards for being good members and customers through a loyalty rewards system. Every time a member has a payment transaction with a certain volume with the cooperative he or she will earn 1 point. These points will accumulate and from 10 points onwards they can claim reward items. There is a corresponding item offered for every increasing point so it is the member's decision to accumulate their earned points if they want to acquire a particular item. This way, we can encourage members to stay loyal to our services.

Regarding the social performance measurement, we are implementing the Progress out of Poverty methodology as our tool in monitoring social performance. This is already integrated in our MIS.

What are the particular challenges of operating in rural areas and how do you adapt your operations in consequence?

The particular challenge is on how easily people here change their values, attitude and adopt new technologies. We see sometimes that people are poor because of a general lack of knowledge and skills. We try to address this through our member development and community services division that oversees the training and seminars needed for the members and the communities. The seminars cover a wide range of topics including the responsibilities of parents, citizen rights and livelihood improvements of the people we serve.

Another challenge is the safety of our people in the field, from hold-ups and kidnapping in particular. Technology has helped a lot

in addressing this threat. The manager can now monitor how much money each collector is carrying around, so he could request someone to pick up the money, sometimes even two staff if the amount is huge. Another strategy to address this issue is by establishing a contingency reserve which is deducted at the start of each loan (1.5% on the amount of loan but not above 500 Pesos). We also establish relationships with the people in the community who will also update and support us in our operations.

How do you see the relation with LMDF, one of the first international funders of GDMPC?

We are very proud to be one of the partners of LMDF. We consider our cooperative as very privileged to have been in contact with LMDF and finally being able to borrow long-term funds.



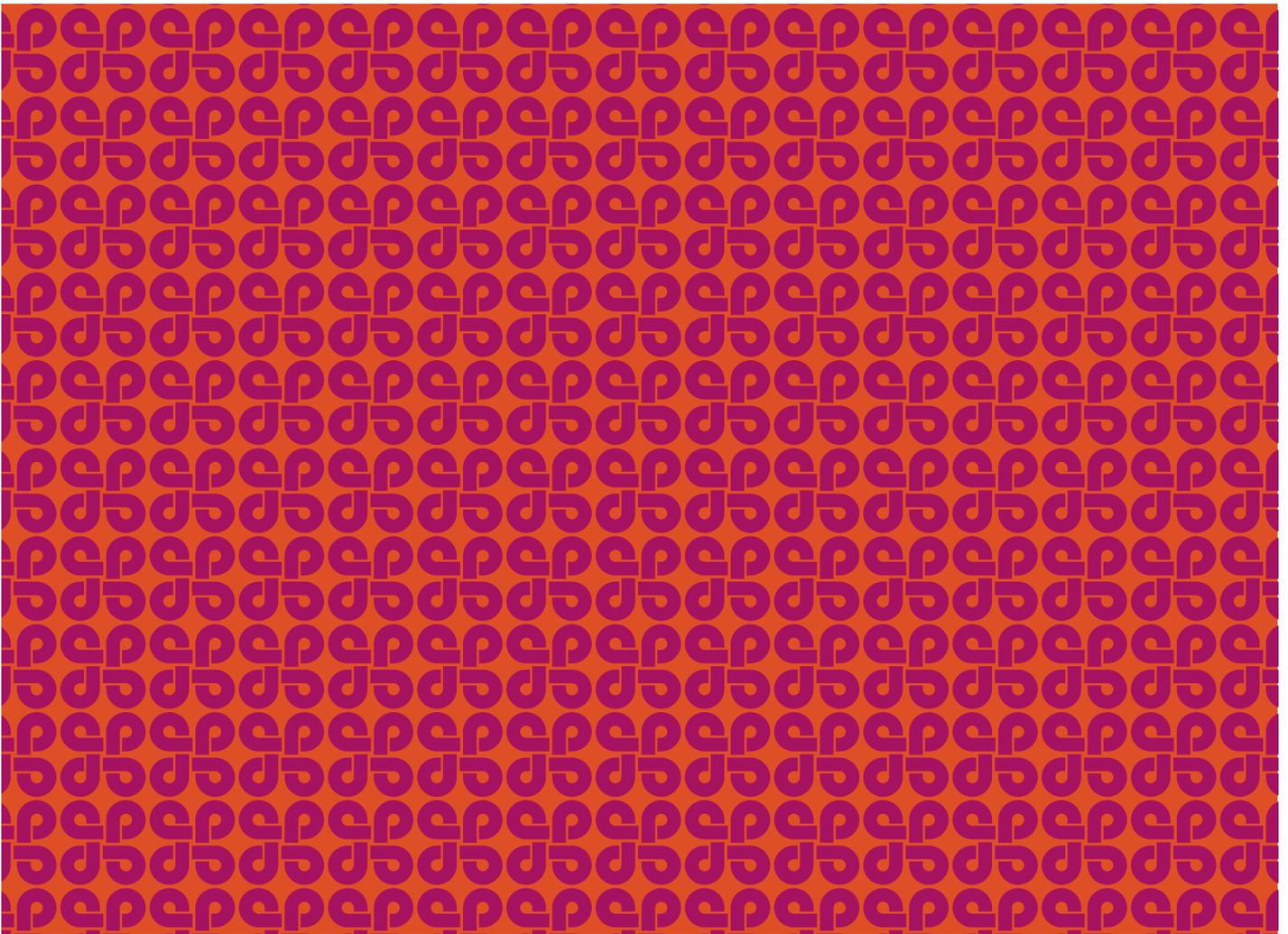
*Upon return to the branch office,
the loan officer hands in the collected amounts
// Gata Daku Multi-Purpose Cooperative*



This client has a small auto garage // Gata Daku Multi-Purpose Cooperative



Women in a solidarity group are jointly responsible for repayment of micro-credits // Gata Daku Multi-Purpose Cooperative



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*

Axel de Ville (IC, EC)
Appui au Développement Autonome

Members - *Membres*

Nima Ahmadzadeh (IC)
Ministry of Finance

Marc Elvinger (IC)
Independent

Marc Bichler (IC, RC)
Development Cooperation Department,
Ministry of Foreign Affairs

Paolo Vinciarelli (RC)
Banque et Caisse d'Épargne de l'État

Mark Cunningham (IC, RC)
Appui au Développement Autonome

Kaspar Wansleben (IC, RC)
Executive Director

Patrick Wallerand (IC, EC)⁽¹⁾
Independent

IC: Investment Committee, RC: Risk Committee

EC: Employment Committee

(1) Until 5 July 2012

Investment Advisor // Conseiller en investissement

ADA a.s.b.l., Luxembourg
2, rue Sainte Zithe
L-2763 Luxembourg

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, Luxembourg
1, place de Metz
L-2954 Luxembourg

Administrative Agent, Registrar and Transfer Agent

Administration centrale et agent de transfert

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

Auditors // Réviseur d'entreprises agréé

BDO Audit, S.A. Luxembourg
2, avenue Charles de Gaulle
L-2013 Luxembourg

Distributors // Distributeurs

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

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

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

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

Legal Advisors // Conseiller légal

Elvinger, Hoss & Prussen, Luxembourg
2, place Winston Churchill
L-2014 Luxembourg

Foreign Currency Settlement Agent // Agent de compensation en devise

INTL Global Currencies, Ltd, United Kingdom
Moor House, 1st Floor, 120, London Wall,
London EC2Y5ET

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

MFX Solutions, Inc, United States of America
1050 17th St., NW, Suite 550
Washington DC, 20036

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

Identity number of Class B shares // Code d'identité d'actions Classe B

ISIN: LU0456966935
Bloomberg: LMDSVCB:LX
Telekurs: 10633787

Identity number of Class C shares // Code d'identité d'actions Classe C

ISIN: LU0456967404
Bloomberg: LMDSVCC:LX
Telekurs: 10633788

UNAUDITED FINANCIAL STATEMENTS ÉTATS FINANCIERS NON RÉVISÉS

// 1 Statement of net assets État des actifs nets

as at 30 September 2012 (in EUR) //
au 30 septembre 2012 (en EUR)

Assets – Actif	Notes	
Shares (and equity-type securities) in regional microfinance investment vehicles <i>Actions (et instruments similaires) dans des structures régionales d'investissements en microfinance</i>		128,713.03
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>		164,255.52
Loan agreements with microfinance institutions <i>Contrats de prêt avec des institutions de microfinance</i>	6, 10	8,585,807.45
Guarantees for the benefit of microfinance institutions <i>Garanties aux bénéficiaires des institutions de microfinance</i>	7	225,000.00
Cash at banks <i>Avoirs en banque</i>		515,705.85
Savings account <i>Compte d'épargne</i>		2,096,862.98
Unrealized appreciation on swap contract <i>Plus-value non réalisée sur contrat de swap</i>	5	0.00
Unrealized appreciation on forward foreign exchange contract <i>Plus-value non réalisée sur contrat de change à terme</i>	5	0.00
Income receivable on portfolio <i>À recevoir sur le portefeuille</i>		213,141.83
Interest receivable on bank accounts and term deposits <i>Intérêts à recevoir sur avoires en banque et dépôts à terme</i>		14,935.29
Other receivable <i>Autres à recevoir</i>		2,500.00
Total assets Somme des actifs		11,818,208.92

The accompanying notes form an integral part of this report.



Liabilities – Passif

Accrued expenses <i>Provision pour frais à payer</i>	8	126,363.00
Unrealized appreciation on forward foreign exchange contract <i>Plus-value non réalisée sur contrat de change à terme</i>	5	157,336.71
Unrealized appreciation on swap contract <i>Plus-value non réalisée sur contrat de swap</i>	5	12,893.13
Total liabilities Somme des passifs		296,592.84

Net assets at the end of the period Actifs nets à la fin de la période		11,521,616.08
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A Class Shares outstanding <i>Nombre d'actions en circulation de la Classe A</i>		107,327.239
Net asset value per A Class Share <i>Valeur nette d'inventaire par action de la Classe A</i>		24.27
B Class Shares outstanding <i>Nombre d'actions en circulation de la Classe B</i>		73,243.665
Net asset value per B Class Share <i>Valeur nette d'inventaire par action de la Classe B</i>		99.64
C Class Shares outstanding <i>Nombre d'actions en circulation de la Classe C</i>		15,870.402
Net asset value per C Class Share <i>Valeur nette d'inventaire par action de la Classe C</i>		102.03

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

from 1 April 2012 to 30 September 2012 (in EUR) //
du 1^{er} avril 2012 jusqu'au 30 septembre 2012 (en EUR)

Income – Revenus	Notes	
Interest on microfinance loan agreements (net) <i>Intérêts sur contrats de prêt en microfinance (nets)</i>		396,941.81
Interest on bank accounts and term deposits <i>Intérêts bancaires et dépôts à terme</i>		14,674.31
Other proceeds <i>Autres produits</i>		0.00
Total income Somme des revenus		411,616.12
Expenses – Frais		
Advisory fees <i>Frais du conseiller en investissement</i>	3	65,949.94
Portfolio related performance fee <i>Commissions liées à la performance du portefeuille</i>	3	9,561.79
Salary and wages of the fund management <i>Charges salariales de gestion de fonds</i>	3, 13	51,110.52
Custodian fees <i>Commission de la banque dépositaire</i>		7,500.00
Central administration costs <i>Frais de l'administration centrale</i>		26,409.56
Banking charges and other fees <i>Frais bancaires et charges liées</i>		1,446.96
Transaction fees <i>Frais de transaction</i>		6,250.00
Audit fees <i>Frais de révision</i>		8,504.25
Other administrative costs <i>Autres charges administratives</i>	8	20,961.84
Subscription duty <i>Taxe d'abonnement</i>	4	0.00
Total expenses Total des frais		197,694.86
Net investment income Résultat net d'investissement		213,921.26

The accompanying notes form an integral part of this report.



Net realised gain/(loss) <i>Bénéfice/(perte) net(te)</i>	
On securities portfolio <i>Sur portefeuille-titres</i>	4,094.64
On foreign exchange <i>Sur change</i>	22,932.90
Realised result <i>Bénéfice/(perte) net(te) réalisé(e)</i>	27,027.54
Net variation of the unrealised gain/(loss) <i>Variation de la plus-value/(moins-value) nette non réalisée</i>	
On securities portfolio <i>Sur portefeuille-titres</i>	9 68,992.30
On cross-currency forward contracts <i>Sur contrats de change à terme en monnaie</i>	(194,087.82)
On foreign exchange <i>Sur change</i>	(6,805.92)
Unrealised result <i>Bénéfice/(perte) net(te) non réalisé(e)</i>	(131,901.44)
Result of operations <i>Résultat net des opérations</i>	109,047.36
Subscriptions <i>Souscriptions</i>	137,366.24
Redemptions <i>Rachats</i>	(5,069.00)
Total changes in net assets <i>Variation globale de la valeur nette d'inventaire</i>	241,344.60
TOTAL NET ASSETS at the beginning of the period VALEUR NETTE D'INVENTAIRE au début de la période	11,280,271.48
TOTAL NET ASSETS at the end of the period VALEUR NETTE D'INVENTAIRE à la fin de la période	11,521,616.08

// 3 Statistical information
Informations statistiques

as at 30 September 2012 (in EUR) //
au 30 septembre 2012 (en EUR)

Total net assets – Actifs nets

As at 30.09.2012	11,521,616.08
<i>Au 30.09.2012</i>	

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

Outstanding at the beginning of the period	107,327.239
<i>Au début de la période</i>	
Issued	0.000
<i>Émises</i>	
Redeemed	0.000
<i>Rachetées</i>	
Outstanding at the end of the period	107,327.239
<i>À la fin de la période</i>	

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

As at 30.09.2012	24.27
<i>Au 30.09.2012</i>	

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

Outstanding at the beginning of the period	73,243.665
<i>Au début de la période</i>	
Issued	0.000
<i>Émises</i>	
Redeemed	0.000
<i>Rachetées</i>	
Outstanding at the end of the period	73,243.665
<i>À la fin de la période</i>	

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

As at 30.09.2012	99.64
<i>Au 30.09.2012</i>	



Gata Daku also maintains a small shop, gym and cafeteria (ground floor), a training center and venue which can be hired for marriages and other events (top floor).
 // Gata Daku Multi-Purpose Cooperative

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

Outstanding at the beginning of the period <i>Au début de la période</i>	14,568.402
Issued <i>Émises</i>	1,352.000
Redeemed <i>Rachetées</i>	-50.000
Outstanding at the end of the period <i>À la fin de la période</i>	15,870.402

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

As at 30.09.2012 <i>Au 30.09.2012</i>	102.03
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// 4 Statement of investments and other net assets
État du portefeuille-titres et autres actifs nets

as at 30 September 2012 (in EUR) //
 au 30 septembre 2012 (en EUR)

Instrument // Microfinance institution	Note	Country	Maturity
Financial instruments not admitted to an official stock-exchange listing nor dealt in on another regulated market			
Investments in regional microfinance funds or similar entities			
· Higher Education Finance Fund LP		USA	N/A
Shares (and equity-type securities) in microfinance institutions and service providers			
· MFX Solutions LLC		USA	N/A
Subordinated loan agreements with microfinance institutions			
· Fundación Alternativa para el Desarrollo		ECUADOR	30/06/16
Loan agreements with microfinance institutions with an option to convert the loan into share capital			
· Maxima Mikroheranhvatho Co. Ltd.		CAMBODIA	28/02/15
Loan agreements with microfinance institutions			
· Sociedad Cooperativa de Ahorro y Credito AMC de RL de CV		EL SALVADOR	25/07/17
· La Asociacion Nacional de Institutos de Desarrollo del Sector Informal IDESI Nacional		PERU	31/10/15
· Association Soro Yiriwaso		MALI	31/03/13
· La Cooperativa de Ahorro y Credito Maquita Cushunchic Ltda.		CAMBODIA	13/05/15
· Microfinanzas del Uruguay SA		URUGUAY	29/12/14
· Taanadi SA		NIGER	01/09/13
· Fundación de Apoyo Comunitario y Social del Ecuador		ECUADOR	31/08/16
· Asusu SA		NIGER	01/03/14
· Fundación Pro Mujer Argentina		ARGENTINA	15/04/15
· Cooperativa de Ahorro y Credito para la Integración y Desarrollo Rural		PERU	15/12/14
· Proyectos e Iniciativas Locales para el Autodesarrollo Regional de Honduras OPDF		HONDURAS	30/06/16
· Pro Mujer Inc, sucursal de Nicaragua		NICARAGUA	30/09/15
· La Cooperativa de Ahorro y Credito Maquita Cushunchic Ltda.		ECUADOR	30/04/15
· Tembeka Social Investment Company		SOUTH AFRICA	31/01/16
· Jitegemea Credit Scheme Ltd.		KENYA	28/02/15
· Association Miselini	6	MALI	30/07/13
· Intean Poalroath Rongroeurng Co. Ltd.		CAMBODIA	30/04/14
· La Sociedad Cooperativa PADECOMSMSMCREDITO de RL de CV		EL SALVADOR	30/04/15
· Coopérative d'Épargne & Crédit des Artisans	10	TOGO	30/11/14
· CBIRD MICRO FINANCE Co. Ltd.		CAMBODIA	30/04/14
· Fundación Alternativa para el Desarrollo		ECUADOR	15/03/15
· CBIRD MICRO FINANCE Co. Ltd.		CAMBODIA	29/12/13
· Gata Daku Multi-Purpose Cooperative		PHILIPPINES	29/04/15
· Faïtière des Entités de Caisses d'Épargne et de Crédit des Associations Villageoises	10	TOGO	01/10/13
· Intean Poalroath Rongroeurng Co. Ltd.		CAMBODIA	18/05/13
· Maxima Mikroheranhvatho Co. Ltd.		CAMBODIA	15/12/12
· Fondo Nicaragüense Para el Desarrollo Comunitario		NICARAGUA	15/10/12
· La Asociación de Micro y Pequeños Empresarios de El Salvador		EL SALVADOR	15/03/15
Guarantees for the benefit of microfinance institutions			
· Microfinanzas del Uruguay SA	7	URUGUAY	29/04/13
Sub-total			
Net accrued interest on swap contract			
Sub-total			
Cash at banks, term deposits and savings accounts			
Other net assets / liabilities			
Total net assets			

Currency	Interest rate // Commission	Quantity // Nominal value	Valuation	Value in EUR	Accrued interest in EUR	Total value in EUR	% of NAV
USD	-	165,570	1.0000	128,713.03	-	128,713.03	1.1%
USD	-	187,090	1.1294	164,259.52	-	164,259.52	1.4%
USD	11.0%	200,000	100%	155,478.68	4,275.66	159,754.34	1.4%
USD	8.0%	300,000	100%	233,218.02	1,554.79	234,772.81	2.0%
USD	7.25%	1,000,000	100%	777,393.40	10,345.72	787,739.12	6.8%
USD	7.00%	700,000	100%	544,175.38	15,871.78	560,047.16	4.9%
XOF	9.00%	350,000,000	100%	533,882.03	0.00	533,882.03	4.6%
USD	7.50%	600,000	100%	466,436.04	8,842.85	475,278.89	4.1%
USD	8.00%	550,000	100%	427,566.37	8,551.33	436,117.70	3.8%
XOF	9.50%	265,000,000	100%	404,224.97	3,093.44	407,318.41	3.5%
USD	9.00%	500,000	100%	388,696.70	3,109.57	391,806.27	3.4%
XOF	10.00%	247,500,000	100%	377,530.87	3,041.22	380,572.09	3.3%
ARS	28.50%	2,000,000	100%	331,422.72	44,603.97	376,026.69	3.3%
PEN	11.00%	1,100,000	100%	329,340.55	10,566.34	339,906.89	3.0%
HNL	17.50%	8,000,000	100%	316,496.04	11,868.60	328,364.64	2.8%
NIO	14.35%	10,000,000	100%	326,291.77	0.00	326,291.77	2.8%
USD	8.00%	400,000	100%	310,957.36	10,365.24	321,322.60	2.8%
ZAR	13.00%	3,200,000	100%	300,427.38	6,509.26	306,936.64	2.7%
KES	15.60%	30,000,000	100%	273,409.16	3,554.32	276,963.48	2.4%
XOF	9.00%	250,000,000	66%	250,000.00	5,720.16	255,720.16	2.2%
THB	11.00%	9,300,000	100%	234,656.23	10,819.90	245,476.13	2.1%
USD	8.00%	300,000	100%	233,218.02	7,773.93	240,991.95	2.1%
EUR	8.50%	200,000	100%	200,000.00	5,619.44	205,619.44	1.8%
USD	8.00%	200,000	100%	155,478.68	2,107.60	157,586.28	1.4%
USD	8.00%	200,000	100%	155,478.68	518.26	155,996.94	1.4%
USD	8.00%	200,000	100%	155,478.68	34.55	155,513.23	1.3%
PHP	10.00%	8,000,000	100%	148,890.29	6,203.76	155,094.05	1.3%
EUR	8.00%	150,000	100%	150,000.00	2,966.67	152,966.67	1.3%
USD	8.50%	150,000	100%	116,609.01	1,156.37	117,765.38	1.0%
USD	8.00%	150,000	100%	116,609.01	388.70	116,997.71	1.0%
USD	9.00%	75,000	75%	43,728.38	1,093.21	44,821.59	0.4%
USD	9.00%	250,000	0%	0.00	0.00	0.00	0.0%
USD	6.50%	250,000	100%	225,000.00	0.00	225,000.00	2.0%
				8,975,062.97	190,556.64	9,165,619.61	79.6%
					(3,574.79)	(3,574.79)	0.0%
					186,981.85	9,162,044.82	79.5%
						2,612,568.83	22.7%
						(252,997.57)	(2.2%)
						11,521,616.08	100.0%



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

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

as at 30 September 2012 //
 au 30 septembre 2012

Geographical classification	Amount (EUR)	% of total net assets
ECUADOR	1,504,159.04	13.1%
EL SALVADOR	1,028,731.07	8.9%
CAMBODIA	1,028,111.54	8.9%
PERU	899,954.05	7.8%
MALI	789,602.19	6.9%
NIGER	787,890.50	6.8%
URUGUAY	661,117.70	5.7%
ARGENTINA	376,026.69	3.3%
NICARAGUA	371,113.36	3.2%
TOGO	358,586.11	3.1%
HONDURAS	328,364.64	2.8%
SOUTH AFRICA	306,936.64	2.7%
USA	292,968.55	2.5%
KENYA	276,963.48	2.4%
PHILIPPINES	155,094.05	1.3%
Total Portfolio	9,165,619.61	79.6%

The accompanying notes form an integral part of this report.

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

as at 30 September 2012 //
 au 30 septembre 2012

Currency	Amount	% of total net assets
United States Dollar	4,874,480.52	42.3%
West African CFA Franc	1,577,492.69	13.7%
Argentine Peso	376,026.69	3.3%
Euro	358,586.11	3.1%
Peruvian Nuevo Sol	339,906.89	3.0%
Honduran Lempira	328,364.64	2.8%
Nicaraguan Córdoba	326,291.77	2.8%
South African Rand	306,936.64	2.7%
Kenyan Shilling	276,963.48	2.4%
Thai Baht	245,476.13	2.1%
Philippine Peso	155,094.05	1.3%
Total Portfolio	9,165,619.61	79.6%

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

	NAV/Share as at 30.09.2012 VNI/action au 30.09.2012	NAV/Share as at 31.03.2012 VNI/action au 31.03.2012	Initial subscription price Prix de souscription initial
Class A shares <i>Actions de la Classe A</i>	24.27	24.11	25.00
Class B shares <i>Actions de la Classe B</i>	99.64	98.51	100.00
Class C shares <i>Actions de la Classe C</i>	102.03	101.38	100.00

	Performance year to date <i>Rendement année en cours</i>	Performance financial period 2009-11 <i>Rendement période 2009-11</i>	Performance since inception <i>Rendement depuis lancement</i>
Class A shares <i>Actions de la Classe A</i>	0.7%	-3.6%	-2.9%
Class B shares <i>Actions de la Classe B</i>	1.1%	-1.5%	-0.4%
Class C shares <i>Actions de la Classe C</i>	0.6%	1.4%	2.0%

// 6 Notes to the unaudited semi-annual report
Notes aux rapport semestriel non révisé

as at 30 September 2012 //
au 30 septembre 2012

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 qualifies 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 undertaking for collective investment (the “Law”).

The Fund was incorporated in Luxembourg on 7 October 2009 with an initial capital of Euro 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 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 type 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 EUR and all the financial statements of the Fund will be presented in EUR. The financial year of the Fund ends on 31st March in each year except for the first financial period which lasts from 7 October 2009 until 31 March 2011.

Audited financial statements of the Fund made up to 31 March in each year will be prepared in EUR.

A copy of the Articles and the latest financial reports may be obtained without cost on request from the Fund. Copies of the latest annual report will be sent free of charge on request.

Copies of the material agreements mentioned in the Issue Document may be inspected during usual 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. Its objective is to help promising microfinance institutions (“MFIs”) that have a positive social impact towards achieving financial autonomy. In pursuance of its objective, 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:

- Equity and quasi-equity instruments;
- Issuance of guarantees and letters of credit;
- Various credit products such as senior loans, term deposits, promissory notes, bonds;
- 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 financial statements of the Fund are established in accordance with the Luxembourg legal and regulatory requirements concerning undertakings for collective investment.

// 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 plus accrued interest. Such value will be adjusted, if appropriate, to reflect e.g. major fluctuations in interest rates in the relevant markets or the appraisal of the Board of Directors on 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 which are listed on any stock exchange or dealt in on any regulated, recognised, open to the public and functioning regularly 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 has been calculated or the valuation method used by the UCIs is not appropriate to reflect the fair value thereof.

Cross-currency SWAPs which are materially linked in notional, spot exchange rates, interest rates, maturities and other terms to any underlying loan instrument are valued using the spot exchange rate for the notional and accrued interest. Such valuation approach is changed if a credit risk materializes in the form of an impairment. The part of the SWAP notional then exceeding the valuation of the underlying loan is valued using a marked to market approach. Any material difference between the spot rate at which the SWAP was contracted and the spot rate at which the loan was disbursed is amortized over the period until expiration of the SWAP and recognized as interest income or expense.

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 method 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 since the last valuation day allocated to Class C shares, 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 Formation expenses

Costs and expenses of establishing the Fund have been borne by ADA.

// E 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 share 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.

- 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 Board of Director's consent. 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 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 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 period ended, to EUR 75,511.73 or 0.6% of the average net asset value of the SICAV.

// B Management fees

In consideration of the services rendered to the Fund, the Management is entitled to receive a fee of maximum 1.75% of the Sub-Fund's average net asset value per year.

From 1 April 2012 until 30 September 2012, management fees amount to 0.4% of the average net asset value of the SICAV.

NOTE 4

SUBSCRIPTION DUTY ("TAXE D'ABONNEMENT")

The SICAV is governed by Luxembourg tax law.

Article 20 of the law of 18 December 2009 on the 2010 budget of the Luxembourg State and a Grand Ducal decree of 14 July 2010 abolishes the "Taxe d'Abonnement" for funds investing in microfinance with effect on 1 January 2010. On 15 October 2010, the Commission de Surveillance du Secteur Financier ("CSSF") has informed the Fund of their decision to include the SICAV in the list of investment funds in compliance with such decree.

NOTE 5

FORWARD FOREIGN EXCHANGE AND SWAP CONTRACTS

The SICAV aims to provide, whenever feasible, loans to microfinance institutions in local currency. During the year ended, the SICAV hedged two loan instruments using cross-currency swaps. Such instruments allow the SICAV to significantly reduce the foreign currency risk associated with assets held in foreign currencies.

SWAP contracts							
In relation to loan agreement with	Notional	Currency	Paying Leg	Receiving Leg	Maturity Date	Counter-party	Unrealized appreciation/ (depreciation)
Jitegemea Credit Scheme Ltd.	30,000,000	KES	15.44% p.a., quarterly payment	8% p.a., quarterly payment	28/02/2013	MFX Solutions Inc.	13,864.84
Gata Daku Multi-Purpose Cooperative	10,000,000	PHP	10% p.a., semi-annual	8.1% p.a., semi-annual	29/04/2015	MFX Solutions Inc.	(23,183.18)
Total							(9,318.34)

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					
Currency purchased	Amount purchased	Currency sold result (in EUR)	Amount sold	Maturity date	Unrealised result (in EUR)
EUR	148,512.18	PEN	550,000.00	13/12/12	(16,158.10)
EUR	4,568,991.78	USD	6,000,000.00	18/12/12	(91,613.37)
EUR	850,977.17	XOF	575,000,000.00	24/01/13	(26,114.74)
EUR	295,311.92	ZAR	3,200,000.00	01/02/13	(5,115.46)
EUR	303,625.59	NIO	10,000,000.00	27/03/13	(22,666.18)
EUR	285,148.06	ARS	2,000,000.00	15/04/13	(46,274.65)
EUR	220,431.90	THB	9,300,000.00	30/04/13	(14,224.33)
EUR	261,584.45	HNL	7,000,000.00	01/07/13	(15,349.58)
EUR	425,435.87	XOF	287,500,000.00	30/08/13	(13,110.38)
Total					(250,626.79)

NOTE 6

OTHER DERIVATIVE CONTRACTS

The SICAV and ADA entered into an option contract granting the Fund the right to sell all rights arising from the loan contract between the Fund and the Association Miselini in Mali against a payment of EUR 250,000. The nominal amount of the loan contract is XOF 250,000,000 (EUR 381,064.39). LMDf has the right, but not the obligation to exercise such option until the 31 December 2015.

NOTE 7

IRREVOCABLE STANDBY LETTER OF CREDIT

As of April 10, 2012, LMDf has, via the Banque and Caisse d'Épargne de l'État issued, for a period of one year, an irrevocable standby letter of credit in favor of Discount Bank (Latin America) S.A. Uruguay for a notional amount of USD 250.000. The guarantee is for the ultimate benefit of the microfinance institution Microfinanzas del Uruguay S.A. from whom LMDf is entitled to receive a guaranty fee of 6.5% p.a.

In order to secure this standby letter of credit, the Fund has opened pledged guarantee deposit with BCEE for an amount of EUR 225.000, for which a pledged fee of 0.25% p.a. is payable quarterly to BCEE.

NOTE 8

DETAIL OF EXPENSES

As at the reporting date, accrued and payable expenses consisted in the following:

Investment advisory fees	35,318.80
Administration fees	19,011.63
Performance related fees to the investment advisor	13,385.60
Transaction related fees due to the administrator	8,750.00
Audit fees	8,337.50
Custodian fees	7,500.00
Office rent and charges	7,074.00
Domiciliation fees	6,250.00
Accrued salary and wages of management	5,152.02
Information technology expenses	4,843.80
Transfer agency fees	4,125.00
Legal fees	3,105.38
Transaction related fees due to the custodian	2,425.00
Representation fees	1,050.05
VAT services	34.22
Total	126,363.00

For the period ended, other expenses consisted in the following:

Marketing and public relation fees	14,206.60
Travel expenses	4,444.91
Rating and labelling fees	3,000.00
Representation expenses	2,424.18
Board of directors and committee expenses	2,303.00
Information technology	2,235.60
Post and telecommunication	1,448.67
Membership fees	1,394.75
CSSF annual fee	1,250.00
Miscellaneous expenses	303.28
VAT on custodian fees	122.07
Printing fees	(0.40)
Legal fees	(12,170.82)
Total	20,961.84

NOTE 9

UNREALIZED GAIN / LOSS ON PORTFOLIO

For the period ended, the unrealized gain / loss on portfolio consisted of (in EUR):

Variation of impairment of loans to microfinance institutions, net of derivative contracts disclosed in Note 6	(34,346.69)
Variation of unrealized losses due to changes in the foreign exchange rates	103,338.99

Total	68,992.30
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NOTE 10

COUNTRY RISKS

In view of reducing the exposure to risks inherent in certain countries, the Fund had contracted two "Assurance des Investissement" insurance policies with the Luxembourg Office du Ducreire covering the risk of expropriation and government interference for two loan investments in the Togolese Republic for the period from 10 November 2010 until 30 September 2013 respectively 9 November 2013.

NOTE 11

TOTAL EXPENSE RATIO

Average net asset value during the period (in EUR)	11,400,943.78
Total expenses for the period 1 April 2012 until 30 September 2012 (in EUR)	197,694.86

Total expense ratio (annualized)	3.5%
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NOTE 12

FOREIGN EXCHANGE RATES

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

1 EUR =	0.2768	HNL (Honduran Lempira)
1 EUR =	109.7257	KES (Kenyan Shilling)
1 EUR =	30.6474	NIO (Nicaraguan Córdoba)
1 EUR =	3.3400	PEN (Peruvian Nuevo Sol)
1 EUR =	53.7308	PHP (Philippine Peso)
1 EUR =	1.2864	USD (United States Dollar)
1 EUR =	655.5755	XOF (West African CFA Franc)
1 EUR =	10.6515	ZAR (South African Rand)
1 EUR =	39.6324	THB (Thai Baht)
1 EUR =	6.0346	ARS (Argentine Peso)

NOTE 13

STAFF

During the reporting period, the SICAV employed one full time person recruited on 1 October 2009. The employment contract does not include a performance linked bonus or other variable remuneration elements.

NOTE 14

COMMITMENTS

The Fund has concluded a number of subscription agreements with shareholders and other parties. According to the terms of such agreements these shareholders and parties have committed to subscribe certain amounts in Class A and Class B shares. As at the reporting date, the following commitments have not yet been called upon:

in EUR	01/01/2012 - 31/12/2012	01/01/2013 - 31/12/2013	01/01/2014 - 31/12/2014
Class A Shares	500,000	500,000	500,000
Class B Shares	2,125,000	2,025,000	1,525,000
Total	2,625,000	2,525,000	2,025,000

A number of commitments are contingent on the Fund reaching certain diversification thresholds in the shareholder structure. Subscription agreements concluded between the Fund and various shareholders indicate that such diversification covenants will be respected.

NOTE 15

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, a related party. During the reporting period, the SICAV has 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.

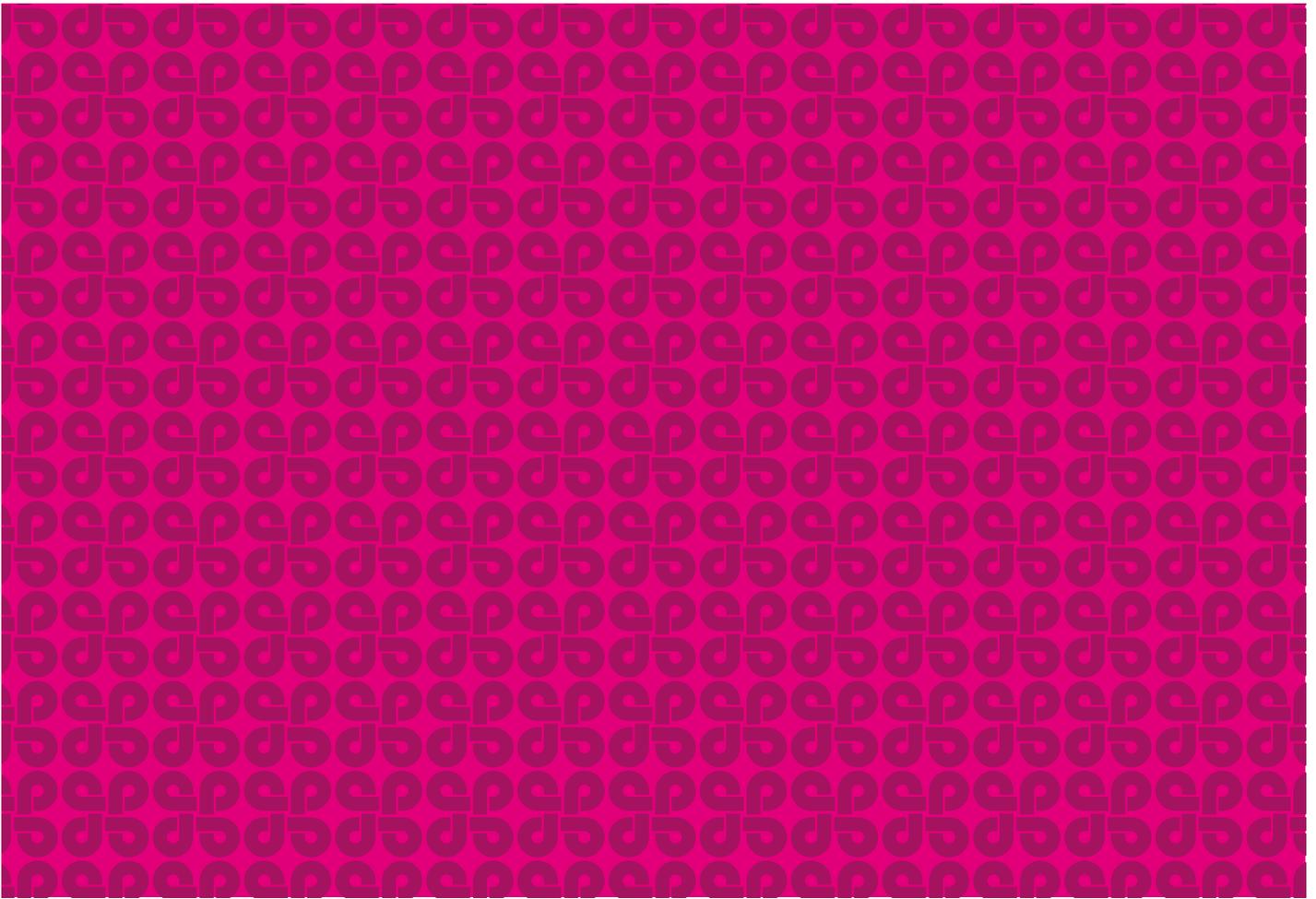
The SICAV and ADA entered into an option contract disclosed in Note 6.

The SICAV also sub-leases an office in the "Maison de la Microfinance", a building leased by ADA at 2, rue Sainte Zithe, 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.

NOTE 16

SHARE TRANSACTIONS OF DIRECTORS

The directors of the SICAV have not undertaken share transactions during the reporting period.



Subscription of shares issued by the Fund may only be accepted on the basis of the current sales 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

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