

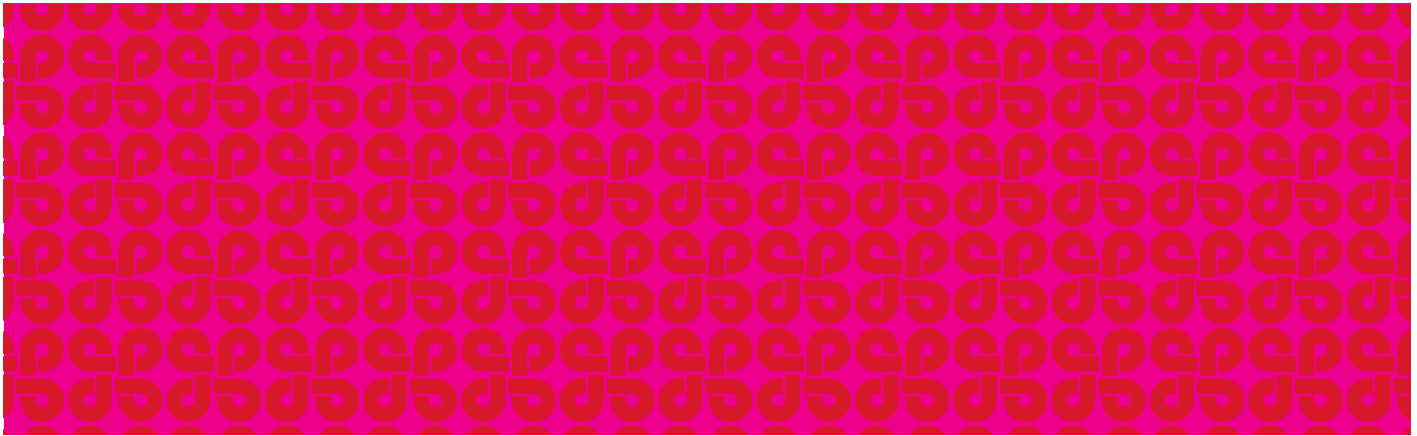


Education and Microfinance

How microfinance improves access to education

Unaudited semi-annual report as at 30 September 2016

Rapport semestriel non révisé au 30 septembre 2016



In collaboration with



LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère des Finances



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
Ministry of Foreign and European Affairs

Directorate for Development Cooperation
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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

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 of LMDF's partner MFIs.
Les photos présentées dans ce rapport montrent les clients des IMF partenaires du LMDF.

© Images: LMDF // Fundación Génesis Empresarial // Asusu

LMDF in figures // en chiffres

30 Septembre 2016 // 30 septembre 2016

EUR 20.0 million Investments in microfinance	75% Women
39 Microfinance institutions financed directly	EUR 1,212 Average disbursed micro-loan
1 Regional fund and support structure	40,062 Micro-entrepreneurs financed by LMDF
20 Countries	276 Number of university students financed
1 Service provider	48% Micro-loans for services and small trade
51% Latin America	32% Agricultural activities
25% Southeast and Central Asia	9% Production and crafts
18% Sub-Saharan and North Africa	11% Other uses
6% Developed countries	EUR 519,991 Average exposure per MFI
40% Financing in local currency of MFI country	0.4% Twelve month return Class A shares
1,039,441 Micro-entrepreneurs financed by partner MFIs	1.3% Twelve month return Class B shares
EUR 512 million Total micro-loan portfolio of partner MFIs	1.1% Twelve month return Class C shares

Note: The figures stated in this section of the report relating to information received from microfinance institutions are as at 30th June 2016 and largely based on unaudited information. The calculations follow, wherever applicable, the Microfinance Investment Vehicles Disclosure Guidelines as published by CGAP in 2010.



1	<i>USA</i>	MFX Solutions	8	<i>Cambodia</i>	Intean Poalroath Rongroeurng Samic
2	<i>El Salvador</i>	PADECOMSMCEDITO	9	<i>Philippines</i>	KPS-SEED
		AMC	10	<i>Azerbaijan</i>	FINCA
3	<i>Nicaragua</i>	Óptima Servicios Financieros	11	<i>Guatemala</i>	ASDIR
		Pro Mujer			ADISA
		Pana Pana			FUNDAP
		MiCrédito	12	<i>Mali</i>	Soro Yiriwaso
		Fundeser	13	<i>Morocco</i>	PAMF Mali
4	<i>Honduras</i>	Pilarh OPDF			AMSSF / MC
		ODEF Financiera			INMAA
		AMC Honduras	14	<i>Mongolia</i>	Al Karama
5	<i>Ecuador</i>	Fundación Alternativa	15	<i>Haiti</i>	Khan Bank
		Coop. Maquita Cushunchic	16	<i>East Timor</i>	ACME
		FACES	17	<i>Benin</i>	KIF
		INSOTEC	18	<i>Indonesia</i>	PEBCo - BETHESDA
6	<i>Peru</i>	Crediflorida	19	<i>Ivory Coast</i>	KOMIDA
		Fondesurco	20	<i>Burkina Faso</i>	PAMF Côte d'Ivoire
		Arariwa			PAMF Burkina Faso
7	<i>Niger</i>	Fondesurco COOP			
		Asusu			

Learn more about LMDF's portfolio of MFIs: www.lmdf.lu

Report of the Board of Directors to the shareholders

The Board of Directors is pleased to present this report on the first half of its seventh year of operations.

The net assets of the Fund have increased by 13.9% in the six-month period, from EUR 22.5 million to EUR 25.7 million, thanks mainly to additional contributions from shareholders of EUR 3.1 million. The Fund's investments in microfinance have grown marginally from EUR 19.6 million at the last year end to EUR 20.0 million, with the result that cash and cash equivalents now stand at EUR 5.7 million and represent 22.4% of net assets compared to 11.3% at the year end. The Fund will be focusing between now and the year-end on reducing its excess liquidity. Returns to investors for this six-month period have been adversely impacted by provisions for loan losses and by the fact that excess liquidity in the current environment produces no return. Returns for the period were -0.4% (Class A), 0.4% (Class B) and 0.5% (Class C).

The research undertaken by our investment adviser ADA in refreshing the Fund's investment strategy shows that the landscape for investors in microfinance is changing, and becoming increasingly competitive. Microfinance institutions are finding that funding is available from a greater variety of sources, including their own national markets, and at lower cost, as investors seek alternatives that produce competitive returns in an overall low-return financial market. What was formerly a niche market for LMDF, namely the mid-range (or Tier 2) MFIs, is now attracting the interest of

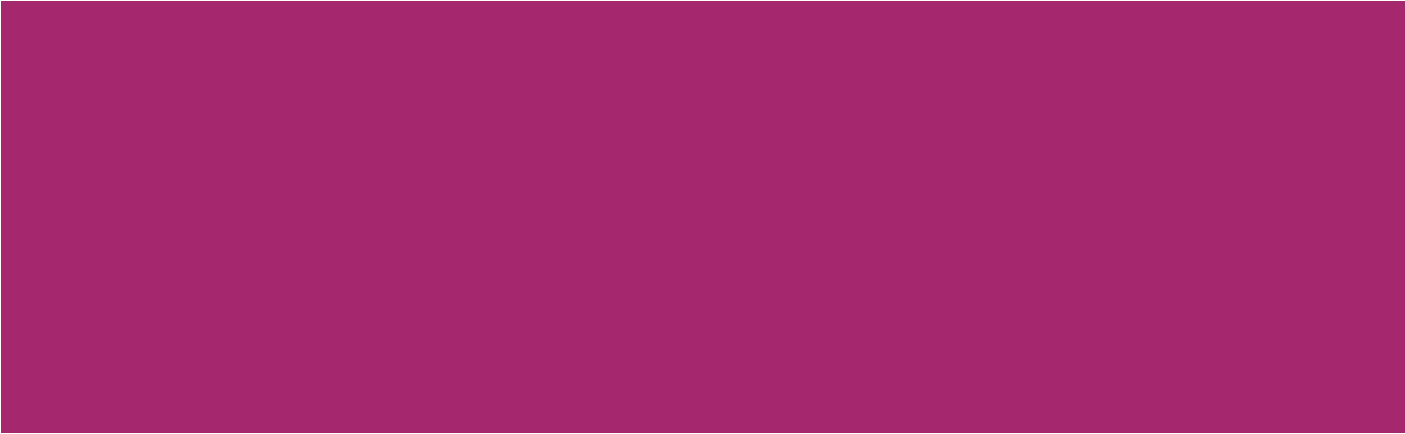
a wider range of investors. The Fund intends to complete the review of its investment strategy in the second half of this year, adapting it to these changing conditions while continuing to seek to achieve the twin goals of maximising social impact and producing stable financial returns to investors.

For some time, management has been encouraged by the Board to address the possibility of extending the Fund's activities into other areas of responsible investment and sustainable development. Significant progress has now been achieved towards the launch of a new sub-fund, the Forestry and Climate Change Fund.

In each annual and semi-annual report, the Fund seeks to emphasise its focus on social performance by illustrating how its investments have changed the lives of individuals or groups of people. In this year's semi-annual report the subject is Education, one of the foundation stones of all elements of social return.

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.

During the period under review, the Board carried out a self-evaluation exercise. The conclusions were discussed at the Board meeting held in June, 2016 and a number of recommendations arising therefrom have been implemented.

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 seven members, considers recommendations from the investment adviser on investment and disinvestment opportunities.

The **Risk Committee**, which has four 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 four 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 Board wishes to thank the shareholders for their continued support.

The Board of Directors
November 14, 2016

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

Ce rapport semestriel couvre les activités des six premiers mois de l'exercice 2016/17. Cette édition est consacrée au thème de l'éducation et comment la microfinance peut contribuer au développement de ce secteur. LMDF est impliqué depuis 2012 dans ce domaine et nous sommes fiers de soutenir 2 des 3 finalistes au le Prix européen de la Microfinance 2016.

Ce semestre, le fonds a accordé des prêts à deux nouveaux partenaires en Afrique. Globalement, le fonds a enregistré un faible volume d'investissements de 1,8 millions d'euros. A la fin septembre, LMDF était investi à 78.2% en microfinance. La composition géographique du portefeuille du fonds continue à se développer: l'Amérique latine et les Caraïbes représentent 51% de l'ensemble des investissements, l'Asie 25%, l'Afrique 18% et les pays développés 6%.

Le fonds a également augmenté le financement aux pays à faible niveau de développement, par de nouveaux partenaires au Mali et au Burkina Faso. La proportion de femmes financées par LMDF a légèrement augmenté et passe de 72% (en mars 2016) à 75% fin septembre. Le revenu brut du portefeuille de microfinance et les actifs liquides ont fortement diminué, passant de 7,1% de l'actif net moyen à 6,1%. Les principales raisons sont le ratio de liquidité accrues et la réduction des taux d'intérêts dans les principaux marchés de la microfinance. Le rendement net des six derniers mois a été de 0.4% pour les actionnaires de la classe B, de 0.5% pour ceux de la classe C et de -0.4% pour ceux de la classe A. L'indice des fonds de microfinance enregistre en même temps une augmentation de la valeur de 0.6% (SMX Indice Euro de Symbiotics).

Les activités d'investissement ont été presque entièrement compensées par les recouvrements des IMF. Le portefeuille de microfinance a augmenté de 2% et passe ainsi de 19,6 millions d'euros (fin mars 2016) à 20.0 millions d'euros (fin septembre).

Pour le semestre à venir, le fonds se concentre sur l'adaptation de sa stratégie d'investissement dans un environnement commercial en évolution et sur la réduction de l'excès de liquidité. Nous remercions tous les actionnaires de leur confiance et nous nous tenons à disposition en cas de questions!

Dieser Halbjahresbericht deckt die Aktivitäten der ersten sechs Monate des Geschäftsjahres 2016/17 ab. Diesen Bericht widmen wir dem Thema Bildung und was die Mikrofinanz zur Entwicklung des Bildungssektors beitragen kann. LMDF engagiert sich seit 2012 in diesem Bereich und ist stolz, dass zwei der drei Finalisten für den Europäischen Mikrofinanzpreis 2016 zu diesem Thema von uns unterstützt werden.

In den letzten Monaten hat der Fonds Kredite an zwei neue Partner in Afrika vergeben. Insgesamt verzeichnete LMDF ein niedriges Investitionsvolumen von EUR 1.8 Mio. Ende des Semesters war LMDF zu 78.2% in der Mikrofinanz investiert. Die geographische Zusammensetzung des Portfolios entwickelt sich dynamisch weiter: 51% aller Investitionen sind in Lateinamerika und der Karibik, 25% in Asien, 18% in Afrika und 6% in entwickelten Ländern.

Der Fonds erhöhte auch den Anteil der Finanzierung in Länder mit niedrigem Entwicklungsstatus, z. B. durch neue Investitionen in Mali und in Burkina Faso. Der Anteil der Frauen an den finanzierten Endkunden steigt leicht von 72% (März 2016) auf 75% Ende September. Der Bruttoertrag aus dem Mikrofinanzportfolio und den liquiden Mitteln sank stark von 7,1% des durchschnittlichen Nettovermögens auf 6,1%. Die Hauptgründe sind die gestiegene Liquiditätsquote und die Reduzierung der Zinsraten in wichtigen Mikrofinanzmärkten. Die Nettorendite für unsere Aktionäre sind für die letzten sechs Monaten von 0.4% für die Klasse B, 0.5% für die Klasse C und -0.4% für die Klasse A. Der Index der Mikrofinanzfonds verzeichnete zeitgleich einen Wertzuwachs von 0.6% (SMX Euro Index von Symbiotics).

Die Investitionsaktivitäten wurden durch Rückflüsse von MFIs fast komplett kompensiert. Das Mikrofinanzportfolio stieg um 2% von EUR 19.6 Millionen (Ende März 2016) auf EUR 20.0 Millionen (Ende September).

Für die zweite Hälfte des Jahres konzentriert sich der Fonds auf die Anpassung seiner Anlagestrategie in einem sich ändernden Geschäftsumfeld sowie die überschüssige Liquidität so weit wie möglich zu reduzieren. Wir danken allen Aktionären für ihr Vertrauen und stehen für ein Gespräch gerne zur Verfügung!

Management report on activities

The Luxembourg Microfinance and Development Fund and its sole sub-fund, the Social Venture Capital Sub-Fund ("LMDF" or "Fund") has completed half of its financial year 2016/17 at the end of September. LMDF closed the last financial year with a portfolio of microfinance investments close to the maximum level. Among the priorities outlined were:

1. Re-defining LMDF's investment strategy in a changing market environment;
2. Building an efficient fundraising model and increasing the outreach of the Fund;
3. Developing additional investment themes addressing sustainable development in new sub-funds.

The first priority has become even more important during the last six months. Significant inflows of capital into the microfinance market in general and the expansion of the scope of mainstream microfinance asset managers towards LMDF's niche market of second tier institutions have led to pressure on yields on debt transactions and a slow-down in transactions. This is the main reason why LMDF reports excess liquidity of 12%.

LMDF and its investment advisor, ADA, are working on an investment strategy to address the challenges posed by these market developments. The aim is to re-define LMDF's role as a provider of capital "in areas where unmet needs are largest" (extract from the Fund's mission statement). The results of the strategic process will be communicated to all shareholders in early 2017.

Significant progress has been made on the second priority, to build an efficient fundraising model. During the first six months of the year, LMDF reported net inflows of EUR 3 million, almost exclusively in Class C (retail) shares.

Regarding the third priority, the LMDF team has made good progress towards the launch of a new sub-fund dedicated to climate relevant investments in tropical forestry, the Forestry and Climate Change Sub-Fund.

This report is published at a time when the winner of the 2016 European Microfinance Award will be announced. We are very proud that two of the three finalists for the prize are MFIs supported by LMDF.

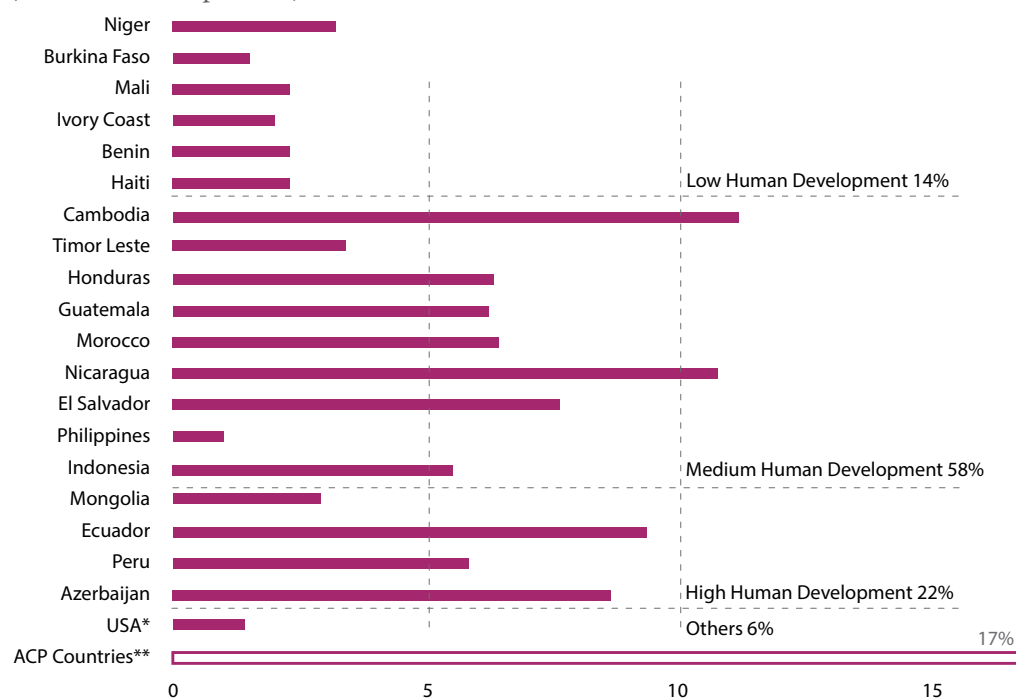
This report looks at some of the challenges and opportunities at the intersection between microfinance and education. A growing young population in many developing countries needs better education, whether it is public or private. For this reason, the topic has always been among the specific impact areas pursued by LMDF and we are happy that it is starting to receive wider attention.

/ Investment activities: A slow-down in transactions

The Fund closed capital calls with the Higher Education Finance Fund and three debt transactions with MFIs, disbursing EUR 1.8 million. LMDF invested in two new MFIs, one in Burkina Faso and one Mali, which both belong to the Aga Khan Agency for Microfinance.

Investment activities were balanced by cash inflows from MFIs, with the portfolio of microfinance investments increasing slightly from EUR 19.6 million (end of March 2016) to EUR 20.0 million (end of September), an increase of 2%. The geographic composition of LMDF's portfolio has continued to shift with Latin America and the Caribbean accounting for only 51% of all investments (62% at the year-end 2015 and 54% at the year-end 2016), Asia accounting for 25% (23% at the year-end 2015 and 27% at the

GRAPH 1:
MICROFINANCE INVESTMENTS BY COUNTRY AND HUMAN DEVELOPMENT
(% of microfinance portfolio)

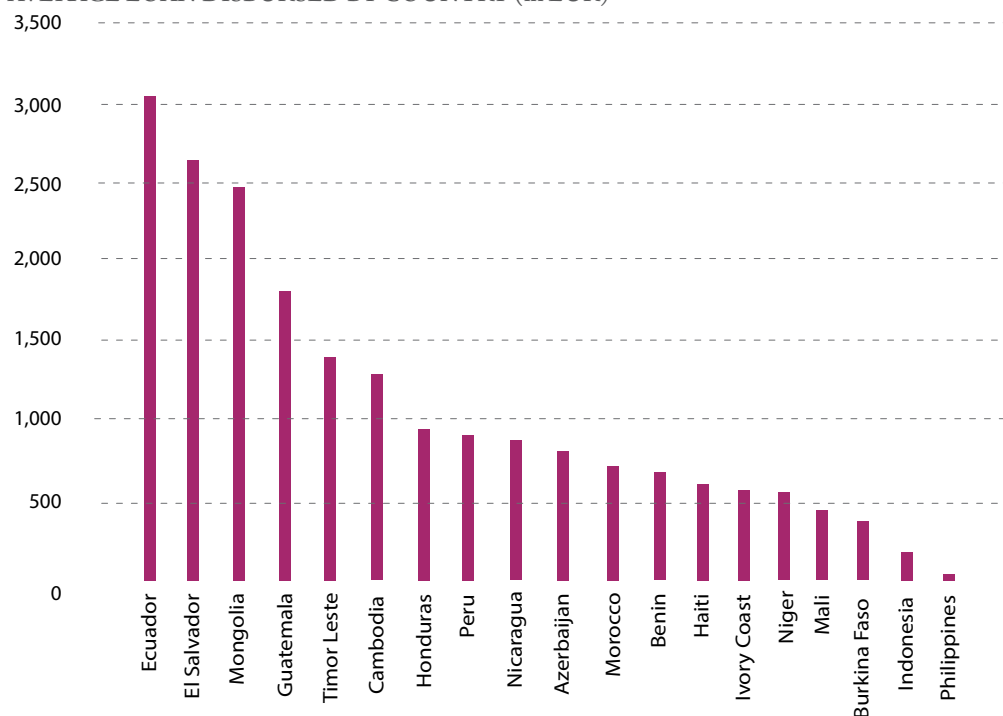


*Includes investment in regional fund investing in Latin American countries.

**ACP Countries: African, Caribbean and Pacific Group of States

Source: LMDF analysis as at 30/09/2016. Human Development Index 2015 by UNDP.

GRAPH 2: MARKET FOCUS
AVERAGE LOAN DISBURSED BY COUNTRY (in EUR)



Source: LMDF analysis of data submitted by MFIs as at 30 September 2016, excluding certain indirect investments in microfinance.

year-end 2016). Significantly, from an impact stance, the share of investments in Africa (which remains the region with the largest unserved population) increased from 16% (March 2016) to 18% of all investments.

/ Social performance: Increase of investments in least developed countries

Graph 1 shows all investments ranked by the respective development of the country. 14% of all investments are made in least developed countries (an increase from 11% at the end of March 2016), 58% in medium developed and 22% in countries with high human development. 17% of the Fund is invested in African, Caribbean and Pacific ("ACP") countries, the priority area for the development cooperation of the European Union.

/ Financial performance impacted by high level of liquidity and credit risks

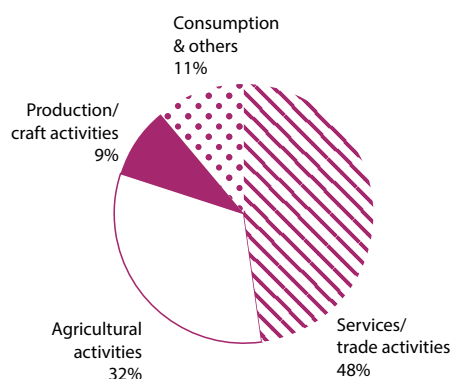
Gross income from microfinance and liquid assets decreased very significantly from 7.1% of average net assets during the previous financial year to 6.1% (annualised) during the first six months of the year. The main reason is the high level of liquidity which does not generate any income for the Fund.

One of the priorities is to continue to increase the operational efficiency of the Fund. The total expense ratio has decreased slightly from 3.4% in the previous year to 3.3% during this financial period.

Provisions for credit risk have significantly impacted the financial result. LMDF's provisions on two loans during the first half of the year 2016/17 amount to 0.7% of average net assets. Despite the losses, the long term expected default and loss rates remain within the parameters of LMDF's business model.

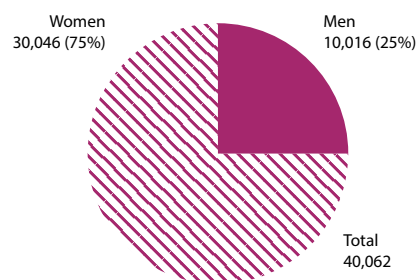
The high level of liquidity and provisions for credit risks led to net returns below the target returns for investors. Net returns of the NAV/ Share during the six months' period were -0.4% for Class A, 0.4% for Class B and 0.5% for Class C shareholders during the last six months and returns during the past 12 months were 0.4% for Class A, 1.3% for Class B and 1.1% for Class C shareholders (Graph 7). This compares to 0.6% return for the mainstream microfinance debt index during the last six months and 1.3% over the last year (Symbiotics SMX Euro Index).

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



Source: LMDF analysis of weighted average data provided by partner MFIs as at 30/09/2016

GRAPH 4:
ACTIVE MICRO-ENTREPRENEURS
FINANCED BY LMDF



Source: LMDF analysis of weighted average data provided by partner MFIs as at 30/09/2016

/ Increased interest from retail shareholders

Increasing the size of the Fund in view of operational efficiency and long-term viability is one of the strategic priorities. During the financial period, net assets grew by 14%, mainly through investments in the retail (Class C) share class of LMDF (Graph 6 shows the details). Interest in LMDF was facilitated by an increasingly clear communication on our impact business model and social purpose and investors' search for alternatives in a low interest rate environment.

/ Risk review

The fall in commodity prices and end of a long period of credit expansion strongly influenced the economic situation in many developing and frontier markets and impacted credit, country and currency risks during the financial year.

- Credit risks

Note 6 of this report provides shareholders with a qualitative and quantitative view of the credit risks of the Fund. LMDF made provisions on the exposure to the MFI Fundación Alternativa in Ecuador (EUR 88,968) and towards the remaining exposure in the MFI FINCA Azerbaijan (which reimbursed 25% of outstanding principal during the period).

The Fund also decided to write-off its remaining exposure to Tembeka Social Investment Company, South Africa. Tembeka paid remaining liquid assets to LMDF in September 2016.

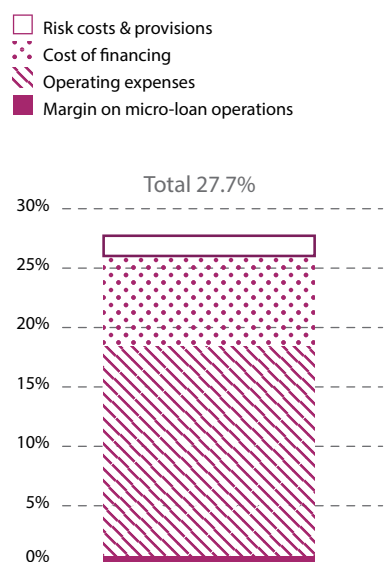
The Fund's risk diversification improved during the financial period. The average exposure to MFIs decreased from 2.2% of total net assets (end of March 2016) to 1.9% (end of September 2016). The Fund's largest exposures decreased slightly from 4.4% to 4.3% of net assets. LMDF's average exposure to MFIs is EUR 490,000 in line with our focus on emerging microfinance institutions.

- Currency risk

The Fund maintained its conservative approach to currency risks in volatile markets. 58% of the Fund's total net assets are invested in instruments denominated in USD. The USD-EUR market risk is a significant risk for the Fund and continues to be hedged through short-term forward foreign exchange instruments.

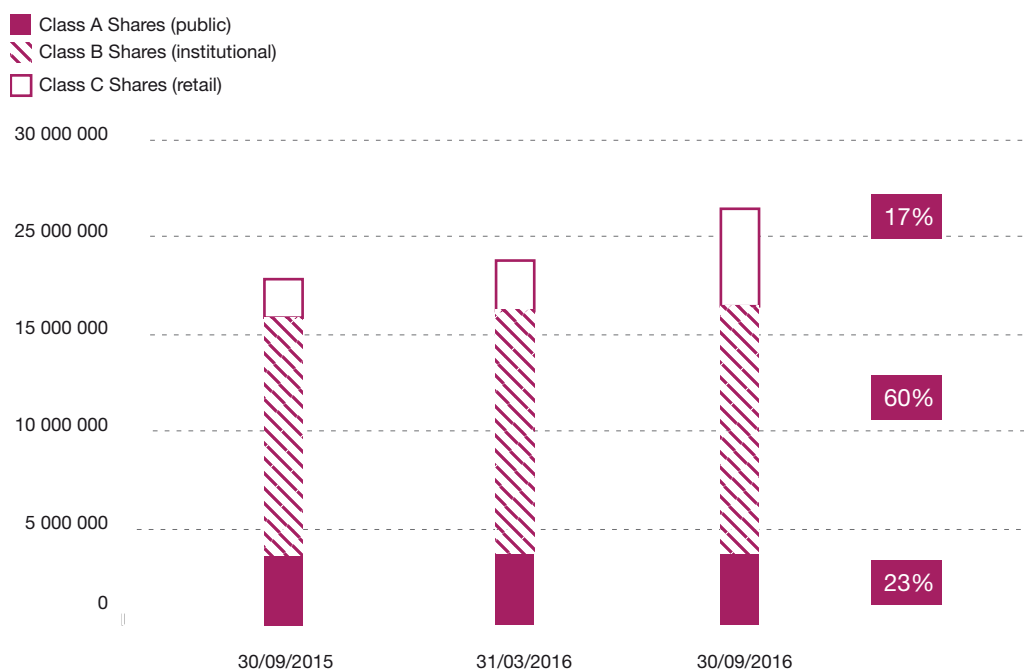
The Fund hedges other foreign currency exposures through cross-currency interest rate swaps and forwards, including its exposures to the West African CFA Franc, the Indonesian Rupiah, the Philippine Peso and the loan to a Cambodian MFI denominated in Thai Baht.

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



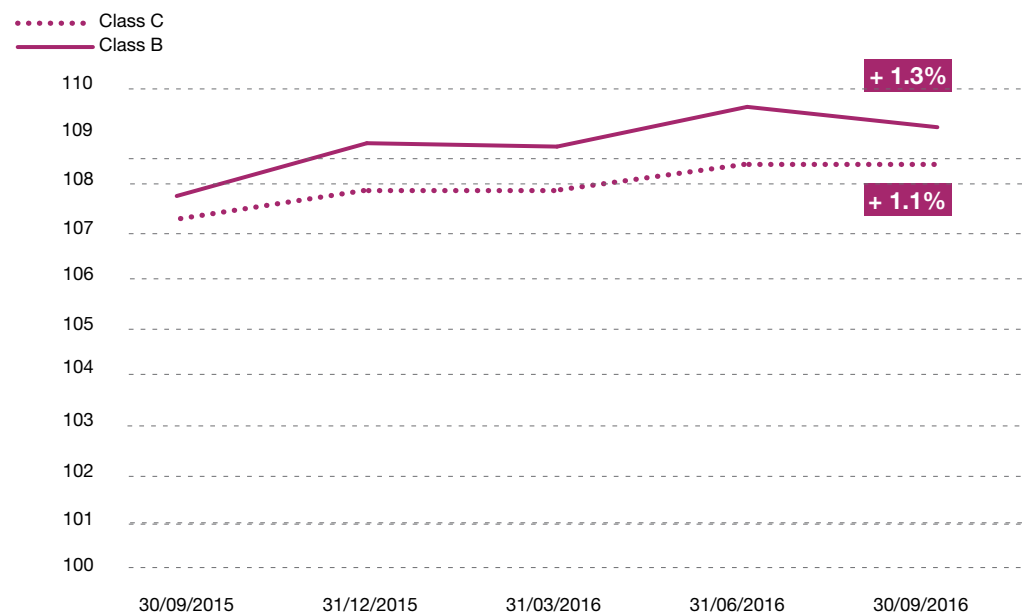
Source: LMDF analysis of weighted average data provided by partner MFIs as at 30/06/2016

GRAPH 6:
NET ASSET VALUE BY SHARE CLASS (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



In Latin America, certain populations are still likely to be excluded from education, such as ethnic minorities or those in rural areas // LMDF

- Country risks

At the end of September LMDF is invested in 20 countries. The biggest exposure is towards Cambodia (8.7% of net assets), Nicaragua (8.4%) and Ecuador (7.4%). Five countries account for 37% of investments, a significant decrease from 45% at the end of March 2016.

/ Outlook

Mid-way through the financial year, LMDF faces two key challenges:

1. To finalise the investment strategy allowing the Fund to respond to the longer-term industry trends and challenging market environment;
2. To implement the strategy and reduce excess liquidity as far as possible before the end of the financial year in March 2017;

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

Kaspar Wansleben

Executive Director
(kaspar@lmdf.lu)

"In Latin America, children whose mothers have some secondary schooling remain in school for two to three more years than children of mothers with less schooling"

UNESCO



Global development agendas have emphasised the universal right to education // LMDF



Nearly two-thirds of the world's 781 million illiterate adults are women. This proportion has remained stable for two decades // LMDF

1 Education and Microfinance

How microfinance improves access to education

LMDF has chosen to focus on education in this semi-annual report. Although education is a basic human right, many of those living in the countries in which LMDF works have very limited access to even basic schooling. This report examines the importance of education and how microfinance can be combined with education initiatives to reach those most in need and help to break the poverty cycle.

Education – a global concern

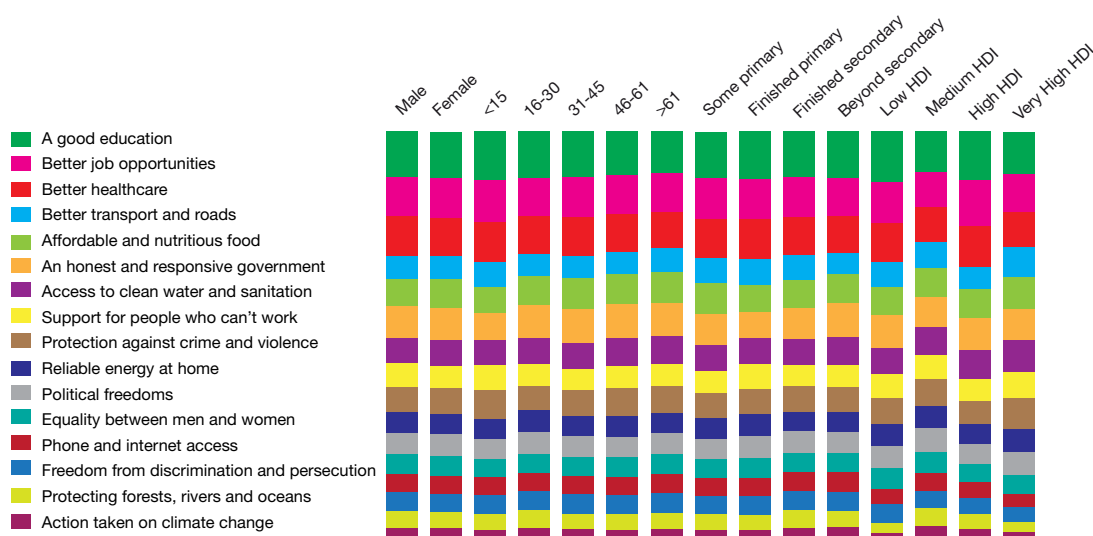
9.7 million people have responded to the UN's My World Survey. The survey focuses on what issues are most important to respondents, from healthcare to job opportunities, from climate change to political freedom. Among all age groups, people from all education levels

and people from all geographies, at each level on the HDI Index, one area was clearly the top priority: "A good education."

Why such a priority?

Individuals across the globe are clearly aware of the benefits that education can bring. Each year of schooling increases an individual's earning power in future years by up to 10% and researchers estimate that if every child learned to read, around 170 million fewer people would live in poverty. It also has a dramatic impact on infant and maternal healthcare and increases awareness and prevention of life threatening diseases such as HIV and Malaria.

GRAPH 8:
THE UNITED NATIONS GLOBAL SURVEY FOR A BETTER WORLD



Source: www.data.myworld2015.org

The current situation

The situation has improved in recent years. Global development agendas have emphasised the universal right to education and have acted as a catalyst for improvements in the field. This is highlighted by the disparity between the proportion of the population which is now enrolled in secondary school compared with the proportion of the population over 25 which has received some secondary education. As a result of the Millennium Development Goal - “MDGs”, there has been a particular focus on primary education and global net primary school enrolment was up to 91% (from 83% in 2000).

Looking at the statistics in aggregate only tells a fraction of the story. Around the world,

the situation is very varied. Several of the countries that LMDF works with in West Africa still struggle with primary school enrolment, let alone secondary or tertiary education. In the East Asian countries with which LMDF works, primary school education is close to universal, yet quality of education and access to secondary education remain a considerable challenge. In Latin America, the situation is very mixed. Access to secondary education still remains a problem in several Central American countries. Even in countries which have a relatively successful educational track record, such as Peru and Ecuador, there are still certain populations who are likely to be excluded, such as those from ethnic minorities or living in remote rural areas.

GRAPH 9:
EDUCATION DATA FROM LMDF PORTFOLIO COUNTRIES

Country	Population with some secondary education	Net enrolment ratio Primary	Net enrolment ratio Secondary	Gross enrolment ratio Tertiary	Primary school dropout rate	Pupil teacher ratio	Public expenditure on education (% of GDP)
Guatemala	22.6%	86.4%	46.7%	19.0%	33.3%	26	2.8%
Honduras	27.0%	94.0%	49.3%	21.0%	30.3%	34	-
El Salvador	39.8%	93.1%	70.2%	25.0%	16.2%	24	3.4%
Nicaragua	38.9%	96.9%	48.9%	-	51.6%	30	4.4%
Peru	61.1%	92.8%	78.4%	41.0%	26.1%	18	3.3%
Ecuador	39.8%	94.7%	82.5%	41.0%	11.1%	19	4.4%
Haiti	28.5%	42.4%	-	-	-	-	-
Av. LACAR	36.8%	69.6%	62.7%	29.4%	28.1%	25.2	3.7%
Azerbaijan	95.5%	95.1%	88.0%	20.0%	1.8%	12	2.4%
Mongolia	84.8%	94.9%	81.9%	62.0%	9.1%	28	5.5%
Indonesia	44.5%	89.7%	75.0%	32.0%	11.0%	19	3.6%
East Timor	-	96.6%	51.8%	18.0%	16.4%	31	4.9%
Philippines	64.8%	96.0%	67.4%	28.0%	24.2%	31	3.4%
Cambodia	15.5%	94.7%	38.2%	16.0%	35.8%	47	2.6%
Av. Asia	61.0%	94.5%	54.7%	29.3%	16.4%	28	3.7%
Morocco	25.3%	98.4%	56.1%	16.0%	10.7%	26	6.6%
Burkina Faso	2.0%	67.4%	21.2%	5.0%	30.9%	46	3.4%
Ivory Coast	22.4%	74.7%	-	9.0%	26.9%	41	4.6%
Benin	19.2%	95.9%	42.0%	12.0%	46.8%	44	5.3%
Niger	5.2%	61.0%	15.7%	2.0%	30.7%	39	4.4%
Mali	4.0%	59.4%	34.6%	7.0%	38.4%	41	4.8%
Av. Africa	13.0%	76.1%	33.9%	8.4%	30.7%	39.5	4.9%
Luxembourg	100.0%	92.5%	85.4%	20.0%	-	8	-

Source: HDI 2015 / World Bank - most recent available data



Only 59% of children are expected to finish primary school in Niger // ASUSU

What is limiting access?

Many governments, particularly in poorer countries, which have traditionally funded education, do not have enough resources to direct towards education. UNESCO studies have shown that there is a USD 26 billion funding gap for basic education alone, if lower secondary education is also taken into account this increases to USD 38 billion per year.

Moreover education resources are not necessarily allocated appropriately and do not reach those in the greatest need of education. UNICEF research found that “about half of all public education resources are allocated to the 10% of students that are most educated. Resources to the wealthiest quintile of children are up to 18 times larger than those to the poorest quintile”.

The role of microfinance

Education is clearly a good investment. It promotes the careers of those who receive it, but it also has repercussions on all areas of their lives, from health to childcare to empowerment. Those with an education can expect to go on to earn more than others in their community and to have more success running their businesses. This in turn helps to alleviate poverty and the ripple effects can bring prosperity to whole communities.

However governments cannot provide sufficient funding and those most in need are not normally in a position to make the long-term investment into their own human capital

that an education requires. Paying for an education requires sacrificing current income, in the hope of higher returns in the future. Those living near the poverty line cannot afford to defer this expenditure. On the supply side, conditions and even the provision of schools remains extremely poor in many countries.

Microfinance institutions can step in as an intermediary, giving those who would not otherwise have the chance to access education the chance to do so. Access to finance ensures that micro-entrepreneurs do not have to sacrifice their current income, but instead can defer payment until they have the higher income that education will achieve. By receiving education themselves, micro-entrepreneurs gain the chance to improve their businesses, achieve a higher degree of financial literacy and give their businesses the best chance of survival. Those who receive educational loans to access university or professional training courses will also have the doors opened to more highly paid careers. Those who access loans for their children are able to give them the best possible chance of success.

Microfinance firms also have a role to play in addressing supply side challenges. They may run projects to improve schools' infrastructure and administration. They can also help to ensure that education reaches those in greatest need through the provision of affordable private schools.

A good education is the door to future success, and microfinance can contribute to this future.

2 LMDF and Education

Access to education through different services

LMDF's remit to work with some of the most excluded people on the planet leads it to work with a high proportion of women and people from rural areas. Many of our micro-entrepreneurs have had little or no chance to access education and training. Even if they did, their education may have been of low quality and limited relevance.

In these circumstances, micro-entrepreneurs often struggle with some of the basic skills needed to run their business, such as literacy or basic accounting. Sadly, this problem often passes down through the generations, and their children also have limited chances to access schooling.

Education can have a dramatic effect on our micro-entrepreneurs' businesses. As well as helping the micro-entrepreneurs to develop the skills needed to make their businesses a success, it empowers micro-entrepreneurs to believe that they can succeed. Micro-entrepreneurs are also keen to ensure that their children have access to an education that will stand them in good stead for the future.

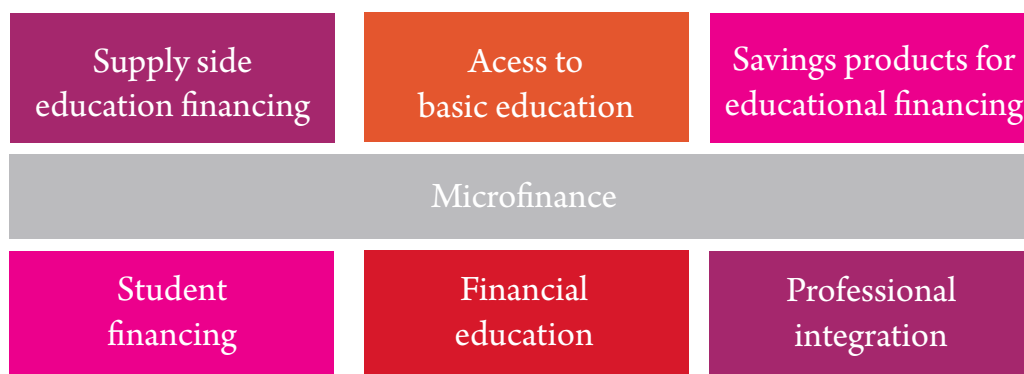
Microfinance institutions take various approaches to help support their clients'

education. Some focus on the micro-entrepreneurs themselves, others on their children and on future generations:

- Access to basic education: MFIs offer rewards to their clients who ensure their children are enrolled in schools;
- Savings products for education financing: By having a specific education savings account micro-entrepreneurs can ensure they have sufficient funds for their children to continue their studies;
- Supply side education financing: MFIs offer credits another financial instruments to private schools to improve infrastructure and teacher qualifications;
- Student financing: MFIs provide financial products for poor students who would not normally be able to access tertiary education;
- Financial education: Many MFIs provide skills training together with the loan to give their clients the best chance of success in their businesses;

The following page looks at some of LMDF's partner MFIs and the different approaches they have taken to allow their clients to access education and training.

EXAMPLES OF SERVICES FOR EDUCATION



Education across LMDF's world

HEFF, Costa Rica and Fundación Génesis Empresarial, Guatemala

Although access to primary and secondary education has improved over the past decades in Latin America, tertiary education enrolment still lags behind in some countries. Financing remains one of the main issues and those from poorer families have real trouble accessing this level of education which is essential for joining many of the more lucrative career paths.

The Higher Education Finance Fund – “HEFF” seeks to mobilise student loans for low-income populations in Latin America. The fund lends money and provides technical assistance to microfinance institutions and other financial intermediaries serving the poor so that these institutions can, in turn, use HEFF’s financing for their student loan portfolio. HEFF currently works with 7 MFIs across Latin America, and to date has financed over 2,760 students.

PILARH, Honduras

Many young men in Honduras leave their homes in rural areas to find work in towns, leaving rural regions populated predominantly by senior citizens, women and children. For this reason, PILARH, an MFI with which LMDF has worked since 2011, provides savings products that help women acting as heads of household to manage their finances, become entrepreneurs and provide their children with access to education.

In this context, PILARH offers two savings accounts to promote the importance of education. The first is the “school savings account” which focuses on children from 6 - 12 and the second is the “educational savings account” for 13 - 17 year olds. These accounts give incentives, in the form of school supplies, to promote the habit of savings from a young age.

ASUSU, Niger

Niger is one of the countries with the worst educational attainment levels in the world: youth literacy rates are only 35% for young men and 15.1% for young women and only 59% of children are expected to finish primary school. Although many countries have made a real impact on improving access to basic education, this still remains a fundamental problem in West Africa.

ASUSU has a focus on ensuring more girls have access to basic education and, to date, it has helped over 10,000 young girls. Given the very low rates of school completion, ASUSU offers various rewards to parents if they have a certificate showing their daughter regularly attended school. These rewards include clothes, helping to relieve the financial burden of equipping a girl to attend school. The MFI also has a system of providing a child with a first savings account with a small deposit if she attends school regularly. If she continues saving, she can build up the money in her account, allowing her to continue her studies in future years.



AMSSF, Morocco

Many MFIs try to ensure that their micro-entrepreneurs are equipped with the skills which will enable them to run a successful business. For this reason, they may offer courses in financial literacy and basic business skills which improve their clients' business' chances of success. They may also offer health programmes and empowerment training to support their clients' development.

AMSSF, an organisation based in Morocco, has a rather different history. The not-for-profit entity was originally founded within a Moroccan national framework for national and economic social integration for the economically deprived, with the specific aim of helping poor and illiterate women. In this capacity, AMSSF supported women in vocational and literacy training and also provided education for their young children. After 5 years of providing such services, AMSSF decided to offer micro-credits to bolster the opportunities for women receiving training. AMSSF continues to operate both these programmes and has now helped over 8,400 women.

KASHF, Pakistan

This MFI provides loans to low-cost private schools, along with teacher training and specialised school management courses to improve schools' financial and operational administration.

Although state education is compulsory and free in Pakistan, conditions in schools are very poor: over half of state schools have no toilets and water and nearly a fifth of teachers are absent each day. This has led to a situation where only 74% of children complete primary school and 51% complete lower secondary education. Since 2014, Kashf has worked with 850 schools, serving over 150,000 students.

Chamroeun, Cambodia

The educational context in Cambodia is very challenging. The Khmer Rouge regime which fell in 1979 left behind it a dearth of educated young people: there are 45 pupils per teacher and 5,000 people to each doctor in the country. Educated young people are fundamental for rebuilding Cambodian society.

Chamroeun, an MFI based in Phnom Penh, does not finance education directly, but invests part of its net profits into a scholarship programme which supports poor and vulnerable young people in their endeavours to access education. Any MFI client who has a child studying at primary school, secondary school or university can apply for the scholarship programme. Successful applicants receive a bicycle and package of study materials. In 2015-2016, Chamroeun received 586 applications and 96 were successful.

3 Four questions to

Adela de Rizzo, Fundación Génesis Empresarial



Fundación Génesis Empresarial is based in Guatemala and was created in 1988 with the vision of promoting development through efficient, effective and supportive financial and non-financial services in Guatemala. Just two years after its creation, the Foundation managed to achieve the operational and financial results it had set for itself, including: operational sustainability, benefits provided to clients, expanded geographic coverage...

The Foundation is supported by LMDF via its investment in the Higher Education Finance Fund («HEFF»). This foundation provides education credits to young people who wish to study, but do not have sufficient financial resources to do so. Currently just 13% of young Guatemalans go on to complete secondary education and those from poorer families are less likely to be able to pursue their studies.

The services which Fundación Génesis Empresarial provides together with loans, such as job-placement fairs, career mentoring and financial education, are focused on allowing young people to generate more income that will promote positive changes for their families, and generally for their country. The foundation has helped over 680 students to pursue higher education.

Could you briefly describe how your student loan product works and what criteria is used to select students?

The CREE program is a complete package which covers all career related expenses, for instance, food, transportation, equipment, registration, tuition, and so on. It is paid back according to the student and their sponsors' (guarantor) means. The loan may be paid back over a time period of up to 10 years, covering a 5-year college education and then 5 subsequent working years. There is a grace period of up to 6 months following graduation, to allow students to find jobs.

The loans are aimed at any student accepted in a school and actively studying. From September 2016 onwards, our support starts from pre-primary school education and goes through to the last stages of education, those studying university doctoral degrees. We look for students who maintain academic excellence in their studies and have average marks above 70 per cent. The students have support from our academic, professional counsellor in psychology who works with the students and promotes academic achievement. We support students from the ages of 5 to 65 who are interested in all kinds

" The culture of taking student loans does not exist in Guatemala and many Guatemalans still believe that education is inaccessible"

of productive careers, technical careers or academic development.

What is the feedback from your customers? Does the product correspond to students' needs? What challenges do you face and how are you resolving them?

The product has provided a good solution for many students looking at both technical careers and basic education. The main advantage to our product is that repayments can be adapted so that the student can pay without difficulties.

Key challenges are:

Communication: We have not managed to reach all Guatemalans in need yet and are still trying to raise awareness of the fact that a product with so many benefits exists.

Cultural: The culture of taking student loans does not exist in Guatemala and many Guatemalans still believe that education is inaccessible- this is something that needs to be changed.

Outreach: 55% of students have been reached by direct communication and academic guidance, but we hope to reach 90% of the students and offer them support from the academic counsellor and development advisor.

We organise quarterly conversations with our students. All students are encouraged to attend meetings or educational talks as we realise that a personal approach is essential for them. These discussions address issues such as financial education, development of attractive curriculums, key interview skills, etc.

Do you offer non-financial services to students?

Yes, we offer a range of non-financial services to our students to support them in their studies and future careers. These include:

- Free financial training
- Quarterly training sessions or lectures on topics of interest
- Financial advice to guide students in their career and repayments
- Comprehensive information on study opportunities in our affiliated schools

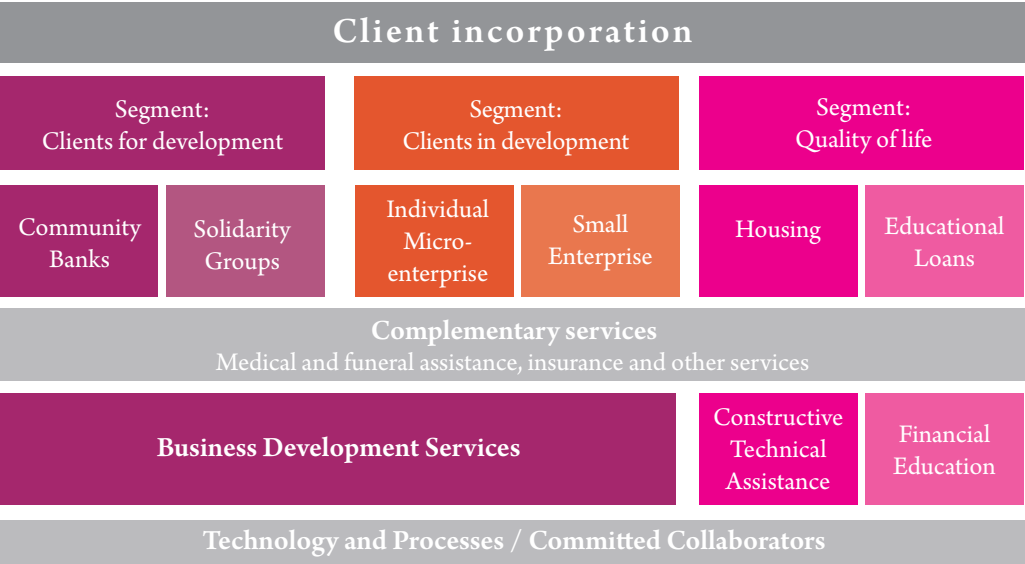


What is the importance of this innovative product for Genesis' strategy?

The Foundation has as social mission to bring sustainable development to the most vulnerable communities and to accelerate progress within Guatemala. Educational Credit is one of the strategic pillars of

governance within our business model as part of the "quality of life" segment.

It is essential that there are more credits for formal education. Although this product is relatively new, since its inception in 1988, Genesis has incorporated elements of training into its business. The CREE programme is the culmination of these efforts and complements the sustainable development strategy as shown in the following diagram:



4

7th European Microfinance Award

2 out of 3 finalists supported by LMDF

LMDF is a member of e-MFP, a network of approximately 120 organisations and individuals active in the area of microfinance, which will be hosting the European Microfinance Week in November 2016.

As part of the week's events, the 7th Annual Microfinance Award takes place which is jointly organised by the Luxembourg Ministry of Foreign and European Affairs – Directorate for Development Cooperation and Humanitarian Affairs, e-MFP, and the Inclusive Finance Network (InFiNe.lu) Luxembourg. This year's theme is Microfinance and Access to Education. This year e-MFP sought nominations for microfinance institutions which had recognised *the role of microfinance in enabling access to education for children and/or skill-training for youth and adults to enhance their employment and self-employment opportunities.*

The European Microfinance Award was launched in October 2005 by the Luxembourg Ministry of Foreign and European Affairs, to support innovative thinking in the microfinance sector. Awarded for the first time in 2006, it is jointly organised by the Luxembourg Ministry of Foreign and European Affairs, e-MFP and InFiNe.lu in cooperation with the European Investment Bank.

The competition is in its final stages and from the 30 original applicants, 3 finalists have been selected.

LMDF is delighted that the two institutions it

supported, Fundación Génesis Empresarial and Kashf Foundation, are among the three finalists:

- **Fundación Génesis Empresarial, Guatemala**, provides education credits to young people who wish to study, but do not have the financial resources to do so. The MFI also provides complementary services such as job-placement fairs, career mentoring, financial education and job placement to help students achieve their career ambitions. Currently just 13% of young Guatemalans go on to complete secondary education and those from poorer families are less likely to be able to pursue their studies. To date, over 680 students have benefited from this innovative program to pursue higher education.
- **Kashf Foundation, Pakistan**, provides loans to low-cost private schools, along with teacher training and specialised school management courses to improve schools' financial and operational administration. Although state education is compulsory and free in Pakistan, conditions in schools are very poor: over half of state schools have no toilets and water and nearly a fifth of teachers are absent each day. This has led to a situation where only 74% of children complete primary school and 51% complete lower secondary education. Since 2014, Kashf has worked with 850 schools, serving over 150,000 students.

LMDF wishes the best of luck to all the finalists.

5

Case study

Meet Victor from Guatemala, beneficiary
of a student loan from Génesis



Victor, can you tell us a bit about yourself?

I am Victor Antonio Recinos Lemus and I am 25 years old. I was born in Guatemala and have always lived in a small village in the municipality of San Pedro Ayampuc. This is a municipality of many traditions and customs, both cultural and religious, such as processions, dances and weaving carpets.

My parents have always told me that my life is very special and that God has great plans for me. During the third month of my mother's pregnancy, she was diagnosed with cancer in the womb and the doctors wanted repeatedly to perform a clinical abortion, but my mother refused. I was born after only six months of pregnancy and my name Victor is no coincidence: it is a consequence of the first battle I had, being born alive.

I currently live with both parents. My father is a 59 year old driver. He studied at college to become an expert accountant, but due to life circumstances, he could not complete his degree. My mother is 60 years old, and like my father, she started college but did not complete it. Today she works as a stylist and has 35 years of experience. What surprises me is that my mother has studied many different things, like cooking, sewing, flower arranging, crafts... This makes her a very skilled person and she is in much demand from our family and friends for all sorts of projects and crafts. I had two brothers, but unfortunately the eldest lost his life due to violence when he was just 29. My other brother is 30 years old and lives with his wife and two children

- an 8 year old girl and a 6 year old boy. I currently live with my parents and with the son of my older brother, who is 15 and who lost his mother to violence too. I think of him as my brother, and we all live together in the same house. My two brothers only studied to an intermediate level and had no higher education. The eldest always encouraged me to continue studying and get my college degree; this is something that has always given me the impetus to move forwards.

What do you hope to do when you leave university?

I am studying Social and Legal Sciences and when I graduate I will have a Bachelor of Arts, and I hope to become a lawyer and a notary. I chose this career because, besides being an excellent career path, there are plenty of opportunities to help people. I have always considered myself as a person with a big heart and my dream is to have two masters and a doctorate, to reach a public position where I can help people, to be useful in society and become someone who will be remembered as a good person, an excellent professional and someone who has done their bit to change beautiful Guatemala. As we say here, where I live, I would like to leave my mark on the harsh path of history.

I study at the University Mariano Galvez of Guatemala, and I chose the university because it is a known and prestigious higher education centre in Guatemala and is accredited at an international level. Now, I have finished my studies, passed my professional technical tests, completed

my thesis, which has been approved by my advisor, and I am just waiting for the approval of the reviewer. This is exciting because I should have the meeting with the reviewer in less than one week, and if I get their approval, it is the last thing I need in my studies and I know my whole family will be delighted.

I have many skills that have allowed me to work in several areas. As I mentioned, I live in a village, in a rural area with many farms. One of my first jobs was working on one of them. While I was at college I worked as an administrative assistant, and also in jobs related to my studies like assisting lawyers and notaries in legal offices. I also helped my friends and family where I could. At the moment I don't have a job that is linked to my studies so I help where I can in our small family business which organises events, caterers and glassware.

How did you finance your studies?

After finishing college, I was unemployed for some time and, due to the high costs of professional technical examinations and the payment of expenses for the thesis, administrative expenses, graduation ceremony costs, college fees and other expenses. I had to seek an institution that is dedicated to student financing to be able to continue my studies, since the university does not provide that kind of service.

I first looked at the public sector but I was told that the state had little budget for education and that I would have to wait for a very long time to try and obtain some help. This made me research the private sector where I found out about the Fundación Génesis Empresarial on the internet. I contacted them and learnt about their student loan service. I had never had

a loan or credit before, so I first asked my parents' advice. The decision to take credit was a family one, given that I found in my parents the support I needed. My father is my guarantor and my family has always supported me.

This loan granted by Fundación Génesis Empresarial has positively impacted my life. Without it, I would not be at the level I am now. It is definitely a blessing that they can help students complete their studies, with varied products that can help all Guatemalans. I would definitely like to help people as they do, knowing it helps so many others. Every time I can, I recommend the student loans to my friends and college classmates. I think it is a very good service and should be known by more people.

How do you view your future?

In the future, I wish to have my own family, a family that is just as united as my current one. I would like to get married and will teach my children to have high ethical and moral values. I want to have a house in the same city, because having my family close to me is important and also because my children will so be able to enjoy time with their grandparents. For my career, I want to become a lawyer and notary, known for his uprightness and professionalism. I wish to complete two masters degrees and a PhD, to contribute to the development of Guatemala and to help as many people as possible.

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 and Committees // Conseil d'administration et comités

Chair - Président

Kenneth Hay

Independent

Members - Membres

Viviane Clauss (until 07/07/2016)

Gilles Franck

Michel Haas

Max Meyer

Raoul Stefanetti

Manuel Tonnar

Paolo Vinciarelli

Kaspar Wansleben

Banque de Luxembourg (BdL)

ADA - Appui au Développement Autonome

Ministry of Finance

ADA - Appui au Développement Autonome

Banque Internationale à Luxembourg (BIL)

Development Cooperation Department,

Ministry of Foreign and European Affairs (MAEE)

Banque et Caisse d'Épargne de l'État (BCEE)

Executive Director

Investment Committee

Comité d'investissement

Marc Elvinger - Independent

Gilles Franck - ADA

David Goebbels - MAEE

Michel Haas - Ministry of Finance

Olivier Selis - BGL BNP Paribas

Raoul Stefanetti - BIL

Kaspar Wansleben - Executive Director

Risk Committee

Comité de risque

Kenneth Hay - Independent

Max Meyer - ADA

Raoul Stefanetti - BIL

Paolo Vinciarelli - BCEE

Marketing Committee

Comité de marketing

Viviane Clauss - BdL

Hedda Pahlson-Moller - Independent

Didier Richter - BIL

Patrick Bilbault - Independent

Employment Committee

Comité d'emploi

Marc Elvinger - Independent

Kenneth Hay - Independent

Manuel Tonnar - MAEE

Investment advisor // Conseiller en investissement

ADA - Appui au Développement Autonome asbl

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Banque dépositaire et agent de paiement

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Administrative Agent, Registrar and Transfer Agent

Administration centrale et agent de transfert

European Fund Administration S.A.
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L-1017 Luxembourg

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L-1855 Luxembourg

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L-1340 Luxembourg

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Fortuna Banque s.c.
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L-2330 Luxembourg

Banque Raiffeisen Société coopérative
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L-3372 Luxembourg

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London EC2Y 5ET
United Kingdom

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

MTX Solutions, Inc.
1050 17th 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: LMDSVCB:LX
Telekurs: 10633787

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

Unaudited financial statements

Etats financiers non-révisés

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

as at 30 September 2016 // au 30 septembre 2016

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>		981,259
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>		191,218
Loan agreements with microfinance institutions <i>Contrats de prêt avec des institutions de microfinance</i>	6	17,533,482
Notes backed by loans to microfinance institutions <i>Notes financées par des prêts aux institutions de microfinance</i>	6, 7	861,681
Cash at banks <i>Avoir en banques</i>		1,764,232
Savings account <i>Compte d'épargne</i>		3,985,441
Unrealised appreciation on forward foreign exchange contract <i>Plus-value non réalisée sur contrat de change à terme</i>	5	197,075
Income receivable on portfolio <i>A recevoir sur le portefeuille</i>		391,812
Other receivables and assets <i>Autres créances et à recevoir</i>	8	37,561
Deffered charges <i>Charges payées d'avance</i>		4,902
Total assets Somme d'actifs		25,948,663



Liabilities – Passif	Notes	EUR
Accrued expenses <i>Provision pour frais à payer</i>	8	230,398
Unrealised depreciation on swap contracts <i>Moins-value non réalisée sur contrat de swap</i>	5	34,307
Total liabilities Somme des passifs		264,705
Net assets at the end of the period <i>Actifs nets à la fin de la période</i>		25,683,958
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>		25.71
B Class shares outstanding <i>Nombre d'actions en circulation de la Classe B</i>		140,320.082
Net asset value per B Class share <i>Valeur nette d'inventaire par action de la Classe B</i>		109.33
C Class shares outstanding <i>Nombre d'actions en circulation de la Classe C</i>		55,513.342
Net asset value per C Class share <i>Valeur nette d'inventaire par action de la Classe C</i>		108.39

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

from 1 April 2016 to 30 September 2016
du 1er avril 2016 au 30 septembre 2016

Income – Revenus	Notes	EUR
Interest on microfinance loan agreements <i>Intérêts sur contrats de prêt en microfinance</i>		822,050
Net interest paid on swap contracts <i>Intérêts nets payés sur contrat swaps</i>		(75,541)
Net interest on microfinance loan agreements <i>Intérêts nets sur contrats de prêts en microfinance</i>		746,509
Commissions on microfinance loan agreements <i>Commissions sur contrats de prêts microfinance</i>		9,237
Other income <i>Autres produits</i>		4,996
Total income <i>Somme des revenus</i>		760,742
Expenses – Frais		
Advisory fees <i>Frais du conseiller en investissement</i>	3	155,080
Salary and wages of the fund management <i>Charges salariales de gestion du fonds</i>	3, 13	109,283
Custodian fees <i>Commission de la banque dépositaire</i>		10,519
Central administration costs <i>Frais de l'administration centrale</i>		36,362
Bank charges and other fees <i>Frais bancaires et charges liées</i>		1,580
Transaction fees <i>Frais de transaction</i>		5,000
Audit fees <i>Frais de révision</i>		11,439
Other administrative costs <i>Autres charges administratives</i>	8	78,601
Interest on bank accounts and term deposits <i>Intérêts bancaires et dépôts à termes</i>		533
Subscription duty <i>Taxe d'abonnement</i>	4	0
Total expenses <i>Total des frais</i>		408,397
Net investment income <i>Résultat net d'investissement</i>		352,345

Net realised gain/(loss) <i>Bénéfice/(perte) net(te)</i>	Notes	EUR
On investments <i>Sur investissements</i>		(139,119)
On forward foreign exchange contracts <i>Sur contrats de change à terme</i>		(703)
On foreign currency transactions <i>Sur transactions en devises</i>		202,434
Realised result <i>Bénéfice/(perte) net(te) réalisé(e)</i>		62,612
Net variation of the unrealised gain/(loss) <i>Variation de la plus-value/(moins-value) nette non réalisée</i>		
On investment portfolio / Sur portefeuille d'investissements		
Variation of impairment on microfinance loans <i>Variation de provisions sur prêts microfinance</i>	6	(22,094)
Variation of valuation of equity investments <i>Variation de la valorisation des investissements en capital</i>		2,723
Variation due to changes in the foreign exchange rate <i>Variation due à l'évolution du taux de change</i>		7,818
Total variation on investment portfolio <i>Variation totale sur portefeuille d'investissements</i>		(11,553)
On forward foreign exchange contracts <i>Sur contrats de change à terme</i>		(335,637)
On cross-currency swap contracts <i>Sur contrats de swap de taux et change à terme</i>		1,509
On foreign exchange transactions <i>Sur transactions en devises</i>		(11,180)
Unrealised result <i>Bénéfice/(perte) net(te) non réalisé(e)</i>		(356,861)
Result of operations <i>Résultat net des opérations</i>		58,096
Subscriptions <i>Souscriptions</i>		3,093,009
Redemptions <i>Rachats</i>		(15,110)
Total changes in net assets <i>Variation globale de la valeur nette d'inventaire</i>		3,135,995
Total net assets at the beginning of the period <i>Valeur nette d'inventaire au début de la période</i>		22,547,963
Total net assets at the end of the period <i>Valeur nette d'inventaire à la fin de la période</i>		25,683,958

// 3 Statistical information Informations statistiques

as at 30 September 2016 // au 30 septembre 2016

Total net assets – Actifs nets EUR

As at 30/09/2016	25,683,958
<i>Au 30/09/2016</i>	

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

Outstanding at the beginning of the period	168,238.537
<i>Au début de la période</i>	
Issued during the period	0.000
<i>Émises durant la période</i>	
Redeemed during the period	0.000
<i>Rachetées durant la période</i>	
Outstanding at the end of the period	168,238.537
<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 30/09/2016	25.71
<i>Au 30/09/2016</i>	

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

Outstanding at the beginning of the period	138,502.062
<i>Au début de la période</i>	
Issued during the period	1,818.020
<i>Émises durant la période</i>	
Redeemed during the period	0.000
<i>Rachetées durant la période</i>	
Outstanding at the end of the period	140,320.082
<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 30/09/2016	109.33
<i>Au 30/09/2016</i>	



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

Outstanding at the beginning of the period <i>Au d��but de la p��riode</i>	28,894.500
Issued during the period <i>��mises durant la p��riode</i>	26,758.842
Redeemed during the period <i>Rachet��es durant la p��riode</i>	(140.000)
Outstanding at the end of the period <i>�� la fin de la p��riode</i>	55,513.342

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

As at 30/09/2016 <i>Au 30/09/2016</i>	108.39
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// 4 Statement of investments and other net assets *État du portefeuille-titres et autres actifs nets*

as at 30 September 2016 // au 30 septembre 2016

Instrument // Microfinance institution	Note	Country	Maturity	Currency	Quantity // Nominal value	Total value (in EUR)	% of NAV
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	14/12/2022	USD	1,139,749	981,259	3.8%
Shares (and equity-type securities) in microfinance institutions and service providers							
MFX Solutions LLC		USA	N/A	USD	187,090	191,218	0.7%
Subordinated loan agreements with microfinance institutions							
Fundación Alternativa para el Desarrollo	6	ECUADOR	28/02/2018	USD	200,000	90,599	0.4%
Loan agreements with microfinance institutions							
Koperasi Mitra Dhuafa - KOMIDA		INDONESIA	10/04/2019	IDR	15,000,000,000	1,108,769	4.3%
SAMIC Plc		CAMBODIA	31/10/2018	USD	1,000,000	923,710	3.6%
Financiera Fundeser S.A.		NICARAGUA	12/12/2018	USD	1,000,000	912,787	3.6%
Sociedad Cooperativa de Ahorro y Crédito AMC de RL de CV		EL SALVADOR	25/07/2017	USD	750,000	676,140	2.6%
Asusu SA		NIGER	18/10/2018	XOF	406,250,000	635,586	2.5%
Proyectos y Iniciativas Locales para el Autodesarrollo Regional de Honduras OPDF		HONDURAS	10/07/2020	USD	700,000	635,110	2.5%
ProMujer Inc, sucursal de Nicaragua		NICARAGUA	22/10/2017	USD	650,000	598,596	2.3%
Cooperativa de Ahorro y Crédito la Florida	6	PERU	30/11/2017	USD	700,000	579,493	2.3%
Chamroeun Microfinance LTD		CAMBODIA	31/03/2018	USD	650,000	578,292	2.3%
L'Association Marocaine de Solidarité sans Frontières/Micro-Crédit		MOROCCO	31/12/2018	EUR	500,000	508,750	2.0%
Fondation al Karama pour la micro finance		MOROCCO	10/10/2018	EUR	450,000	464,875	1.8%
Action pour la coopération avec la microentreprise S.A. ACME		HAITI	10/04/2019	USD	500,000	461,621	1.8%
L'association pour la promotion de l'épargne crédit à base communautaire - BETHESDA		BENIN	10/01/2019	XOF	300,000,000	461,349	1.8%
El instituto de investigaciones socio-economicas y tecnologicas INSOTEC		ECUADOR	10/07/2019	USD	500,000	453,452	1.8%
El instituto de investigaciones socio-economicas y tecnologicas INSOTEC		ECUADOR	10/07/2019	USD	500,000	453,452	1.8%
Empresa para el apoyo y desarrollo de la micro y pequena empresa urbana y rural - MICREDITO S.A.		NICARAGUA	15/01/2019	USD	500,000	453,403	1.8%
Fundación de Apoyo Comunitario y Social del Ecuador		ECUADOR	13/07/2018	USD	500,000	453,273	1.8%
Intean Poalroath Rongroeurng Co. Ltd.		CAMBODIA	31/08/2018	USD	500,000	447,805	1.7%
Organización de desarrollo empresarial femenino financiera S.A. ODEF		HONDURAS	31/03/2017	USD	500,000	444,840	1.7%
La Cooperativa de Ahorro y Crédito Maquita Cushunchic Ltda.		ECUADOR	14/11/2017	USD	450,000	411,950	1.6%
Première agence de microfinance Côte d'Ivoire S.A.		IVORY COAST	10/01/2019	XOF	260,000,000	399,214	1.6%
Asociación Arariwa para la promoción tecnico cultural andina		PERU	10/04/2019	USD	400,000	374,259	1.5%
Fundación para el desarrollo integral de programas socioeconomicos FUNDAP		GUATEMALA	10/10/2019	USD	400,000	369,981	1.4%
Óptima Servicios Financieros , S.A		EL SALVADOR	31/10/2017	USD	400,000	367,820	1.4%
Óptima Servicios Financieros , S.A		EL SALVADOR	31/10/2016	USD	375,000	344,832	1.3%
Asociación para el Desarrollo Integral de San Antonio Ilontenango		GUATEMALA	16/03/2019	USD	380,000	339,130	1.3%
Première agence de microfinance Burkina Faso		BURKINA FASO	10/07/2018	XOF	200,000,000	309,119	1.2%
L'Institution Marocaine d'appui à la Micro-Entreprise		MOROCCO	31/01/2019	EUR	300,000	303,500	1.2%

The accompanying notes form an integral part of this report.



Instrument // Microfinance institution	Note	Country	Maturity	Currency	Quantity // Nominal value	Total value (in EUR)	% of NAV
Première agence de microfinance Mali S.A.		MALI	10/10/2018	XOF	200,000,000	299,848	1.2%
Cooperativa de Ahorro y Crédito Fondesurco		PERU	10/04/2019	USD	300,000	277,591	1.1%
Intean Poalroath Rongroeurng Co. Ltd.		CAMBODIA	28/02/2018	THB	10,666,667	276,424	1.1%
La Asociación de Desarrollo Integral Rural ASDIR		GUATEMALA	29/11/2018	USD	300,000	274,259	1.1%
La Asociación de Desarrollo Integral Rural ASDIR		GUATEMALA	28/02/2019	USD	300,000	268,683	1.0%
Asociación Fondo De Desarrollo Regional - FONDESURCO		PERU	10/06/2017	USD	285,451	260,224	1.0%
Asociación Fondo De Desarrollo Regional - FONDESURCO		PERU	26/01/2018	USD	259,740	234,423	0.9%
Tuba Rai Metin		TIMOR LESTE	10/10/2018	USD	250,000	230,436	0.9%
Tuba Rai Metin		TIMOR LESTE	10/10/2018	USD	250,000	230,436	0.9%
Tuba Rai Metin		TIMOR LESTE	10/01/2019	USD	250,000	226,220	0.9%
KPS-Small Enterprise and Economic Development Inc		PHILIPPINES	31/01/2017	PHP	11,000,000	206,580	0.8%
Adel Microcreditos S.A. de C.V.		HONDURAS	10/07/2018	USD	200,000	181,584	0.7%
La Asociación para el Desarrollo de la costa Atlantica		NICARAGUA	15/02/2018	USD	200,000	179,982	0.7%
Soro Yiriwaso		MALI	14/03/2017	XOF	110,000,000	165,649	0.6%
La Sociedad Cooperativa PADECOMSMCREDITO de RL de CV		EL SALVADOR	28/02/2018	USD	150,000	134,329	0.5%
Notes backed by loans to microfinance institutions							
Micro, Small & Medium Enterprises Bonds SA - Khan Bank Mongolia	7	MONGOLIA	10/03/2017	USD	650,000	580,187	2.3%
Micro, Small & Medium Enterprises Bonds SA - FINCA Azerbaijan	6, 7, 17	AZERBAIJAN	10/03/2017	USD	490,046	284,739	1.1%
Sub-total						20,045,778	78.2%
Net accrued interest on swap contract						(64,352)	(0.3)%
Sub-total						19,981,426	77.9%
Cash at banks, term deposits and savings accounts						5,750,090	22.4%
Other net assets / liabilities						(47,559)	(0.2)%
Total net assets						25,683,957	100.0%

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

/ Total exposure per counterparty as at 30 September 2016
Exposition agrégée par contrepartie au 30 septembre 2016

Aggregated exposure to	Notes	Amount EUR	% of total net assets
Koperasi Mitra Dhuafa - KOMIDA		1,108,769	4.3%
Higher Education Finance Fund LP		981,259	3.8%
SAMIC Plc		923,710	3.6%
Financiera Fundeser S.A.		912,787	3.6%
El instituto de investigaciones socio-economicas y tecnologicas INSOTEC		906,904	3.5%
Intean Poalroath Rongroeurng Co. Ltd.		724,229	2.8%
Óptima Servicios Financieros , S.A		712,652	2.8%
Tuba Rai Metin		687,092	2.7%
Sociedad Cooperativa de Ahorro y Crédito AMC de RL de CV		676,140	2.6%
Asusu SA		635,586	2.5%
Proyectos y Iniciativas Locales para el Autodesarrollo Regional de Honduras OPDF		635,110	2.5%
Pro Mujer Inc, sucursal de Nicaragua		598,596	2.3%
Micro, Small & Medium Enterprises Bonds SA - Khan Bank Mongolia	7	580,187	2.3%
Cooperativa de Ahorro y Crédito la Florida	6	579,493	2.3%
Chamroeun Microfinance LTD		578,292	2.3%
La Asociación de Desarrollo Integral Rural ASDIR		542,942	2.1%
L'Association Marocaine de Solidarité sans Frontières/Micro-Crédit		508,750	2.0%
Asociación Fondo De Desarrollo Regional - FONDESURCO		494,647	1.9%
Fondation al Karama pour la micro finance		464,875	1.8%
Action pour la coopération avec la microentreprise S.A. ACME		461,621	1.8%
L'association pour la promotion de l'épargne crédit à base communautaire - BETHESDA		461,349	1.8%
Empresa para el apoyo y desarrollo de la micro y pequena empresa urbana y rural - MICREDITO S.A.		453,403	1.8%
Fundación de Apoyo Comunitario y Social del Ecuador		453,273	1.8%
Organización de desarrollo empresarial femenino financiera S.A. ODEF		444,840	1.7%
La Cooperativa de Ahorro y Crédito Maquita Cushunchic Ltda.		411,950	1.6%
Première agence de microfinance Côte d'Ivoire S.A.		399,214	1.6%
Asociación Aariwa para la Promoción Tecnico Cultural Andina		374,259	1.5%
Fundación para el desarrollo integral de programas socioeconomicos FUNDAP		369,981	1.4%
Asociación para el Desarrollo Integral de San Antonio Ilontenango		339,130	1.3%
Première agence de microfinance Burkina Faso		309,119	1.2%
L'Institution Marocaine d'appui à la Micro-Entreprise		303,500	1.2%
Première agence de microfinance Mali S.A,		299,848	1.2%
Micro, Small & Medium Enterprises Bonds SA - FINCA Azerbaijan	6, 7, 17	284,739	1.1%
Cooperativa de Ahorro y Crédito Fondesurco		277,591	1.1%
KPS-Small Enterprise and Economic Development Inc		206,580	0.8%
MXF Solutions LLC		191,218	0.7%
Adel Microcréditos S.A. de C.V.		181,584	0.7%
La Asociación para el Desarrollo de la costa Atlantica		179,982	0.7%
Soro Yiriwaso		165,649	0.6%
La Sociedad Cooperativa PADECOMSMCREDITO de RL de CV		134,329	0.5%
Fundación Alternativa para el Desarrollo	6	90,599	0.4%
Total Portfolio		20,045,778	78.2%
Average exposure per microfinance institution		488,921	1.9%

The accompanying notes form an integral part of this report.

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

as at 30 September 2016 // au 30 septembre 2016

Geographical classification	Note	Amount (EUR)	% of total net assets
CAMBODIA		2,226,231	8.7%
NICARAGUA		2,144,768	8.4%
ECUADOR		1,862,726	7.4%
PERU		1,725,990	6.8%
EL SALVADOR		1,523,121	5.8%
MOROCCO		1,277,125	5.0%
HONDURAS		1,261,534	4.9%
GUATEMALA		1,252,053	4.8%
USA		1,172,477	4.5%
INDONESIA		1,108,769	4.3%
EAST-TIMOR		687,092	2.7%
NIGER	9	635,586	2.5%
MONGOLIA		580,187	2.3%
MALI	9	465,497	1.8%
HAITI		461,621	1.8%
BENIN		461,349	1.8%
IVORY COAST		399,214	1.6%
BURKINA FASO		309,119	1.2%
AZERBAIJAN		284,739	1.1%
PHILIPPINES		206,580	0.8%
Total Portfolio		20,045,778	78.2%
Average exposure per country		1,002,289	3.9%

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

as at 30 September 2016 // au 30 septembre 2016

Currency	Amount (EUR)	% of total net assets
United States Dollar	14,906,115	58.1%
West African CFA Franc	2,270,765	8.9%
Euro	1,277,125	5.0%
Indonesian Rupiah	1,108,769	4.3%
Thai Baht	276,424	1.1%
Philippine Peso	206,580	0.8%
Total Portfolio	20,045,778	78.2%
Average exposure per currency	3,340,963	13.0%



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/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 30/09/2016 <i>VNI/action au 30/09/2016</i>	NAV/share as at 31/03/2016 <i>VNI/action au 31/03/2016</i>	NAV/share as at 31/03/2015 <i>VNI/action au 31/03/2015</i>	Initial subscription price <i>Prix de souscription initial</i>
Class A shares <i>Actions de la Classe A</i>	25.71	25.82	25.25	25.00
Class B shares <i>Actions de la Classe B</i>	109.33	108.93	105.95	100.00
Class C shares <i>Actions de la Classe C</i>	108.39	107.85	106.08	100.00

	Performance financial period 03 - 09 2016 <i>Rendement de la période 03 - 09 2016</i>	Performance financial year 2015 - 16 <i>Rendement de l'année 2015 - 16</i>	Performance financial year 2014 - 15 <i>Rendement de l'année 2014 - 15</i>	Performance since inception <i>Rendement depuis lancement</i>
Class A shares <i>Actions de la Classe A</i>	(0.4%)	2.3%	3.1%	3.3%
Class B shares <i>Actions de la Classe B</i>	0.4%	2.8%	4.1%	8.9%
Class C shares <i>Actions de la Classe C</i>	0.5%	1.7%	3.0%	7.9%
Total net assets <i>Actifs nets</i>	25,683,957	22,547,963	19,825,503	

// 6 Notes to the unaudited financial statements *Notes aux états financiers non révisés*

as at 30 September 2016 // au 30 septembre 2016

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 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 marginalised 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 invests primarily but not exclusively in the following financial instruments:

- Various credit products such as senior loans, term deposits, promissory notes, bonds or other interest bearing instruments;
- 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 cross-currency interest rate swaps or forward foreign exchange contracts to limit the exposure of the Fund to the movements of the foreign 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 operations 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 recognised and open to the public will be valued at the nominal value. Accrued interest from microfinance loan agreements is 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 recognised 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 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, recognised, 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 is amortised until the maturity of the instrument. Such valuation approach is changed if a credit risk materialises 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 mark to market approach, if the position cannot be closed.

The value of all assets and liabilities not denominated in the reference currency of a Sub-Fund will be translated 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, at 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 a 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 to 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 percent 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 FEES AND MANAGEMENT/ TEAM REMUNERATION

/ A Advisory fees

On 15 December 2009, the SICAV concluded an investment advisory agreement with ADA - Appui au Développement Autonome a.s.b.l., amended on 1 October 2015.

Per the agreement the investment advisor is entitled to receive, out of the assets of the Fund, a yearly fee of:

- 1.5% p.a. of the Sub-Fund's average net asset value plus 0.25% p.a. remuneration linked to the performance of the microfinance assets of the SICAV until the assets managed by the advisor reach EUR 25 million and;
- 1.35% of the Sub-Fund's average net asset value plus 0.25% p.a. remuneration linked to the performance of the microfinance assets of the SICAV when the assets managed by the advisor exceed EUR 25 million.

The revised fee agreement is contingent on LMDF reaching total net assets plus net subscriptions

Total investment advisory and portfolio related fees amount for the year to EUR 155,080 or 1.2% (annualised) of the average net asset value of the SICAV. Of the total investment advisory fees, EUR 22,090 are linked to the performance of the microfinance assets.

In consideration of the services rendered to the Fund, the Management and Support Team are entitled to receive remuneration that, together with the fee paid to the investment advisor(s), is at maximum 3% of the Sub-Fund's average net asset value per year.

NOTE 4
SUBSCRIPTION DUTY / "TAUX D'ABONNEMENT"

NOTE 5
FORWARD FOREIGN EXCHANGE AND SWAP CONTRACTS

The SICAV aims to provide, whenever feasible, loans to microfinance institutions in local currency. During the reporting year, the SICAV hedged loan instruments using cross-currency swaps, which allow the SICAV to significantly reduce the foreign currency risk associated with assets held in foreign currencies. On some occasions and depending on pricing and liquidity of swap instruments, the Fund has hedged the foreign currency against USD. Such exposure to the USD is then hedged using forward foreign exchange contracts.

SWAP contracts								
In relation to loan agreement with	Notional	Paying currency	Receiving currency	Paying Leg	Receiving Leg	Maturity Date	Counter-party	Unrealized appreciation / (depreciation), (in EUR)
KPS-Small Enterprise and Economic Development Inc	11,000,000	PHP	EUR	11.70% p.a., semi-annual payment	8.00% p.a., semi-annual payment	31/1/2017	MFx Solutions Inc.	(23,337)
Intean Poalroath Rongroeurng Co. Ltd.	10,666,667	THB	USD	11.40% p.a., semi-annual payment	8.00% p.a., semi-annual payment	28/2/2018	MFx Solutions Inc.	17,525
L'association pour la promotion de l'épargne crédit à base communautaire - BETHESDA	300,000,000	XOF	EUR	11.30% p.a., semi-annual payment	7.45% p.a., semi-annual payment	10/1/2019	MFx Solutions Inc.	6,219
Première agence de microfinance Côte d'Ivoire S.A.	260,000,000	XOF	EUR	10.60% p.a., semi-annual payment	6.90% p.a., semi-annual payment	10/1/2019	MFx Solutions Inc.	6,557
Koperasi Mitra Dhuafa - KOMIDA	15,000,000,000	IDR	USD	16.50% p.a., semi-annual payment	7.00% p.a., semi-annual payment	10/4/2019	MFx Solutions Inc.	(41,271)
Total								(34,307)

/ 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)
Loans in USD	EUR	18,006,662	USD	20,000,000	11/10/2016	219,012	N/A
Soro Yiriwaso	EUR	150,838	XOF	110,000,000	14/3/2017	(14,079)	2,517
ASUSU S.A.	EUR	231,251	XOF	162,500,000	18/4/2017	(12,376)	4,283
ASUSU S.A.	EUR	222,603	XOF	162,500,000	18/4/2018	(21,024)	12,531
PAMF BF	EUR	283,994	XOF	200,000,000	10/7/2018	(15,854)	17,344
PAMF ML	EUR	284,374	XOF	200,000,000	10/10/2018	(15,475)	20,194
Sub-total						140,204	56,869
Total							197,075

NOTE 6

IMPAIRMENTS AND WRITE-OFFS OF MICROFINANCE LOANS

During the reporting period, LMDF's Management and Board of Directors monitored the loan of ZAR 2.4 million (EUR 143,181) granted to the microfinance institutions Tembeka Social Investment Company ("Tembeka"), South Africa which matured at the end of January 2016. Tembeka had defaulted on the payment of interest and principal due since January 2016. The Board of Directors established a provision of 50% of the outstanding principal and to account for interest income on a cash basis only. The recovery on the loan to Tembeka depended on the restructuring of one of Tembeka's credit exposure to the South African MFI Kuyasa Fund NPC and Altius Trading 423 Ltd ("Tembeka's Key Debtors"). In August 2016, the final business rescue plan for Tembeka's Key Debtors was approved by a majority of debtors which led to a very low recovery rate on the outstanding notional. Tembeka paid the entire amount recovered from Tembeka's Key Debtors to LMDF in September 2016. There being few other assets, LMDF's Board of Directors decided to write-off the remaining loan.

The Board of Directors reviewed a USD 200,000 (EUR 177,936) sub-ordinated loan granted to the MFI Fundación Alternativa ("FA") in Ecuador. Within a difficult economic context in Ecuador, FA's board uncovered quality issues in the microfinance portfolio in July 2016 and took the strategic decision not to continue its operations. FA is in the process of selling its microfinance portfolio. LMDF's loan is sub-ordinated to senior debtors and in view of the uncertainty of the voluntary liquidation process, the Fund's Board of Directors decided to provision 50% of the outstanding principal and to account for interest income on a cash basis only for the September 2016 NAV calculation.

The Board of Directors reviewed USD 650,000 (EUR 570,175) of notes issued by MSME Bonds (please refer to Note 7 for details) which expose the Fund to the microfinance institution FINCA Azerbaijan Non-Bank Credit Organization ("FINCA AZ"). FINCA AZ is facing significant uncertainties in its micro-credit led business model in a difficult economic and political environment and FINCA AZ declared a unilateral standstill for principal and interest payments to all creditors. Creditors negotiated a release of excess cash from the balance sheet of FINCA AZ and 25% of principal was paid in August 2016. Given the reduced cash-balance on the MFI's balance sheet and pending a comprehensive restructuring agreement, LMDF's Board of Directors decided to increase the provision on the remaining outstanding loan from 25% to 35% and to account for interest income on a cash basis only.

During previous financial periods the Board of Directors of the Fund decided to establish provisions for the outstanding principal of the loans to the microfinance institutions Cooperativa de Ahorro y Crédito la Florida ("Crédiflora") in Peru (USD 700,000 loan) Crédiflora's activities are concentrated on the financing of coffee farmers who have been significantly impacted by unusual climatic conditions and coffee rust in the past. As at the reporting date, Crédiflora had paid all interest and principal due and the situation is stable.

Variation of impairments on microfinance loans		Unrealised gain/loss	
Microfinance institution		31/03/2016	30/09/2016
Cooperativa de Ahorro y Crédito la Florida		(61,414)	(62,278)
Fundación Alternativa para el Desarrollo		0	(88,968)
Micro, Small & Medium Enterprises Bonds SA - FINCA Azerbaijan		(142,569)	(152,594)
Tembeka Social Investment Company		(69,761)	8,002
Total		(273,744)	(295,094)
Net variation of impairments			(22,094)

Written-off microfinance loans		Realised gain/loss	
Microfinance institution			30/09/2016
Tembeka Social Investment Company			(139,119)
Total Written-off loans			(139,119)

NOTE 7

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 8

DETAILS OF EXPENSES, ACCRUED CHARGES AND OTHER ASSETS

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

Investment related fees to the investment advisor	75,053
Investment advisory fees	66,397
Administration fees	15,614
Audit fees	11,439
VAT services fees	9,498
Wages and salaries	7,639
Marketing fees	6,820
Transaction related fees due to the custodian	6,750
Transaction related fees due to the administrator	5,000
Legal fees	5,000
Custodian fees	4,774
Information technology expenses	3,670
Transfer agency fees	3,388
Domiciliation fees	3,125
Communication fees	3,057
Representation fees	2,867
Office rent and charges	308
Total	230,398

For the reporting period, other administrative costs consisted of the following (in EUR):

Marketing and public relation fees	19,626
Post and telecommunication	11,363
Insurances	8,251
Legal fees	5,573
Communication fees	5,560
Travel expenses	5,462
VAT services	5,265
Representation expenses	5,227
Membership fees	4,173
Information technology	3,871
CSSF annual fee	3,000
Others fees	589
Fundsquare expenses	345
Board of directors and committee expenses	299
Total	78,601

As at the reporting date, other receivables and assets consisted of the following (in EUR):

VAT receivable	21,317
Receivable on incorporation new sub-fund*	15,826
Interest receivable on bank accounts and term deposits	418
Total	37,561

*The Board has nominated a committee to consider the establishment of a second Sub-Fund. The direct expenses incurred by the Fund in relation thereto are recorded as "Receivable on incorporation of new sub-fund", as they will be capitalised as incorporation expenses of the new sub-fund on its establishment. These costs are reimbursed should the establishment of the new sub-fund not take place.

NOTE 9

COUNTRY RISK INSURANCE

In view of reducing the exposure to risks inherent in certain countries, the Fund contracted two “Assurances des Investissements” insurance policies from the Luxembourg Office du Ducroire covering the risks of war and “effet du prince” of the outstanding loans to Soro Yiriwaso in Mali and Asusu in Niger.

NOTE 10

ASSET – LIABILITY RISK MITIGATION

The Fund grants loans to microfinance institutions with maturities from 2 – 5 years. On 19 February 2016 the Fund has contracted a EUR 500,000 stand-by credit line with the Banque et Caisse d'Epargne de l'Etat to manage the asset-liability mismatch between assets and potential quarterly liquidity requirements for share redemptions. The Board of Directors decided that the sole purpose of the credit line is to honour redemption requests which may exceed the minimum 10% liquid asset threshold the Fund's Prospectus foresees. The credit line may not be used to finance investments in microfinance institutions. The Fund's investment portfolio is pledged as a guarantee for this credit line.

NOTE 11

TOTAL EXPENSE RATIO

Average net asset value during the period (in EUR)	24,853,473
Total expenses for the year 1 April 2016 until 30 September 2016 (in EUR)	408,397

Total expense ratio (annualised)	3.3%
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NOTE 12

FOREIGN EXCHANGE RATES

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

1 EUR = 14,669.41	IDR	(Indonesian Rupiah)
1 EUR = 54.30	PHP	(Philippine Peso)
1 EUR = 38.95	THB	(Thai Baht)
1 EUR = 1.12	USD	(United States Dollar)
1 EUR = 667.00	XOF	(West African CFA Franc)

NOTE 13

STAFF

During the reporting period ended on 30 September 2016, the SICAV employed two full-time staff recruited on 1 October 2009 and 1 May 2016 and one part-time staff recruited on 5 November 2012. The SICAV also offers internship to interested students. The employment contracts do not include any variable remuneration linked to the performance of the Fund.

NOTE 14

COMMITMENTS

/ A Commitments of shareholders to subscribe shares

As at the reporting date, the Fund has outstanding commitments with one investor to subscribe Class B shares of EUR 500,000. Such commitment is callable in three equal tranches during the calendar years 2016, 2017 and 2018.

/ 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 0.4 million have not yet been called upon. The commitment period of HEFF ends on 14 December 2016.

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, 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 for 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 is not a member of the Pricing Committee.

NOTE 16

SHARE TRANSACTIONS OF DIRECTORS

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

NOTE 17

SUBSEQUENT EVENTS TO 14 NOVEMBER 2016

The Fund was notified on 28th October 2016 that Micro, Small & Medium Enterprises Bonds S.A. expected FINCA Azerbaijan to make a partial redemption of 0.136318 of Notes outstanding (please refer to Note 7 for details). The payment has been received by the Fund on 2 November 2016. As at the publication of this report, total repayments received from FINCA Azerbaijan amount to 38% of the outstanding principle.

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