



# Triodos Microfinance Fund

Audited annual report 2010

# 08

# Microfinance

is the provision of financial services to low-income people in developing countries. An inclusive financial sector, where the majority of people have access to financial services, provides a sustainable basis for balanced socio-economic development.

Triodos SICAV II  
Triodos Microfinance  
Fund  
Audited annual  
report 2010

Société d'Investissement à Capital Variable organised  
under the laws of the Grand Duchy of Luxembourg

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Subscriptions are only valid if they are made on the basis of the latest  
published prospectus accompanied by the latest annual report and the  
most recent semi-annual report, if published thereafter. The prospectus  
is available free of charge at the registered office of Triodos SICAV II in  
Luxembourg and from Triodos Bank: [www.triodos.com](http://www.triodos.com).

Triodos Investment Management is a 100% subsidiary of Triodos Bank.  
Triodos Investment Management is the Investment Manager of Triodos  
Microfinance Fund and manages the assets on a day-to-day basis.

## Key figures

(amounts in euros)	2010	2009
Total net asset value at year-end	59,977,763	39,330,771
Income	3,062,474	1,226,263
Expenses	-1,181,811	-595,737
Net operating income	1,880,663	630,526
Realised and unrealised results on investments and foreign exchange contracts	616,267	-252,222
Net result	2,496,930	378,304
<b>Total Expense Ratio per share class*</b>		
I-cap (EUR)	2.35%	2.20%
I-dis (EUR)	2.25%	2.17%
B-cap (EUR)	2.92%	3.97%
B-dis (EUR)	2.88%	3.86%
R-cap (EUR)	3.00%	2.92%
R-dis (EUR)	2.95%	2.68%
KB-cap (GBP)**	2.41%	n.a.
KB-dis (GBP)***	2.65%	n.a.
KI-cap (GBP)	2.19%	2.18%
KI-dis (GBP)	2.20%	2.19%
KR-cap (GBP)****	3.28%	n.a.
KR-dis (GBP)	2.95%	3.08%

\* The total expense ratio (TER) includes all the costs that are charged to the result during the reporting period. The costs of securities transactions and the interest charges are disregarded.

\*\* This share class is launched on April 1, 2010

\*\*\* This share class is launched on June 1, 2010

\*\*\*\* This share class is launched on November 1, 2010

### NAV per share

Share class	31.12.2010	31.12.2009
I-cap (EUR)	EUR 26.45	EUR 25.29
I-dis (EUR)	EUR 25.91	EUR 25.31
B-cap (EUR)	EUR 26.11	EUR 25.14
B-dis (EUR)	EUR 25.80	EUR 25.14
R-cap (EUR)	EUR 26.04	EUR 25.08
R-dis (EUR)	EUR 25.77	EUR 25.08
KB-cap (GBP)*	GBP 20.06	n.a.
KB-dis (GBP)*	GBP 19.77	n.a.
KI-cap (GBP)*	GBP 21.10	GBP 20.20
KI-dis (GBP)*	GBP 20.97	GBP 20.19
KR-cap (GBP)*	GBP 20.08	n.a.
KR-dis (GBP)*	GBP 20.81	GBP 20.18

Source: RBC Dexia and vwd group

\* The GBP share classes are hedged against the Euro.

## Return<sup>1</sup> based on net asset value per share

Share class	Start date	1 year	Average since inception p.a.*
I-cap (EUR)	01-04-2009	4.6%	3.3%
I-dis (EUR)	02-03-2009	4.6%	3.1%
B-cap (EUR)	02-06-2009	3.9%	2.8%
B-dis (EUR)	02-06-2009	3.9%	2.8%
R-cap (EUR)	01-07-2009	3.8%	2.8%
R-dis (EUR)	01-07-2009	3.8%	2.8%
KB-cap (GBP) <sup>2</sup>	01-04-2010	n.a.	0.8%
KB-dis (GBP) <sup>2</sup>	01-06-2010	n.a.	-1.2%
KI-cap (GBP) <sup>2</sup>	02-03-2009	4.5%	3.0%
KI-dis (GBP) <sup>2</sup>	02-03-2009	4.5%	3.0%
KR-cap (GBP) <sup>2</sup>	01-11-2010	n.a.	0.4%
KR-dis (GBP) <sup>2</sup>	02-03-2009	3.8%	2.5%

Source: RBC Dexia and vwd group

<sup>1</sup> The return is including reinvestment of dividends and costs.

<sup>2</sup> The GBP share classes are hedged against the Euro.

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# Introduction.

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Triodos SICAV II - Triodos Microfinance Fund (Triodos Microfinance Fund) aims to increase access to financial services for low-income people in developing countries by providing loans and equity to microfinance institutions (MFIs) and seeks to achieve an attractive financial return for investors. Triodos Investment Management BV acts as Investment Manager of the fund. Triodos Investment Management BV is a 100% subsidiary of Triodos Bank NV, one of the world's leading sustainable banks.

Triodos Investment Management BV has been providing capital to the microfinance sector since 1994. The specialised microfinance investment funds, managed by Triodos Investment Management have financed well over 100 MFIs operating in 43 countries in Asia, Latin America, Africa and Eastern Europe.

## Mission

The overall objective of Triodos Microfinance Fund is to offer investors a financially and socially sound investment in the microfinance sector mainly through investments in MFIs. Triodos Microfinance Fund offers the prospect of an attractive financial return combined with the opportunity for the investors to make a pro-active, measurable and sustainable contribution to the development of the microfinance sector into an inclusive financial sector in which the majority of people have access to financial services.

# Report of the Board of Directors.

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Triodos SICAV II - Triodos Microfinance Fund's net assets grew by 52.5% to EUR 60.0 million at the end of 2010, while its portfolio reached a value of EUR 50.8 million (84.7% of the fund's net assets). The fund increased the number of its investments to 21 microfinance institutions (MFIs) and further diversified its geographical spread by adding seven new countries to the portfolio, totalling 17 countries in Latin America, Asia, Africa and Eastern Europe.

## Market Developments

2010 was a turbulent year with both positive and negative developments in the microfinance sector. News of positive developments and growth figures alternated with critical reports about high interest rates and overindebtedness among microfinance clients. And the recurring question was: has financial gain become more important to the sector than sustainable development? Starting with the positive developments that occurred in 2010; more people from low income groups in developing countries gained access to microfinance. Many MFIs further expanded their range of services, including savings and insurance services, and a large number of MFIs are increasingly focusing on small and medium-sized enterprises. The growth mainly occurred in the second half of the year and should be viewed in the light of the sustained economic growth in many developing countries. Many MFIs saw the quality of their loan portfolios stabilise or improve in 2010.

Nonetheless, the microfinance sector found itself under pressure in 2010. In Andhra Pradesh, one of India's 28 states, local politicians accused MFIs of providing loans on the basis of unclear procedures, high interest rates and unethical collection practices. These accusations led to considerable commotion in national and international media and forced the local government to decide to implement very restrictive regulations and legislation that had a paralysing effect on the services provided by MFIs and on the sector. The excessive growth that the microfinance sector in India has experienced in the last few years has strained MFIs' systems, staff and capital. This was further intensified by the vast array of comparable

standard products that were made available to the same clients. Credit methodologies are often not geared to the needs of the client and overindebtedness has become a major problem. The latter indicates the importance of having a well-functioning credit bureau that records all loans. Building up a good infrastructure is essential to be able to steer the fast growth of microfinance in the right direction. Such infrastructure not only requires a credit bureau, but also effective supervision by a central bank, an independent regulator that supervises MFIs' practices, as well as an ombudsman to whom microfinance clients can turn if they have complaints. Another issue was that investors paid high prices for shares in MFIs on the basis of high growth projections. This put enormous pressure on institutions to generate the growth that had been promised. In theory, growth is good and necessary to achieve greater efficiency and outreach, and can in turn lead to lower interest rates. But there is a major risk that growth and the pursuit of as high a profit as possible becomes an end in itself. Growth and profit then become paramount, pushing the mission and social objectives into the background.

These developments send a clear signal to all players in the sector that transparent services, balanced growth and effective regulation and supervision are extremely important in order to ensure the healthy and sustainable development of the microfinance sector. It draws players back to the very core of microfinance: offering financial services responsibly and transparently to people on low incomes, in a way that enables them to improve their living conditions. This core issue has always been and always will be Triodos Microfinance Fund's basic principle as a values-driven investor.

# 52.5%

growth of net assets in 2010

### Overindebtedness: a major concern

Overindebtedness among clients of MFIs is a major concern and an important theme for Triodos Microfinance Fund in its contacts with and assessment of MFIs. It forms part of the risk and sustainability analysis carried out by the fund. Apart from this, Triodos Microfinance Fund actively seeks to draw attention to this theme and supports the following initiatives:

**Microfinance Transparency:** a global initiative to offer countries individual, clear and explicit lists of effective interest rates that MFIs charge when providing loans ([www.mftransparency.org](http://www.mftransparency.org)).

**Client Protection Principles:** an ethical code for the entire sector that includes the provision that a client may not be financed if repayment is beyond his or her capabilities. Triodos Microfinance Fund stimulates MFIs to sign up to this code ([www.smartcampaign.org](http://www.smartcampaign.org)).

To further analyse the problem of overindebtedness, Triodos Investment Management, the manager of Triodos Microfinance Fund, in conjunction with the Council for Microfinance Equity Funds and responsAbility Social Investments AG took the initiative in 2010 to investigate the extent of overindebtedness in a number of markets. This study is an important first step to establish an early warning index to help prevent future overindebtedness crises in microfinance markets. The study was conducted by the University of Zurich and published in January 2011. For the full study and an Executive Summary see [www.triodos.com/microfinance](http://www.triodos.com/microfinance).

### Principles for Investors in Inclusive Finance

In early 2010, a group of investors that included Triodos Investment Management and Her Royal Highness Princess Máxima of the Netherlands, in her capacity as the UN Secretary-General's Special Advocate for Inclusive Finance for Development, took the initiative to set up Principles for Investors in Inclusive Finance. The motive for drawing up these Principles for Investors in Inclusive Finance (of which microfinance forms a part) is for them to contribute to the embedding of socially responsible investment in this sector. The

Principles were developed by a broad group of investors in conjunction with UNPRI (United Nations-backed Principles for Responsible Investment) and in close consultation with CGAP (the Consultative Group to Assist the Poor) and other players in the sector.

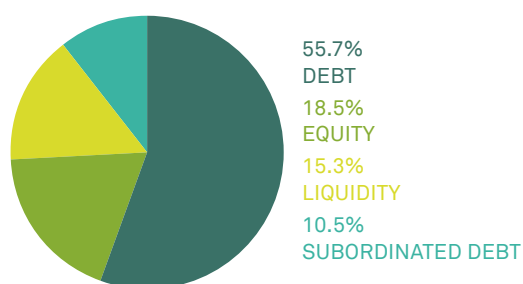
The Principles were launched on 27 January 2011. An initial group of 41 international investors signed the Principles, committing themselves to the provision of fair, transparent and responsible financial services to low income people in developing countries. A summary of the Principles is provided in Appendix A.

### Portfolio data, 31 December 2010

Net Asset Value	EUR 60.0 million
Microfinance portfolio	EUR 50.8 million
Number of MFIs	21
Number of investment funds	1
Number of loans	25
Number of subordinated loans	3
Number of equity investments	3
Number of countries	17

Source: Triodos Investment Management

### Portfolio allocation by assets (as % of NAV), 31 December 2010



### Investments

Triodos Microfinance Fund's investment portfolio expanded to EUR 50.8 million, i.e. 84.7% of the fund's net assets. The fund has invested in 21 MFIs and one microfinance investment fund in 17 different countries in Latin America, Asia, Africa and Eastern Europe. During 2010 Triodos Microfinance Fund disbursed two new equity investments in India and Cambodia.

While the first six months of the year remained challenging, with suppressed demand from MFIs for funding as a result of the economic slowdown in many developing countries, the fund saw a strong increase in the number of its investments in the last quarter of the year. During the same period, however the market environment in India deteriorated as described under market developments. The crisis will affect the growth prospects for the Indian microfinance sector and will also lead to lower valuations. As a result of the developments in the Indian state of Andhra Pradesh, the fund has adjusted its valuation of the two equity investments in India. Both investments have partial exposure in this state.

All other investments in the fund's portfolio performed well and the fund did therefore not need to make any provisions for non-performing loans. The portfolio at risk figures of most MFIs improved compared to the previous year, with the

exception of MFIs in India and Peru.

In 2010, Triodos Microfinance Fund finalised two new equity investments, in Bharthiya Samruddhi Finance Limited (BSFL) in India and ACLEDA Bank Plc. in Cambodia. The investment in BSFL was finalised in the first quarter of 2010. The main goal of BSFL is to promote entrepreneurship among low-income people in India. BSFL mainly works with economically active rural households engaged in agriculture, livestock or household manufacturing activities. The MFI works in an integrated way providing not only microfinance services such as credit and micro-insurance but also institutional development, agricultural and business development services. BSFL is active in fourteen states in India, including Andhra Pradesh. The aforementioned events in this state unfortunately led to problems with the collection of outstanding loans in Andhra Pradesh in the final quarter of 2010. This will eventually have an impact



on the financial performance of BSFL due to increased loan loss provisions. The fund has therefore adjusted the valuation of this equity investment.

ACLEDA Bank is the second new equity investment, which was finalised in the second quarter of the year. ACLEDA Bank is a commercial bank with the largest branch network in Cambodia. The bank

offers an extensive range of financial products and services to small independent traders and small and medium-sized enterprises. It also offers easily accessible savings facilities in both urban and remote rural areas to a broad public. In 2010 the bank launched a mobile phone banking service. ACLEDA Bank performed well in 2010.

## ACLEDA BANK IN CAMBODIA

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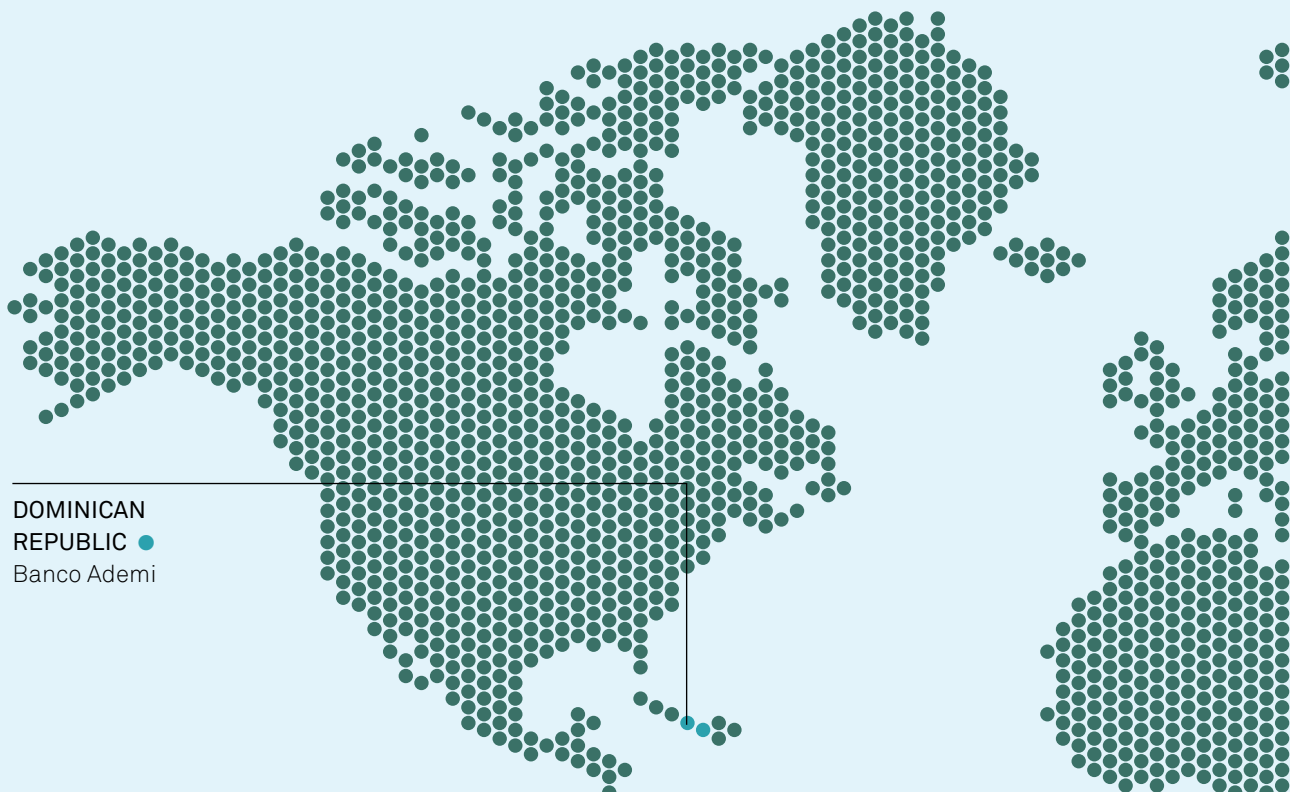
ACLEDA Bank in Cambodia is seen as one of the leaders in microfinance worldwide and also sets an example in their Triple Bottom Line approach. For example, Cambodia's Tonle Sap Lake is an important commercial resource for many fishermen. In its provision of loans ACLEDA Bank takes into account strict sustainability criteria to safeguard the lake's fish population for future generations of fishermen.



MICROFINANCE PORTFOLIO  
TRIODOS MICROFINANCE FUND

31 DECEMBER 2010

BOSNIA  
HERZEGOVINA ●  
Prizma Mikro



DOMINICAN  
REPUBLIC ●  
Banco Ademi

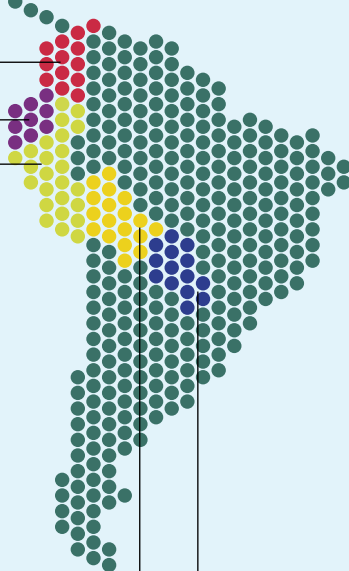
COLOMBIA ●  
FMM Popayán

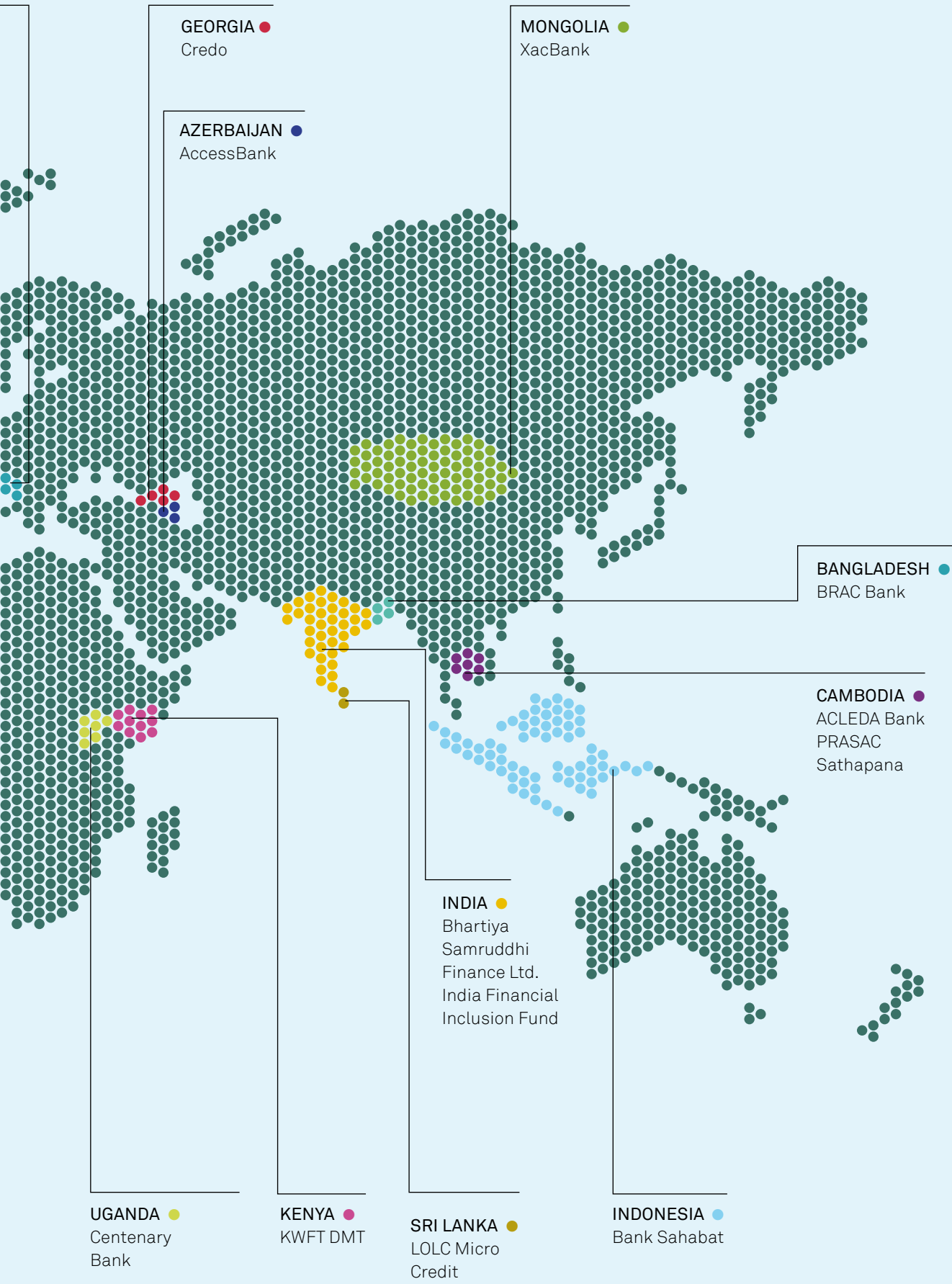
ECUADOR ●  
D-MIRO

PERU ●  
Financiera Crear  
Financiera Edyficar  
Mibanco

BOLIVIA ●  
Banco FIE

PARAGUAY ●  
Visión Banco





Triodos Microfinance Fund participated in the first local currency convertible subordinated bond issued by BRAC Bank in Bangladesh. BRAC Bank has been active as a commercial bank since 2001 and targets small and medium-sized enterprises (SMEs) that still have limited access to finance. With this bond BRAC Bank will further strengthen its capital position and boost the development of the SME sector in Bangladesh.

Triodos Microfinance Fund further disbursed 15 senior loans to MFIs. A quantitative description of the activities of these institutions can be found in the table on pages 16 and 17. The table highlights the loan portfolio, number of clients, average loan amount, number of saving accounts, percentage of women and rural outreach of each MFI. A narrative description of the developments of the equity investments and newly disbursed loan investments can be found on page 40.

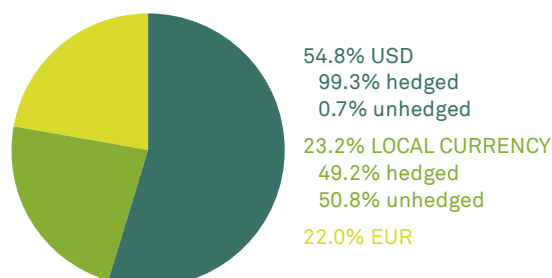
At year-end 2010, Triodos Microfinance Fund had five commitments outstanding for three debt facilities for a total amount of EUR 4.3 million.

#### Exposure by country (as % of NAV), 31 December 2010

Country	Percentage
Peru	20.9%
Cambodia	18.2%
Azerbaijan	6.2%
India	5.0%
Sri Lanka	5.0%
Mongolia	4.8%
Bolivia	4.4%
Uganda	3.1%
Colombia	3.1%
Bangladesh	3.1%
Paraguay	2.8%
Dominican Republic	2.2%
Kenya	1.9%
Bosnia Herzegovina	1.7%
Georgia	0.9%
Ecuador	0.9%
Indonesia	0.6%

Source: Triodos Investment Management

#### Exposure by currency (as % of NAV), 31 December 2010



Source: Triodos Investment Management

#### Five largest outstanding positions (as % of NAV), 31 December 2010

Institution	Country	Percentage
ACLEDA Bank	Cambodia	13.5%
Financiera Crear	Peru	10.0%
Mibanco	Peru	7.5%
AccessBank	Azerbaijan	6.2%
LOLC Micro Credit	Sri Lanka	5.0%

Source: Triodos Investment Management

Triodos Microfinance Fund is committed to keeping individual investments below 15% of the fund's assets. The largest investment represents 13.5% of the fund's assets and concerns ACLEDA Bank in Cambodia.

## Financial results

The net result of Triodos Microfinance Fund for 2010 is EUR 2.5 million. At the end of 2010, 84.7% of its assets were invested in the microfinance sector. Triodos Microfinance Fund retains 10% in liquid assets at all times in order to be able to meet redemption requests.

## Return<sup>1</sup> based on net asset value per share

31 December 2010

Share class	Start date	1 year	Average p.a. since inception
I-cap (EUR)	01-04-2009	4.6%	3.3%
I-dis (EUR)	02-03-2009	4.6%	3.1%
B-cap (EUR)	02-06-2009	3.9%	2.8%
B-dis (EUR)	02-06-2009	3.9%	2.8%
R-cap (EUR)	01-07-2009	3.8%	2.8%
R-dis (EUR)	01-07-2009	3.8%	2.8%
KB-cap (GBP) <sup>2</sup>	01-04-2010	n.a.	0.3%
KB-dis (GBP) <sup>2</sup>	01-06-2010	n.a.	-1.2%
KI-cap (GBP) <sup>2</sup>	02-03-2009	4.5%	3.0%
KI-dis (GBP) <sup>2</sup>	02-03-2009	4.5%	3.0%
KR-cap (GBP) <sup>2</sup>	01-11-2010	n.a.	0.4%
KR-dis (GBP) <sup>2</sup>	02-03-2009	3.8%	2.5%

Source: RBC Dexia and vwd group

<sup>1</sup> The return is including reinvestment of dividends, including costs

<sup>2</sup> The GBP share classes are hedged against the Euro

## Sustainability Management System

As a global pioneer of sustainable banking, Triodos Bank stands for banking that encompasses a stable balance between people, planet and profit. This Triple Bottom Line approach is also the driving force for Triodos Microfinance Fund's investment policy. The fund provides financing for institutions that pursue this balance and want to develop further. Institutions whose activities are close to the people, rooted in the real economy, strengthen the community and are transparent. The mission and social objectives of the MFIs and the way in which they are embedded in the organisation also form important topics of discussion during visits to and contacts with these institutions and their clients. Triodos Investment Management has developed a Sustainability Management System to effectively and precisely unveil and analyse this aspect, and also to assess MFIs' attitude to overindebtedness and transparency. This system is aligned with the international standards drawn up by the CGAP Social Performance Task Force (see also [www.sptf.info](http://www.sptf.info)), a consultative body for a large number of players in the microfinance sector. Triodos Investment Management plays an active role in this task force. The Sustainability Management System helps to clarify social and environmental performance of

MFIs. A number of indicators have been included for each MFI in the table on pages 16 and 17, such as the number of clients with loans or savings, the average loan amount, the percentage of female clients and the percentage of rural clients.

For the total portfolio, these data are as follows:

Number of loan clients reached by the MFIs in the fund's portfolio:	4.7 million
Average loan amount	EUR 1,027
Percentage of female loan clients	65%
Percentage of rural loan clients	48%
Number of savings clients reached by the MFIs in the fund's portfolio:	3.9 million

This system was developed further in 2010 enabling MFIs to now be classified by the level of sustainability. This classification emerges by evaluating MFIs in terms of four dimensions: products & services, responsible banking, environment, social responsibility.

The score indicates the extent to which the MFI has a clear vision and objective for each of these dimensions, the degree to which these are embedded in processes and systems and how this is expressed in their day-to-day operations.

**Overview microfinance institutions financed by Triodos Microfinance Fund**  
as per 31 December 2010 and 2009

Microfinance Institutions	Country	Number of borrowers		Percentage women	
		2010	2009	2010	2009
AccessBank	Azerbaijan	120,147	97,695	27%	26%
ACLEDA Bank	Cambodia	265,937	*	55%	*
Banco Ademi	Dominican Republic	103,181	**	41%	**
Banco FIE***	Bolivia	146,816	124,657	55%	56%
Bank Sahabat Purba Danarta	Indonesia	151,589	**	73%	**
Bhartiya Samruddhi Finance	India	1,721,427	*	73%	*
BRAC Bank	Bangladesh	36,655	**	9%	**
Centenary Bank	Uganda	97,434	104,906	30%	24%
Credo	Georgia	43,172	**	42%	**
D-MIRO***	Ecuador	36,463	**	62%	**
Financiera Crear***	Peru	87,076	79,124	50%	50%
Financiera Edyficar	Peru	284,825	212,389	49%	50%
FMM Popayán	Colombia	352,592	293,079	67%	69%
Kenya Women Finance Trust	Kenya	416,813	**	100%	**
LOLC Micro Credit	Sri Lanka	45,094	22,758	44%	20%
Mibanco	Peru	394,915	344,342	54%	54%
PRASAC Microfinance Institution	Cambodia	112,872	**	60%	**
Prizma Mikro	Bosnia Herzegovina	54,495	49,186	60%	64%
Sathapana	Cambodia	43,565	36,228	67%	70%
Visión Banco S.A.E.C.A.	Paraguay	84,966	**	38%	**
XacBank	Mongolia	86,760	83,592	57%	53%
<b>Grand Total</b>		<b><u>4,686,794</u></b>	<b><u>1,447,956</u></b>		

\* Equity investment acquired in 2010

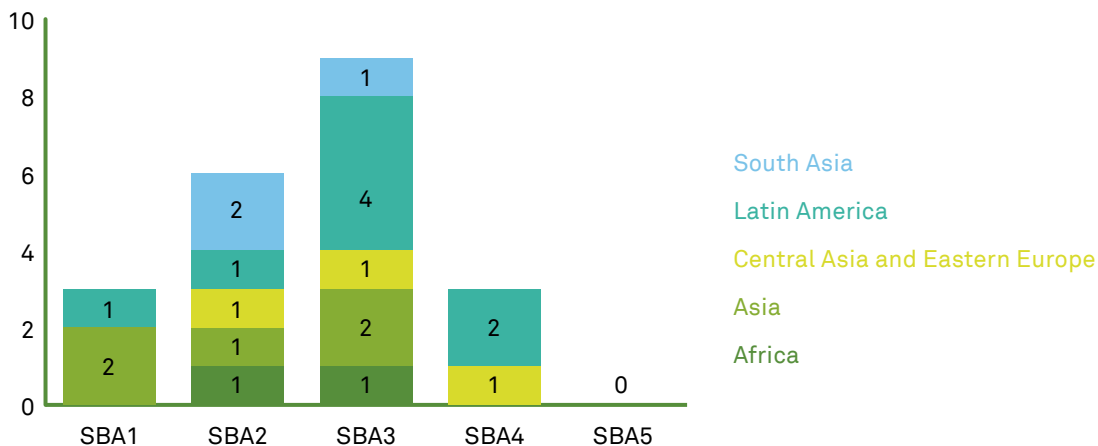
\*\* Not financed in 2009

\*\*\* This MFI focuses on urban areas only

\*\*\*\* Not applicable

Loan portfolio (EUR x 1,000)		Average loan (EUR)		% clients in rural areas		Number of saving clients	
2010	2009	2010	2009	2010	2009	2010	2009
254,157	207,153	2,111	2,116	12%	25%	152,991	114,507
556,758	*	2,094	*	86%	*	703,151	*
143,905	**	1,393	**	4%	**	136,916	**
311,983	217,736	2,125	1,747	0%	0%	461,591	372,710
39,277	**	259	**	22%	**	44,895	**
271,158	*	157	*	91%	*	****	*
894,679	**	5,619	**	27%	**	586,573	**
128,354	131,323	1,156	1,202	66%	67%	731,191	840,746
24,958	**	578	**	57%	**	****	**
22,307	**	612	**	0%	**	****	**
97,916	73,793	1,122	930	0%	0%	****	****
266,631	173,571	933	814	0%	0%	1,717	3,318
205,708	141,824	583	484	18%	16%	****	****
119,623	**	287	**	71%	**	426,066	**
41,911	19,654	929	864	89%	80%	****	****
969,692	734,565	2,412	2,104	12%	14%	384,680	267,044
78,722	**	697	**	94%	**	1,864	**
47,109	43,445	864	883	47%	46%	****	****
43,192	27,560	991	761	44%	44%	32,414	22,871
249,353	**	2,893	**	15%	**	78,686	**
197,481	95,361	2,252	1,131	37%	53%	178,002	142,089
<b><u>4,964,874</u></b>	<b><u>1,865,984</u></b>					<b><u>3,920,737</u></b>	<b><u>1,763,285</u></b>

### Sustainable Banking - Number of MFIs divided over 5 categories



Following the Sustainability Management System the MFIs in the portfolio of Triodos Microfinance Fund can be divided into five Sustainable Banking Assessment (SBA) categories representing the following:

- SBA 1:** Excellent, the MFI scores over 80% of the total;
- SBA 2:** Good, the MFI scores between 60-80% of the total;
- SBA 3:** Average, the MFIs scores between 40-60% of the total;
- SBA 4:** Below average, the MFI scores between 20-40% of the total;
- SBA 5:** Poor, the MFI scores below 20% of the total.

The graph above shows the total number of MFIs in the portfolio divided over the five categories and the different regions.

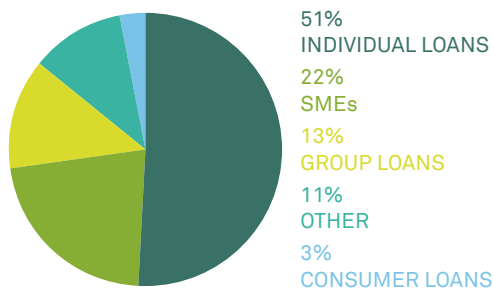
Apart from this, the system provides information about the supply and diversity of an MFI's products, the sectors in which loan clients are active, what the institution is doing to prevent their clients from becoming over-indebted and whether the MFI specifically focuses on the environment as a theme, for instance by offering loans for the purchase of solar panels.

For the MFIs in the portfolio of Triodos Microfinance Fund this leads to, amongst others, to the following information:

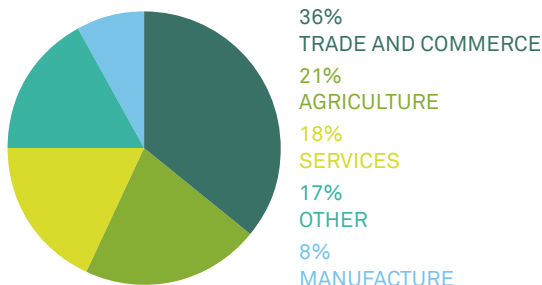
#### Product diversification

- 83% of the MFIs offer agricultural loans, 72% of the MFIs offer besides micro enterprise loans also SME loans and 66% of the MFIs offer housing loans;
- 44% of MFIs offer micro insurance products such as credit life insurance, life insurance, house insurance and 1 MFI offers livestock and agricultural insurance;
- 66% of the MFIs offer simple or more sophisticated savings products;
- 50% of the MFIs offer a range of other financial services such as money transfer, mobile phone banking and ATM cards.

#### Lending methodologies



## Sectors



## Environment

- 88% of all MFIs in the portfolio have made efforts to address environmental issues;
- 88% of the MFIs have excluded lending to environmental hazardous sectors by using an environmental exclusion list;
- 50% of the MFIs have implemented policies to reduce CO<sub>2</sub> emissions and/or energy and water usage caused by their own business activities;
- 22% of the MFIs in the portfolio offer 'green' credit products, such as loans for solar panels, energy efficient cooking stoves and small scale biomass digesters for dairy farmers.

## Overindebtedness

- All of the MFIs in the portfolio have implemented a loan approval process that evaluates borrower repayment capacity including overindebtedness. This means that the loan approval does not solely rely on guarantees (whether peer guarantees, cosigners or collateral) as a substitute for good capacity analysis;
- 77% of the MFIs have set productivity targets and incentive systems that reward growth only if the portfolio quality is high and do not create biases in favour of lending too much to one client;
- All MFIs in the portfolio adhere to the Client Protection Principles and have taken steps to include specific codes of conduct;
- 62% of the MFIs have signed the Client Protection Principles.

This sustainability score is a major element in the investment decisions Triodos Microfinance Fund makes. It also offers opportunities for continuing to work with the MFIs on their sustainable financial services to achieve a stable balance

between people, planet and profit.

The Triodos microfinance funds, including Triodos Microfinance Fund, received the CGAP MIV ESG award in October 2010 in recognition of the way in which they integrate environmental, social and governance (ESG) factors in their investment decisions. CGAP (Consultative Group to Assist the Poor) introduced this award to put the worldwide 'best in class' investors in the microfinance sector in the spotlight.

## Management fee

The main element in the cost structure of Triodos Microfinance Fund is the management fee paid to the investment manager, Triodos Investment Management. Triodos Investment Management uses this fee primarily to cover staff costs, including travel expenses incurred in connection with providing new finance facilities and managing existing finance facilities. This is generally quite an intensive process, especially the management of the fund's equity investments, requiring frequent trips to the countries where investments are made.

The total expense ratio (TER) for 2010 for institutional share classes range from 2.19% to 2.65% and for the other share classes from 2.25% to 3.28%. The TER published in the report is calculated on an annualised basis. Please refer to page 38 for detailed information.

**65%**  
percentage  
of female  
loan clients

## Risk

Triodos Microfinance Fund has a relatively high risk profile due to the nature of the investments made by the fund, which are described in detail in the fund's prospectus. The risks can be broken

down into several categories. Please refer to the prospectus for a detailed description of these categories. The main risk categories are:

### Liquidity risk

Liquidity risk is the risk that the fund will be unable to obtain the financial resources it needs to fulfil certain obligations. This risk is limited by investing at least 10% of its capital in liquid assets or arranging sufficient other guarantees.

### Country and political risk

Triodos Microfinance Fund invests in countries that sometimes entail substantial political risks, countries that might be in an economic recession, with perhaps high and rapidly fluctuating inflation, countries that often have a poorly developed legal system and countries where the standards for financial auditing and reporting may not always be in line with internationally accepted standards. In 2010 the microfinance sector faced an increasing risk of political interference, especially in India. This risk is mainly local but has had a broader impact because of negative media coverage. To limit the country risk, Triodos Microfinance Fund has set an upper limit of 30% of its assets for investments in one particular country. Please refer to the table on page 14 for an overview of the diversification across the different countries.

### Credit risk and market risk

Credit and market risk remained the key risk in 2010 and constitutes the biggest threat to the microfinance industry. In 2010 there was still economic stress in some countries but also increasing competitive pressures in the microfinance markets, poor credit management by MFIs and growing political interference in the credit process. The major contributor, however, was the fast growing issue of overindebtedness among microfinance clients.

### Currency risk

Triodos Microfinance Fund is exposed to possible losses as a result of the fluctuations in value of or income from, assets denominated in foreign currencies. The fund may invest up to 90% of its total assets in non-Euro denominated investments

with a maximum exposure of 60% in non-Euro hedged local currency investments. Triodos Microfinance Fund actively manages its currency exposure risk by hedging the net foreign currency exposure to the extent deemed appropriate and possible. As per December 2010, 23.2% of the assets of the fund were outstanding in local currencies and 11.8% of the net assets of the fund were exposed to open currency risk. The British Pound share classes are hedged against the Euro.

## Outlook

The prospects for 2011 are cautiously positive. MFIs' loan portfolios are expected to show slight growth but the variations between regions will remain substantial. The highest growth is expected in Asia, although the situation in India is still very uncertain. Triodos Microfinance Fund expects to be able to grow to at least EUR 95 million in 2011. The fund will further diversify its investments over a number of new countries in 2011, reducing its concentration in some markets. Interest rates are expected to remain under pressure in 2011 and the return on loans is likely to be slightly lower than in 2010. Competition remains fierce and exchange rates will probably remain volatile. The return is expected to be positive in 2011 and is estimated to be slightly higher than in 2010.

Luxembourg, March 15, 2011

The Board of Directors of Triodos SICAV II

Mr Jan Ariëns (chairman)

Mr Pierre Aeby

Mr Frans de Clerck (until April 28, 2010)

Ms Marilou van Golstein Brouwers  
(as from April 28, 2010)

Mr Patrick Goodman

Mr Olivier Marquet

# General information.

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## Structure

Triodos Microfinance Fund was launched in March 2009 as a sub-fund of Triodos SICAV II, the first Luxemburg investment company launched by Triodos Bank. The fund has an open end fund structure and is not quoted on any stock market. Triodos Microfinance Fund has Euro as well as British Pound Sterling share classes for retail, private banking and institutional investors.

Triodos Microfinance Fund is managed by Triodos Investment Management BV, which is a 100% subsidiary of Triodos Bank NV.

In September 2010 Triodos Microfinance Fund obtained the LuxFLAG Microfinance Label. The purpose of the Label is to promote the raising of capital in microfinance by reassuring investors that the MIV (Management Investment Vehicle) really invests in microfinance. The LuxFLAG Microfinance Label is intended for MIVs which have a commercial objective.

The Annual General Meeting of Shareholders takes place in the City of Luxembourg, at a place specified in the notice of meeting, each year on the last Wednesday of the month of April. If such day is not a business day then the meeting will be held on the next business day. Notice of any general meeting of Shareholders shall be mailed to each registered Shareholder at least eight days prior to the meeting and shall be published to the extent required by Luxembourg law in the Mémorial. Triodos SICAV II publishes an integrated detailed audited report annually in Luxembourg. Triodos SICAV II further publishes an integrated detailed semi-annual report in Luxembourg. Separate reports for each sub-fund of Triodos SICAV II are published by Triodos Investment Management. Copies may be obtained free of charge by any person at the registered office of Triodos SICAV II and from Triodos Bank: [www.triodos.com](http://www.triodos.com).

## Investment policy

Triodos Microfinance Fund invests, directly or indirectly, in microfinance institutions (MFIs) and other applicable financial institutions that have a track record and have gone through the first phase

of rapid growth and are financially sustainable. The fund is also allowed to invest in Greenfield MFIs. In most cases these institutions will be supervised by relevant local government authorities.

Triodos Microfinance Fund invests in equity, subordinated debt, convertible debt, senior debt, and debt instruments in qualifying investments. The assumed fund investment amount per investment project will typically be between EUR 1 million and EUR 10 million, but is bound by the single client exposure and other investment restrictions as presented in the prospectus. The fund will generally take minority equity positions in the Investees. Triodos Microfinance Fund will mainly invest in non-listed securities and investment instruments other than transferable securities. However, the fund may also, on an ancillary basis, invest in stock-listed companies. The equity investments of Triodos Microfinance Fund will primarily be in local currency, i.e. any currency other than US Dollars and Euro. For debt financing, the investments will be a mixture of local currency and investments in US Dollars and Euro. Investments in Euro and in US Dollars will be hedged to a large extent against reference currencies of the share classes (perfect hedges of the interest and principal flows may not be economical). Investments in local currencies may be hedged where possible and deemed appropriate. Cash and liquid assets will be mainly invested in Euro or US Dollars.

Triodos Microfinance Fund may enter into syndicated finance agreements with other funds, managed by Triodos Group or managed by other entities.

## Fiscal aspects

According to the law in force and current practice, Triodos Microfinance Fund is not subject to any Luxembourg tax on income and capital gains. Nor are dividends paid by Triodos Microfinance Fund subject to any Luxembourg withholding tax. Since January 1, 2010 Triodos Microfinance Fund is no longer subject to any subscription tax. In addition, the issue of shares in the SICAV is not subject to any registration duties or other taxes in Luxembourg. Some dividend and interest income

from Triodos Microfinance Fund's portfolio may be subject to withholding taxes at variable rates in the countries of origin.

As holders of shares in Triodos Microfinance Fund, shareholders do not have to pay any income and capital gains tax, any withholding tax, or any other form of tax in the Grand Duchy of Luxembourg (except with regard to (I) shareholders domiciled, resident or having a permanent establishment in Luxembourg, (II) some non-residents of Luxembourg who own 10% or more of the capital of the fund and who sell all or part of their shares within six months of their acquisition and (III) in some limited cases, some categories of former residents of Luxembourg if they own 10% or more of the capital of the SICAV). The above information is based on the law in force and current practice and is subject to change.

Investors should be aware that income or dividends received or profits realised may lead to an additional taxation in their country of origin, residence or domicile.

## Triodos sustainability reporting

Triodos Microfinance Fund is managed by Triodos Investment Management BV, which is a wholly-owned subsidiary of Triodos Bank NV.

All investment funds report separately on their financial performance in an annual report. The co-workers involved in the management of these funds are employed by Triodos Bank. The social and environmental impacts of their activities are reported in Triodos Bank's annual report.

The 2010 Annual Report of Triodos Bank is an integral sustainability report produced in line with the Global Reporting Initiative (GRI) sustainability reporting guidelines. These guidelines provide an internationally consistent format for information about a company's performance, particularly with regard to social and environmental issues. For reporting in 2010, Triodos Bank used the third generation of GRI guidelines published in October 2006 and the GRI Financial Services Sector Supplements published in 2008. More about the GRI and its reporting guidelines can be found at [www.globalreporting.org](http://www.globalreporting.org).

Further information on the social and environmental performance of Triodos Bank and its investment funds can be found in the Annual Report of Triodos Bank, which can be downloaded at [www.triodos.com](http://www.triodos.com).

## Climate-neutral operations

Triodos Bank takes responsibility for its CO<sub>2</sub> emissions. The bank's environmental policy includes a three-step approach – firstly, to reduce energy consumption as much as possible, secondly, what cannot be saved is sourced from renewable energy providers, and thirdly, residual emissions (from gas consumption, paper usage, business travel and commuting) are compensated for by buying CO<sub>2</sub> credits. The credits are a mix of sequestered CO<sub>2</sub> from tree plantations (50%) and renewable energy projects (50%). The use of volatile organic compounds and compounds that destroy the ozone layer are avoided.

The management of funds, including Triodos Microfinance Fund, that invest worldwide involves a lot of travelling, including intercontinental flights. This has a direct impact on the environment. The resulting CO<sub>2</sub> emissions were fully compensated for.

# Summary of annual accounts 2010 Triodos SICAV II Triodos Sicav II - Triodos Microfinance Fund.

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## Statement of net assets as at December 31, 2010.

(amounts in EUR)	Notes	31.12.2010	31.12.2009
<b>Assets</b>			
<b>Fixed assets</b>			
Investment in financial assets	2	50,818,591	21,892,499
<b>Current assets</b>			
Cash and cash equivalents		9,820,400	17,017,472
Formation expenses	3	110,833	145,833
Interest receivable	2	931,730	552,486
<b>Total assets</b>		<b><u>61,681,554</u></b>	<b><u>39,608,290</u></b>
<b>Liabilities</b>			
<b>Liabilities due within one year</b>			
Net unrealized loss on forward foreign exchange contracts	10	1,361,998	25,599
Investment management, distribution and service fees payable	6	278,018	178,500
Accounts payable and accrued expenses	9	63,775	73,420
<b>Total liabilities</b>		<b><u>1,703,791</u></b>	<b><u>277,519</u></b>
<b>Net assets</b>		<b><u><u>59,977,763</u></u></b>	<b><u><u>39,330,771</u></u></b>

The accompanying notes form an integral part of these financial statements.

## Statement of operations for the year ended December 31, 2010.

(amounts in EUR)	Notes	2010	2009*
<b>Income:</b>			
Interest on loans	2	2,719,030	707,265
Bank interest		215,568	326,983
Other income	7	127,876	192,015
<b>Total income</b>		<b><u>3,062,474</u></b>	<b><u>1,226,263</u></b>
<b>Expenses</b>			
Amortization of formation expenses	3	35,000	29,167
Investment management, distribution and service fees	6	926,487	476,451
Administrative and custodian fees	5	120,070	34,336
Audit and reporting expenses		28,480	30,087
Subscription tax	4	133	4,531
Other expenses	8	71,641	21,165
<b>Total expenses</b>		<b><u>1,181,811</u></b>	<b><u>595,737</u></b>
<b>Net Operating Income</b>		<b>1,880,663</b>	<b>630,526</b>
Realized gain/(loss) on forward foreign exchange contracts		597,672	(149,483)
Realized gain on foreign exchange		115,697	35,082
Net unrealized gain/(loss) on investments		1,239,297	(112,222)
Net unrealized loss on forward foreign exchange contracts		(1,336,399)	(25,599)
<b>Net increase in net assets resulting from operations</b>		<b><u>2,496,930</u></b>	<b><u>378,304</u></b>

The accompanying notes form an integral part of these financial statements.

\* Period from February 27, 2009 to December 31, 2009 – The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

# Statement changes in net assets for the year ended December 31, 2010.

(amounts in EUR)	2010	2009*
<b>Operations</b>		
Net operating income	1,880,663	630,526
Realized gain/(loss) on forward foreign exchange contracts	597,672	(149,483)
Realized gain on foreign exchange	115,697	35,082
Net unrealized gain/(loss) on investments	1,239,297	(112,222)
Net unrealized loss on forward foreign exchange contracts	(1,336,399)	(25,599)
<b>Net increase in net assets resulting from operations</b>	<b><u>2,496,930</u></b>	<b><u>378,304</u></b>
<b>Capital transactions</b>		
Capital subscriptions		
R Capitalisation Share Class (EUR)	509,252	280,272
R Distribution Share Class (EUR)	756,330	609,575
B Capitalisation Share Class (EUR)	60,160	250,360
B Distribution Share Class (EUR)	293,162	5,666,477
I Capitalisation Share Class (EUR)	10,873,090	9,016,987
I Distribution Share Class (EUR)	4,498,420	13,996,000
K-Retail Capitalisation (GBP)	140,366	–
K-Retail Distribution (GBP)	194,346	530,192
K-Institutional Capitalisation Share Class (GBP)	–	1,119,879
K-Institutional Distribution Share Class (GBP)	513,055	7,482,725
K-B Capitalisation (GBP)	969,493	–
K-B Distribution (GBP)	171,829	–
<b>Total subscriptions</b>	<b><u>18,979,503</u></b>	<b><u>38,952,467</u></b>
<b>Capital redemptions</b>		
B Distribution Share Class (EUR)	(210,757)	–
I Capitalisation Share Class (EUR)	(176,137)	–
<b>Total redemptions</b>	<b><u>(386,894)</u></b>	<b><u>–</u></b>
<b>Net increase in net assets resulting from capital transactions</b>	<b><u>18,592,609</u></b>	<b><u>38,952,467</u></b>
<b>Net assets</b>		
Net assets at the beginning of the year/period	39,330,771	–
Total increase in net assets	21,089,539	39,330,771
Dividend distribution	(442,547)	–
<b>Net assets at the end of the year/period</b>	<b><u>59,977,763</u></b>	<b><u>39,330,771</u></b>

The accompanying notes form an integral part of these financial statements.

\* Period from February 27, 2009 to December 31, 2009 – The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

## Cash flow statement for the year ended December 31, 2010.

(amounts in EUR)	2010	2009*
<b>A) Cash provided by operating activities</b>		
Profit after taxation	2,496,930	378,304
(+) decrease in unrealised gains and losses on investments and forward foreign exchange contracts	97,102	137,821
(-) decrease in receivables and other assets	(344,244)	(698,319)
(+) increase in payables	89,873	251,920
<b>Net cash provided by operating activities</b>	<b><u>2,339,661</u></b>	<b><u>69,726</u></b>
<b>B) Cash provided from Financing activities</b>		
(+) proceeds from shares issued	18,979,503	38,952,467
(-) decrease from shares redeemed	(386,894)	–
(-) distributions paid to shareholders	(442,547)	–
<b>Net cash provided by financing activities</b>	<b><u>18,150,062</u></b>	<b><u>38,952,467</u></b>
<b>C) Cash provided from Investing activities</b>		
(-) Acquisitions of financial assets	(27,686,795)	(22,004,721)
<b>Net cash used by investing activities</b>	<b><u>(27,686,795)</u></b>	<b><u>(22,004,721)</u></b>
<b>Cash:</b>		
Net (decrease)/increase in cash and cash equivalents	(7,197,072)	17,017,472
Cash at the beginning of the year/period	17,017,472	–
<b>Cash at the end of the year/period</b>	<b><u>9,820,400</u></b>	<b><u>17,017,472</u></b>

The accompanying notes form an integral part of these financial statements.

\* Period from February 27, 2009 to December 31, 2009 – The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

# Statement of changes in the number of shares outstanding for the year ended December 31, 2010.

(amounts in EUR)	2010	2009*
<b>Number of Shares outstanding at the beginning of the year/period</b>		
R Capitalisation Share Class (EUR)	11,211.991	–
R Distribution Share Class (EUR)	24,396.354	–
B Capitalisation Share Class (EUR)	10,000.000	–
B Distribution Share Class (EUR)	226,300.000	–
I Capitalisation Share Class (EUR)	358,900.139	–
I Distribution Share Class (EUR)	559,840.000	–
K-Retail Capitalisation Share Class (GBP)	–	–
K-Retail Distribution Share Class (GBP)	23,357.588	–
K-Institutional Capitalisation Share Class (GBP)	49,950.000	–
K-Institutional Distribution Share Class (GBP)	333,940.750	–
K-B Institutional Capitalisation Share Class (GBP)	–	–
K-B Institutional Distribution Share Class (GBP)	–	–
<b>Subscriptions over the year/period</b>		
R Capitalisation Share Class (EUR)	20,035.245	11,211.991
R Distribution Share Class (EUR)	29,835.935	24,396.354
B Capitalisation Share Class (EUR)	2,339.448	10,000.000
B Distribution Share Class (EUR)	11,580.335	226,300.000
I Capitalisation Share Class (EUR)	420,583.942	358,900.139
I Distribution Share Class (EUR)	177,665.283	559,840.000
K-Retail Capitalisation Share Class (GBP)	6,101.300	–
K-Retail Distribution Share Class (GBP)	8,223.050	23,357.588
K-Institutional Capitalisation Share Class (GBP)	–	49,950.000
K-Institutional Distribution Share Class (GBP)	21,268.906	333,940.750
K-B Institutional Capitalisation Share Class (GBP)	41,558.107	–
K-B Institutional Distribution Share Class (GBP)	7,367.756	–
<b>Redemptions over the year/period</b>		
B Distribution Share Class (EUR)	8,295.335	–
I Capitalisation Share Class (EUR)	6,802.480	–

The accompanying notes form an integral part of these financial statements.

\* The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

## Statement of changes in the number of shares outstanding for the year ended December 31, 2010.

(amounts in EUR)	2010	2009*
<b>Number of Shares outstanding at the end of the year/period</b>		
R Capitalisation Share Class (EUR)	31,247.236	11,211.991
R Distribution Share Class (EUR)	54,232.289	24,396.354
B Capitalisation Share Class (EUR)	12,339.448	10,000.000
B Distribution Share Class (EUR)	229,585.000	226,300.000
I Capitalisation Share Class (EUR)	772,681.601	358,900.139
I Distribution Share Class (EUR)	737,505.283	559,840.000
K-Retail Capitalisation Share Class (GBP)	6,101.300	–
K-Retail Distribution Share Class (GBP)	31,580.638	23,357.588
K-Institutional Capitalisation Share Class (GBP)	49,950.000	49,950.000
K-Institutional Distribution Share Class (GBP)	355,209.656	333,940.750
K-B Institutional Capitalisation Share Class (GBP)	41,558.107	–
K-B Institutional Distribution Share Class (GBP)	7,367.756	–

The accompanying notes form an integral part of these financial statements.

\* The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

# Report of the réviseur d'entreprises agréé.

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## **To the Shareholders of TRIODOS SICAV II 69, route d'Esch L-1470 Luxembourg**

We have audited the accompanying financial statements of TRIODOS SICAV II – Triodos Microfinance Fund, Sub-Fund of Triodos SICAV II (the “SICAV”), which comprise the statement of net assets as at December 31, 2010 and the statement of operations and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Board of Directors of the SICAV responsibility for the financial statements**

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

### **Responsibility of the réviseur d'entreprises agréé**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the SICAV, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of TRIODOS SICAV II- Triodos Microfinance Fund as of December 31, 2010, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

### **Other matter**

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

Luxembourg, March 14, 2011

KPMG Audit S.à r.l.  
Cabinet de révision agréé

Nathalie Dogniez  
Partner

# Notes to the financial statements of Triodos SICAV II Triodos Microfinance Fund.

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## 1. General

Triodos SICAV II (the “SICAV”) has been incorporated under the laws of the Grand Duchy of Luxembourg as a “société d’investissement à capital variable” (SICAV) under the form of a “société anonyme” on April 10, 2006 for an unlimited period. Triodos SICAV II is governed by the Part II of the Luxembourg Law of December 20, 2002.

The Registered Office of the SICAV is established at 69, route d’Esch, L-1470 Luxembourg.

The Articles have been deposited with the Chancery of the District Court of Luxembourg on April 27, 2006 and published in the Mémorial C, Recueil des Sociétés et Associations (the “Mémorial”). The SICAV has been registered with the Companies Register of the District Court of Luxembourg under number B 115.771. The Articles were last amended at the extraordinary general meeting of shareholders held on May 19, 2006 and published in the Mémorial.

The SICAV is structured as an umbrella fund, which provides both institutional and retail investors with a variety of sub-funds, each of which relates to a separate portfolio of assets permitted by law and managed within specific investment objectives.

As at December 31, 2010 the SICAV has two sub-funds, namely Triodos Renewables Europe Fund and Triodos Microfinance Fund.

The overall objective of Triodos Microfinance Fund (the ‘Sub-Fund’) is to offer investors a financially and socially sound investment in the microfinance sector mainly through investments in Microfinance Institutions (MFIs). The Sub-Fund has the prospect of an attractive financial return combined with the opportunity for investors to make a pro-active, measurable and sustainable contribution to the development of the microfinance sector into an inclusive financial sector in which the majority of people have access to financial services.

The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

The Sub-Fund may offer Shares of the following Classes:

Euro-denominated Class “P” Shares Capitalisation

Euro-denominated Class “R” Shares Capitalisation

Euro-denominated Class “R” Shares Distribution

Euro-denominated Class “B” Shares Capitalisation

Euro-denominated Class “B” Shares Distribution

Euro-denominated Class “I” Shares Capitalisation

Euro-denominated Class “I” Shares Distribution

British Pound-denominated Class “K-Retail” Shares Capitalisation (launched on November 1, 2010)

British Pound-denominated Class “K-Retail” Shares Distribution

British Pound-denominated Class “K-B” Shares Capitalisation (launched on April 1, 2010)

British Pound-denominated Class “K-B” Shares Distribution (launched on June 1, 2010)

British Pound-denominated Class “K-Institutional” Shares Capitalisation

British Pound-denominated Class “K-Institutional” Shares Distribution

- Class “R” Shares are open to retail investors.
- Class “B” Shares are open to clients of private banks and other investors, who are not able to subscribe to Class “I” Shares or to Class “R” Shares.
- Class “I” Shares is restricted to Institutional Investors.

- Class “P” Shares is open to entities of Triodos Group. Class “P” Shares gives the right, in accordance with the Articles, to propose to the general meeting of Shareholders a list containing the names of candidates for the position of director of the Company out of which a majority of the Directors must be appointed.
- Class “K-Retail” Shares is open to retail investors who are resident in the United Kingdom. This class of Shares will be hedged towards Euro.
- Class “K-B” Shares is open to investors, who are not able to subscribe to Class “K-Institutional” Shares or to Class “K-Retail” Shares and who are resident in the United Kingdom. This class of Shares will be hedged towards Euro.
- Class “K-Institutional” Shares is open to Institutional Investors, which are resident in the United Kingdom. This class will be hedged towards Euro.

For the Classes of Shares which are of the Capitalization type, there are no distributions of dividends. Income earned in these Classes of Shares is reinvested.

For the Classes of Shares which are of the Distribution type, there are distributions of dividends. At least 85% of the net realised income in these Classes of Shares is distributed.

Initially, Shares are issued in registered form. At a later stage, Shares may also be issued in bearer form.

Shares may be subscribed once a month, on the Business Day preceding the Valuation Date.

The financial year end of the Sub-Fund is end December each year.

TRIODOS SICAV II, including the Sub-Fund, is supervised by the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF).

## 2. Summary of significant accounting principles

Investments are valued at their fair value. The fair value is determined as follows:

- a. The valuation of private equity investments (such as equity, subordinated debt and other types of mezzanine finance) are based on the International Private Equity and Venture Capital Valuation Guidelines, as published from time to time by the European Venture Capital Association (EVCA), and is conducted with prudence and in good faith.

In the Sub-Fund, the subordinated debts are valued on the basis of the cost value less repayments and adjustments for any impairment.

Other assets are valued according to the following rules:

- b. Senior debt instruments, invested in / granted to companies not listed or dealt in on any stock exchange or any other Regulated Market, are valued at fair market value, deemed to be the nominal value, increased by any interest accrued thereon; such value are adjusted, if appropriate, to reflect the appraisal of the Advisor of the relevant sub-fund on the creditworthiness of the relevant debtor. The Board of Directors uses its best endeavors to continually assess this method of valuation and recommend changes, where necessary, to ensure that debt instruments are valued at their fair value as determined in good faith by the Board of Directors.

The senior debt instruments held by the Sub-Fund are valued on the basis of the cost value less repayments and adjustments for any impairment.

- c. The value of money market instruments not listed on any stock exchange or dealt in on any other Regulated Market and with a remaining maturity of less than 12 months is deemed to be the nominal value thereof, increased by any interest accrued thereon.
- d. The value of securities which are admitted to official listing on any stock exchange is based on the latest available price or, if appropriate, on the average price on the stock exchange which is normally the principal market of such securities, and each security dealt on any other Regulated Market is based on the last available price. In the event that this price is, in the opinion of the Board of Directors, not representative of the fair market value of such securities, for example in the case of illiquid securities and/or stale prices, the directors value the securities at fair market value according to their best judgment and information available to them at that time.
- e. Units or shares of open-end UCIs are valued at their last official net asset values, as reported or provided by such UCI or their agents, or at their last unofficial net asset values (i.e. estimates of net asset values) if more recent than their last official net asset values, provided that due diligence has been carried out by the relevant Advisor, in accordance with instructions and under the overall control and responsibility of the Board of Directors, as to the reliability of such unofficial net asset values.
- f. The liquidating value of futures, forward or options contracts not admitted to official listing on any stock exchange or dealt on any other Regulated Market means their net liquidating value determined, pursuant to the policies established prudently and in good faith by the Board of Directors, on a basis consistently applied for each different variety of contracts.
- g. The value of any cash at hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash dividends declared and interest accrued, and not yet received are deemed to be the full amount thereof, unless, however, the same is unlikely to be paid or received in full, in which case the value thereof is determined after making such discounts as the Board of Directors may consider appropriate to reflect the true value thereof.
- h. Swaps, as far as credit swaps are concerned, are valued at fair market values as determined prudently and in good faith by the Board of Directors.
- i. All other securities and assets are valued at fair market value as determined in good faith pursuant to procedures established by the Board of Directors.
- j. Placements in foreign currency are quoted in Euros with due observance of the currency exchange rates most recently known.
- k. Realised and non-realised changes in the value of investments are incorporated in the profit and loss account.
- l. The principle for determination of profit is based on the attribution of income and expenses to the relevant period. The income from payments of profit on equity participations is accounted for in the year in which they are made payable. Prepaid costs and costs still to be paid are taken into account in determining the expenses.
- m. Other assets and liabilities are recorded at nominal value after deduction of any provision in respect of anticipated non-recovery.
- n. The costs of investments expressed in currencies other than Euros are translated into Euros at the exchange rate prevailing at purchase date.
- o. Interest income is accrued pursuant to the terms of the underlying investment. Income is recorded net of respective withholding taxes, if any.
- p. Gain and losses arising from unmatured forward foreign exchange contracts are determined on the

basis of the applicable forward exchange rates at the valuation date and are booked in the profit and loss accounts.

- q. Dividend income is recognized on cash basis, net of any withholding taxes.
- r. Equity investments of Triodos SICAV II are excluded from consolidation due to exemptions by temporary holding, size and time window.

### 3. Formation expenses

The total formation expenses of the Sub-Fund will be amortised over a period of five years and amount to EUR 175,000.

### 4. Taxation

According to the law in force and current practice, the SICAV is not subject to any Luxembourg tax on income and capital gains nor are dividends paid by the SICAV subject to any Luxembourg withholding tax. However, each of the SICAV's Sub-Funds is subject to a subscription tax (taxe d'abonnement) at an annual rate of 0.05% p.a. Such rate may be decreased to 0.01% p.a. for certain Sub-Funds or Classes of Shares which are restricted to Institutional Investors as specified in the relevant Sub-Fund Particulars. This tax is calculated and payable quarterly on the basis of the Net Asset Value of each Sub-Fund at the end of each quarter. This tax is not due on that portion of the SICAV's assets invested in other Luxembourg UCIs and since January 1, 2010 microfinance funds are no longer subject to any subscription tax. Thus the Sub-fund TRIODOS SICAV II – Triodos Microfinance Fund is no longer subject to any subscription tax.

In addition, the issue of Shares in the SICAV is not subject to any registration duties or other taxes in Luxembourg.

### 5. Administrative and custodian fees

The Custodian and Administrator, Paying Agent, Domiciliary Agent, and the Registrar and Transfer Agent are entitled to receive fees in accordance with usual practice in Luxembourg and payable monthly.

The administrative and custodian fee comprises the following:

Currency (EUR)	2010	2009*
Domiciliary agency fee	8,806	4,590
Administrative fee	19,981	16,611
Transfer agency fee	30,338	6,436
Transfer agency fee relating to 2009	12,115	–
Custodian fee	48,830	6,699
<b>Total</b>	<b><u>120,070</u></b>	<b><u>34,336</u></b>

\* The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

## 6. Investment management, distribution and service fees

For the services it provides, the Investment Manager is entitled to an annual fee payable quarterly and calculated as described in the Sub-Fund's Particulars.

The Sub-Fund pays for the investment management services and the services rendered under the agreement relating to the provision of supporting services an annual fee of 1.75% for Class "P" Shares, Class "I" Shares and Class "K-Institutional" Shares and an annual fee of 2.50% for Class "R" Shares, Class "B" Shares, Class "K-Retail" Shares and Class "K-B" Shares, calculated on the relevant Class total assets, based on monthly accrual and payable quarterly. The costs related to marketing and distribution activities related to retail investors will only be borne by Class "R" Shares, Class "B" Shares, Class "K-Retail" Shares and "K-B" Shares and will be charged to the management fee.

## 7. Other income

The other income comprises the following:

Currency (EUR)	2010	2009*
Administrative fee income on loans granted by the Fund	127,876	192,015
<b>Total</b>	<b><u>127,876</u></b>	<b><u>192,015</u></b>

\* The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

## 8. Other expenses

The other expenses comprises the following:

Currency (EUR)	2010	2009*
Supervisory fee (CSSF)	2,500	2,500
Remuneration of the Board of Directors	7,500	7,500
Legal fees	34,594	9,876
Transaction expenses	25,960	–
Other expenses	1,088	1,289
<b>Total</b>	<b><u>71,641</u></b>	<b><u>21,165</u></b>

\* The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

## 9. Accounts payable and accrued expenses

Accounts payable and accrued expenses as at December 31, 2010 comprise the following:

Currency (EUR)	31.12.2010	31.12.2009*
Custodian fee	3,640	4,480
Domiciliary agency fee	5,491	3,336
Administrative fee	5,739	16,611
Supervisory fee	2,500	2,500
Transfer agency fee	4,000	6,229
Subscription Ttax	–	3,120
Additional reporting charges	12,675	6,254
Audit fees	10,703	14,633
Directorfees	8,805	7,500
Legal fees	10,222	8,757
<b>Total</b>	<b><u>63,775</u></b>	<b><u>73,420</u></b>

\* The first subscription period ended on February 27, 2009 and the first NAV was calculated on March 31, 2009.

## 10. Forward foreign exchange contracts

As at December 31, 2010 outstanding forward foreign exchange contracts are composed of:

Maturity date	Purchase		Sale		Unrealized gain/-loss in EUR
03/01/2011	USD	1,201,230	PEN	-3,750,000	-100,596
05/01/2011	EUR	849,646	USD	-1,201,230	-47,782
11/01/2011 *	GBP	999,000	EUR	-1,192,380	-27,545
11/01/2011 *	GBP	7,117,031	EUR	-8,494,702	-196,236
11/01/2011 *	GBP	635,659	EUR	-758,706	-17,527
11/01/2011 *	GBP	122,026	EUR	-145,647	-3,365
11/01/2011 *	GBP	824,671	EUR	-984,306	-22,738
11/01/2011 *	GBP	146,000	EUR	-174,262	-4,026
06/10/2011	EUR	3,377,237	USD	-5,000,000	-361,805
07/02/2012	EUR	938,720	USD	-1,250,000	3,160
07/02/2012	EUR	355,366	USD	-500,000	-18,777
05/04/2012	EUR	186,484	USD	-250,000	-668
05/04/2012	EUR	2,062,463	USD	-2,800,000	-33,521
05/04/2012	EUR	521,087	USD	-750,000	-40,203
07/06/2012	EUR	938,227	USD	-1,250,000	2,868
07/06/2012	EUR	354,233	USD	-500,000	-19,830
05/07/2012	EUR	1,090,413	KES	-120,000,000	13,083
04/09/2012	USD	3,331,557	PEN	-10,000,000	-112,140
05/09/2012	EUR	2,465,993	USD	-3,331,556	-45,445
05/10/2012	EUR	1,249,470	USD	-1,851,340	-135,315

05/10/2012	EUR	1,669,003	USD	-2,500,000	-200,905
05/10/2012	USD	239,420	EUR	-160,094	18,989
05/10/2012	EUR	119,297	USD	-162,638	-2,391
05/10/2012	EUR	472,786	USD	-607,719	17,978
05/10/2012	EUR	170,103	USD	-217,052	7,660
05/10/2012	EUR	540,229	USD	-750,000	-20,894
03/12/2012	USD	1,248,481	PEN	-3,750,000	-38,948
03/12/2012	USD	1,664,641	PEN	-5,000,000	-51,931
05/12/2012	EUR	959,779	USD	-1,248,481	25,345
05/12/2012	EUR	1,279,706	USD	-1,664,641	33,794
07/01/2013	EUR	612,578	USD	-900,000	-60,772
07/01/2013	EUR	1,461,988	USD	-2,100,000	-109,296
07/01/2013	EUR	265,289	USD	-344,000	7,793
08/01/2013	EUR	7,567,304	USD	-9,409,186	522,810
06/06/2013	EUR	1,153,225	USD	-1,500,000	31,417
05/07/2013	EUR	281,044	USD	-392,000	-12,029
05/07/2013	EUR	94,539	USD	-125,000	1,070
05/07/2013	EUR	201,785	USD	-266,800	2,284
05/07/2013	EUR	346,353	USD	-454,900	6,418
05/09/2013	EUR	227,438	USD	-291,667	9,393
04/10/2013	EUR	648,677	USD	-875,000	-5,256
07/11/2013	EUR	543,203	USD	-750,000	-16,924
07/11/2013	EUR	361,219	USD	-500,000	-12,196
07/11/2013	EUR	380,749	USD	-500,000	7,295
08/01/2014	EUR	420,121	USD	-562,500	-102
06/02/2014	EUR	419,901	USD	-562,500	90
06/02/2014	EUR	94,190	USD	-125,000	898
07/07/2014	EUR	2,413,793	USD	-3,500,000	-193,582
06/01/2015	EUR	1,697,101	USD	-2,500,000	-161,598
<b>Total</b>					<b><u>-1,361,998</u></b>

\* These contracts are only applicable to GBP Share Classes which are hedged against the Euro (Share class hedge). All other forward exchange contracts relate to investment hedging.

## 11. Dividend distributions

During the period ended December 31, 2010 the following dividend distribution were paid by the Sub-Fund TRIODOS SICAV II - Triodos Microfinance Fund:

Class: "R" Shares Distribution

Ex-date: May 31, 2010

Payment date: June 9, 2010

Dividend per share: 0.266958 EUR

Class: "B" Shares Distribution (EUR)

Ex-date: May 31, 2010

Payment date: June 9, 2010

Dividend per share: 0.308300 EUR

Class: "I" Shares Distribution (EUR)

Ex-date: May 31, 2010

Payment date: June 9, 2010

Dividend per share: 0.544839 EUR

Class: "K-Retail" Shares Distribution (GBP)

Ex-date: May 31, 2010

Payment date: June 9, 2010

Dividend per share: 0.156674 EUR (0.132315 GBP)

Class: "K-Institutional" Shares Distribution (GBP)

Ex-date: May 31, 2010

Payment date: June 9, 2010

Dividend per share: 0.152726 EUR (0.128981 GBP)

## 12. Off-balance sheet liabilities

The Sub-Fund has committed to invest into the following MFI's and investment fund as of 31 December 2010:

- Banco Women's World Banking: USD 2,218,000.00
- Prasac: USD 1,250,000.00
- Centenary Bank: UGX 1,217,010,000.00
- Commercial Leasing Company: EUR 3,000,000.00
- India Financial Inclusion Fund: USD 2,489,087.70

## 13. Total expense ratio (TER)

Year ended December 31, 2010  
(%)

R Capitalisation Share Class (EUR)	3.00
R Distribution Share Class (EUR)	2.95
B Capitalisation Share Class (EUR)	2.92
B Distribution Share Class (EUR)	2.88
I Capitalisation Share Class (EUR)	2.35
I Distribution Share Class (EUR)	2.25
K-Retail Capitalisation Share Class (GBP)***	3.28
K-Retail Distribution Class (GBP)	2.95
K-Institutional Capitalisation Share Class (GBP)	2.19
K-Institutional Distribution Share Class (GBP)	2.20
K-B Institutional Capitalisation Share Class (GBP)*	2.41
K-B Institutional Distribution Share Class (GBP)**	2.65

\* This class has been launched on April 1, 2010.

\*\* This class has been launched on June 1, 2010.

\*\*\* This class has been launched on November 1, 2010

The average net asset value of the collective investment scheme shall be the total sum of the net asset values divided by the number of observations. In this context, the total sum of the net asset values shall

be based on the figures as at 31 December of the previous financial year, and 31 March, 30 June, 30 September and 31 December of the financial year in question, or comparable dates in the case of a non-calendar financial year. The number of observations shall always be five, unless a shortened or extended financial year is involved. The observations shall be regarded as a weighted average, whereby the aforementioned dates shall be weighted in the ratio 0.5:1:1:1:0.5 (in the case of five observations). The total expenses shall include all the costs that are charged to the result and to the equity during the reporting period. The costs of securities transactions and the interest charges shall be disregarded. The TER corresponds to the total expenses divided by the average net asset value. The TER is calculated from the first day of the period, or the moment of launch of the respective share class until the end of this period. The TER of new launch classes has been annualized (365 Days basis).

## 14. Exchange rate

The exchange rates used as at December 31, 2010 are:

1 EUR =	94.548594	BDT
1 EUR =	49.838398	DOP
1 EUR =	0.856864	GBP
1 EUR =	12,087.124966	IDR
1 EUR =	59.987033	INR
1 EUR =	108.259361	KES
1 EUR =	3.765057	PEN
1 EUR =	6,239.767442	PYG
1 EUR =	3,098.267898	UGX
1 EUR =	1.341550	USD

## 15. Other information

As of December 31, 2010 or at any moment during the reporting year the members of the Board of Directors of the SICAV did not hold any shares in Triodos SICAV II, nor have they had any personal interest in any investment of Triodos SICAV II.

# Project descriptions

## Triodos Microfinance Fund.

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### Equity investments

#### **ACLEDA Bank Plc., Cambodia**

**[www.acledabank.com.kh](http://www.acledabank.com.kh)**

ACLEDA Bank offers an extensive range of financial products and services to small independent traders and small and medium-sized enterprises. Following a difficult year in 2009 due to the global financial crisis, ACLEDA Bank's activities have again demonstrated strong growth. At year-end 2010, the bank had 265,937 clients to whom it had extended loans and 703,151 clients with savings accounts. Small and medium-sized enterprises form the fastest growing segment within the bank's portfolio. These enterprises are the key drivers in the creation of new jobs in Cambodia. In 2010, ACLEDA Bank launched a new product, banking by mobile phone, which will further increase access to financial services for business people and private individuals. ACLEDA Bank regularly conducts a survey among its customers to assess the impact of its credit services. The survey also shows the percentage of the bank's customers that has seen an increase in their standard of living as a result of the bank's extension of credit. A senior officer from Triodos Bank represents Triodos Microfinance Fund, Triodos Fair Share Fund and Triodos-Doen on the Board of Directors.

#### **Bhartiya Samruddhi Finance Ltd., India**

**[www.basixindia.com](http://www.basixindia.com)**

By extending its capital in March 2010, Bhartiya Samruddhi Finance Ltd (BSFL) was able to prolong its fast growth of recent years. BSFL has now extended credit to 1.7 million clients. Over 800,000 clients receive technical support for their agricultural activities and over three million clients have some form of insurance through BSFL. More than 70% of its clients are women in the lower income groups. With over 30% of its loans focusing on agriculture and stock breeding, BSFL makes an important contribution to development, particularly in rural areas of India. BSFL is active in all 28 Indian states. BSFL was not alone in undergoing fast growth. Several institutions in India have generated enormous growth in the last few years. This sometimes uncontrolled growth in

a young sector without effective regulation or a basic infrastructure, such as a credit bureau, has in certain cases resulted in overindebtedness and the use of inadmissible collection practices. In Andhra Pradesh, an important state for microfinance, this led to the adoption of legislation that severely limits MFIs in the conduct of their normal activities. MFIs may, for instance, no longer collect debts on a weekly basis and they are forbidden from making contact with clients outside public areas. The MFIs active in Andhra Pradesh have been severely affected by these measures. BSFL, too, encountered problems in collecting debts on outstanding loans in Andhra Pradesh in the last few months of the year. The law has moreover generated uncertainty in the sector, which in turn is making investors and providers of loans adopt a wait and see attitude. This will undoubtedly put pressure on the further development of BSFL in 2011 too, and in the microfinance sector in general. A senior officer represents Triodos Microfinance Fund, Hivos-Triodos Fund and Triodos Fair Share Fund on the Board of Directors.

#### **India Financial Inclusion Fund, India**

**[www.caspian.in/ifif](http://www.caspian.in/ifif)**

India Financial Inclusion Fund (IFIF) was set up in 2008 to invest in new and established MFIs and other organisations that provide financial services to micro-entrepreneurs in India. At year-end 2010, the fund had made ten investments in nine MFIs, two of which focus on finance for affordable housing for the poor, and a company that provides payment services for the poor. A new law for MFIs came into effect in the state of Andhra Pradesh in which severely curbs their regular operations. IFIF has invested in two MFIs with a presence in Andhra Pradesh; both are directly affected by this law. IFIF will closely monitor the developments in this state and will continue its work to support the MFIs it has invested in to develop and offer responsible and transparent microfinance services. A senior officer of Triodos Bank represents Triodos Microfinance Fund on the Investor Board. This Board supervises strategic developments within the Indian microfinance sector in general and within IFIF in particular.

## New loan partners

### **Banco ADEMI, Dominican Republic**

**[www.bancoademi.com.do](http://www.bancoademi.com.do)**

Since its foundation in the 1980s, Banco ADEMI has developed from a non-governmental organisation to a bank offering a broad range of financial services. The bank is currently the market leader in the Dominican microfinance sector and has a national network of 44 branches. By developing new loan products for rural areas, Banco ADEMI wants to offer low income groups and farmers access to affordable financial services too. The bank currently has more than 100,000 clients to whom it extends loans.

### **PT. Bank Sahabat Purba Danarta, Indonesia**

Bank Sahabat Purba Danarta (Bank Sahabat) is a fast-growing microfinance bank with its head office in Semarang, Central Java. Bank Sahabat wants to promote further growth in the market for micro-entrepreneurs and thus contribute to the socioeconomic development of the country. At year-end 2010, the bank had over 150,000 clients, 73% of whom were women. Apart from group and individual loans and savings products, the bank also offers courses in health and financial education. The loan from Triodos Microfinance Fund will enable Bank Sahabat to expand its activities further.

### **BRAC Bank Ltd, Bangladesh**

**[www.bracbank.com](http://www.bracbank.com)**

BRAC Bank Ltd in Bangladesh has been operating since 2001, focusing its services on small and medium-sized enterprises. Access to credit provision is often difficult or limited for this sector. BRAC NGO, which mainly serves micro-entrepreneurs, is a majority shareholder in BRAC Bank. To increase its capital, BRAC Bank has decided to issue a convertible subordinated bond in local currency. Triodos Microfinance Fund, together with Triodos Fair Share Fund, the Dutch development bank FMO and the Norwegian Norfund, is one of the first foreign investors in the bond. Their investment will stimulate the development of small and medium-sized enterprises in Bangladesh. BRAC Bank has calculated that, since its foundation, it has

created some one million jobs by providing credit to small and medium-sized enterprises.

### **VF Credo LLC, Georgia**

**[www.credo.ge](http://www.credo.ge)**

VF Credo LLC (Credo) was set up in 1997 by World Vision as Georgia's Entrepreneurs Fund with the mission of offering financial services to micro businesses and independent entrepreneurs who had no access to the regular banking system. As such, Credo focuses on small-scale farmers and refugees from such areas as Abkhazia and South Ossetia. And successfully, as its network of 16 branches enables Credo to reach a large proportion of its target group quickly. Since 2010, Credo has been offering credit life insurance with its loans to prevent families from having to bear the costs should the creditor die. In future, the institution will also look at insurance to cover crop failures. Credo has grown to become the largest non-banking microfinance institution in Georgia, with over 43,172 clients.

### **D-MIRO, Ecuador**

**[www.d-miro.org](http://www.d-miro.org)**

The Norwegian non-governmental organisation, Mission Alliance, began lending operations in the city of Guayaquil in the south of Ecuador in 1997. Ten years later, microfinance institution D-MIRO was established to further expand the credit programme. The institution currently offers credit products through a network of 13 branches in a number of southern provinces. D-MIRO focuses on the poorest groups in the population. The bank licence the institution was granted in 2010 will enable D-MIRO to additionally offer its clients savings products in 2011.

### **Kenya Women Finance Trust DTM, Kenya**

**<http://kwftdtm.com>**

Kenya Women Finance Trust (KWFT), a member of the Women's World Banking network, was founded in 1982 on the initiative of a group of motivated Kenyan women. Their vision and ambition: to set up a financial institution exclusively for women from low income groups. Thirty years later, KWFT has grown to become one of the largest microfinance institutions in the country. In 2010, KWFT completed the transformation process to

become a Deposit-Taking Microfinance Institution (DTM). This means that the institution has received a licence from the central bank enabling it to offer savings products. By year-end 2010, 426,066 women were making use of this facility. Triodos Microfinance Fund has provided KWFT DTM a loan in local currency to enable the institution to grow further.

#### **Fundación Mundo Mujer Popayán, Colombia**

**[www.fmm.org.co](http://www.fmm.org.co)**

Fundación Mundo Mujer Popayán (FMM Popayán) was founded in 1985 to distribute microcredit in the south-western provinces of Colombia. With an 8% market share and 352,592 clients with loans in 2010, this non-governmental organisation has grown to become one of the major players in the Colombian microfinance market. The security situation in Colombia is slowly improving. FMM Popayán has therefore launched a new strategy to expand its extension of credit in rural areas. A start was made in 2009 on setting up a network of branches in rural areas and on developing a methodology for offering agricultural loans. In the coming years, FMM Popayán wants to transform itself into a bank so that the institution can offer savings and other financial products as well as loans.

#### **PRASAC Microfinance Institution, Cambodia**

**[www.prasac.com/kh](http://www.prasac.com/kh)**

PRASAC Microfinance Institution (PRASAC) primarily aims its services at rural areas in Cambodia. With 18 branches and 91 sub branches in 24 provinces in the country, PRASAC has been able to grant loans to more than 100,000 clients. The institution has begun the procedure to obtain a licence that will enable it to offer savings products as well. PRASAC is expected to be granted this licence in 2011. PRASAC's keen focus is on the development of innovative products. For example, it finances biogas installations for small farmers, giving them access to renewable energy. With the loan it receives from Triodos Microfinance Fund, PRASAC can offer a growing number of people access to a whole range of financial services.

#### **Visión Banco, Paraguay**

#### **[www.visionbanco.com](http://www.visionbanco.com)**

Visión Banco is the first specialist microfinance bank in Paraguay. The bank offers a broad range of products and services, including loans for small businesses, savings products and current accounts. By year-end 2010, Visión Banco had more than 84,996 clients. The bank has an extensive national network of branches, which it intends to expand further in the next few years, including to more remote areas. Triodos Microfinance Fund has granted Visión Banco a loan to assist its loan portfolio to grow further.

#### Existing loan partners

AccessBank, Azerbaijan  
Centenary Bank, Uganda  
Financiera Crear, Peru  
Financiera Edyficar, Peru  
FFP FIE, Bolivia  
FMM Popayán, Colombia  
LOLC Micro Credit, Sri Lanka  
Mibanco, Peru  
Prizma, Bosnia Herzegovina  
Sathapana Limited, Cambodia  
XacBank, Mongolia

# Appendix A

## Principles for Investors in Inclusive Finance.

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### Introduction

Inclusive finance, which includes but is not limited to microfinance, focuses on expanding access of poor and vulnerable populations, micro- and small-enterprises, and those otherwise excluded to affordable and responsible financial products and services. This encompasses a wide range of financial services including savings, credit, insurance, remittances, and payments. These services should be provided by a variety of sound and sustainable institutions. Inclusive finance carries with it the responsibility for all actors in the value chain - investors, retail financial service providers and other relevant stakeholders - to understand, acknowledge and act in accordance with the interests of the ultimate client. Clients are typically low-income and constrained by asymmetries in financial knowledge, power and influence. Access to finance must be provided in such a way that the interests of the clients are protected. The Principles for Investors in Inclusive Finance, aligned with the United Nations-backed Principles for Responsible Investment (PRI) which will pursue as an active work stream, are signed by direct investors or fund managers and indirect investors investing via designated funds. By signing, direct investors or fund managers as well as indirect investors signal their intent to uphold the principles in their own investments, and to support the actions taken by other actors in the value chain to implement the principles, and to support the actions taken by other actors in the value chain to implement the principles, including retail financial service providers, rating and benchmarking agencies, donors, and government regulators and policymakers.

It is acknowledged though that while indirect investors operate at a distance, direct investors can more directly influence adherence to the Principles. The example of possible actions under each Principle are therefore especially meant for direct investors or fund managers who, in the value chain of inclusive finance, have the relationship with the financial institutions providing finance to the ultimate clients.

As investors or fund managers investing in inclusive finance, we have a duty to act in the long-term interests of our beneficiaries – private and institutional investors. While upholding our fiduciary responsibility, we will commit to adhering to and promoting the following principles:

- 1. Range of Services. We will actively support retail providers to innovate and expand the range of financial services available to low income people in order to help them reduce their vulnerability, build assets, manage cash-flow, and increase incomes.**

Possible actions:

- Encourage development and extension of range of financial services available to low income populations. Extensions could include savings, loans, insurance, payment services, remittance facilities and pension plans;
- Encourage providers to develop innovative products tailored to the needs of low income clients;
- Encourage retail providers to expand their service offerings to more remote areas and more vulnerable populations.

- 2. Client Protection. We believe that client protection is crucial for low income clients. Therefore we will integrate client protection in our policies and practices.**

Possible actions:

- Publicly endorse the Client Protection Principles;
- Incorporate the Client Protection Principles into investment policies, due diligence processes and financing or shareholder agreement where possible;
- Invest in retail providers that have endorsed the Client Protection Principles;
- Encourage retail providers to make the Client Protection Principles part of their operations;
- Check progress on implementation of the Client Protection Principles through mandatory reporting and regular monitoring and evaluation;

- Report on progress made in advancing the Client Protection Principles to investors and other stakeholders.

**3. Fair treatment. We will treat our investees fairly with appropriate financing that meets demand, clear and balanced contracts, and fair processes for resolving disputes.**

Possible actions:

- Provide financing in an appropriate currency;
- Provide financing with an adequate tenor;
- Negotiate terms and conditions that are fair and reasonable, including fair break-up clauses;
- Actively support the building of a diversified funding base;
- Pay special attention to the interests of the ultimate clients in dealing with defaults or forced exit or restructuring situations.

**4. Responsible Investment. We will include environmental, social and corporate governance issues (ESG) issues in our investment policies and reporting.**

Possible actions:

- Sign the UN-backed Principles for Responsible Investment (PRI) and commit to their adoption and implementation;
- Adhere to CGAP MIV Disclosure Guidelines and report annually;
- Use the standards and tools set forth by the Social Performance Task Force to measure and report on social performance;
- Assist in developing appropriate references for environmental and corporate governance issues;
- Promote implementation of anti-corruption practices.

**5. Transparency. We will actively promote transparency in all aspects.**

Possible actions:

- Ensure that the pricing, terms and conditions of financial products and services offered by providers are adequately disclosed in a form understandable to clients;
- Fully disclose our own policies, criteria and related conditions of our products and services to our investees and other relevant stakeholders;
- Fully disclose about investment objectives, both financial and social, to our investors;
- Endorse MFTransparency, a global initiative for fair and transparent pricing in the microfinance industry.

**6. Balance Returns. We strive for a balanced long-term social and financial risk-adjusted return that recognizes the interests of clients, retail providers, and our investors.**

Possible actions:

- Exercise voting rights when available;
- When investing in equity, develop an engagement capability with investees on issues to achieve a reasonable and fair alignment between the social impact and the financial return requirements of shareholders; i.e. focussing on the long-term rather than short-term returns.

**7. Standards. We will collaborate to set harmonised investor standards that support the further development of inclusive finance.**

Possible actions:

- Participate in networks to share tools, information, and resources;
- Develop and support appropriate collaborative initiatives;
- Contribute to the advancement of benchmarking to include standards and incentives for improvement;
- Contribute and encourage the use of the Impact Reporting and Investment Standards (IRIS) as the language for measuring and reporting social and environmental performance;
- Collectively address relevant emerging issues, particularly on regulation and policy.

For more information: [www.unpri.org/piif](http://www.unpri.org/piif)

# Management and administration.

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## Board of Directors

### Mr Jan Ariëns

Chairman

Former member of the management board De Nationale Investeringsbank NV, current member of various supervisory boards

### Mr Pierre Aeby

Chief Financial Officer and member of the Executive Board of Triodos Bank NV

### Mr Frans de Clerck (until April 28, 2010)

Retired, non-executive director of companies and foundations, former senior advisor to the Executive Board of Triodos Bank

### Ms Marilou van Golstein Brouwers (as of April 28, 2010)

Managing Director of Triodos Investment Management BV

### Mr Patrick Goodman

Independent, partner of Inn pact S.à.r.l.

### Mr Olivier Marquet

Managing Director of Triodos Bank NV (Belgian branch)

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## Colophon

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