



# DANISH MICROFINANCE PARTNERS K/S

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Annual report 2014

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# STATEMENTS

## STATEMENT BY MANAGEMENT

The Executive Board has today discussed and approved the annual report for Danish Microfinance Partners K/S for the financial year 1 January – 31 December 2014.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the limited partnership's assets, liabilities and financial position at 31 December 2014 and of the results of the limited partnership's operations and cash flows for the financial year 1 January – 31 December 2014.

We believe that the Management commentary includes a fair review of the development in the limited partnership's activities and financial position, the result for the year and the limited partnership's financial position as a whole.


We recommend the annual report 2014 for adoption at the annual general meeting.

Copenhagen, 9 January 2015

General partner:

Danish Microfinance Partners General Partner ApS

Executive Board:

  
Steffen Stæhr

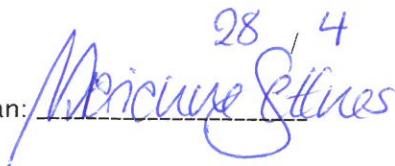
  
Kasper Svarrer

The annual report is presented and adopted at the annual general meeting.

on

28 / 4  
2015

Chairman:



# STATEMENTS

## Independent auditors' report

To the limited partners in Danish Microfinance Partners K/S

### Independent auditors' report on the financial statements

We have audited the financial statements of Danish Microfinance Partners K/S for the financial year 1 January - 31 December 2014. The financial statements comprise accounting policies, income statement, balance sheet, cash flow statement and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

#### *Management's responsibility for the financial statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 auditors' judgement, 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 auditors consider internal control relevant to the limited partnership's preparation of financial statements that give a true and fair view 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 limited partnership's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, 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 opinion.

Our audit has not resulted in any qualification.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the limited partnership's financial position at 31 December 2014 and of the results of its operations and cash flows for the financial year 1 January - 31 December 2014 in accordance with the Danish Financial Statements Act.


#### **Statement on the Management's commentary**

Pursuant to the Danish Financial Statements Act, we have read the Management's commentary. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's commentary is consistent with the financial statements.

Copenhagen, 9 January 2015

ERNST & YOUNG

Godkendt Revisionspartnerselskab

  
Per Günslev  
State Authorised  
Public Accountant

  
Ole Karstensen  
State Authorised  
Public Accountant

# MANAGEMENT COMMENTARY

## Fund information

The limited partnership	Danish Microfinance Partners K/S Gammeltorv 18 DK-1457 Copenhagen K Denmark
Contact information	E-mail: <a href="mailto:kontakt@majinvest.com">kontakt@majinvest.com</a> Website: <a href="http://www.majinvest.com">www.majinvest.com</a>
CVR no.	33 25 39 23
Financial year	1 January – 31 December
Registered office	Copenhagen
General partner	Danish Microfinance Partners General Partner ApS
Executive Board in Danish Microfinance Partners General Partner ApS	Steffen Stæhr Kasper Svarrer
Manager	Maj Invest Equity A/S
Depository	Private Equity Administrators Depository Services ApS
Auditors	ERNST & YOUNG Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 DK-2000 Frederiksberg Denmark

## MANAGEMENT COMMENTARY

### KEY FIGURES AND RATIOS

'000 DKK	2014	2013	2012	2010/11 (14 months)
<b>Key figures</b>				
<b>Profit/loss</b>				
Value adjustment of investments in portfolio companies	104,726	7,849	(7,313)	(1,271)
Operating profit/loss	96,266	(746)	(16,004)	(16,434)
Profit/loss for the year	93,012	(3,254)	(16,846)	(17,158)
<b>Balance sheet</b>				
Investments in portfolio companies	326,938	164,288	58,755	23,688
Total assets	330,465	167,277	61,821	26,343
Equity	328,682	140,381	24,732	25,936
<b>Financial resources</b>				
Cash	120	729	1,038	179
Remaining commitment	125,250	222,905	342,565	358,207
Total financial resources	125,370	223,634	343,603	358,386
<b>Cash flow</b>				
Cash flows from operating activities	(8,359)	(10,113)	(8,757)	(18,206)
Cash flows from investing activities	(61,335)	(99,000)	(42,380)	(24,959)
Cash flows from financing activities	69,085	108,803	51,996	43,344
Net change in cash	(609)	(309)	859	179
<b>Ratios</b>				
Equity ratio	99%	84%	40%	98%
Paid-in capital to committed capital (%)	69%	44%	15%	11%

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### **Fondsmæglerselskabet Maj Invest A/S**

Fondsmæglerselskabet Maj Invest A/S (MI) was established in 2005. MI has two core business activities: asset management and private equity. Maj Invest Asset Management provides advisory services on asset allocation and investment management in respect of listed equities, and Maj Invest Equity provides investment advisory services to private equity funds investing in unlisted equities in Denmark and abroad.

In 2009, Maj Invest Equity International was set up as a business activity of MI. Maj Invest Equity International provides investment advisory services to two private equity funds, Danish Microfinance Partners K/S and LD Invest Vietnam K/S investing in companies in Vietnam. In beginning of 2015, it is expected to set up a follow-up fund investing in companies in Vietnam and Indonesia, and a successor fund for Danish Microfinance Partners K/S.

The four private equity funds investing in unlisted equities in Denmark are: LD Equity 1 K/S, LD Equity 2 K/S, LD Equity 3 K/S and Maj Invest Equity 4 K/S.

### **Danish Microfinance Partners K/S**

The private equity fund Danish Microfinance Partners K/S (Danish Microfinance Partners) was established on 26 October 2010 as a limited partnership and is owned by The Investment Fund for Developing Countries (IFU), Pension funds administered by PKA A/S (PKA) and Pensionskassen for Børne- og Ungdomspædagoger (PBU). The investors have entered into a limited partnership agreement (LPA).

### **Investment policy and strategy in Danish Microfinance Partners**

Danish Microfinance Partners has an impact investment strategy with a double bottom line targeting both social impact and financial performance. The fund invests in financial institutions with a significant exposure to micro- and SME financial services. For the fund to consider investing, these microfinance institutions must have strong governance, highly qualified management and attractive growth opportunities based on a well-balanced strategy of social impact and financial return.

The microfinance institutions offer a range of financial products and services depending on country, market and regulations. All of them provide micro-credits which are small loans with short maturities. Other services are saving and insurance products. Loans are granted to groups or individual clients almost exclusively for income-generating activities. The customers are low income groups, with limited or no access to financial services in traditional commercial banks.

The fund invests in microfinance institutions in Latin America, Asia and Africa and can invest directly with equity or quasi-equity instruments (convertible loans), or indirectly via funds. The fund is an active minority investor, generally taking a 5-25% stake and ap-

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

pointing a board member in the microfinance institution. Investments are mainly in unquoted companies; however investments in listed companies are possible as well.

Danish Microfinance Partners prioritises long-term value creation and lays decisive emphasis upon each individual investment being supported by a sound and well-advised strategy and business plan. The fund closely monitors investments to ensure that their value potential is realised and assesses exit opportunities on a continuous basis.

### **CSR policy and social impact**

As mentioned Danish Microfinance Partners follows an impact investment strategy with a double bottom line targeting both social impact and financial return. The fund advocates the protection of social and environmental sustainability to promote corporate social responsibility. In order to maximise positive social and environmental impact and minimise any such negative impact of the operations and of the portfolio companies, it is the fund's objective to be in compliance with the International Finance Corporation's (IFC's) Policy on Social and Environmental Sustainability.

The CSR Policy of the fund considers the provisos laid down in IFC's Microfinance Exclusion List, Anti-Money Laundering Requirements, Anti-Corruption Guidelines and CGAP Client Protection Principles, and aims to keep track of activities of its portfolio companies in identifying, assessing and managing social and environmental risks at the ground level. Through earnest implementation of its CSR Policy, Danish Microfinance Partners strives to achieve its vision of generating a double bottom line return for its investors.

### **Danish Microfinance Partners organisation**

At year-end 2014, the advisory team consisted of two partners, the executive board of MI, one CSR manager, one financial analyst, one junior analyst as well as three back-office staff involved in finance, legal matters and administrative duties. In addition, a consultancy agreement covering consulting services from local IFU staff, networks and partners has been entered into with IFU.

### **Ownership**

Danish Microfinance Partners is owned by IFU, PKA and PBU, holding a stake of 99.7%. The two partners and one legal back-office employee of Maj Invest Equity International involved in investments have invested as special limited partners in Danish Microfinance Partners. Any profits earned by such special limited partners are subject to tax under current Danish and local tax rules. The special limited partners do not pay management fees and partnership formation costs to the fund.



# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

<b>Investors</b>	<b>Commitment DKKm</b>	<b>Interest in per cent</b>
Pension funds	300.0	74.8%
Other professional investors	100.0	24.9%
Management and staff in Maj Invest Equity International	1.3	0.3%
	<b>401.3</b>	<b>100.0%</b>

### Legal structure

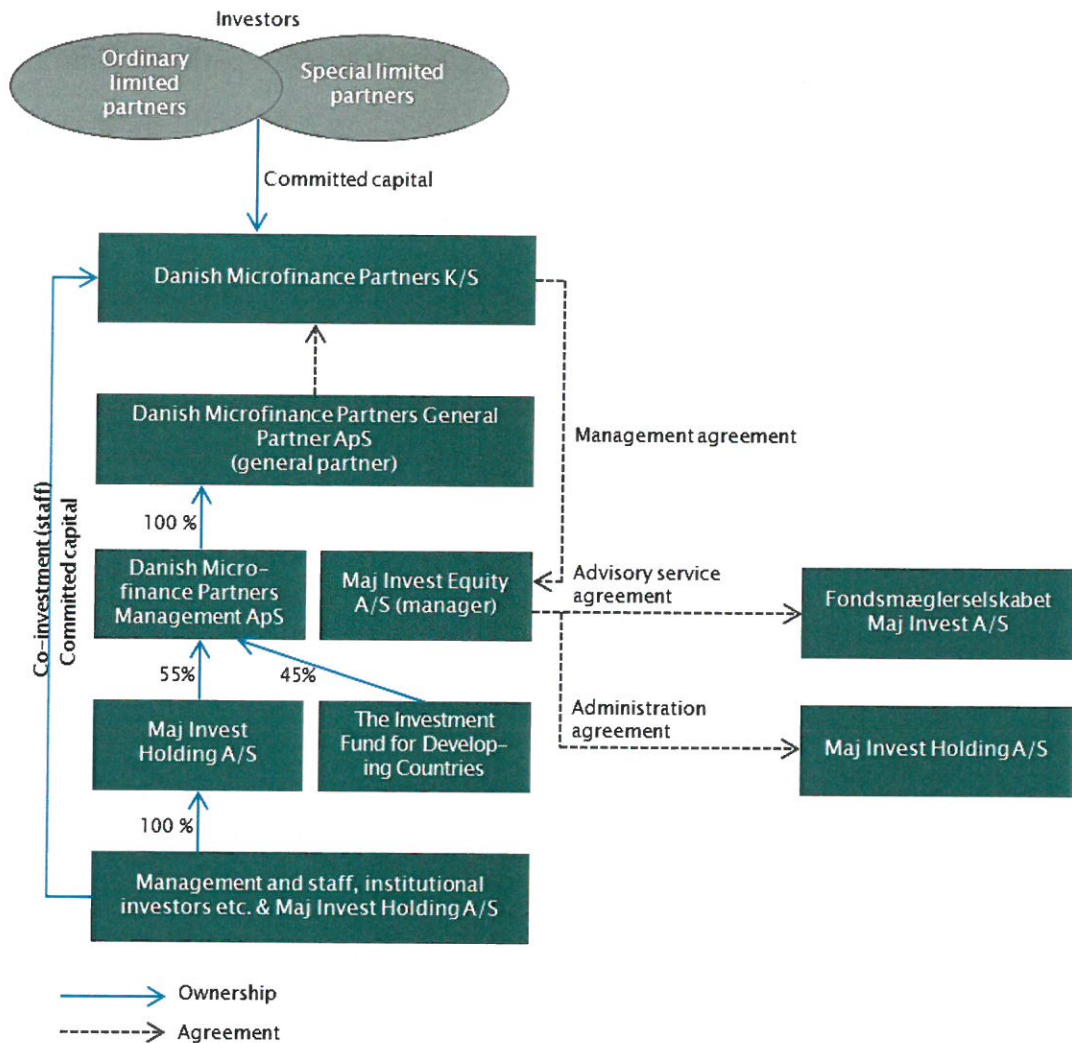
Danish Microfinance Partners is a Danish limited partnership with a Danish private limited company as general partner. The general partner is managed by an executive board consisting of one partner and the CFO of MI. The general partner is a subsidiary of the former manager Danish Microfinance Partners Management ApS which is owned by Maj Invest Holding A/S (Maj Invest Holding) and IFU.

In 2014, the former manager of Danish Microfinance Partners, Danish Microfinance Partners Management ApS, was substituted as manager by Maj Invest Equity A/S as a consequence of the implementation of legislation on alternative investment fund manager (in Danish: Lov om forvaltere af alternative investeringsfonde) (FAIF). Maj Invest Equity A/S (Manager) is owned by Maj Invest Holding.

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### Legal structure of Danish Microfinance Partners



The general partner is responsible for management and also signs for the fund. Under a management agreement, the Manager handles all investment-related and administrative tasks for Danish Microfinance Partners. Consequently, Danish Microfinance Partners has no staff employed. The Manager has made an advisory service agreement with MI in respect of some of the investment-related tasks and an agreement with Maj Invest Holding in respect of administrative tasks.

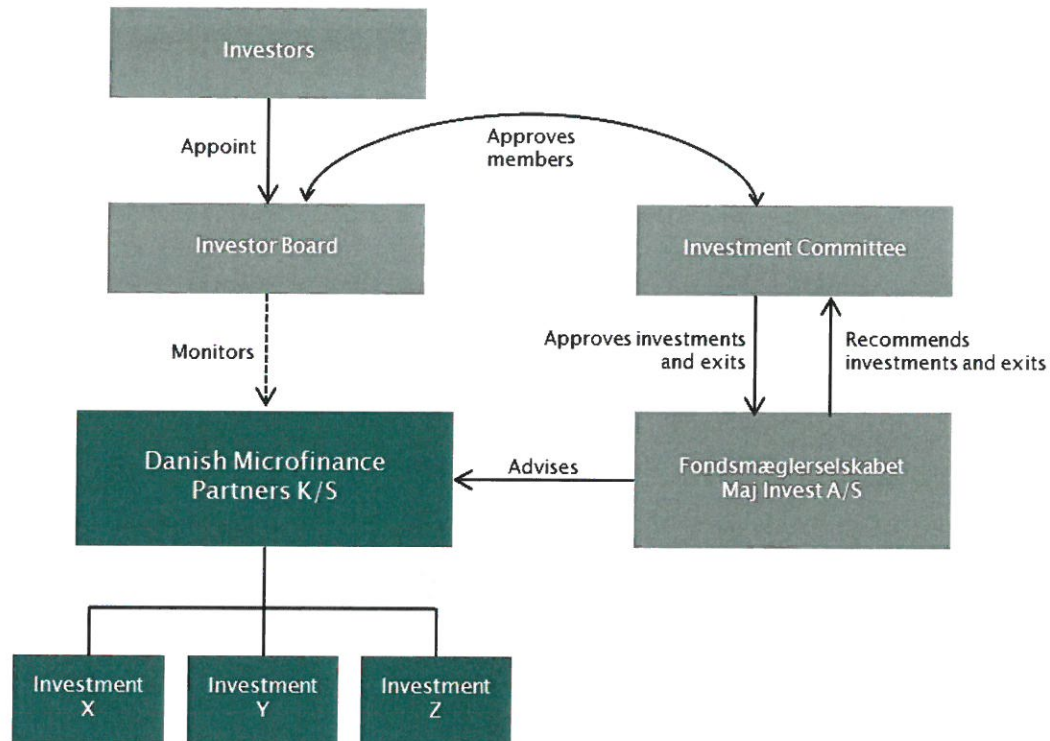
### Decision structure

The investors in Danish Microfinance Partners have set up an Investor Board with representatives appointed by the investors. The Investor Board acts as a supervisory body and currently monitors developments in the fund. The Investor Board also approves up to three members of the Investment Committee recommended by the general partner. The other members of the Investment Committee are appointed by MI.

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### Decision structure in Danish Microfinance Partners



The Investment Committee is responsible for deciding any investments in or divestments of portfolio companies in Danish Microfinance Partners following a recommendation by Maj Invest Equity International. The Investment Committee consists of three to six members – two representatives of the investors, approved by the Investor Board, and the CEO of MI. Reference is made to note 11, which shows any other executive functions or directorships held by investment committee members. Investment committee members do not participate in the particular companies and never invest in the portfolio companies in a discretionary manner.

#### License as manager with the Danish FSA

In 2014 the Manager has applied for and received license as manager (in Danish: forvalter) with the Danish FSA (in Danish: Finanstilsynet). The overall fund set-up, incl. the company and agreement set-up are unaltered apart from the substitution of the Manager. The Management-, Advisory- and Administration Agreement are updated to reflect the new regulatory framework applicable to the Manager, including requirements regarding policies on salary and conflict of interests, risk management, delegation and functional separation. Danish Microfinance Partners has appointed a depositary in accordance with the provisions in FAIF.

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### Carried interest

Danish Microfinance Partners has been established with a management fee structure which is normal in relation to the private equity market. This means that the Manager receives a fixed management fee and the general partner receives carried interest depending on the investors' returns on their investments.

Carried interest is payable if the returns on investments adjusted for costs exceed a predetermined hurdle rate of 10% p.a. The carried interest is calculated as 20% of investor profits over the predetermined hurdle rate.

### Fees

The table below shows fees received by the executive board in the general partner, the Investor Board and the Investment Committee.

Management	Management fee 2014 (DKK)	Participation in carried interest scheme	Investment in the fund
<i>Executive board, general partner</i>			
Steffen Stæhr	Not paid	no	no
Kasper Svarrer	Not paid	yes	yes
<i>Investor Board</i>			
	Not paid	no	no
<i>Investment Committee</i>			
Torben Huss	Not paid	no	no
Niels-Henrik Jensen 1)	100,000	no	no
Frank Jensen	Not paid	no	no
Jeppe Christiansen	Not paid	no	no

1) In November 2014, Niels-Henrik Jensen resigned from the Investment Committee.

### Reporting

One of the things governed by the limited partnership agreement is the aspect of reporting on fund activities, its development and financial position in relation to investors. The fund is obliged to report to its investors on a current basis:

- Quarterly reports on the financial situation, the development in individual investments and investment returns.
- Memoranda on investments.
- Memoranda on exits.
- Annual reports.
- Annual Social Impact Reports.
- Replies to current investor queries.

# MANAGEMENT COMMENTARY

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The quarterly reports to investors will be prepared in compliance with the international guidelines in respect of "best practices" as stipulated in the International Private Equity and Venture Capital Investor Reporting Guidelines. Investments are valued at their fair values and in accordance with the International Private Equity and Venture Capital Valuation Guidelines. MI also acceded to the "Guidelines for Responsible Ownership and Corporate Governance in Capital Venture Funds in Denmark" drawn up by the DVCA.

### **Market development, development in activities and the financial position**

#### **Market development**

Worldwide, 2.5 billion people have no, or very limited access to formal financial services, making them dependent on the informal black market for financial transactions. Micro-finance has not been the silver bullet to poverty expected by some, but as the micro-finance sector has developed into financial inclusion, where microfinance institutes and banks, increasingly provide a whole variety of financial products to the bottom of the pyramid, these people do benefit from the various types of formal financial transactions.

As such, financial inclusion provides an important contribution to people's lives at the bottom of the pyramid by providing financial infrastructure and improving accessibility. Currently, some 250 million people worldwide make use of financial inclusion products and services.

Throughout this decade and beyond, changes in demography and rising incomes, with increased purchasing power, will open new markets for financial services among people who are no longer poor, but are still vulnerable. The business case for financial inclusion is expected to improve significantly as the decade progresses.

At the same time, the incomes of people at the bottom of the pyramid are rising, especially in middle-income economies. Massive numbers of people at the bottom of the pyramid are moving from incomes at, or near subsistence to a level that provides a small disposable surplus. People in this income group are not wealthy enough to be out of danger of falling below the poverty line, and cannot be considered middle class, but they do have income beyond the level required to barely cover minimum expenses.

By 2020, it is estimated that the vulnerable class may become the largest income group in many countries, bigger than the poor, the middle class, or the wealthy. In Latin America alone, over 40 percent of the total population had already moved into the vulnerable class by 2010, accounting for a larger percentage of the population than the poor. In the developing world as a whole it is estimated that by 2020 about a quarter of the population will be in the vulnerable class, roughly three times as many as in 2010. The rise of this class creates an opportunity for financial inclusion because people at that level have at their disposal useful sums of money that they may increasingly wish to manage in the

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

formal financial sector. It is expected that as people move into the \$4–\$10 range, many will begin to shift into formal services instead of the informal black market.

In the annual survey conducted by responsAbility and published in the Microfinance Market Outlook 2015 this development is supported. Based on a sample of 100 Tier 1 microfinance institutions in 38 key markets it is conservatively estimated that the portfolio growth will be 15–20% in 2015.

Looking at the risk side of financial inclusion, the annual survey by The Centre for the Study of Financial Innovation – Microfinance Banana Skins 2014, shows that the most pressing risks facing the industry are those of the day-to-day running of the business, i.e. control of credit, the quality of management and governance, and dealing with competition. Longer-term risks associated with the survival and evolution of the industry such as technological change, product development and funding are considered to be less urgent – and are less well defined.

In relation to the microfinance business environment, the annual survey by The Economist Intelligence Unit (2014) showed that Peru, Colombia and the Philippines demonstrate the most conducive environments for financial inclusion. Both Peru and Colombia showed strength across the board, ranking in the top five in most of the indicators. These top three countries score well above the next-highest country, which can be attributed to strong leadership, as well as institutional depth.

Colombia and Peru are global leaders in prudential regulation and rules for deposit taking and have strong records in microcredit. Peru has remarkable institutional support for financial inclusion, especially good regulatory and supervisory capacity, credit-reporting systems and client-protection rules. Colombia is one of the leaders in the regulation of micro-insurance, along with India, Mexico and the Philippines.

In terms of regions, The Southeast Asia region tied for first place with Latin America and the Caribbean among the five geographical areas included in survey. In terms of government support for financial inclusion, governments in the Philippines and India are implementing financial inclusion strategies: India has put in place a Financial Inclusion Policy, which focuses on universal coverage of basic bank accounts, promotion of agents model and mobile banking, a framework that has been systematically put into action. Over the past five years, the government and the Reserve Bank of India have increasingly emphasised financial inclusion, targeting underserved sections of the population.

In Bolivia, financial inclusion is a national policy priority, as emphasised in Bolivia's 2009 Constitution and enshrined in the 2013 Law of Financial Services. To this end, ASFI, the financial regulator collects detailed data to target underserved areas of the country. At national level, the number of access to a point-of-service sites per 100,000 people more than doubled, from 17 in December 2007 to 38 in March 2014.

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

From the survey of the microfinance business environment by The Economist Intelligence Unit, it can be concluded that in general Danish Microfinance Partners has invested in the most conducive countries when it comes to financial inclusion regulatory and business environment.

### **Investments in 2014:**

In February 2014, Danish Microfinance Partners acquired an additional 8.6% of the shares in BancoSol, making the total ownership interest 13.5%.

The fund has invested in six portfolio companies since its establishment.

More information on investments is available below.

In autumn 2014, Danish Microfinance Partners made an indicative offer of investing in a microfinance institution in Latin America.

### **Profit for the year**

The bottom-line for 2014 is a profit of DKK 93 million (against a loss in 2013 of DKK 3 million). The profit for the year surpasses management expectations for 2014 even though a positive development of the investments was expected. The funds bottom-line was favourably affected by a positive unrealised value adjustment of the investments of DKK 101 million (in 2013 DKK 7 million), whereof DKK 23 million is related to positive currency adjustments mainly USD adjustments.

### **Development in portfolio companies in 2014**

#### **Aavishkaar Goodwell India Microfinance Development Company II Ltd (Aavishkaar)**

Aavishkaar is a micro venture capital fund, whose purpose is to invest in microfinance institutions in India. The funds aim is partly MFI's in a start-up phase, partly well-established MFI's in need of capital to grow. Aavishkaar has invested in six microfinance institutions. The underlying performance of the portfolio in Aavishkaar has been satisfactory. Danish Microfinance Partners has a commitment of USD 3 million, equal to an ownership interest of 10%, and has two seats in the Advisory Committee.

#### **Satin Creditcare Network Limited (Satin)**

Satin was established in 1990 and is one of the leading microfinance institutions in the Northern India with a portfolio of USD 175 million. Satin serves over 800,000 borrowers throughout 240 branches in ten north Indian states. Satin has realised increasing net profit compared to last year and subsequent increased equity. The company will focus on expansion towards new markets in order to obtain a more geographically diversified loan portfolio. Satin expects an increase in the client base and loan portfolio. Danish Microfinance Partners ownership interest in Satin is 9.3 % and Danish Microfinance Partners has a seat in the board of Satin.

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### **Próspero Microfinanzas Fund L.P. (Próspero)**

Próspero is a fund, whose purpose is to invest in small and medium sized microfinance institutions in the Caribbean, Central America and South America. The focus is on microfinance institutions in a start-up or early growth phase. Próspero has invested in eight microfinance institutions, whereas three were completed in 2014. Danish Microfinance Partners has a commitment of USD 2 million, equal to an ownership interest of 11%, and has a seat in the Advisory Committee.

### **Banco Solidario S.A. (BancoSol)**

BancoSol is a commercial bank and has since its beginning been a leading institution of microfinance in Bolivia, with more than 94 agencies and approximately 200 ATMs. Since the establishment in 1992, the bank has experienced a significant growth. The bank has more than 200,000 borrowers and a loan portfolio of more than USD 1 billion. In 2014, an increase in both revenue and net profit has materialised according to the strategy. BancoSol expects continuing positive development the next years. Danish Microfinance Partners has received dividend from BancoSol in 2014. Danish Microfinance Partners acquired 4.9 % of the share capital in BancoSol in November 2012. In February 2014, Danish Microfinance Partners acquired additional 8.6% of the shares, making the total ownership interest 13.5%.

### **Caja Rural de Ahorro y Credito Credinka S A (Credinka)**

Credinka was established in 1994 with offices in Quillabamba, Cusco, Sicuani and Abancay to meet the demand for microfinance loans in the rural sector of Peru. Today, Credinka is present in 9 out of 23 regions in Peru, and has a network of 40 distribution points mainly in the south of Peru. Credinka has experienced a solid growth with more than 30,000 active borrowers, and will continue its growth strategy in regions with low banking presence. Danish Microfinance Partners acquired 10% of the share capital in Credinka in October 2013 and has a seat in the board of Credinka.

### **Microcred Holding S.A. (Microcred)**

Microcred was established in 2005 and currently has subsidiaries in Africa and China operating as microfinance institutions/banks in Madagascar, Senegal, Nigeria, Côte d'Ivoire, Mali, Sichuan and Nanchoung. Microcred is serving the under banked micro and small entrepreneurs through branches and outlets having a total number of clients of approximately 240,000. Danish Microfinance Partners acquired 15% of the share capital in Microcred in December 2013 and has a seat in the Supervisory Board and Investment Committee of Microcred.

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# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### **Capital resources**

Danish Microfinance Partners has a total capital commitment of DKK 401 million. As of 31 December 2014, investors had paid DKK 276 million, equal to 69% of their capital commitments. The remaining capital commitment is DKK 125 million. Danish Microfinance Partners' equity amounted to DKK 329 million at 31 December 2014, matching an equity ratio of 99%.

Danish Microfinance Partners is able to finance investments and follow-on investments from the time of investment and up to six months through bridge financing loans from financial institutions. A bridge loan must be repaid in connection with a capital call from investors. At year-end 2014, debt to banks amount to DKK 0.3 million, which is a decrease compared to last year (DKK 27 million), where an investment was made in autumn 2013.

### **Financial risks**

The objective of Danish Microfinance Partners is to invest in portfolio companies. The major risk factor is therefore the failure to create value in the underlying portfolio companies, currency risk and the political risk in the countries of the investments.

### **Uncertainties relating to recognition and measurement in the financial statements**

Interests in portfolio companies are valued at their fair values, according to the description in Accounting policies. The valuation includes accounting estimates and such valuation is therefore subject to some uncertainty.

### **Events after the balance sheet day**

There have been no events after the balance sheet day and to date that materially affect the assessment of the annual report.

### **Outlook for 2015**

It is the aim of Danish Microfinance Partners to make one additional investment in 2015, and there will be special focus on opportunities in Latin America, in particular Columbia.

In 2015, the management expects a profit, due to the expectation of a positive development of the investments of the fund.

# FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

### GENERAL

The annual report for Danish Microfinance Partners for 2014 is prepared in accordance with the provisions of the Danish Financial Statements Act for reporting class B entities with additional cash flow statement and the necessary adjustments considering that the company is a limited partnership, whose activity is private equity. Investments in portfolio companies are recognised in compliance with the International Private Equity and Venture Capital Valuation Guidelines, drawn by the IPEV Board.

As the main activity of Danish Microfinance Partners is private equity business, the limited partnership measures investments and related financial liabilities at their fair values in accordance with section 38 of the Danish Financial Statements Act.

In order to achieve a true and fair view of operations of the limited partnership, the presentation of the income statement has been changed compared with the reporting form shown in schedule 2 of the Danish Financial Statements Act. Value adjustment of investments in portfolio companies is presented as an item under operating profit/loss. The fair values of the investments are presented as one item under the balance sheet regardless of the size of the ownership interest.

With reference to the Danish Financial Statements Act §110, the limited partnership has not prepared consolidated financial statements.

The accounting policies are the same as last year.

### Recognition and measurement

All income and expenses relating to the financial year are recognised in the income statement regardless of time of payment. Value adjustments in respect of investments in portfolio companies, which are measured at fair value, are also recognised in the income statement.

Assets are recognised in the balance sheet, if, in all probability, future economic benefits will flow to the limited partnership, and the value of such assets can be measured reliably.

Liabilities are recognised in the balance sheet, if, in all probability, future economic benefits will flow out of the limited partnership, and the value of such liabilities can be measured reliably.

# FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement of assets and liabilities have taken into account any information available after the balance sheet date but before the presentation of the financial statements, either affirming or not affirming conditions existing on the balance sheet date.

### Foreign currency translation

Transactions in foreign currencies are translated into Danish kroner using the exchange rates applicable on the transaction date. Assets and liabilities in foreign currencies are translated into Danish kroner using the rates on the balance sheet date.

## INCOME STATEMENT

### Value adjustment of investments in portfolio companies

Gains/losses on investments and value adjustments of investments in portfolio companies are recognised in the income statement. Dividends received from portfolio companies and carried interest are also classified as "Value adjustment of investments in portfolio companies".

### Administrative expenses

Administrative expenses mainly consist of management fees, broken deal costs, partnership formation costs and other administrative expenses.

### Financial income and expenses

Financial income and expenses include interest on bank deposits, interest on bridge loans and interest on loans provided by the general partner "Danish Microfinance Partners General Partner ApS".

### Tax

Danish Microfinance Partners is not an independent entity liable to pay tax, and consequently, no provision for tax on profits has been made in the financial statements. However, tax withheld on the payment of dividends by the subsidiaries is recognised in the income statement.

## BALANCE SHEET

### ASSETS

#### Investments in portfolio companies

On initial recognition, investments in portfolio companies are measured at cost, with the addition of transaction costs. On subsequent recognition, investments are measured at fair value. Value adjustments are recognised in the income statement.

# FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

The fair value of investments in portfolio companies are measured at the most recent market price, for instance in the form of an expansion of capital or through the use of traditional valuation methods for microfinance institutions.

### Receivables

Other receivables are measured at the lower of amortised cost or net realisable value, which usually corresponds to the nominal value less write-downs for bad debts. Write-downs for bad debts are determined on the basis of an assessment of the individual receivables.

### Prepayments

Prepayments recognised under assets mainly consist of prepaid management fees.

### Cash

Cash includes deposits with financial institutions.

## LIABILITIES

### Financial liabilities

Bank loans regarding bridge financing are measured at fair value.

Other liabilities are measured at amortised cost, usually corresponding to the nominal value.

## CASH FLOW STATEMENT

### Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as the year's movements in cash flows and the limited partnership's cash at the beginning and end of the year.

### Cash flows from operating activities

Cash flows from operating activities include the net profit or loss for the year, adjusted for changes in working capital and non-cash operating items, such as value adjustments of investments in portfolio companies and provisions. The working capital includes current assets less short-term liabilities, exclusive of items included in cash and bank loans.

### Cash flows from investing activities

Cash flows from investing activities include payments in respect of acquisitions or divestments of portfolio companies.

### Cash flows from financing activities

Cash flows from financing activities include payments to and from limited partners as well as any changes in bank loans.

# FINANCIAL STATEMENTS

## INCOME STATEMENT

'000 DKK	Note	2014	2013
Value adjustment of investments in portfolio companies	1	104,726	7,849
Administrative expenses		(8,460)	(8,595)
<b>Operating profit/loss</b>		<b>96,266</b>	<b>(746)</b>
Financial income	2	-	-
Financial expenses	3	(1,237)	(1,959)
<b>Profit/loss before tax</b>		<b>95,030</b>	<b>(2,705)</b>
Dividend tax		(2,018)	(549)
<b>Profit/loss for the year</b>		<b>93,012</b>	<b>(3,254)</b>
<b>Proposed distribution of net profit/loss</b>			
Retained earnings		93,012	(3,254)
		<b>93,012</b>	<b>(3,254)</b>

# FINANCIAL STATEMENTS

## BALANCE SHEET

'000 DKK	Note	31.12.2014	31.12.2013
<b>ASSETS</b>			
Investments in portfolio companies	4	326,938	164,288
<b>Total investments</b>		<b>326,938</b>	<b>164,288</b>
<b>Total non-current assets</b>		<b>326,938</b>	<b>164,288</b>
Receivables from portfolio companies		37	37
Prepayments		3,370	2,223
<b>Total receivables</b>		<b>3,407</b>	<b>2,260</b>
<b>Cash</b>		<b>120</b>	<b>729</b>
<b>Total current assets</b>		<b>3,527</b>	<b>2,989</b>
<b>Total assets</b>		<b>330,465</b>	<b>167,277</b>
<b>EQUITY AND LIABILITIES</b>			
Paid-in capital		276,050	178,395
Distributions		(3,123)	(757)
Retained earnings		55,755	(37,257)
<b>Total equity</b>	5	<b>328,682</b>	<b>140,381</b>
Debt to general partner	6	80	80
Other payables	7	1,000	-
<b>Total long-term liabilities</b>		<b>1,080</b>	<b>80</b>
Debt to banks		301	26,505
Debt to general partner		32	32
Other payables		370	279
<b>Total short-term liabilities</b>		<b>703</b>	<b>26,816</b>
<b>Total liabilities</b>		<b>1,783</b>	<b>26,896</b>
<b>Total equity and liabilities</b>		<b>330,465</b>	<b>167,277</b>
Contingent liabilities etc.	10		
Other notes	11-12		

# FINANCIAL STATEMENTS

## CASH FLOW STATEMENT

'000 DKK	Note	2014	2013
Profit/loss for the year		93,012	(3,254)
Adjustments	8	(99,077)	(4,574)
Change in working capital	9	(1,056)	(325)
<b>Cash flows from operating activities before net financials</b>		<b>(7,122)</b>	<b>(8,153)</b>
Financial income		-	-
Financial expenses		(1,237)	(1,959)
<b>Cash flows from operating activities</b>		<b>(8,359)</b>	<b>(10,113)</b>
Purchase of investments in portfolio companies		(61,335)	(99,000)
<b>Cash flows from investing activities</b>		<b>(61,335)</b>	<b>(99,000)</b>
Paid-in capital from limited partners		97,655	119,660
Distributions to limited partners		(2,366)	(757)
Changes in bank loans		(26,204)	(10,100)
<b>Cash flows from financing activities</b>		<b>69,085</b>	<b>108,803</b>
<b>Cash flows for the year, net</b>		<b>(609)</b>	<b>(309)</b>
Cash at the beginning of the year		729	1,038
<b>Cash at the end of the year</b>		<b>120</b>	<b>729</b>

# FINANCIAL STATEMENTS

## NOTES

'000 DKK	2014	2013
<b>NOTE 1 Value adjustment of investments in portfolio companies</b>		
Unrealised value adjustments	101,314	6,533
Dividend received from portfolio companies	4,412	1,316
Carried interest	(1,000)	-
	<u>104,726</u>	<u>7,849</u>
<b>NOTE 2 Financial income</b>		
Other financial income	-	-
	<u>-</u>	<u>-</u>
<b>NOTE 3 Financial expenses</b>		
Financial expenses, general partner	32	32
Other financial expenses	1,205	1,927
	<u>1,237</u>	<u>1,959</u>
<b>NOTE 4 Investments in portfolio companies</b>		
Cost at 01/01	166,339	67,339
Additions during the year	61,335	99,000
Disposals during the year	-	-
Cost at 31/12	<u>227,675</u>	<u>166,339</u>
Value adjustments at 01/01	(2,051)	(8,584)
Value adjustments during the year	78,311	12,118
Currency adjustments during the year	23,003	(5,585)
Value adjustments at 31/12	<u>99,263</u>	<u>(2,051)</u>
<b>Carrying amount at 31/12</b>	<u><b>326,938</b></u>	<u><b>164,288</b></u>



## FINANCIAL STATEMENTS

### NOTES

#### NOTE 4 Investments in portfolio companies (continued)

Name of investments in portfolio companies	Registered office	Ownership interest	Share capital	Equity	Profit/loss for the year
Satin Creditcare Network Limited*	Delhi, India	9.3%	286,921,010	130,574	14,064
Próspero Microfinanzas Fund L.P.	Cayman Island	11.1%	N/A	38,996	594
Aavishkaar Goodwell India Micro-finance Development Company II Ltd.*	Mauritius	10.0%	23,194,700	114,553	-6,835
Banco Solidario S.A.	Bolivia	13.5%	345,979,800	506,236	132,632
Caja Rural de Ahorro y Credito Credinka S.A.	Peru	10.0%	51,204,000	121,676	17,254
DMP Holding 1 ApS** (Microcred Holding S.A, France)	Copenhagen	100.0%	**	**	**

Share capital, equity and profit/loss for the year are from the annual reports 2013 which are the latest annual reports published. The latest annual report published for Satin Creditcare Network Limited and Aavishkaar Goodwell India Microfinance Development Company II Ltd. is for the financial year 2013/14.

\* Financial year is 1 April to 31 March.

\*\* Newly established holding company who has not yet presented the first annual report.

## FINANCIAL STATEMENTS

### NOTER

'000 DKK	31.12.2014	31.12.2013
<b>NOTE 5 Equity</b>		
Equity at beginning of year	140,381	24,732
Paid-in capital from limited partners	97,655	119,660
Distributions to limited partners	(2,366)	(757)
Retained earnings	93,012	(3,254)
<b>Equity at end year</b>	<b>328,682</b>	<b>140,381</b>
The limited partners are liable for their share of the remaining commitment	125,250	222,905

### NOTE 6 Debt to general partner

Debt to general partner is an instalment-free loan to Danish Microfinance Partners for the full term of Danish Microfinance Partners.

### NOTE 7 Other payables – long term

Other payables relate to carried interest which is expected due within the next five years.

	2014	2013
<b>NOTE 8 Cash flow statement – adjustments</b>		
Financial income	-	-
Financial expenses	1,237	1,959
Carried interest	1,000	-
Unrealised value adjustments in portfolio companies	(101,314)	(6,533)
	<b>(99,077)</b>	<b>(4,574)</b>
<b>NOTE 9 Cash flow statement – change in working capital</b>		
Change in receivables	(1,147)	(232)
Change in other short-term liabilities	91	(93)
	<b>(1,056)</b>	<b>(325)</b>

### NOTE 10 Contingent liabilities etc.

#### *Contingent liabilities*

Danish Microfinance Partners has entered into a management agreement with Maj Invest Equity A/S, for the Manager's administration of Danish Microfinance Partners as well as the provision of investment advisory services to Danish Microfinance Partners. On termination, Danish Microfinance Partners may in certain circumstances be obliged to pay management fees for a 18-month period. At 31 December 2014, the fee payable amounted to app. DKK 10 million (at 31 December 2013 app. DKK 12 million) as the management fee will be in decline after the expiry of the investment period (October 2015).

## FINANCIAL STATEMENTS

### NOTER

#### NOTE 10 Contingent liabilities etc. (continued)

Danish Microfinance Partners has entered into a depositary agreement with a term of notice of 6 months, which is equivalent to a liability of DKK 0.1 million.

Danish Microfinance Partners has given a commitment to Aavishkaar Goodwell India Microfinance Development Company II Ltd. of USD 3 million. As of 31 December 2014 USD 2.6 million has been paid in to the fund.

Danish Microfinance Partners has given a commitment to Próspero Microfinanzas Fund L.P. of USD 2 million. As of 31 December 2014 USD 1.7 million has been paid in to the fund.

#### NOTE 11 Related parties

No related parties have controlling interest on Danish Microfinance Partners.

Related parties include the general partner "Danish Microfinance Partners General Partner ApS", the manager "Maj Invest Equity A/S", "Danish Microfinance Partners Management ApS" and also the executive board of the general partner. The director of the executive board Kasper Svarrer is a special limited partner in Danish Microfinance Partners.

In addition to this, no limited partners have significant influence.

#### NOTE 12 Executive board and Investment Committee

##### Executive board of the general partner:

###### *Steffen Stæhr*

###### *CEO of:*

Danish Microfinance Partners General Partner ApS.

###### *Director of:*

Fondsmæglerselskabet Maj Invest A/S, Maj Invest Holding A/S, Maj Invest Equity A/S, Management Equity Vietnam I ApS, General Partner Equity Vietnam ApS, DMP Holding 1 ApS and EFIF GP ApS.

###### *Chairman of:*

4Labels A/S.

###### *Board member of:*

Fonden Maj Invest Equity Partner, Maj Invest Equity A/S and Risikov Travel Partner A/S.

###### *Kasper Svarrer*

###### *Director of:*

Kasper Svarrer Holding ApS, DMP Holding 1 ApS, Danish Microfinance Partners General Partner ApS, EFIF GP ApS, General Partner Equity Vietnam ApS and Management Equity Vietnam I ApS. In addition, managing director of several holding companies owned by LD Invest Vietnam K/S.

###### *Chairman of:*

Jutlandia Terminal Ejendomme ApS, Jutlandia Terminal A/S, A/S J. Lauritzen's Eftf., Esbjerg and Seaport Stevedoring, Esbjerg ApS

###### *Board member of:*

Jantzen A/S

## FINANCIAL STATEMENTS

### NOTER

#### NOTE 12 Executive board and Investment Committee (continued)

##### Investment Committee:

###### ***Jeppe Christiansen***

###### ***CEO of:***

Fondsmæglerselskabet Maj Invest A/S, Maj Invest Holding A/S, Maj Invest Equity A/S, Danish Microfinance Partners Management ApS and Emlika ApS.

###### ***Vice chairman of:***

Novo Nordisk A/S og Maj af 29. august 2014 A/S.

###### ***Board member of:***

Kirkbi A/S, Symphogen A/S, Novo A/S, Haldor Topsøe A/S and Maj Invest Equity A/S.

###### ***Member of Investment Committee of:***

LD Equity 1 K/S, LD Equity 2 K/S, LD Equity 3 K/S, LD Invest Vietnam K/S, Maj Invest Equity 4 K/S and Triton Industry Board.

###### ***Torben Huss***

###### ***Executive vice president:***

Investeringsfonden for udviklingslande (IFU) and Investeringsfonden for Østlandene (IØ).

###### ***Board member of:***

DCIF I GP Komplementar ApS, DCIF I GP P/S, Juristernes og Økonomernes Pensionskasse, IFU Investment Partners GP P/S and IFU Investments Komplementar ApS.

###### ***Member of Investment Committee of:***

LD Invest Vietnam K/S.

###### ***Frank Jensen***

Finansanalytiker PKA.