MAJ INVEST FINANCIAL INCLUSION FUND II K/S

SOCIAL IMPACT REPORT 2017-2018

MAJ INVEST

TABLE OF CONTENTS

INTRODUCTION AND BACKGROUND

The purpose of this report is to present the social impact outcome of the portfolio companies of Maj Invest Financial Inclusion Fund II K/S (MIFIF II or the Fund) in 2017-2018. The report is based on the social impact reporting provided by the portfolio companies to the Fund and information provided through board participation.

Investment strategy

Maj Invest Financial Inclusion Fund II K/S is a closed-end private equity fund investing in top tier financial institutions providing financial services to the client group below the middle class in Latin America, Asia and Africa. Through direct equity investments, the Fund acquires significant minority positions in financial institutions with a medium to large size loan portfolio, typically above USD 100m. The target financial institutions must have a substantial growth potential, be mature and well-established with a highly qualified management and shareholders, strong governance, together with an advanced and efficient operational infrastructure. The targets must have the capacity to benefit from the growing financial inclusion sector, through organic growth or consolidation, and reach a return on equity of 20 per cent or higher by the time of exit. In most cases a Board seat is required together with minority protection rights and a strong exit strategy for the Fund. The Fund is adding value by growth equity, strategy formulation and implementation and best practice experience from the financial inclusion sector.

The market

The market for financial services to the client group below the middle class in Latin America, Asia and Africa is expected to grow significantly in the future. The client group consists of billions of people and small companies that are in huge demand for basic financial services, such as loans, savings, insurances, payments and money transfers. In a historic perspective the concept of microcredit evolved into microfinance, and subsequently the concept changed into financial inclusion driven by the development finance investors dominating the industry in the early stages of its development. Their mission has been to support the establishment of financial institutions catering to the client group below the middle class in the developing countries for them to have access to basic financial services. The financial inclusion industry has now gradually matured, and a top segment of financial institutions has to some extent changed its mission over time - from predominantly focusing on development to focusing increasingly on financial return and secondly on social impact.

The target client group is the large segment of people below the middle class but above extreme poverty in Latin America, Asia and Africa, and it continues to grow at an impressive rate. According to the World Bank Global Findex and Database 2014, over 2 billion adults in this segment globally operate outside the traditional financial system. 200 million people are currently using financial services specifically designed to accommodate this client group, and 3.4 billion people have access to financial services, but part of them only to a very limited supply and low level of diversification. Additionally, the demand for commercial financial services is immense with 160 million SMEs without access to financial services, and 240 million SMEs with some access, but to a limited supply of financial services provided by formal banks or financial institutions catering directly to the financial inclusion SME segment.

In 2015-2016, this industry grew at 10-15 per cent annually (Microfinance Barometer 2017). At country level, India outpaced the industry both in terms of borrower and loan growth (+18.4 per cent and +24.4 per cent, respectively). Significant loan growth was also observed in Cambodia (+20.7 per cent), Bangladesh (+19.7 per cent) and Peru (+16.3 per cent). Zurich-based responsAbility estimates that this growth pace will be maintained on a global basis (10-15 per cent) while the Asia-Pacific region is expected to grow by as much as 25-30 per cent.

This rate of growth is further fueled by the application of new technologies related to FinTech and digitization development, increased smartphone penetration and development of biometric identification systems that will increase the potential for outreach and lowering distribution costs of financial services to the target cli-

ent group. This is important because outreach is difficult, especially in rural areas, and distribution is notoriously expensive in this industry. The clients, like in any other commercial banking business, pay for the distribution cost, unlike in development finance.

This important technology development will alter the financial inclusion industry in the future. However, on a general level the technology development will only to a very limited extent be disruptive to existing players, to whom the technology development presents an opportunity to increase efficiency of existing business models - but of course will be a threat provided new technologies are not applied in a sufficient manner. An example is mobile money agents, usually situated in small and local retail stores. These agents partner with mobile money providers and help clients open accounts, which allow savings and payments using cell phones.

Financial institutions providing financial services to the client group below the middle class require a significant supply of new growth capital, coupled with an inviting regulatory framework. For the last 10-15 years, an estimated USD 34 billion globally has been committed to this funding, channeled via the financial infrastructure, which has been developed, and has become increasingly diverse and sophisticated. Institutional investors, in partnership with family offices, development banks, high-net-worth individuals, and some large-scale corporations have been working with private equity funds to reach those living in the outskirts of the financial system by investing in financial institutions and financial infrastructure. Governments also play a key role by developing a regulatory framework that fuels investments and growth in the financial inclusion sector. However, regulatory and political challenges continue to appear. For example, the demonetization reform that took place in India, i.e. the removal from circulation of the two largest denomination notes, reduced collection rates while propelling non-performing loans due to the lack of cash in the system. On a longer term, however, this political initiative will benefit the financial inclusion industry by encouraging large number of unbanked people to open bank accounts and actively use financial services.

As the demand side continues to grow significantly there is a constant request for innovation in products and business models for low cost delivery of financial services, and for improved regulatory framework in many countries. However, in spite of the obvious challenges with investing directly in financial institutions in Latin America, Africa and Asia this strategy continues to represent a very good opportunity in obtaining an attractive financial return, and at the same time contribute with social impact to the client group below the middle class.

Social impact strategy

Maj Invest Financial Inclusion Fund II K/S' primary goal is to create an attractive financial return to its investors, but as an outcome of the Fund's investments in financial institutions there is a social impact for the target client group. The Fund does not have specific social impact targets, but reports on the social impact outcome of the portfolio companies.

Social impact is an integrated part of the overall framework for responsible investing, and the Fund's perception of responsible investment is aligned with that of the UN. The Social Impact Policy of the Fund considers the provisos laid down in various international standards such as:

- The Client Protection Principles of the Smart Campaign
- The Universal Standards for Social Performance Management of the Social Performance Task Force
- The Exclusion List of the IFC
- The Exclusion List of EDFI
- The Principles for Investors in Inclusive Finance

As part of the due diligence process, an assessment of the portfolio companies' compliance and commitment to recognized international social impact standards is carried out prior to investment. The Fund will only invest in companies which can identify with the Fund's core values, and companies that work dedicated towards adhering to recognized international social im-

pact standards. During the management phase, the Fund monitors the portfolio companies' social impact activities through the Fund's board participation, visits and/or reporting and dialogue with reference to the Fund's Social Impact Policy.

The Fund is committed to working with the portfolio companies on creating long-term social impact and contributing to a sustainable development, adding value to the portfolio companies and enhancing business opportunities.

Maj Invest group

Maj Invest is a Danish asset management company with nearly USD 12 billion under management. Maj Invest is a spin-off of the Danish pension fund LD (Lønmodtagernes Dyrtidsfond) and was independently established in 2005. Maj Invest 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 2016, Maj Bank was established. Maj Bank offers accounts and deposit accounts for savings and investment purposes and provides advisory services to clients.

In 2017, two out of a total of nine private equity funds under management by Maj Invest Equity were focusing on the financial inclusion strategy. Maj Invest Financial Inclusion Fund III K/S is expected to be established in 2019.

The Urubamba Valley, also known as the Sacred Valley, in Peru.

RESULTS AND CONCLUSION

By May 2018, Maj Invest Financial Inclusion Fund II K/S (MIFIF II or the Fund) had five direct investments in Diviso Grupo Financiero, Microcred, Arohan Financial Services, Bancompartir and Belstar. Through these investments, the Fund reaches out to clients in Latin America, Asia and Africa.

In 2015, the United Nations launched the Sustainable Development Goals 2030 (SDGs) with the objective to secure a sustainable economic, social and environmental development. The objective is to stimulate action through 17 goals and 169 targets. As part of the Fund's further development in line with the sustainable development agenda, the Fund's investments are mapped against the SDGs.

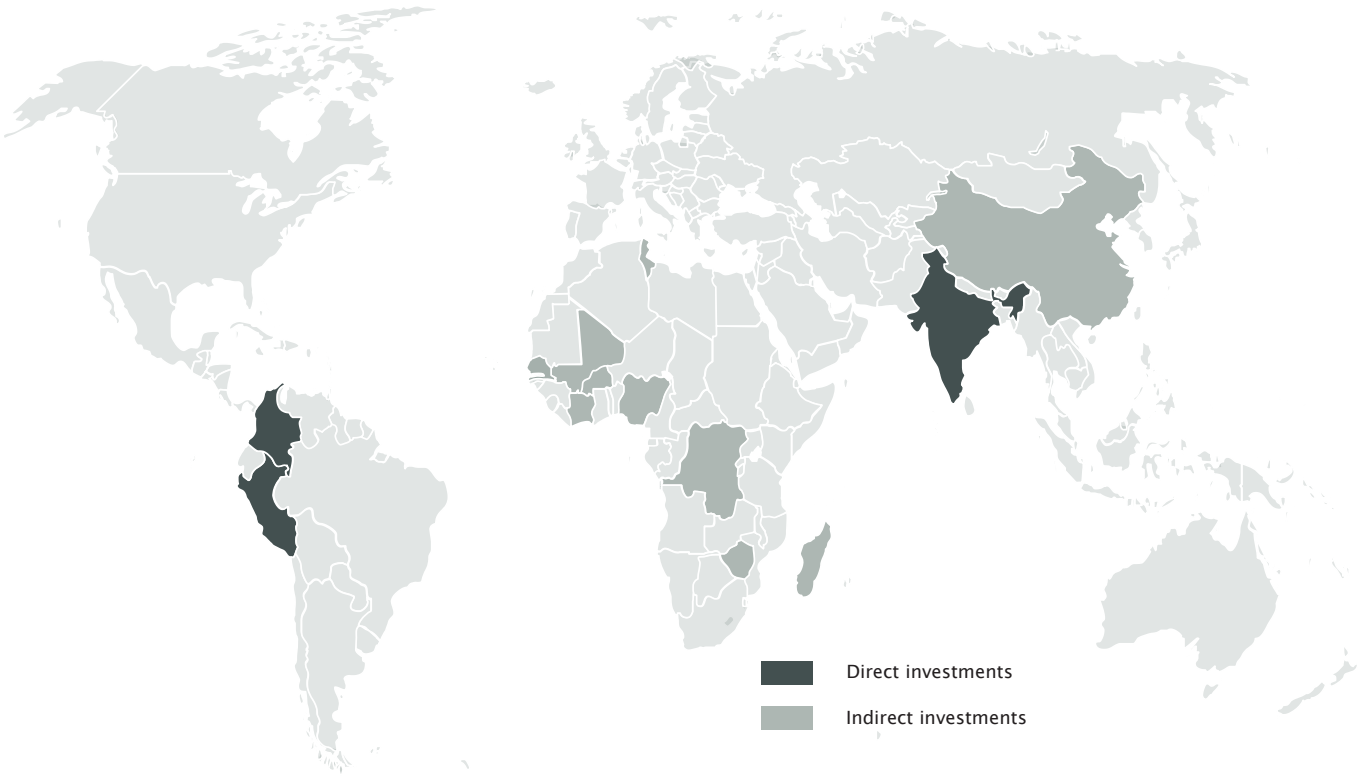
The mapping of the results and initiatives of the portfolio companies showed that the Fund's investments contribute to the implementation of seven sustainable development goals and nine targets.

The Fund invests in portfolio companies which recognise and adhere to international social impact standards and client protection principles ensuring that clients are prevented from overindebtedness, treated in a respectful manner, guaranteed reasonable pricing and a wide range of services.

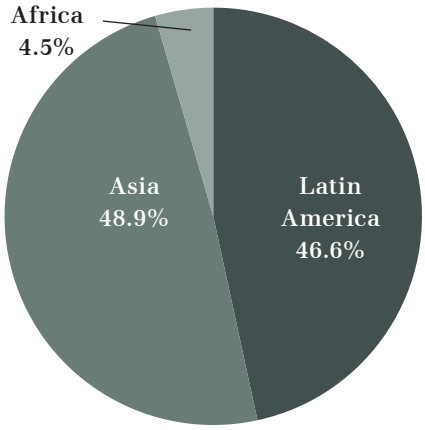
The Smart Campaign is a global effort to provide microfinance institutions with the resources and tools needed to deliver transparent, respectful and relevant financial services to all clients. Seven principles focusing on client protection constitute the Smart Campaign. The majority of the portfolio companies have either endorsed or been certified by the Smart Campaign. Further, the portfolio companies follow internal exclusion and anti-corruption policies based on international standards and local legislation.

The Fund's reporting is based on six social indicators. The selection of these indicators is based on the *Client Protection Principles of the Smart Campaign*, the *Uni-*

Geographical presence



Geographical allocation of invested capital



versal Standards for Social Performance Management of the Social Performance Task Force and indicators used by social performance rating agencies. More information on the national and international standards can be found in Appendix 2.

The indicators are:

1. Outreach
2. Prevention of overindebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community and environmental development
6. Employment

Outreach

Outreach is a vital factor of social impact. The outreach indicator is constituted by a series of subindicators such as the number of clients, percentage of female clients, number of branches, total loan and savings portfolio and the portfolio at risk. On the following pages, the outreach of 2017-2018 is presented.

Prevention of overindebtedness

The companies have implemented extensive procedures on determining the risk level of their clients. The use of credit registers is widely integrated in the process and interviews with the spouse, gurantors and even neighbors are carried out prior to granting a loan. As endorsers of the Smart Campaign, the portfolio companies have also committed to ensure that clients have the ability to pay back and will not become overindebted. Additionally, the portfolio at risk above 30 days, PAR>30, is at a satisfactory level for all companies, indicating that clients are able to repay their loans and thus not overindebted.

Furthermore, prices, terms and conditions are displayed in the branches, detailed in leaflets and explained to clients prior to granting a loan.

Interest rates and reasonable pricing

The interest rates vary between the institutions depending on country and loan type. The level of interest rates is in line with the market and less expensive than most competitors. The rates may seem high, but the cost of distribution, capital and risk is significant in many of the countries in which the Fund invests. Loans are always in local currencies which is sometimes associated with a high level of inflation, and usually the loan amounts are small with short tenure. In all cases, the financial institutions of the portfolio engaged in lending represent a much cheaper and safer option than the traditional black market loan sharks.

Product mix and range of service

The portfolio companies offer a wide variety of services. In addition to various credit types such as micro loans, SME loans, sanitation loans and solar loans, the financial institutions also offer savings accounts, insurance, money transfers, credit cards, financial education and mobile branches making the loan officers able to visit and service clients in very remote areas.

Community and environmental development

Along with financial services, the portfolio companies have significant focus on developing and reaching out to their surrounding communities by providing both cli-

TOTAL FUND OUTREACH INDICATORS

Savings portfolio

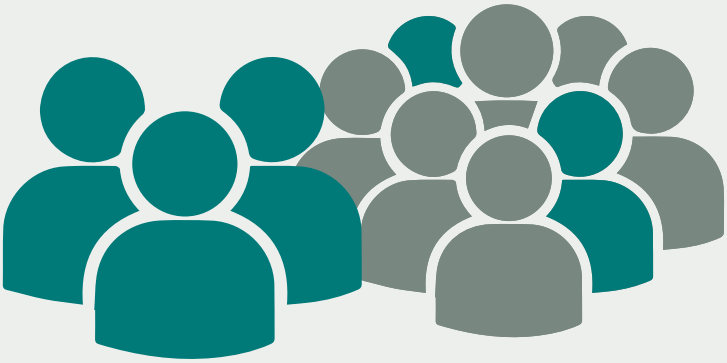
644

USDm

Loan portfolio

1,640

USDm



2.9
million clients

57%
female clients

2,205
branches

ents and non-clients with non-financial services. Focus is in particular on the empowerment of women, financial literacy and education, healthcare and access to clean water and solar energy.

More than 350,000 people have benefitted from financial education programs in Peru, Colombia, India and Africa. In India, more than 8,000 people, in particular women, have benefitted from healthcare programs and medical camps.

Employment

The portfolio companies create many jobs in their respective countries and employ more than 11,000 people all together. The different initiatives for the employees vary from company to company but encompass policies on social and environmental practices, discrimination, compensation and medical care.

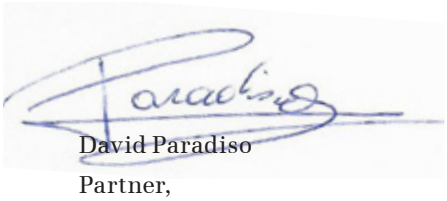
Investing in financial institutions in Latin America, Asia and Africa is a sound contribution to financial inclusion of the poorest part of the population, and can be a significant contribution to the prosperity of each individual and to the economic progress of the developing countries in these regions. However, financial inclusion must be accompanied by other initiatives to alleviate poverty, reduce inequalities and empower women, including a stable political and economic environment together with investments in infrastructure, education and health, and other important sectors.

As such, financial inclusion is not a guarantee for prosperity for everyone with access to financial services, but it creates an important opportunity for each individual.

It contributes to the financial inclusion of developing countries to the benefit of long-term social and economic growth.

Copenhagen, 31 May 2018

Kasper Svarrer
Managing Partner,
Financial Inclusion
Maj Invest Equity A/S



David Paradiso
Partner,
Financial Inclusion
Maj Invest South America S.A.

Regitze Makwarth Olsen
Manager - Sustainability Manager,
Equity International
Maj Invest Equity A/S


COMPRA
3,320
VENTA
3,425
Cambio de Monedas
Cambio
Seguro
Pide tu Tipo de Cambio Preferente para compra y venta desde US$500
CREDINKA
Antes de retirarse, por favor v
que su operación se haya reali
correctamente, gracias.
CREDINKA

THE SUSTAINABLE DEVELOPMENT GOALS

In 2015, the UN launched the Sustainable Development Goals 2030 (SDGs) defining worldwide sustainable development priorities. 17 goals including 169 targets were established and set out to stimulate actions the following years. The goals are centered around the three dimensions of a sustainable development: economic, social and environmental. Governments, businesses and civil society together with the UN are mobilizing efforts to achieve the goals by 2030. In general, companies across all sectors are encouraged to contribute to a sustainable development through investments, among other things.

Some of the goals are closely linked to the social focus areas of the financial institutions in MIFIF II. As part of the Fund's contribution, MIFIF II maps the social impact of the Fund against the SDGs. Overall, the investments of the Fund contribute to seven of the SDGs and nine targets, as described below. The targets indicate how the Fund and its investments contribute to the individual SDG. In each company section an overview of the contribution to the SDGs is presented.

SUSTAINABLE DEVELOPMENT GOAL 1

End poverty in all its forms everywhere.

Target 1.4: By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.

Maj Invest Financial Inclusion Fund II contributes to this SDG through all of the fund's investments. The financial institutions provide micro and small loans to people in the low income group in Latin America, Asia and Africa. Financial inclusion is not the silver bullet to end poverty, but it creates an opportunity for each individual to prosper and to get out of poverty. All together, the companies reach out to nearly 3 million clients. As such, the fund contributes to creating easy access to financial services for all.

SUSTAINABLE DEVELOPMENT GOAL 3

Ensure healthy lives and promote well-being for all at all ages.

Target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

The investments in the Indian financial institutions Arohan and Belstar contribute to SDG 3. Both institutions offer healthcare services to both clients and the surrounding communities. Arohan has provided free medical and diagnostic services to more than 1,300 women and children. Belstar has hosted health awareness training for clients focusing on general health, nutrition, hygiene and sanitation. Belstar also hosted a series of open medical clinic days for non-clients. In the financial year 2016-17 more than 7,000 people benefitted from these programs.

SUSTAINABLE DEVELOPMENT GOAL 4

Ensure inclusive and quality education for all and promote lifelong learning.

Target 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.

Target 4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

All of the fund's investments offer financial education and/or vocational and technical skill training to their clients. Credinka in Peru, Bancompartir in Colombia and Microcred in Tunisia offer financial education workshops for clients, and more than 10,000 clients have benefitted from this during 2017. Arohan and Belstar in India both focus significantly on providing skill training to their clients, who are primarily women, and more than 350,000 have benefitted from these programs.

SUSTAINABLE DEVELOPMENT GOAL 5

Achieve gender equality and empower all women and girls.

Target 5.1: End all forms of discrimination against all women and girls everywhere.

All of the financial institutions recognize the importance of including women in financial services. On average, 57 per cent of the clients are female. In particular, Arohan and Belstar in India focus on the empowerment and inclusion of women in financial services. Women account for 98 per cent and 100 per cent of the client base, respectively, and the loan granting transforms the women from homemakers to active entrepreneurs, adding to society and their own lives by generating income, productivity and employment. Credinka in Peru has developed specific products exclusively for women living in rural areas. All of these initiatives greatly contribute to the empowerment and independence of these women.

SUSTAINABLE DEVELOPMENT GOAL 6

Ensure access to water and sanitation for all.

Target 6.1: By 2030, achieve universal and equitable access to safe and affordable drinking water for all.

Target 6.2: By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations.

The fund contributes to this target through the investments in Microcred in Africa as well as Arohan and Belstar in India. Microcred is the official distributor of the LifeStraw® in Senegal and the Ivory Coast through its Baobab+ program. The LifeStraw filters 99.99 per cent of all bacteria and turns contaminated water into clean drinking water. Depending on the product, each LifeStraw can filter up to 100,000 liters of water. The straw and other products can be bought in Microcred branches. Through the distribution of the LifeStraw, Microcred significantly contributes to the mission of creating access to safe and affordable drinking water to all. Arohan in India has established a water sanitation plant in West Bengal, providing clean drinking water to more than 200 families in the community. Additionally, Arohan and Belstar offer sanitation loans for the construction of toilets.

SUSTAINABLE DEVELOPMENT GOAL 7

Ensure access to affordable, reliable, sustainable and modern energy for all.

Target 7.1: By 2030, ensure universal access to affordable, reliable and modern energy services.

The fund contributes to SDG 7 through the investments in Microcred in Africa and Arohan in India.

According to Microcred, two thirds of the African population does not have appropriate access to electricity. The Baobab+ program addresses this issue by making affordable modern solar lamps and domestic solar systems available to everyone. Solar products are available through Microcred's branches and in Baobab+ stores. Since the launch of the program in 2015, more than 35,000 homes have been equipped with solar solutions, and 210,000 people have benefitted from the program. The lamps improve people's lives significantly and prolong the activity hours of the population, enabling them to cook, study and work beyond the hours of daylight. Arohan in India also promotes renewable energy via the sale of solar lamps to clients.

SUSTAINABLE DEVELOPMENT GOAL 10

Reduce inequality within and among countries.

Target 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

All in all, and in continuation of contributing to alleviating poverty, the investments of the fund contribute to reducing inequalities. The financial institutions enable parts of the population, who have previously been underserved or have had no access at all to financial services, to be included and have access to financial services. Financial inclusion empower the included and promote social and economic equality.

DIVISO/CREDINKA

ABOUT DIVISO GRUPO FINANCIERO

Diviso Grupo Financiero (Diviso) is a Peruvian financial holding company established in 2003. The company provides a wide variety of products and financial services through its companies which encompass the financial institution Credinka, the asset management company Diviso Fondos and the stockbroker company Diviso Bolsa. All together the companies manage assets amounting to USD 890 million. Diviso Fondos manages mutual funds and other investment funds, and Diviso Bolsa is one of the leading and fastest growing stockbrokers in Peru. The main activity of Diviso is the ownership of Credinka of which Diviso holds 82 per cent.

MIFIF II invested in Diviso in 2015.

ABOUT CREDINKA

Credinka was formed in 1994 as a rural co-op as a response to the great need of easily accessible financial services, primarily aimed at the population of the rural sector with the objective of improving their way of life. Credinka is a financial institution which is regulated and supervised by the SBS (Superintendency of Banks and Insurance) and the Central Reserve Bank of Peru.

Credinka is specialized in offering financial services within microfinance and small and medium enterprises. Furthermore, Credinka provides access for the Andean community to financial services.

CONCLUSION

In 2017, Credinka reached 142,418 clients. Credinka now has 88 branches and information points across 13 regions in Peru. Nearly half of Credinka's clients are female and one third lives in rural areas.

Credinka is an endorser of the Client Protection Principles of the Smart Campaign, and both Diviso and Credinka follow Peruvian legislation on anti-money laundering and anti-corruption. Additionally, both companies have published a corporate social responsibility report as required by national legislation, and Diviso recently became a member of the Peruvian program for promoting investment policies that incorporate environmental, social and governance (ESG) aspects. All in all, this demonstrates both companies' commitment to drive sustainable business approaches. Furthermore, Credinka has been rated by two credit bureaus and received a positive rating by both. Credinka has well-established procedures on the prevention of overindebtedness, reasonable interest rates on par with the market and good employment terms.

SUSTAINABLE DEVELOPMENT GOALS

Last year, the Fund began to map its investments against the Sustainable Development Goals. The investment in Diviso/Credinka contributes to the following SDGs:

On non-financial services, Credinka continues to have significant focus on financial education, and more than 1,200 clients have benefitted from Credinka's financial education programs.

GOVERNANCE & POLICIES

In 2017, Diviso and Credinka as separate entities have according to national legislation prepared a report on corporate social responsibility and a report on good corporate governance.

Anti-money laundering and anti-corruption

Diviso and Credinka both have policies in place on anti-corruption as well as the prevention of money laundering and financing of terrorism. Additionally, in the policy on loan granting Credinka states that it does not provide loans for activities that presumably are illegal or for political activities. Credinka continuously trains its staff on the identification and verification of activities that could be illegal. In Peru, the Unidad de Inteligencia Financiera (UIF - financial intelligence unit) is the legal unit that analyses, treats and provides information in order to prevent and detect money laundering. As adherent hereto and through its policy, Credinka follows processes and a series of measures in order to prevent money laundering.

INTERNATIONAL STANDARDS & SOCIAL RATING

Diviso recently became a member of PIR (Programa de Inversión Responsable), a program for promoting investment policies and practices that incorporate environmental, social and governance aspects. With this participation, Diviso is able to better set the standards the company must achieve to be a responsible and sustainable company.

Credinka is an endorser of the Smart Campaign showing its commitment to the Client Protection Principles.

Credinka has also been rated by the credit rating bureaus Class & Asociados and Pacific Credit Rating. Credinka was rated "B-" and "B", respectively, which is the same as last year. The ratings signify that Credinka is a solvent institution with great financial value, a strong position within the financial system, full coverage of current risks but somewhat vulnerable towards external risks.

SOCIAL IMPACT RESULTS

The results are based on selected key social indicators. A social indicator is used to assess an institution's performance on social impact. In the following, six social key indicators for Credinka are presented:

1. Outreach
2. Prevention of overindebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community and environmental development
6. Employment

1. Outreach

The outreach indicator is composed of several subindicators. On the following pages, the outreach of 2017-2018 is presented.

2. Prevention of overindebtedness

Credinka has implemented relevant measures to prevent overindebtedness. The institution verifies the credit history and the debt of potential clients, their spouse and guarantors. Information is gathered from the central register of risk of SBS and the private credit bureau INFORMA Peru. In Peru, it is mandatory for all loan clients to have insurance when taking a loan. As such, all clients in Credinka are obligated to take a payment protection insurance.

The portfolio at risk indicator PAR>30, an indicator for loans overdue by 30 days, is 4.2 per cent for Credinka.

3. Interest rates and responsible pricing

The nominal interest rate varies between loan types. The rate is 29.6 per cent p.a. for micro enterprises, 13.4 per cent p.a. for small enterprises and 15.4 per cent for medium enterprises. For consumer loans the rate is 38.0 per cent. The interest rate on loans is levelled with the interest rate of the market, and costs are competitive. Clients can at all times access information on costs as these are displayed in the branch offices, through the regulator as well as on Credinka's website.

4. Product mix and range of service

Credinka provides loans, savings accounts, insurances, investment services and other financial services such as debit cards, money transfers and investment products through the mutual fund Diviso Fondos.

Credinka focuses on clients living in rural areas, and in particular on women. By including this group in financial services, Credinka ensures a sustainable development and social progress in these remote areas. Through the product *Ahorro Proyecto Desarollo* focusing on financial inclusion of women in the rural areas, Credinka gained almost 1,000 new micro loan clients.

Credinka continues to attend to the many clients who speak Quechua and Aymara as their native language, and Credinka has employed staff who speak these languages in selected agencies, making the clients more

comfortable carrying out their financial transactions. Thanks to this initiative, Credinka was honoured as the institution with the best savings product with a specific intention in October 2015 at the Foromic, a financial inclusion conference. Credinka's product *Microahorro Mujeres*, a product for women living in rural areas difficult to access, received the honour.

5. Community and environmental development

Credinka continues to focus on financial education. In continuation of its alliance with Fundación Alemana, Credinka has hosted several financial education workshops focusing on how to manage income and expenses in the family, the importance of having savings, and the importance of having a responsible and appropriate approach to loan taking. More than 800 clients in the Cusco area benefitted from these workshops during the year.

Credinka has also continued the collaboration with Elevate Business, a business management and financial literacy training company. The project was launched in March 2017. Elevate Business provides training to clients and empowers small business owners with the tools needed to improve and grow a sustainable business. So far, more than 400 clients have participated in the training.

Diviso, including Credinka, puts great emphasis on supporting and helping the surrounding communities. For the families living in the extremely harsh northern region of Peru, where natural disasters such as the weather phenomenon El Niño dominate, Diviso has donated a sum of money to the charity organisation Caritas. The employees of Diviso also carried out a collection, which they donated to the organisation.

Credinka also has great focus on the Peruvian culture and participates in many of the local festivals and celebrations. Additionally, in December 2017 Credinka gathered various toys for children living in poverty and children with disabilities.

Environment

Credinka continues to work on minimising the effects of its operations by using materials with the least impact on the environment; educating, involving and giving a sense of responsibility to clients and the communities in general on taking care of the environment; and complying with the existing environmental regulations applicable for financial institutions. In general, Credinka is working on reducing its use of paper, water, electricity etc.

6. Employment

Credinka employs 1,163 people in total of which 48 per cent are female.

During the year, Credinka has initiated a series of activities and programs to improve the well-being of the company's employees, not only the physical health but also the mental and social health for both the employees and their families. In 2017, focus has in particular been on information on how to identify and handle signs of cancer, primarily for women. 220 women working with Credinka benefitted from this initiative in 2017. Other health focus areas included dental care and general health checks. More than 720 employees have benefitted from these checks.

ALSO VISIT

www.diviso.pe

www.credinka.com | www.facebook.com/Credinka

CREDINKA OUTREACH INDICATORS

142,000
clients

SAVINGS CLIENTS:	50%
RURAL CLIENTS:	35%

48%
female clients

17%
loan portfolio

88
branches & correspondents

Correspondents which are small business owners conducting deposits and withdrawals for Microcred's clients.

4.2%
PAR>30

PAR>30
PAR>30 is the percentage of loans which are overdue by more than 30 days.

Loan portfolio
240
USDm

LOAN AND SAVINGS PORTFOLIO
The total savings portfolio constitutes USDm 178.5, an increase of 9.8 per cent.

MICROCRED

ABOUT

Microcred was founded in 2005 through the initiative of Mr. Arnaud Ventura, founder and CEO, by Positive Planet (previously PlaNet Finance) and shareholders. Microcred is the leading digital financial inclusion group focusing on serving individuals as well as micro and small businesses in Africa and China. Microcred provides simple, affordable and easy to access products to people underserved by traditional banks.

In 2017, Microcred began the process of changing its name and updating its brand to Baobab in order to reflect the expansion of the product range beyond the provision of credit to microentrepreneurs. The needs of the clients have evolved and with the name change, Microcred wishes to reflect this evolvement in their identity.

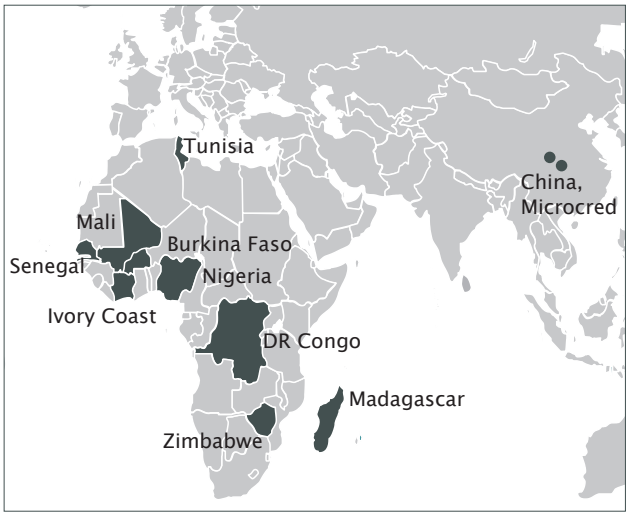
MIFIF II invested in Microcred in 2015.

CONCLUSION

As an endorser of the Client Protection Principles of the Smart Campaign, Microcred shows a high level of commitment to client protection. Microcred has sound policies and measures in place on anti-corruption and anti-money laundering, and has also clearly defined the types of activities Microcred will finance in accordance with the IFC Exclusion List.

In terms of outreach, Microcred is continuously expanding its presence and now has more than 1,000 branches and correspondents in Africa and China. Correspondents are small business owners conducting deposits and withdrawals for Microcred's clients. 700,000 clients are served of which 44 per cent are female. 52 per cent of the loan clients also have a savings account. Additionally, the loan portfolio is very healthy with only a small percentage of overdue loans.

The Baobab+ program launched in 2015 continues to be successful, and more homes and people have been equipped with solar lamps and access to clean water. The Baobab+ program significantly improves the daily lives of the clients, providing them with easily accessible energy, clean water and important business tools such as tablets.



GOVERNANCE & POLICIES

Anti-money laundering and anti-corruption

Microcred has in place an anti-corruption and anti-fraud policy. The policy is to be signed by every employee upon joining the Microcred group.

Exclusion list

Microcred is committed to avoiding financing activities listed on the IFC Exclusion List. These include activities which are illegal or harmful to the health, safety, physical and moral integrity of human beings, or biodiversity.

SUSTAINABLE DEVELOPMENT GOALS

Last year, the Fund began to map its investments against the Sustainable Development Goals. The investment in Microcred contributes to the following SDGs:

Microcred's goal is to limit the negative social and environmental impact of the financed activities by having a measuring and monitoring mechanism. Loan applications to finance activities present on the exclusion list are rejected, and the proportion of moderately risky and risky activities in the portfolio is capped.

All loans are classified into three categories:
(A) loans causing harm to the environment in a direct way, with loose security and working conditions
(B) loans that cause indirect harm to the environment, with indirect impact on the security and working conditions
(C) loans with minimal impact

The financing of class A products is prohibited and the limit for financing class B products is 10 per cent of the total portfolio.

Commercial officers assess the social and environmental performance of activities in their initial information gathering. The rejection of loan applications for the funding of activities included on the exclusion list takes place at the end of the assessment, and as a last resort by the Credit Committee.

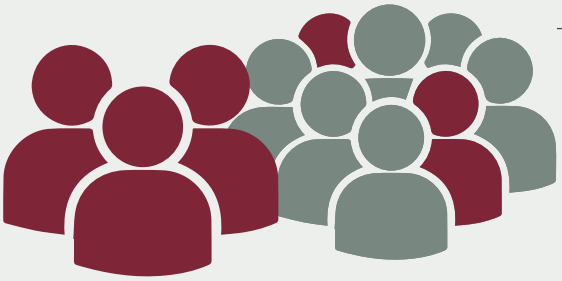
INTERNATIONAL STANDARDS & SOCIAL RATING

Microcred and the majority of its institutions have endorsed the Client Protection Principles of the Smart Campaign. The endorsement of the campaign means undertaking all necessary procedures for the implementation of the principles in operations and institutional culture.

Microcred's Social Performance Management (SPM) Policy is based on the Universal Standards for Social Performance Management (USSPM) of the Social Performance Task Force (SPTF) and the Client Protection Principles of the Smart Campaign. Since the beginning of 2016, Microcred has been using the social performance indicator audit tool to evaluate the institutions and to verify the gap between their actual performance and what is considered optimal performance according to the USSPM. To ensure proper implementation of the SPM Policy, there is a social performance

MICROCRED OUTREACH INDICATORS

700,000
clients



SAVINGS CLIENTS: 52%

44%
female clients

Loan portfolio
662
USDm

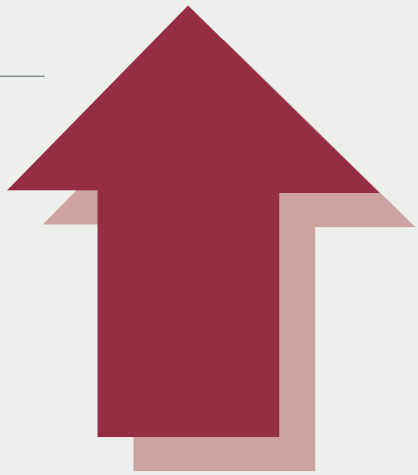
1,048
branches & correspondents

In 2017, Microcred reached 205 branches and 843 correspondents which are small business owners conducting deposits and withdrawals for Microcred's clients.

PAR>30
PAR>30 is the percentage of loans which are overdue by more than 30 days.

2.3%
PAR>30

Savings portfolio
236
USDm



coordinator in each institution in charge of implementing the SPM Policy.

SOCIAL IMPACT RESULTS

The results are based on selected key social indicators. A social indicator is used to assess an institution's performance on social impact. In the following, six social key indicators for Microcred are presented:

1. Outreach
2. Prevention of overindebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community and environmental development
6. Employment

1. Outreach

The outreach indicator is composed of several subindicators. On the previous pages, the outreach of 2017-2018 is presented.

2. Prevention of overindebtedness

In line with the Client Protection Principle *Prevention of Overindebtedness,* Microcred takes reasonable steps to ensure that credit will be offered only if borrowers have demonstrated an adequate ability to repay, and loans shall not put the borrowers in risk of overindebtedness.

In the process, Microcred ensures that a maximum of 70 per cent of the monthly repayment capacity is used for the repayment of the loan instalment, that future indebtedness of the business is less than 60 per cent and that future total indebtedness is less than 30 per cent. When available, credit bureau information is used and clients informed about the danger of overindebtedness.

Furthermore, loan sizes can only increase with a demonstrated repayment capacity for the new and increased loan, and no item intended to meet a client's elementary needs can be accepted as a guarantee to the loan, i.e. beds, clothes (other than stock) etc. Regular client audits are completed, including validation of the consistency of the data, i.e. expenses and revenues collected by commercial officers and validation of the use of the loan. Loans are restructured if clients experience a significant reduction in income.

3. Interest rates and responsible pricing

Microcred has developed a set of Price Definition Guidelines outlining the rules and guidelines on product pri-

cing and the effective interest rates (EIR) on loan products. All of Microcred's institutions must implement and comply with these guidelines. The pricing policy and the interest rates are based on market studies, client satisfaction surveys and local regulations, among other things. The pricing policy is reviewed on a regular basis, but minimum annually.

The effective interest rates (EIR) on credit vary between the financial institutions according to their respective countries. Some of the institutions are subject to caps on interests. In Senegal, Mali, the Ivory Coast and Burkina Faso the cap on EIR is 24 per cent p.a. In China the cap is 4x PBOC (People's Bank of China) lending rates. In China the central bank's most recent interest rate is 4.35 per cent. Financial institutions, banks or other lending companies are regulated and their interest rates may not exceed 4x4.35 per cent. Madagascar, Nigeria, Tunisia and Zimbabwe do not operate with caps.

The average nominal interest rates range between 12.9 per cent p.a. on loan products to SMEs and 26.2 per cent p.a. on microloans. Only Microcred's financial institutions in countries without a cap have higher average interest rates. This is due to the fact that they are greenfield in very difficult markets, and the cost of capital is substantially higher in these countries than in other markets. In addition, there is a high level of inflation and smaller loan sizes than average. Also, the infrastructure is poor, which all in all results in high operating costs. The interest rates are in line with the market and less expensive than most competitors. Microcred's financial institutions also represent a safer and much cheaper alternative to financing than the traditional black market loan sharks. Microcred is aware of the high interest rate and is aiming to lower it as soon as a sustainable business has been established.

All prices, terms and conditions are displayed on posters in client waiting areas, detailed in leaflets available in each branch and listed and explained to clients prior to the signature of the contract.

4. Product mix and range of service

The institutions offer a wide variety of services within credit, savings, transfer and insurance. Within credit products, the institutions offer credits to small entrepreneurs and SMEs to finance their working capital and investment requirements. Within savings, the institutions offer products such as current accounts, savings accounts and term deposits. Other products include life insurance, health insurance and inventory protection as well as withdrawal cards, cheques and money transfers. Focus is on stimulating savings activities in Africa, as Chinese institutions are not allowed to collect savings.

Most recently, Microcred has significantly increased its focus on digital innovation. The company has developed a mobile app for the portfolio managers who spend most of their time in the field. The app is not only a tool for the PMs, it also improves the client service experience. It is easier for them to make informed and quick decisions about renewing loans and provide real time information to their clients.

5. Community and environmental development

Through the Baobab+ program, Microcred promotes and distributes innovative non-financial products to improve the lives of the company's clients. Microcred distributes solar lamps in Senegal, Madagascar and Mali; tablets in the Ivory Coast; and the LifeStraw in Senegal and the Ivory Coast.

In Africa, two thirds of the population does not have appropriate access to electricity. Baobab+ addresses this issue by making domestic solar solutions available and enabling people to have access to light. The lamps significantly improve the lives and prolong the activity hours of the population by being able to cook, study and work beyond the hours of daylight. Additionally, people can communicate more freely by being able to recharge their phones at any time, independently.

One third of the world's population does not have access to clean water. Through Baobab+, Microcred is the official distributor of the LifeStraw in Senegal and the Ivory Coast. The LifeStraw filters 99.99% of all bacterias creating easier access to clean water.

Furthermore, Baobab+ focuses on education via digital content and tools by distributing and financing tablets. In cooperation with Foundation Breteau, Baobab+ offers a tablet with a selection of educational apps. Additionally, Baobab+ provides a business tablet with tools enabling entrepreneurs to record sales, manage inventory etc. The plan is to extend the initiative to all its African subsidiaries.

Microcred Tunisia has developed a financial education program for some of the clients in cooperation with the organisation Cawtar - the Centre of Arab Women for Training and Research. The program is an online learning platform consisting of four modules primarily aimed at young entrepreneurs.

Environment

Microcred is committed to preserving the environment and promoting awareness on environmental issues. The institutions do not finance activities harmful to the environment according to a rating procedure carried out by commercial officers. Microcred has introduced a strategy for 2013-2020 for creating products financing the production, distribution, sale or purchase of goods and services with high environmental value. In addition, various subsidiaries organise campaigns tailored to the needs of the country in which they operate.

6. Employment at Microcred

Microcred has a total of 3,735 employees of which 42 per cent is female.

ALSO VISIT

https://www.baobab.bz/

AROHAN

ABOUT AROHAN

Arohan Financial Services Private Limited is a leading non-bank financial institution which is headquartered in Kolkata, India. Arohan targets the rural and urban poor population in northern and eastern India, representing the country's underserved states in immense demand for financial services. Arohan was set up in 2006 with support from Bellwether Microfinance Fund, the India Financial Inclusion Fund and Michael & Susan Dell Foundation. In 2012, the institution became part of the Intellecap Group which represented the first significant consolidation in India's microfinance sector.

MIFIF II invested in Arohan in May 2017.

CONCLUSION

Serving more than 1.1 million clients through 435 branches across nine states, Arohan is in top ten of non-bank financial institutions in India. The number of branches has increased by 55 per cent since last year. With loans specifically designed to women working in low income areas, 98 per cent of the clients being female and health camps for women, Arohan demonstrates a significant focus on the empowerment of Indian women.

> *"The loan granting transforms the women from homemakers to active entrepreneurs, adding to society and their own lives by generating income, productivity and employment."*
> Arohan

Arohan was certified by the Smart Campaign in May 2015 ensuring that Arohan has appropriate client protection principles in place such as treating the clients in a respectful and responsible manner and having sound processes in place which prevent clients from becoming overindebted. Interest rates are within the national caps and clients are informed of prices and conditions prior to taking loans. The product portfolio is well-suited to meet the clients' needs and includes various loan types and insurances.

Arohan has a CSR policy outlining the company's commitment to reaching out to the surrounding community and providing non-financial and non-profit services to the people living in areas of operation. Most recently, Arohan has established a water sanitation plant providing clean water to more than 200 families.

SUSTAINABLE DEVELOPMENT GOALS

Last year, the Fund began to map its investments against the Sustainable Development Goals. The investment in Arohan contributes to the following SDGs:

In addition, Arohan focuses on providing education to young people, skill training, hosting health camps and ensuring health awareness for women. More than 30,000 clients have benefitted from financial education programs and more than 1,000 women and children have benefitted from medical camps.

GOVERNANCE & POLICIES

Arohan has in place a code of conduct and a fair practices code. Arohan has also adopted the industry code of conduct established by MFIN - the Microfinance Institutions Network in India.

INTERNATIONAL STANDARDS & SOCIAL RATING

Arohan was certified by the Smart Campaign in May 2015. The certification signifies that Arohan meets all of the 30 standards on the treatment of clients. A certification status is valid for four years, but the new certification process must be commenced after two years. In December 2017, a Smart Campaign Certification Surveillance Assessment Audit was carried out by the rating agency MCRIL. Arohan was rated by CARE Ratings in February 2017 and was rated MFI +1, which is the highest rating possible. CARE's MFI rating is an assessment of the institutions' operational and financial capability to undertake and sustain the targeted level of operations.

In February 2017, Arohan was graded by the credit rating agency ICRA, a Moody's investor service company. Arohan was rated with the social performance assessment grade SP2+ indicating that Arohan's infrastructure and processes are consistent with a high likelihood of operating in the best interests of its clients, that this is among it highest priorities and that the risk of causing adverse effect to its clients and other stakeholders is low.

SOCIAL IMPACT RESULTS

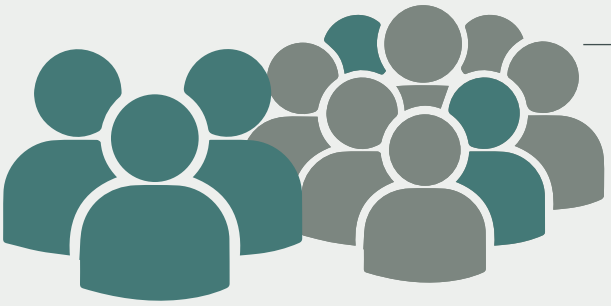
The results are based on selected key social indicators. A social indicator is used to assess an institution's performance on social impact.

In the following, six social key indicators for Arohan are presented:

1. Outreach
2. Prevention of overindebtedness
3. Interest rates and responsible pricing

AROHAN OUTREACH INDICATORS

1.1 million
clients



98%
female clients

58%
client increase

435
branches

PAR>30
PAR>30 is the percentage of loans which are overdue by more than 30 days.

2.8%
PAR>30

Loan portfolio
316
USDm

4. Product mix and range of service
5. Community and environmental development
6. Employment

1. Outreach

The outreach indicator is composed of several subindicators. On the previous pages, the outreach of 2017-2018 is presented.

2. Prevention of overindebtedness

Arohan carries out a repay capacity assessment prior to all loan granting. Customer service representatives make house visits to all new clients to verify the cash flow of the household. The branch head visits approx. 50 per cent of new clients. All loan takers participate in compulsory group training in which they are explained the terms and conditions and pricing information in their local language. The branch head then verifies the clients' understanding during a group recognition test. All loan disbursements are furthermore subject to a check by a credit bureau. Additionally, Arohan follows a policy of one loan per household.

3. Interest rates and responsible pricing

Arohan's interest rates are revised on a regular basis in order to be in compliance with the RBI's, Reserve Bank of India, guidelines on the margin cap. The interest rates range between 21 per cent p.a. and 27 per cent p.a. depending on the loan type.

4. Product mix and range of service

Arohan offers a variety of products to their clients. The Saral loan targets economically active women living in low income areas, generally involved in trade and services. Loan sizes range between USD 230-800. The Bazaar loan is offered to vendors operating small businesses within food, grocery, stationary and domestic needs in general. Loan sizes also range between USD 230-800, and loans are offered to both men and women.

Additionally, a premium loan is offered to individual entrepreneurs involved in non-farm enterprises such as manufacturing, retail trade, etc. Loan sizes range between USD 800-3,100. Other minor loan types include a sanitation loan for the construction of toilets, solar loans, mobile loans and bicycle loans. Additionally, Arohan offers insurances.

Currently, Arohan does not accept deposits. In India, only MFIs with a deposit taking license and small banks are allowed to take deposits.

5. Community and environmental development

Arohan has a CSR policy outlining the institution's focus on developing the surrounding communities. In alignment with Arohan's mission to empower the underserved, Arohan extends its services to help the underserved in the larger community by providing non-financial and non-profit initiatives. Overall Arohan focuses on education and healthcare.

In March 2018, a water sanitation plant was built and completed in Boral in West Bengal. The plant has many integrated functions. First of all it purifies and provides WHO quality clean drinking water to 200 families in the area. In addition, the waste from the plant is used to generate energy to lighting in the community through an

integrated biogas plant, while the solid waste is used as organic manure. The plant also harvests rainwater to maintain the ground water balance in the community.

In May 2018, Arohan won the Jury Award for the CSR Project of the Year - Water for this project, as part of the CSR Excellence Awards 2018 at the India International CSR Conclave and Awards held in Delhi.

Arohan also promotes renewable energy and provides access to solar lamps to clients via the partnership with D.light, a multinational social enterprise and global leader in solar-powered solutions.

In partnership with the financial company Accion, Arohan has created a financial awareness program for its clients in selected branches in the states West Bengal, Bihar and Assam. At year-end 2017 30,000 clients had participated in the program through classroom training sessions, and more than 10,000 clients had benefitted from mass awareness campaigns. The fundamental concepts of financial planning, cash flow, budgetting, savings, debt etc. are covered during the training.

Arohan also hosted a series of skill-training camps in the states Assam, Bihar, Jharkhand and West Bengal. 400 young people were trained in IT, retail as well as beauty/wellness to help increase the employability. In addition, Arohan has provided training on tailoring skills to 200 women helping them develop their own entrepreneural units in the state Odisha. 103 women have subsequently started their own businesses.

100 girls from the Inter College Jhumra in the state Jharkand were awarded the Arohan Scholarship for further education.

The girls are attending 11th and 12th grade and live in a marginalised community where many girls are deprived of education. Arohan also distributed more than 1,000 school bags to children in primary school.

Women's welfare is in general a great focus point of Arohan, and during the year the financial institution provided free medical and diagnostic services in the states of West Bengal, Odisha and Assam.

1,365 women and children benefitted from the medical services.

On a final note, the incessant rains in July and August, 2017 resulted in severe floods across Assam. Employees and volunteers from Arohan provided food and other relief materials to 1,669 families in distress.

In May 2017, Arohan was also awarded the Jury Award for CSR Practice of the Year 2017, which is part of the CSR Excellence Awards at The India International CSR Conclave and Awards held in Delhi. The CSR Excellence Awards acknowledges institutions for their responsible and sustainable practices. Companies are screened by a jury during two rounds.

6. Employment at Arohan

Arohan employs 3,177 people of which 4 per cent are female.

ALSO VISIT

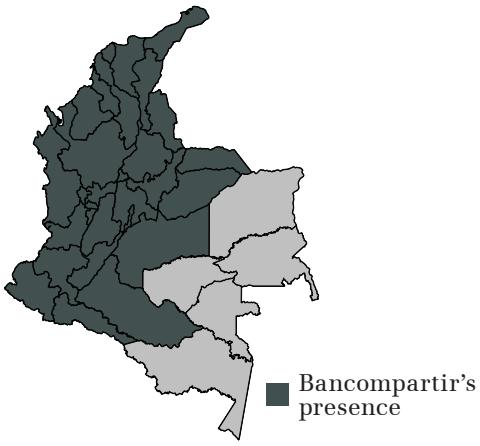
www.arohan.in | www.facebook.com/Arohan.MFI/

BANCOMPARTIR

ABOUT BANCOMPARTIR

Bancompartir is a Colombian banking institution founded in 1988 as an NGO under the name of Actuar Bogotá. In 2015, the institution became Bancompartir and achieved its license to operate as a bank offering banking and micro lending services to individuals, families and small and medium-sized enterprises. In particular, the bank focuses on serving small and micro entrepreneurs and family businesses in the bottom of the pyramid.

MIFIF II invested in Bancompartir in May 2018.



CONCLUSION

Serving 430,000 clients through 401 branches and correspondents, Bancompartir has great outreach across Colombia. More than half of the clients are female and 43 per cent live in rural areas. Bancompartir is certified by the Smart Campaign, demonstrating appropriate and sound client protection principles. The bank offers a varity of products to clients such as credits, savings and insurance at reasonable prices on par with the market. In terms of governance, Bancompartir has in place policies on anti-corruption and good corporate governance. Bancompartir publishes a sustainability report on an annual basis which focuses on the environment, financial education and community outreach.

GOVERNANCE & POLICIES

As a banking institution, Bancompartir is supervised by the Colombian superintendent of banks and has implemented the required system for risk management and prevention of money laundering and financing of terrorism.

Anti-money laundering and anti-corruption

Bancompartir has in place a policy on good corporate governance and a code of conduct outlining a series of preventive measures for preventing money laundering and the financing of terrorism.

INTERNATIONAL STANDARDS & SOCIAL RATING

Bancompartir was certified by the Smart Campaign in 2014 for its good practices and standards in terms of client protection, product offer and business management, among other things. In 2016, Bancompartir renewed its certification. The certification signifies that Bancompartir meets all of the 30 standards on the treatment of clients.

SOCIAL IMPACT RESULTS

The results are based on selected key social indicators. A social indicator is used to assess an institution's performance on social impact.

In the following, six social key indicators for Bancompartir are presented:

1. Outreach
2. Prevention of overindebtedness

SUSTAINABLE DEVELOPMENT GOALS

Last year, the Fund began to map its investments against the Sustainable Development Goals. The investment in Bancompartir contributes to the following SDGs:

3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community and environmental development
6. Employment

1. Outreach

The outreach indicator is composed of several subindicators. On the following pages, the outreach of 2017-2018 is presented.

2. Prevention of overindebtedness

Bancompartir has lending policies which aim to reduce the risk of overindebtedness for clients. Clients are checked via credit bureaus. The bank obtains quarterly reports from the bureau in order to analyse the payment behaviour of the clients.

3. Interest rates and responsible pricing

Bancompartir offers competitive rates which are on par with market rates in Colombia. For micro loans the nominal interest rate p.a. is 41.6 per cent, for SMEs the interest rate is 26.9 per cent and for consumer loans it is 26.9 per cent.

4. Product mix and range of service

Bancompartir offers a variety of products within credits and savings, as well as insurance services. Bancompartir is considered a regional leader in Latin America in relation to product design and delivery, and it is one of three institutions piloting new ways to offer savings accounts to low-income microentrepreneurs.

Within credit, Bancompartir offers loans to micro and small businesses, loans for attending higher education, car loans, consumer loans, housing loans and loans for the agricultural sector.

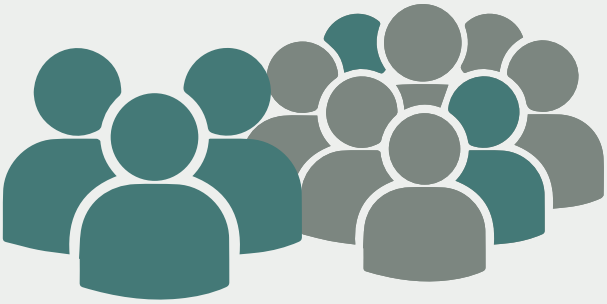
On savings, Bancompartir offers seven different products such as a group/family savings account, individual savings account, savings accounts for a specific purpose and investments in a fixed period.

5. Community and environmental development

Bancompartir publishes a sustainability report on an annual basis. The report focuses on outreach indicators, the environment, financial education and community initiatives as well as internal human resources.

BANCOMPARTIR OUTREACH INDICATORS

430,000
clients



RURAL CLIENTS: 43%

52%
female clients

Loan portfolio
257
USDm

401
branches & correspondents

In 2017, Bancompartir reached 95 branches and 306 correspondents which are small business owners conducting deposits and withdrawals for Bancompartir's clients. Additionally, Bancompartir has 72 ATMs.

8.6%
PAR>30

PAR>30
PAR>30 is the percentage of loans which are overdue by more than 30 days.

Savings portfolio
229
USDm

Bancompartir has a program called *Doctor Financiero* (Doctor Finance), a YouTube channel through which Bancompartir uploads videos with financial education sessions. The videos are available for everyone, including non-clients. During 2017, more than 21,000 people viewed the videos. The program was unique, when Bancompartir launched the program as the first bank in Colombia. Other institutions are now using this model.

Bancompartir also offers financial education for its clients and school children. In 2017, more than 9,000 clients participated in classroom workshops on financial education. More than 6,000 children participated in workshops during the Global Money Week and International Month of Savings.

In addition, Bancompartir hosts various events at Christmas time with the program Navidar. In 2017, Bancompartir hosted 89 events in which more than 7,000 people participated.

Environment

Bancompartir pays great attention to the environment and is a member of the United Nations Environment Programme - Finance Initiative, UNEP Finance Initiative. This is a global partnership between the UNEP and the financial sector with a mission to promote sustainable finance. Also, Bancompartir is a signatory to the Colombian Protocolo Verde (green protocol) which is a project initiated by Asobancaria in cooperation with the government. The protocol seeks to unite the financial sector in Colombia to promote a sustainable development and preservation of the environment and natural resources. Bancompartir reports its carbon footprint and use of resources and continuously seeks to decrease its energy use and use of resources such as paper and water.

6. Employment at Bancompartir

Bancompartir employs 1,715 people of which 59 per cent are female. Bancompartir has great focus on the development of its employees, and in 2017 it carried out educational programs with focus on general training and education, computer programs, education at manager level and training on laws and regulation.

ALSO VISIT

www.bancompartir.co

www.facebook.com/bancompartir/

BELSTAR

ABOUT BELSTAR

Belstar is an Indian non-banking financial company - Microfinance Institution (NBFC-MFI) established in 1988 and headquartered in the southern region Tamil Nadu. The institution is dedicated to lending to rural and semi-urban women in the Tamil Nadu region, providing mostly agricultural loans via self-help groups and joint liability groups. Belstar's business model pursues a double bottom line focusing on both financial performance as well as social performance with the assistance of the charitable organization Hand in Hand India.

The investment in Belstar was approved by the investment committee in May 2018 and closing is expected in June 2018.

CONCLUSION

Serving nearly 500,000 clients through 234 branches across seven states and a client base of 100 per cent women, Belstar has a large outreach focusing on the vulnerable part of the Indian population - the women.

Belstar has in place sound governance policies ensuring that business is carried out with a respectful and compliant approach. Additionally, Belstar is required by law to have a CSR policy and a CSR Committee in order to undertake activities that fall under Corporate Social Responsibility. The institution has a close partnership with the organisation Hand in Hand India on community development and providing non-financial services to clients.

> *More than 354,000 women have benefitted from the financial education programs.*

Interest rates are within the national caps and clients are informed of prices and conditions prior to taking loans. The product portfolio is well-suited to meet the clients' needs and is offered via the self-help group and joint liability group models. Life insurance cover is offered with each of the loan products, and all borrowers are insured for life.

BELSTAR

GOVERNANCE & POLICIES

Belstar has in place a code of conduct outlining the institution's business process. The code of conduct reflects the industry code of conduct developed by MFIN (Microfinance Institutions Network).

Belstar also has in place the following policies:

- Investment Policy
- Whistleblower/Vigil Mechanism Policy

SUSTAINABLE DEVELOPMENT GOALS

Last year, the Fund began to map its investments against the Sustainable Development Goals. The investment in Belstar contributes to the following SDGs:

BELSTAR OUTREACH INDICATORS

495,000
clients

100%
female clients

Loan portfolio
165
USDm

234
branches

PAR>30
PAR>30 is the percentage of loans which are overdue by more than 30 days.

1.8%
PAR>30

- Corporate Social Responsibility Policy
- Related Party Transaction Policy
- Corporate Governance
- Fair Practices Code
- Customer Grievance Redressal

As required by the Indian Companies Act with effect from 2014, every company that falls under the criteria of the Act is to establish a CSR Policy and a CSR Committee in order to undertake activities that fall under Corporate Social Responsibility.

In accordance with national legislation, Belstar has in place policies on Know Your Customer (KYC) and Anti-Money Laundering. The objective is to prevent Belstar from being used for money laundering or terrorist financing activities.

The Corporate Governance document outlines the institution's commitment to adopt the best practices and the highest standards of corporate governance through transparency in business ethics and accountability.

INTERNATIONAL STANDARDS & SOCIAL RATING

Belstar has not yet endorsed the client protection principles of the Smart Campaign. However, the institution performs very well on the seven principles, and the areas covered by the principles are all part of the code of conduct and an integrated part of the business approach.

SOCIAL IMPACT RESULTS

The results are based on selected key social indicators. A social indicator is used to assess an institution's performance on social impact.

In the following, six social key indicators for Belstar are presented:

1. Outreach
2. Prevention of overindebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community and environmental development
6. Employment

1. Outreach

The outreach indicator is composed of several subindicators. On the previous pages, the outreach of 2017-2018 is presented.

2. Prevention of overindebtedness

As described in the code of conduct, Belstar conducts a proper due diligence in accordance with the internal credit policy to assess the need and repayment capacity of clients before granting a loan. Furthermore, clients will not be granted a loan if they have additional loans from two other lenders, and Belstar complies with the total debt limit for clients as prescribed by the RBI or the state governments.

PAR>30 is the number of loans which are overdue by 30 days. For Belstar it is 1.8 per cent (as of December 2017 before write-off).

3. Interest rates and responsible pricing

Interest rates on loans range between 24 per cent and 25 per cent with a processing fee of 1 per cent on the loan amount. Repayment terms vary from 10 to 30 months.

4. Product mix and range of service

Belstar provides collateral free loans aimed at supporting clients in building assets, creating a sustainable livelihood and generating income to support a range of household needs. A major part of the loan portfolio is committed towards livelihood enhancement in the form of loans to agriculture and similar activities, production and manufacturing, service provision, trade and business and for micro, small and medium enterprises.

Belstar offers loans via the self-help group and joint liability group models. The self-help group loans constitute 91 per cent of the loan portfolio and is made up of 10-20 women in each group. Loans range from USD 500-1,000. The joint liability group loans constitute 9 per cent, and the group is made up of 6-10 women. Loans range from USD 300-800.

Life insurance cover is offered with each of the loan products, and all borrowers are insured for life, covering the entire loan exposure and repayment duration.

5. Community and environmental development

Belstar has great focus on social performance with the assistance of Hand in Hand India.

In the CSR policy, Belstar has committed to focusing on areas such as health by promoting preventive healthcare, sanitation and providing safe drinking water; education by promoting special education and employment enhancing vocational skills and livelihood enhancing projects in particular to children, the elderly, women and disabled; rural development projects by improving accessibility, housing, drinking water, sanitation, electricity and other essential livelihood items; gender equality and empowerment of women by setting up homes and hostels for women and orphans, and care homes for the elderly, day care centres and other facilities for senior citizens and measures for reducing inequality faced by socially and economically challenged groups; environmental sustainability; and national heritage, art and culture.

The organisation Hand in Hand India is Belstar's social partner and in cooperation with the organisation, Belstar provides training and advisory support to its clients as well as non-financial aid.

The financial education programs focus on:

- Building relations to larger corporations to make their businesses more sustainable
- Group dynamics
- Financial literacy
- Promoting and upgrading businesses
- Upgrading skills

Nearly 11,600 self-help group leaders benefitted from training. Skill training was provided to approx. 1,200 women.

342,000 self-help group and joint liability group members were trained on group management, financial literacy and entrepreneurship.

Scarce medical facilities are highly responsible for the poor health status of rural populations in India.

As part of its CSR program, Belstar has provided financial support to Hand in Hand to create access to healthcare in villages in the Tamil Nadu state, India. The following activities were carried out in the financial year 2016-2017 and are described as reported in Belstar's annual report.

Awareness training on health for clients and weekly clinics with screening, diagnosis and treatment facilities were the key activities. Women were trained on general health, nutrition, hygiene and sanitation. Focus is on behavioural change and promoting positive health practices among the clients, their family members and their surrounding community. The programs highly improve the general health and life quality of the participants. The improved nutritional and hygienic practices are expected to increase the work participation rate, increase productivity, reduce personal financial crisis as a result of illness and reduce expenses related to illness.

More than 4,700 women participated in the health training programs.

A series of health clinics have also been established for non-clients in rural communities. Community members paid a small fee of around USD 0,30 per consultation and medicine. Clinics attended to immediate health issues and screened for common diseases, and patients who could not be helped at the clinic were referred to a nearby public hospital. More than 2,500 patients, more than half female, benefitted from the access to the clinics.

6. Employment at Belstar

Belstar employs 1,502 people.

ALSO VISIT

https://www.belstar.in

2018: NEW INVESTMENT IN PIPELINE

Maj Invest Financial Inclusion Fund II is expected to invest in Aye Finance in June 2018. Aye Finance is a non-banking financial company founded in 2014. Aye is dedicated to lending to micro and small enterprises and individuals, and is non-deposit taking. The institution seeks to close the financing gap for Indian micro and small enterprises. Aye operates mainly in the northern and eastern regions of India, in total 10 states.

Aye Finance has very sound policies in place in terms of ESG, fair practices, whistleblowing and workplace harassment as well as an exclusion list.

OUTREACH

33,000
clients

90%
female clients

76
branches

USDm 65
loan portfolio

APPENDIX 1

THE FUND'S SOCIAL IMPACT POLICY

Scope

Maj Invest Financial Inclusion Fund II K/S (the Fund) is managed by Maj Invest Equity A/S (the Manager). The Social Impact Policy is part of the Fund's investment strategy, outlining the Fund's commitment to social impact, and the Fund's requirements to the portfolio companies in relation to social impact. The Fund follows an impact investment strategy with a double bottom line, targeting both financial return and social impact.

"*Impact investing is an investment approach that intentionally seeks to create both financial return and a social or environmental impact that is actively measured*" (Credit Suisse, 2014).

The Fund's commitment to social impact

The Fund considers social impact investing as an integrated part of the overall framework for Responsible Investment, and the Fund's perception of Responsible Investment is aligned with that of the UN:

"*Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems.* " (UN PRI)

More specifically for Responsible Investment in the microfinance and financial inclusion sector, the UN has provided a framework in the form of Principles for Investors in Inclusive Finance . The principles represent the core values of the Fund's commitment to social impact and express the Fund's intent to create long-term social impact.

UN Principles for Investors in Inclusive Finance

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.

2. Client protection. We believe that client protection is crucial for low income clients. Therefore we will integrate client protection into our investment policies and practices.

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.

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

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

6. Balanced returns. We will strive for a balanced long-term social and financial risk-adjusted return that recognises the interests of clients, retail providers and our investors.

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

The Fund is committed to working with the portfolio companies on creating longterm social impact and contributing to a sustainable development, adding value to the portfolio companies and enhancing business opportunities. The Fund will encourage such activities to be anchored in the business plan.

The Fund's approach to working with social impact

During both the investment process and the management phase of the portfolio companies, the Fund strives to incorporate its commitment to social impact into the investment decision-making process and ownership practices.

As part of the due diligence process, an assessment of the portfolio companies' compliance and commitment to recognized international social impact standards is carried out prior to investment. The Fund will only invest in companies which can identify with the Fund's core values, and companies that work dedicated towards adhering to recognized international social impact standards. In each investment case the Fund will assess which of the recognized international social impact standards are relevant. The most commonly used standards are:

■ **Client Protection Principles of the Smart Campaign**
The Smart Campaign is a global initiative to incorporate strong client protection practices across the microfinance industry. The Smart Campaign embodies a set of core principles - the minimum standards that clients should expect to receive when doing business with a microfinance institution.

■ **Universal Standards for Social Performance Management of the Social Performance Task Force**
The Universal Standards apply to any financial service provider with one or more social goals. They do not dictate what specific social goals an institution should have, but identify the management practices that help an institution make progress toward its chosen goals.

■ **Anti-Money Laundering Recommendations of the Financial Action Task Force**
The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

■ **IFC's Exclusion List**
IFC is a member of the World Bank Group, and the IFC Exclusion List defines the types of projects that IFC does not finance. It is a commonly acknowledged exclusion list within the industry of microfinance.

■ **EDFI's Exclusion List**
The European Development Finance Institutions (EDFI) has as a result of their harmonized process mutually agreed on an Exclusion List for co-financed products.

■ **Principles for Investors in Inclusive Finance**
The Principles provide practical guidance on responsible investment practices. The PIIF, aligned with the PRI, provide investors with a unique responsible investment framework, developed for investors.

During the management phase, the Fund will monitor the portfolio company's social impact activities through the Fund's board participation, visits and/or reporting and dialogue with reference to the Fund's Social Impact Policy. If a portfolio company should be found to be in severe breach with the relevant recognized international social impact standards, the Manager will engage in dialog with management and other shareholders, and strongly encourage working towards compliance and develop a plan for the implementation. As a last resort the Fund can consider to divest from the portfolio company.

The Fund will require the portfolio companies and/or the controlling shareholders to be committed to work dedicated towards adhering to recognized international social impact standards, and not be engaged in activities set out in IFC's Exclusion List and EDFI's/IFU's Exclusion List. Additionally, the Fund will require the portfolio companies and/or the controlling shareholders to have or adopt a written social impact policy and ensure that sufficient management capacity and a management system is available to manage social impact activities and resources. Such commitments may be given in a shareholders' agreement and/or in the form of a declaration from the portfolio company and/or in another appropriate manner.

The Manager (Maj Invest Equity A/S) recognizes that certain of the Fund's investors have in place ethical guidelines for responsible investments which are applicable also to such investors' investment in the Fund. In sourcing and reviewing potential investments and in providing investment recommendations to the Investment Committee, the Manager and the Investment Advisor (Fondsmæglerselskabet Maj Invest Equity A/S) shall

- to the extent a copy of the guidelines have been provided to and accepted by the Manager - duly consider and use reasonable efforts in ensuring that any additional restrictions such guidelines may impose are complied with in respect of the Fund's investments.

The Fund's management process

The Manager (Maj Invest Equity A/S) has assigned a senior manager as responsible for the formulation and implementation of the Fund's Social Impact Policy. The manager will at all times maintain appropriate management processes to ensure full implementation of the policy. As stipulated in the Fund's Investment Policy, the Fund will only invest in financial institutions engaged in microfinance that are strongly engaged in social impact activities, and show a strong commitment to Social Impact in their business activities, which is common in the microfinance industry because it is part of the mission of most of the microfinance institutions. The Manager and the team assigned to implement and monitor the Fund's Social Impact Policy, will ensure this commitment by the investees during the due diligence process, and during the ownership period by Board participation, personal visits and reporting regarding Social Impact progress.

Information and reporting

An annual social impact report will be submitted to the Fund's investors covering the performance and social impact compliance of the portfolio companies. Upon request from the Limited Partners, the Manager will make additional information on social impact performance available to Limited Partners and arrange that the Limited Partners can make a visit to overview the social impact initiatives of the portfolio companies. The Limited Partners will visit the portfolio company together with the Manager, and visits shall be scheduled in accordance with the portfolio company. If an incident should occur in one of the Fund's portfolio companies seriously breaching the Fund's Social Impact Policy, the Manager will inform the Limited Partners about the nature of the breach and the planned mitigation measures.

APPENDIX 2

INTERNATIONAL STANDARDS AND ORGANISATIONS

1. THE SMART CAMPAIGN

www.smartcampaign.org

The Smart Campaign is a global initiative to incorporate strong client protection practices across the microfinance industry. The Campaign was initiated as a response to a strongly recognised need to assure safe and responsible treatment of microfinance clients. Microfinance industry leaders from around the world came together in 2008 to launch a campaign to establish the Client Protection Principles. By incorporating client protection principles into their investment criteria and due diligence, microfinance investors can build a healthier, more client-focused industry that will foster a stronger portfolio and ensure healthy returns. To put the principles into action, the Smart Campaign was launched in October 2009 and today, it is a global effort with over 4,000 endorsers.

The core principles of the Smart Campaign set the minimum standards for the treatment of clients when doing business with a microfinance institution. These principles are:

1) Appropriate product design and delivery
2) Prevention of overindebtedness
3) Transparency
4) Responsible pricing
5) Fair and respectful treatment of clients
6) Privacy of client data
7) Mechanisms for complaint resolution

2. SOCIAL PERFORMANCE TASK FORCE (SPTF)

www.sptf.info

The Social Performance Task Force was created in 2005 by leaders from various social performance initiatives in the microfinance industry and resulted in the Universal Standards for Social Performance Management. The Universal Standards apply to any financial service provider with one or more social goals. They do not dictate what specific social goals an institution should have, but identify the management practices that help an institution make progress toward its goals. The standards are simple statements of what the institution should achieve and essential management practices which the institution can implement in order to meet the standards.

The six overall dimensions are:

1) Define and monitor social goals
2) Ensure board, management, and employee commitment to social goals
3) Design products, services, delivery models and channels that meet clients' needs and preferences
4) Treat clients responsibly
5) Treat employees responsibly
6) Balance financial and social performance

The Universal Standards incorporate the Client Protection Principles of the Smart Campaign and is aligned with the UN-supported Principles for Investors in Inclusive Finance (PIIF). While the Universal Standards are management practices for retail providers to implement, PIIF is a self-audit and public reporting tool which applies to investors.

Today, the Social Performance Task Force (SPTF) consists of over 2,200 members from all over the world and every microfinance stakeholder group.

3. UN'S PRINCIPLES FOR RESPONSIBLE INVESTMENT

www.unpri.org

The UN-supported Principles for Responsible Investment (PRI) initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories in incorporating these issues into their investment decision making and ownership practices. In implementing the Principles, institutions contribute to the development of a more sustainable global financial system.

The Principles are voluntary and aspirational. They offer a menu of possible actions for incorporating ESG issues into investment practices across asset classes. Applying these Principles may better align investors with broader objectives of society. The principles are:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
Principle 6: We will each report on our activities and progress towards implementing the Principles.

4. PRINCIPLES FOR INVESTORS IN INCLUSIVE FINANCE (PIIF)

www.unpri.org

The Principles provide practical guidance on responsible investment practices. The PIIF, aligned with the PRI, provide investors with a unique responsible investment framework, developed for investors, by investors. They address key issues that stakeholders have collectively identified, ranging from the risks associated with client over-indebtedness to the need for further transparency in inclusive finance.

The Principles for Investors in Inclusive Finance 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. By signing the principles, investors or fund managers investing in inclusive finance commit to adhering to and promoting the following:

1) Range of services
2) Client protection

3) Fair treatment
4) Responsible investments
5) Transparency
6) Balanced returns
7) Standards

5. INTERNATIONAL FINANCE CORPORATION (IFC)

www.ifc.org

The IFC is a member of the World Bank Group and is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines the policies. The IFC's work in more than 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities.

The IFC Exclusion List defines the types of projects that IFC does not finance and is a commonly acknowledged exclusion list within the industry of microfinance.

6. MFTRANSPARENCY

www.mftransparency.org

MicroFinance Transparency (MFTransparency) was established to promote the welfare of poor microentrepreneurs and to promote the integrity of microfinance as a poverty alleviation practice. It is a global initiative for fair and transparent pricing in the microfinance industry. MFTransparency is an international non-governmental organisation that promotes transparency by facilitating microfinance pricing disclosure, offering policy advisory services and developing training and education materials for all market stakeholders. Since MFTransparency's launch in July 2008, 912 industry leaders, including MFIs and Apex Banks currently serving 60 million clients worldwide, have signed the endorser statement.

7. MFIN - THE MICROFINANCE INSTITUTIONS NETWORK

http://mfinindia.org

The MFIN is a self-regulatory organisation (SRO) in the financial services sector recognised by the Reserve Bank of India (RBI). The MFIN regulates Non-Bank Finance Company-Micro Finance Institutions (NBFC-MFIs), and its primary objective is to work towards the robust development of the microfinance sector, by promoting responsible lending, client protection, good governance and a supportive regulatory environment. The MFIN works closely with other key stakeholders and plays an active part in the larger financial inclusion dialogue through the medium of microfinance.

As an SRO, MFIN members adhere to a framework comprising external (RBI's Fair practices code) and internal (industry code of conduct) measures to ensure responsible and transparent business practices.

8. ASFI - AUTORIDAD DE SUPERVISIÓN DEL SISTEMA FINANCIERO

www.asfi.gob.bo

ASFI is Bolivia's federal banking, finance and securities regulator. It is responsible for monitoring financial institutions.

9. SBS - SUPERINTENDENCIA DE BANCAS, SEGUROS Y AFP

www.sbs.gob.pe

SBS is the organisation responsible for the regulation and supervision of the Peruvian financial system. Since 2000 it has also supervised the AFP system. Founded in 1932, its objectives, functions and attributes were established by the general law of the financial system and the banking and insurance regulator.

10. SOCIAL AND CREDIT RATING BUREAUS

www.planetrating.com; www.ratingspcr.com; www.classrating.com

Credit and social rating bureaus offer evaluation and rating services to microfinance institutions. Planet Rating, for example, use their own Smart GIRAFE and Social Performance methodologies. Other rating bureaus include Pacific Credit Rating and Class & Asociados. Pacific Credit Rating and Class & Asociados operate in Latin America and Peru, respectively, and specialise in financial ratings.

DISCLAIMER

This report has been prepared by Maj Invest Equity A/S ("Maj Invest").

The sole purpose of this report is to provide general information. This report should not be considered an offer, or invitation, to buy or sell any security, foreign currency or financial instrument.

This report is not based on or customised to any investor's financial circumstances. This report does not constitute professional consulting advice and should not be seen as such. This report only provides general information, including on securities and investment certificates. The information in this report should not replace individual professional counselling.

This report is based on information from sources that Maj Invest finds reliable, but Maj Invest has no responsibility in relation to the accuracy of the information or for the consequences of decisions made on the basis of this report, including potential losses.

Maj Invest, Fondsmæglerselskabet Maj Invest A/S and its parent company Maj Invest , and employees of Maj Invest and Fondsmæglerselskabet Maj Invest A/S may hold, trade and execute orders in securities, foreign currency and financial instruments mentioned in this report. In addition, Maj Invest may provide investment and portfolio advisory services to clients mentioned in this report.

Evaluations in this report are based on estimates and assumptions. Investment in securities is associated with risks. General movements in the market and incidents linked to securities can impact the development in market prices, and as a result prices may differ significantly from the expectations presented in this report. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised.

Photo credits: pictures in this report are kindly provided by the portfolio companies. The pictures on pages 29 and 47 are provided by Getty Images.

MAJ
INVEST

Maj Invest Equity A/S | Gammeltorv 18 | DK-1457 Copenhagen K | Tel. +45 33 38 73 00
www.majinvest.com | CVR no. 2871 6648