DANISH MICROFINANCE PARTNERS K/S

Social Impact Report 2016/2017

MAJ INVEST

TABLE OF CONTENTS

INTRODUCTION

The purpose of this report is to present the social impact of the portfolio companies of Danish Microfinance Partners K/S (DMP or the Fund) in 2016/2017. The report is based on the social impact reporting provided by the portfolio companies to the Fund and information provided through board participation.

DMP is structured as a private equity fund and was established in October 2010. The Fund is managed by Maj Invest Equity A/S. The investors are IFU together with pension funds administered by PKA A/S and Pensionskassen for Børne- og Ungdomspædagoger (PBU).

Investment strategy

Danish Microfinance Partners K/S is a closed-end private equity fund investing directly in top tier financial institutions providing micro- and SME financial services in Latin America, Asia and Africa. Through direct equity investments, the Fund acquires significant minority positions with board representation in the financial institutions together with trusted investment partners. The Fund invests in top tier financial institutions of the sector, with a medium to large size loan portfolio of minimum USD 100 million. The target financial institutions must be mature and well-established, with advanced and efficient operational infrastructure, strong governance, highly qualified management, experienced co-investment partners and attractive growth potential. The targets must have the capability to benefit from the growing sector, to become regulated banks through organic growth or consolidation, to reach a ROE of 20 per cent or higher and have a strong exit strategy for the Fund.

The microfinance sector

The financial inclusion market is of significant magnitude and presents an attractive investment opportunity. Companies in this sector provide financial services to clients above extreme poverty levels, but below the middle class as well as to micro, small and medium sized enterprises (MSMEs). The Fund seeks to generate above market returns by investing in the financial infrastructure and microfinance banking sector in developing markets such as Latin America, Asia and Africa.

Globally, financial inclusion is an ample and growing market. It is estimated that 2.3 billion people are unbanked with no access to accounts, savings or payment mechanisms. Over 200 million MSMEs in developing economies are unserved or underserved, suffering a financing gap of USD 2.1-2.6 trillion. In 2017, financial institutions in this market had a loan portfolio of USD 87 billion and attended 111 million clients and grew at 10 per cent and 16 per cent, respectively. In its Market Outlook 2016, Zurich-based responsAbility estimated that the global microfinance market grew at 10-15 per cent, showing a stronger pace for Asia Pacific (30 per cent, mainly in India and Cambodia) and Sub Saharan Africa (15-20 per cent on the back of low penetration levels) than for Latin America (5-10 per cent, given its mature market status). Albeit this fast growth pace, the ratio of private credit to GDP in countries with large microfinance markets hovers around 40 per cent, whereas in

developed countries this ratio is well above 100 per cent. There are vast opportunities for growth as evidenced by a pervasive financial exclusion landscape .

As a market grows, there is pressing need for new conducive regulation, products, technologies and investments. According to the EIU Global Microscope 2016, four countries, out of 55, top the list for their favourable regulatory environment for financial inclusion: Colombia, Peru, India and the Philippines. India's addition to the top four is the result of its government's efforts to provide wider access to its large unbanked population. Technology usage, such as e-payments or mobile money, are expanding quite rapidly in India and Bolivia. Both countries show the highest scores on e-payments in the EIU report. Kenya takes the lead on mobile phone usage to receive money remittances with 67 per cent of the population using such means. Other developments, such as branchless banking or peer to-peer lending are becoming more mainstream. In China alone, as of mid-2016, a local paper reported the existence of 2,349 online lenders with outstanding loans of USD 93 billion.

As a large and, to a point, unattended market keeps growing, sector participants need significant sums of capital to close the financial inclusion gap. Symbiotics, a financial intermediary, estimates that the private sector has invested around USD 11 billion in microfinance assets as of 2015. As structural changes take place, even more capital is needed. For instance, in March 2016, Cambodia increased the minimum capital requirements for deposit-taking MFls from USD 2 .5 million to USD 30 million. In mature microfinance markets, such as Colombia and Peru, equity positions owned by entities with no commercial focus, will seek to exit as their developmental role comes to an end. These shifts have translated into average equity transaction tickets growing from USD 2-5 million to USD 15-20 million. The financial infrastructure and microfinance banking market presents an unparalleled investment opportunity. The imbalances between the size of the population demanding these services and the small, albeit growing, current offering, creates significant prospects for capital deployment. Moreover, the technological and regulatory advances in the countries where the Fund invests opens the possibility for operating efficiencies, value creation opportunities and demand of equity investments leading to outsized returns upon exit.

Social impact strategy

The Fund advocates the protection of social sustainability to promote corporate social responsibility. In order to maximise positive social impact and minimise any such negative impact of the operations and of the investee companies, it is the Fund's objective to be in compliance with the International Finance Corporation's (IFC's) *Policy on Social and Environmental Sustainability*. The CSR Policy of the Fund considers the provisos laid down in IFC's *Microfinance Exclusion List*, *Anti-Money Laundering Requirements*, *Anti-Corruption Guidelines* and *CGAP Client Protection Principles* with the purpose of keeping track of activities of its investee microfinance institutions in identifying, assessing and managing social and environmental risks at the ground level. Through earnest implementation of the CSR Policy, DMP strives to achieve its vision of generating a double bottom line return for its investors.

Maj Invest group

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 2015, Maj Bank was established.

In 2009, Maj Invest Equity International was established as a business activity of Maj Invest. Maj Invest Equity International provides investment advisory services to four private equity funds: Danish Microfinance Partners K/S, Maj Invest Financial Inclusion Fund II K/S, Maj Invest Equity Vietnam I K/S and Maj Invest Equity Southeast Asia II K/S.

RESULTS AND CONCLUSION

By June 2017, Danish Microfinance Partners K/S had five direct and indirect investments in Banco Solidario, Credinka, Microcred Holding, Aavishkaar Goodwell and Próspero Microfinanzas Fund. The Indian microfinance institution Satin Creditcare was exited in July 2016. As such, 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 and goal to secure a sustainable economic, social and environmental development. The goals are to stimulate action during the next 15 years through 17 goals and 169 targets. As part of the Fund's further development in line with the sustainable development agenda, this year's social impact report maps the initiatives of the portfolio companies according to relevant SDGs.

The mapping of the results and initiatives of the portfolio companies against the SDGs showed that the Fund's results contribute to the implementation of four sustainable development goals.

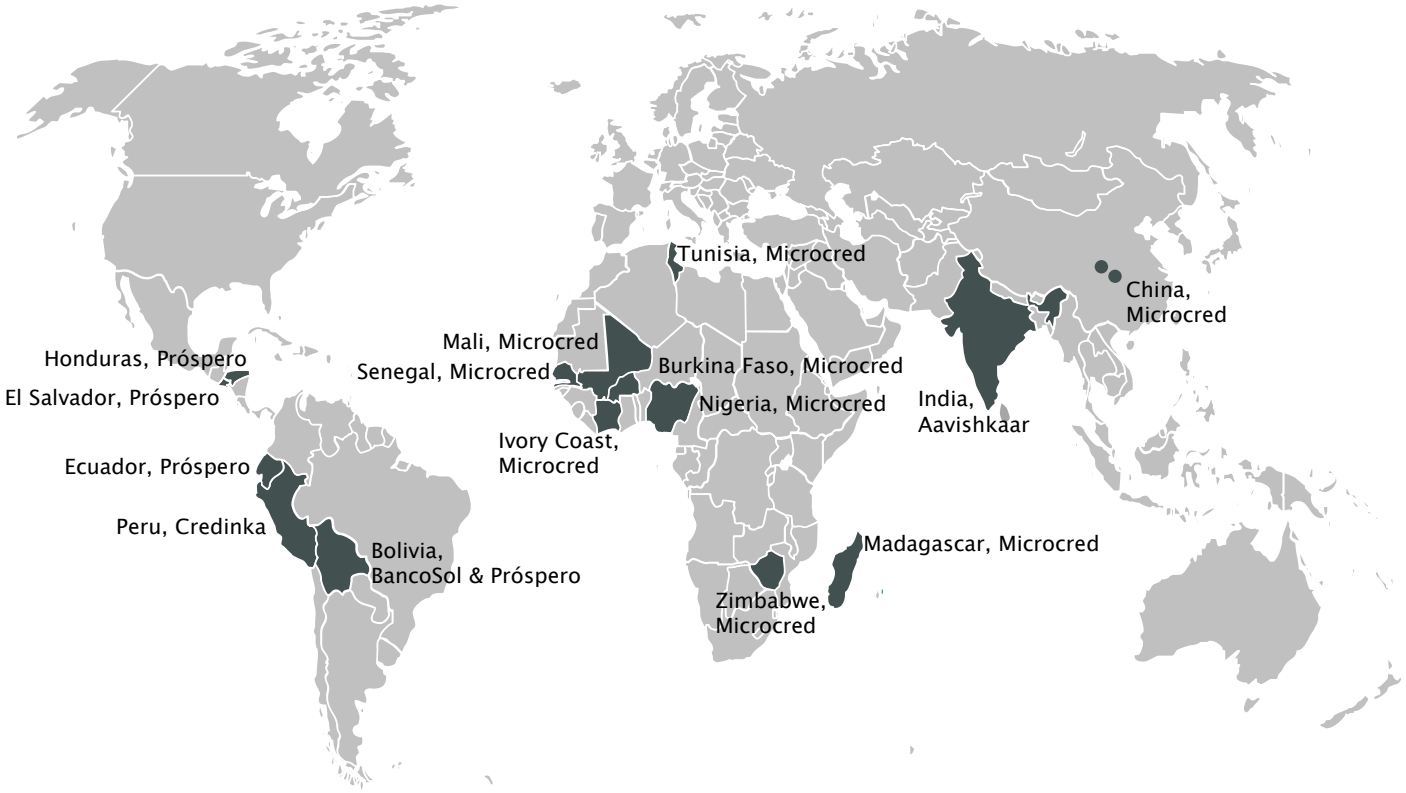
These goals are: SDG 1 *No Poverty;* SDG 5 *Gender Equality;* SDG 6 *Clean Water and Sanitation; and* SDG 7 *Affordable and Clean Energy.*

The Fund only invests in portfolio companies which adhere to internationally recognised social impact standards and client protection principles.

> *All of the portfolio companies have either endorsed or been certified by the Smart Campaign and the Client Protection Principles.*

Further, the portfolio companies follow internal exclusion and anti-money laundering 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 *Universal Standards for Social Performance Management of the Social Performance Task Force* and indicators used by social performance rating agencies.



The six indicators are:

1. Outreach
2. Prevention of over-indebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community 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, the total loan and savings portfolio and the portfolio at risk. On the next pages, an overview of the total outreach results is presented.

Prevention of over-indebtedness

The companies have implemented extensive procedures on determining the risk level of their clients. The use of credit registers is widely integrated in the loan granting process and interviews with the spouse, gurantors and even neighbours are carried out prior to granting a loan. Additionally, some companies carry out tests to determine if clients have understood the loan terms. Through the endorsement or certification of the Smart Campaign, the portfolio companies have committed to ensure in all the credit processes that clients have the ability to pay back and not become overindebted.

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

Interest rates and reasonable pricing

The interest rates range between 12.8 per cent p.a. and 37.1 per cent p.a. depending on the country and loan type. Only some of Microcred's institutions in countries without caps have higher interest rates. 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 sometimes is 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 the various credit types, they offer savings accounts, insurance, money transfers, credit cards, financial education, mobile branches and small branch outlets. This is in line with the principle of the Smart Campaign on having an appropriate and relevant product portfolio.

Community development

Along with financial services, the portfolio companies have extensive focus on developing and reaching out to their surrounding communities by providing both clients and non-clients with non-financial services. Focus is in particular on the empowerment of women, financial literacy and education and the provision of energy sources and access to clean water.

In Africa, close to 35,000 homes and 210,000 people have been provided with solar lamps through Microcred's Baobab+ programme.

In Bolivia, more than 18,000 school children have benefitted from BancoSol's financial education programme. Via Aavishkaar Goodwell in India, 20,000 women have benefitted from Utkarsh's financial literacy and women empowermen programmes, and nearly 4,000 people have participated in Arohan's health camps, commercial and IT training as well as benefitted from emergency aid.

TOTAL OUTREACH

5.5 million
clients

2.9%
PAR>30*

Loan portfolio

3,093
USDm

* Average is excl. Satin Creditcare.

63%
Female clients

2,500
Branches

Savings
1,380
USDm

Employment

The portfolio companies create many jobs in their respective countries and employ close to 20,000 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 infrastructure in Latin America, Africa and Asia 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 development of the developing countries in these regions. However, microfinance must be accompanied by other initiatives to alleviate poverty, including a stable political and economic environment together with investments in infrastructure, education and health, and other important sectors.

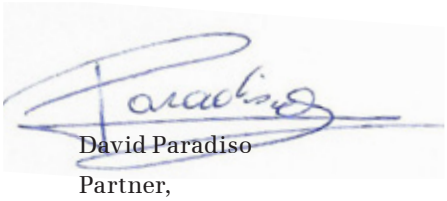
As such financial inclusion is not a guarantee for prosperity for everyone with access to financial services, but it creates an important opportunity for each individual.

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

More information on the national and international standards mentioned in this report can be found in Appendix 2.

Copenhagen, 8 June 2017

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



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

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

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

THE SUSTAINABLE DEVELOPMENT GOALS 2030

In 2015, the UN launched the Sustainable Development Goals 2030 (SDGs) defining worldwide sustainable development priorities. 17 goals including 169 targets have been established and are set out to stimulate actions during the next fifteen years. The goals are centered around the three dimensions of a sustainable development: economic, social and environmental. Some of the goals are closely linked to the social focus areas of the investments in Danish Microfinance Partners. Businesses are encouraged to contribute to a sustainable development through investments, among other things. As part of the Fund's contribution, Danish Microfinance Partners has in this year's social impact report begun to map the social impact indicators of the Fund against the SDGs.

Sustainable Development Goal 1
End poverty in all its forms everywhere.

Target 1.2: *By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.*

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.*

DMP contributes to these targets through all the Fund's investments. The financial institutions provide small loans to people in the low income group in Latin America, Asia and Africa. Microfinance 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 more than 5.5 million clients across 15 countries. As such, the Fund contributes to creating easy access to financial services for all.

Sustainable Development Goal 5
Achieve gender equality and empower all women and girls.

On average 63 per cent of the clients are female, ranging between 45 and 99 per cent. Both Arohan, a portfolio company of the Aavishkaar Goodwell Fund, Credinka and Satin Creditcare have developed specific products exclusively for women living in rural areas. In Satin Creditcare, nearly all clients are female. This greatly contributes to the empowerment and independence of these women.

Sustainable Development Goal 6
Ensure availability and sustainable management of water and sanitation for all.

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

The Fund contributes to this target through the investment in Microcred. Microcred has become the official distributor of the LifeStraw® in Senegal and the Ivory Coast through its Baobab+ programme. The LifeStraw® filters 99.99% 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 water to all.

In large parts of the areas in India in which Satin operates, safe and clean water and sanitation facilities are not available. To accomodate this issue, Satin Creditcare has introduced a loan product for the establishment of water and sanitation facilities. This loan type enables clients to improve their household significantly and will in general also contribute to the health and safety not only of the clients, but also of other parts of the population. More than 300 loans have been disbursed since the product was launched.

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.*

Target 7.2: *By 2030, increase substantially the share of renewable energy in the global energy mix.*

According to Microcred, two thirds of the African population does not have appropriate access to electricity. The Baobab+ programme addresses this issue by making affordable modern solar lamps and domestic solar systems available to everyone. The distribution of solar lamps also contributes to the increase of the share of renewable energy. Solar products are available through Microcred's branches and in Baobab+ stores. Since the launch of the programme in 2015, 35,000 homes have been equipped with solar solutions, and 210,000 thousand people have benefitted from the programme. The lamps improve the people's lives significantly and prolong the activity hours of the population enabling them to cook, study and work beyond the hours of daylight. As part of its social strategy, the Baobab+ programme has donated solar lamps to rural schools enabling the school children to study at home after nightfall.

Satin Creditcare has developed a solar lamp loan product. With the granting of this loan, clients that do not otherwise have access to lighting sources or use kerosene lamps are able to afford sustainable energy. So far, more than 200,000 solar loans have been granted.

BANCOSOL

ABOUT

In February 1992 BancoSol was established with a client base of 22,000 borrowers and a portfolio of USD 5.2 million. At that time, there were only few institutions in Bolivia focusing on the development of the micro enterprise sector, and after a couple of years BancoSol more or less had a monopoly in the granting of loans to micro entrepreneurs. Today, BancoSol has become one of the main financial entities in the country.

CONCLUSION

BancoSol has a high level of social awareness and holds a Smart Campaign certification demonstrating that the institution upholds the Client Protection Principles. BancoSol offers a wide variety of products and is aware of the need for implementing mobile and online services. BancoSol reaches out to more than 860,000 clients through its 436 branches, outlets and ATM's in the main cities in Bolivia. Almost 50 per cent of the clients are female. BancoSol has reasonable pricing incl. average interest rates p.a. which are on par with market rates and a well-developed system on preventing over-indebtedness. The surrounding community greatly benefits from the initiatives of BancoSol, and the programmes include sport events, financial education, music lessons and a donation programme. Thousands of people have benefitted from these initiatives.

INTERNATIONAL STANDARDS AND POLICIES

Client protection principles

In January 2014 BancoSol was certified by the Smart Campaign for demonstrating high standards of client protection. The Smart Campaign's Certification programme publicly recognises those institutions providing financial services to low-income households whose standards of care uphold the Smart Campaign's seven Client Protection Principles. These cover areas such as pricing, transparency, fair and respectful treatment of clients and the prevention of over-indebtedness.

Anti-money laundering and anti-corruption

The national legislation on anti-money laundering and internal policies of BancoSol serve as the legal frame ensuring that the bank carries out adequate control of its operations. All suspicious transactions are reported to the national unit for financial investigation (UIF).

SOCIAL IMPACT AND CREDIT RATING

BancoSol was rated by the global microfinance rating agency Planet Rating in March 2015, evaluating the social impact results of 2014. It was rated a "4+" on a scale of 1-5, expressing that BancoSol demonstrates a clear commitment to social goals, reasonable management of social performance and social responsibility risks, as well as being likely to achieve its social goals.

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 BancoSol are presented:

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

1. Outreach

The outreach indicator is composed of several subindicators. On the pages 16-17, the outreach indicators are presented.

2. Over-indebtedness

BancoSol has incorporated efficient policies on the prevention of over-indebtedness. They include a complete analysis of the clients' ability to repay loans and a check-up in the central risk register, including the spouse and guarantor. According to the internal policy, neither the client nor the guarantor is allowed to have loans in more than two other institutions, and the client cannot have more than three current loans in BancoSol.

The check-up process of clients begins with a systematic enquiry with the central risk registers. This allows BancoSol to determine the risk level (low, medium or high) of the clients and their ability to repay loans. This process always includes a visit to the business and the residence of the clients together with an evaluation of the clients' income, expenses and equity. All loans must be approved by the Credit Committee.

3. Interest rates and responsible pricing

The nominal interest rate p.a. of BancoSol ranges between 19.5 per cent and 24.0 per cent.

The legislation of Bolivia decrees that certain transactions and financial services must be free of charge. Therefore, BancoSol offers differentiating prices on products. The costs of loans are reasonable, competitive and on par with the market rates.

4. Product mix and range of service

BancoSol offers a wide portfolio of products such as loans to microenterprises and agricultural activities, housing and car loans, savings accounts, fixed term deposits, life insurance, mobile banking services as well as debit/credit card and remittances services.

BancoSol has an app, AppSol, making it easier for clients to access their accounts from any place. Another

Street vendor in La Paz, Bolivia.

BANCOSOL OUTREACH

862,000
clients

SAVINGS CLIENTS: 29%

Since 2015, the number of clients has increased by 8 per cent and reached 862,415 clients in 2016. Of the total amount of clients, 29 per cent have a savings account. BancoSol does not make up the number of clients living in rural areas.

Savings portfolio
1,024
USDm

Loan portfolio
1,305
USDm

48%
female clients

234
branches

NUMBER OF BRANCHES

In 2016, BancoSol reached 234 branches including mobile branches and small shop agents. Additionally, BancoSol has 202 ATMs.

0.9%
PAR>30

PAR>30

PAR>30 is the percentage of loans which are overdue by 30 days. For BancoSol PAR>30 has been at a very satisfactory level since the Fund's investment in 2015. There has been a small decrease in PAR>30, which is very positive and demonstrates a strong development.

service is the the internet banking system Solnet enabling clients to make transactions and other banking activities online. Additionally, BancoSol has six mobile agencies in the form of specially designed trucks.

5. Community development

BancoSol has developed several programmes for the benefit of clients and the surrounding community. The programmes are: Milla Extra, CopaSol, ClaveSol, AulaSol, CorreSol and AccionSol, each with a different focus area.

Milla Extra is a volunteer programme aimed at the employees of BancoSol which seeks to promote the values of the bank through voluntary initiatives focusing on both the internal and external community.

CopaSol provides soccer training to school children through which the bank seeks to strenghten and provide healthy values in school children. 364 school children participated in the CopaSol programme during 2016.

ClaveSol is a music programme teaching children how to play instruments such as the violin, viola, cello and double bass in the ClaveSol workshops. BancoSol seeks to provide the children with values such as excellence, responsibility and punctuality. In 2016, BancoSol provided music teaching to 435 school children.

AulaSol includes two separated programmes, one for school children and one for clients. Through workshops, BancoSol seeks to instil the importance of saving in school children. AulaSol for clients was initiated with the goal of developing the financial skills and creating knowledge on financial planning, savings and the responsible use of credit products. 18,478 school children and 8,498 clients participated in the programme in 2016.

CorreSol was created to initiate a healthy lifestyle through physical activity. The three most famous pedestrian routes create the setting for three races: Cliza-Punata - 13 km in Cochabamba, El Torno - 11 km in Santa

Street vendor and women carrying children in traditional clothing, La Paz, Bolivia.

Cruz and El Alto - 11 km. In 2016, a total of 20,363 people participated in the races.

AccionSol is a donation programme directed at the part of the population with limited resources and who needs economic support to cover medical help.

Additionally, BancoSol has increased its focus on the environment, especially on the areas of the use of water, lighting and recycling. For example, the bank has installed timers in outside lighting and air condition systems reducing the use of energy. BancoSol has also implemented video conference systems to reduce traveling and contributing to reduce pollution and has reduced the number of printouts and photocopies.

6. Employment at BancoSol

BancoSol employs 2,810 people of which 48 per cent is female.

BancoSol has established internal policies which ensure an appropriate level of equal rights. The policies prohibit any type of discrimination in relation to gender, race, religion, age, civil status and disability during the employment process and towards current employees.

The wages are regulated according to official salary scales, and the annual minimum increase is regulated by law. The employees benefit from a social security system of the bank adherent to the law. This includes the required days off, health camps, education on work-related hygiene and safety as well as recreational activities.

ALSO VISIT

www.bancosol.com.bo
www.facebook.com/BancoSolidarioBolivia

City view, La Paz, Bolivia.

CREDINKA

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 (Peruvian Financial Regulator) and the Central Reserve Bank of Peru.

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

CONCLUSION

In 2016, Credinka continued to expand its outreach throughout the country and is now present in 12 regions of Peru with 85 agencies. The institution serves more than 130,000 clients of which 48 per cent are female. 35 per cent of the clients live in rural areas.

The institution is an endorser of the Client Protection Principles of the Smart Campaign and follows Peruvian legislation on anti-money laundering and anti-corruption. The institution has well-established procedures on the prevention of over-indebtedness, a reasonable interest rate on par with the market and good employment terms. Furthermore, Credinka has been rated by two credit bureaus and received a positive rating in both.

In 2016, Credinka increased its focus on financial education significantly. Credinka initiated a collaboration with two financial education service providers. Both employees and clients have benefitted from financial education classes.

INTERNATIONAL STANDARDS AND POLICIES

Client protection principles

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

Anti-money laundering and anti-corruption

Credinka has an ethical code of conduct which outlines the obligations for the employees in order to prevent money laundering and the financing of terrorism. Additionally, through the policy on loan granting Credinka has established 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 on good corporate governance, Credinka follows processes and a series of measures in order to prevent money laundering.

Credinka is present in 12 regions in Peru.

SOCIAL IMPACT AND CREDIT RATING

Credinka was rated by the credit rating bureaus Class & Asociados and Pacific Credit Rating. Credinka was rated ”B-” and ”B”, respectively. 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 over-indebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community development
6. Employment

1. Outreach

The outreach indicator is composed of several subindicators. On the following page, the 2016 outreach results are presented.

2. Prevention of over-indebtedness

Credinka has implemented relevant measures to prevent over-indebtedness. 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 porfolio at risk indicator PAR>30, which is an indicator for loans overdue by 30 days, is 5.5 per cent for Credinka. The average for financial institutions in Peru is 6.7 per cent. As such, the percentage of Credinka's non-performing loans is lower than the amount of bad loans in Peru in general.

3. Interest rates and responsible pricing

The average nominal interest rate is 29.0 per cent p.a. for small enterprises and 30.6 per cent p.a. for micro enterprises. 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 related to costs displayed in the branch offices as well as on Credinka's webpage.

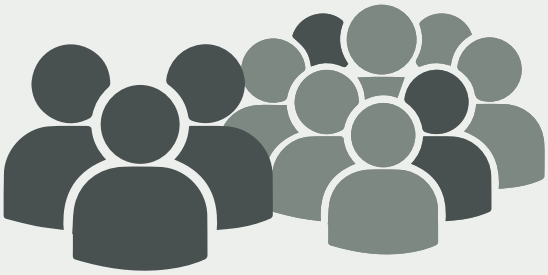
4. Product mix and range of service

Credinka provides loans, savings accounts, insurances, investment services and other financial services such as debit cards, money transfers and the possibility to carry out investments through a mutual fund. With the objective to provide the best service possible to the many clients who speak Quechua and Aymara as their native language, Credinka has employed staff in selected agencies who speak these languages, 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 aimed at women living in rural areas difficult to access, received the honour. Credinka is the only recognised Peruvian institution.

Credinka client in branch.

CREDINKA OUTREACH

134,000
clients



SAVINGS CLIENTS: 48%
RURAL CLIENTS: 35%

Since 2015, the number of clients has increased by 33 per cent. Of the total amount of clients, 48 per cent have a savings account and 35 per cent live in rural areas.

48%
female clients

Loan portfolio
206
USDm

LOAN AND SAVINGS PORTFOLIO

The loan portfolio of Credinka is USDm 206. It has increased by approx. 8 per cent since 2015. The total savings portfolio constitutes USDm 163, an increase of 12 per cent since 2015.

85
branches

NUMBER OF BRANCHES

In 2016, Credinka reached 85 branches. This is an increase of 9 per cent since the fund's investment in 2015.

5.5%
PAR>30

PAR>30

PAR>30 is the percentage of loans which are overdue by 30 days. For Credinka PAR>30 has been at a satisfactory level since the fund's investment in 2015. There has been a small decrease in PAR>30 which shows a positive development.

33%
clients

In general, Credinka is focused on making products which empower the population in rural areas, and women in particular. The product Credi Warmi is exclusively aimed at female micro business owners in rural areas. In 2016, 3,555 new clients benefitted from this product.

Financial education

Credinka has increased its focus on financial education and has initiated new programmes. In 2016, Credinka formed an alliance with the Fundación Alemana Servicios. This organisation has provided tools and education to the employees of Credinka on the principles of how to create a savings culture, responsible loan taking, managing a business and other areas focused on improving the lives of the population living in rural areas and on the growth of micro and small businesses. The employees working in rural areas then host workshops for relevant clients teaching these principles.

Additionally, Credinka has initiated a collaboration with Elevate Business, a business management and financial literacy training company. Elevate Business provides training to clients and empower small business owners with the tools needed to improve and grow a sustainable business. The goal is to provide training to 5,000 clients during 2017 and 2018. Financial education classes are provided through loan granting.

5. Community and environmental development

Credinka shows great interest in its surrounding community and Peruvian culture. As such, Credinka supports and participates in regional festivals in the regions it is present with the objective of promoting the cultural identity of Peru.

Environmental development

Credinka has initiated the campaign Ecoeficiencia Ambiental to preserve the environment and improve the lives of employees, clients and the community in general in each of the locations where Credinka is present. The strategy is focused on minimising the effects of Credin-

Credinka client, owns a share of the salt mines in the Sacred Valley, Peru.

ka's operations by using materials with the least effect on the environment; educate, involve and give a sense of responsibility to clients and the communities in general on taking care of the environment; and comply with the existing environmental regulations applicable for financial institutions.

Credinka is in general working on reducing its use of paper, water, electricity etc. In 2016, Credinka also made a large investment in video conference equipment as to reduce the amount of traveling and thus contribute to reduce the emission of CO2.

6. Employment at Credinka

Credinka employs 1,301 people of which 49 per cent are female.

During 2016, Credinka has initiated a series of activities and programmes 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.

ALSO VISIT

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

The salt mines in the Sacred Valley, Peru.

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 Holding is an investment company that developes and manages responsible institutions and provides them with the technical assistance needed to become leaders in their respective countries. Microcred has expanded and is now present in eight countries in Africa and in China.

CONCLUSION

As an endorser of the Client Protection Principles of the Smart Campaign, Microcred shows a high level of commitment to social impact. When establishing new institutions, Microcred ensures that these also endorse the Smart Campaign. As such, the two most recent established institutions in Zimbabwe and Burkina Faso have endorsed the Smart Campaign in 2016. As adherent to the IFC Exclusion List, Microcred is also taking the necessary measures in order to follow international standards on activities that should not be financed.

Microcred demonstrates good results within all six social indicators. In terms of outreach, Microcred is continuously expanding its presence and now has nearly 1,000 branches and outlets in Africa and China. Close to 557,000 clients are served of which 45 per cent are female. 51 per cent of the loan clients also have a savings account. Additionally, the loan portfolio is very healthy with only a few bad loans.

Microcred is continuously focused on improving the range of services and has during 2016 established another mobile branch, a truck in the Ivory Coast. This ensures better outreach to clients living in remote areas.

The Baobab+ programme launched in 2015 has had a successful first year. Close to 35,000 homes and 210,000 people have been equipped with solar lamps or systems, and 3,000 homes have benefitted from the tablets programme. The Baobab+ programme significantly improves the daily lives of the clients, providing them with easily accessible energy, clean water and important business tools such as tablets.

INTERNATIONAL STANDARDS AND POLICIES

Client protection principles

Microcred and all 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). Since the beginning of 2016, Microcred has been using the social performance indicators 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 coordinator in each institution in charge of implementing the SPM Policy.

Anti-money laundering and anti-corruption

Each of Microcred's institutions has a policy on the prevention of money laundering and terrorism through which the institution prevents clients from paying their instalments with money proceeding from illegal sources of income.

Exclusion list

Microcred is committed to complying with national

and international laws. It is also 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.

Microcred wishes to limit the negative social and environmental impact of the financed activities by introducing 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.

SOCIAL IMPACT AND CREDIT RATING

Microcred Senegal was in 2015 credit rated for the first time and as the first institution by the West Africa Rating Agency (WARA) and acquired the rating ”BBB”. This reflects strong operational growth of the company, the financial performance, cautious management, control mechanism and a conservative funding 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 over-indebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community development
6. Employment

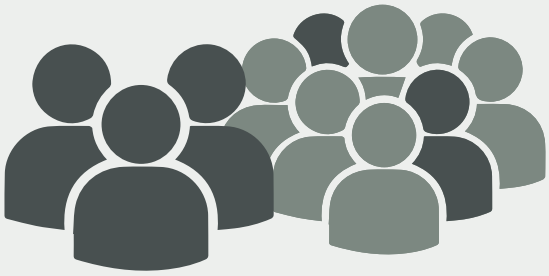
1. Outreach

The outreach indicator is composed of several subindicators. On the following pages, the 2016 outreach results are presented.

Microcred set up the first mobile truck in the Ivory Coast in June 2016.

MICROCRED OUTREACH

557,000
clients



SAVINGS CLIENTS: 51%

Since 2015, the number of clients has increased 20 per cent. Of the total amount of clients, 51 per cent have a savings account in addition to a loan. Microcred has commenced the process of making up the number of clients living in rural areas.

45%
female clients

Loan portfolio
474
USDm

LOAN AND SAVINGS PORTFOLIO

The loan portfolio of Microcred is USDm 474. It has increased by 27 per cent since 2015. The total savings portfolio constitutes USDm 169. This has increased by 24 per cent since 2015.

986
branches

NUMBER OF BRANCHES

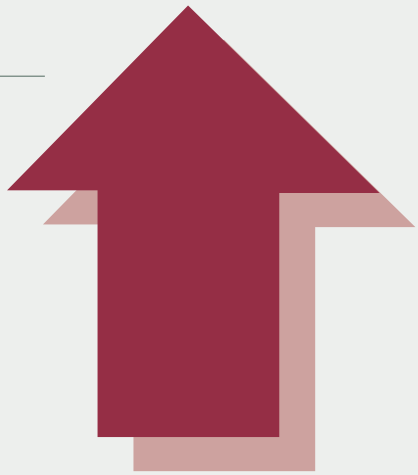
In 2016, Microcred reached 158 branches and 828 outlets which are small business owners conducting deposits and withdrawals for Microcred's clients. The number of branches/outlets has increased by 7 per cent since 2015.

2.2%
PAR>30

PAR>30

PAR>30 is the percentage of loans which are overdue by 30 days. For Microcred PAR>30 has been at a very satisfactory level since 2015.

24%
savings portfolio



2. Prevention of over-indebtedness

In line with the Client Protection Principle *Prevention of Over-Indebtedness,* 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 over-indebtedness.

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, 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 over-indebtedness.

Furthermore, loan sizes can only increase with a demonstrated repayment capacity for the larger 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 pricing 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 lending rates. Madagascar, Nigeria, Tunisia and Zimbabwe do not operate with caps.

The average nominal interest rates range between 12.9

Microcred clients with one of the large LifeStraw filters.

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.

According to the Price Definition guidelines, the Client Protection Principles of the Smart Campaign are to be respected at all times. Consistent with the Client Protection Principles, the pricing, terms and conditions of Microcred products are set in a way that is both affordable to clients and sustainable for Microcred. Additionally, 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 core business of Microcred was traditionally offering loans to micro, small and medium-sized enterprises. Gradually, however, the services of Microcred have been extended to all people not served or underserved by the traditional banking system. 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. Some institutions also offer credits to develop crops, fund the construction or renovation of real estate and prepare the return to school. 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

Microcred's solar lamps are very useful for school children when studying after sundown.

withdrawal cards, cheques and money transfers. Focus is on stimulating savings activities in Africa, as Chinese institutions are not allowed to collect savings.

Microcred has previously launched a mobile branch in Madagascar. In June 2016, Microcred set up the first mobile branch in the Ivory Coast. This "on-wheels" branch is a specially designed truck offering the same services as a conventional branch and enabling agents to meet with people living in provinces and suburbs of the larger towns.

5. Community and environmental development

At the end of 2016, the Baobab+ programme celebrated its first year. Through this programme, 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 will 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 the 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. So far, close to 35,000 homes and 210,000 people have benefitted from the solar lamp programme, and 3,000 homes have benefitted from the tablets programme.

Environment

Microcred is fully 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.

In February 2016, Microcred Madagascar participated in a reforestation event on the reforestation site of the Bongatsara - Ambatofotsy commune, in which a thousand of seedlings have been planted.

Additionally, Microcred Madagascar has solar panels on all its mobile branches. In addition, branches at which the electricity supply is insufficient have also been equipped with solar systems. Microcred Madagascar also organises an annual tree planting campaign.

In Senegal, every new branch has since 2012 been equipped with solar energy systems, and since 2014 the institution has been selling solar lamps to its clients in order to promote renewable energy. Furthermore, the branch has developed the credit product *CleanTech* facilitating access to solar-powered equipment such as solar panels, generators and compatible devices such as TVs and fridges etc. which can be acquired directly in the branches. In addition, Senegal also organises a garbage collection day several times a year in areas where the need is most evident.

6. Employment at Microcred

Microcred has a total of 3,396 employees of which 42 per cent is female.

The group has great focus on staff training and has launched a training programme on management basics as well as an annual performance review which allows the employees to take an active part in their individual development in cooperation with the supervisor.

Microcred's HR policy prohibits any recruitment choices related to any form of discrimination. Employees are compensated in a fair manner and on a competitive level, fairly defined by position and experience, structured according to position and experience and in line with the market. The financial compensation is determined by the transparent salary grid based on responsibilities, experience and skills. There is no discrimination based on gender, disability or physical characteristic towards the compensation. Wages are adapted to the trend in the cost of living, and medical coverage is offered to all employees as a non-financial compensation. Each affiliate provides its employees with additional non-financial compensation.

ALSO VISIT

www.microcredgroup.com

Microcred client and Baobab+ agent with a solar lamp.

AAVISHKAAR GOODWELL

ABOUT

Aavishkaar Goodwill (Aavishkaar or the fund) is a for-profit micro venture capital fund which provides equity finance and hands-on support to enterprises active in the microfinance sector. The investment strategy is to provide smart commercial long-term capital and active support to entrepreneurial microfinance institutions either at an early stage or at growth stage. The goal is to promote sustainable development by improving access to affordable financial services for the un(der)banked. Aavishkaar is present in 17 states in India.

CONCLUSION

Aavishkaar continues to demonstrate a high commitment level to social impact. Together and individually the portfolio companies have a large outreach in terms of clients and branches. One company was exited during 2016 and as a result, the outreach is lower than last year. The portfolio companies now serve almost 2 million clients of which more than 95 per cent are female. Through the 671 branches and nearly 6,000 ATM's in 17 states the clients are able to finance their activities and make their financial transactions. The average PAR>30 is 8.5 per cent. This has increased significantly due to the recent demonetization in India. Additionally, Aavishkaar and the portfolio companies employ more than 6,000 people.

The fund requires that its portfolio companies promote sustainable development. Aavishkaar adheres to the Client Protection Principles of the Smart Campaign, the UN's Principles for Investors in Inclusive Finance (PIIF) and the Indian association MFIN's credit bureau recommendations. Furthermore, the exclusion list of Aavishkaar is aligned with that of the International Finance Corporation (IFC). Thus, Aavishkaar demonstrates a high level of compliance with international recommendations in relation to social impact.

Additionally, the portfolio companies have initiated various social programmes and initiatives for their clients with great focus on on financial education, financial literacy and the empowerment of women. Healthcare programmes are also provided to clients.

THE COMPANIES

Utkarsh

Utkarsh is a microfinance institution providing financial and non-financial services to the unbanked population in the northern states of India. Initially, the company offered loans under the joint liability structure and insurance, but now also provides micro enterprises loans and micro pension.

IntelleCash

IntelleCash is a Non-Banking finance Company (NBFC) that Intellecap launched in 2008 to provide incubation services to start-up MFIs. IntelleCash has provided wholesale lending and capacity building services to MFIs in India, Africa, and Asia. IntelleCash seeks to play an active role in the consolidation of the microfinance industry in India. IntelleCash has taken a majority stake in Arohan and has consolidated the two businesses. IntelleCash has begun lending business on its own book from the current (2015) fiscal year.

Arohan

Arohan is a Non-Banking Finance Company and is one

of the leading and most transparent microfinance institutions in India. Arohan has been able to expand its range of service from being just a credit provider to a full financial inclusion service provider adding insurance, pension and banking services to its product portfolio.

EPS - Electronic Payment Services

EPS is working on democratising the ATM business across India and has become the preferred partner of public sector banks (PBS) in the state of Maharashta.

Swarna Pragati Housing Microfinance

Swarna Pragati aims at creating access to affordable housing in rural India. Housing microfinance can be defined as a loan product taken by an individual or an individual as part of a self help group or joint liability group for housing purposes. Housing refers to repairs, up-grading and incremental housing.

INTERNATIONAL STANDARDS AND POLICIES

Client protection principles

Aavishkaar requires its investees to adopt and implement the Client Protection Principles of the Smart Campaign or any acceptable alternative. Aavishkaar is itself an endorser of the Smart Campaign. IntelleCash is an endorser of the Smart Campaign while Arohan and Utkarsh received the Smart Campaign Client Protection Certification in May and June 2015, respectively. Additionally, Utkarsh is a member of the Social Performance Task Force.

In India, all the microfinance institutions are expected to follow the Fair Practices Code (FPC) of the Reserve Bank of India (RBI) which defines the terms for loan application and processing, loan appraisal and terms, disbursement of loans, interest rates charged, Know Your Customer (KYC) guidelines, grievance redressal and information sharing with the customer. All Aavishkaar portfolio companies are compliant with RBI guidelines.

Swarna Pragati has formulated a Fair Practice Code which is pursuant to the National Guidelines issued by the National Housing Bank (NHB) on fair practices for housing finance companies.

Utkarsh clients, India.

In addition to this, the majority of the portfolio companies are members of the Microfinance Institutions Network (MFIN) and therefore follow the Common Code of Conduct developed by Sa-Dhan (the Association of Community Development Finance Institutions) and MFIN. This ensures that the clients' rights are protected, and that they are treated in an ethical manner.

Furthermore, Aavishkaar follows the UN-backed Principles for Investors in Inclusive Finance (PIIF) with focus on sustainable and responsible investments. The PIIF are housed within the UN-supported Principles for Responsible Investment (PRI) initiative.

Anti-corruption and anti-money laundering

Aavishkaar has developed its own anti-corruption guidelines and anti-money laundering (AML) guidelines. The purpose of these guidelines is to identify and avoid corrupt, fraudulent, coercive, collusive and obstructive practices in operations. Aavishkaar has appointed an anti-money laundering officer who is part of the investment committee and responsible for the AML procedures of the portfolio companies and the fund itself.

Exclusion list

Aavishkaar has developed its own exclusion list which defines the types of projects that Aavishkaar does not finance. This list is aligned with the exclusion list of the IFC.

SOCIAL IMPACT AND CREDIT RATING

Arohan received a credit rating by CARE Ratings in December 2016 and was rated A minus/stable. This indicates that Arohan is considered to have an adequate degree of safety regarding timely servicing of financial obligations and carry low credit risk.

In August 2016, Utkarsh was rated by ICRA, a Moody's Investors Service Company and rating agency. Utkarsh received an MFI grading of M1 which indicates that Utkarsh's ability to manage its microfinance activities in a sustainable manner is the highest. The grading is supported by Utkarsh's good loan origination, internal audit, risk management and collection mechanisms, its experienced board, management team and strong investor profile.

In October 2016, Swarna Pragati was rated by CARE Ratings and was grated CARE BBB- indicating that the institution is considered to have moderate degree of safety regarding timely servicing of financial obligations and carry moderate credit risk.

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.

1. Outreach

The outreach indicator is composed of several subindicators. On the pages 38-39, the 2016 outreach results are presented.

2. Over-indebtedness

As an adherent to the client protection principles of the Smart Campaign Aavishkaar has committed to taking adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, the fund has implemented and monitors internal systems that support the prevention of over-indebtedness and fosters efforts to improve market level credit risk management such as credit information sharing.

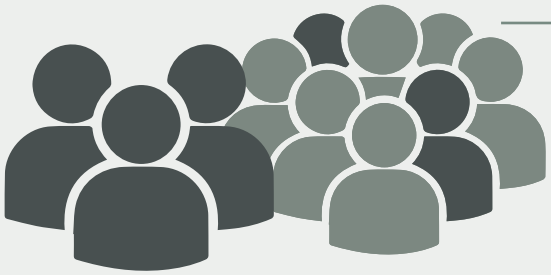
The Reserve Bank of India has made several regulatory changes such as the mandatory use of credit bureaus and debt ceilings which have restricted overleveraging for borrowers.

3. Interest rates and responsible pricing

In February 2014, the RBI stated that the average interest rate on loans should not exceed the lower of 2.75 times the average of the base rates of the top five commercial banks or the average borrowing cost during that financial year plus the margin (10% in case of GLP>USD 16m and 12% in case of GLP<USD 16m). Most MFIs use their own average borrowing rate in the calculation as this is typically the lower of the two options.

AAVISHKAAR GOODWELL OUTREACH

2 million
clients



95%
female clients

416
USDm

LOAN PORTFOLIO

The aggregated loan portfolio of the portfolio companies of Aavishkaar is USDm 415.6. It has increased by 6.5 per cent since 2015.

671
branches

8.5%
PAR>30

PAR>30

PAR>30 is the percentage of loans which are overdue by 30 days. For Aavishkaar PAR>30 ranges between 5.3 and 10.4 per cent. The increase is caused by the recent demonetization in India.

6,229
employees

At Utkarsh, the interest rate p.a. is 24 per cent. At Arohan, interest rates p.a. vary from 22 per cent and 24.99 per cent depending on loan type.

Portfolio companies are required to be transparent according to the client protection principles. Pricing, terms and conditions should be set in a way that is affordable to the clients while allowing for financial institutions to be sustainable. Most of the portfolio companies of Aavishkaar have participated in the pricing data research of MFTransparency, a global initiative for fair and transparent pricing in the microfinance industry.

Arohan, for example, communicates the terms and conditions and pricing information to the clients in local language during the compulsory group training. At the time of disbursement, clients receive an individual loan agreement and loan card including loan details, terms and conditions and a repayment schedule. Arohan furthermore displays pricing information including the interest rate, loan processing fees and the insurance premium in its branches.

4. Product mix and range of service

Aavishkaar invests in institutions and companies which develop and extend the range of financial services in India to areas in which the population does not have access to traditional financial services. The products and services include microcredit loans, insurance, income generation loans, micro enterprise loans, pension, ATM solutions and individual loans for house improvement and incremental housing finance.

5. Community development

Several of the portfolio companies provide non-financial services to their clients. Focus is in particular on financial education, financial literacy and the empowerment of women. Healthcare programmes are also provided to clients.

Utkarsh

Utkarsh has initiated several activities to the benefit of their clients. Utkarsh has established the Utkarsh Welfare Foundation with the aim of setting up initiatives improving the life of the clients. Through the founda-

Arohan client, India.

tion, financial education programmes have been initiated, and since the foundation's establishment in 2010 123,523 clients have participated in financial education programmes. Additionally, in order to accomodate the financial illeteracy of many living in particular rural areas, Utkarsh has during 2016 implemented a financial literacy programme through which 13,214 people have participated in class room training, and 10,142 have been reached through a mass awareness programme.

Utkarsh has also been part if the SIDBI (small industries development bank of India) programme Poorest States Inclusive Growth Programme (PSIG). The programme focuses on women's empowerment through financial literacy and capacity building programmes with focus on social, gender and legal rights as well as entitlement issues. At Utkarsh, the programme was implemented through 16 branches, and when the project closed in March 2016, close to 16,000 beneficiaries were trained on the concepts of financial literacy and women empowerment. The aim has been to scale up the project and during 2016 and the beginning of 2017. As of March 2017, the programme had been implemented in 23 branches reaching out to 19,456 beneficiaries.

Other initiatives include healthcare programmes through which Utkarsh provides health care to low income households in various areas. The programme is carried out in collaboration with selected and hospitals which provide diagnostic services including free medicine. The initiative also includes mobile clinics, which are vans fitted with medical equipment and thus able to reach remote areas. Since the programme's establishment in 2013, more than 60,000 people have benefitted.

Arohan

Overall Arohan focuses on education, healthcare and natural disaster emergency aid. In the financial year 16/17, 500 young people in the states of West Bengal, Bihar and Assam have participated in training within retail and IT. In 15/16, 325 youths were trained within IT. Additionally, Arohan has provided free school bags which were distributed to 1,270 students across Bihar, West Bengal and Assam.

Within healthcare, more than 800 women participated in 11 health camps across the states of Orissa, Jharkhand and West Bengal. Also, Arohan has funded an emergency relief shelter in Hyderabad city for victims of trafficking and hosted an awareness camp on trafficking for 100 women in Joynagar, West Bengal.

In relation to women's health in general, Arohan has also hosted camps focusing on the folk art *patachitra* with the intention of creating awareness on women's health.

Furthermore, Arohan provides aid in the areas of operation during times of natural disasters. The branches provided emergency aid to 1,166 families during the financial year 16/17 and 1,100 families in 15/16.

Finally, Arohan has set up a set of employee volunteering guidelines developed and initiated through various NGOs. Arohan's employees volunteer to participate in collaboration with projects and events of NGOs. During the financial year 16/17, more than 200 volunteer hours were executed.

In May 2017, Arohan was 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 Aavishkaar

32 people are employed at Aavishkaar.

The total number of staff of the portfolio companies is 6,229 of which a range between 5 per cent and 27 per cent are female.

ALSO VISIT

www.aavishkaar.in
www.facebook.com/AavishkaarVC

PRÓSPERO MICROFINANZAS FUND

ABOUT

Próspero Microfinanzas Fund (Próspero or the fund) is designed to bring strong, regionally based equity management capabilities to the many parts of Latin America lacking well-established, high-performing microfinance institutions (MFIs). Próspero was formed by Grassroots Capital Management and Bolivian Investment Management (BIM) with the purpose of making equity and equity-like investments in early and intermediate stage MFIs in Latin America and the Caribbean.

Próspero has dual goals of providing a competitive financial return to its investors and contributing to positive social impact to microfinance clients through its portfolio investments. The fund achieves the objectives by focusing on MFIs dedicated to serving the less penetrated microfinance markets and unbanked or under-served populations, and working with investee MFIs to enhance their social performance management and improve their ability to measure and report on social performance.

Próspero exited one company in 2016 and now has investments in seven institutions across Latin America.

CONCLUSION

Próspero including all of the portfolio companies have endorsed the Client Protection Principles of the Smart Campaign. Additionally, Próspero actively follows the Universal Standards for Social Performance Management of the Social Performance Task Force and encourages the portfolio companies to apply this tool. This demonstrates a strong commitment to adhere to internationally recognised standards. The portfolio companies were rated by the social impact rating bureau GIIRS in April 2017 and received high scores on all parameters.

The seven portfolio companies of Próspero serve nearly 136,000 clients of which 45 per cent are female and 59 per cent live in rural areas. All together, the companies reach out through 138 branches in five countries. Próspero's companies continue to be greatly involved in their surrounding communities with focus on financial education, in particular, health programmes and making donations.

THE COMPANIES

ODEF Financiera, Honduras

ODEF Financiera was established in 1985 as a private organisation carrying out social activities within agriculture, environment and education for women. In 1989, the company began its first loan activities and has since then developed into a well-established financial institution providing financial services within credit and savings.

Optima Servicios Financieros, El Salvador

Optima was founded in 2009 and is well-established financial institution providing a variety of loans for micro and SMEs, housing loans, agricultural loans and consumer loans.

Insotec, Ecuador

Insotec is a small microfinance institution established in 1994 with the goal to support the economic, social, technical and educational development in Ecuador. The company provides several credit types to its clients.

Faces, Ecuador

Faces is a small microfinance institution with focus on providing microcredit and non-financial services to agricultural producers and micro entrepreneurs.

Acceso Crediticio, Peru
Acceso was established in 1999 and began its operations in 2001. The company provides auto loans to both private individuals as well as businesses.

Cidre, Bolivia
Cidre is a small private organisation founded in 1981 with focus on microfinance to agricultural producers as well as to micro and small rural businesses. Cidre provides a series of loan types and insurances.

Sembrar Sartawi, Bolivia
Sembrar Sartawi is financial institution providing credit to the underbanked part of the Bolivian population. It was established in 1991 with the goal to support and develop small agricultural producers.

INTERNATIONAL STANDARDS AND POLICIES

Client protection principles
Próspero has committed to requiring investees to adhere to the Universal Standards for Social Performance Management by the Social Performance Task Force (SPTF Standards) and has already incorporated key aspects of the SPTF Standards into the due diligence process. Through the SPTF Standards Próspero is actively establishing and disseminating best practices.

The SPTF Standards serve as a guide on how to define and strengthen social performance management and help MFIs refocus on the client. They require MFIs to have clear goals for client outcomes, to respond to clients' needs and to measure and track progress toward client-outcome goals. They incorporate input from the Client Protection Principles of the Smart Campaign, MF-Transparency and other industry initiatives.

Próspero itself is an endorser of the Client Protection Principles of the Smart Campaign, and all seven portfolio companies have endorsed the Smart Campaign. As an endorser of the Smart Campaign an institution demonstrates its commitment to the seven principles and signals that it is ready to take the next step towards implementing the principles in the daily operations.

Anti-corruption and anti-money laundering
In April 2017, the portfolio companies of Próspero were rated by the credit bureau GIIRS. They all received high scores within governance demonstrating a high commitment to a strong governance structure and a high level of overall transparency.

SOCIAL IMPACT AND CREDIT RATING

The GIIRS rating conducted in April 2017 comprises an "investment roll-up", which is broken down into *impact operations* and *impact business model*, and a "fund manager assessment". The impact business model rating recognises business models specifically designed to solve social or environmental issues through company products, services, target customers, value chain, ownership or operations.

Funds receive a medal rating with platinum being the highest. The overall rating of Próspero is platinum. The impact operations rating evaluates the environmental, social and governance impact of the business. Funds receive a star rating, with 5 stars being the highest. The overall rating of Próspero is 4 stars.

SOCIAL IMPACT RESULTS

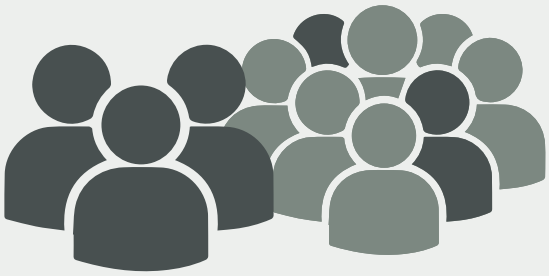
The results are based on selected key social indicators. A social indicator is used to assess an institution's performance on social impact. In the following six social key indicators for Próspero are presented. They include:

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

1. Outreach
The outreach indicator is composed of a series of subindicators. On the following pages, the outreach indicators for Próspero are presented.

2. Over-indebtedness
The portfolio companies follow the SPTF Standards and

PRÓSPERO MICROFINANZAS FUND OUTREACH



136,000
clients

RURAL CLIENTS: 59%

Since 2015, the number of clients has increased by 5 per cent. The number of clients has increased even though one company has been exited.

45%
female clients

Savings
1,380
USDm

138
branches

Loan portfolio
347
USDm

3.6%
PAR>30

PAR>30 is the percentage of loans which are overdue by 30 days. For Próspero PAR>30 ranges between 2.2 and 5.4 per cent which is a satisfactory level. The average is 3.6 per cent.

are endorsers of the Smart Campaign which both address over-indebtedness. This implies that the institutions should conduct appropriate client repayment capacity before disbursing a loan, use credit bureaus when feasible, be aware of the risk of over-indebtedness in general and monitor that policies to prevent over-indebtedness are applied as well as avoid dangerous commercial practices.

3. Interest rates and responsible pricing

The average nominal interest rate p.a. on loans vary from company to company. Both the Client Protection Principles and the SPTF Standards require that pricing, terms and conditions are affordable to clients, and some of the companies have also been awarded for their pricing. Sartawi, for example, has been awarded the Seal of Pricing Transparency in 2014 by the organisation MFTransparency. Cidre was likewise awarded with the Seal of Pricing Transparency in 2015 for the period April 2014-April 2105.

The yield on gross loan portfolio which is the average rate that the companies charge ranges between 20.4 per cent and 34.6 per cent.

4. Product mix and range of service

The portfolio companies of Próspero provide a variety of loans to microenterprises as well as small and medium-sized companies, agricultural loans housing loans and in come cases consumer loans. Additionally, the companies offer various insurance products, money transfer, mobile payment, among other things.

ODEF is currently the only institution accepting deposits. The savings portfolio of ODEF constitutes USD 23.7 million.

5. Community development

The initiatives of the Próspero portfolio companies promote client well-being through financial education, health programmes and donations.

Faces client, Ecuador.

In 2016, ODEF Financiera participated in a so-called *teletón* that takes place in many countries in Latin America every year and seeks to provide private funding through long televised transmissions where people, companies and institutions make donations. The target of these donations is one institution per country dedicated to help disabled children. ODEF is one of the many companies that donated on the teletón day.

In the beginning of the year, ODEF also participated in the one-day event Financial Advisory for Women Day. ODEF set up a stand in a mall to provide financial advice to women.

Insotec has a series of initiatives aimed at both clients and potential clients. These include business advisory services, financial education, health camps, education on agriculture and an alliance with an NGO focused on diminishing hunger and poverty in the poorest areas of Ecuador. On a monthly basis, Insotec distributes documents that can help improve clients' management of their business and includes information on sales, administration, use of raw materials, personnel etc. The financial education programme of Insotec includes classes for both clients and potential clients besides printed information material. The goal of the financial education classes is to prevent over-indebtedness and that clients and non-clients turn to the unofficial loan channels. Insotec also hosts workshops within agriculture on how to improve the level of productivity and competitiveness of the business. Additionally, Insotec has alliance with public and private healthcare providers and hosts health camps in poor and vulnerable communities. On these days, people can receive health checks, nutrition advice, vaccination etc.

Cidre has contributed to several projects. The institution has financed more than 100 irrigation projects which represent around 25 per cent of the irrigated acreage of Cochabamba, the third largest city in Bolivia. In addition, CIDRE has financed 16 projects creating basic sanitation for 920 families in the suburbs of Cochabamba.

Sembrar Sartawi has developed an extensive plan for financial education with the objective to protect and inform the clients in the best possible manner. The plan includes training the staff on handling the lacking financial culture and knowledge of the clients; improve the knowledge of clients through simple and practical information; the development of learning tools and expanding the range of information channels. The programme provided financial education to thousands of clients throughout the year, and it will continue in 2017.

6. Employment

9 people constitute the team working on the Próspero Microfinanzas Fund. The total number of staff employed by the portfolio companies is 1,977.

ALSO VISIT

www.biminvestments.com

SATIN CREDITCARE

EXITED IN JULY 2016*

ABOUT

Satin Creditcare (Satin or the institution) was formed in 1990 as a non-banking finance company (NBFC) with the concept of providing individual loans to urban shopkeepers to purchase generators for their businesses. Since then, the company has expanded and evolved into one of the leading microfinance institutions in North India.

Satin provides loans to both the urban and rural poor to meet their productive requirements in starting new businesses or growing existing ones. The institution's microfinance operation is based on a group liability model.

In 2016, Satin began operations in five new states increase presence to 16 states.

CONCLUSION

Satin has a high level of commitment to its surrounding community. The key focus is on the empowerment of women, especially through the unique programme called Women Self-Help Groups. The women participating in these groups benefit not only from having access to financial assistance but also by being able to participate in various skill training programmes.

At the time of exit, Satin reached out to 1.85 million clients in India of which 99 per cent are female. Satin has increased its number of branches to 431 throughout 16 states in India. Also, Satin has introduced two new loan types. These are a solar lamp loan and a loan for establishing water and sanitation facilities. Both products significantly increases the possibility for improving the household and healthcare of the clients. In general, Satin shows great results on all key social indicators.

Satin was certified by the Smart Campaign in July 2016. Additionally, the company is adherent to the IFC *Exclusion List* and the *Anti-Money Laundering Act* of India, Satin also demonstrates a strong commitment to complying not only with local regulations but also international standards within microfinancing.

INTERNATIONAL STANDARDS AND POLICIES

Client protection principles

In 2010 Satin endorsed the Client Protection Principles of the Smart Campaign, and in July 2016 Satin was certified by the Smart Campaign. Institutions which are certified have demonstrated the commitment and practice to treat their clients in a fairly manner. They contribute to an industry which prioritises clients.

Anti-corruption and anti-money laundering

Satin has elaborated an Anti-Money Laundering Policy. It states that the institution is committed to implementing adequate measures to prevent money laundering as well as report cash and suspicious transactions to the Financial Intelligence Unit-India (FIU-IND).

This unit was established by the government of India in 2004 as the central national agency responsible for receiving, processing, analysing and disseminating information relating to suspect financial transactions.

*All data is as of March 2016.

Reporting to the FIU-IND is in accordance with the Prevention of Money Laundering Act of 2002 (PMLA), which forms the core of the legal framework in India on combating money laundering. The PMLA and rules notified thereunder impose obligation on banking companies, financial institutions and intermediaries to verify the identity of clients, maintain records and furnish information to the FIU-IND.

In addition hereto, the Reserve Bank of India (RBI) issued the Know Your Customer (KYC) Guidelines in February 2005. This anti-money laundering standard has become the benchmark for framing anti-money laundering and combating financing of terrorism policies by the regulatory authorities. Compliance with these standards by banks, financial institutions and NBFCs in India has become necessary for international financial relationships.

Exclusion list

Satin has adopted the IFC's Exclusion List and is thus required to ensure that the institution's investments do not finance the activities listed here.

SOCIAL IMPACT AND CREDIT RATING

Satin was rated by M-CRIL Microcredit Ratings in July 2016 and was cerfied by the Smart Campaign and the Client Protection Principles.

Additionally, Satin received a certificate for being the best microfinance company in India from Worldwide Achievers at the Business Leaders' Summit and Awards, 2016.

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 Satin are presented. They include:

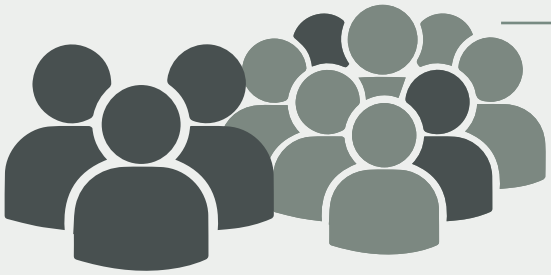
1. Outreach
2. Prevention of over-indebtedness
3. Interest rates and responsible pricing
4. Product mix and range of service
5. Community development
6. Employment

1. Outreach

The outreach indicator is composed of a series of sub-indicators. On pages 50-51, the outreach indicators for Satin are presented.

SATIN CREDITCARE OUTREACH

1.8 million
clients



99%
female clients

Loan portfolio
343
USDm

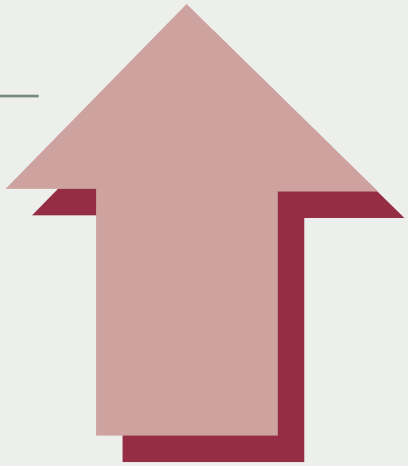
431
branches

Satin has increased its number of branches by 18 per cent since 2015.

0.5%
PAR>30

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

3,918
employees



2. Over-indebtedness

Satin has a strategy for mulitiple lending and over-indebtedness which is available on the institution's webpage.

A detailed repayment capacity is conducted prior to all loan granting. Satin verifies the clients' annual household income, the total number of outstanding loans and current indebtedness prior to providing any loan. The client also self-attests the credit information provided. Satin's good practices have resulted in a long-lasting good portfolio quality, and PAR>30 has never exceeded 1 per cent.

Satin is a member of Sa-Dhan (the Association of Community Development Finance Institutions) and the Micro Finance Institutions Network (MFIN), an association of non-bank microfinance institutions. Satin also reports to the two credit bureaus High Mark Credit Information Services Limited and Equifax Credit Information Services and shares client data with them to prevent over-indebtedness. Satin does not grant loans to any client who has existing borrowing outstanding from more than two other institutions.

3. Interest rates and responsible pricing

Satin charges an average nominal interest rate of 24.87-24.97 per cent p.a. on group loans and an average nominal interest rate of 22.02 and 23.18 per cent on individual loans. Also, there is a 1 per cent processing fee. Loan insurance is charged on an actual premium paid basis.

Satin is in compliance with the Reserve Bank of India's (RBI) directions on pricing and margin, which is 26 per cent and 10 per cent above cost, respectively.

All prices are revealed to clients during a compulsory group training programme and are mentioned on the clients' loan cards. The interest rates are also displayed in the branches. Clients are issued receipts for all payments.

Satin's policies should always be read in conjunction with the RBI guidelines, directives, circulars and instructions. The institution will apply best industry practices as long as they do not conflict with or violate the RBI regulatory guidelines.

Satin was awarded with the certificate of pricing transparency by MFTransparency for the period August 2013 to August 2014. The institution was also previously awarded for the period April 2012-April 2013. MFTransparency is an international NGO that represents an industry movement towards responsible pricing practice. It works with regulators and policymakers of microfinance markets to support the development of effective policies for pricing disclosure and client protection.

4. Product mix and range of service

Satin offers an income generating loan provided as a joint liability group model. The clients are organised in customised groups and provided with compulsory group training by the field staff of Satin. The training programme covers product details, rules and regulations as well as policies and procedures.

After the training, a group recognition test is conducted to test the group members' understanding of Satin's microfinance programme and to identify their genuine interest in sharing voluntary joint liability and credit-absorption capacity. Satin does not require any collateral for advancing loans to the clients as the model works on the concept of social collateral. Additionally, Satin offers compulsory credit life insurance and health insurance.

In 2016, Satin expanded its product offer following a market research identifying which financial services were needed. Based on the findings, Satin launched two new loan products. Many people in India do not have access to electricity and rely on kerosene lamps for lighting purposes, Satin has begun to distribute small ticket size loans for the purchase of solar lamps. More than 200,000 loans have been disbursed during the first six months of the pilot phase.

The second new product is a result of the low access to safe water and sanitation facilities in the areas in which Satin operate. Satin has initiated water and sanitation loans in the majority of the regions enabling the clients to establish these facilities within their households. More than 300 loans have been disbursed during the first 6 months of the pilote phase.

5. Community development

Satin carries out a wide range of social activities and creates great benefits for its clients. The key focus areas are the empowerment of women, financial literacy, education, health and hygiene and other various initiatives.

In order to improve the economic and social life of women in India, especially in the backward districts, Satin is participating in a programme called Women Self Help Groups (WSHG), launched by the Indian Ministry of Finance. The goal is to provide financial assistance to the women living in the poorest districts of India with the support of leading banks of the district, NABARD (National Bank for Agriculture and Rural Development) and self-help promoting institutions. The programme is carried out in the Rewa and Anuppur districts in Madhya Pradesh. NABARD provides technical assistance to Satin and helps the institution promote, nurture and assist in the formation of self-help groups.

During 2015-16, Satin organised 35 so-called micro enterprise development programmes through which more than 1,900 women self-help group members were trained in different skills, i.e. paper plate making, food processing, sewing and tailoring, making soft toys, artificial jewellery and handicraft items etc. Following the workshops nearly 200 micro entrepreneurs took up business activities.

Satin also assisted more than 300 trained clients to set up their own business and helped them become successful entrepreneurs. Additonally, 690 women self-help group financial inclusion and social awareness programs were conducted during 2015-16 in which awareness was created on various issues such as micro-insurance, government pension scheme, various savings and investment schemes, child education, sanitation, malnutrition, reproductive health, water conservation, plantation, gender discrimination, family planning etc.

Satin has a Financial Literacy Programme. Financial literacy is the ability to make informed judgements and take effective decisions regarding the use and manage-

ment of money and the knowledge as well as skills passed on by financial education. The main objective is to facilitate financial inclusion through creating awareness and knowledge among clients about various products, educating on management of money, importance of saving and ensuring a 100 per cent utilisation of the loan amount in productive activities.

Furthermore, Satin hosts several so-called Center Leader Workshops with the purpose of directly connecting with clients and ensuring that their problems and grievances related to microfinancing activities are addressed. The workshops are organised to reach out to all clients through their center leaders and thereby ensuring community participation in decision making.

6. Employment at Satin Creditcare

Satin employed 3,918 people at the time of exit.

Satin has composed a Social and Environmental Policy that addresses the institution's commitment regarding the environmental and social dimensions of sustainable development. The purpose of this policy is to identify effective social and environmental practices and provide guidance to Satin's staff on undertaking activities in an environmentally responsible manner. Satin strives to avoid adverse impacts on its employees, communities and the environment, or if avoidance is not possible, to reduce, mitigate, or compensate for the impacts, as appropriate. Satin will make sure that working conditions in the organisation meet (or exceed) international labour standards. Satin recognises the importance of implementing sound environmental practices throughout its office-based activities and will continue to integrate sustainable environmental practices into its daily office routines.

ALSO VISIT

www.satincreditcare.com
www.facebook.com/SatinCreditcareNetworkLtd

APPENDIX 1

THE FUND'S POLICY ON CORPORATE SOCIAL RESPONSIBILITY MANAGEMENT

CSR policy during pre-investment diligence

During appraisal, Danish Microfinance Partners evaluates the current CSR policy of the MFI and the state of awareness and compliance by all employees/officers. Such policy should clearly lay down the 'exclusion' actions by the borrowers that will be disallowed by the concerned MFI. In case the MFI has no CSR policy, DMP will advise the MFI on how to device such a policy and how to implement it. When assessing the activities of the MFI's borrowers, DMP will primarily rely on secondary data available with the MFI to understand their CSR compliance. This would include their past track record, the type of products offered, profiles of groups formed by the MFI, purpose of borrowing etc. This shall be further validated through discussions with the staff and field officers of the target MFI. DMP may also carry out a primary verification by visiting the field and directly meeting with a random sample of borrowers and learn about the activities they are involved in.

In the event of such a CSR policy not being followed (or no CSR policy being in place at all), DMP will make due efforts to ensure that the MFIs adopt it and help them integrate it with their standard operating procedures, coupling the CSR aspects to their loan cycle. It is communicated to the MFIs that adopting such a policy possibly can increase their operational efficiency and help improve their own profile and standing in the field. The MFIs' CSR policy will be prepared keeping in context the operations of the client, geographic and demographic profiles etc. In all cases, DMP strives to establish workable standards and help MFIs appropriately structure their policies.

CSR policy at time of investment finalisation

At the time of finalising legal documentation, DMP requires the MFI (and its promoters) to abide by an overarching code of conduct including compliance with IFC's Microfinance *Exclusion List*, *Anti-Money Laundering Requirements*, *Anti-Corruption Guidelines* and *CGAP client protection principles*[1], as well as annual reporting requirements on social performance as stated in the "Corporate Social Responsibility Compliance Certificate". DMP issues written guidelines to the MFI on the exact requirements of such reporting, and such guidelines are to be submitted to the Investor Board for information at its first meeting.

CSR policy during post-investment monitoring

During the tenure of the investment DMP requires that the representative on the board of directors of the MFI reports on CSR aspects of the activities financed by the MFI. It will form an integral part of the performance reporting that Danish Microfinance Partners will seek from investees. Such reports would also include a notification from the MFI for the occurrence of any DMP social, labor, health and safety, security or environmental accident or circumstances and measures being taken to address them. DMP, being an engaged and long-term investor, is committed to ensuring CSR compliance of its investee MFIs. Based on the performance reports that it receives from its investees, DMP shall periodically interact, and to the extent possible and reasonable, make provisions to that effect in agreements with the management of investee MFIs to seek clarifications or make field visits, if necessary. It also recommends that proper training regarding CSR aspects be provided to loan officers and other employees of the company. It will impress on the integration of the S&E requirements to the loan cycle at every stage of loan application, loan appraisal, contracting and disbursement, recovery, and monitoring and reporting.

Reporting to investors

It is required by DMP that a compliance officer of the MFI is responsible for CSR implementation and reports progress to DMP on a regular basis. An annual CSR performance report shall be submitted to investors as per the guidelines prescribed by IFC, covering the performance and CSR compliance of all investee MFIs. During the term of the investment DMP will strive to raise awareness about the S&E impacts, hazards and its measures.

1) The Client Protection Principles which CGAP refers to are the Client Protection Principles of the Smart Campaign.

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 that clients should expect to receive when doing business with a microfinance institution. The principles are:

1) Appropriate product design and delivery
2) Prevention of over-indebtedness
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 chosen goals. The standards are simple statements of what the institution should achieve and essential practices which are the management practices 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 to incorporate 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 overindebtedness 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 up to 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 a 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. THE FINANCIAL ACTION TASK FORCE

www.fatf-gafi.org

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the ministers of its member jurisdictions. 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. The FATF is therefore a policy-making body which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The FATF has developed a series of recommendations that are recognised as an international standard for the combating of money laundering and the financing of terrorism and proliferation of weapons of mass destruction. The recommendations have been endorsed by the World Bank.

7. 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.

8. 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.

9. FINANCIAL INTELLIGENCE UNIT-INDIA & ANTI-MONEY LAUNDERING ACT, INDIA

http://fiuindia.gov.in/

The Financial Intelligence Unit - India (FIU-IND) is the central, national agency responsible for receiving, processing, analysing and disseminating information relating to suspect financial transactions to enforcement agencies and foreign FIUs.

The Prevention of Money Laundering Act, 2002 (PMLA) forms the core of the legal framework put in place by India to combat money laundering. The PMLA and rules notified thereunder impose an obligation on banking companies, financial institutions and intermediaries to verify the identity of clients, maintain records and furnish information to the FIU-IND.

10. THE RESERVE BANK OF INDIA

www.rbi.org.in

Fair Practices Code

The Fair Practices Code of the Reserve Bank of India sets a minimum for fair practice standards for companies to follow when dealing with clients. It provides information to clients and explains how a company is expected to deal with them on a day to day basis. The code has been developed with an objective of ensuring fair practices while dealing with clients, greater transparency enabling clients in having a better understanding of the product and taking informed decisions and building client confidence in the company.

Know Your Customer Guidelines

Know Your Customer or KYC is a process by which banks obtain information about the identity and address of their customers. Banks have been advised to follow certain customer identification procedures for the opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority. The Know Your Customer guidelines have been created in the context of the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering standards and on combating financing of terrorism. These standards have become the international benchmark for policies elaborated by the regulatory authorities. Compliance with these standards both by the banks/financial institutions and the country has become necessary for international financial relationships.

10. SA-DHAN - ASSOCIATION OF COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS

www.sa-dhan.net

Sa-Dhan is an Indian association serving as a platform enabling better dialogue and cooperation between NGOs, MFIs, government departments and the poor themselves. The mission is to help its member and associate institutions to better serve low-income households, particularly women, in both rural and urban India, in their quest for establishing stable livelihoods and improving quality of life.

11. 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.

12. 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.

13. 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 raters 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.

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