



MAJ INVEST FINANCIAL
INCLUSION FUND II K/S

Annual report 2020

CONTENTS

STATEMENTS

Statement by management	3
Independent auditors' report	4

MANAGEMENT COMMENTARY

Fund information	7
Key figures and ratios	8
Business review	9

FINANCIAL STATEMENTS

Accounting policies	19
Income statement	22
Balance sheet	23
Cash flow statement	24
Notes	25

STATEMENTS

STATEMENT BY MANAGEMENT

The Board of Directors has today discussed and approved the annual report for 2020.

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

In our opinion, the financial statements give a true and fair view of the limited partnership's assets, liabilities and financial position at 31 December 2020 and of the results of the limited partnership's operations and cash flows for the financial year 1 January – 31 December 2020.

We believe that the Management commentary includes a fair review of the affairs and conditions referred to therein.

We recommend the annual report 2020 for adoption at the annual general meeting.

Copenhagen, 3 May 2021

General partner:
Fonden MIFIF II GP

Board of directors:

Kasper Svarrer
(chairman)

Bjarne Thorup
(vice chairman)

Frank Visti Møbjerg

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

on _____ / _____ 2021

Chairman: _____

STATEMENTS

Independent auditors' report

To the limited partners in Maj Invest Financial Inclusion Fund II K/S

Opinion

We have audited the financial statements of Maj Invest Financial Inclusion Fund II K/S for the financial year 1 January – 31 December 2020, which comprise accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Limited Partnership at 31 December 2020 and of the results of the Limited Partnership's operations for the financial year 1 January – 31 December 2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Limited Partnership in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Limited Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Limited Partnership or to cease operations, or has no realistic alternative but to do so.

STATEMENTS

Independent auditors' report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Limited Partnership's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Limited Partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Limited Partnership to cease to continue as a going concern.

STATEMENTS

Independent auditors' report

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 3 May 2021
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Rasmus Berntsen
State Authorised
Public Accountant
mne35461

MANAGEMENT COMMENTARY

Fund information

The limited partnership	Maj Invest Financial Inclusion Fund II K/S Gammeltorv 18 DK-1457 Copenhagen K Denmark
Contact information	E-mail: kontakt@majinvest.com Website: majinvest.com
CVR no.	35 43 71 34
Financial year	1 January – 31 December
Registered office	Copenhagen
General partner	Fonden MIFIF II GP
Board of directors in Fonden MIFIF II GP	Kasper Svarrer Bjarne Thorup Frank Visti Møbjerg
Manager	Maj Invest Equity A/S
Depositary	Private Equity Administrators Depositary Services ApS
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36 DK-2000 Frederiksberg

MANAGEMENT COMMENTARY

KEY FIGURES AND RATIOS

'000 USD	2020	2019	2018	2017	2016
Key figures					
Profit/loss					
Value adjustment of investments in portfolio companies	14,824	27,070	8,133	2,760	(173)
Operating profit/loss	12,550	24,050	5,086	(2,374)	(1,812)
Profit/loss	12,403	23,704	4,655	(2,688)	(2,093)
Balance sheet					
Investments in portfolio companies	157,128	139,355	96,627	53,978	29,734
Total assets	158,314	140,567	98,159	55,724	30,629
Equity	158,292	129,468	82,669	55,645	30,422
Financial resources					
Cash	15	-	-	1,445	852
Remaining commitment	14,075	30,524	53,655	76,025	41,935
Total financial resources	14,090	30,524	53,655	77,470	42,787
Cash flow					
Cash flows from operating activities	(2,392)	(2,969)	(4,758)	(5,834)	(2,521)
Cash flows from investing activities	(2,985)	(15,690)	(34,521)	(21,484)	(17,174)
Cash flows from financing activities	5,392	18,659	37,834	27,911	20,153
Net change in cash	15	-	(1,445)	593	457
Ratios					
Equity ratio	100%	92%	84%	100%	99%
Paid-in capital to committed capital (%)	90%	78%	61%	45%	44%

MANAGEMENT COMMENTARY

BUSINESS REVIEW

Maj Invest Financial Inclusion Fund II K/S

The sector-focused private equity fund Maj Invest Financial Inclusion Fund II K/S (Maj Invest Financial Inclusion Fund II) was established on 23 June 2015 as a limited partnership and is owned by a number of Danish investors. The investors have entered into a limited partnership agreement (LPA).

Maj Invest Financial Inclusion Fund II has a total commitment of USD 137.06 million. The investment period ended in December 2019 and consequently only follow-on investments in existing portfolio companies will be made going forward. The Fund has invested in seven portfolio companies since inception.

Investment policy and strategy in Maj Invest Financial Inclusion Fund II

Maj Invest Financial Inclusion Fund II has invested directly in top tier financial institutions which provide micro- and SME financial services. These microfinance institutions have a strong growth strategy and are in compliance with recognized social impact standards.

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

The Fund has invested in microfinance institutions in Latin America, Asia and Africa and has only acquired significant minority positions. Investments are primarily made in unquoted companies. One investment has been made in a quoted company but the nature of the investment is to be considered as an illiquid asset.

It is very important that the microfinance institutions are well reputed and it has been preferable that investment was conducted together with/or into a likeminded ownership group. The Fund closely monitors investments to ensure that their value potential is realised and assesses exit opportunities on a continuous basis.

Social impact policy

The Social Impact Policy outlines the Fund's commitment to social impact. The Fund considers social impact as an integrated part of the overall framework for responsible investment, and the Fund's perception of responsible investment is aligned with that of the United Nations (UN). More specifically, the UN has provided a framework in the form of Principles for Investors in Inclusive Finance for responsible investment within the microfinance and financial inclusion sector. These principles represent the core values of the Fund's commitment to social impact and express the Fund's intent to create long-term social impact with the addition of positive environmental and governance impact.

MANAGEMENT COMMENTARY

BUSINESS REVIEW

The Social Impact Policy of the Fund considers the provisions laid down in international social impact standards. These include the Client Protection Principles of the Smart Campaign, the Universal Standards for Social Performance Management of the Social Performance Task Force, the Anti-Money Laundering Recommendations of the Financial Action Task Force, the Principles for Investors in Inclusive Finance as well as IFC's Exclusion List and EDFI's/IFU's Exclusion List. Through earnest implementation of its Social Impact Policy, Maj Invest Financial Inclusion Fund II strives to achieve its vision of generating a sound financial return as well as positive ESG impact for its investors.

Maj Invest Financial Inclusion Fund II organisation

The advisory team consist of one Managing Partner for Financial Inclusion, the executive board of Fondsmæglerselskabet Maj Invest A/S (MI), two partners, one investment principal, one investment manager, one sustainability manager, three associates, one senior analyst as well as three back-office staff involved in finance, legal matters and administrative duties.

Ownership

Maj Invest Financial Inclusion Fund II is owned by a number of professional and institutional investors holding a stake of 97.3%. Maj Invest Equity Management and staff involved in investments as well as three of the four external members of the Fund's Investment Committee have all invested as special limited partners in Maj Invest Financial Inclusion Fund II. Any profits earned by such special limited partners are subject to tax under current Danish and local tax rules. The special limited partners do not pay management fees and partnership formation costs to the Fund.

Investors	Commitment USDm	Interest in percent
Danish Pension funds	45.00	32.8%
Other Danish professional investors	88.50	64.5%
Maj Invest Holding A/S	2.90	2.1%
Management and staff in Maj Invest Equity International	0.56	0.4%
Investment Committee	0.10	0.1%
	137.06	100.0%

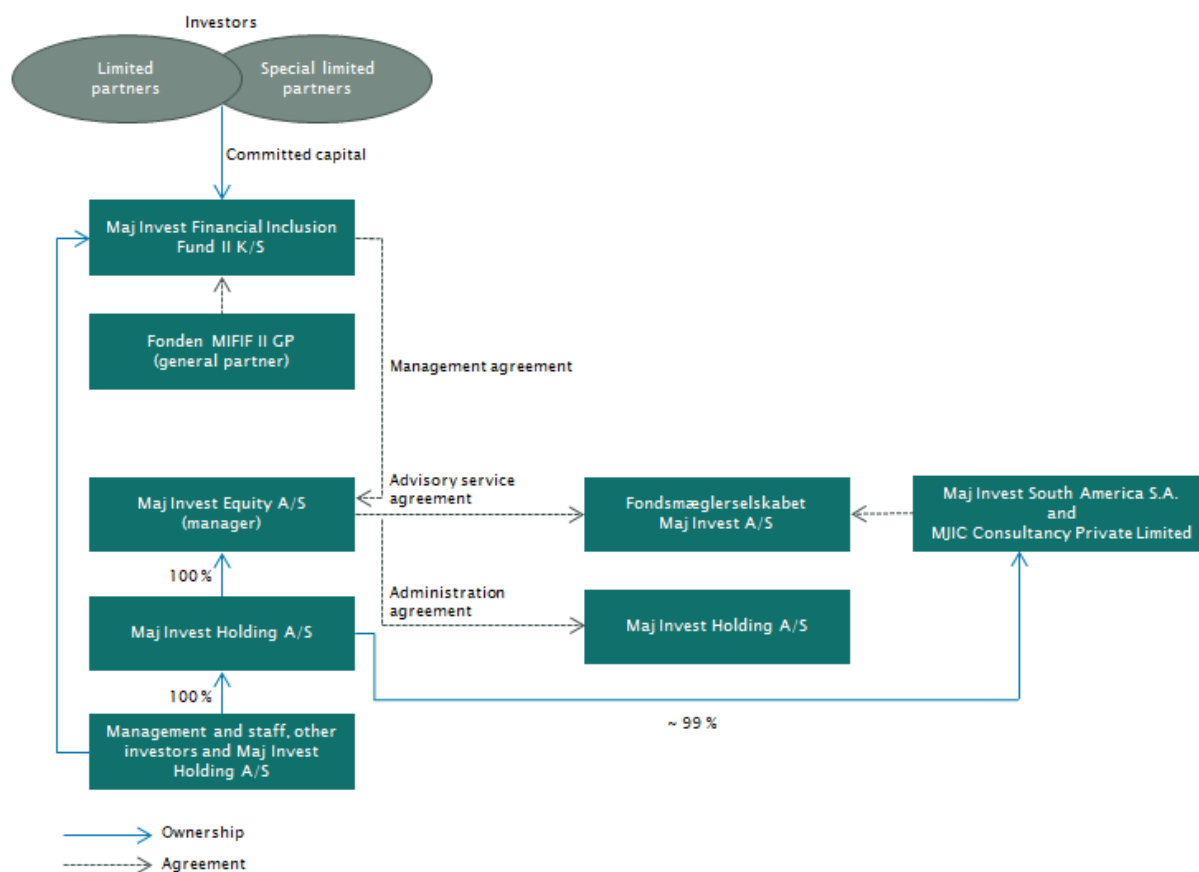
Legal structure

Maj Invest Financial Inclusion Fund II is a Danish limited partnership with a commercial foundation as general partner. The general partner Fonden MIFIF II GP is managed by a board of directors consisting of three members.

MANAGEMENT COMMENTARY

BUSINESS REVIEW

Legal structure of Maj Invest Financial Inclusion Fund II



The general partner is responsible for management and also signs for the Fund. Under a management agreement, the Manager handles all investment-related and administrative tasks for Maj Invest Financial Inclusion Fund II. Consequently, Maj Invest Financial Inclusion Fund II has no staff employed. The Manager has made an advisory service agreement with MI in respect of some of the investment-related tasks and an agreement with Maj Invest Holding A/S in respect of administrative tasks.

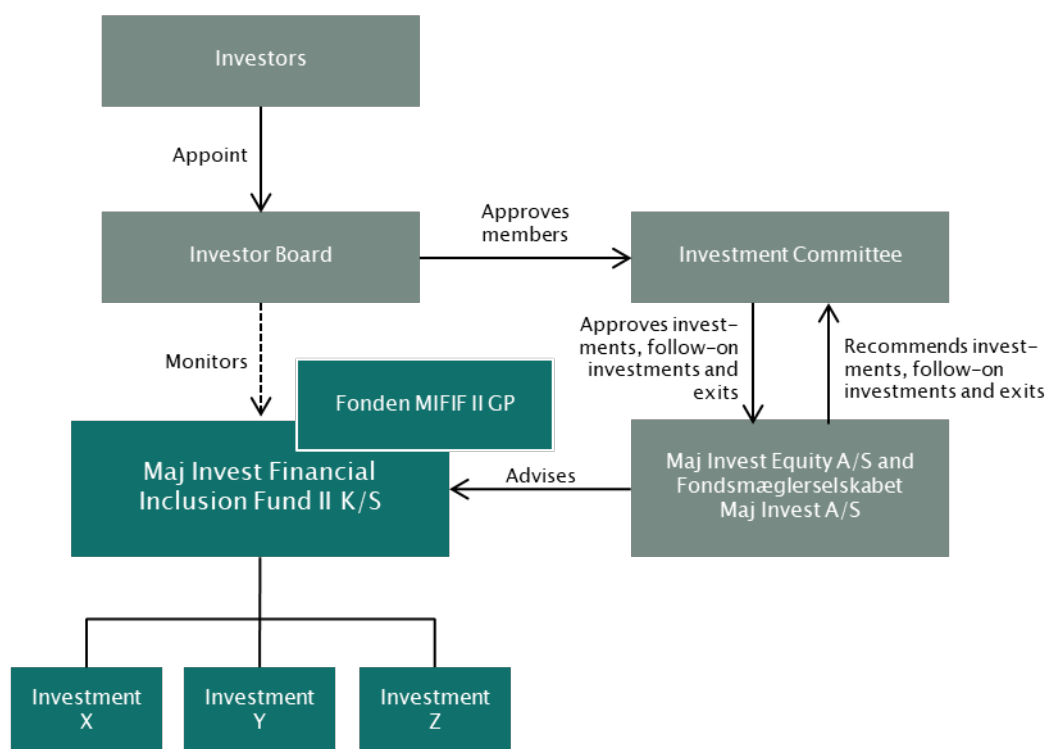
Decision structure

The investors in Maj Invest Financial Inclusion Fund II have set up an Investor Board with representatives appointed by the investors. The Investor Board is the investors representative body which evaluates the overall developments in the Fund. The Investor Board approves the Investment Committee and various other specific decision points.

MANAGEMENT COMMENTARY

BUSINESS REVIEW

Decision structure in Maj Invest Financial Inclusion Fund II



The general partner has established an Investment Committee. The investment Committee is responsible for reviewing and considering all investment or divestment proposals prepared and submitted by the Investment Advisor and based on such review to make recommendations to the general partner. No investments or realisation can be made without the prior approval of the Investment Committee. The Investment Committee consist of six members – four external members, with business experience and the CEO of MI and the Managing Partner, Financial Inclusion. All members of the Investment Committee shall be approved by the Investor Board.

Investment committee members do not participate in the particular companies and never invest in the portfolio companies in a discretionary manner.

License as manager with the Danish FSA

The Manager has received a license as manager (in Danish: forvalter) with the Danish FSA (in Danish: Finanstilsynet) and the Manager is under financial regulation and the Danish FSA supervision.

Maj Invest Financial Inclusion Fund II has appointed a depositary in accordance with the provisions in FAIF.

MANAGEMENT COMMENTARY

BUSINESS REVIEW

Remuneration for the financial year paid to management and staff in Maj Invest Equity A/S is disclosed in the annual report of Maj Invest Equity A/S and on the website majinvest.com. The annual report is also available on the website majinvest.com. Information is given at Manager level.

Carried interest

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

Carried interest is payable if the returns on investments adjusted for costs exceed a predetermined hurdle rate of 9% p.a. The carried interest is calculated as 20% of investor profits over the predetermined hurdle rate.

No carried interest had been allocated or paid as of 31 December 2020.

Reporting

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

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

The quarterly reports to investors are prepared in compliance with Invest Europe Investor Reporting Guidelines. Investments are valued at their fair values and in accordance with the International Private Equity and Venture Capital Valuation Guidelines.

Market development

The financial inclusion industry has overcome a year marked by the global health crisis. During 2020, as large swaths of the global economy were impacted by the Covid-19 pandemic, the financial inclusion industry, showing its historical resilience, stepped up its efforts to recover. For few months, from the onset, disbursements to new clients were significantly reduced as severe lockdowns shut down entire countries, and, afterwards, massive restructur-

MANAGEMENT COMMENTARY

BUSINESS REVIEW

ings of loan portfolios took place. Between six to 12 months of loan moratorium along with strong money inflows from governments were among the key measures taken to offset the pandemic's impact.

By September 2020, the financial inclusion industry had gradually begun to resume activities, with promising economic growth perspectives for 2021 hovering 15% for South East Asia and 10% for LatAm countries¹. The major remaining constraint is about the difficulty in collecting loan repayments, but collection rates improved from an average of ~ 50% as of Q2 2020 to ~70% as of Q4 2020, and even higher in the case of selected Maj Invest Financial Inclusion India portfolio companies. In addition, financial inclusion institutions (FIIs) made voluntary provisions, getting ready to overcome any potential raise in delinquencies expected by mid-2021. Agriculture and retail are among the sectors less impacted by Covid-19, while tourism and services are the most affected. Nevertheless, FIIs have a diversified basket of products on top of the atomization of the credit risk in many small loans. With respect to moratoria periods, few more months are needed before complete data on loan repayment is available to have a full picture of its impact on borrowers. Those institutions that have prudent solvency positions, good provision levels and a significant scale of operations are the ones which will further grow and contribute to the consolidation of the sector through inorganic expansion.

Going forward, the financial inclusion industry is moving towards a digital business model. Digitization remains an opportunity for the sector to retain a competitive position and to thrive by providing responsible services to their low-income customers. Scale, however, is still a real challenge. More than ever, impact investors must maintain their focus on financial inclusion, which has a long track record of lifting underserved communities, by supporting FIIs adoption and transformation into digital age operations.

Great responsiveness seems to have already been adopted by many FIIs. Going beyond the priority given to the repayment of credits or their restructuring, successful FIIs have introduced not only new digital communication and distribution channels, but also new credit policies for innovative products tailored to the customer's particular needs. The Covid-19 pandemic is accelerating the emergence of the digital economy, boosting a fintech sector that continues to grow, increasing digital payments and digital wallets overtaking online credit platforms.

¹ <https://www.moneycontrol.com/news/business/six-early-trends-in-financial-sector-that-point-to-gradual-recovery-post-covid-19-6205291.html>

Moody's, "Analysis and perspectives of microfinance system in Peru", February 2021
Asomicrofinanzas, "Buletin of microfinance sector in Colombia", September 2020

MANAGEMENT COMMENTARY

BUSINESS REVIEW

For 2021, demand for micro and small businesses credit is expected to increase, because of higher unemployment rates in Emerging Markets (EM)². Without direct governmental support, people and businesses in EM need to provide for themselves by accessing lines of credit that are converted into income generating activities. In addition, with informal sectors ranging from 70% in LatAm to 90% in India, EM are expected to recover quicker as these sectors are more flexible, adapting and overcoming crisis faster. Moreover, local governments are expected to rely on the FIIs to support the post-Covid-19 economic recovery and poverty alleviation efforts. The financial inclusion industry is expected to continue its expansion as the overall demand from 3-4 billion people in need of basic financial services will increase.

Follow-on investments in 2020:

In June, the Fund participated in a capital raise in Aye Finance increasing the ownership to 7.24%.

More information on investments is available below.

Result for the year

The bottom-line for 2020 is a profit of USD 12.4 million (against a profit in 2019 of USD 23.7 million) which is in line with the management expectations considering the Covid-19 pandemic. The result for the year is positive affected by unrealised value adjustments of the investments of USD 14.8 million. The value adjustments consist of USD 17.2 million related to value adjustments, which are offset by a loss of USD 2.5 million due to currency adjustments.

Development in portfolio companies in 2020

Baobab S.A.S. (Baobab)

Baobab was established in 2005 and currently operates as microfinance bank in 10 countries, nine African countries and China. Baobab is offering tailored financial services to financially underserved entrepreneurs. During the Covid-19 pandemic in 2020, Baobab's operations in all subsidiaries were impacted in terms of growth of loan portfolio and expansion plan due to the lock-down restrictions. However, Baobab is forecasted to generate a positive net profit thanks to good control of operating costs and portfolio quality. In the coming year, the company will focus on business rebound strategy in all subsidiaries post Covid-19 pandemic and accelerate the digital transformation in the long-term. Maj Invest Financial Inclusion Fund II has a seat in the Supervisory Board. For further information about the company please refer to the portfolio company's homepage baobab.bz.

² Toronto Center, "Guide to supervision in the Covid-19 world", September 2020 CGAP, "Vision of the future: financial inclusion 2025", June 2017

MANAGEMENT COMMENTARY

BUSINESS REVIEW

Diviso Group Financiero S.A. (Diviso)

Diviso was founded in 2003 and listed on the Lima Stock Exchange in 2007. Diviso is a Peru-based holding company engaged in the acquisition and management of microfinance companies (Financiera Credinka), public equities and other financial related instruments. Maj Invest Financial Inclusion Fund II has a seat in the Board of Directors. For further information about the company please refer to the portfolio company's homepage diviso.pe.

Arohan Financial Services Limited (Arohan)

Arohan is a Non-deposit taking Microfinance Institution at growth stage in India founded in 2006. Maj Invest Financial Inclusion Fund II has a seat in the Board of Arohan. For further information about the company please refer to the portfolio company's homepage arohan.in.

Mibanco S.A. (Mibanco) (formerly Banco Compartir S.A.)

Mibanco is a Colombian banking institution founded in 1988 as an NGO in order to support low-income segments in the Colombian economy. The bank is the 5th largest privately owned microfinance bank with a nationwide footprint of 117 branches covering 27 out of 33 provinces in Colombia. Mibanco is committed to social development attending and accompanying Colombian micro and small entrepreneurs and their families for the progress, development, and improvement of their quality of life. Despite a challenging year, Mibanco successfully completed the merger with Encumbra, a highly efficient non-regulated MFI. The bank plans to further continue its inorganic growth, aiming at becoming top 1st or 2nd microfinance bank in Colombia. Moreover, the company has incorporated strong digital strategies to gain efficiencies and strengthen its customer value proposition. Maj Invest Financial Inclusion Fund II has a seat in the Board of Mibanco. For further information about the company please refer to the portfolio company's homepage mibanco.com.co.

Belstar Microfinance Limited (Belstar)

Belstar is a Non-deposit taking Microfinance Institution at growth stage in India that offers group loans. Founded in 1988, the company is among the top performing Indian MFIs, with 573 branches and 67 service provider points operating across 17 states and servicing almost 1.2 million clients. Belstar has shown outstanding development since its inception, delivering growth and profitability simultaneously. Moreover, the company has shown strong resilience during Covid-19 and has remained profitable while maintaining healthy portfolio levels. Maj Invest Financial Inclusion Fund II has a seat in the Board of Belstar. For further information about the company please refer to the portfolio company's homepage belstar.in.

Aye Finance Private Limited (Aye Finance)

Aye Finance is an Indian Non-Banking Financial Company (NBFC), fully regulated by the Reserve Bank of India, non-deposit taking and dedicated to lending to Micro and Small Enterprises (MSMEs). Founded in 2014 with a vision to be a leader in facilitating affordable and adequate credit solutions to MSMEs in India through an industry-cluster approach. Despite

MANAGEMENT COMMENTARY

BUSINESS REVIEW

Covid impact, Aye Finance has continued with its expansion by increasing its workforce and expanding its branch network. The company has operations in 18 states in India with over 211 branches. Due to its innovative business model and data techniques, the company has shown impressive growth since its inception attracting strategic and highly reputed investors such as Google Capital. In 2020, the company ranked number 14 among the top 100 best companies to work in India. Maj Invest Financial Inclusion Fund II has a seat in the Board of Aye Finance. For further information about the company please refer to the portfolio company's homepage ayefin.com.

Sub-K Impact Solutions Limited (Sub-K)

Sub-K was established in 2010. Sub-K carries out basic banking, payment and loan management services for microfinance banks through its network of agents/Business Correspondents Outlets (BCOs) and FinTech platform. Sub-K's business model has a tech platform that enables low-cost shop outlet for financial inclusion products and banking services through BCOs in rural and semi urban areas where other institutions can't reach without significant cost. Sub-K has rapidly expanded operations since its inception and is present in 27 states. The company is working towards improving customer retention through the digitalization of microenterprise customer's business and collections. Maj Invest Financial Inclusion Fund II has a seat in the Board of Sub-K. For further information about the company please refer to the portfolio company's homepage subk.co.in.

Capital resources

Maj Invest Financial Inclusion Fund II has a total capital commitment of USD 137.06 million. As of 31 December 2020, investors had paid USD 123 million, equal to 89.7% of their capital commitments. The remaining capital commitment is USD 14.1 million (USD 30.5 million at 31 December 2019). Maj Invest Financial Inclusion Fund II's equity amounted to USD 158.3 million at 31 December 2020, matching an equity ratio of 100%.

Maj Invest Financial Inclusion Fund II is able to finance investments and follow-on investments from the time of investment and up to six months through bridge financing loans from financial institutions. A bridge loan must be repaid in connection with a capital call from investors.

Financial risks

The objective of Maj Invest Financial Inclusion Fund II is to invest in portfolio companies. The major risk factor is therefore the failure to create value in the underlying portfolio companies. Changes in the macroeconomic environment, including effects of COVID-19, currency risk and the political risk in the countries of the investments can have impact on the potential for value creation in the portfolio companies and consequently also of the performance of Maj Invest Financial Inclusion Fund II.

MANAGEMENT COMMENTARY

BUSINESS REVIEW

Regarding COVID-19, the current coronavirus pandemic has affected the financial inclusion industry in 2020, resulting in a slow down in business and has impacted the portfolio companies' operations negatively in 2020. The full impact of the virus is still not clear at the present moment, but it is expected to have short term implications on profits and liquidity in the portfolio companies. However, at the medium and long term the financial inclusion sector is expected to resume growth. The investment team is following the situation closely.

Uncertainties relating to recognition and measurement in the financial statements

Interests in portfolio companies are valued at their fair values, according to the description in Accounting policies. The valuation includes accounting estimates and such valuation is therefore subject to some uncertainty. The full impact arising from COVID-19 is not clear at this point of time and therefore, the uncertainty is also related to the effects of COVID-19.

Events after the balance sheet day

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

FINANCIAL STATEMENTS

ACCOUNTING POLICIES

GENERAL

Maj Invest Equity Financial Inclusion Fund II K/S has voluntarily chosen to present the financial statements in accordance with the provisions of the Danish Financial Statements Act for class A entities with the adoption of a cash flow statement. Investments in portfolio companies are recognised in compliance with the International Private Equity and Venture Capital Valuation Guidelines, drawn up by the IPEV Board.

The annual report is prepared in USD. USD/DKK: 31 December 2020 = 605.76
(31 December 2019 = 667.59)

The accounting policies are the same as last year.

Recognition and measurement

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

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

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

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

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

Foreign currency translation

If transactions in other currencies than USD, these are translated into USD using the exchange rates applicable on the transaction date.

FINANCIAL STATEMENTS

ACCOUNTING POLICIES

INCOME STATEMENT

Value adjustment of investments in portfolio companies

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

Administrative expenses

Administrative expenses include mainly management fees, partnership formation costs, broken deal costs, depositary fee and other administrative costs.

Financial income and expenses

Financial income and expenses include interest expense due to credit facilities and bridge loans, financial risk premium to the general partner and currency adjustments.

Tax

Maj Invest Financial Inclusion Fund II K/S is a Danish limited partnership. The limited partnership is transparent for tax purposes and taxes are levied on the individual investor in proportion to their shares in the partnership. Consequently, no provisions for tax have been made in the financial statements. However, tax withheld on the payment of dividends by the portfolio companies will be recognized in the income statement under tax.

BALANCE SHEET

ASSETS

Investments in portfolio companies

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

The fair value of investments in unquoted portfolio companies are measured at the most recent market price for a limited period following the date of the relevant transaction, for instance in the form of an expansion of capital or partial sale or through the use of traditional valuation methods for microfinance institutions, e.g. P/B, P/Rev multiples.

The fair value of investments in quoted companies will for actively traded (quoted) investments be available market prices. If shares are not actively traded, investments will be measured as investments in unquoted portfolio companies.

FINANCIAL STATEMENTS

ACCOUNTING POLICIES

Receivables

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

Cash

Cash includes deposits with financial institutions.

LIABILITIES

Financial liabilities

Bank loans regarding bridge financing are measured at amortised cost, corresponding to the outstanding debt.

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

CASH FLOW STATEMENT

Cash flow statement

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

FINANCIAL STATEMENTS

INCOME STATEMENT

'000 USD	Note	2020	2019
Value adjustment of investments in portfolio companies	1	14,824	27,070
Administrative expenses		(2,274)	(3,020)
Operating profit		12,550	24,050
Financial income	2	-	1
Financial expenses	3	(140)	(347)
Profit before tax		12,410	23,704
Withholding tax		(7)	-
Profit for the year		12,403	23,704
Proposed distribution of net profit			
Retained earnings		12,403	23,704
		12,403	23,704

FINANCIAL STATEMENTS

BALANCE SHEET

'000 USD	Note	2020	2019
ASSETS			
Investments in portfolio companies	4	157,128	139,355
Total investments		157,128	139,355
Total non-current assets		157,128	139,355
Other receivables		1,171	1,212
Total receivables		1,171	1,212
Cash		15	-
Total current assets		1,186	1,212
Total assets		158,314	140,567
EQUITY AND LIABILITIES			
Paid-in capital		122,985	106,536
Distributions		(64)	(36)
Retained earnings		35,371	22,968
Total equity	5	158,292	129,468
Debt to banks		-	11,029
Other payables		21	70
Total short-term liabilities		21	11,099
Total liabilities		21	11,099
Total equity and liabilities		158,314	140,567
Cash flow statement – adjustments	6		
Cash flow statement – change in working capital	7		
Contingent liabilities	8		
Other notes	9		

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

'000 USD	Note	2020	2019
Profit for the year		12,403	23,704
Adjustments	6	(14,641)	(26,691)
Change in working capital	7	(6)	364
Cash flows from operating activities before net financials		(2,245)	(2,623)
Financial income		-	1
Financial expenses		(140)	(347)
Paid withholding tax		(7)	-
Cash flows from operating activities		(2,392)	(2,969)
Purchase of investments in portfolio companies		(2,985)	(15,690)
Cash flows from investing activities		(2,985)	(15,690)
Paid-in capital from limited partners		16,449	23,131
Distributions to limited partners		(28)	(36)
Changes in bank loans		(11,029)	(4,437)
Cash flows from financing activities		5,392	18,659
Cash flows for the year, net		15	-
Cash at the beginning of the year		-	-
Cash at the end of the year		15	-

FINANCIAL STATEMENTS

NOTES

'000 USD	2020	2019
NOTE 1 Value adjustment of investments in portfolio companies		
Unrealised value adjustments	14,788	27,037
Dividend received from portfolio companies	35	29
Other income from portfolio companies	1	4
	14,824	27,070
NOTE 2 Financial income		
Other financial income	-	1
	-	1
NOTE 3 Financial expenses		
General Partner, annual financial risk premium	8	4
Other financial expenses	132	343
	140	347
NOTE 4 Investments in portfolio companies		
Cost at 1/1	101,225	85,535
Additions during the year	2,985	15,690
Disposals during the year	-	-
Cost at 31/12	104,210	101,225
Value adjustments at 1/1	38,129	11,092
Value adjustments during the year	17,249	28,709
Currency adjustments during the year	(2,461)	(1,672)
Value adjustments at 31/12	52,917	38,129
Carrying amount at 31/12	157,128	139,355

Investments in portfolio companies are minority investments with an ownership interest less than 19% which are valued according to the fair value measurements in Level 3 of the fair value hierarchy.

The fair market value for each portfolio company is primarily measured based on a P/B and P/Rev multiples which is the common method for microfinance institutions. The multiples are determined using the following criteria: the company's revenue, profitability and growth potential, growth in equity, actual return on equity, the company's and management's ability to accomplish the growth strategy, but also the country's economic and political conditions and legal framework.

FINANCIAL STATEMENTS

NOTES

NOTE 4 Investments in portfolio companies (continued)

Name of investments in portfolio companies	Registered office	Ownership interest	Share capital	Equity	Profit/loss for the year
Baobab S.A.S.	France	7.57%	77,807,273	177,072	28,789
Diviso Group Financiero S.A.	Peru	18.50%	181,807,000	91,697	-578
Arohan Financial Services Limited*	India	13.96%	1,103,210,000	127,694	16,820
Mibanco S.A.	Colombia	14.37%	135,502,000	48,001	370
Belstar Microfinance Limited*	India	11.05%	375,205,000	66,037	13,132
Aye Finance Private Limited*	India	6.98%	270,428,540	68,542	4,299
Sub-K Impact Solutions Limited*	India	14.05%	73,658,980	20,859	1,316

Share capital, equity and profit/loss for the year are from the latest annual reports published, which for Diviso is 2020 and Baobab and Mibanco is 2019. The latest annual report published for Arohan Financial Services Limited, Belstar Microfinance Limited, Aye Finance Private Limited and Sub-K Impact Solutions Limited is for the financial year 2019/20.

* Financial year is 1 April to 31 March.

FINANCIAL STATEMENTS

NOTES

'000 USD	31.12.2020	31.12.2019
NOTE 5 Equity		
Equity at beginning of year	129,468	82,669
Paid-in capital from limited partners	16,449	23,131
Distributions to limited partners	(28)	(36)
Retained earnings	12,403	23,704
Equity at end year	158,292	129,468
The limited partners are liable for their share of the remaining commitment		
	14,075	30,524
	2020	2019
NOTE 6 Cash flow statement – adjustments		
Financial income	–	(1)
Financial expenses	140	347
Unrealised value adjustments in portfolio companies	(14,788)	(27,037)
Withholding tax	7	–
	(14,641)	(26,691)
NOTE 7 Cash flow statement – change in working capital		
Change in receivables	42	319
Change in other short-term liabilities	(48)	45
	(6)	364

NOTE 8 Contingent liabilities

Contingent liabilities

Maj Invest Financial Inclusion Fund II K/S has entered into a management agreement with Maj Invest Equity A/S for the Manager's administration of Maj Invest Financial Inclusion Fund II K/S as well as the provision of investment advisory services to Maj Invest Financial Inclusion Fund II K/S. On termination, Maj Invest Financial Inclusion Fund II K/S may in certain circumstances be obliged to pay management fees for up to 12 month. At 31 December 2020, the fee amounted to app. USD 2.2 million (at 31 December 2019 approx. USD 1.9 million).

FINANCIAL STATEMENTS

NOTES

NOTE 9 Board of Directors of the general partner

Kasper Svarrer (chairman)

Director of:

Kasper Svarrer Holding ApS, Harbour Group Holding ApS, DMP Holding 1 ApS, Danish Microfinance Partners General Partner ApS, Danish Microfinance Partners Management ApS, Management Equity Vietnam I ApS, General Partner Equity Vietnam ApS and MIFIF III GP ApS.

Board member of:

Jutlandia Terminal A/S, A/S J. Lauritzen´s Eftf., Esbjerg, Jantzen A/S, Baobab S.A.S., France, Arohan Financial Services Private Limited, India, MJIC Consultancy Private Limited, India and Maj Invest South America S.A., Peru.

Member of Investment Committee of:

Maj Invest Financial Inclusion Fund III K/S and Capricorn Forest Fund K/S.

Bjarne Thorup

Director of:

Thorup ApS, Promentum I General Partner ApS, AEP Komplementar ApS, AEP Bolig+ I Komplementar ApS, Private Equity III K/S, Secure Byggefinansiering 3 K/S and AEP Logistics Properties I Komplementar ApS.

Chairman of:

Fonden Maj Invest Equity General Partner, Pesitho Holding ApS, Sæbefabrikken A/S and Fonden MIE 5 GP.

Vice Chairman of the boards of:

Jysk Display A/S and Holdingselskabet Jysk Display A/S.

Board member of:

Bo-Hus A/S.

Frank Visti Møbjerg

Director of:

Fravis Holding ApS.

Chairman of:

H & M Invest A/S and The Jewellery Room ApS.

Board member of:

Fravis Holding ApS, Fonden Maj Invest Equity General Partner, Bolighandel ApS, Fonden LDE 2 GP, Fonden LDE 3 GP and Fonden MIE 5 GP.