



MAJ INVEST FINANCIAL
INCLUSION FUND II K/S

Annual report 2023

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STATEMENT BY MANAGEMENT

The Board of Directors has today discussed and approved the annual report for Maj Invest Financial Inclusion Fund II K/S for the financial year 1 January – 31 December 2023.

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 2023 and of the results of the limited partnership's operations and cash flows for the financial year 1 January – 31 December 2023.

We believe that the Management commentary and the supplementary report in accordance with the Sustainable Financial Disclosure Regulation (EU) include a fair review of the affairs and conditions referred to therein.

We recommend the annual report 2023 for adoption at the annual general meeting.

Copenhagen, 8 August 2024

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 _____ / _____ 2024

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 2023, 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 2023 and of the results of the Limited Partnership's operations for the financial year 1 January – 31 December 2023 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 Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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.

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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.

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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 commentary and other information in accordance with SFDR

Management is responsible for the Management's commentary, and other information in accordance with SFDR, hereafter referred to "other information" .

Our opinion on the financial statements does not cover the Management's commentary or other information, 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 commentary as well as other information and, in doing so, consider whether the Management's commentary and other information 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 commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's commentary and other information 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 commentary or other information.

Copenhagen, 8 August 2024

EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Lars Rhod Søndergaard
State Authorised
Public Accountant
mne28632

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	Apex (Denmark) ApS
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36 DK-2000 Frederiksberg Denmark

MANAGEMENT COMMENTARY

KEY FIGURES AND RATIOS

'000 USD	2023	2022	2021	2020	2019
Key figures					
Income statement					
Value adjustment of investments in portfolio companies	8,469	(20,692)	(12,567)	14,824	27,070
Operating profit/loss	6,499	(22,936)	(14,939)	12,550	24,050
Profit/loss	6,483	(22,972)	(14,950)	12,403	23,704
Balance sheet					
Investments in portfolio companies	135,268	126,754	144,540	157,128	139,355
Total assets	136,256	127,737	145,713	158,314	140,567
Equity	136,227	127,719	145,690	158,292	129,468
Financial resources					
Cash	38	60	66	15	-
Remaining commitment	4,643	6,696	11,710	14,075	30,524
Total financial resources	4,681	6,756	11,776	14,090	30,524
Cash flow					
Cash flows from operating activities	(2,048)	(2,083)	(2,297)	(2,392)	(2,969)
Cash flows from investing activities	-	(2,924)	-	(2,985)	(15,690)
Cash flows from financing activities	2,026	5,001	2,347	5,392	18,659
Net change in cash	(22)	(6)	51	15	-
Ratios					
Equity ratio	100%	100%	100%	100%	92%
Paid-in capital to committed capital (%)	97%	95%	91%	90%	78%

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, no investments will be made in new portfolio companies. 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 financial inclusion institutions have a strong growth strategy and are in compliance with recognized social impact standards.

The financial inclusion 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 financial inclusion 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 financial inclusion 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.

Sustainability Policy

The Sustainability Policy outlines the Fund's commitment and approach to promoting a positive environmental, social and governance development. We believe that supporting responsible business conduct is part of the Fund's value creation to investments and generates a positive development. This includes, among other things, access to affordable financial services, outreach, gender equality, client protection, job creation and community initiatives, ensuring good corporate governance and clients' protection against climate change. Investing in financial institutions with a strong social mission contributes to the improvement of

MANAGEMENT COMMENTARY

BUSINESS REVIEW

clients' economic development and livelihood by providing access to formal and fair financial services. Also, financial inclusion is imperative for giving people access to basic needs such as education, skill training, healthcare, clean water, sanitation facilities and clean energy.

The Fund considers sustainability as an integrated part of the overall framework for responsible investment. The Fund integrates sustainability risks into the Fund's investment decisions in accordance with Article 6 of the EU Sustainable Finance Disclosure Regulation (SFDR). The Fund is classified in accordance with Article 8 of SFDR and promotes, among other characteristics, environmental and social characteristics but does not have sustainable investment as its objective. This annual report includes a supplementary report in accordance with SFDR (EU), to which we refer for further information.

The Sustainability Policy of the Fund considers the provisions laid down in international ESG standards. These include the Client Protection Principles, the Universal Standards for Social Performance Management of the Social Performance Task Force, the Principles for Investors in Inclusive Finance as well as IFC's Exclusion List. Through earnest implementation of its Sustainability Policy, The Fund strives to achieve its vision of generating a sound financial return as well as positive ESG development for its investors.

Maj Invest Financial Inclusion Fund II organisation

The advisory team consists of one Managing Partner for Financial Inclusion (FI), the Executive Board of Fondsmæglerselskabet Maj Invest A/S (Maj Invest), two partners, one investment director, one investment manager, one senior sustainability manager, three associates, two analysts 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 97.4%. Maj Invest Equity Management and staff involved in investments as well as the three 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 or partnership formation costs to the Fund.

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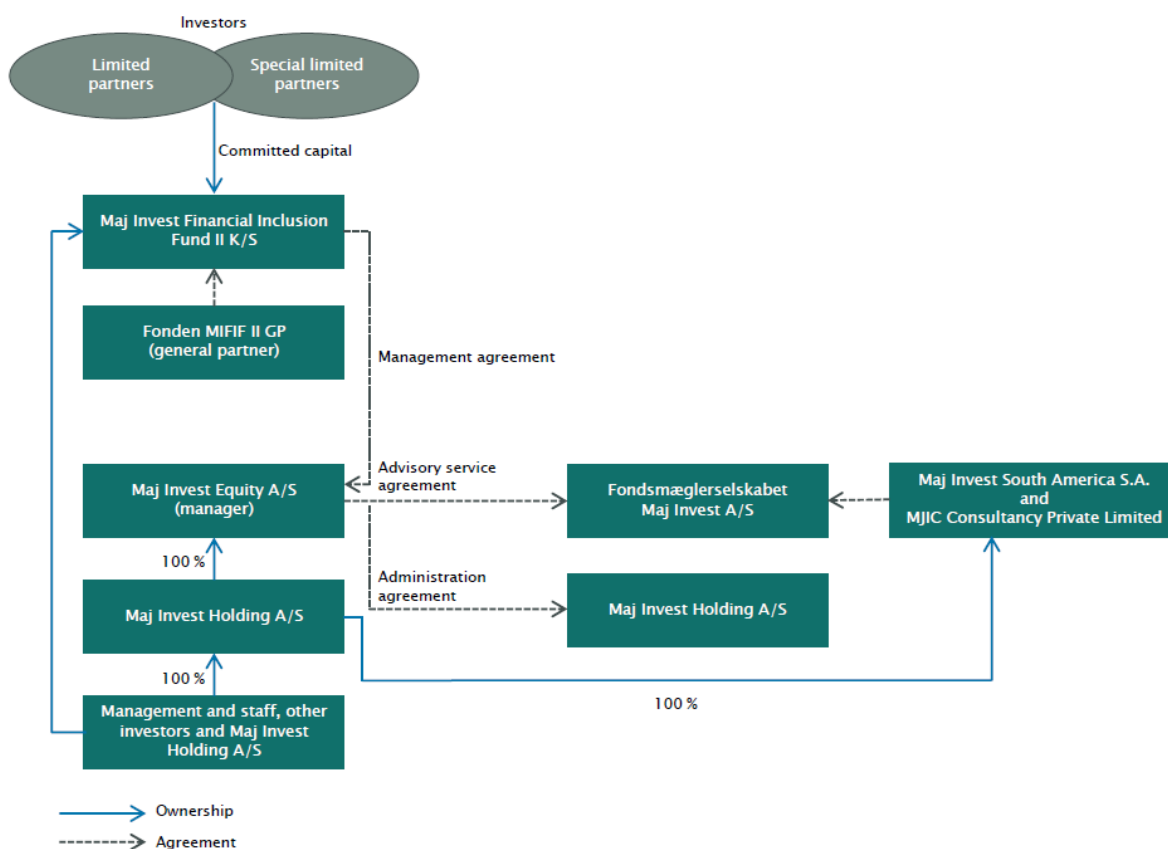
BUSINESS REVIEW

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.

Legal structure of Maj Invest Financial Inclusion Fund II



MANAGEMENT COMMENTARY

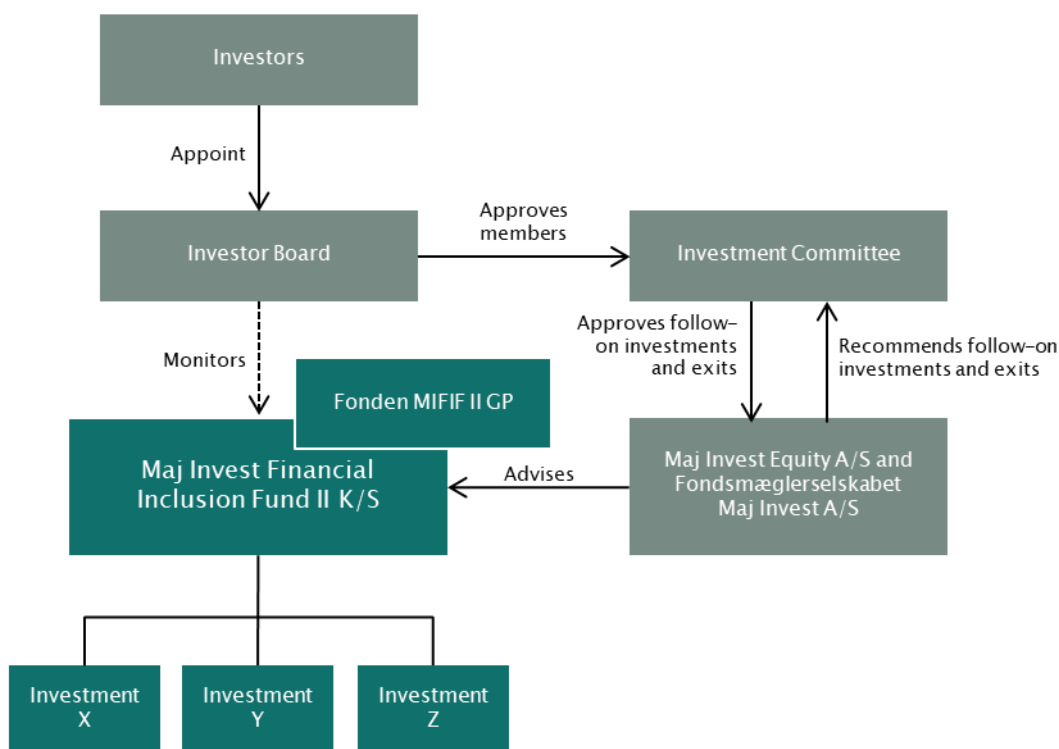
BUSINESS REVIEW

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 Maj Invest 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 investor's representative body which evaluates the overall developments in the Fund. The Investor Board approves the Investment Committee and various other specific decision points.

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 follow-on investment or divestment proposals prepared and submitted by the Investment Advisor and based on such review to make recommendations to the general partner. No follow-on investments or realisation can be made without the prior approval of the Investment Committee. The Investment Committee consist of five members – three external members, with business experience, an executive advisor

MANAGEMENT COMMENTARY

BUSINESS REVIEW

and the CEO of Maj Inve. 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.

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. Information is given at Manager level. The annual report for Maj Invest Equity A/S is available on the website majinvest.com.

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 2023.

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.

MANAGEMENT COMMENTARY

BUSINESS REVIEW

- Annual Sustainability 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.

In addition to the reports specified in the LPA, a Financial Inclusion Newsletter is sent to the investors.

Market development

The Financial inclusion (FI) sector caters to the low-income individuals and small-medium businesses, their services are often more locally oriented, and historically they have been less vulnerable to global economic fluctuations and geopolitical shocks. Despite the complexities arising from events like the Israel-Hamas war, Russia's invasion of Ukraine, and US-China rivalry, the financial inclusion sector remains less affected, maintaining its resilience amid economic fragmentation and supply-chain reorganization.

Even though inflation seems to be diminishing, it is unlikely there will be substantial reductions in interest rates in the short term. This course of action has resulted in policy rates of 5.5% in the United States and 4.0% in the eurozone. However, the FI sector's performance has still not been affected as much as expected mainly due to the sustained purchasing power of the FI client group. The increased finance cost has only been partially passed to customers due to operational efficiency thanks to new technology. The average interest rates of Maj Invest Financial Inclusion Fund (MIFIF) portfolio companies¹ have increased 3.4%pt (20.6% to 24.0%) from FY 2021/22 to FY 2022/23. Consequently, the new restrictive levels of interest rate have made capital more expensive. In the long term, anticipations of lower inflation rates and lower interest rates may potentially increase the value of the existing portfolio companies.

On a country basis, India is expected to be the fastest-growing emerging economy in 2024-28 with a real GDP growth at around 6.0% per annum². India's strong economic growth, easing inflation and narrowing current account as a result of moderating global commodity prices will support the rupee. This will, in turn, support investor appetite for Indian assets. As a result, there is a growing interest among international investors for Indian assets including those in the FI sector.

¹ The average interest rates of portfolio companies across all three Maj Invest Financial Inclusion funds

² EIU – India Country Report January 2024

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India's FI institutions' aggregate gross loan portfolio (GLP) grew by 37.7% YoY to USD 17bn compared to March 2022³. MIFIFs aggregate GLP in India grew 38.1% in the same period. MIFIF has been able to contain strong portfolio growth and quality, despite disruptions to the global economy (due to monetary interventions, supply-chain disruptions, conflicts, and volatile energy prices). MIFIF's average Portfolio at Risk >30 days is 4.5% which is below the market at 8.3% as of March 2023.

FI is bolstered by strong governmental support in India since it is crucial in the country's transition to sustainable development and achieving its climate goals, as it ensures that all individuals, including those in poverty, have access to necessary financial services and resources for a sustainable transition. Non-banking financial companies' assets under management in India increased 6.5x from USD 44 billion in March 2008 to almost USD 329 billion in March 2022, and expected to increase further, indicating the importance of the sector to overall credit delivery in the economy⁴.

FI's positive effects extend to broader technology adoption, which enhances client outreach and experience, improves cost-effective lending processes, and provides convenient pathways for more individuals to be financially included. The potential opportunity to promote social impact is still significant, with more than 1.4 billion people still counted as financially excluded globally⁵.

Exits in 2023

In July 2023, Maj Invest Financial Inclusion Fund II K/S completed an exit of Diviso Grupo Financiero S.A. (Diviso).

Result for the year

The bottom-line for 2023 is a gain of USD 6.5 million (against a loss in 2021 of USD 23 million). The result for the year is positively affected by unrealised value adjustments of the investments of USD 8.5 million. The unrealised value adjustments consist of DKK 5.9 million related to value adjustments, and a gain of DKK 2.6 million due to currency adjustments.

Development in portfolio companies in 2023

Baobab S.A.S. (Baobab)

Baobab was established in 2005 and currently operates in 8 countries (7 African countries and China) providing loans to micro, small and medium enterprises. Baobab contributes sig-

³ Micrometer Report– December 2022

⁴ Finova Annual Report March 2023

⁵ World Bank Global Findex Database 2021

MANAGEMENT COMMENTARY

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nificantly to several of the Sustainable Development Goals (SDGs), in particular, No Poverty, Gender Equality, Decent Work and Economic Growth and Climate Action.

During 2023, Baobab has had stable growth in gross loan portfolio thanks to strong performance in six African countries, despite the decrease in China and currency devaluation in Nigeria. Total savings portfolio has experienced stable growth during the year. For 2023, Baobab managed to show good control of portfolio quality and generate a satisfactory profit. Baobab has continued the effort in accelerating digitalization. It has made significant progress in digital transformation of the company's core banking system, collection system, loan origination system and agency banking system. During the year, digital transactions have increased strongly, targeting to approach 50% of the transactions done outside branches. Channel expansion has developed in fast speed, with new version of mobile app, new agency banking platforms rolled out in three African countries.

Baobab will continue its strategy to become a leading digital microfinance bank in Africa and strengthen its position in the region. For further information about the company please refer to the portfolio company's homepage baobab.bz.

Arohan Financial Services Limited (Arohan)

Arohan is a non-deposit taking financial inclusion institution at growth stage in India founded in 2006. It targets rural and urban population in regions with very low market penetration and immense demand for financial services. It is one of the largest MFIs in Eastern India, with 957 branches operating across 15 states in India and servicing nearly 2 million clients. The company regained momentum quickly post COVID and has been growing steadily while also launching new digital products for their clients this year. In its latest fund raise round, Arohan raised USD 24m in equity from IFU, along with USD 38m in equity from Nuveen and FMO.

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)

Mibanco is a Colombian banking institution founded in 1988 as an NGO to support low-income segments in the Colombian economy. The bank is the 4th largest privately owned bank offering micro, small and medium loans to enterprises in Colombia and has a nationwide footprint of 131 branches servicing over 660k clients. During 2023, Mibanco faced unfavourable macroeconomic conditions and a new government-mandated changes in the microfinance regulation which led to internal restructuring, and higher capital needs as well as a change in top management. For the coming years, the bank will focus more on creating operating efficiencies on its processes while strengthening 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.

MANAGEMENT COMMENTARY

BUSINESS REVIEW

Belstar Microfinance Limited (Belstar)

Belstar is a non-deposit taking financial inclusion Institution at growth stage in India that offers group loans. Founded in 1988, the company is among the top performing Indian MFIs and has become the market leading player in India's southern states via Self-Help Group lending model, with 1,087 branches (including 78 service provider points) operating across 19 states and servicing almost 2.7 million clients. During the year, the company has been growing fast and has achieved tremendous AUM growth crossing a milestone AUM of USD 1 bn+ while simultaneously maintaining its portfolio quality which is better than the industry average. 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. Aye Finance has continued with its expansion by increasing its workforce and expanding its branch network. The company has operations in 22 states in India with over 450 branches managing an AUM of roughly USD 450m. Aye also raised USD 37m in equity in Dec.23 from British International Investment (BII) as well as other new and existing investors. MIFIF II did not participate in the above capital round. 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. The company has been growing steadily and is on track to meet its growth targets for the year. Maj Invest Financial Inclusion Fund II has an observer 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 financial institutions 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 cannot reach without significant cost. Sub-K has rapidly expanded operations since its inception and is present in 15 states. Due to some regulatory changes during the year, Sub-K faced some operational challenges and business was disrupted shortly. However, the company overcame these challenges and Sub-K's growth is starting to show a steady upwards trend. The Maj Invest team continuously worked with the CEO and other shareholders to provide strategic in-puts and due diligence support that could help improve the company's performance.

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.

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Capital resources

Maj Invest Financial Inclusion Fund II has a total capital commitment of USD 137.1 million. As of 31 December 2023, investors had paid USD 132.4 million, equal to 97% of their capital commitments. The remaining capital commitment is USD 4.6 million (USD 6.7 million on 31 December 2022). Maj Invest Financial Inclusion Fund II's equity amounted to USD 136.2 million on 31 December 2023, corresponding to an equity ratio of 100%.

Maj Invest Financial Inclusion Fund II is able to finance 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. As of 31 December 2023, Maj Invest Financial Inclusion Fund II has no bridge financing loans or bank loans.

Financial risks

Maj Invest Financial Inclusion Fund II seeks to invest and create value in every portfolio company; therefore, failure to generate value represents the major risk in the underlying portfolio companies. Slow macroeconomic environment recovery, including long-term effects of COVID-19, the Ukraine/Russia war, banking turmoil and higher interest rates, currency risk and the political risk in the countries of the investments can have an impact on the potential for value creation in the portfolio companies and consequently also of the performance of Maj Invest Financial Inclusion Fund II.

The greatest impact of COVID-19 on the financial inclusion industry occurred in 2021 and about 70% of the FI institutions have either returned to a level of activity like that before the crisis or are experiencing a gradual recovery without major interruptions; still, some lagging effects would mean that the full impact has not yet been offset, however, the financial inclusion sector is still expected to resume growth. The investment team is following the situation closely.

A year after the Ukraine/Russia war, inflation expectations fuelled by elevated commodity prices along with higher interest rates due to banking turmoil were noted. The financial sector was more affected by the latter due to higher funding costs which reduced their top margins. Nevertheless, the impact has been dissipated in the portfolio companies because not all of them are deposit-taking institutions and others have diversified their revenue streams. The investment team is following the situation closely.

Uncertainties relating to recognition and measurement in the financial statements

The investments 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.

MANAGEMENT COMMENTARY

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The uncertainty is also related to the effects of the global economy, e.g., increasing inflation and interest, and effects from the conflict in Ukraine, we also refer to the section “Market development” in this annual report.

Events after the balance sheet day

In beginning of August 2024, Maj Invest Financial Inclusion Fund II K/S exited the portfolio company Mibanco S.A.

There have been no other 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 and certain notes. 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 2023 = 674.47
(31 December 2022 = 697.22)

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

Transactions in other currencies than USD are translated into USD using the exchange rates applicable on the transaction date. Assets and liabilities in other currencies than USD are translated into USD using the rates on the balance sheet date.

FINANCIAL STATEMENTS

ACCOUNTING POLICIES

INCOME STATEMENT

Value adjustment of investments in portfolio companies

Realised gains/losses on investments and unrealised 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 mainly consist of management fees, broken deal costs, depositary fee and other administrative costs.

Financial income and expenses

Financial income and expenses include interest on bank deposits, 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 "Withholding 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 financial inclusion institutions, e.g. P/B and 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

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

Prepayments

Prepayments recognised under assets consist of prepaid management fees.

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 short-term 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	2023	2022
Value adjustment of investments in portfolio companies	1	8,469	(20,692)
Administrative expenses		(1,970)	(2,244)
Operating profit		6,499	(22,936)
Financial income	2	1	1
Financial expenses	3	(10)	(33)
Profit before tax		6,490	(22,968)
Withholding tax		(7)	(4)
Profit for the year		6,483	(22,972)
Proposed distribution of net profit			
Retained earnings		6,483	(22,972)
		6,483	(22,972)

FINANCIAL STATEMENTS

BALANCE SHEET

'000 USD	Note	31/12/2023	31/12/2022
ASSETS			
Investments in portfolio companies	4	135,268	126,754
Total investments in portfolio companies		135,268	126,754
Total non-current assets		135,268	126,754
Prepayments		911	911
Other receivables		39	12
Total receivables		950	923
Cash		38	60
Total current assets		988	983
Total assets		136,256	127,737
EQUITY AND LIABILITIES			
Paid-in capital		132,417	130,365
Distributions		(123)	(95)
Retained earnings		3,933	(2,551)
Total equity	5	136,227	127,719
Trade payables		29	18
Total short-term liabilities		29	18
Total liabilities		29	18
Total equity and liabilities		136,256	127,737
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	2023	2022
Profit for the year		6,483	(22,972)
Adjustments	6	(8,498)	20,746
Change in working capital	7	(17)	179
Cash flows from operating activities before net financials		(2,031)	2,047
Financial income		1	1
Financial expenses		(10)	(33)
Paid withholding tax		(7)	(4)
Cash flows from operating activities		(2,048)	(2,083)
Purchase of investments in portfolio companies		-	(2,924)
Cash flows from investing activities		-	(2,924)
Paid-in capital from limited partners		2,053	5,015
Distributions to limited partners		(27)	(14)
Changes in bank loans		-	-
Cash flows from financing activities		2,026	5,001
Cash flows for the year, net		(22)	(6)
Cash at the beginning of the year		60	66
Cash at the end of the year		38	60

FINANCIAL STATEMENTS

NOTES

'000 USD	2023	2022
NOTE 1 Value adjustment of investments in portfolio companies		
Unrealised value adjustments	8,514	(20,710)
Dividend received from portfolio companies	35	18
Realised gain/loss from sale of portfolio company	(80)	-
	8,469	(20,692)
NOTE 2 Financial income		
Other financial income	1	1
	1	1
NOTE 3 Financial expenses		
General Partner, annual financial risk premium	7	9
Other financial expenses	3	24
	10	33
NOTE 4 Investments in portfolio companies		
Cost at 1/1	107,134	104,210
Additions during the year	-	2,924
Disposals during the year	(21,368)	-
Cost at 31/12	85,766	107,134
Value adjustments at 1/1	19,620	40,330
Value adjustments during the year	5,948	(6,151)
Currency adjustments during the year	2,566	(14,559)
Disposals during the year	21,368	-
Value adjustments at 31/12	49,502	19,620
Carrying amount at 31/12	135,268	126,754

Investments in portfolio companies are minority investments with an ownership interest less than 20%, 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 P/B and P/Rev multiples, which is the common method for financial inclusion institutions. The multiples are determined using the following criterias: 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	7.00%	84,176,000	208,890	23,628
Arohan Financial Services Limited*	India	12.71%	1,503,885,000	162,821	8,605
Mibanco S.A.	Colombia	10.85%	282,523,846	61,275	4,140
Belstar Microfinance Limited*	India	9.81%	488,440,000	132,919	15,859
Aye Finance Private Limited*	India	7.24%	304,526,540	93,517	6,546
Sub-K Impact Solutions Limited*	India	14.05%	73,658,980	12,510	-3,255

Share capital, equity and profit/loss for the year are from the latest annual reports published, which for Baobab and Mibanco is 2022. 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 2022/23.

* Financial year is 1 April to 31 March.

FINANCIAL STATEMENTS

NOTES

'000 USD	31/12/2023	31/12/2022
NOTE 5 Equity		
Equity at beginning of year	127,719	145,690
Paid-in capital from limited partners	2,053	5,015
Distributions to limited partners	(27)	(14)
Retained earnings	6,483	(22,972)
Equity at end year	136,228	127,719
The limited partners are liable for their share of the remaining commitment 31/12/2023		
	4,643	6,696
NOTE 6 Cash flow statement – adjustments		
	2023	2022
Financial income	(1)	(1)
Financial expenses	10	33
Unrealised value adjustments in portfolio companies	(8,514)	20,710
Withholding tax	7	4
	(8,498)	20,746
NOTE 7 Cash flow statement – change in working capital		
Change in receivables	(27)	(12)
Change in prepayments	–	196
Change in other short-term liabilities	11	(5)
	(17)	179
NOTE 8 Contingent liabilities		
<i>Contingent liabilities</i>		

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 months. At 31 December 2023, the fee amounted to approx. USD 1.8 million (at 31 December 2022 approx. USD 1.8 million).

The Indian tax authorities have started an investigation of the initial investment value of Aye Finance, whether if it was on market terms, according to Indian regulation. The Fund has engaged its Indian tax advisors, to have the dialogue with the tax authorities.

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.

Chairman of:

Fonden MIFIF II GP.

Board member of:

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

Bjarne Thorup

Director of:

Thorup ApS.

Chairman of:

Fonden MIE 6 GP, Pesitho ApS, Soap Nordic A/S and Fonden MIE 5 GP.

Board member of:

Jysk Display A/S and Fonden MIFIF II GP.

Frank Visti Møbjerg

Director of:

Fravis Holding ApS.

Chairman of:

Fonden Maj Invest Equity General Partner, H & M Invest A/S and Goldmind Holding ApS.

Board member of:

Fravis Holding ApS, Fonden LDE 2 GP, Fonden LDE 3 GP, Fonden MIFIF II GP, Fonden MIE 5 GP and Fonden MIE 6 GP.

OTHER INFORMATION – SUPPLEMENTARY REPORT IN ACCORDANCE WITH SFDR (EU)

ANNEX IV

Environmental and/or social characteristics

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Did this financial product have a sustainable investment objective?	
<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<input type="checkbox"/> it made sustainable investments with an environmental objective : __pct. <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/> it promoted Environmental/Social (E/S) characteristics and while it did not have as its objective a sustainable investment, it had a proportion of __ pct. sustainable investments <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective
<input type="checkbox"/> it made sustainable investments with a social objective : __pct.	<input checked="" type="checkbox"/> promoted E/S characteristics, but did not make any sustainable investments

To what extent were the environmental and/or social characteristics promoted by this financial product met?








The Fund invests in the microfinance and financial inclusion sector. Investment in microfinance institutions (MFIs) and financial inclusion initiatives directly contributes to social characteristics by enhancing access to financial services for underserved populations. The Fund promotes environmental and social characteristic through selected Sustainable Development Goals (SDGs): 1, 5, and 8.

The Fund is named with ESG related terms, therefor according to ESMA, 80% of the fund's investments must contribute to the social characteristics it promotes and must also follow the EU's Climate Transition Benchmark (CTB) exclusion criteria. The Fund met 100% of environmental and social characteristics promoted, as all companies in the Fund contributed to at least one of the promoted SDGs. The fund does not use a reference benchmark.

How did the sustainability indicators perform?

The sustainability indicators' performance is presented below (as an average of four data points for year 2023). Sustainability indicators are not covered by the audit statement.

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

SDG	Indicator	2023
	# of clients served via Fund's portfolio companies	17.7 million
	% of income generating loans of total loan portfolio	99
	% of female clients served via Fund's portfolio companies	37
	% of female board members in portfolio companies:	21
	% of female employees in portfolio companies	20
	# of employees in portfolio companies	34,751
	% of loans to SMEs of total portfolio	29

...and compared to previous periods?

Indicator	2023	2022
# of clients served via Fund's portfolio companies	17.7 million	14.5 million
% of income generating loans of total loan portfolio	99	N/A
% of female clients served via Fund's portfolio companies	37	36
% of female board members in portfolio companies:	21	16

% of female employees in portfolio companies	20	24
# of employees in portfolio companies	34,751	29,020
% of loans to SMEs of total portfolio	29	28

What were the objectives of the sustainable investments that the financial products partially made and how did the sustainable investment contribute to such objectives?

The fund did not make any sustainable investments.

How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?

Not applicable.

How were the indicators for adverse impacts on sustainability factors taken into account?

Not applicable.

Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

Not applicable.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific Union criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

How did this financial product consider principal adverse impacts on sustainability factors?

Due to lack of data this financial product does not consider principal adverse impacts on sustainability factors.

What were the top investments of this financial product?

2023:

Name	Country	Sector	Avg. Weight
Arohan Financial Services Ltd	India	Financials	31%
Belstar Limited	India	Financials	25%

2022:

Name	Country	Sector	Avg. Weight
Arohan Financial Services Ltd	India	Financials	35%
Belstar Limited	India	Financials	20%

What was the proportion of sustainability-related investments?

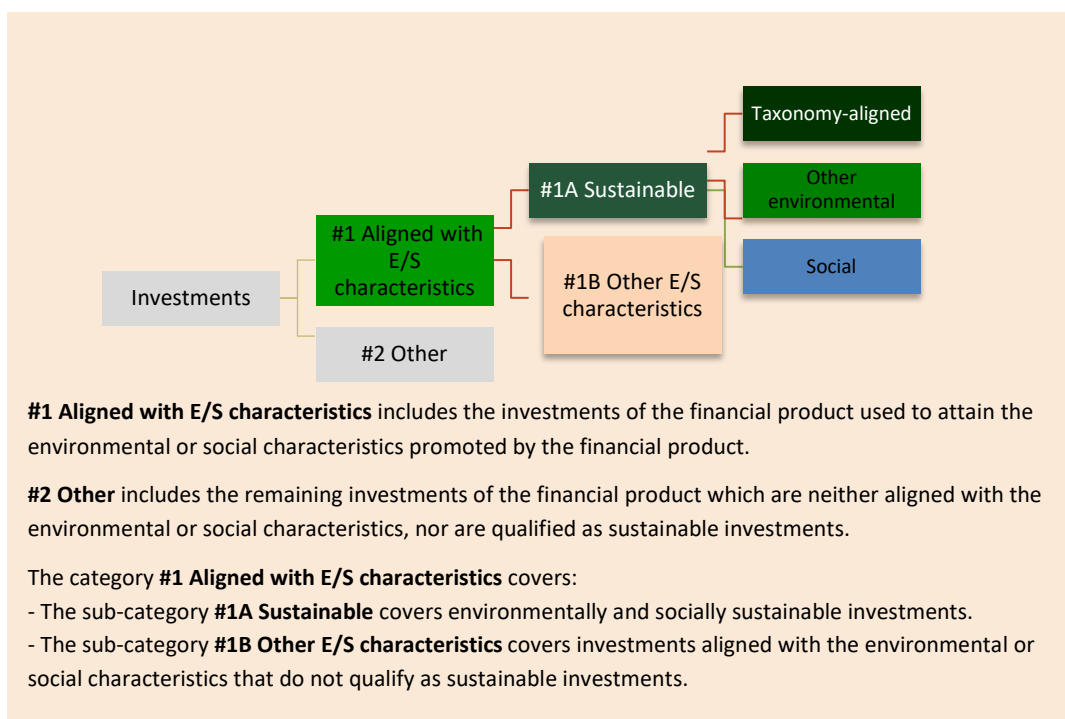
100 pct. of the Fund’s investments in 2023 was in line with sustainability-related investments.

What was the asset allocation?

100 pct. of the investments in the Fund was aligned with the environmental and social characteristics promoted by the Fund, as described earlier.

The list includes the investments constituting the greatest proportion of investments of the financial product during the reference period which is: 2023

Asset allocation describes the share of investments in specific assets.



To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to fully renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

Taxonomy-aligned activities are expressed as a share of:

Turnover reflecting the share of revenue from green activities of investee companies.

Capital expenditure (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.

Operational expenditure (OpEx) reflecting green operational activities of investee companies.

In which economic sectors were the investments made?

The Fund is invested in one sector:

- Financials (100%)

To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?

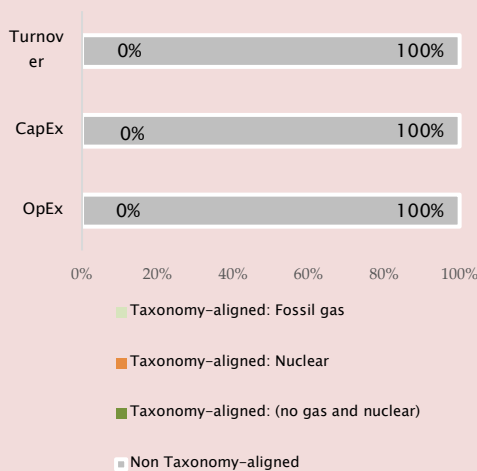
In 2023, 0% of the investments were sustainable with an environmental objective aligned with the EU Taxonomy. This number is not covered by the audit statement.

Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy¹?

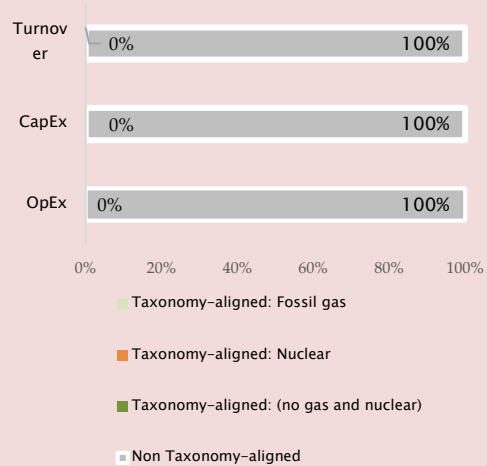
- Yes
- In fossil gas In nuclear energy
- No

The graphs below show in green the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.

1. Taxonomy-alignment of investments including sovereign bonds*



2. Taxonomy-alignment of investments excluding sovereign bonds*



*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

¹ Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective - see explanatory note in the left-hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated regulation (EU) 2022/1214.

What was the share of investments made in transitional and enabling activities?

In 2023, 0% of investments were made in transitional and enabling activities.

How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?

No investments were made in alignment with EU-Taxonomy. This number is not covered by the audit statement.

2022	2023
0%	0%

What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy?

0%.

What was the share of socially sustainable investments?

0%.

What investments were included under “other”, what was their purpose and were there any minimum environmental or social safeguards?

Not applicable.

What actions have been taken to meet the environmental and/or social characteristics during the reference period?

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

As part of the due diligence process, an assessment of the portfolio companies' compliance and commitment to recognized international social impact standards is carried out prior to investment. The Fund only invests in companies that reflect the core values of the Fund and work dedicated towards adhering to recognized international social impact standards. In each investment case the Fund has assessed which of the recognized international social impact standards are relevant. The most commonly used standards are Client Protection Principles of the Smart Campaign, Universal Standards for Social Performance Management of the Social Performance Task Force, Anti-Money Laundering Recommendations of the Financial Action Task Force, IFC's Exclusion List, EDFI's Exclusion List and Principles for Investors in Inclusive Finance. During ownership the Fund monitors the portfolio company's social impact activities

through the Fund's board participation, visits and/or reporting and dialogue with reference to the Fund's Social Impact Policy.

How did this financial product perform compared to the reference benchmark?

This financial product did not use a reference benchmark.

How does the reference benchmark differ from a broad market index?

Not applicable.

How did this financial product perform regarding the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?

Not applicable.

How did this financial product perform compared with the reference benchmark?

Not applicable.

How did this financial product perform compared with the broad market index?

Not applicable.