



# DANISH MICROFINANCE PARTNERS K/S

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Annual report 2019

Penneo dokumentnøgle: LIBX5-BUE00-2Y37-2AIF-U8WY5-74ELB



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# STATEMENTS

## STATEMENT BY MANAGEMENT

The Executive Board has today discussed and approved the annual report for Danish Microfinance Partners K/S for the financial year 1 January – 31 December 2019.

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 2019 and of the results of the limited partnership's operations and cash flows for the financial year 1 January – 31 December 2019.

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

We recommend the annual report 2019 for adoption at the annual general meeting.

Copenhagen, 14 April 2020

General partner:  
Danish Microfinance Partners General Partner ApS

Executive Board:

Kasper Svarrer

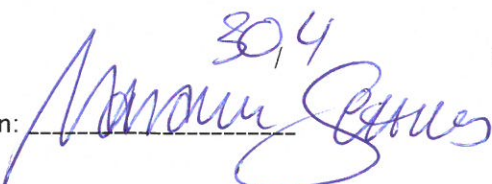
Thomas Riis

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

on

2020

Chairman:

*30,4*  


# STATEMENTS

## Independent auditor's report

### To the limited partners in Danish Microfinance Partners K/S

#### **Opinion**

We have audited the financial statements of Danish Microfinance Partners K/S for the financial year 1 January – 31 December 2019, 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 2019 and of the results of the Limited Partnership's operations for the financial year 1 January – 31 December 2019 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.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance as to whether the financial statements as

# STATEMENTS

## Independent auditor's report

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.
- 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



# STATEMENTS

## Independent auditor's report

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 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, 14 April 2020

### **ERNST & YOUNG**

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28

Ole Karstensen, mne16615  
State Authorised  
Public Accountant

Rasmus Berntsen, mne35461  
State Authorised  
Public Account

# MANAGEMENT COMMENTARY

## Fund information

The limited partnership	Danish Microfinance Partners K/S Gammeltorv 18 DK-1457 Copenhagen K Denmark
Contact information	E-mail: <a href="mailto:kontakt@majinvest.com">kontakt@majinvest.com</a> Website: <a href="http://www.majinvest.com">www.majinvest.com</a>
CVR no.	33 25 39 23
Financial year	1 January – 31 December
Registered office	Copenhagen
General partner	Danish Microfinance Partners General Partner ApS
Executive Board in Danish Microfinance Partners General Partner ApS	Kasper Svarrer Thomas Riis
Manager	Maj Invest Equity A/S
Depository	Private Equity Administrators Depository Services ApS
Auditors	ERNST & YOUNG Godkendt Revisionspartnerselskab Dirch Passers Allé 36 DK-2000 Frederiksberg Denmark

## MANAGEMENT COMMENTARY

### KEY FIGURES AND RATIOS

'000 DKK	2019	2018	2017	2016	2015
<b>Key figures</b>					
<b>Profit/loss</b>					
Income from investments in portfolio companies	14,100	18,940	29,045	100,675	90,087
Operating profit	8,135	12,945	23,181	92,820	82,304
Profit for the year	3,923	8,907	19,577	89,594	79,131
<b>Balance sheet</b>					
Investments in portfolio companies	488,831	493,185	502,966	478,666	443,976
Total assets	492,940	497,939	504,528	480,886	448,845
Equity	471,846	472,419	473,346	443,451	424,516
<b>Financial resources</b>					
Cash	2,046	3,046	236	937	1,396
Remaining commitment	30,986	37,482	44,093	56,671	108,745
Total financial resources	33,032	40,528	44,330	57,608	110,141
<b>Cash flow</b>					
Cash flows from operating activities	2,924	3,061	(588)	(1,814)	(1,250)
Cash flows from investing activities	9,372	9,054	122	82,157	(27,178)
Cash flows from financing activities	(13,296)	(9,305)	(235)	(80,803)	29,704
Net change in cash	(1,000)	2,810	(701)	(459)	1,276
<b>Ratios</b>					
Equity ratio	96%	95%	94%	92%	95%
Paid-in capital to committed capital (%)	92%	91%	89%	86%	73%



# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

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

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

Danish Microfinance Partners has a total capital commitment of DKK 401.3 million. The investment period ended in June 2015 and consequently, no investments will be made in new portfolio companies. The Fund has invested in six portfolio companies since inception, of which two investments have been exited. As of year-end 2019, Danish Microfinance Partners has four active investments.

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

The Fund has invested in well-established microfinance institutions with the operational infrastructure and management skills to become a commercial, regulated bank. These institutions are characterised by having strong governance, highly qualified management and attractive growth opportunities based on a well-balanced strategy of social impact and financial return.

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

The Fund has invested in microfinance institutions in Latin America, Asia and Africa and the investments are both directly with equity instruments and indirectly via funds. The Fund is an active minority investor, taking a 5–15% stake and appointing a board member in the microfinance institution. Investments are mainly in unquoted companies; however, investments in listed companies are possible as well.

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

### **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

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

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.

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, Danish Microfinance Partners strives to achieve its vision of generating a sound financial return as well as positive ESG impact for its investors.

### **Danish Microfinance Partners organisation**

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

### **Ownership**

Danish Microfinance Partners is owned by IFU, PKA and PBU, holding a stake of 99.7%. The Managing Partner for Financial Inclusion and one legal back-office employee involved in investments as well as one of the external members of the Fund's Investment Committee have all invested as Special Limited Partners in Danish Microfinance Partners. Any profits earned by such Special Limited Partners are subject to tax under current Danish and local tax rules. The Special Limited Partners do not pay management fees and partnership formation costs to the Fund.

# MANAGEMENT COMMENTARY

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

### Legal structure

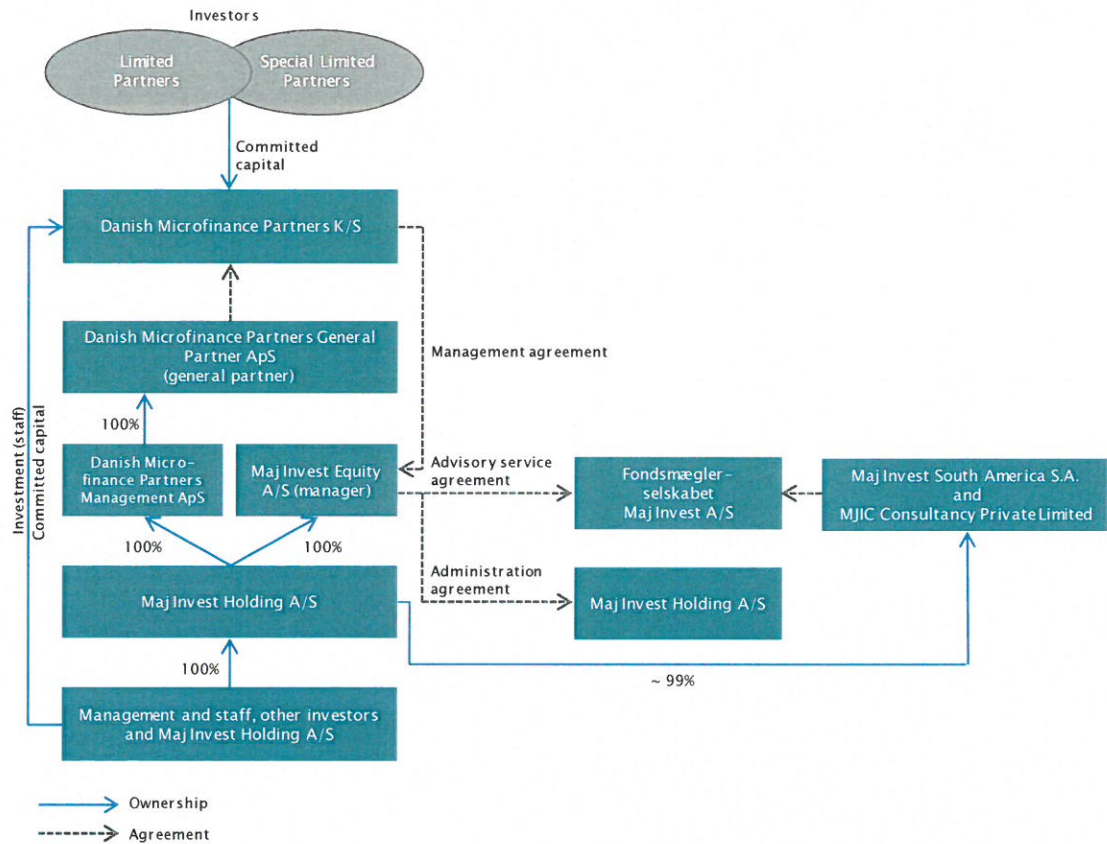
Danish Microfinance Partners is a Danish limited partnership with a Danish private limited company as general partner. The General Partner is managed by an executive board consisting of the Managing Partner for Financial Inclusion and a Director in MI. The General Partner is a subsidiary of the former manager Danish Microfinance Partners Management ApS which is owned by Maj Invest Holding A/S (Maj Invest Holding).



# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### Legal structure of Danish Microfinance Partners



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

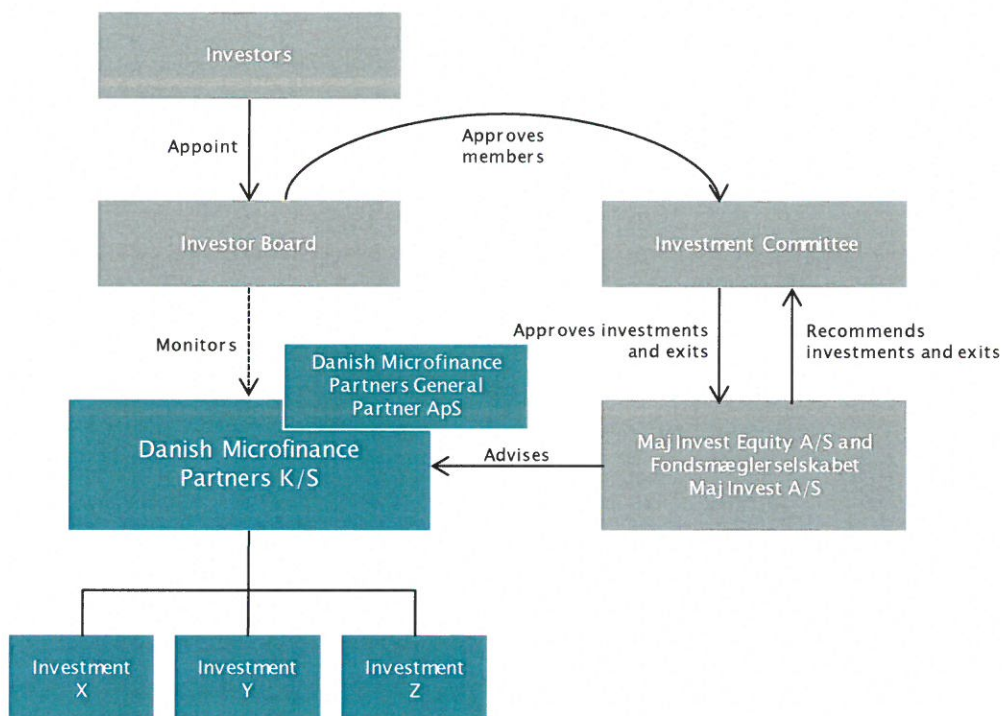
### Decision structure

The investors in Danish Microfinance Partners have set up an Investor Board with representatives appointed by the investors. The Investor Board is the investor's representative body which evaluates the overall developments in the Fund. The Investor Board approves up to three members of the Investment Committee recommended by the General Partner. Any other members of the Investment Committee are appointed by MI.

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### Decision structure in Danish Microfinance Partners



The Investment Committee is responsible for deciding any follow-on investments in or divestments of portfolio companies in Danish Microfinance Partners following a recommendation by Maj Invest Equity International. The Investment Committee consists of three members – two external members, with business experience and the CEO of MI. Investment committee members do not participate in the particular company 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.

Danish Microfinance Partners 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 which is available on the website [www.majinvest.com](http://www.majinvest.com). Information is given on Manager level.

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## BUSINESS REVIEW

### **Carried interest**

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

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

No carried interest has been paid as of 31 December 2019.

### **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 exits.
- Annual reports.
- Investor meetings
- Annual Social Impact Reports.
- Replies to current investor queries.

The quarterly reports to investors are prepared in compliance with the 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, development in activities and the financial position**

#### **Market development**

Impact Investing has been gaining popularity over the past decade as investors started realizing that they can improve the society while seeking solid returns. Many of the large mainstream PE funds such as TPG, KKR and Bain Capital are incorporating environmental, social and governance (ESG) goals into their strategies as public interest in ethical investing has increased multifold.

According to "Global Impact Investing Network's report" (2019), over 1,300 organizations manage USD 502 billion in impact investing assets globally. A majority of this is invested in Energy (15%) followed by Financial Inclusion (13%). There are nearly 2 billion individuals and 200 million Micro Small and Medium Enterprises in emerging economies still being



# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

excluded from formal financial services. FinTech can provide the low-cost and wide-range solutions for that last mile outreach.

Financial inclusion is one of the areas where fintech solutions have been identified as potentially transformative because they address several financial frictions (“International Monetary Fund report” 2019). Triodos, a Dutch ethical Bank, in their report titled “Fintech: A game changer for financial inclusion?” (2019) stated that FinTechs have expanded their scope far beyond traditional microcredit products by tapping into technology to design, customize and distribute a broader range of financial products such as microinsurance, micro savings, remittance, etc.

By building a credit score, Fintech companies can support those unable to meet financial obligations by consolidating debts, offering cheaper rates and providing customized advice to help over-indebted customers gain financial stability. The Bali Fintech Agenda (BFA) which was approved in 2019 by the IMF and World Bank Group lays out key issues to consider how technological innovation is changing the provision of financial services with implications for economic efficiency, financial stability, inclusion, and integrity.

Out of the 1.7 billion unbanked adults worldwide, it is estimated that over 1 billion now have access to a mobile device. In 2018, 14 out of 23 emerging markets showed positive year-on-year smartphone growth. The markets which will drive the smartphone growth include Bangladesh (37%), India (11%), Colombia (9%) and Philippines (9%).

Currently, India has an estimated 400 million smartphone users. Around 560 million internet connections were recorded in September 2018, out of which 194 million connections were from rural regions thanks to declining data costs. In Latin America, the percentage of total population that used a smartphone in 2018 reached 64%, and this is expected to reach 78% by 2025.

Delivering financial services by mobile phones could benefit billions of people by spurring inclusive growth that adds USD 3.7 trillion to the GDP of emerging economies by 2025. This additional GDP could create up to 95 million new jobs across all sectors of the economy (“McKinsey Global Institute report” 2016). With such rapid penetration of mobile phones in emerging markets, Digital finance could be the key to fast tracking the financial inclusion of the unbanked.

### **Exits in 2019**

The fund-of-fund investment Próspero has completed a sale of its last portfolio company and Próspero has now entered the liquidation process.

# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### **Profit for the year**

The bottom-line for 2019 is a profit of DKK 4 million (against a profit in 2018 of DKK 9 million) which is in line with management expectations. The result is positively affected by received dividends of DKK 13 million and realised gains from exits in fund-of-fund investments of DKK 4 million. Net unrealised value adjustment of the investments amounts to DKK -7 million (in 2018 DKK -6 million), whereof DKK -17 million is related to unrealised value adjustments in the portfolio companies and DKK 10 million is related to currency adjustments mainly due to an increase in the USD exchange rate.

More information on investments is available below.

### **Development in portfolio companies in 2019**

#### **Unlisted portfolio companies**

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

Aavishkaar is a micro venture capital fund who provides equity finance and hands-on support to enterprises active in the microfinance sector in India. The investment strategy is to provide commercial long-term risk capital and active support to entrepreneurial microfinance institutions (MFIs) either at early stage or growth stage. Aavishkaar has invested in six MFIs and has completed one full exit and three partial exits at the end of 2019. The underlying performance of the portfolio in Aavishkaar has been very satisfactory. Danish Microfinance Partners has a commitment of USD 3 million, equal to an ownership interest of 10%, and has a seat in the Advisory Committee.

##### **Baobab S.A.S. (Baobab)**

Baobab was established in 2005 and currently has 10 subsidiaries in Africa and China operating as microfinance institutions/banks through 240 branches in 11 countries. Baobab is serving the under banked micro and small entrepreneurs through 240 branches and 813 outlets. Baobab has shown satisfactory performance for 2019 with consolidated results above the budget despite challenges faced in three subsidiaries. Financial margins improved both at top and bottom level due to the company's focus on tightening costs and thanks to the performance in China, Ivory Coast and Senegal. For 2020, Baobab is looking to expand its customer value propositions by diversifying its channels. Danish Microfinance Partners has a seat in the Supervisory Board. For further information about the portfolio company please refer to the homepage [www.baobab.bz](http://www.baobab.bz).

#### **Publicly listed portfolio companies**

Danish Microfinance Partners has currently invested in two listed companies: Banco Solidario S.A. which is listed on Bolsa Boliviana de Valores and Financiera Credinka S.A. which is listed on the Lima Stock Exchange. For further information, we refer to the companies' websites: [www.bancosol.com.bo](http://www.bancosol.com.bo) and [www.credinka.com](http://www.credinka.com) respectively.

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# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

### Capital resources

Danish Microfinance Partners has a total capital commitment of DKK 401 million. As of 31 December 2019, investors had paid DKK 370 million, equal to 92% of their capital commitments. The remaining capital commitment is DKK 31 million. Danish Microfinance Partners' equity amounted to DKK 472 million at 31 December 2019, matching an equity ratio of 96%.

Danish Microfinance Partners 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. There are no bridge loans at year-end 2019.

### Financial risks

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

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

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

### Events after the balance sheet day

The current coronavirus pandemic has taken the world by surprise and the full impact of the virus is not clear at this point in time. The virus is expected to have a negative impact on the portfolio companies in the short term (6-12 months) due to slow-down in business which will affect the results in the microfinance institutions negatively. However, in the long term the Financial Inclusion sector is expected to resume growth.

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

### Outlook 2020

As mentioned, the recent developments in COVID-19 are expected to affect the performance in the portfolio companies negatively during the next 6-12 months and consequently the 2020-result of the Fund is expected at a lower level compared to 2019. Danish Microfinance Partners will monitor the COVID-19 impact closely.



# MANAGEMENT COMMENTARY

## BUSINESS REVIEW

In addition, Danish Microfinance Partners will continue the work on preparing for a number of exits in the coming years.

# FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

### GENERAL

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

In order to achieve a true and fair view of operations of the limited partnership, the presentation of the income statement has been changed compared with the reporting form shown in schedule 2 of the Danish Financial Statements Act. Income from investments in portfolio companies is presented as an item under operating profit/loss.

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

The accounting policies are the same as last year.

### Recognition and measurement

All income and expenses relating to the financial year are recognised in the income statement regardless of time of payment. Negative unrealised value adjustments of investments in subsidiaries as well as unrealised value adjustments of other investments in portfolio companies 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

# FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

on the balance sheet date.

### **Foreign currency translation**

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

## **INCOME STATEMENT**

### **Income from investments in portfolio companies**

Realised gains/losses on investments, negative unrealised value adjustments of investments in subsidiaries and unrealised value adjustments of other investments in portfolio companies are recognised in the income statement. Dividends, interests and other income received from portfolio companies as well as carried interest are also recognised as "Income from investments in portfolio companies".

### **Administrative expenses**

Administrative expenses mainly consist of management fees, broken deal costs, depositary fee and other administrative expenses.

### **Financial income and expenses**

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

### **Tax**

Danish Microfinance Partners 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 and on gains from sale of shares are recognised in the income statement under "Withholding tax".

## **BALANCE SHEET**

### **ASSETS**

#### **Investments in portfolio companies**

On initial recognition, investments in subsidiaries and other investments in portfolio companies are measured at cost, with the addition of transaction costs.



# FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

On subsequent recognition, investments in subsidiaries are measured at fair value and positive unrealised value adjustments are made directly at the equity. Negative unrealised value adjustments are recognised in the income statement.

On subsequent recognition, other investments in portfolio companies are measured at fair value and any 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 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.

### **Receivables**

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

### **Prepayments**

Prepayments recognised under assets mainly consist of prepaid management fees.

### **Cash**

Cash includes deposits with financial institutions.

## **LIABILITIES**

### **Financial liabilities**

Bank loans regarding bridge financing are measured at 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 statements show cash flows from operating, investing and financing

# FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

activities as well as the year's movements in cash flows and 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 unrealised value adjustments of investments in portfolio companies and provisions. The working capital includes current assets less short-term liabilities, exclusive of items included in cash and bank loans.

### **Cash flows from investing activities**

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

### **Cash flows from financing activities**

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

# FINANCIAL STATEMENTS

## INCOME STATEMENT

'000 DKK	Note	2019	2018
Income from investments in portfolio companies	1	14,100	18,940
Administrative expenses		(5,965)	(5,995)
<b>Operating profit</b>		<b>8,135</b>	<b>12,945</b>
Financial income		5	2
Financial expenses	2	(172)	(159)
<b>Profit before tax</b>		<b>7,968</b>	<b>12,788</b>
Withholding tax		(4,045)	(3,881)
<b>Profit for the year</b>		<b>3,923</b>	<b>8,907</b>
<b>Proposed distribution of net profit</b>			
Retained earnings		3,923	8,907
		<b>3,923</b>	<b>8,907</b>



# FINANCIAL STATEMENTS

## BALANCE SHEET

'000 DKK	Note	31/12/2019	31/12/2018
<b>ASSETS</b>			
Investments in subsidiaries		119,283	110,501
Other investments	3	369,548	382,683
<b>Total investments in portfolio companies</b>		<b>488,831</b>	<b>493,185</b>
<b>Total non-current assets</b>		<b>488,831</b>	<b>493,185</b>
Prepayments		2,063	1,707
<b>Total receivables</b>		<b>2,063</b>	<b>1,707</b>
<b>Cash</b>		<b>2,046</b>	<b>3,046</b>
<b>Total current assets</b>		<b>4,109</b>	<b>4,754</b>
<b>Total assets</b>		<b>492,940</b>	<b>497,939</b>
<b>EQUITY AND LIABILITIES</b>			
Paid-in capital		370,314	363,818
Distributions		(171,021)	(151,247)
Fair value adjustment of investments in subsidiaries		15,665	6,884
Retained earnings		256,888	252,965
<b>Total equity</b>		<b>471,846</b>	<b>472,419</b>
Debt to general partner	4	80	80
Other payables	5	20,600	25,300
<b>Total long-term liabilities</b>		<b>20,680</b>	<b>25,380</b>
Debt to banks		-	18
Debt to general partner		32	32
Trade payables		381	89
<b>Total short-term liabilities</b>		<b>413</b>	<b>140</b>
<b>Total liabilities</b>		<b>21,093</b>	<b>25,520</b>
<b>Total equity and liabilities</b>		<b>492,940</b>	<b>497,939</b>
Cash flows – adjustments	6		
Cash flows – change in working capital	7		
Contingent liabilities etc.	8		
Other notes	9		

## FINANCIAL STATEMENTS

### STATEMENT OF CHANGES IN EQUITY

'000 DKK	Paid-in capital	Distributions	Fair value adjustment of investments in subsidiaries	Retained earnings	Total
<b>2019</b>					
Equity 01/01	363,818	(151,247)	6,884	252,965	472,419
Paid-in capital from limited partners	6,496	-	-	-	6,496
Distributions to limited partners	-	(19,774)	-	-	(19,774)
Fair value adjustment of investments in subsidiaries	-	-	8,781	-	8,781
Profit for the year	-	-	-	3,923	3,923
<b>Equity 31/12</b>	<b>370,314</b>	<b>(171,021)</b>	<b>15,665</b>	<b>256,888</b>	<b>471,846</b>
The limited partners are liable for their share of the remaining commitment 31/12/2019					30,986
<b>2018</b>					
Equity 01/01	357,207	(135,313)	7,395	244,057	473,346
Paid-in capital from limited partners	6,611	-	-	-	6,611
Distributions to limited partners	-	(15,934)	-	-	(15,934)
Fair value adjustment of investment in subsidiaries	-	-	(511)	-	(511)
Profit for the year	-	-	-	8,907	8,907
<b>Equity 31/12</b>	<b>363,818</b>	<b>(151,247)</b>	<b>6,884</b>	<b>252,965</b>	<b>472,419</b>
The limited partners are liable for their share of the remaining commitment 31/12/2018					37,482

# FINANCIAL STATEMENTS

## CASH FLOW STATEMENT

'000 DKK	Note	2019	2018
Profit for the year		3,923	8,907
Adjustments	6	3,276	(1,445)
Change in working capital	7	(63)	(363)
<b>Cash flows from operating activities before net financials</b>		<b>7,135</b>	<b>7,099</b>
Financial income		5	2
Financial expenses		(172)	(159)
Paid withholding tax		(4,045)	(3,881)
<b>Cash flows from operating activities</b>		<b>2,924</b>	<b>3,061</b>
Purchase of investments in portfolio companies		(178)	(233)
Realisation of investments		9,550	9,287
<b>Cash flows from investing activities</b>		<b>9,372</b>	<b>9,054</b>
Paid-in capital from limited partners		6,496	6,611
Distributions to limited partners		(19,774)	(15,934)
Changes in bank loans		(18)	18
<b>Cash flows from financing activities</b>		<b>(13,296)</b>	<b>(9,305)</b>
<b>Cash flows for the year, net</b>		<b>(1,000)</b>	<b>2,810</b>
Cash at the beginning of the year		3,046	236
<b>Cash at the end of the year</b>		<b>2,046</b>	<b>3,046</b>



# FINANCIAL STATEMENTS

## NOTES

'000 DKK	2019	2018
<b>NOTE 1 Income from investments in portfolio companies</b>		
Unrealised value adjustments	(7,329)	(5,741)
Realised gain/loss from sale of portfolio company	3,559	5,524
Dividend received from portfolio companies	12,704	12,546
Interest received from portfolio companies	306	643
Other income from portfolio companies	159	267
Carried interest	4,700	5,700
	<b>14,100</b>	<b>18,940</b>
<b>NOTE 2 Financial expenses</b>		
Financial expenses, general partner	32	32
Other financial expenses	140	127
	<b>172</b>	<b>159</b>

### NOTE 3 Other investments

Other investments 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 a P/B multiple which is the common method for microfinance institutions. The multiples are determined using the following criteria: the company's 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.

Investments in fund-of-fund are measured based on latest Net Asset Value reported.

### NOTE 4 Debt to general partner

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

### NOTE 5 Other payables – long term

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

# FINANCIAL STATEMENTS

## NOTES

'000 DKK	2019	2018
<b>NOTE 6 Cash flow statement – adjustments</b>		
Financial income	(5)	(2)
Financial expenses	172	159
Withholding tax	4,045	3,881
Carried interest	(4,700)	(5,700)
Realised gain/loss from sale of portfolio company	(3,559)	(5,524)
Unrealised value adjustments in portfolio companies	7,329	5,741
Other adjustments	(6)	-
	<b>3,276</b>	<b>(1,445)</b>
<b>NOTE 7 Cash flow statement – change in working capital</b>		
Change in receivables	(356)	(381)
Change in trade payables etc.	292	18
	<b>(63)</b>	<b>(363)</b>

### NOTE 8 Contingent liabilities etc.

#### *Contingent liabilities*

Danish Microfinance Partners has entered into a management agreement with Maj Invest Equity A/S, for the Manager's administration of Danish Microfinance Partners as well as the provision of investment advisory services to Danish Microfinance Partners. On termination, Danish Microfinance Partners may in certain circumstances be obliged to pay management fees for a six months period. At 31 December 2019, the fee payable amounted to approx. DKK 2.6 million (at 31 December 2018 approx. DKK 2.7 million) as the management fee will be in decline after the expiry of the investment period (June 2015).

Danish Microfinance Partners has given a commitment to Aavishkaar Goodwill India Microfinance Development Company II Ltd. of USD 3.02 million. As of 31 December 2019 USD 3.01 million has been paid in to the fund.

Danish Microfinance Partners has given a commitment to Próspero Microfinanzas Fund L.P. (Fund A) of USD 2 million. As of 31 December 2019 USD 1.98 million has been paid in to the fund. Próspero Microfinanzas Fund A has entered into winding-up process.

# FINANCIAL STATEMENTS

## NOTES

### NOTE 9 Executive board

#### Executive board of the general partner:

##### ***Kasper Svarrer***

##### ***Director of:***

Kasper Svarrer Holding ApS, DMP Holding 1 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 A/S, Baobab S.A.S. and Arohan Financial Services Pvt.

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

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

##### ***Thomas Riis***

##### ***Director of:***

ACE Capital ApS, Danish Microfinance Partners Management ApS, DMP Holding 1 ApS, General Partner Equity Vietnam ApS, Management Equity Vietnam I ApS and MIFIF III GP ApS. In addition, managing director or directorship of various holding companies and underlying portfolio companies owned by LD Equity 3 K/S, Maj Invest Equity 4 K/S and Maj Invest Equity 5 K/S. In addition, managing director of several holding companies owned by Maj Invest Equity Vietnam I K/S and Maj Invest Equity Southeast Asia II K/S.



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## Thomas Riis

### Direktion

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## Kasper Svarrer

### Direktion

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## Ole Karstensen

### Revisor

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## Rasmus Berntsen

### Revisor

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