ENVIRONMENTAL AND SOCIAL RESPONSIBILITY (ESR)

2018 ANNUAL REPORT

regmifA

TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

REGMIFA'S 2018 SOCIAL RETURN AT A GLANCE (EXECUTIVE SUMMARY)[1]

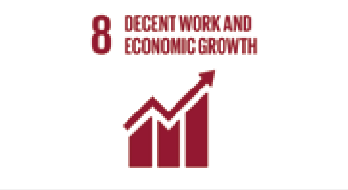
The Fund invested USD 58 million in 2018 across 44 transactions, ending the year with a net portfolio size of USD 121.3 million and reaching 180,068 end-borrowers who:

- Are a majority women (56%)
- Reside primarily in urban areas (73%)
- Live in 20 different countries, and predominantly in Nigeria (19%), Ghana (15%), Kenya (13%) and South Africa (9%)
- Are running a micro, small, or medium sized enterprise (90%)
- Are active in trade (61%) and also services, agriculture, and production (30%)
- Received on average a USD 674 loan, representing 47% of GNI per capita on average
- Borrowed through both individual and group loans (65% and 35%, respectively)
- Repaid their loans on time in 90% of cases

The Fund is actively contributing to United Nations Sustainable Development Goals[2] 1,5 and 8 by:

Ensuring that low-income individuals have access to financial services, including microfinance and savings products

Providing women with equal access to economic resources and opportunities



Promoting job creation by financing micro-, small and medium enterprises, and expanding access to banking and financial services

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1 The majority of indicators in this report were calculated based on the Investment Manager's internal ESR standards. The IM's internal reporting standard at the portfolio level focuses on investment-weighted data.
2 The United Nations Sustainable Development Goals, adopted by all Member States of the United Nations in 2015, are 17 global goals to achieve peace and prosperity for people and the planet by 2030 (https://sustainabledevelopment.un.org/sdgs)

1.0
SOCIAL MISSION, OBJECTIVES & STRATEGY

1.1 SOCIAL MISSION

REGMIFA's mission is to foster economic development in Sub-Saharan Africa by supporting financial institutions that serve micro, small, and medium sized enterprises (MSMEs). REGMIFA works to build unique public-private partnerships with public institutions, private investors, and African stakeholders to achieve its mission.
In pursuing its development goal, the Fund will observe principles of sustainability and additionality, combining public mandate and market orientation.

1.2 IMPACT OBJECTIVES

Public Private Partnership
Develop inclusive financial systems by leveraging public funds as a risk cushion to attract significant private sector capital to SSA.

Foster economic development
Foster socio-economic development, employment creation, and income generation in countries where human development is low.

Sub-Saharan Africa
Access large numbers of poor and difficult-to-access countries in SSA through commercial investments.

Demand-oriented financing
Provide PLIs with a stable source of long-term, local currency financing coupled with Technical Assistance (TA) to build capacity and reduce the PLIs overall risk profiles.

Qualified PLIs
Invest in PLIs (including Tier 2 and Tier 3) that are operationally sound, lack access to capital and adopt best practices in the field of social performance and client protection.[3]

Serving MSMEs
Promote entrepreneurship and the MSME sector through the financing and strengthening of PLIs.

Additionality
Produce and catalyze positive changes in the MSME financing industry in SSA by playing a complementary role to the private sector.

Sustainability
Demonstrate to the general financial sector and investor community that MSME financing can be a sustainable investment in terms of social impact and commercial returns.

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3 Tier 1 institutions: PLIs with total assets above USD 30m;
Tier 2 institutions: PLIs with total assets between USD 10m and USD 30m;
Tier 3 institutions: PLIs with total assets below USD 10m.

1.3 ENVIRONMENTAL AND SOCIAL RESPONSIBILITY (ESR) STRATEGY

The Fund commits to its social mission and impact objectives through the active management of its social performance in line with its ESR strategy and risk management system. REGMIFA's ESR performance management strategy and system are based on four pillars:

1.3.1 Investor Level

Beyond its fiduciary duty, a key factor for financial sustainability, REGMIFA has a social responsibility to its investors as well as its end-borrowers. The Fund pursues a triple bottom line mission that aims to promote sustainable development in SSA. The Fund's various governance bodies constantly strive to support the Fund in achieving its mission and to realize both strong ESR and financial outcomes. This responsibility is put into practice through:

- The Fund's ESR Policy & Procedures, which clearly define its ESR strategy
- The ethical chart based on the client protection principles to which the Fund adheres
- The social rating tool used to manage ESR performance and to select PLIs
- This ESR report, allowing investors to assess the Fund's ESR performance
- The ESR Compliance Officer, in charge of coordinating the ESR performance management
- Partnerships with external research organizations to evaluate the Fund's ESR practices

1.3.2 Sector Level

At the sector level, the Fund aims to enter into a large number of countries in SSA, including those where no or very few commercial investors operate, and encourage the general financial sector to invest in African MSMEs and contribute to the development of inclusive financial systems. The Fund also aims to share and spur best practices within the microfinance sector, in particular in the area of social performance. This is accomplished through:

- The prospection of and investment in new untapped countries
- The participation of the Investment Manager in major sector initiatives
- The sponsoring of and participation in conferences on MSME finance
- The role played by the TA Facility in the strengthening of PLIs
- The provision of TA services to the Fund's PLIs addressing all areas of social performance
- The communication strategy of the Fund

1.3.3 PLI Level

At the PLI level, the Fund aims to work with a wide range of PLIs adopting and/or committed to using best practices in the area of social performance management. The Fund provides its partners with high-quality financial solutions. It also encourages them to adopt ethical practices and helps them build capacity. This is achieved through:

- Financing all types of PLIs, with a special focus on Tier 2 and Tier 3 institutions
- Targeting socially-oriented PLIs with strong business prospects
- The systematic inclusion of ESR issues in investment decision-making
- Offering a wide range of financing services meeting the specific needs of PLIs
- The positive impact of REGMIFA on PLIs' governance and business practices
- The integration of aspects of Social Performance Management principles and Client Protection Principles as defined by the SMART campaign in all TA projects wherever applicable

1.3.4 End-Borrower Level

At the end-borrower level, the Fund targets low-income people who are considered financially excluded who run MSMEs, through the Fund's investments with PLIs. The Fund offers PLIs a wide range of high-quality financial services and protects their clients against potential harmful practices. It also pays close attention to how PLIs interact with their stakeholders and whether they take into consideration the various needs of the end-borrowers. This fourth pillar is reached through:

- The targeting of PLIs focusing on low income and excluded end-borrowers
- The targeting of PLIs focusing on MSMEs
- The targeting of PLIs providing other loans such as housing and education
- The monitoring of loan terms and conditions and over indebtedness
- The evaluation of the extent to which PLIs consider all stakeholders in their operations
- The inclusion of client protection principles at all levels of the Fund's and TA Facility's operations

2.0
SOCIAL RESPONSIBILITY TO INVESTORS

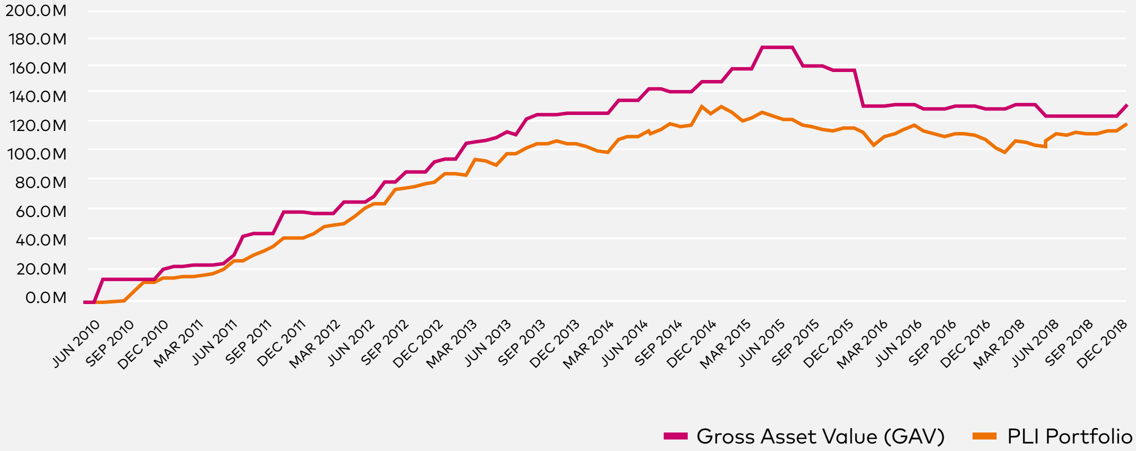
2.1 FINANCIAL PERFORMANCE

2018 was a year of growth and recovery across Sub-Saharan Africa, reflected in the Fund's investment activity having disbursed its highest annual volume since inception (USD 58.5 million across 44 transactions). Disbursements (USD 58.5 million) exceeded repayments (USD 43.2 million), resulting in a net portfolio expansion of USD 15.3 million (up from 2017's USD 5.3 million portfolio contraction). REGMIFA ended the year with a portfolio of USD 121.5 million and USD 134.1 million assets under management.

The Fund's outreach remained strong, adding 12 new partner lending institutions to the portfolio, reaching 53 investees at the end of 2018. The Fund remained active across the region with investments in 20 countries across 15 currencies. Efforts to address and resolve loans in default status continued throughout 2018, with the number of loans in workout status dropping from 11 to 5 as recovery cases were successfully closed out. Alongside these positive developments, IFRS 9 was implemented as of January 2018. Where previously the Fund's loan loss allowance reflected loans already in default status (IAS 39's 'incurred loss' model), IFRS 9 introduced an 'expected loss' approach, where all of the Portfolio's loans are provisioned for regardless of them being in default or not.

In 2018, the income waterfall allowed for the full payment of target dividends to A and B shareholders. In line with their risk bearing capacity and the Fund's waterfall structure, C shares absorbed the loan loss allowances (USD 4.2 million), write offs (USD 3.2 million) and unrealized Capital gains and losses of the Fund (USD 2.5 million). This saw the Fund's C share NAV value drop below their nominal subscription value (USD 62,314,790) to USD 55,236,986.

Portfolio and Total Asset Growth



During 2018:

- 12 new PLIs were added to the investment portfolio, including 5 Tier 2 and 2 Tier 3 PLIs
- Credit risk remained well diversified with 92 investments across 53 PLIs in 20 countries
- The Fund's blended capital structure ensured USD 2.6 million was distributed to A and B shareholders, meeting their target dividends for the seventh year in a row
- 2017's loan loss provisions of USD 4.3 million and write offs of USD 3.2 million was allocated to the C shares per the Fund's waterfall structure.

2.2 ESR PERFORMANCE

REGMIFA maintained its social mission in 2018 with the incorporation of its ESR strategy in each stage of the investment process. The remainder of this report presents the Fund's most significant ESR achievements including the following:

- The Fund financed an estimated **180,068 end-borrowers** via its partner lending institutions
- The majority of borrowers run **MSMEs (90%)**, creating jobs in their local community
- **12 new PLIs** were added to the loan portfolio
- Of the 12 new PLIs, **two were categorized as Tier 3** (total assets below USD 10m) and **five as Tier 2** (total assets between USD 10m and USD 30m), demonstrating a clear deepening of the Fund's stated developmental objective of **increasing its outreach to smaller and less developed PLIs** not commonly served by existing microfinance funders
- **63%** of investments were made in **Low Human Development countries**[4], while **47%** of investments were made in **Least Developed Countries**[5]
- PLIs have a **relatively small size** (75% were Tier 2 or Tier 3 institutions at disbursement date)
- PLIs have a **diversified profile** in terms of legal status, credit risk, and age
- **81%** of financing to PLIs was in **local currency** and **95%** had **fixed interest rates**
- The Fund offers **longer-term maturities** (up to 5 years) than those available locally
- The Fund supported an estimated **1,342 jobs at the PLIs** through its investments
- PLIs paid a total of more than **USD 12.6m of taxes** to national governments
- **69%** of PLIs **endorsed the Smart Campaign** for client protection
- The **TA Facility approved eleven projects** in 2018

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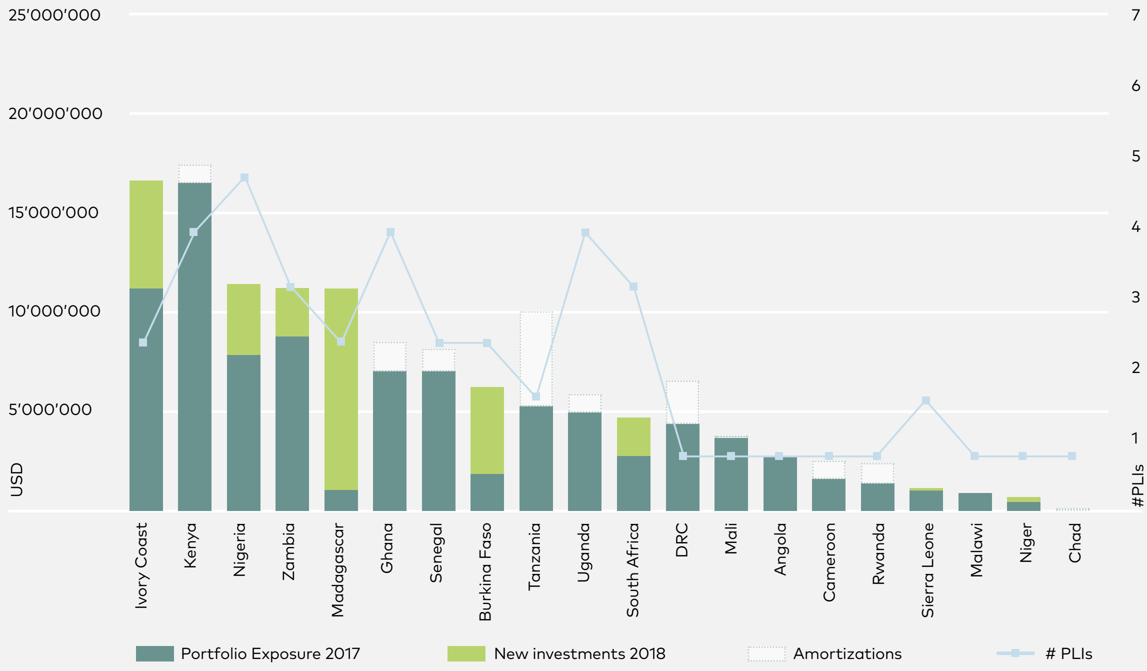
4 http://hdr.undp.org/en/content/human-development-index-hdi
5 http://unctad.org/en/Pages/ALDC/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx

3.0
SECTOR LEVEL DEVELOPMENT

3.1 INVESTED COUNTRIES

In 2018, the Fund portfolio was invested in a total of 20 countries, compared to 22 countries in 2017 (the Fund is no longer invested in Benin and Zimbabwe).

Figure 3.1: Portfolio Exposures



3.2 DEVELOPMENT LEVEL AND COUNTRY RISK

Given that REGMIFA is an Africa-focused fund, the portfolio's risk exposure is greater than the global average[6]. The weighted average economic risk score for the portfolio in 2018 is 2.3 out of 10, whereas the political risk score is 2.6 out of 10 (10 being the highest possible risk level). These scores are on par with the risk levels for Sub-Saharan Africa overall, where the median economic and political risk scores are 2.3 and 2.5, respectively. The global median economic and political risk scores, on the other hand, are 1.5 and 2.1 respectively, which are notably lower.

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6 Average risk assessment scores are obtained from Information Handling Services (HIS) Markit. Each country is assigned an economic risk score and a political risk score:
- (i) Economic risk includes the following sub-categories: capital transfer risk, currency depreciation risk, inflation risk, recession risk, sovereign default risk, and under-development risk
- (ii) Political risk includes the following sub-categories: government instability risk, policy instability risk, and state failure risk

For both scores, the scale is from 0 to 10, where 0 represents the lowest risk and 10 the highest.

The median scores have remained stable globally and in Sub-Saharan Africa since 2017, the portfolio-weighted average economic risk score has been maintained at 2.34. Moreover, as in 2017, the Democratic Republic of Congo remains the country with the highest political risk scores in REGMIFA's portfolio (4.6).

Table 3.1: Economic and Political Risk Scores

	Economic		Political	
	2017	**2018**	**2017**	**2018**
Portfolio-weighted average	2.33	2.34	2.46	2.60
Sub-Saharan Africa median	2.35	2.3	2.5	2.5
Global median	1.5	1.5	2.1	2.1

Sub-Saharan Africa continues to have among the highest levels of poverty worldwide, in terms of both the number of people living in poverty and the extent to which they fall below internationally recognized poverty lines (poverty gap). As of December 2018, 63% of the portfolio investments are in countries with low human development, with the remaining 37% in countries with medium human development (Angola, Cameroon, Kenya, Zambia, Ghana and South Africa). The portfolio-weighted average GNI per capita is USD 1,440 which is far below the world average (USD 10,372) as well as the average for Sub-Saharan Africa (USD 1,487).

Table 3.2: Country-Level Development Indicators

Country	% Portfolio	2017 GNI per capita[7]	2017 Life expectancy at birth[8]	HDI Rank 2017[9]	Poverty gap at $1.90 a day (2011 PPP) (%) 2011[10]	Human Development Level[11]
Portfolio	100%	1,486	61.10	155.93	17.31	Low
Ivory Coast	14%	1,580	53.6	169	9.1	Low
Kenya	14%	1,460	67	143	11.6	Medium
Nigeria	10%	2,100	53.4	156	21.8	Low
Zambia*	9%	1,290	61.9	141	29.5	Medium
Madagascar*	9%	400	65.9	158	39	Low
Ghana	6%	1,880	62.7	140	3.5	Medium
Senegal*	6%	1,240	67.1	165	12.8	Low
Burkina Faso*	5%	590	60.4	182	11.1	Low
Tanzania	5%	910	65.7	154	15.4	Low
Uganda*	4%	600	59.9	162	10.8	Low
South Africa	4%	5,430	62.8	111	6.2	Medium
DRC*	4%	460	59.6	176	38.6	Low
Mali*	3%	770	58	181	15.4	Low
Angola*	2%	3,570	61.5	145	9.6	Medium
Cameroon	1%	1,370	58.1	150	7.6	Medium
Rwanda*	1%	720	67.1	157	20.7	Low
Sierra Leone*	1%	510	51.8	184	16.7	Low
Malawi*	1%	320	63.2	170	34	Low
Niger*	1%	360	60.1	188	13.9	Low
Chad*	0%	640	52.9	185	15.3	Low

** 13 of the 20 investee countries are least developed countries (LDCs).*

7 The World Bank DataBank. (n.d.). World Development Indicators.
Retrieved from: http://databank.worldbank.org/data/source/world-development-indicators
8 Ibid.
9 United Nations Development Programme. (2016). Human Development Reports.
Retrieved from: http://hdr.undp.org/en/composite/HDI
10 The poverty gap is the average shortfall of the total population from the poverty line (where people above the poverty line are counted as having zero shortfall), expressed as a percentage of the poverty line. It reflects the depth of poverty as well as its incidence. A value of 100% implies that everyone in the population has no income. Data is either from 2015 or the latest available for each country.
The World Bank DataBank. (n.d.). World Development Indicators.
Retrieved from: http://databank.worldbank.org/data/source/world-development-indicators
11 United Nations Development Programme. (2016). Human Development Reports.
Retrieved from: http://hdr.undp.org/en/composite/HDI

3.3 SECTOR INITIATIVES

The Investment Manager of REGMIFA is an active member of the main industry initiatives through which it shares its market knowledge and promotes best practices, in particular in the field of client protection and social performance management. The Fund also attends and sponsors conferences to promote its activities.

Smart Campaign for Client Protection

Protecting clients and promoting responsible lending practices is a key concern for REGMIFA. These practices are embedded at all levels of investment operations as seen in the ethical chart, based strongly on the client protection principles, responsible finance stipulations incorporated in loan agreements, a social rating extensively covering relevant operational aspects, and an Investment Committee and other governance bodies regularly reviewing client protection issues. In order to crystallize this commitment, REGMIFA endorsed the Smart Campaign for Client Protection since 2011 and strongly encourages its PLIs to do the same.

LuxFLAG Microfinance Label

In May 2011, REGMIFA was granted the LuxFLAG Microfinance Label, which has been renewed every year since then. The Luxembourg Fund Labeling Agency (LuxFLAG) is an independent, non-profit association created in Luxemburg in July 2006. The Agency aims to promote the raising of capital for microfinance by awarding a recognizable label to eligible MIVs.

Social Performance Task Force

In 2018, Symbiotics participated in the Social Investor Working Group Meeting in Luxembourg as well as the annual membership meeting in Mamallapuram, India. Furthermore, Symbiotics continued its collaboration with the SPTF to integrate ESG indicators in the annual Symbiotics MIV Survey, an annual study which aims to provide comprehensive market trends and peer group analysis on microfinance investments. Its primary function is to allow microfinance investors and fund managers to benchmark themselves and improve their knowledge of the industry. It also allows academia, researchers and companies to have access to unique information about microfinance funds, including on ESG indicators.

Other Initiatives

In 2018, Symbiotics partnered with the Global Impact Investing Network (GIIN) on the publication of a report, titled *The Financial Performance of Impact Investing Through Private Debt*. The report brings valuable insights to the sector by shedding light on the business model, investment strategies, financial performance, and impact measurement practices of 50 private debt impact funds and 102 community development loan funds.

Symbiotics also maintained its subscription to several other initiatives in 2018, including the European Microfinance Platform, the European Venture Philanthropy Association, the Principles for Responsible Investments Association, Sustainable Finance Geneva, the Swiss Microfinance Platform, and Swiss Sustainable Finance.

3.4 TECHNICAL ASSISTANCE

During 2018, Symbiotics monitored 12 projects to completion and submitted 11 projects that were approved by the TA Facility Committee. The TA footprint shows 14 countries outreached with South Africa as the newest market. The TAF Manager continued to design demand-driven TA projects, in close collaboration with the PLIs and working alongside the Fund's investment, after a comprehensive assessment of PLIs and potential TA activities to determine where support was urgently needed and would bring about optimal results for the PLI. The PLIs also continued to demonstrate their commitment and interest in the success of the TA interventions by contributing on average a co-financing share of 23.6%.

Out of EUR 274,000 approved by the TAF Committee for projects as of December 2018, customized projects represent EUR 230,000 (7 projects). 80% of this volume was allocated to five Tier 2 institutions located in Burkina Faso, Ghana, Kenya and Zambia, and 20% to two Tier 3 PLIs located in South Africa and Kenya. Technical assistance was once more provided in the form of scholarship grants to the international renowned centers of the Boulder and the School of African Microfinance in Kenya as in the past.

4.0
PARTNER LENDING INSTITUTION DEVELOPMENT

4.1 PLI PROFILE

Legal Status and Years of Existence

Of the total volume invested by the Fund, 57.1% is in non-bank financial institutions (NBFIs), 33.7% in banks, 8.2% in non-governmental organizations (NGOs) and 0.9% in cooperatives. In terms of number of institutions, the largest share is in the NBFI category (66%), followed by banks (24.5%), NGOs (7.5%) and one cooperative (1.9%). PLIs also vary in terms of years of existence from well-established to new institutions, with the majority of PLIs incorporated between 6-15 years ago (75%). The Fund reduced its exposure to relatively new institutions (3-6 years of existence) from 13% in 2017 to 10% in 2018.

Legal Status	Number of PLIs	% Portfolio
NBFI	35	57.1%
Bank	13	33.7%
NGO	4	8.2%
Cooperative	1	0.9%

Years of Existence	Number of PLIs	% Portfolio
0-3 years	1	0.4%
3-6 years	5	10.1%
6-15 years	37	74.7%
>15 years	10	14.8%

Figure 4.1: Years of Existence, % Portfolio

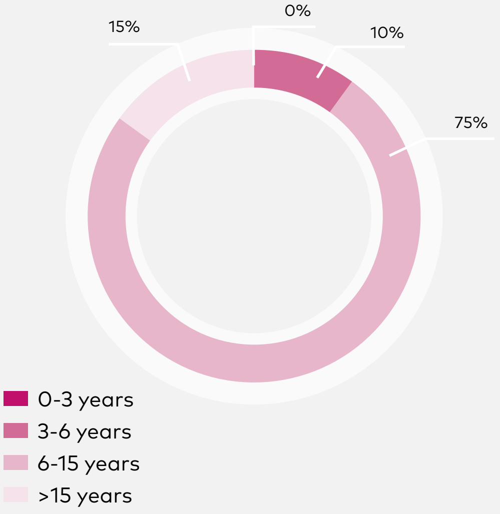
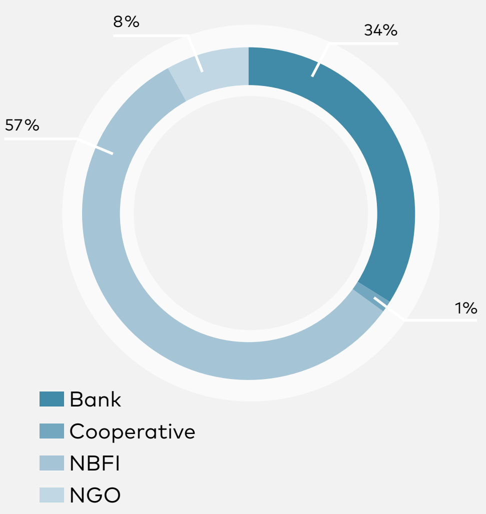
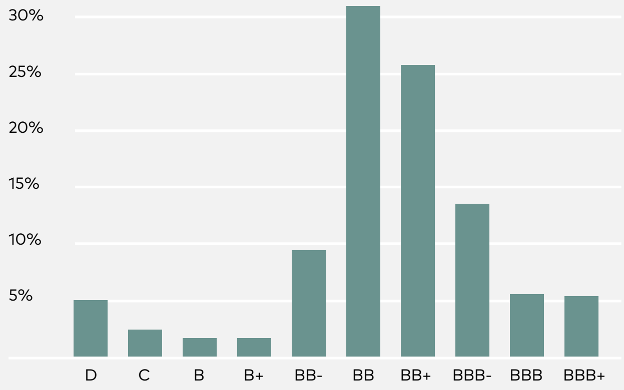


Figure 4.2: PLI Legal Status, % Portfolio



Credit Risk
In 2018, the weighted average credit risk of PLIs was BB (2017: BB-). The lower rating in 2017 is due to three cases of non-performing loans in Nigeria and Benin. The Fund continues to target less mature financial institutions that are typically underserved by other lenders, while continuing its exposure to larger, more stable PLIs. With the exception of the three workout cases, the individual credit ratings ranged from C to BBB. 76% of the portfolio is invested in sub-investment grade PLIs (compared to 64% in 2017), representing 77% of the PLIs in terms of number.

Figure 4.3: Credit Risk Profile - December 2018



Size/Tier
REGMIFA aims to target relatively small financial institutions. Out of 12 new PLIs added to the portfolio in 2018, five are Tier 2 and two are Tier 3. At the portfolio level, 61% of the volumes invested are in Tier 1 institutions, while 39% are in Tier 2 and Tier 3 institutions.

Figure 4.4: Portfolio Breakdown by Tier, # PLIs

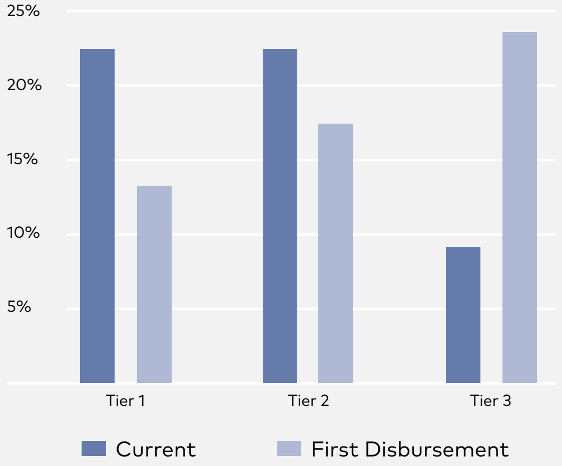
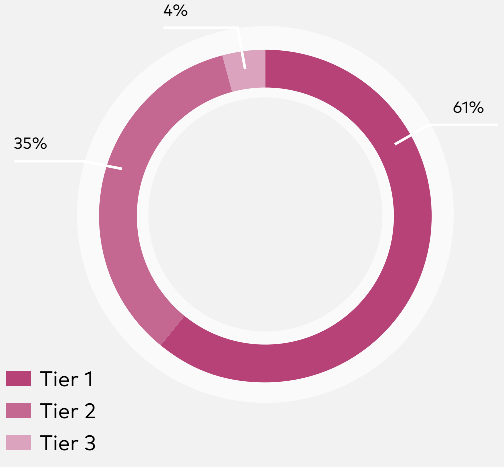


Figure 4.5: Portfolio Breakdown by Current Tier, % Portfolio



Frontier Institutions

To strengthen the Fund's developmental objective and gradually increase the number of investments in smaller and less developed PLIs which are not as commonly served by existing microfinance funders, the Fund developed a "risk bucket" for higher risk institutions up to 5% of total assets. This portion of the portfolio is earmarked for a number of less developed, smaller PLIs, called "frontier institutions," that show potential for growth and lasting development impact. These institutions are frequently located in least-developed markets where REGMIFA is likely to have the largest additionality, acting in its role as a pioneer and market leader. Targeted frontier PLIs typically have an expected credit risk rating ranging from BB- to BB+, good growth potential, positive social impact, and contribute to the Fund's geographic and partner level diversification. REGMIFA increased the overall percentage exposure in frontier PLIs from 4.96% in 2017 to 5.1% of the GAV.

Financial Sustainability

In order to promote sustainable financial inclusion, the Fund invests in financially sustainable PLIs from all three tiers. Increasingly, the Fund has invested in smaller and weaker institutions that are not yet fully viable but have sound business strategies. Lower asset size, smaller client base, and lower average loan size are the typical characteristics of these PLIs. The table below shows a comparison among different PLIs based on the tier classification, and as compared to SYM50.[12]

Table 4.1: Key Financial Indicators by Tier

Key Indicators	Tier 1	Tier 2	Tier 3	Avg. Portfolio	SYM50
Number of PLIs	22	22	9	53	50
Total assets (USD millions)	86.85	20.43	5.72	45.50	197.86
Loan Portfolio (USD millions)	74.27	42.31	4.78	121.36	162.48
Number of active borrowers	59,276	23,160	8,672	35,691	63,803
Average loan balance (USD)	1,036	568	424	890	1,900
Debt to Equity ratio	4.62	4.23	3.23	4.22	4.84
Portfolio Yield (%)	36.5	47.8	53.1	44.0	23.0
OER (%)	22.8	34.2	45.0	31.3	12.3
OSS (%)	123.9	105.5	97.7	111.8	117.5
ROE (%)	20.0	6.2	-8.6	9.4	11.3
PAR>30 (%)	8.8	5.5	6.5	7.0	3.2

12 SYM50 is an index developed by Symbiotics, consisting of 50 microfinance institutions that are representative of Symbiotics' microfinance portfolio. It is updated on a monthly basis and each institution is equally weighted.

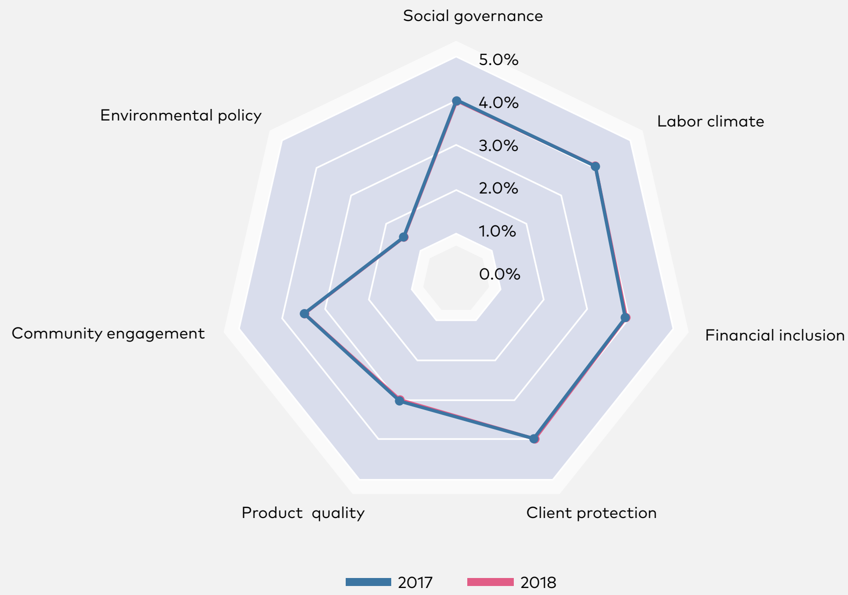
4.2 SOCIAL RESPONSIBILITY

REGMIFA actively seeks to work with socially-oriented PLIs and monitors social responsibility through its ESR ratings which are calculated prior to any disbursement and then updated annually when available.

Average Social Rating

The average ESR score of PLIs in the Fund's portfolio remained stable at 3.6 stars (2017: 3.5) out of 5.

Figure 4.6: Social Responsibility Rating (Portfolio-Weighted)



ESR RATING AT A GLANCE

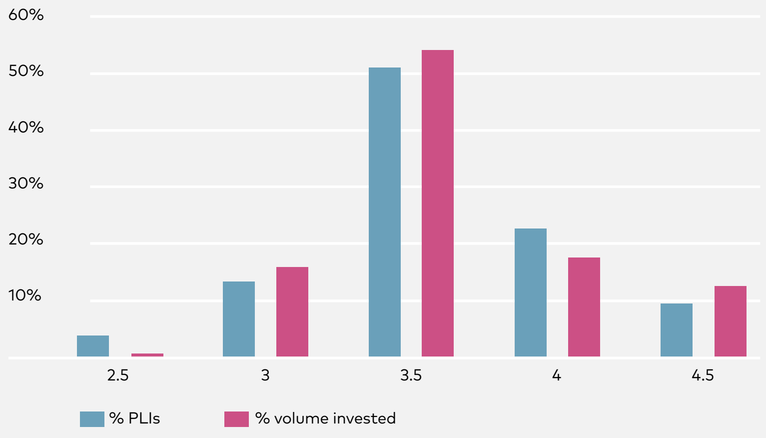
The ESR Rating shows to which extent a PLI contributes to socio-economic development and acts responsibly towards its stakeholders. It includes 100 indicators split into seven dimensions:

1. Social Governance (20%)	5. Product Quality (15%)
2. Labor Climate (15%)	6. Community Engagement (15%)
3. Financial inclusion (15%)	7. Environmental Policy (5%)
4. Client Protection (15%)	

Each indicator is graded from 0 to 3 (0 = non-existence or very poor, 3 = existence and high quality) and each of the seven dimensions contributes to the final score as per its weighting (see % amounts in brackets above). The final score is a rating from 0 to 5 stars, i.e. an extremely strong likelihood that the Fund contributes to sustainable development via its investment in the assessed PLI, or an extremely low risk of having a negative social impact.

Of the 53 PLIs in the portfolio, 43 have been evaluated and rated in 2018. Six PLIs received improved social responsibility ratings, while 1 PLI was downgraded. The social responsibility assessment is generally performed once every year as an essential part of the investment advisory report. The outcomes of these reports are discussed by the Investment Committee, which bases its investment decisions on both the social and financial performance of PLIs.

Figure 4.7: 2018 Portfolio ESR Rating



ESR scores in the portfolio range from 2.5 to 4.5 stars. None of the PLIs in which the Fund is invested has a score below 2.5. Of the total volume invested by the Fund, 30% is in PLIs with a social rating of 4 stars or above, while another 54% is in PLIs with a social rating of 3.5 stars. Only 0.4% of the Fund's volume is invested in the only PLI (Tier 3) with a 2.5-star social rating. Smaller institutions generally have fewer established policies and weaker governance. Such institutions consequently score lower in Symbiotics' social rating, despite their positive impact through financial inclusion. 16% of the Fund's portfolio is invested in institutions with a social rating of 3 stars or below. Out of this volume, 12% is in Tier 1 PLIs, 2.8% in Tier 2 and 1.3% in Tier 3.

4.3 FINANCIAL SERVICES TO PLIS

Offering demand-oriented financial services to PLIs is one of the key objectives REGMIFA pursues to create social impact. This is reflected in REGMIFA's lending practices which are based on 1) flexibility in terms of loan amount and rapidity of disbursement; 2) the possibility of offering long term financing solutions in the framework of a long term partnership with PLIs; 3) uncollateralized loan products denominated in local currency; 4) price competitiveness due notably to partnerships with four counterparties to hedge FX risk and the Fund's increasing size and efficiency; and 5) the possibility to offer complementary TA services.

The Fund's average investment size in PLIs increased to USD 1,319,081 (compared to USD 1,176,907 in 2017). Similarly, the average balance increased from USD 2,065,138 in 2017 to USD 2,289,725 in 2018.

Table 4.2: Loan Size and Maturity

Size	2018
Average loan size	1'319'081
Min loan size	46'003
Max loan size	9'500'000
Average loan balance	2'289'725
Min loan balance	263,000
Max loan balance	9'878'740
Avg. loan balance/ PLI Assets	
0-5%	32%
5-10%	40%
10-15%	21%
15-20%	8%
>20%	0%

Maturity	2018
Weighted avg. maturity	32.8
Min maturity	12
Max maturity	61
< 12 months (% volume)	0.0%
12-24 months (% volume)	47.2%
> 24 months (% volume)	52.8%
< 12 months (% number)	0.0%
12-24 months (% number)	55.4%
> 24 months (% number)	44.6%

Table 4.3: Loan Products and Pricing

Loan Product	Loan Pricing
+ Mostly senior debt + Most of the loans in local currency + Interest rate risk rarely transferred + Mostly uncollateralized loans + Flexible amortization schedules	+ Competitive pricing to PLIs + Partnership with 2 hedge counterparties + Pricing based on local market conditions + Weighted average spread of 4.64%* + 1% upfront fee usually charged to PLIs

Product Range	2018
% Senior debt	97.5%
% Subordinated debt	2.5%
% Fixed rates	94.6%
% Floating rates	5.4%
% Local currency	80.7%
% Hard currency	19.3%
Collateralized loans	5.0%
Guaranteed loans	6.3%
Uncollateralized loans	84.0%
% Bullet loans	69.9%
% Amortization loans	30.1%

Spread over USD 6M Libor	2018
Weighted avg. Spread*	4.64%
Weighted avg. up-front Fee	1.0%
< 2%	1.1%
2% to 4%	30.4%
4% to 6%	45.7%
> 6%	22.8%

*Excluding upfront fee

5.0
END-BORROWERS AND STAKEHOLDERS

5.1 END-BORROWERS

The outstanding portfolio of USD 121.3 million contributed to financing 180,068 end-borrowers through 53 PLIs in 2018. There was an increase in the total number of end borrowers from 2017 (151,288), this was to be expected as the volume of the outstanding portfolio increased. However, the average loan size decreased from USD 723 in 2017 to USD 674 in 2018. Investments are calculated to finance relatively more end-borrowers through institutions with smaller average loan balances, representing the proportionally broader effect an investment is estimated to have via an institution that provides smaller financing to more people. Because the number of REGMIFA end-borrowers is calculated as the sum of each REGMIFA investment in each PLI / each PLI's average loan balance per borrower, PLIs with extremely low average loan balances will have a proportionally larger share of end-borrowers in the REGMIFA portfolio.

As shown in the second part of the table below, REGMIFA has maintained its broad impact in several key markets. The highest number of borrowers reached in 2018 was in Nigeria (18.5%), a significant increase from 2017 where it had the sixth-highest number of borrowers (with 8.1%). Ghana and Kenya follow Nigeria in terms of proportion of end-borrowers reached (with 15.2% and 12.8%, respectively). Meanwhile, South Africa, which was newly added to the portfolio in 2017, is now also among the countries with the highest number of borrowers reached (9%). Finally, Tanzania is now in the sixth position (6.8%), a drop from the third position since last year.

Table 5.1: Number of Borrowers Reached and Loan Balance

Outreach	2010	2011	2012	2013	2014	2015	2016	2017	2018
End-borrowers	37,696	103,307	155,985	194,303	192,820	197,637	164,154	151,288	180,068
Total since inception	37,696	141,003	296,988	491,291	684,111	881,748	1,045,902	1,197,190	1,377,258
Average Loan Balance	823	420	501	537	603	650	699	723	674

Table 5.2: Top Countries by Number of Borrowers Reached

Top Countries % of Borrowers	2017	2018
Nigeria	8.1%	18.5%
Ghana	19.6%	15.2%
Kenya	13.7%	12.8%
South Africa	9.7%	8.8%
Uganda	10.4%	7.9%
Tanzania	10.6%	6.8%

In 2018, REGMIFA financed a majority of female clients (56% versus 38% male clients, with the remaining 5% of loans going to legal entities). Borrowers were mainly involved in small trading activities (61%), while a smaller proportion of clients are active in agriculture (9%), services (16%), production (5%) and other types of activities (9%), including transportation, construction, housing, renewable energy, and consumption.

Figure 5.1:
Distribution by Gender, % Headcount

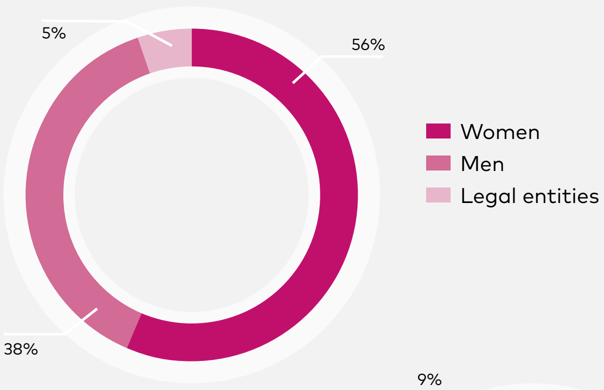


Figure 5.2:
Distribution by Location, % Headcount

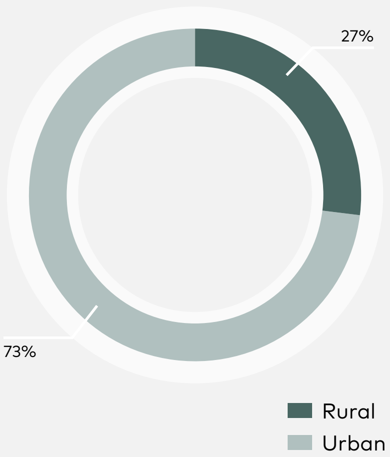
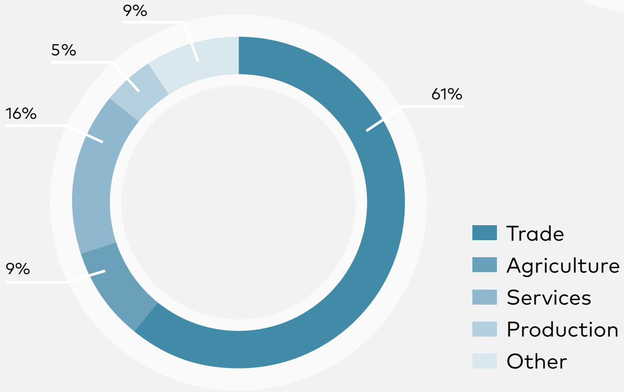


Figure 5.3:
Distribution by Activity, % Headcount



5.2 PLI FINANCIAL SERVICES

Generally, micro, small, and medium sized enterprises together employ the majority of workers. This is especially true for developing countries in Sub-Saharan Africa. Access to finance restricts MSME growth, hampering wealth and job creation and eventually stifling economic growth. Removing these obstacles and unlocking the potential of local capital markets to benefit MSMEs is thus a priority for REGMIFA investors.

The majority of REGMIFA's portfolio is allocated to fund micro-, small and medium sized enterprises (89.5%). The remaining 10.5% is split among other types of lending (large enterprises, consumption, housing, education, other).

Loans are distributed either directly to individuals (65%) or through group loans (35%).

Figure 5.4: Credit Products, % Portfolio (Weighted Average)

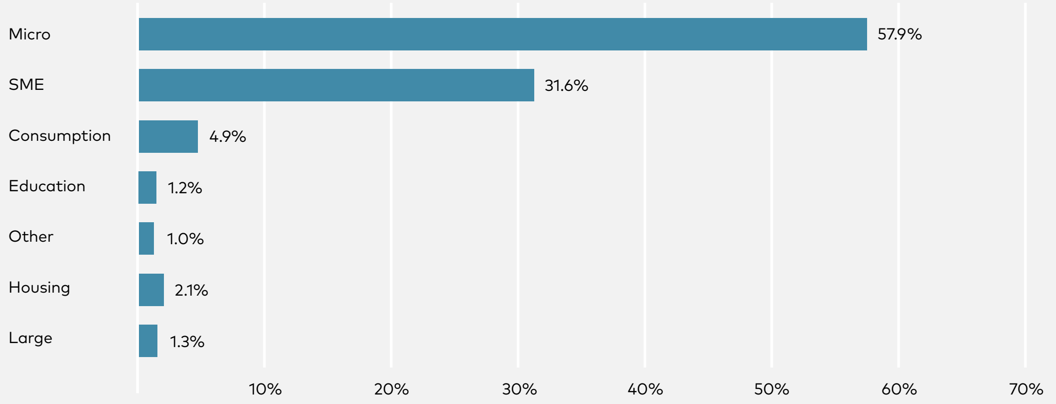
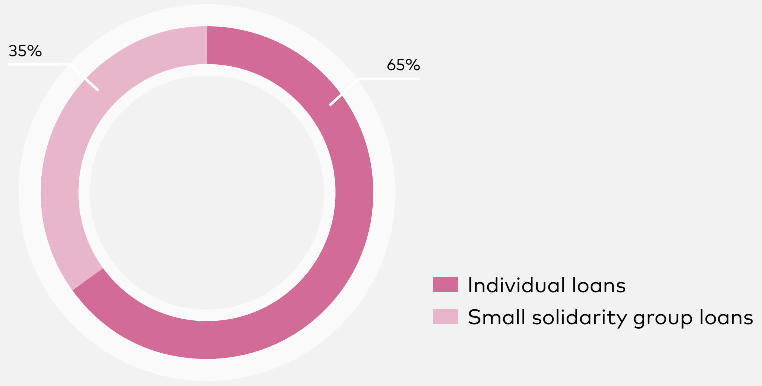


Figure 5.5: Lending Methodology, % Portfolio (Weighted Average)



Among the ways that individuals can cope with managing their cash flows is through financial (and non-financial) services such as:

I Savings (e.g. deposits, checking accounts)
II Insurance (e.g. credit insurance, life insurance)
III Payment services (e.g. cash transfers, electronic payments, remittances)
IV Other non-financial services (e.g. business development services, education)

Of the investees in the REGMIFA portfolio, 95.9% offer savings services, 79.6% offer insurance products, 77.6% offer payment services, and 40.8% offer other non-financial services. Overall, 92% of investees offer one or more of these non-credit products to their clients.

Figure 5.6: Non-Credit Services, % Headcount (Weighted Average)

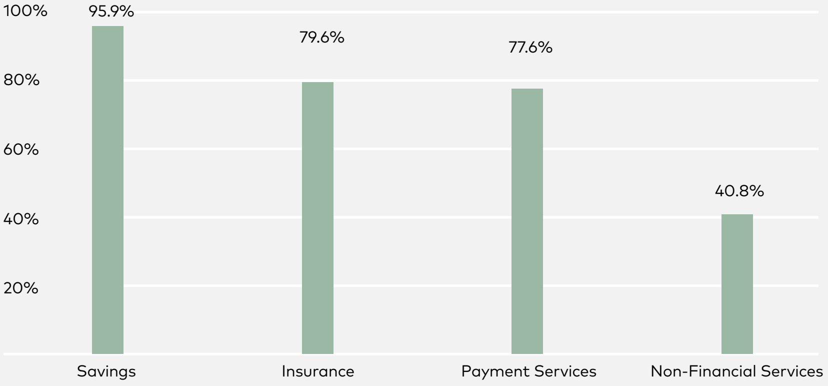


Table 5.3: Credit and Savings Conditions

Credit Conditions	2018
Avg. Loan balance (USD)	890
Avg. Loan balance / GNI pc	61.8%
Avg. Portfolio yield	44%
10% to 30%	30.2%
30% to 50%	28.3%
> 50%	41.5%

Savings Conditions	2018
% savers / borrowers	387%
% savings / PLI loan portfolio	61%
Avg. Savings (USD)	454.3
Avg. Savings / GNI pc	32%

The estimated average loan size to end-borrowers was USD 890. This reflects the strategy of most PLIs (targeting micro-entrepreneurs) and may be an indication that PLIs are focused on poverty reduction, thus reaching individuals with strong liquidity constraints. The weighted average interest rate paid by end-borrowers is 44%, but the rate is higher in some cases. Overall, there is a weak negative correlation between a PLI's size and its interest rate; smaller-sized institutions typically charge higher interest rates and decrease their rates gradually as they grow.

REGMIFA PLIs have, on average, more savers than borrowers. However, the simple average size of savings is relatively small (USD 454, representing 32% of GNI per capita).

5.3 CLIENT PROTECTION

Protecting clients is a shared responsibility between REGMIFA and its partner PLIs. Client protection is at the core of the Fund's investment policy and is embedded at all levels of operations. In practice, this means minimizing or eliminating negative effects for clients, particularly over-indebtedness, and treating clients fairly, in line with the principles promoted by the Smart Campaign: appropriate product design and delivery; transparency; responsible pricing; fair and respectful treatment of clients; privacy of client data; and mechanisms for complaint resolution.

At the strategic level, REGMIFA's activities comply with its ethical chart, which is strongly inspired by the client protection principles. The Board of Directors has endorsed the Smart Campaign on behalf of the Fund, which demonstrates commitment to client protection at the highest level. The various governance bodies address this issue on a regular basis to monitor progress made and actions taken in this area.

At the operational level, the Fund addresses the question of client protection in its day-to-day business. The credit risk analysis performed by the Investment Manager reviews in detail the operations as well as the credit policies and procedures of PLIs to check that the repayment capacity of clients, among other things, is properly assessed. The ESR rating, which is performed in conjunction with the credit risk rating, also includes 12 indicators related to the client protection principles. Finally, each potential loan is considered in terms of the PLIs' business plan and the possibility for them to disburse the sum lent by REGMIFA in a sustainable way.

In addition to checking the disbursement and repayment capacity of PLIs, the Investment Committee makes investment decisions based on ESR ratings, particularly the actions taken by PLIs in the area of client protection. Client protection related issues such as the interest rate level or risk of overheating/over indebtedness are frequently discussed during Committee meetings and special disbursement conditions can be set to encourage PLIs to improve their practices. PLIs also commit to treat their clients fairly by signing loan agreements (which include a responsible finance clause).

Endorsed smart campaign

Furthermore, the Fund encourages PLIs to endorse the Smart Campaign for client protection. As of 2018, 69% of PLIs had endorsed the Smart Campaign on an individual basis, a decrease from 75% in 2017.

Below are a few aggregated indicators extracted from the PLIs' ESR ratings. These indicators, among others, are used by the Fund to assess the social responsibility level of PLIs in the area of client protection as well as by the TAF to determine PLIs' TA needs. In addition, the TA Facility, since its inception, has been continuously advocating for projects that included client protection aspects, in areas such as prevention of over-indebtedness, product transparency, adequacy of services, responsible pricing, and client literacy.

Table 5.4: Social Responsibility Ratings - Client Protection Indicators

Client Protection*	2018
Average PAR>30 + Write off	10.1%
% of PLIs with PAR>30 + Write off < 6%	37.7%
% of PLIs with PAR>30 + Write off between 6% and 9%	22.6%
% of PLIs with PAR>30 + Write off > 9%	39.6%
% of PLIs with access to credit bureau (CB)	88.7%
% of PLIs with no access to CB but using informal means to collect client data	11.3%
% of PLIs assessing client repayment capacity in a detailed and systematic way	86.8%
% of PLIs assessing client repayment capacity but not in a detailed/systematic way	13.2%
% of PLIs with relatively efficient client complaint mechanisms in place	81.1%
% of PLIs making proactive efforts to promote financial literacy	90.6%

* Note: Restructured loan values are included

Out of 9 customized projects completed in 2018 and reviewed, the activities implemented for the majority (6) of the projects completed did not specifically have to do with the Client Protection Principles (CPPs) and Social Performance Management enforcement, and/or Social Performance Management (SPM), nor these standards were directly addressed during the interventions. However, the institutions supported generally adhere to appropriate standards. The TA Manager conducted an independent review of three assignments and projects to assess the field activities reported or to be carried out, and their relationship to the CPPs and SPM. Notably, the three most addressed principles were:

- CPP 1 - Appropriate product design and delivery (example for a project on "Development of Mobile Services (MFS) - Mobile savings and loan products ");
- CPP 3 - Transparency (example on the project titled "Support to develop an agricultural loan scorecard ") and
- CPP 5 - Fair and Respectful Treatment of Clients (example for a project on "Strengthening SME Lending, Marketing and customer care services ").

One project on "Institutional strengthening in: (1) Governance, strategy and business planning, (2) credit risk management and (3) social performance management" actually addressed the 7 CPPs during a component dedicated to train the PLI's board members and top management.

Note that the training programs completed in 2018 are not included in these statistics as CPPs and SPM are not tracked during the courses.

Table 5.5: TA Projects Addressing the CPPs

TA projects addressing Client Protection Principles (CPP)	2018
Of the 12 projects completed in 2018, three customized projects specifically addressed and reported one or more of the CPPs:	
CPP 1: Appropriate product design and delivery	3 projects
CPP 2: Prevention of over-indebtedness	1 project
CPP 3: Transparency	2 projects
CPP 4: Responsible pricing	1 project
CPP 5: Fair and respectful treatment of clients	2 projects
CPP 6: Privacy of client data	1 project
CPP 7: Mechanisms for complaint resolution	1 project

5.4 INCOME DISTRIBUTION AND IMPACT ON VARIOUS STAKEHOLDERS OF PLIS

The following data show PLIs' income sources and how income is distributed among various stakeholders. The table also demonstrates the impact of PLIs in terms of shareholder remuneration (average ROE of 11.0%), job creation (total number of 20,312 people employed by PLIs), and staff compensation (average annual gross salary of USD 8,597.80 per employee), as well as the total amount of taxes paid by PLIs to national governments (USD 12.6m).

Table 5.6: Income Distribution & Staff

Income Sources	2018
Income from lending activities	87.9%
Other-operating income	8.4%
Non-operating income	3.7%
Total Income Distribution	
Personnel expenses	29.0%
Banking expenses	30.4%
Other operating expenses	33.4%
Non-operating expenses	2.8%
Taxes	1.9%
Net Income	2.9%
Shareholders	
Return on assets	2.1%
Return on equity	11.0%
Leverage	4.8
Staff	
Total number of PLIs' employees	20,312
Average salary of employees (USD)	8,597.80
Average salary / GNI pc	6.0
Government Taxes	
Government taxes / taxable income	6%
Total taxes paid by PLIs	12,596,811

6.0
ESR OBJECTIVES

6.1 OVERALL ESR GOALS OF REGMIFA

REGMIFA's Investment Manager is proud to manage a fund in line with best practice ESR performance management guidelines. In order to constantly improve in this area and to put its social mission into practice, the Fund sets clear ESR goals on an annual basis. This makes it possible to actively manage ESR performance, to maximize the socio-economic impact of the Fund's activities, and to commit resources to this objective.

The overall ESR goals of the Fund are as follows:

Investors / Sector

- **Investors**
- Social and environmental goals
- ESR performance management
- ESR reporting
- Social audit of the Fund

- **Sector**
- Open up new markets
- Participate in major sector initiatives
- Promote best practices
- Technical assistance based on PLIs' needs
- Effective communication strategy

REGMIFA

- Add PLIs to the portfolio
- Target Tier 2 and 3 PLIs
- Target responsible MFIs
- Systematic inclusion of ESR issues in decision-making
- High-quality financing solutions to PLIs
- Positive impact on PLIs' governance

PLIs

- Increase outreach
- Target MSMEs
- Target excluded clients
- Customized products to end-borrowers
- Stakeholder approach
- Client protection

End-borrowers & Stakeholders

6.2 ESR ACHIEVEMENTS IN 2018

As shown in this report, although improvements can be made in some specific areas, the 2018 ESR objectives have been mostly achieved by the Fund at the investor, sector, PLI, and end-borrower levels.

6.2.1 INVESTOR LEVEL

Target	Actual	Status
Focus on financial sustainability and achieve business plan objectives	2018 was marked by improved economic growth in Sub-Saharan Africa, an increase in investment activity and progress in the Fund's work-out cases. Target dividends on A and B shares were fully served for the eighth year in a row and C shares received 100% of their target dividends, resulting in a dividend return of 3.5%, while absorbing loan loss provisions of USD 4.28 million. C shares fell below their subscription value (USD 62.3 million) at year end 2018 to USD 55.2 million.	Partially Achieved
Proactively manage PLIs with payment issues requiring a loan loss provisioning	In 2018 loans in workout status dropped from 11 to 5 with a dedicated recovery unit proactively managing PLIs with payment issues on behalf of REGMIFA. An IFRS 9-compliant impairment methodology was applied from January 2018 onwards.	Achieved
Be responsive to information requests from Board, IC and shareholders	The Investment Manager continued to proactively respond to information requests from the Fund's Board, IC, and shareholders ensuring a response was provided in a timely manner.	Achieved

6.2.2 SECTOR LEVEL

Target	Actual	Status
Increase the portfolio size to USD 118.0m	Outstanding portfolio at year end increased to USD 121.3 million, reaching 53 investees at the end of 2018. The average investment amount per institution remained USD 2.3 million at a level similar to that of previous years, which illustrates the Fund's consistent focus on smaller, less served institutions.	Achieved

Target	Actual	Status
Continue developing innovative financing strategies to enter into new countries	REGMIFA did not enter any new countries in 2018, but continued expanding its reach to new PLIs in its target markets, investing in 12 new PLIs that were not in the Fund's portfolio in 2017.	Not Achieved
Participate in some major sector initiatives	Symbiotics presented its impact measurement efforts at the Social Performance Task Force Social Investor Working Group Meeting in Luxembourg. Symbiotics also partnered with the Global impact Investing Network (GIIN) to produce a new report titled, The Financial Performance of Impact Investing Through Private Debt, as well as participating in the GIIN's 2018 Investor Forum in Paris.	Achieved
Develop the concept and budget for an impact study on the Fund's investment activity	Symbiotics presented to the Board of Directors in July 2018 a proposal for an impact study on the Fund's investment activity. The impact study, to be conducted in 2019, will measure the outcomes of a sample of the end-clients reached by REGMIFA.	Achieved

6.2.3 PLI LEVEL

Target	Actual	Status
Add new PLIs to the loan portfolio	Added 12 new PLIs.	Achieved
At least 78% of new PLIs should be Tier 2 or Tier 3 institutions	68% of the newly added PLIs are Tier 2 and Tier 3 institutions.	Not Achieved
Offer demand-oriented financial services to PLIs and be innovative in the field	Symbiotics continued to be proactive in offering demand-oriented services such as loans in local currencies, Technical Assistance, and longer loan maturities.	Achieved
Continue performing high-quality ESR ratings and focusing on socially responsible PLIs	43 high-quality ESR ratings were performed in 2018.	Achieved
Continue to implement Impact Assessment recommendations for REGMIFA and the REGMIFA TA intervention	REGMIFA's TA facility completed a project with one of its investees, which includes a customized component focusing on social performance management.	Ongoing

6.2.4 END-BORROWER LEVEL

Target	Actual	Status
Increase outreach in terms of number of end-borrowers financed	In 2018, REGMIFA reached 180,068 end borrowers, 19% more than in 2017 (151,288).	Achieved
Target mostly MSMEs while not excluding other credit products	90% of the REGMIFA portfolio contributed to funding MSMEs.	Achieved
Target low income and otherwise excluded end-borrowers (e.g., rural clients)	The majority of REGMIFA end-borrowers fall in a low-income bracket, as indicated by an average loan balance of USD 674. Additionally, 63% of investments were made in Low Human Development countries, while 47% of investments were made in Least Developed Countries.	Achieved
Encourage PLIs to endorse the Smart Campaign to reach a higher ratio of endorsement	69% of REGMIFA PLIs have endorsed the Smart Campaign, a decrease from 75% in 2017.	Ongoing
Follow latest developments in the field of client protection and always seek to find innovative ways to implement the client protection principles	The REGMIFA IC continues to pay close attention to PLIs' practices with respect to client protection. Moreover, the TAF works with PLIs to develop, improve, and adhere to strict client protection principles.	Ongoing
Continue to implement Impact Assessment recommendations for REGMIFA and the REGMIFA TA intervention	REGMIFA's TA facility completed a project with one of its investees, which includes a customized component focusing on social performance management.	Ongoing

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