MEDICAL CREDIT FUND AFRICA

Medical Credit Fund II Coöperatief U.A.

Annual Report 2021

27 May 2022 | Amsterdam

Medical Credit Fund II Coöperatief U.A. Annual Report 2021

Amsterdam, 27 May 2022

Managing Director Update

I am very proud to present to you the 2021 annual report and financial statements of Medical Credit Fund II Coöperatief U.A. (MCF II). This second fund was launched in July 2021 and stands on the shoulders of MCF I's over ten-year track record. Benefiting from the lessons learned in MCF I, MCF II is similar to MCF I in many ways while improvements have been implemented where necessary. To name a few, MCF II will focus on expanding digital loan product offering, improve support to female entrepreneurs and enhance the support beyond the loan to improve the quality of care our clients provide to their communities.

MCF II continues to lend to health MSMEs in sub-Saharan Africa and combines loans with Technical Assistance. This strong combination that has been so impactful in MCF I addresses the real goal of MCF I and II: improving the quality of healthcare. The lending will initially focus on Tanzania, Kenya, Uganda, Ghana and Nigeria and there are other countries in the region that are being assessed for our expansion plans. Reason is the chronic lack of access to capital in most if not all African countries and we have developed a scalable lending model that can be brought to new countries.

The lending will be done through a combination of digital loans and term loans. The digital loans that have been very successful in Kenya since 2017, are being piloted in Tanzania and Ghana for launch in 2022. After that, focus will be on Uganda and Nigeria and possibly new countries. The digital loans do not require traditional collateral which makes them very attractive for so many health MSMEs who do not have the collateral usually required for borrowing and turnaround times are minimal. This very effective product has made it possible to reach rural areas and first borrowing clients and was internationally recognized in November 2021 as the winner of the Finance for the Future Awards in the 'Moving Financial Markets' Category. Term loans are focused on larger and more complex deals with usually longer loan tenures.

MCF II first investor was the Dutch Government through the Ministry of Foreign Affairs. In December, another four lenders joined the party: British International Investment, FMO, Swedfund and Philips. This allowed MCF II to disburse over 8.6 million Euro through 541 loans in just six months after a very smooth transition from MCF I to MCF II and during the Covid pandemic.

It has been a tough but excellent year. I would like to thank my fellow MCF colleagues for their passionate and very effective work in difficult times.

Arjan Poels
Managing Director

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1. INTRODUCTION

Medical Credit Fund (MCF) is the first and only fund dedicated to providing loans and technical assistance to small and medium sized enterprises in the health sector (health SMEs) in Africa. The first fund Stichting Medical Credit Fund (MCF1) was established in 2009 by PharmAccess Group as part of its approach to strengthen African health systems. With over USD 138 million in loan volume disbursed to 1,800 health SMEs it has successfully served the smaller end of the SME sector, amongst them many first time and female borrowers. Medical Credit Fund II Coöperatief (MCF2) was established in the Netherlands in 2021 as the follow-up fund to MCF I.

With growing populations and increased demand for quality healthcare services, African healthcare offers opportunities for investment. Yet, health SMEs that seek to invest in and grow their business, struggle to obtain the requisite financing. To address this gap, MCF II seeks to further scale its activities through a combination of digital innovation and direct lending and further increase its developmental and social impact.

1.1 MISSION & OBJECTIVES

MCF has the mission to mobilize capital for investments in the healthcare value chain, thereby enabling health SMEs to increase their capacity and provide better service to more customers, with an emphasis on those currently underserved. The premise of this mission is that there is significant underinvestment in African healthcare and the private health sector can play an important role in making healthcare services available to the population, thereby complementing the public health system.

To accomplish this mission, the MCF will seek to have impact on three dimensions – financial, developmental, and social:

- *Financial*. MCF aims to prove that the health sector in Africa is an investable sector by providing market-based returns to the equity and debt investors in the fund. The return will be achieved through a balanced portfolio of loans to SMEs with terms and conditions in line with local market circumstances. At the same time MCF will carefully manage and mitigate its credit risks through tightly managed credit policies, appropriately structured loan products and transaction, entering credit guarantee arrangements where applicable, and by carefully monitoring its customers and providing technical assistance to them.

- *Developmental*. MCF seeks to strengthen the healthcare value chain and increase investments in undercapitalized segments. MCF provides financing and technical assistance to SMEs in the health sector to enable them to increase their capacity and serve more customers better, contributing to a stronger health system. MCF develops financial products that are tailored to the challenges of the SMEs in the sector. By increasing the quality, scale and efficiency of these companies and enabling a larger share of the population to use and contribute to the system, the total resources available will increase, risk will decrease, which in turn will attract more investments in the sector and also provide more and better job perspectives for medical professionals. For healthcare providers with term loans SafeCare will be an integral component of MCF, prioritizing investments in quality and supporting healthcare providers to improve their quality of care. MCF believes in the power of women in development and will actively work to support women entrepreneurs by developing inclusive loan products and support programs.

- *Social*. The social objective of MCF is to make quality healthcare services available to more people, including people who are currently underserved and women and children in particular. This can be achieved by bringing services closer to people, literally or financially, and by improving the quality of the services available. MCF seeks to achieve this through increasing the quality, scale and efficiency of private companies in the health sector, thereby increasing the proportion of the population that can access these services. Health infrastructure in particular requires critical mass of paying demand across which it can amortize investment costs.

1.2 TARGET COMPANIES

With limited resources, lack of efficiency and limited capacity of governments, public health systems in Africa are not able to serve their populations adequately. Public healthcare facilities often suffer from weak infrastructure, shortages of staff and supplies, and as a result provide poor quality services. The private sector fills this gap and complements the public sector in providing healthcare services. About half of the African population, including those in lower income groups, seek healthcare from private providers and pay for these services out of pocket. However, the private health sector is poorly regulated and highly fragmented. Most companies in the private health sector are small and medium-sized businesses. The SMEs that serve lower income groups face intense challenges like sub-standard infrastructure and equipment, a scarcity of skilled medical staff and poor-quality services. Health SMEs also have difficulty accessing capital to improve this situation because of their lack of banking history, limited collateral and the perceived high risk of the sector.

To meet the objectives described above, MCF has identified the following gaps in the African health system that are bottlenecks to people's access to healthcare. It will concentrate its energies by focusing on these areas:

- *Primary health care providers*. MCF will continue to focus on primary health care providers. These include clinics and health centers, mother and child clinics or maternity homes, and pharmacies. These are often the first point of contact for patients.

- *Diagnostic centers and specialized clinics*. In (peri)urban settings, diagnostic centers and specialized clinics emerge. Thanks to their specific focus, these facilities can build specialized skills and knowledge and create efficient processes, allowing them to offer high quality services for a low price. Many of their patients are referred by public hospitals due to a lack of capacity or specific expertise in the public sector.

- *Secondary hospitals*. These hospitals serve as the first referral level for primary healthcare facilities and play an important role in training health workers and supporting lower level facilities. MCF believes there are strong lending and investment opportunities to finance the expansion and quality improvement of existing clinics and hospitals that have demonstrated performance and strong management.

- *Networks of hospitals and clinics*. The fragmentation of the health sector results in large inefficiencies. Creating networks or chains can create economies of scale and/or scope to provide better services against a lower price to lower- and middle-income customers. Opportunities also exist in building satellite outpatient clinics linked to a secondary or specialty hospital to move care to the most appropriate location and decrease cost to the patient.

- *Support goods and services to the health sector*. The administrative, human resource, logistical infrastructure in Africa's health sector is almost non-existent, while supply chains for health commodities are weak. MCF can contribute to bridging this gap by financing companies active in this field. These could be companies manufacturing and distributing health commodities, providing and administrating micro insurance products, service and technology providers targeting small and medium sized healthcare providers, as well as medical education institutes for the training of health workers.

- *Public-private partnerships*. Partnerships between public and private parties (PPPs) can help tackle health challenges and have great social impact. PPP arrangements can take various forms - including concessions, build-operate-transfer projects, off-take or pay for performance contracts, etc. - with different contract structures and risk allocation. MCF can provide financing to private entities involved in PPPs provided that the deals are properly structured, and risks are manageable. MCF will use its partners' extensive network with development agencies and experience to analyze and help develop PPP structures. Target companies can be both supporting companies or healthcare providers.

1.3 LOAN PROGRAM

MCF roughly deploys two types of loan products, digital loans and term loans, each with a specific approach in relation to credit policies and procedures. For both loan types, MCF enters a loan contract with the SME directly.

- *Digital loans*. Digital loans will typically be cash-flow based and used for disbursing smaller loans in an efficient collateral-free way. Under MCF I, digital loans were mainly used to finance working capital and equipment purchases. MCF II intends to continuously develop and introduce new digital loan products, which each have their own dynamics and may have different procedures.

- *Term Loans*. MCF2 term loans are typically senior secured loans of between EUR 100,000 and EUR 5 million in local currency, for which MCF will enter into a loan agreement with the health SME directly. For exposures exceeding the single obligor limit of EUR 2.5 million, MCF will seek a credit guarantee or enter into a syndicate arrangement with a co-financier.

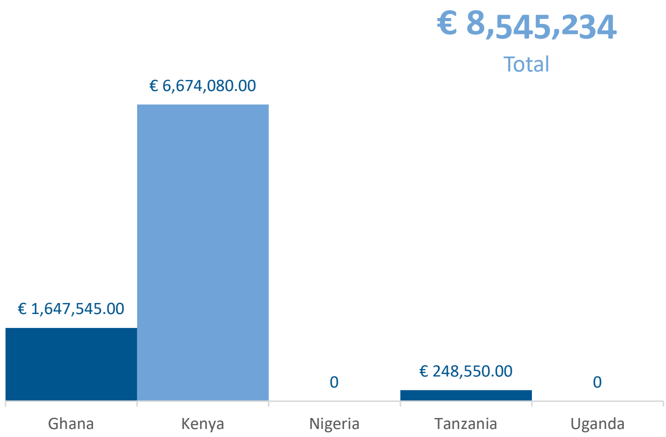
Offering technical assistance to health SMEs has been an intrinsic part of MCF's approach since its inception. The TA Program is aimed at reducing risk, improving quality, and enhancing the business performance of the health SMEs. Technical Assistance helps the Fund evaluation of clinical and financial risks, and requirements for quality improvement, before a loan is approved. After a loan has been disbursed, borrowers are supported in their quality and business improvement processes. The SafeCare quality improvement plan identifies priorities for improvement in healthcare facilities. MCF is also dedicated to building local capacity and expertise by working with in-country partners to deliver technical assistance, developing curricula in health management with local training institutions and providing subject specific trainings.

2. LOAN PORTFOLIO

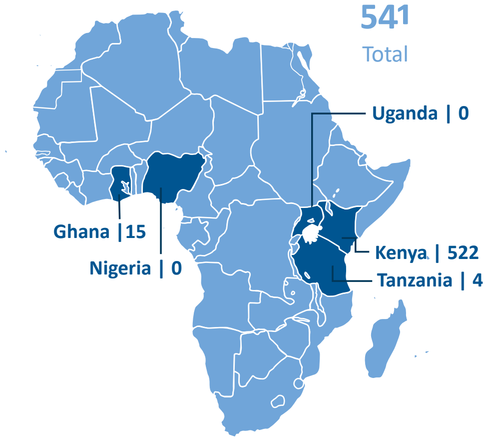
2.1 PORTFOLIO PERFORMANCE

MCF II started lending in July 2021. With digital loans as a main driver – both in numbers and in volume – the portfolio quickly increased with 541 loans with a disbursement volume of EUR 8.5 million. As MCF's digital loan products are so far only available in Kenya, also the lion share of loan disbursements has been in this country. 55% of loans have been disbursed through digital channels.

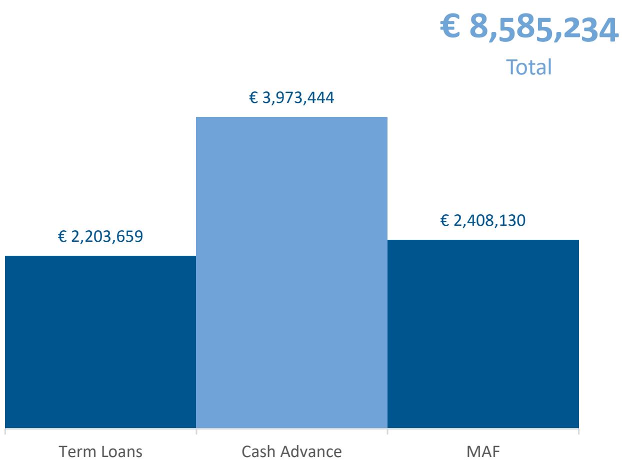
Total loan volume disbursed (Eur) in 2021



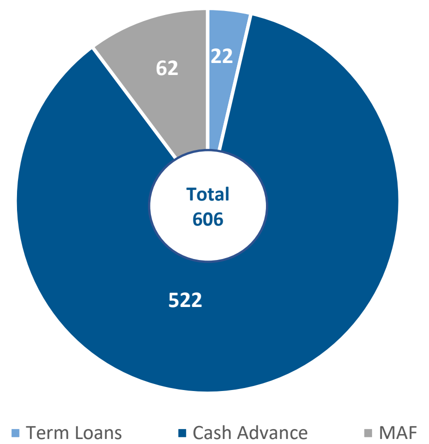
Total number of loans disbursed in 2021



Volume of loans disbursed per loan category (Eur)



Number of loans disbursed per loan category



DIGITAL LOANS DURING THE COVID-19 PANDEMIC – JAMII MEDICAL CENTRE

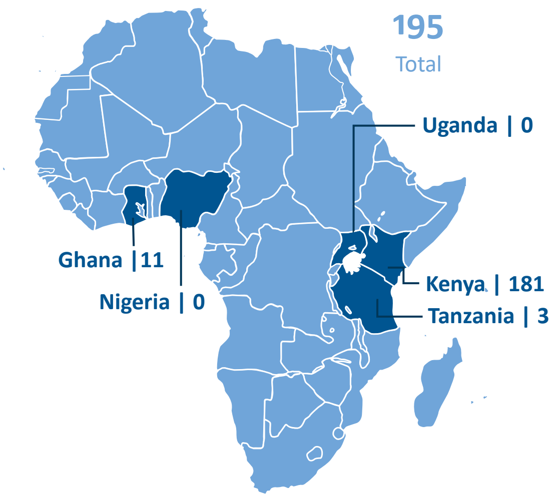
Jamii Medical Centre is a hospital in the East of Nairobi, deep into a slum community of about 800,000 people. Dr. Seline Ojwang and her husband Dr. Ray Ojwang are running the clinic together. Seline is responsible for the daily operations; Ray ensures staff of the clinic is properly qualified and trained.

COVID-19 has been a challenge: due to misinformation and fear, many patients decided to postpone their health visits, meaning revenues declined. Digital loans appeared to be crucial for the facility to get through the pandemic.

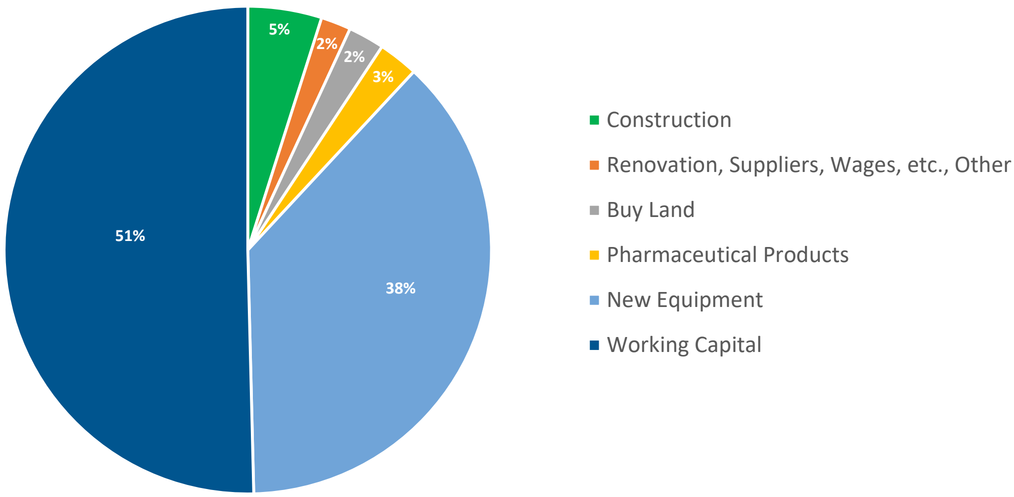
Seline Oiwang: *"Both during and before the pandemic, MCF helped us to make the necessary investments in our hospital. Loans repaid themself. Our facility grew from 15 to 80 patients a day and we now also provide free immunization for children. Thanks to MCF we have been able to buy a variety of medical equipment, like a biochemistry machine and an ambulance. MCF enabled us to set up a proper laboratory and an equipped maternity. We are especially happy with the ability to receive small digital loans within 24 hours, to fill account deficits. It is hard to get loans from Kenyan banks, and it would take months to receive them. Together with SafeCare we were able to grow and improve quality: we started at SafeCare level 1 and are now at level 4. Our next goal: an operation theater!''*

In the first five months, MCF has reached 195 health SMEs across Ghana, Kenya and Tanzania. The largest volume of the loans was spent by these health SMEs on working capital and new equipment. Other areas that loans have been used for were for example construction and renovation, the purchase of land and the purchase of pharmaceutical products.

Total number of SMEs reached in 2021



Volume disbursed by loan usage



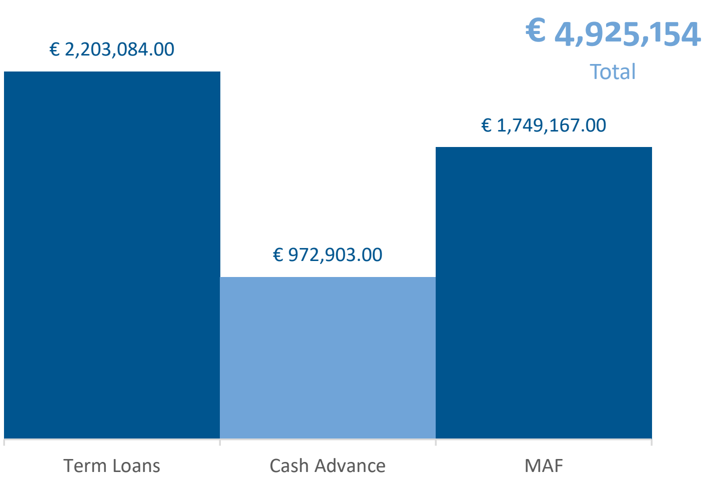
2.2 PORTFOLIO OUTSTANDING

At the end of the year, the number of loans outstanding was 219, with loans outstanding of EUR 4,9 million.

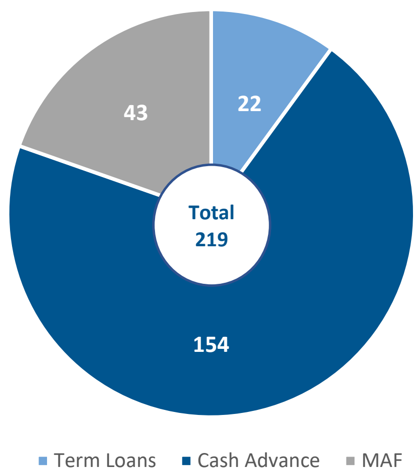
The Cash Advance Loan was developed in partnership with CarePay, a mobile exchange platform company that enables payment to healthcare facilities through mobile phones, using the M-Pesa mobile payment system. The Cash Advance Loan is a short-term unsecured loan product that finances temporary working capital needs with tenure of less than 6 months, where repayments are automatically deducted from the incoming cash flow running over the mobile payment system. Mobile Asset Financing which is based on the same features and technology as the cash advance and can be used for medical equipment assets such as ultrasounds and lab equipment. The medical equipment is used as collateral on the Mobile Asset Financing loan. Cash Advance loans have loan sizes ranging from EUR 1,000 – EUR 50,000, whilst Mobile Asset Financing loans range from EUR 50,000 – EUR 100,000. The Cash Advance and Mobile Asset Finance loans are currently only available in Kenya, with plans to expand to more countries in the coming years.

Term Loans have loan sizes over EUR 100,000 and tenures range from 2 years up to a maximum of ten years. Term Loans can be used finance construction or renovation of hospital buildings, medical equipment and working capital. Term Loans are secured by tangible collaterals, like land, property, and marketable fixed assets.

Volume of loans outstanding per loan category by end of year (Eur)



Number of loans outstanding per loan category by end of year 2021



2.3 PORTFOLIO QUALITY

The quality of the loan portfolio can be measured in terms of the Portfolio at Risk (PAR). PAR is a standard international metric of portfolio quality and reflects the portion of a portfolio that is deemed at risk because installments are overdue by a number of days. Since the fund only disbursed loans in the last five months of 2021 the loan portfolio quality is healthy with only 0.03% of the loans above PAR90 at the end of the year.

ST. MAXIMILIANCOLBE HEALTH COLLEGE, TANZANIA

In efforts to increase the numbers of health professionals in Sub-Saharan Africa, Medical Credit Fund also supports medical schools.

Seven years ago, Elizabeth Nkonyoka started a School in Pharmaceutical Sciences, a private institute. Public health schools work with enrollment quotas as they face shortages in staff, budget and materials. Private schools like hers fill a gap, allowing more students to start a career in health and improve access to care on a national level.

Elizabeth started raising capital for construction work, allowing the school to grow. She had an excellent business record and a huge societal need to fill: Tanzania is in dire need of more healthcare staff. But Elizabeth received rejection after rejection - banks appeared unwilling to provide loans for construction work.

Elizabeth: *"Thanks to a friend I came across MCF. Now that this loan is accepted, I can introduce new courses like nursing and medical laboratory. Also, I will double the student intake from 400 to 800. The Tabora region is one of the least developed areas in Tanzania. Shortages in health workers are everywhere but especially in less developed regions like ours. The school does provide employment for the community and gives students, who come from all over Tanzania, new connections, and opportunities to work here, in Tabora. In the future I would like to allow more and more students from the lowest income groups, including orphans. Currently we have set up a system for some students to enroll for free, while they work for pharmacies that pay a share in their tuition fees. Also, my big goal is to turn the school into a university - it is what Tabora needs!"*

SORI LAKESIDE HOSPITAL, KENYA

In Kenya, breast cancer is the most common cancer among women of all ages and has the third highest mortality. For treatment, people often need to travel far, especially those living outside Nairobi. Sori Lakeside hospital used its loan to make cancer diagnosis and treatment better accessible for people living in the Lake Victoria region, West Kenya.

Sori Lakeside has been an MCF client since 2015. Together with SafeCare the staff accomplished significant quality improvement: it rose from SafeCare level 1 to 4. With the current loan, the hospital will purchase a mammogram machine and a CT scan, and further equip the laboratory. All are key in diagnosing breast cancer.

John Okeyo, Director Sori Lakeside: *"The nearest cancer facility is from Sori Lakeside is Eldoret which is 160 kilometers away. We have been referring patients daily due to lack of cancer equipment. This means a lot of money required for transport, fatigue along the way. Many patients lose hope and give up on treatment and appropriate follow ups. Thanks to the MCF loan, we will be able to serve patients instead of referring them to hospitals far away."*

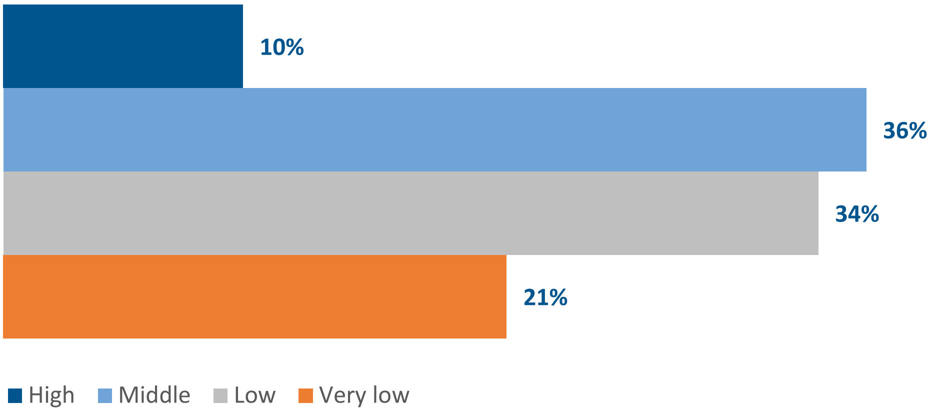
2.4 SOCIAL IMPACT

Female Entrepreneurs

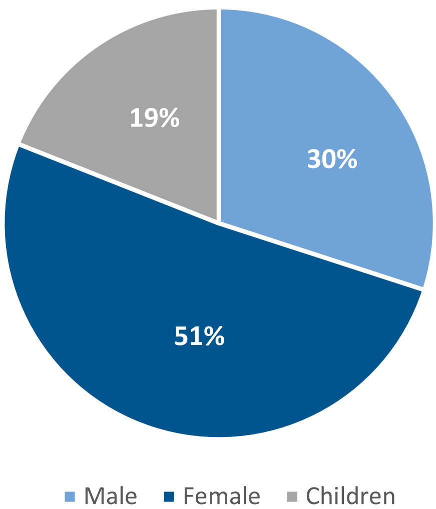
Since the start of MCF II, 109 loans – with a value of EUR 1.35 million – have been disbursed to female entrepreneurs. MCF is currently actively improving current products and developing new products to increase access to loans for female health entrepreneurs. The emphasis is on the digital loan products, as these are accessible without access to collateral, a common hurdle for female entrepreneurs.

Patient Reach

On a monthly basis, MCF beneficiaries have on average 383,457 patient visits. 55% of the patients visiting these facilities and pharmacies come from low-to very low-income groups.



With 70% of patients reached by MCF's beneficiaries are women and children. MCF II qualifies under the 2X Challenge as its funding will enhance access to capital for gender-smart healthcare businesses and help to increase health services for female patients and children. The 2X Challenge is a commitment by the development finance institutions (DFIs) of the G7 to mobilize capital to support businesses provide women in emerging economies with access to leadership opportunities, quality employment, and products and services that enhance their economic participation and inclusion.



3. TECHNICAL ASSISTANCE PROGRAM

3.1 TECHNICAL ASSISTANCE

Together with its strategic partner, PharmAccess Foundation, MCF provides support services or technical assistance (TA) and training to its (potential) borrowers. Before the loan approval, TA focuses on assessing the SME's clinical and business risks. Following loan approval, the support services aim to help the health SME with business growth and quality improvement.

Under MCF II, MCF aims to include at least 80% of its clients in a TA or training program. Together with SafeCare, MCF has set up TA packages that can be offered to clients depending on the size of their loan. In principle, all clients will follow a similar cycle starting with a SafeCare assessment, a business and quality improvement trajectory based on a Quality Improvement Plan and ending with a follow-up assessment. Business and quality improvement activities include trainings, webinars and support calls and visits. Additionally, digital technology is playing a more important role in the provision of TA. SafeCare and MCF are developing an Internet Platform which serves to engage with healthcare facilities in their quality improvement and provide them with useful tools, trainings and resources. See Annex 1 for more information about SafeCare.

The cost of the SafeCare TA and trainings can be financed through the loan, or, if available, through donor funding. The need for other types of TA is assessed during the credit appraisal and can include for example TA on hospital design or construction management. In some cases, the TA can be a condition precedent for disbursing the loan.

In addition, MCF works with various African Universities to deliver Health Management Courses aimed at improving the business skills of healthcare providers, who are often healthcare professionals with no background in finance or management. Capacity development is one of the key elements of MCF's investment strategy as it increases the quality and business performance of MCF borrowers, thereby decreasing investment risk. Healthcare providers with term loans through MCF are encouraged to participate in the health management programs.

HEALTH MANAGEMENT PROGRAMME

MCF has partnered with the Enterprise Development Centre (EDC) to set up the Healthcare Management Programme (HMP): a certificate programme designed to build the capacity of healthcare professionals in bridging the gap between medical practice and business management in the key areas of quality, business, finance and inventory management.

The programme has been designed with a robust curriculum and is delivered with a seasoned world-class faculty. The goal is to assist healthcare professionals in building their capacity to better manage their business. The programme enables participants to understand the operating environment and the opportunities for healthcare businesses in Nigeria, to develop a firm grasp of the business of healthcare, to understand how to create budgets and financial plans and to understand the basic knowledge and skills needed to manage people, processes and programmes efficiently.

In 2021, the programme completed cohort 6 and 7 in July and November respectively, with a total of 44 participants who fully paid and graduated. The course arrangement is a hybrid one, with participants scheduled to attend class physically as well as virtual sessions.

3.2 ACTIVITIES 2021

In the first months of MCF II, 71% of facilities with a term loan were in a TA program. Going forward, MCF aims to increase this number in two ways:

- Improving the TA packages offered to clients with a term loan and expanding these packages to new type of clients, like pharmacies.

- Developing a TA package for clients with digital loans. As previously mentioned, MCF's digital loan portfolio is growing and even expanding to new countries. Offering TA to these clients will be important going forward. MCF has already developed a lighter and more digital package in partnership with SafeCare, as SafeCare also was in the process of further digitalizing its tools to allow for self-managed quality improvement, distant monitoring and digital support. This new package will be offered in 2022 to all new digital clients and will be thoroughly evaluated throughout the course of the year.

MCF & SAFECARE - TA FACILITY WITH A MOTHER & CHILD HEALTH (MNCH) FOCUS

In the last months of 2021, MCF and SafeCare set up a TA Facility in Kenya for health providers serving the bottom of the pyramid, with a special focus on MNCH providers. This TA Facility combines data-driven, digital clinical and strategic planning support and learning tools with traditional capacity building, and access to loans. Through the TA Facility, MCF and SafeCare are deploying a number of activities for facilities:

- Workshops on Infection Prevention Control, Risk Management and Financial Management

- Support with the development of an Investment Plan – based on areas where the facility needs to improve on – and support in loan applications

- Provide support calls and visits on quality improvement

- Collect feedback and improve the online tools developed by SafeCare

From September 2021 until the end of the year, this program targeted 40 MCF clients, of which many were Cash Advance clients. In 2022, the program will reach more clients in Kenya and will be expanding to Ghana.

The aim is to learn on the most impactful and efficient ways to deliver online and offline TA to MCF clients. MCF will use the lessons to further improve the TA Program for digital loan clients.

4. FINANCIAL OVERVIEW

4.1 INCOME STATEMENT

MCF II gets off to positive start generating a net-profit after tax of EUR34k in 2021 for its first 5 months of operations. The profits are to be retained by the Fund and held as reverses for the foreseeable future.

MCF II generated EUR 286k of interest income during 2021 at a healthy gross interest margin of 23.3% on the loan portfolio largely driven by higher yielding cash advance loans in Kenya. At year end the product mix equates to 55% of loans outstanding being digital, and 45% of the loans being term loans.

The Fund incurred interest costs incurred of -/- EUR 14k during the year which remain low since given that the first debt facility was only drawdown just prior before year end in December 2021. Combined with non-interest revenues earned of EUR 86k, the primary driver being disbursement fees on digital loans, the Fund posts a combined total income of EUR 358k for 2021.

The Fund incurred portfolio costs of -/- EUR 110k, consisting of a -/- EUR 123k provision for expect future credit losses on the loan portfolio, -/- EUR 1.8k of fees payable for credit guarantees, and offset by a positive foreign exchange rate result of EUR 14k as the Euro weakened in the final quarter of the year relative to the African currencies.

The Fund incurred other opex of -/- EUR 202k consisting of fund management fees of EUR 49k, and other costs related audit fees, legal costs, bank charges, and also a one-off charge for incorporation costs of EUR75k. Finally, a Dutch corporate income tax provision of EUR -/- 11k payable on the Funds profits has been raised.

4.2 BALANCE SHEET

At December 2021, the loan portfolio outstanding net of impairments stands at EUR 4.8 million with 61% of the loans outstanding coming from Kenya, 34% from Ghana, and 5% from Tanzania. In addition to the the loan portfolio, the Fund has Cash of EUR 5.4 million and Other receivables of EUR 87k at year, making up the Funds total assets of EUR 10.3 million. Loan portfolio quality remains healthy at year end with only 0.03% of the outstanding portfolio more than 90 days in arrears (PAR90).

Total Assets are funded by Members Capital and reserves of EUR 7.6 million, Long-term debt of EUR 2.5 million and other liabilities of EUR 142k. During 2021, the Fund drew down on all outstanding Member commitments, and further drew on its junior subordinated debt facility of EUR 2.5 million. As at December 2021, the Fund can still draw on further outstanding debt commitments of EUR 22.5 million until December 2026.

5. GOVERNANCE, FUND & RISK MANAGEMENT

5.1 GOVERNANCE

MCF II falls under the wider governance structure of the PharmAccess Group Foundation (PGF), being the statutory director of Stichting Health Insurance Fund and Stichting Medical Credit Fund, the Members who hold a 99% and 1% interest in MCFII respectively.

The key features of the governance structure are:

- **Management**: Stichting Medical Credit Fund is the executive Director and Fund Manager of MCFII who has delegated the management of MCF II to the MCF Management Board. The MCF Management Board is based in Amsterdam and consists of the MCF Managing Director, Finance Director and Investment Manager.

- **Supervision**: All entities with the PGF group are supervised by one Supervisory Board. Two members of the Supervisory board have MCF II as a special responsibility and interest area.

The Supervisory Board has appointed an Audit Committee and Conflict of Interest Committee each consisting of three of its members. A Medical Credit Fund Credit Committee was also established that reviews and approves all investments with a MCF II credit exposures larger than EUR 400,000. The Supervisory Board of PGF and the Credit Committee are composed of a group of senior professionals, representing comprehensive experience in the health sector, non-governmental organizations, finance, investing and banking in Africa, and knowledge of healthcare in general and specifically in Africa.

During 2021, four Supervisory Board meetings and two Audit Committee meetings were held. During these meetings the Supervisory Board approved the incorporation of MCFII and commencement of operations. In its meeting of 30 November 2021, the Supervisory Board approved the Series A financing documents of MCFII and the Investment Memorandum. In its meeting of 30 November 2021, the Audit Committee approved the appointment of Deloitte as external auditors.

By law MCF II is also required to hold an annual Members Meeting in which the The Fund Manager shall report on the progress, business activities and performance of the Fund. In addition, The members meeting will convene for investor votes as required under the Members Agreement, such as for the admission of a new member into MCF2, or transfer of existing membership. The first such Members meeting will take place in 2022. We note that in terms of governance the Members meeting has little influence as of today since both Members fall under the PGF structure, and therefore no decisions are made without the prior approval of the PGF Supervisory Board.

5.2 FUND MANAGEMENT

MCF II is managed by Stichting Medical Credit Fund, a non-profit foundation registered and based in Amsterdam, the Netherlands. Stichting Medical Credit Fund operates within the scope of PGF, leveraging its existing networks, market knowledge and partners.

Stichting Medical Credit Fund as the Fund Manager will be responsible for the executive day-to-day management and all operations of the Fund across all countries and jurisdictions. Stichting Medical Credit

Fund provides all necessary staff as well as the responsibility for the implementation of the TA activities. In addition, PGF's institutional infrastructure in the areas of human resources, administration, systems, IT support, resource mobilization, marketing and communication has been placed at the disposal of MCF II. MCF II can therefore fully utilize and reap the benefits of PGF's unique organizational and health sector related assets such as market intelligence, program management skills, quality standard frameworks and investment and support capacities.

MCF II incurs an annual management fee of 4.0% (exclusive of taxes) and calculated over the average gross outstanding loan portfolio for its services. The management fee has been determined on an arm's length basis.

5.3 CREDIT RISK MANAGEMENT

The Medical Credit Fund has a direct exposure to repayment risk of the loans disbursed to the healthcare providers.

The first component to managing credit risk is the MCF credit assessment or due diligence. This process differs depending on the loan type:

- Digital Loans - Digital platforms give MCF direct oversight on a live basis to the revenue or cashflow data of the business, whether the revenue stream be mobile money or health insurance claims. Transparency in data, allows MCF to automate the credit appraisal process through various algorithms.

- Term Loans – The Fund uses a standardized business template to analyze the many aspects of a health SME's business profile, market position, investment risk, bank account history, and financial statements. The template focuses on the specialized nature of the healthcare business, including clinical quality aspects. The credit analysis combines healthcare sector specifics with a thorough financial analysis.

Although unsecured in the traditional sense, the Cash Advance Loans are being "secured" by the revenues that are running over the CarePay platform and benefit from personal guarantees. Mobile Asset Finance loans are secured by the underlying medical equipment to be financed, whilst Term loans are secured by tangible collaterals, like land, property, and marketable fixed assets.

Most healthcare providers are also enrolled in a technical assistance (TA) program which plays a central role to strengthen business sustainability of our borrowers and reduce credit risk.

The Medical Credit Fund transfers part of this repayment risk to Credit Guarantors. The Fund has entered into a loan portfolio guarantee agreement with the United States International Development Finance Corporation (DFC) which will provide a credit guarantee (coverage ranging from 50 – 80% of the loan principal) on up to EUR 30 million of loan disbursements.

To further manage credit risk MCF II has the following policies in place:

- Credit Risk Exposure to a single Target Health Care Provider (Concentration risk) to a maximum of EUR 2.5 million.

- Exposure to all unsecured investments to a maximum of twenty percent of total MCF II credit risk exposure.

As described in section 5.1. as part of the Governance structure there exists a Credit Committee consisting of members of the Management Board, the Supervisory Board (PharmAccess), and external experts which approve all loans with a credit exposure above EUR 400,000. Loans below EUR 400,000 are approved internally by MCF Management per delegated authorities.

MCF staff and its technical partners perform periodic visits to perform monitoring of the health SMEs. When a client falls into arrears, there is a follow-up by the MCF Business Advisor who is responsible for that borrower. When needed, clients are monitored more frequently. MCF also holds monthly portfolio meetings at both the local offices and at its head office in Amsterdam to discuss arrears, write-offs, and the pipeline.

5.4 FOREX RISK, INTEREST RATE RISK, AND LIQUIDITY MANAGEMENT

Foreign Currency Risk

The Fund is exposed to currency risk since loans are issued in local currencies and therefore financial assets can be subjected to currency devaluation relative to the functional currency of the Fund (Euro).

MCF II has a policy of accepting currency risk which is then mitigated by Management through risk-management measures further explained below.

The foreign currency exposures are monitored on a regular basis in the Asset Liability Management (ALM) meetings. The ALM committee further reviews the currency risk-premium priced into all MCF II loans at least once a quarter. The currency risk-premium is the basis-points (bps) required as a spread to account for the risk of future currency devaluation for a particular currency and is determined using a statistical model that considers several variables including historical as well as forward-looking information. Such forward looking information includes data obtained from yield curves, forecast macro-economic indicators, and upcoming political events such as national or local elections. The bps is maintained to enable the Fund to accumulate adequate capital reserves to mitigate future currency devaluation.

Management seeks to further reduce the currency risk through diversification of the loan portfolio across different currencies in order to limit the concentration risk or exposure on a single currency.

In addition, MCF II has introduced the following limits on open foreign currency exposures to ensure a certain degree of diversification and reserves are in place to protect investors:

- Any single open foreign currency exposure must be less than 50% of Total Assets scaling down from 2023 onwards by 5% each year to a final level of 30%.

- Total aggregate open foreign currency exposures not to exceed Total Equity plus Subordinated Debt by 4 to 1.

The Fund has not entered into any derivative contracts to hedge foreign currency risk.

Interest rate risk

MCF2 is exposed to interest rate risk since its borrowings are floating rate being subject to fluctuations on the Euribor, whilst the Loan portfolio outstanding is fixed rate. Although fixed rate, the Loan portfolio could be exposed to additional interest rate risk if governments were to pass legislation to introduce interest rate caps.

The Fund accepts the exposure to fluctuations in the Euribor which is monitored on a regular basis in the ALM meetings. The MCF finance team is also responsible for stress-testing interest-rate sensitivities on the balance sheet, the output of which is reported to the ALM committee. Refer to note 1.8.4 of the Financial Statements for MCF II interest rate sensitivities.

Liquidity risk

The liquidity risk is monitored on a regular basis in ALM meetings. The MCF finance team is responsible for monitoring and matching the maturities of Assets and Liabilities, which can be referred to on note 7 of the Financial Statements. MCF has introduced guidelines for its cash positions for both local accounts and cash positions at head office. In addition, specific policies are in place to manage Liquidity Risk:

- Weighted average life of the loan portfolio is not more than 5 years
- Current Assets to Current Liabilities of not less than 1.5
- Cash to Total Assets of not less than 5%

6. OUTLOOK 2022

6.1 GROWTH

In 2022, the Funds main objective is to build on a good start to date and grow in all aspects. MCF II will focus on expanding its digital loan product offering, improve support to female entrepreneurs and enhance the support beyond the loan to improve the quality of care our clients provide to their communities.

From a loan portfolio perspective, we target to disburse EUR 25 million in loans to Health mSME's in 2022, reaching a portfolio outstanding of EUR 13 million by end of year whilst maintaining a good portfolio quality with Par 90 lower than 8.0%.

Gender equality is also a key focus of the Fund and we wish to disburse 200 loans to woman owned business in 2022.

From a geographic perspective our main focus will be to achieve further grow in the existing counties Kenya, Tanzania and Ghana whilst we also aim to disburse the first MCFII loans in Uganda and Nigeria in 2022. A project has also been commissioned to investigate expansion into Zambia but this is a longer-term project and not expected in the next 12-months.

6.2 PRODUCT DEVELOPMENT

A key driver for the Funds growth will be to expand the Funds digital product offering beyond Kenya. MCF II currently has pilots ongoing for new digital loans in Tanzania and Ghana which we aim to go live during the second half of 2022.

6.3 TECHNICAL ASSISTANCE

Under MCF II, MCF aims to include at least 80% of its clients in a TA or training program. Together with PharmAccess, MCF has set up TA packages that can be offered to clients depending on the size of their loan. In principle, all clients will follow a similar cycle starting with a SafeCare assessment, a business and quality improvement trajectory based on a Quality Improvement Plan and ending with a follow-up assessment.

MCF will offer TA packages to clients with a term loan, with a more standardized package for the smaller loans, and tailored TA packages for the larger loans.

In the past years, MCF's digital lending portfolio has been growing. MCF is currently exploring the best ways to offer TA to this type of client. A lighter and more digital package has been developed in partnership with SafeCare, as SafeCare also was in the process of further digitalizing its tools to allow for self-managed quality improvement, distant monitoring and digital support.

Finally, MCF will continue to seek partnerships with universities or training institutions to provide TA that complements the quality journey described above.

ANNEX 1: SAFECARE

SafeCare

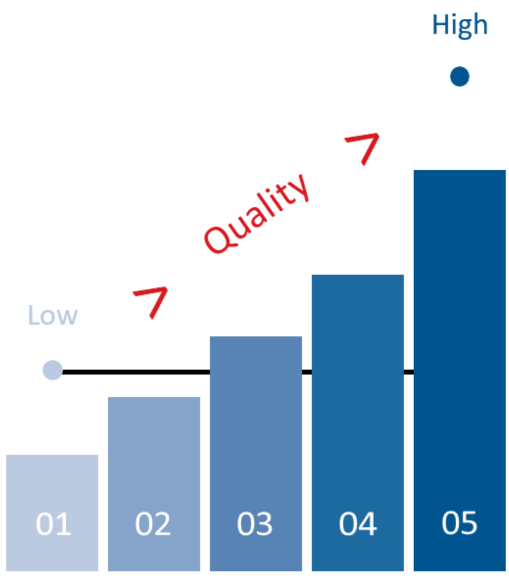
The SafeCare methodology entails a set of international (ISQua accredited) clinical standards that evaluate the structures and processes that guide the delivery of healthcare.

Stepwise Improvement

With SafeCare, healthcare providers in resource-poor countries can gain insight in identified gaps and challenges and take a stepwise approach towards higher quality. Through tailor-made quality improvement plans, technical support, consulting visits and innovative quality improvement platforms, facilities progress along a quality improvement trajectory with achievable, measurable steps. Ultimately, facilities are equipped to monitor and improve their quality by integrating principles of continuous quality improvement into their daily operations.

SAFECARE CERTIFICATE LEVELS

01	The quality of the services provided is likely to fluctuate and there is a risk of unsafe situations.
02	The facility is starting to put processes in place for high-risk procedures, however the quality of services provided is still likely to fluctuate and the risk of unsafe situations remains high.
03	The facility is starting to operate according to structured processes and procedures. However, not all high-risk procedures are controlled, thus the quality of services provided can still fluctuate.
04	The facility is accustomed to operate according to standardized procedures and has started to monitor the implementation of their procedures and guidelines. Most high-risk procedures are monitored and controlled, and the quality of services provided is less likely to fluctuate.
05	The facility is regularly monitoring the implementation of treatment guidelines and standard operating procedures through internal audits.



SafeCare Standards

The SafeCare standards cover a full range of medical to non-medical aspects of care, enabling a holistic view on all required components for safe and efficient delivery of healthcare services. Topics range from human resource management to laboratory services and in-patient care. The four broad categories are divided into 13 sub-categories (Service Elements), which are linked to separate management responsibilities within the healthcare facility.

Ten topics are specifically surveyed: emergency Care, HIV/TB/Malaria, infection Prevention, life and fire safety, maternal, neonatal and child health (MNCH), patient centeredness, quality assurance, business management, staff allocation and guidance and Supply Chain management.

Any issues that impact the safety, quality or financial sustainability of a facility are highlighted as priority areas, so prompt and effective action can be taken . Depending on a facility's performance against the SafeCare standards, it will be awarded a certificate of improvement reflecting the quality level, ranging from one (very modest quality) to five (high quality), based on their scoring. The certification process aims to introduce a transparent, positive, and encouraging rating system, which recognizes each step forward in quality improvement.

SafeCare Service Elements

Management

- Governance & Management
- Human Resource Management
- Patient and Family Rights & Access to Care
- Management of Information
- Risk Management

Clinical

- Primary Healthcare (Outpatient) Services
- Inpatient Care
- Surgery and Anesthesia Services

Clinical Support

- Laboratory Services
- Diagnostic Imaging Services
- Medication Management

Ancillary

- Facility Management Services
- Support Services

Data Driven Decision Making

SafeCare methodology also allows other stakeholders—ranging from donors, insurance companies, investors and provider networks to governments— to accurately assess, benchmark and monitor healthcare quality and allocate resources more effectively. By differentiating between facilities operating at different levels, benchmarking is possible at regional, national and international levels. Robust online due diligence reports are combined with cost-efficient improvement strategies, which can guide fact-based decision making, and get a better grip on (health) outcomes, training needs, risk management for quality investments and contracting.

Digital Technologies

Acting on digital technologies, SafeCare has streamlined the assessment process by developing an automated assessment tool which, through standardization, improves process efficiency and enables scaling. SafeCare is in the development phase of an all-stakeholder Quality Platform that provides the means to guide progress, investment and decision making. The SafeCare Quality Dashboard, an interactive quality-management platform, complements technical assistance and helps to motivate and incentivize healthcare facilities to improve.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