Medical Credit Fund

Medical Credit Fund II Coöperatief U.A.

Annual Report 2023

9 August 2024 | Amsterdam

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Medical Credit Fund

PharmAccess FOUNDATION

Managing Director Update

I am proud to present to you the Medical Credit Fund II (MCF II) annual report and financial statements for 2023. Since inception, our mission has been to help small and medium-sized enterprises in the health sector in sub-Saharan Africa strengthen their businesses and improve the quality of care they provide to their communities. We do this with a small, but dedicated MCF team based in Dar es Salaam, Nairobi, Lagos, Accra and Amsterdam. In 2023, MCF managed two funds: MCF1 (integrated into Stichting MCF) and MCF II (MCF II Cooperative U.A., a separate entity).

In 2023, economic challenges continued in our focus countries. While in 2022 the Ghanaian Cedi lost 57% against the Euro and inflation was over 50%, we saw some recovery in 2023 but with inflation still above 20% and the Cedi still devaluing significantly against the US Dollar, economic duress is not over. In Kenya, the Shilling lost 27% against the US Dollar in 2023 and healthcare providers suffered from erratic payments by the national insurer.

This resulted in major problems for MCF clients, who saw their expenses increase while income, especially from insurance claims, remained flat at best. Another consequence was currency losses and credit losses for MCF. As a result, MCF increased its interest rates mid-2023 to reduce losses.

MCF II started lending in July 2021 and continued in 2023 with mainly digital working capital loans in Kenya and term loans in Kenya, Tanzania and Ghana. We combine loans with Technical Assistance since we aim for improved quality care. In 2023, due to the high demand for working capital, MCF II disbursed over 1,500 loans, a new record.

In Ghana, a new digital loan product was launched in September. In Tanzania, we started pilots for digital loans and expect to launch this product in 2024. This will enable us to be much more effective and impactful in these markets.

It has been a difficult but exciting year. I would like to thank my fellow MCF colleagues and our partners for their passion and dedication to serving the African health sector.

Arjan Poels
Managing Director

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Overall Immunization

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 (MCF II) was established in the Netherlands in 2021 as the follow-up fund to MCF1.

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, MCF seeks 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 a 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 (health SMEs). The health 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 concentrates 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 supporting companies or healthcare providers.

1.3 LOAN PROGRAM

MCF roughly deploys two types of loan products, term loans and digital 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.

- *Term Loans*. MCF II 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. Tenures range from two years up to a maximum of ten years. 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. Term Loans can be used to finance construction or renovation of hospital buildings, medical equipment and working capital. Term loans are secured with tangible collateral, like land, property, and marketable fixed assets.

- *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.

Offering technical assistance (TA) 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. TA helps the Fund's 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.

MCF Digital Loans

Introduced in 2017 in Kenya, the MCF Digital Loans are currently the main driver of the MCF portfolio. The first digital loan product – MCF Cash Advance – 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.

MCF Working Capital Loan
MCF Cash Advance is a short-term working capital product based on the mobile revenue of the SME. Based on M-PESA revenues, the product requires limited or no collateral, allows for automated and flexible repayments based on actual digital revenues, and can be deployed quickly with short processing times. Repayments are automatically deducted from the incoming cash flow running over the mobile payment system. The usual term for the working capital loans is 3-6 months, with a maximum term of 12-24 months. Loan sizes range from EUR 1,000 to EUR 300,000.

MCF Mobile Asset Finance
The MCF Mobile Asset Finance (MAF) is based on the principles and technology of the MCF Working Capital Loan, but specifically designed for medical equipment purchases such as ultrasounds and lab equipment. MAF allows for a longer term of maximum 36 months and uses the equipment purchased as collateral. MCF Mobile Asset Financing loans range from EUR 50,000 – EUR 300,000.

MCF Claims Advance
The Claims Advance loan product is a working capital loan product in Kenya based on health insurance claims. The health SME's borrowing capacity is based on the discounted monthly average of the past claims. Customers can view their credit limit and apply digitally.

Developments
With over 7,000 digital loans disbursed in Kenya, MCF started to expand its footprint, aiming to bring accessible and affordable healthcare financing to healthcare providers in new markets. In 2023, the MCF Digital Loan product has been launched in Ghana in partnership with Kowri, a Ghanaian fintech company. According to Joseph Hansen-Addy, MCF Director in Ghana, MCF ensures that healthcare providers can focus on what they do best – delivering quality healthcare to their communities - by simplifying the loan application process and leveraging technology.

Dangme West Hospital Ltd, Ghana

Dangme West Hospital Ltd was one of the first clients in Ghana to receive an MCF Digital Loan. It is a primary healthcare facility located in Dodowa, in the Shai-Osudoku district of the Greater Accra region of Ghana. It is a family-owned hospital, with 29 staff members and an in-patient bed capacity of 28 beds. The business has gone cashless as a result of accessing the digital loan, and – as the first loan already has been repaid – is now already coming back for a second loan.

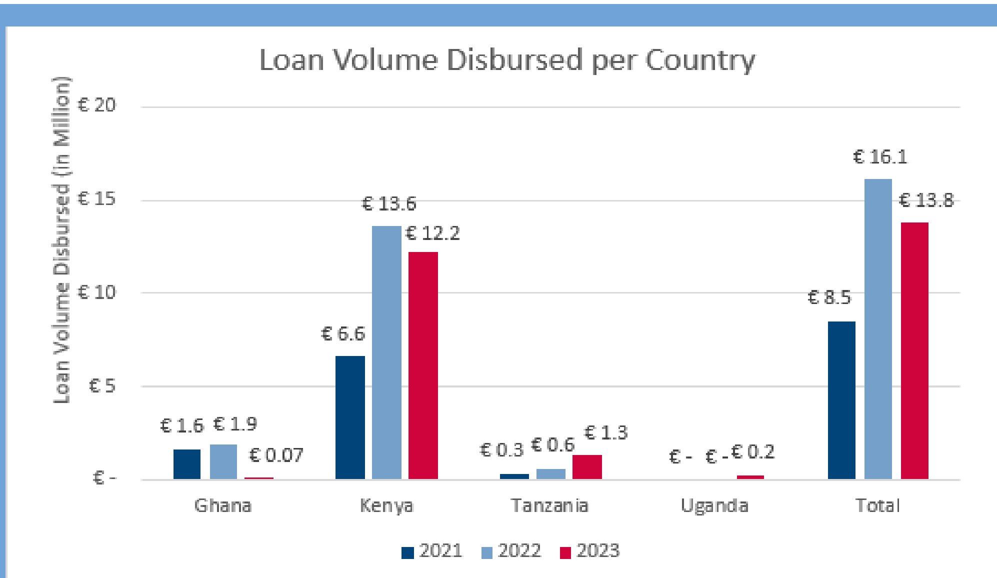
Mr. Theophilus Laweh Amponsah, administrator at the hospital says: “*The MCF Digital Loan has been very good. We used it for working capital reasons. We didn’t even know that we had finished paying, until we were told that we had finished. In fact, digitizing our revenues has made managing our finances much easier…*”

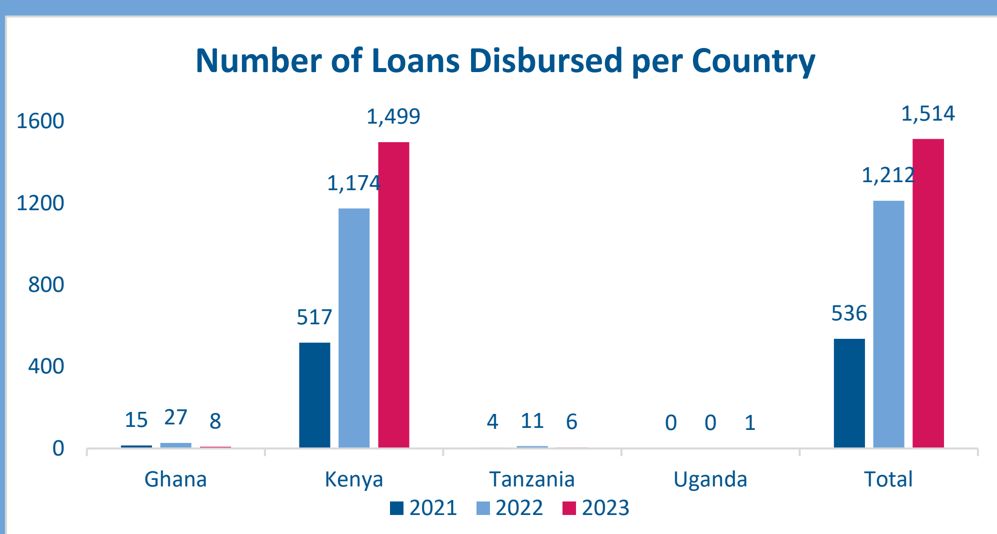
2. LOAN PORTFOLIO

2.1 PORTFOLIO PERFORMANCE

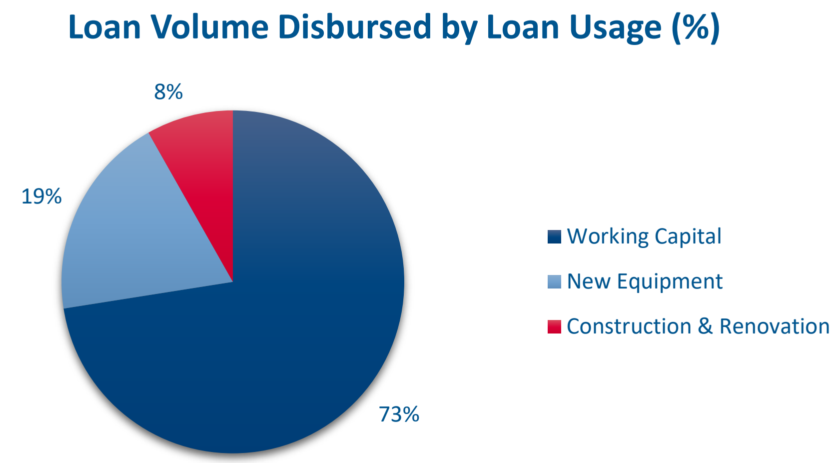
In 2023, MCF continued to face economic challenges in our focus countries. Currency devaluations forced MCF to increase its interest rates in 2023 in Ghana and Kenya. At the same time, clinics saw their expenses increase, while their income from health insurance payments did not. As a result, clients decided to postpone large investments and faced difficulties in servicing their loans. MCF's digital loan products in Kenya remained the main drivers of the portfolio, but the average loan size decreased to just under EUR 10,000.

While we have disbursed 1,514 loans, the highest number of loans ever and 25% more than in 2022, the total amount disbursed was EUR 13.8 million, a 12% reduction compared to 2022.



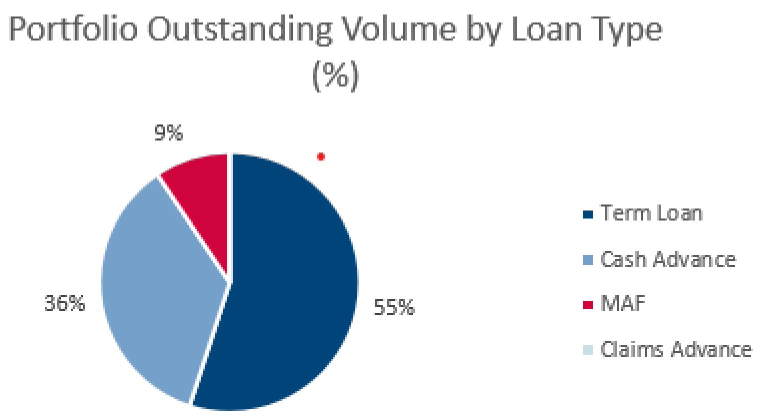


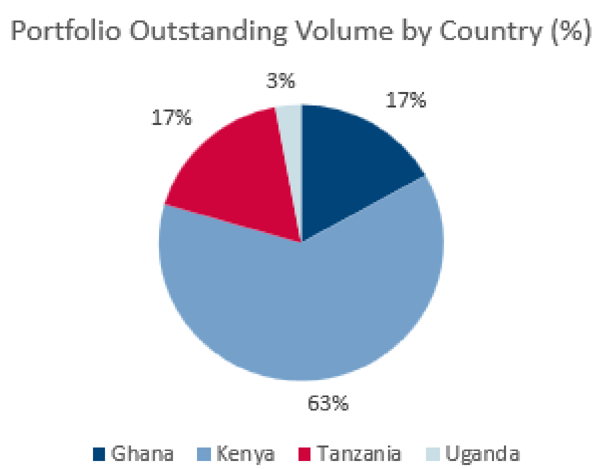
In 2023, the most common use of the MCF loan proceeds was for working capital (73% of the disbursed volume), followed by the purchase of new equipment (19% of the loan volume). Eight percent of the loans were used for construction and renovation.



2.2 PORTFOLIO OUTSTANDING

At the end of the year, the number of loans outstanding was 557, with a gross loan amount of EUR 7.9 million. While only 67 of the outstanding loans are term loans, they comprise almost 55% of the outstanding loan amount.





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. The economic conditions caused deterioration of the loan portfolio quality, with non-performing loans (PAR90 – more than 90 days overdue) reaching 17% as of December 2023.

Hidden Impact – Health SMEs Refinanced Deals

A common indicator of impact of a fund is the outstanding loan portfolio. This is the amount of capital that a fund has invested at a certain point in time. However, in the case of MCF, this indicator does not adequately represent it's impact. This is partly because of MCF's focus on smaller health SMEs that require smaller loans which leads to a large number of loans and clients and a relatively small portfolio.

But there is also hidden impact. These are clients that reached out to MCF because banks were not willing to lend to them because of the perceived risk of the client and/or the investment plans. Especially for construction projects, which are indeed high-risk, banks usually show no appetite. So, healthcare providers turn to MCF for financing. But upon completion of the construction, when the project risk has been overcome, the banks' interest increases dramatically. What remains is a (large) client with a completed new building that can be taken as collateral. The approval by MCF is also seen as an indicator of quality which banks review positively. Banks can offer lower interest rates for large clients with good collateral and low risk to convince clients to change to a different lender. The bank refinances MCF's loan to the healthcare provider and MCF's outstanding portfolio reduces by a large amount.

In cases like this, MCF's impact is enabling the project/client by taking the large risks while MCF is not reaping the benefits of interest income over the full tenure of the loan. This hidden impact is an important one for the health sector in Africa and therefore highlighted in this report. Especially in East Africa, we have seen eight large loans in the past few years refinanced by local commercial banks with a total of EUR 6.5 million equivalent.

Some clients move in the opposite direction – they have a loan with a local commercial bank, but the loan is not aligned with the business and/or the financed project. For example, a construction is financed through a very short loan or inadequate amount. In these cases MCF can refinance the existing loan, give client an extended repayment period and at times increase the funding to complete the project.

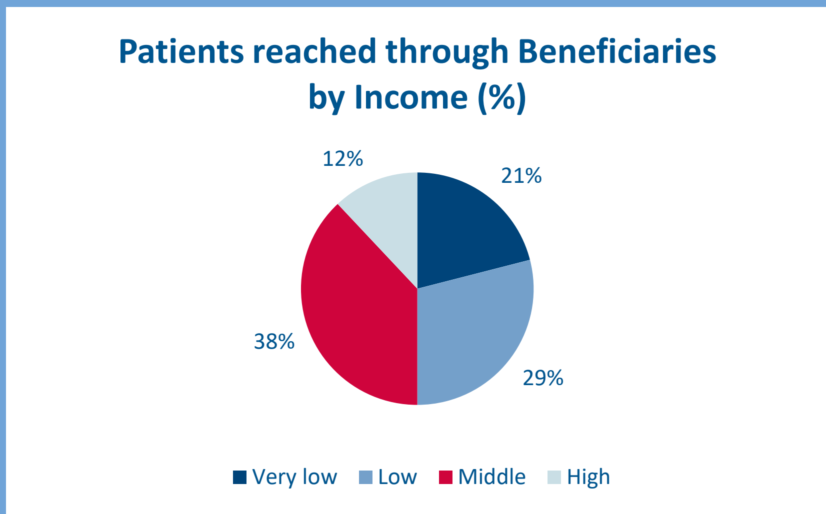
Another visible trend is where clients reach out to MCF for financing and after MCF approval and offer letter, the client reaches out to commercial banks to find a better rate. MCF's stamp of approval strengthens the banks' interest in the deal and a lower interest is offered. Also here, MCF plays an enabling role which is costly but not income generating but seen as impact.

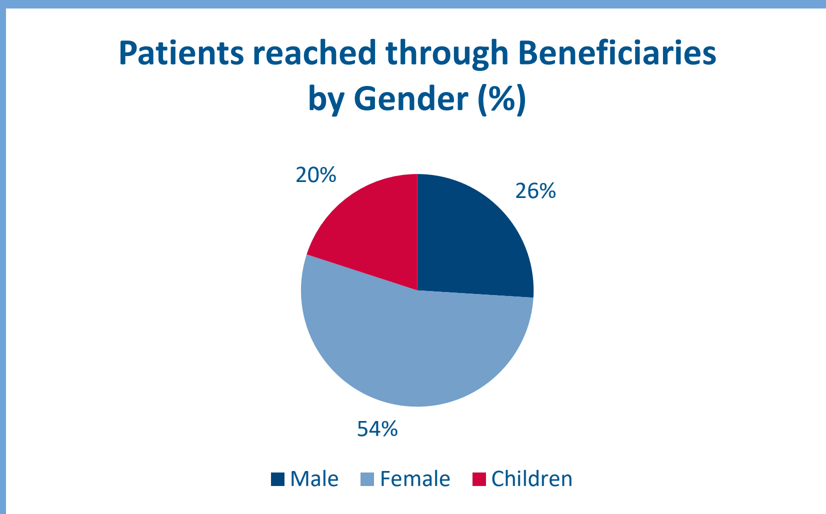
2.4 SOCIAL IMPACT

Patient Reach

On a monthly basis, MCF clients have on average more than 380,000 patient visits. Half of the patients visiting these facilities and pharmacies come from low-to very low-income groups.

More than 50% of MCF's clients offer services that specifically benefit women, such as maternal care, family planning, delivery service, ante-natal care and post-natal care. With 74%, the majority of the patients reached through MCF clients are women and children.





Female Health Entrepreneurs

In 2023, 445 loans have been disbursed to female entrepreneurs, the equivalent of 29% of the total number of loans disbursed. This is an increase compared to 2022, where 23% of the loans disbursed were to women.

Empowering female health entrepreneurs with digital loan products

Earlier studies showed that only 34% of women in Africa engage with the banking sector, as opposed to 47% of men (Stimulating women's entrepreneurship in Africa, WIA Philanthropy, 2020). Moreover, loan amounts granted to women are on average 47% lower than those offered to men. MCF is actively working to improve its current loan products and develop new products to improve access to finance for women.

Last year, MCF engaged with the research agency Medwise Solutions Ltd to assess how we can expand our reach to health SMEs in Kenya, with a focus on female health entrepreneurs. Data (both qualitative and quantitative) were collected among more than 450 healthcare entrepreneurs (non-MCF clients) in Kenya. Some of the key insights were:

- There was low awareness of the MCF Digital Loan product among respondents. Among female respondents, only 6% had ever heard about the product.
- Male respondents perceived themselves as higher risk takers than female respondents.
- Other barriers that were mentioned by women were the inability to meet collateral and asset requirements, the limited financial knowledge, and the limited networks and access to information.
- Participants that never had a loan had very negative perceptions of digital lenders and trust was very low. Distrust was even higher among women. However, among the participants that had ever taken a digital loan, female respondents turned out to be significantly more positive towards digital loans than male respondents, showing digital loan products are female-friendly.

In an earlier study among MCF clients, we have seen that women tend to have lower loan amounts than men, especially looking at term loans. However, considering the MCF Digital Loans, the difference in loan amount decreases; men and women have comparable loan amounts. MCF Digital Loans address the barriers and challenges mentioned by women and thus contribute to lowering the gender gap.

In 2024, we plan to work on increasing awareness about the product, especially among women. An event 'Empower Women Healthcare Entrepreneurs' is planned in Q2 2024. Finally, we plan on publishing the key insights of the research project.

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 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. All clients 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 online 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.

3.2 ACTIVITIES 2023

At the end of 2023, thanks to the support of MCF investors FMO and Swedfund, 90% of MCF clients with term loans participated in MCF's TA program with assessments, support visits and trainings.

MCF also aims to offer TA support to clients with digital loans. In 2023, a research project was done to collect insights to optimize the TA journey and tailor it to meet the needs of the clients with digital loans. Data was collected internally among MCF and SafeCare team members, and externally among MCF clients. Key challenges that were identified on both organizational level and TA program level are currently being addressed. In the improved TA program, clients work on quality improvement in a modular approach, focusing primarily on their priority improvement areas. The TA program includes a visit by a SafeCare assessor and an online training. The aim is to have an improved TA program ready in Q3 2024.

H.M. Queen Máxima of the Netherlands visits on behalf of the UN ZamZam Medical Services in Kenya

H.M. Queen Máxima of the Netherlands, in her capacity as the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA), visited ZamZam Medical Services to experience how tailormade digital loans of the Medical Credit Fund (MCF) have enabled female health entrepreneurs to expand their clinic and drive access to quality care to their local community.

Zamzam Medical Services is a health facility located at the foot of the Ngong Hills, approximately 22 kilometers southwest of Nairobi. The facility was started 30 years ago in a single room, by nurse and midwife Esther Muthoni and her late husband, who saw an opportunity to establish the first private health facility in the area. Although the journey has not been without challenges for Esther Muthoni, ZamZam Medical Services today offers a variety of healthcare services such as maternal health and family planning, laboratory services, physiotherapy, and dental care, serving around 13,000 lower-income patients annually. Esther says she almost closed the health facility had she not been introduced to the MCF Digital Loans.

On Tuesday, October 24th, Queen Máxima visited ZamZam Medical Services. In her capacity as the United Nations Secretary-General’s Special Advocate (UNSGSA) for Inclusive Finance for Development, Queen Máxima has been working around the world to promote universal access to financial services and financial health.

She experienced how digital loans have enabled female health entrepreneurs like Esther to expand her clinic and drive access to quality care to her local community. Queen Máxima mentioned that MCF really understands and addresses the needs of their clients. From new equipment to improving working capital, through digital loans, health facilities like ZamZam can provide better quality services to their patients and their families. This is critical in Kenya where SMEs like ZamZam Medical Services are a key component of the healthcare system.

About half of the population, including those in lower income groups, seek healthcare from private healthcare providers. By breaking down financial barriers and fostering positive development outcomes, quality healthcare can be made accessible to all. As such, the program is contributing to the Universal Health Coverage agenda of the Kenyan government.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4. FINANCIAL OVERVIEW

4.1 INCOME STATEMENT

In its second full year of operations, MCF II generated EUR 2.2 million (2022: EUR 1.6 million) of interest income during 2023, maintaining a consistent gross interest margin of 26% on the loan portfolio largely driven by higher yielding cash advance and mobile asset finance loans in Kenya. At year end the product mix equates to 45% of loans outstanding being digital, and 55% of the loans being term loans.

The Fund incurred interest costs of EUR 369k (2022: EUR 184k) during the year. The increase is due to the interest costs for a full year of the increased debt balance following a drawdown in July 2022, and higher interest rates as EURIBOR increased over the year. Combined with a positive result of EUR 51k on foreign exchange hedging and additional non-interest revenues earned of EUR 296k (2022: EUR 258k), the primary driver being disbursement fees on digital loans. The Fund posts a combined total income on the loan portfolio of EUR 2.1 million (2022: EUR 1.7 million) for 2023.

However, regarding the portfolio costs, the Fund continued to face challenges arising from difficult economic conditions. In Ghana inflation remained high at 38% and the Cedi depreciated 22% against the Euro. Depreciation in Kenya of the Kenian Schilling was high as well at 32%. Tanzania was the most stable of the countries MCF is active in, with a depreciation of the Tanzanian Schilling of 11%. To anticipate the ongoing economic challenges, an additional First Loss buffer of EUR 5 million was contributed by BUZA at the end of 2023. Of this 5 million, the first tranche of 2.5 million was received by HIF from BUZa din December 2023. The 2.5 million was subsequently paid out to MCF by HIF as a member's capital contribution.

The result of this in MCFII is twofold. Firstly, foreign exchange losses on the loan portfolio have been severe at EUR 2 million (2022: EUR 1.2 million loss). Secondly, non-performing loans (PAR 90) have increased from 5.9 % in 2022 to 11.83 % as of 31 December 2023. As a result of this, loan portfolio impairments increased to EUR 0.87 million in 2023 (2022: EUR 0.7 million). Total portfolio costs were EUR 2.85 million (2022: 1.8 million). This has produced a negative total result on the loan portfolio of EUR 0.7 million (2022: 0.1 million negative result).

The Fund incurred other operating expenditure of EUR 498k (2022: EUR 326k) consisting of fund management fees of EUR 344k (2022: 276k), and other costs (related to audit fees, legal costs, bank charges) of EUR 154k (2022: 49k). Finally, a Dutch corporate income tax loss of EUR 302k (2022: 114k receivable) on the Funds loss has been raised.

Overall, the Fund posted a loss of EUR 1.2 million before taxation (2022: Loss of EUR 342k

4.2 BALANCE SHEET

As of 31 December 2023, the Fund has total assets of EUR 14.6 million (2022: 12.9 million). Over the past year, the portfolio outstanding (net of impairment) remained constant which stands at EUR 7.0 million (2022: 7.1 million) with 63% of the loans outstanding coming from Kenya, 17% from Ghana 18% from Tanzania and 3% from Uganda. The Fund has strong liquidity with cash of EUR 6.4 million (2022: 5.0 million).

Total Assets are funded by Members Capital and reserves of EUR 8.87 million (2022: EUR 7.3 million). Long-term debt of EUR 5.5 million (2022: EUR 5.5 million) and other liabilities of EUR 229k (2022: EUR 134k). During 2023, MCF received an additional Members Capital contribution from HIF of 2.5 million meant to serve as an additional First Loss buffer. No additional Funds were drawn down on committed debt facilities. As of December 2023, the Fund can still draw on further outstanding debt commitments of EUR 19.5 million until December 2026.

On the 31st of December 2023, MCF II was in breach of covenant (v) (Non-performing Loans must not exceed 8 per cent. of the Total Loans and Advances in respect of each Relevant Period). With respect to this breach, waivers were requested from all lenders and subsequently granted.

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 99,26% and 0,74% 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 and 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 Director.
- **Supervision:** All entities with the PGF group are supervised by one Supervisory Board. Two members of the Supervisory board have MCF 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 risk exposures larger than EUR 400,000. The Supervisory Board of PGF and the MCF 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 2023, five Supervisory Board meetings and five Audit Committee meetings were held. PharmAccess Group appointed Mazars as its new auditors after Deloitte had finalized their reporting over the year 2021. As MCF II forms part of the PharmAccess Group, MCF II has also appointed Mazars as its auditor.

By law MCF II is also required to hold an annual Members Meeting in which 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 MCF II or transfer of existing membership. The first such Members meeting took place in 2022 and the second in 2023.

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 is 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 the 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 the services of Stichting Medical Credit Fund. The management fee has been determined on an arm's length basis.

5.3 RISK MANAGEMENT

In accordance with RJ 400.1054 and 400.1055 (BW2), the board acknowledges and manages the inherent risks associated with operating a micro-lending fund from the Netherlands, particularly one that is active in emerging markets such as Kenya, Ghana, Tanzania, and Uganda.

Given the economic and political volatility in these regions, the primary risks include currency devaluation, credit risk, and regulatory changes. Currency devaluation can significantly impact the value of the loans when converted back to the base currency, potentially leading to financial losses. Credit risk is heightened due to the limited financial infrastructure and credit histories in these markets, increasing the likelihood of defaults. Regulatory changes and political instability further add to the uncertainty, as new policies could affect the fund's operations and profitability.

To mitigate these risks, the fund has implemented several measures. These include diversifying the loan portfolio across different countries to spread risk, using hedging strategies to protect against currency fluctuations and managed by the ALM, and engaging local expertise to navigate regulatory challenges. Additionally, the fund maintains rigorous credit assessment procedures with the involvement of the Credit Committee and closely monitors the political and economic developments in each country.

The board acknowledges the importance of these risks and the measures in place, ensuring that they are regularly reviewed and adjusted as necessary to safeguard the fund's operations and financial health.

5.4 CREDIT RISK MANAGEMENT

MCF II has a direct exposure to repayment risk of the loans disbursed to the health SMEs.

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 insight into the revenues or cashflow of the health SME, be it mobile money or health insurance claims. These data allow 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 digital loans are being "secured" by the revenues that are running over the digital payment platforms such as 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 PGF Supervisory Board, and external experts which approve all loans with a credit risk exposure above EUR 400,000. Credit risk exposures below this limit are approved by MCF Management by delegated authorities.

MCF staff and its technical partners perform periodic monitoring visits 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. Portfolio management is coordinated by the central management team in the Head office through commercial calls and MCF also holds monthly portfolio meetings to discuss arrears, write-offs, and the pipeline.

5.5 FOREX RISK, INTEREST RATE RISK, AND LIQUIDITY MANAGEMENT

Foreign Currency Risk

The Fund is exposed to currency risk since loans are issued and repaid in local currencies and therefore are subject to currency devaluation relative to the functional currency of the Fund (Euro). MCF is also exposed to currency risk related to repatriating local currency funds to service its EURO denominated debt.

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 based on hedging quotes obtained in combination with local market intelligence. 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 the option to enter into derivative contracts to hedge foreign currency risk. At the end of 2023, MCF 2 has entered a derivative contract to hedge against depreciation of the Tanzanian Schilling.

Interest rate risk

MCF II is exposed to interest rate risk since its floating rate borrowings are subject to fluctuations on Euribor. The Loan portfolio could be exposed to additional interest rate risk if governments in its countries of operation were to pass legislation to introduce interest rate caps.

Changes in Euribor are 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. 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%.

5.6 COMPLIANCE WITH LAWS AND REGULATIONS & FRAUD RISK

Compliance with laws and regulations

MCF operates in multiple geographies, each with its own regulatory environment. To address the risk of non-compliance with laws and regulations, MCF Management together with local country directors monitor developments in the legal and regulatory landscape of the countries MCF operates in. In countries where the Fund expects to create a permanent establishment, MCF, prior to incorporation, performs a full assessment of the legal and regulatory environment relevant to MCF by a reputable legal firm to ensure compliance with the regulatory environment. In 2023, this was done for Tanzania in preparation for lending from a local entity in the country. Regular support on legal and other compliance matters is available in the form of internal and external legal counsel. MCF internal legal counsel is also appointed as compliance officer to MCF.

Fraud risk

There is an inherent risk of fraud in the business in which MCF operates. Losses that could arise because of fraud or corruption of an MCF borrower are to be mitigated by the KYC-AML-ATF procedures. Ethics,

compliance, and procedures for reporting non-ethical behavior are outlined in the PharmAccess Code of Conduct (CoC) and Anticorruption policy which apply to all MCF staff. On an annual basis, training is undertaken and compulsory for all employees across all countries. Part of the training curriculum is to ensure employees understand the importance of maintaining reputable business practices and the organization's zero tolerance for non-compliance of the Code of Conduct.
Financial controls also exist to prevent employee fraud, including segregation of duties in cash management and approvals and disbursements of Loans. MCF also has an insurance policy to protect the fund against any losses from Fraud, thereby transferring the risk.

5.7 Consolidation of Local Entities

In both Tanzania (Medical Credit Fund II Tanzania Limited) and Kenya (Medical Credit Fund II Kenya Limited), new entities are in the process of being setup and these entities are in the process of acquiring a local digital lending license. This process started during 2023. No local entities existed at the end of 2022.

As of 31 December 2023, Medical Credit Fund II Coöperatief U.A. has determined that consolidation of Medical Credit Fund II Tanzania Limited and Medical Credit Fund II Kenya Limited is not necessary. This decision is based on the fact that both Medical Credit Fund II Tanzania Limited and Medical Credit Fund II Kenya Limited were not yet active during the reporting period and did not engage in any financial transactions or operations. Therefore, consolidating its financial statements would not materially impact the overall financial position or performance of Medical Credit Fund II Coöperatief U.A.

This assessment is in accordance with IFRS 10, which requires consolidation of subsidiaries only when the parent company has control and the subsidiary is active and has a significant financial impact. The situation will be reassessed in subsequent reporting periods when Medical Credit Fund II Tanzania Limited and/or Medical Credit Fund II Kenya Limited become operational.

6. OUTLOOK 2024

In Kenya and Ghana, MCF's biggest countries of operations, economic challenges continue.

In Kenya, the new Government was sworn in 2022 and one of the first changes they effected was the creation of a Social Health Insurance Fund (SHIF) to replace the National Health Insurance Fund (NHIF). All citizens and healthcare providers are expected to register afresh with SHIF by 30th June 2024 and from that date after that SHIF will start receiving premiums.

Until that time, NHIF will continue to collect premiums and pay healthcare providers. In practice, NHIF has been paying late and reduced amounts since April 2023. Many healthcare providers suffer from late (and reduced) payments and struggle to pay their bills and service existing loans. As a result, the quality of MCF's existing portfolio deteriorates and at the same time, there is a very high demand for working capital loans.

In Ghana, inflation stands at 25% which is a lot better than the over 50% in 2022 but still very high. Interest rates are also very high. The income of healthcare providers has not increased with similar rates. MCF clients typically deal with patients under the National Health Insurance scheme (NHIS), who did not increase insurance claims for services rendered. The above has resulted in losses and liquidity stress.

Under these difficult circumstances, MCF aims to continue lending to healthcare providers, at a time when other credit providers close their doors. Especially working capital loans are needed to bridge receivable payments that are delayed but staff salaries need to be paid and medicines need to be bought. These working capital loans are more and more processed through digital loans, in 2024 available in Tanzania, Kenya and Ghana. These digital loans do not require collateral and are therefore suited for almost all providers.

Growing our digital lending product portfolio provides a clear growth opportunity. Over the past years, regulation around and supervision on digital lending in Kenya and Tanzania has matured. The local central banks have introduced the need to acquire a Digital Lending license as a prerequisite for offering digital loans. A license can only be obtained by a local entity and therefore MCF has established local entities in both Kenya and Tanzania. In the future, the need may arise to establish more local entities in order to continue business. At moment of publication, both licenses in Kenya and Tanzania have been granted. The Tanzania entity is up and running while MCF will need the first part of 2025 to get the Kenya entity fully operational.

Additionally, MCF wants to further finetune its solutions to serve female health entrepreneurs and the support beyond the loan to improve the quality-of-care MCF clients provide to their communities. MCF aims to continue providing TA to a minimum of 80% of its clients. Currently, most clients with term loans receive TA – a more standardized package for the smaller loans, and tailored TA packages for the larger loans. With the growing pool of digital loan clients, another priority for 2024 is to finalize and launch the TA package for this type of client.

For 2024, MCF will continue to focus on the five countries it is active in now and further increase its market penetration with more health SMEs served and loans disbursed. From the perspective of the loan portfolio, there may be shift towards a larger exposure in Tanzania and Uganda, driven by opportunities for term loans. In the other countries, the proportion of digital (short-term) loans will grow.

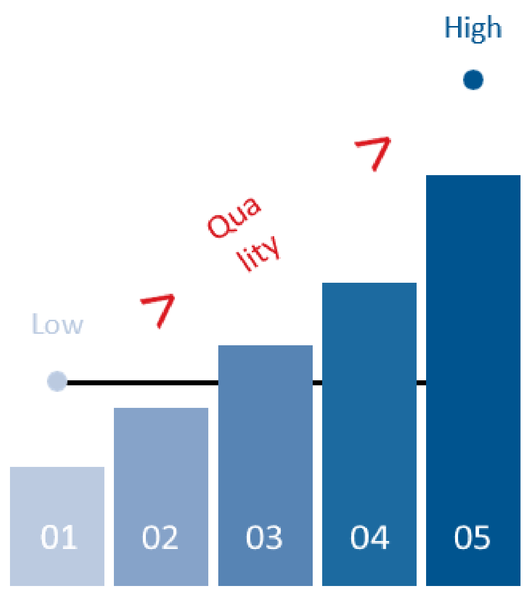
ANNEX 1: SAFECARE

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 into 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 dividedinto 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 stepforward

in quality improvement.

SafeCare Service Elements

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 onlinedue 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 forquality investments and contracting.

Digital Technologies

Acting on digital technologies, SafeCare has streamlined the assessment process by developingan 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-managementplatform, complements technical assistance and helps to motivate and incentivize healthcare facilities to improve.

SafeCare
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