

# SUSTAINABILITY RISK POLICY

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## 1. GLOSSARY

EU	European Union
Board	Management Board of Mikro Kapital
Car sharing	Car sharing segment includes business related to short-term and long-term car rentals as well as fleet management services
ESG	Environmental, Social and Governance factors
Financial Product	In the case of Mikro Kapital, equity and debt securities issued by the SPVs
MFI	Microfinance Institution, a type of financial services that targets private persons and small businesses that do not have access to conventional banking services; Mikro Kapital's MFIs provide lending and leasing services to entrepreneurs and small businesses only
MK ESEL	Mikro Kapital Environmental and Social Exclusion List, the list of excluded industries and business activities from Mikro Kapital's investment universe because of their environment-damaging or ethically questionable nature
MSCI	Morgan Stanley Capital International, a global provider of indexes, portfolio analysis tools and ESG products (e.g. ESG performance ratings)
Mikro Kapital	Mikro Kapital Management S.A., a public company limited by shares under the Luxembourg law, with a registered address at 10, Rue C.M. Spoo, L-2546, Luxembourg, Grand Duchy of Luxembourg, and registered in the Luxembourg Trade and Companies Register under number B227640
Mikro Kapital Group	Mikro Kapital, SPVs and their Portfolio Companies
Portfolio Companies	Companies that are invested by the SPVs
SASB	Sustainability Accounting Standards Board, a non-profit organization that has developed a widely recognized sectoral map of material sustainability topics
SFDR	Sustainable Finance Disclosure Regulation (EU 2019/2088 of the European Parliament and of the Council)
SPV	MIKRO FUND and ALTERNATIVE, each an unregulated securitization fund without legal personality established in the Grand Duchy of Luxembourg for an unlimited duration in accordance with the Luxembourg law of 22 March 2004 on securitization, as amended from time to time, and constituting of a fiduciary estate in accordance with the Luxembourg law of 27 July 2003 on trusts and fiduciary contracts, managed by Mikro Kapital
SRI	Socially Responsible Investment

Sustainability Risk	An environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment
Sustainability Factors	Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
Target Companies	MFIs or car sharing entities that the Mikro Kapital consider investing into
UN PRI	The United Nations Principles for Responsible Investment is the biggest network of responsible investors

## 2. PURPOSE

Mikro Kapital has implemented Sustainability Risk Policy (the 'Policy') which sets out the integration of sustainability in our investment decision making processes, as required by Article 3 of Sustainable Finance Disclosure Regulation ('SFDR').

Sustainability Factors can entail upside and downside risks which can directly or indirectly impact the returns of the Financial Products. The Policy defines Mikro Kapital's approach to the consideration of Sustainability Risks within the investment decision-making process and determines the management and monitoring principles to define the necessary risk control.

## 3. TARGET GROUP, SCOPE AND OWNERSHIP

This Policy is applicable to all bodies and employees of Mikro Kapital Group and Portfolio Companies, covering the overall investment process and applying to all investment decisions made by Mikro Kapital.

The owner of this Policy is Mikro Kapital's Head of ESG Department. The general oversight of the Policy is performed by the ESG Committee (by the CEO until the Committee is formed). There shall be no exceptions to the application of this Policy.

The Head of ESG is responsible for updating this Policy, particularly in relation to:

- New relevant applicable laws and regulations;
- Changes in Mikro Kapital's sustainability strategy and risk appetite; and
- Evolutions in market practice.

The Management Board shall approve the Policy and any material amendments hereto.

## 4. APPROACH TO SUSTAINABILITY

Mikro Kapital's corporate strategy is based on four pillars:

- Placing clients at the center of everything Mikro Kapital does;
- Looking to offer clients a unique investment opportunity;
- Focusing on the Group's long-term development and aim in that way to achieve sustainable and profitable growth;
- Taking responsibility towards society and local economies very seriously.

For Mikro Kapital, sustainability is not part of a separate strategy, but is instead integrated into the overall corporate strategy and is thus embedded in the four pillars of that strategy and its day-to-day business activities. The target investment sectors of the SPVs are microfinance institutions (micro lending and micro leasing activities) and car sharing companies (operational micro leasing).

Also supported by the long-term-strategy of its core shareholders, it is Mikro Kapital Group's ambition to become an even more sustainable and responsible company. As such, Mikro Kapital, on one hand, assesses and mitigates Sustainability Risks and on the other hand creates positive impact and avoids negative impact for its stakeholders on a best-effort basis. While the present Sustainability Risk Policy defines Mikro Kapital's approach towards Sustainability Risk management, the firm's impact framework is defined in detail by the Responsible Investment Policy.

## 5. ESG GOVERNANCE AND RISK MANAGEMENT

Driven by a sustainability strategy, Mikro Kapital has the ambition to embed sustainability into the strategic decision-making and core business operations throughout the entire Group. Therefore, aligned with its ambition, Mikro Kapital adapted its sustainability governance model as a key driver for implementing sustainability. The organisational structure is now anchored at different levels within the Group (Board level, Executive Management level, Group level and Business & Country level), ensuring that sustainability receives the highest level of attention and that it is integrated on a broad business basis.

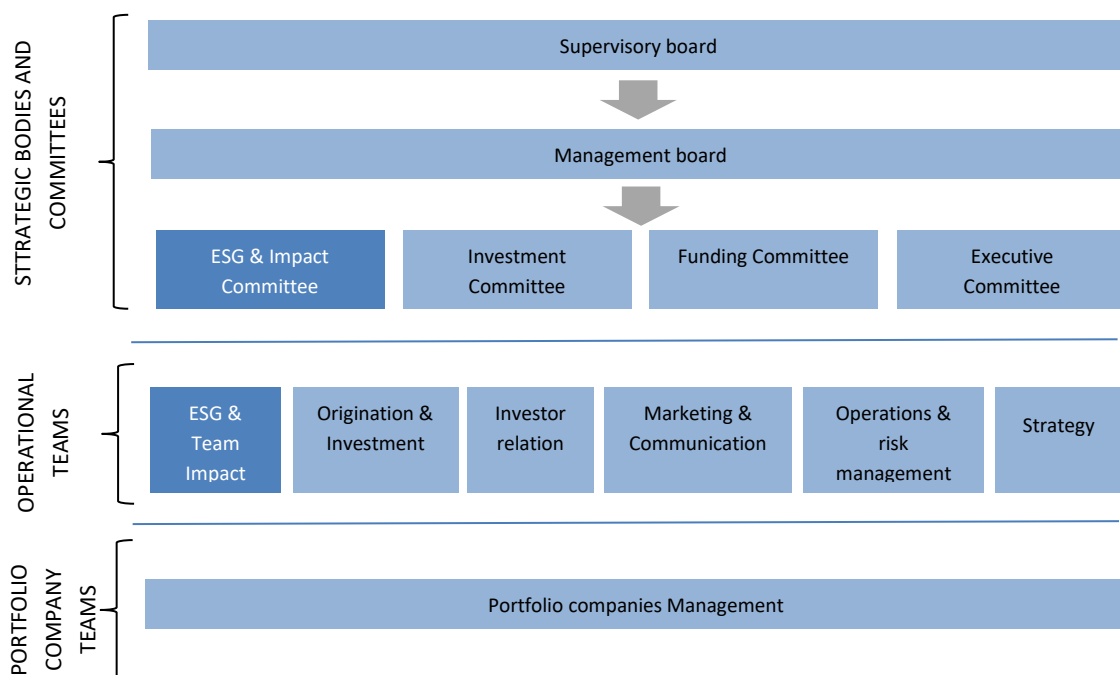


Figure 1: Envisaged ESG/Impact governance structure for Mikro Kapital

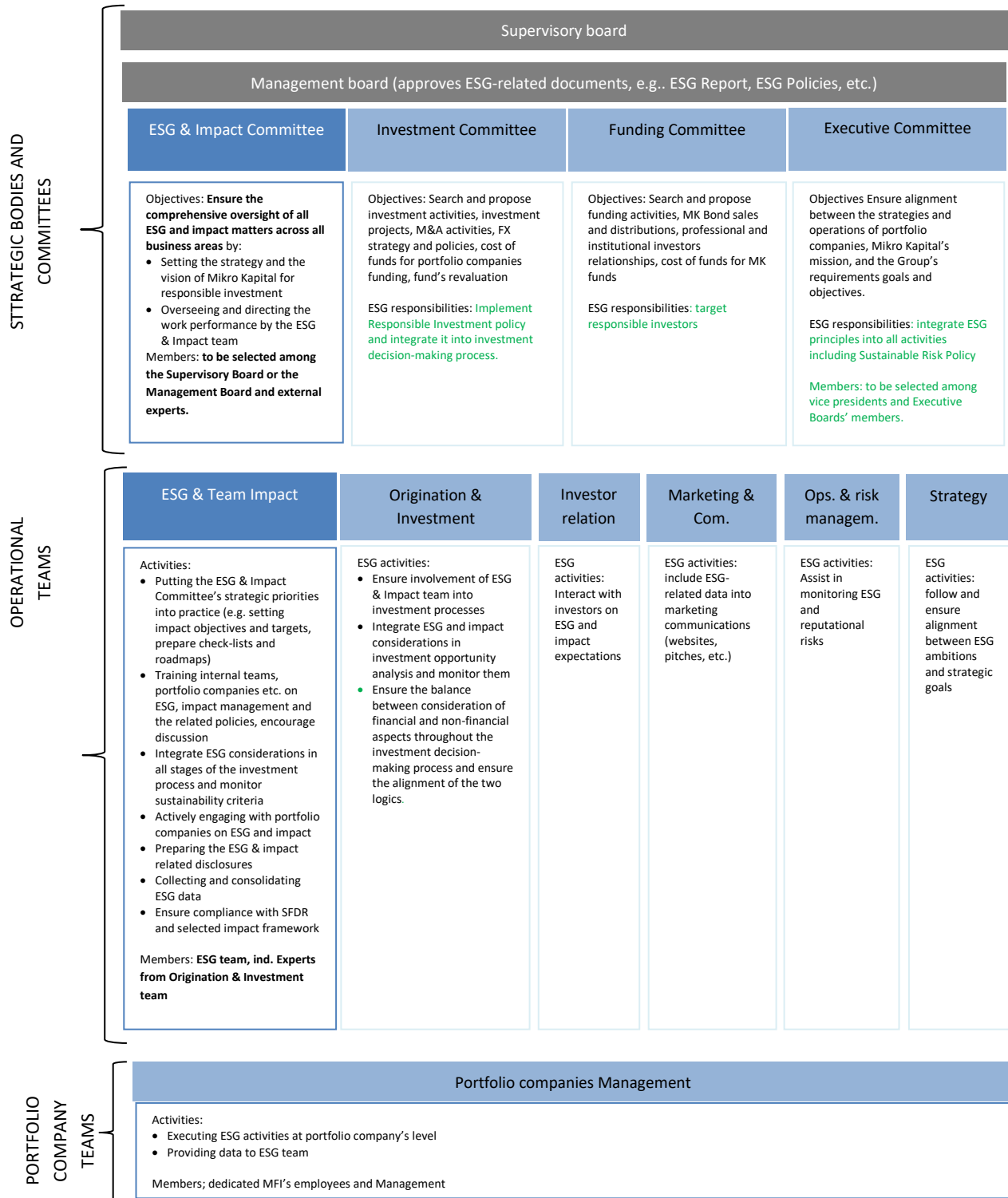


Figure 2: Involvement of team members at every hierarchical level

## 6. IDENTIFICATION AND PRIORITIZATION OF SUSTAINABILITY RISKS

The relevance of Sustainability Risks identified for Mikro Kapital depends on the investment sector (i.e. microfinance, car sharing). Therefore, Mikro Kapital identified relevant Sustainability Risks for its Financial Products referring to SASB's and MSCI's sectoral materiality maps. On the one hand, SASB's Materiality Map identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within a specific industry. As a player involved in consumer finance activities, Mikro Kapital's most

relevant Sustainability Risks according to this map refer to Customer Privacy, Data Security, Selling Practices & Product Labeling. On the other hand, likewise, MSCI also helps identify material sustainability risks for each type of activities. Both MSCI and SASB sources have allowed Mikro Kapital to define a first list of sustainability risks for each of its activities.

After this assessment, Mikro Kapital has retained the following prioritized Sustainability Risks:

- **Investments into MFI's**, may include but not limited to:
  - **Environmental:** Climate change, Environmental impact
  - **Social:** Customer Privacy & Data security, Client protection through fair selling practices, affordability and transparency, Labour management, Human rights, Diversity and inclusion, Engagement with local communities, Response to COVID-19
  - **Governance:** Sustainability management by the Board and Senior Management, General corporate governance practices (e.g., Board and operational issues), Business Ethics
  
- **Investments into car sharing sector**, may include but not limited to:
  - **Environmental:** Climate change, Environmental impact, Product life cycle management
  - **Social:** Product Quality & Safety, Mobility innovations, Labour management, Customer Privacy & Data security, Human rights, Diversity and inclusion, Engagement with local communities, Response to COVID-19
  - **Governance:** Sustainability management by the Board and Senior Management, General corporate governance practices (e.g., Board and operational issues), Business Ethics
  
- **For investment other than MFI's and car sharing**, may include but not limited to
  - **Environmental:** Climate change, Environmental impact
  - **Social:** Human rights, Diversity and inclusion, Labour management, Engagement with local communities, Response to COVID-19
  - **Governance:** Sustainability management by the Board and Senior Management, General corporate governance practices (e.g. Board and operational issues), Business Ethics

## 7. SUSTAINABILITY RISKS MANAGEMENT AND MONITORING

Sustainability Risks are considered throughout the investment decision-making process: pre- and post-investment. Mikro Kapital ensures that Sustainability Risks are effectively managed and monitored through various means. Given that the MFIs pass on funding to end-borrowers, Mikro Kapital applies a portfolio look-through approach to MFI targets.

A key specificity of Mikro Kapital is that its SPVs invest into and thus provide funding to the firm's own network of Portfolio Companies. This investment strategy allows Mikro Kapital to influence the management and monitoring of Sustainability Risks of its Portfolio Companies. Portfolio Companies shall thereby ensure that they abide by all of the requirements of this Policy that indirectly affect them.

For some investments into MFIs, Mikro Kapital is not a controlling shareholder and therefore has to meet the Sustainability Risk preferences of multiple shareholders. In such cases, Mikro Kapital performs an in-depth assessment of the MFI's current practices regarding Sustainability Risk management and identifies, during the Due Diligence phase, appropriate minimum requirements that the MFI should be able to meet, given its specific context. Mikro Kapital is committed to engage with the MFI to support it in meeting these minimum requirements (e.g., through trainings).

It should be noted that while impact has always been a part of Mikro Kapital's purpose, no formal impact framework was defined or applied to the investment pre-selection and due diligence stages by Mikro Fund and Alternative before the first version of the present Policy was adopted in late 2021. This infers that no prior investment made by the SPVs has addressed all of the requirements set out in sub-sections a. Pre-screening and b. ESG and impact due diligence of this Policy.

### a. Pre-screening

As a first step in the investment decision-making process, Mikro Kapital applies its environmental and social exclusion list (Appendix №1 - MK ESEL) to both Target Companies and, if applicable, their lending or leasing portfolios. After this first negative screening, Mikro Kapital assesses high-level Sustainability Risks of Target

Companies against the SASB and MSCI materiality maps (as described above in section 6), specifically taking into account sectoral, country-specific and geographical Sustainability Risks.

## b. Environmental, Social and Governance (“ESG”) due diligence

Throughout the ESG due diligence process, Mikro Kapital aims to identify the Sustainability Risks faced by the target, how advanced it is in management and monitoring them, and if applicable, its level of maturity in assessing the Sustainability Risks of potential end-borrowers. Mikro Kapital may request and evaluate any formal policy and evidence of implementation of the Sustainability Risk assessment and monitoring process that may already be in place within the target company.

Mikro Kapital may perform additional ESG due diligence on MFI Target Companies’ credit policies by reviewing related documentation, through interviews, field visits, etc.

In those cases where Mikro Kapital does not consider becoming a controlling shareholder of a Portfolio Company, Mikro Kapital reviews the MFI’s current practices regarding Sustainability Risk management and negotiates minimum requirements regarding Sustainability Risk management that the MFI should respect. Overall, ESG due diligence forms part of the global due diligence process performed on all potential Target Companies. As a consequence, its outcome is taken into account in Mikro Kapital’s final decision to invest or not in the Target Company.

## c. Post-investment Sustainability Risk management and monitoring

Once the due diligence has been performed, Mikro Kapital identifies the Portfolio Company’s most material Sustainability Risks, using the sources and processes detailed in section 6. *Identification and prioritization of Sustainability Risks*. Once identified, the Sustainability Risks of each Portfolio Company is classified (high, medium, low).

The monitoring of Sustainability Risks is performed by Mikro Kapital’s ESG department. Mikro Kapital requests its Portfolio Companies to monitor the relevant Sustainability Risks identified in the Sustainability Risk Policy on an annual basis and to report them to the centralized risk management department quarterly. To do so, a proprietary questionnaire is sent to each Portfolio Company. The questionnaire identifies potential ESG issues and Sustainability Risks that are most material to Portfolio Companies and asks Portfolio Companies to share processes and mitigation actions in place. ESG audit of a Portfolio Company may be undertaken.

Whenever the ESG department identifies gaps between current investee systems, processes and standards regarding Sustainability Risks and the Sustainability Risk Policy, it engages with Portfolio Companies to agree on the process and steps to address these gaps (e.g. through technical assistance, trainings, adoption of relevant tools and systems).

## d. Sustainability Risk monitoring for MFIs at end-borrower level

Mikro Kapital’s MFIs are additionally requested to identify material Sustainability Risks of end-borrowers (loan and leasing applicants) using the data from the initial ESG data collection prior to decision to provide the financing.

Nevertheless, for those loan requests where Sustainability Risks are considered high but cannot be mitigated (e.g. occurrence of extreme weather events in certain areas), the sole existence of such risks shall not veto the granting of the loan. This is because Mikro Kapital believes in prioritizing its impact objectives to ensure financial inclusion and facilitate access to financing to low-income individuals that lack access to conventional banking and financial services.

MFIs must share annual overviews on the most relevant medium and high Sustainability Risks to which the portfolio is exposed to Mikro Kapital’s ESG department. Based on such reports, Mikro Kapital can decide to engage with Portfolio Companies on concrete mitigation procedures to be put in place.

## e. Adherence to recognized standards

Mikro Kapital is formally demonstrating its commitment towards responsible investing through various partnerships and memberships:

- European Bank for Reconstruction and Development (“EBRD”)



- European Investment Fund (“EIF”)
- Microfinance Enhancement Facility (“MEF”)
- Association of the Luxembourg Fund Industry (“ALFI”)
- Association of European Businesses (“AEB”)
- Ente nazionale microcredito
- European Microfinance Network
- Russia Small Business Fund (“RSBF”)
- United Nations Principles for Responsible Investment (“UN PRI”)
- LuxFLAG
- Swiss Sustainable Finance (“SSF”)
- Global Impact Investing Network (“GIIN”)

## 8. MONITORING

On top of the annual reporting on Sustainability Risk management between Portfolio Companies and the ESG department of Mikro Kapital, the latter may conduct on-site visits at the sites of its Portfolio Companies to perform controls regarding the implementation of the Sustainability Risk Policy.

In case where the portfolio company is found not to meet all requirements of the Policy, ESG department can impose specific actions to the portfolio company in order for the latter to address existing gaps. Any significant breaches shall be reported to the Board, which reserves the right to divest from the portfolio company in case of persisting breaches and observed insufficient effort to align with the present Policy.

## 9. DISCLOSURE AND REPORTING

Mikro Kapital discloses the information required under the Sustainable Finance Disclosure Regulation (EU 2019/2088) on its website. As Mikro Kapital’s investments are based mostly outside of the EU and Mikro Kapital’s SPVs MIKRO FUND and ALTERNATIVE are established under Luxembourg law of 22 March 2004 on securitization, Mikro Kapital does not fall under the mandatory scope of the regulation. All SFDR requirements complied to by Mikro Kapital are incorporated on a voluntary basis to enhance market transparency regarding sustainable and responsible investment.

In accordance with Article 3 of the SFDR, a summary of this Sustainability Risk Policy is available on Mikro Kapital’s website.

In addition to SFDR disclosure, Mikro Kapital discloses voluntarily on Sustainability Risks through UN PRI signatory reporting and an annual impact report.

**Mikro Kapital does not finance the following projects:**

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides / herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos and equivalent enterprises.
- Production or trade in radioactive materials (this does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is considered to be trivial and / or adequately shielded).
- Production or trade in unbonded asbestos fibers (this does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%).
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.
- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.
- Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit.

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the MKESEL.

When investing in microfinance activities, financial institutions (including microfinance, leasing, factoring companies etc.) will apply the following items in addition to the MKELES:

- Production or activities involving harmful or exploitative forms of forced labor/ harmful child labor. Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. Harmful/ child labour means the employment of children that is economically exploitative, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.