Disclosure Statement

Operating Principles for Impact Management

July 2024

British International Investment is a founding signatory to the Operating Principles for Impact Management (the Impact Principles). The Impact Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.[1]

This Disclosure Statement affirms that BII's core/client business, including (a) impact management systems; (b) policies and practices; and (c) investment services (including debt, equity, trade and supply chain finance, asset management, syndications, derivatives and structured finance, and blended finance instruments) are managed in alignment with the Impact Principles. Total portfolio net assets under management in alignment with the Impact Principles is USD 9.23 billion[2] as of 31 December 2023.[3]

Nick O'Donohoe

Chief Executive Officer

1 July 2024

Maria Smith

Chief Impact Officer

1 July 2024

Disclaimer:

The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network ("the GIIN") or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

1 BII acknowledges that it is a high-level description prepared for public disclosure and may not, therefore, include every aspect of the systems and processes that each reader may consider important.

2 Includes BII's own commitments, funds under management and direct investments. The covered assets includes our platforms: Gridworks, Globeleq and MedAccess who have independent boards, shareholders and funders.

3 The sole purpose of this Disclosure Statement is to fulfil BII's obligations pursuant to Principle 9. This document shall not constitute and should not be construed as an offer, solicitation or invitation to buy or sell any securities, financial instruments or services whether described herein or otherwise, or as any prospectus or investment- related advice in relation thereto, nor is it intended to form the basis of a decision to participate in any investment. BII makes no guarantee or other promise as to any outcomes, including any financial or development impact results that may be obtained from the practices disclosed in this statement. While past performance may be analysed in this Disclosure Statement, past performance should not be considered indicative of future performance. Accordingly, BII shall not have any liability to any of the recipients of this Disclosure Statement, nor to any other party in connection with or arising in any way from, or in relation to, the information or any opinions expressed in this Disclosure Statement, and BII does not accept any responsibility whatsoever for any action taken, or omitted to be taken by any party on the basis of any matter contained in, or omitted from, the Disclosure Statement.

Principle 1

Define strategic impact objectives(s), consistent with the investment strategy

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects which are aligned with the United Nations Sustainable Development Goals (SDGs) or other widely-accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure the impact objectives and investment strategy are consistent, and that the scale and/or intensity of the intended impact is proportionate to the size of the investment portfolio.

- BII is the UK's development finance institution, wholly owned by the UK Government. We have the objective of maximising our contribution to **productive, sustainable and inclusive development**, while remaining a financially sustainable organisation improving the lives of millions of people in Africa, Asia and the Caribbean.
- Our focus on, and expertise in, key economic sectors is central to our approach to making successful investments. It helps us better understand the markets we invest in, the best partners to work with, the opportunities and risks investees face, and how best to support them. Our investment teams focus on the three sector groups: Financial Services, Infrastructure & Climate, and Industries, Technology and Services (ITS).
- We are proud to be owned entirely by the UK Government, as our structure combines the best of private sector skills with a public-spirited mission.
- In the 2022 – 2026 Technical Strategy, we outlined three strategic impact objectives that respond to the opportunities and challenges we see in the countries we serve. We will invest to achieve:
  - **Productive development** – by raising the productivity of an economy so that it can support a decent standard of living for all;
  - **Sustainable development** – helping transform the economy to reduce emissions, protect the environment and adapt to the changing climate; and
  - **Inclusive development** – sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.

– Our strategy is aligned with the SDGs, and the achievement of many of the SDGs will support the elimination of poverty (SDG 1). Our strategic focus on productive development prioritises SDG 8 on decent work and economic growth. Our broader impact includes helping remove market constraints in energy and infrastructure (SDG 7 and 9) and improving access to essential goods and services through our sector-led approach. We also seek to mobilise additional sources of capital from partners, because this is key to increasing the funding available to achieve SDG 17. To achieve our inclusivity objective, we will target 25 per cent of all new investments during 2022–26 to qualify as gender finance using the 2X criteria (SDG 5), and to support net-zero and climate-resilient development, we will target 30 per cent of all new investments to qualify as climate finance and work towards Paris alignment of all our investments and portfolio (SDG 13).

– We have developed an overarching **Impact Framework** that applies a consistent approach to thinking and articulating development impact across sectors and products. It adopts the Impact Management Project's (IMPs)[4] definition of impact underpinned by sector-specific impact frameworks, as well as a standardised approach for assessing the development impact for each transaction. A further elaborated approach is outlined here.

  - Our **Impact Score**[5] helps compare our impact across investments as well as tracking our alignment to strategic objectives.

  - Our **Sector Impact Frameworks** identify the specific impact(s) sought in a sector and align this impact to our overarching Impact Framework and the SDGs, rooted in existing evidence and research. Here are examples of the Theory of Change for Manufacturing, Healthcare, and Power. Investments also refer to the Climate Strategy and our Gender & Diversity (G&D) Strategy for determining our Climate and G&D ambitions.

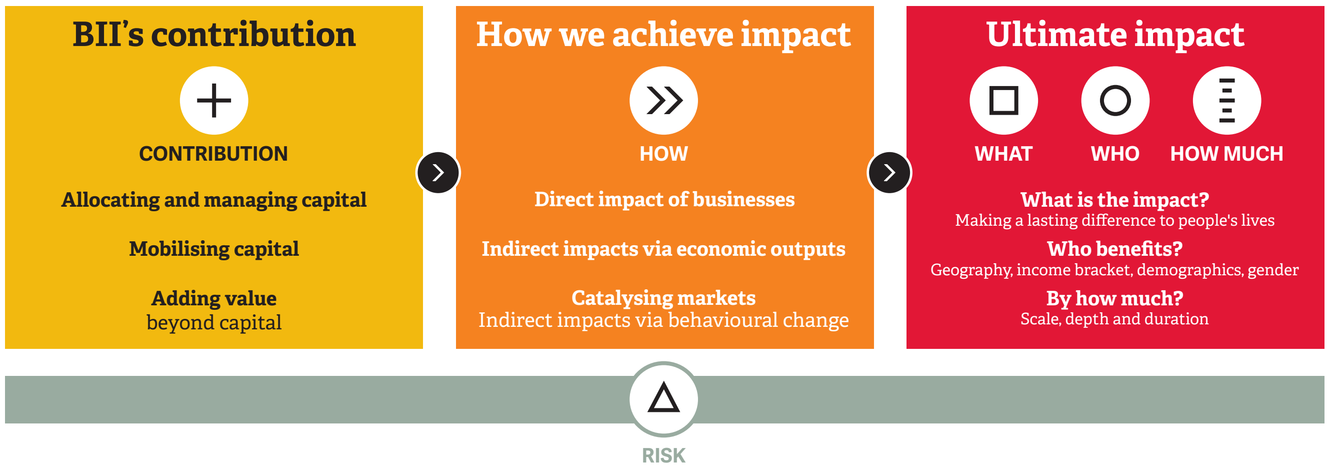
  - Our **Impact Dashboards and theses** are specific to each investment and articulate the development impact we expect from each transaction, enabling effective decision-making around impact. The Dashboard outlines the 'What', 'How', 'Who', 'How much', 'Contribution' and 'Impact Risk'.

  - Our **Impact monitoring plans** track the performance of our investments against pre-defined targets and key performance indicators (KPIs), as defined in the Impact dashboards.

  - Our **Impact at exit reviews** help determine whether and how we should exit the investment, taking impact into account (more on page 28).

  - Our **commitment to Responsible Investing, Environmental, Social and Governance (ESG)** and **Business Integrity** is central to our overall impact mission. As an impact investor, we have a dual mandate: to deliver responsible and sustainable development impact and to make sustainable financial returns. As a responsible investor, we place significant value on the role we play as an enabler of better Environmental and Social (E&S) and Business Integrity outcomes through the investments we make.

Impact Framework



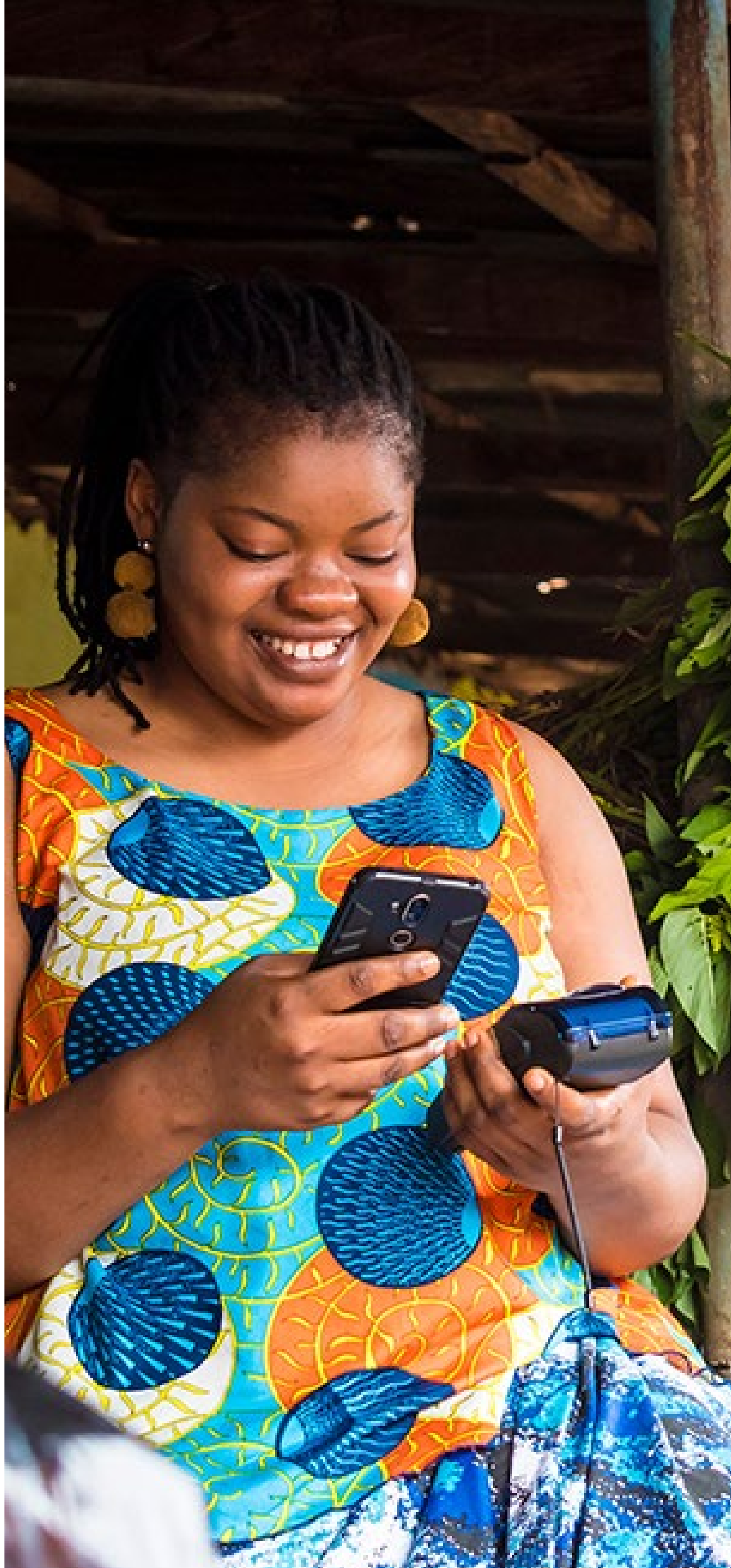
4 The Impact Management Project is now part of Impact Frontiers.
5 Kinetic transactions are excluded from the Aggregate Impact Score.

Principle 2

Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Our Impact Score helps us manage strategic impact on a portfolio basis in line with our 2022–2026 impact objectives - Productive, Sustainable and Inclusive.
- It is designed to reward and incentivise investments most likely to contribute to these three objectives. It complements our transaction-level impact assessments by applying a quantitative measure to each investment that can be aggregated and used to monitor impact performance at an organisational level.
- It is calculated using a subset of the information in the Impact Dashboards and monitoring plans. These Impact Dashboards are our primary tool when making individual investment decisions. The Impact Score is one of the KPIs reported to our shareholder, the Foreign, Commonwealth & Development Office (FCDO). As a performance indicator, its design favours objectivity and simplicity. More nuanced and qualitative aspects of the expected development impact of investments, which require subjective judgment to interpret – such as an investment's expected 'depth', 'risk' and 'contribution' – are excluded from the Impact Score but remain central to our investment decisions and impact management, and are captured in our full assessments of the expected impact of individual investments.
- We generate and report an annual Aggregate Impact Score, which we expect to range between four and eight during the 2022–26 period. We are accountable to our Board and FCDO for performance against the Aggregate Impact Score, and we publicly report on it in our Annual Review, as external scrutiny is an important part of the model. This is a portfolio performance measure and there is no minimum threshold score requirement for individual investments, reflecting that it is designed to be 'right on average' across the portfolio. This approach also ensures we take a balanced approach to constructing our portfolio, where we are also required to meet our other impact targets and our annual financial return targets.
- Every investment we make from 1 January 2022 onwards has an associated Impact Score based on the expected development impact of the investment (ex-ante). The score for each investment will be updated at regular intervals over its lifetime, based on the actual impact performance (ex-post).
- The Aggregate Impact Score is also used to partially determine staff remuneration, under our Long-Term Incentive Performance Plan.



– On an annual basis, we commission an independent third party to externally assure the Aggregate Impact Score and to verify the reliability of our scoring processes and results. After considering the growing field of impact assurance, our Board Development Impact Committee oversaw the process of opting for a limited assurance approach in accordance with the International Standard for Assurance Engagements (ISAE) 3000, the globally recognised assurance standard for the audit and review of non-financial information, including impact disclosures. The independent assurance for 2023 can be found here.

Our Impact Score

Impact score = Productive score + Sustainable score + Inclusive score

	Productive score	Sustainable score	Inclusive score
What does this mean?	Raising the productivity of an economy so that it can support a decent standard of living for all.	Helping transform the economy to reduce emissions, protect the environment and adapt to the changing climate.	Sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.
How will we measure it?	1 Degree of need 2 Intensity of impact generated 3 Economic enablers 4 Catalysing markets	1 Climate mitigation 2 Climate adaptation and resilience	1 Reach to low-income populations 2 Fragile and lower income countries 3 Gender and diversity

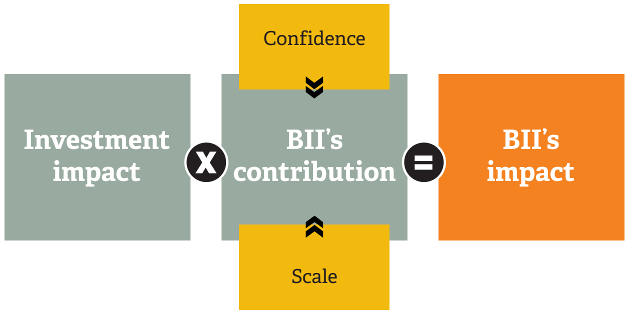
Principle 3

Establish the Manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- Under our Investment Policy, agreed with our shareholder FCDO, we consider our contribution for each investment decision and is documented in the investment papers. We will only make an investment when we believe it will contribute meaningfully to development impact. BII's overall impact is a factor of Investment impact and BII's contribution as outlined below.

BII's impact



- The strength of our contribution in each proposed transaction is rated on a four-point scale and investments are rejected if the threshold for contribution is not met. Our contribution may arise from the provision or terms of our finance or through mobilisation (collectively financial additionality), our role and influence as an investor and the services that we provide (i.e., value additionality). The assessment considers the nature of our contribution, our confidence that we are providing support that commercial investors would not, and the scale of difference our contribution makes to the expected development impact. Our approach to contribution here also outlines specific cases where more judgement is required for determining our contribution and guidance is shared for secondary transactions, co-investments, follow on investments and transactions with competitive dynamics. We also recognise our role in mobilising private capital as part of our Contribution Assessment framework.

Principle 4

Assess the expected impact of each investment. Based on a systematic approach

For each investment, the Manager shall assess in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer three fundamental questions:

1) What is the intended impact?
2) Who experiences the intended impact?
3) How significant is the intended impact?

The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relevant size of the challenge addressed within the target geographical context.

The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practices.

– The impact of each investment (ex-ante) is characterised by the Impact Score, Impact Dashboard, and our Contribution Assessment. We have adopted a consistent structure and format for assessing and presenting analysis on development impact in investment decision-making and is outlined in our Investment Process Manual.

- **Impact Dashboard:** The Dashboard's structure takes into account the six dimensions of impact forming part of our overarching Impact Framework: What, How, Who, How Much, Contribution and Impact Risks. Approvals for new investments, regardless of the product or sector, must include a fully completed impact assessment. This provides a credible and evidenced case on whether the net impact is commensurate with the capital and other resources deployed.

- **Impact Score:** The score consists of three sub scores: Productive, Sustainable and Inclusive. The Impact Score for each transaction is governed via a Development Impact Review panel.

  We also undertake third-party due diligence as required to evidence the Impact Score and to better understand dimensions of impact ex- ante, such as the depth of impact and the characteristics of those experiencing the impact.

- **Contribution:** We are an active investor, and look to add value beyond finance to maximise the aggregate development impact generated by our investment portfolio. Our resources can be used on a case-by-case basis to actively help investees expand their commercial performance and development impact. Our Gender, ESG-I, Climate and Business Integrity teams provide additional expertise and resources for this purpose (see our ESG toolkits for Financial Institutions and Fund Managers, and our Gender toolkit).

– The Impact Group manages BII Plus, a technical assistance programme that can be allocated to pipeline and portfolio companies and broader market shaping.

– We consider further harmonisation of impact measurement, indicators and reporting an important focus area. We work with our fellow European Development Finance Institutions on this. and actively participate in numerous platforms to advance impact measurement and harmonisation.

Principle 5

Assess, address, monitor, and manage potential negative impacts of each investment

For each investment, the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage ESG and Business Integrity risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance and, where appropriate, engage with the investee to address gaps and unexpected events.

- We invest in a responsible manner, considering ESG and Business Integrity risks and issues relevant to each investment to enable better outcomes. Our approach to ESG is set out within our Policy on Responsible Investing. This uses the IFC Performance Standards and international reference frameworks on the development of effective Business Integrity risk management systems as the principal basis of our ESG requirements. It also describes the way in which we support our investees to implement the Policy, as well as how we monitor its implementation.
- The Policy sets out the core E&S and Business Integrity requirements we expect every investee to meet, irrespective of the investment product. Requirements cover areas such as compliance with national E&S and Business Integrity laws, international best practice around anti-corruption and fraud risk management core labour standards, and excluded activities which are harmful from an environmental or social perspective. Depending on the nature of their business activity, investees may also be expected to meet risk-specific E&S and Business Integrity (ESG) requirements, based principally on the IFC Performance Standards, taking into account the scale and severity of those risks. Examples of risk-specific ESG requirements might include commitments to biodiversity conservation, data privacy, resource efficiency or protecting cultural heritage. We support the objectives set out in the Policy on Responsible Investing through a popular online ESG toolkit and run regular in-depth training events and workshops to build ESG capacity across our portfolio. As our portfolio grows, we continue to build on these toolkits, including recent launches of ESG FI toolkit and a TCFD toolkit co-created with the Climate team. We continuously evolve the capacity-building workshops available for investees, based on emerging trends. Recent workshops have been held on issues such as Safeguarding and Gender-Based Violence and Harassment, the Circular Economy, and Managing Social Risk.

- To assess the requirements we place on investees for meeting our E&S and Business Integrity standards, we conduct E&S and Business Integrity due diligence for all investments. We have a highly specialised team and set of systems in place to assess E&S and Business Integrity risks. This includes evaluating both the current state of the investees' ESG management systems and practices, and their commitment and capacity to making improvements and adhering to industry good practices. As a condition of investment, we expect all investees to be in line with the Policy or work towards adherence over an agreed timeframe.
- E&S and Business Integrity due diligence is reviewed by management as well as through the Investment Committee process (which includes both internal and external parties). Where necessary, we may also convene a Reputational Risk Committee as part of this process. We have a 'three lines' model to manage risks set out in the Policy and of our portfolio overall: our E&S and Business Integrity teams form part of the first line and are responsible for the implementation of the Policy; Risk and Compliance teams act as second line and Internal Audit functions as third line. Regular reporting on ESG-I issues is provided to the Board's Development Committee, as well as management and the FCDO.

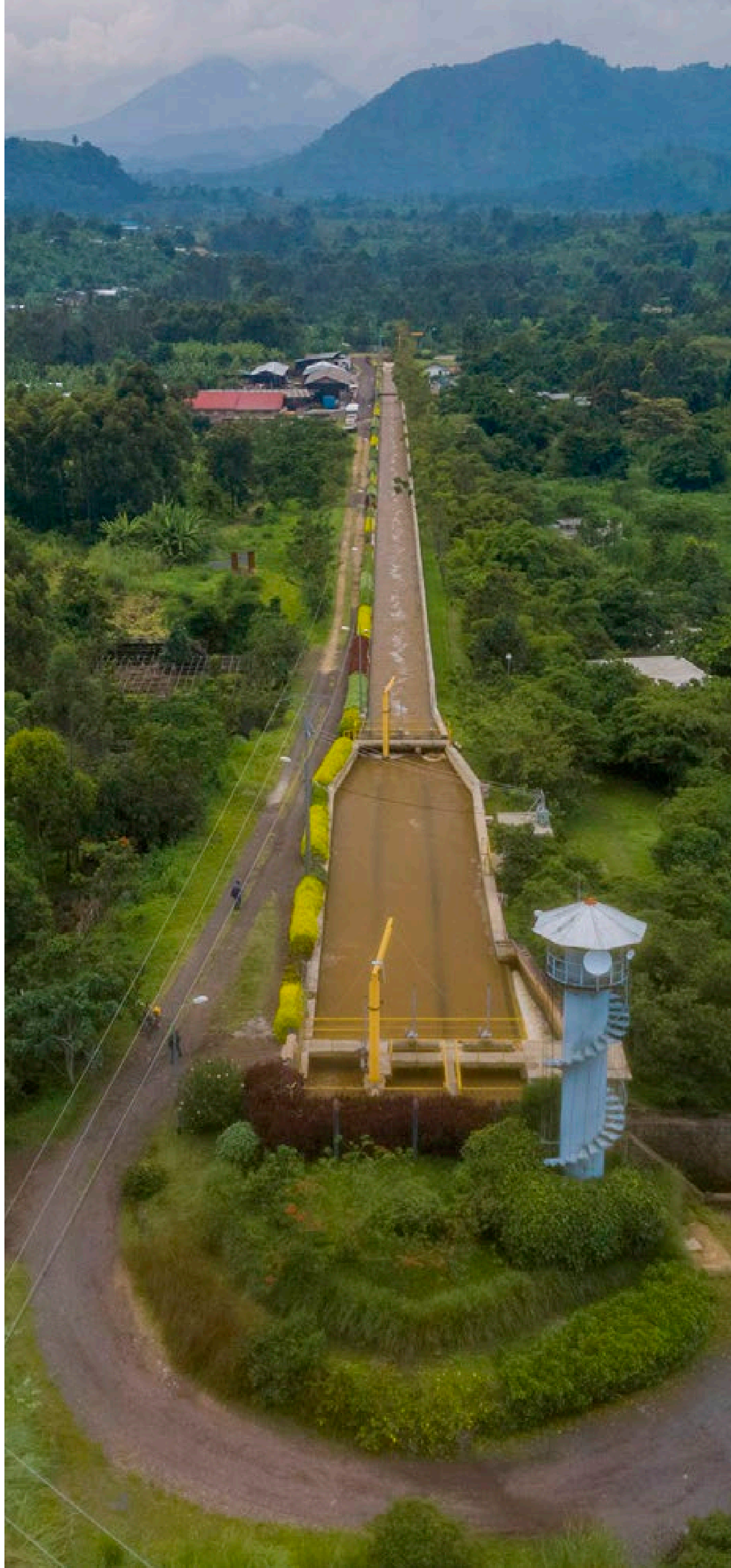
Principle 6

Monitor the progress of each investment in achieving impact against expectation and respond appropriately

The Manager shall use the results framework (Principle 4) to monitor progress towards achieving positive impacts compared to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. Where monitoring indicates the investment is no longer expected to achieve its intended impacts, the Manager shall pursue appropriate actions. The Manager shall also use the results framework to capture investment outcomes.

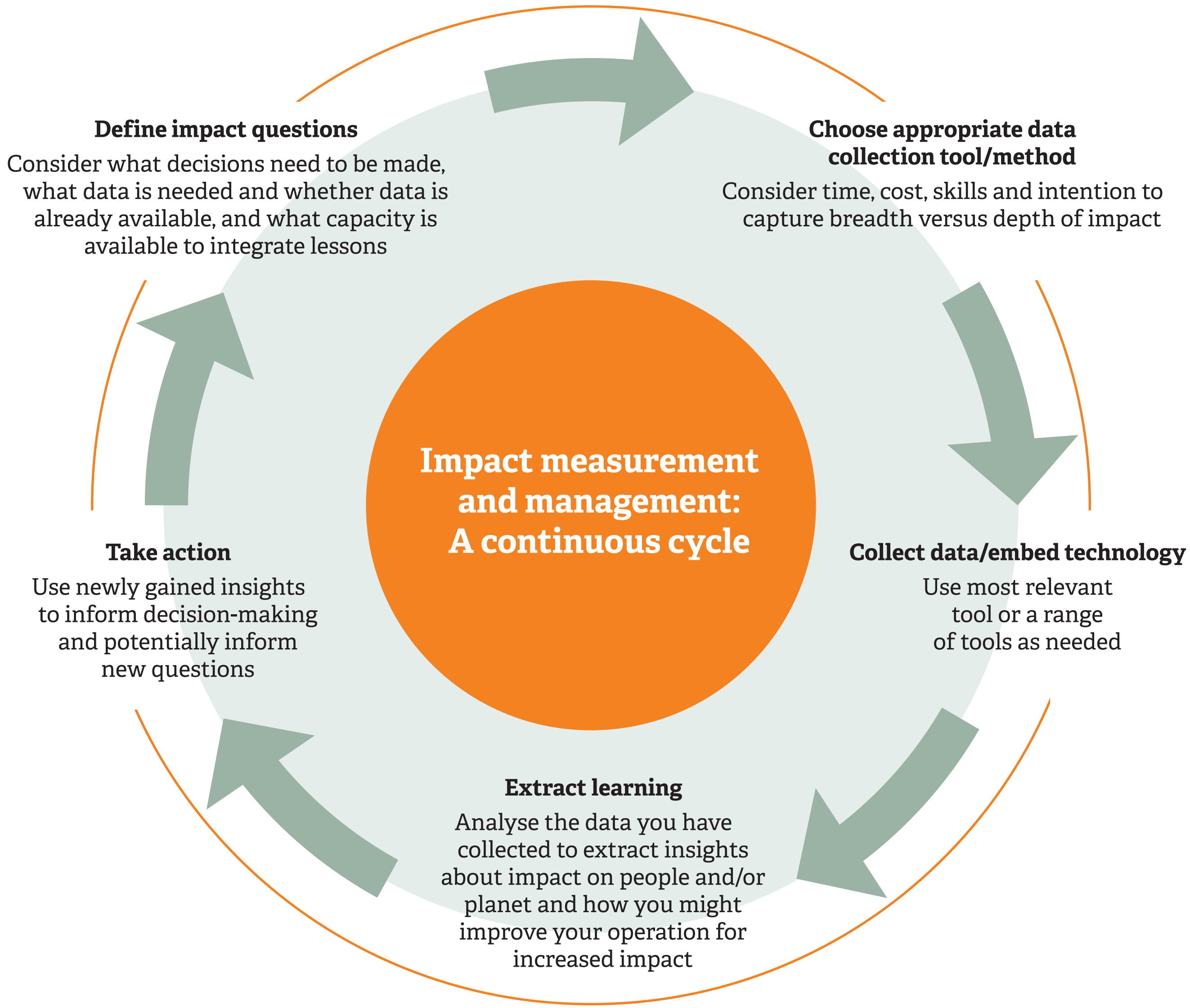
- As outlined as part of Principle 4, ex-ante we determine the quantitative and qualitative KPIs, baseline and targets aligned with the impact case of each transaction. Ex-post, our impact teams conduct ongoing monitoring and evaluation of investees, which includes assessing progress and outcomes against the Impact Monitoring Plan and the potential for value-add activities. Monitoring may include activities such as site visits, meetings with management, assessments of management reporting, data received from annual monitoring reports, and reports from third-party consultants.
- We use a risk-based and proportionate approach to focus resources and attention on investments based on a risk assessment of Impact, E&S and Business Integrity issues and our ability to provide additional value.
- Our Portfolio Review Meetings, conducted quarterly, are the forum through which management monitors and discusses the impact performance alongside the financial performance of each investment using Development Impact and ESG RAG ratings. Where impact is not performing as expected, we consider opportunities to exert our influence to improve outcomes. Our Development Impact RAG ratings are determined by three key sub-components which help assess and communicate whether the investment is on track vis-à-vis expectations and signal whether material risks to impact may affect or are already affecting delivery of impact.

1) **Quantitative Rating:** Based on the quantitative variance between impact performance and the targets for key KPIs outlined in Investment Committee papers at the time of investment
2) **Qualitative Rating:** Broader context is considered to calibrate the assessment (e.g. qualitative indicators, how many years the company has left to deliver the expected development impact, knowledge of company culture and track record as well as external factors affecting the company)
3) **Risk Rating:** Based on the likelihood and severity of impact risks (identified both at time of investment and during the investment period).



- All material events or changes expected to cause a deterioration of the investments' impact or financial returns are elevated to the Special Situations team. Depending on the nature and severity of the issues identified, the Special Situations Team may become involved in the management of the investment in an advisory or leading capacity to develop and deliver solutions to keep the asset as a going concern and preserve impact and financial value. Such solutions can include restructurings and responsible exits.
- Annual portfolio metrics are also collected from investee companies. We collect Joint Impact Indicators and align further metrics with HIPSO, IRIS+ and broader harmonisation standards where appropriate for our strategy. This data is processed, reviewed and put through quality control checks. All data which successfully passes quality control is then used for analysis and reporting.
- Our Impact measurement handbook is a practical guide to data collection that gives an overview of tools and methods for effective and appropriately tailored data collection for impact measurement and management. It was designed to understand the context, guide the selection of data collection tools and methods that can measure impact, reveal business-critical insights and create value for companies and, by extension, people and/or the planet. It also aims to bolster the knowledge of the broader impact investing community around innovative and well-established tools and methodologies in impact measurement and management, contributing to a nascent and rapidly evolving space.

Data collection as an integral part of the impact measurement and management process



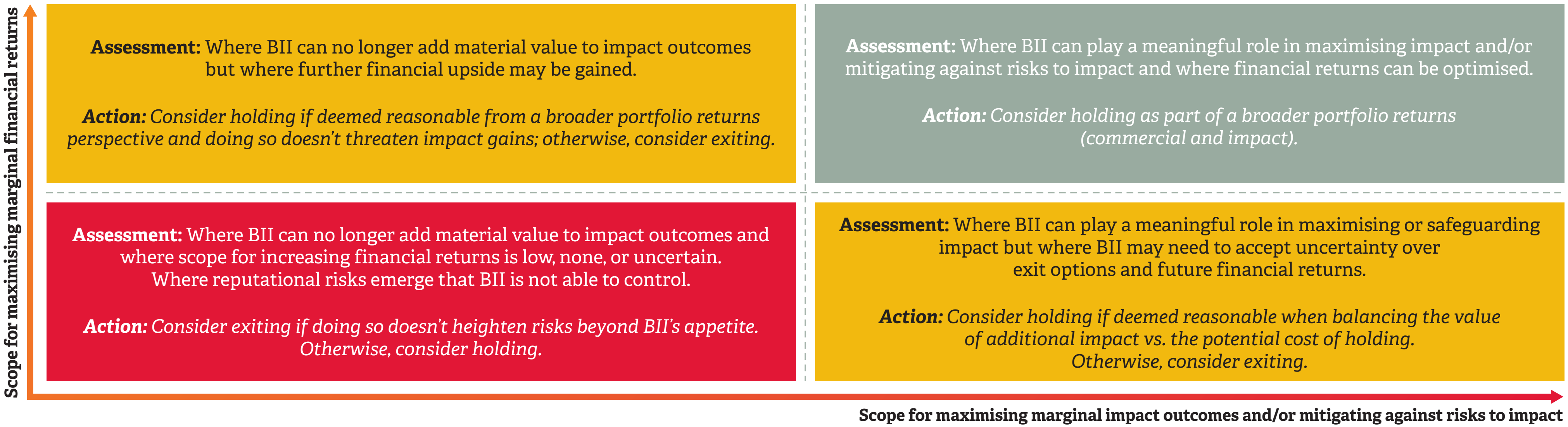
Principle 7

Conduct exits considering the effect on sustained impact

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effects which the timing, structure, and process of its exit will have on the sustainability of the impact.

- ***Before exit is triggered:*** An internal framework helps inform '**When**' to exit an asset based on impact and commercial considerations. From an impact perspective, the framework considers the Impact Return (informed by Impact Score and Development Impact performance of the asset) and the remaining BII contribution for an investment. This forms part of ongoing portfolio monitoring where investments are reviewed from a perspective of Buy/Hold/Sell to ensure exits are sought for the right investments at the right time to achieve our impact and commercial objectives.
- ***At the time of exit:*** In any exit proposal, where we have discretion to do so, we ensure that such an exit or disposal is consistent with the achievement of our mission and objectives (both developmental and financial), and within the scope of our Responsible Investing Policy and follows our 'Responsible Exit Guidance'.
- We follow a formal approval process which sets out a clear rationale for the exit, with impact and commercial returns assessed equally (including analysis relative to original expectations) in line with our Responsible Exit guidance. How development impact will be sustained after our exit is an important factor that is reviewed by management, and development impact considerations are analysed in depth through an exit review with lessons learned.

Framework for considering exit decisions based on impact and commercial considerations



Principle 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

The Manager shall review and document the impact performance of each investment. The Manager will also compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- Review and documentation of impact performance takes place in portfolio review meetings and exit reviews, supplemented by an evaluation and learning programme covering each sector group, co-managed with and financed by FCDO and using independent evaluators overseen by an expert steering group. BII conducts sectoral evaluation reviews across all three sector groups as part of learning, examples: Financial Services, Infrastructure & Climate and ITS; and also evaluations on strategic areas of importance such as Gender - example 'How does Investing in companies and funds with gender-diverse ownership and leadership support positive outcomes for women?'.

  These help us to incorporate learnings into our investments and strategy and is reflected in our management response to these evaluations.

- BII also commissions Insight studies on impact performance. Our Evaluations team compiles a portfolio-wide impact results analysis annually, alongside the impact disclosures in our Annual Review.

- As part of our commitment to drawing out and learning lessons from our investments, our Chief Investment Officer leads a formal programme of lessons learned reviews on key outcomes of our investments. The aim of the process is to strengthen our internal feedback loops by taking deep dives into transactions, both successful and unsuccessful, where outcomes warrant an in-depth review. The reviews focus on what lessons we should learn, and what we should do differently or more consistently in the future. They look to draw lessons for all relevant levels in the organisation, including deal teams, Investment Committee, Executive Committee and the Board, focusing on forward-thinking collective lessons, rather than individual accountability.

- In addition to scrutiny from our Internal Audit function, impact performance is also reviewed quarterly by our shareholder, the FCDO, and regularly by UK government agencies such as the National Audit Office and Independent Commission on Aid Impact.

Principle 9

Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment

The Manager shall publicly disclose, annually, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This Disclosure Note is our annual confirmation of the alignment of our procedures with the Impact Principles.
- BII seeks an external verification on a biennial basis. The latest external verifier report (dated 22 May 2024) by BlueMark can be found here.
- As outlined under Principle 2 above, we also commission external assurance on our Impact Score annually. The conclusions of assurance provider EY on our 2023 results can be found here.

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