



INCOFIN CVSO

ANNUAL REPORT 2017



Financial and social impact
in Paraguay and the rest of the world

Social performance
How does it work?

The stoplight
Or how Fundación Paraguaya
achieves social impact in the field

Mission

Incofin CVSO invests in sustainable microfinance institutions (MFIs) in developing countries that offer customised financial services to small local businesses and that strive for significant social added value. The aim of the fund is to help enterprising people get started working for themselves and improve their living conditions.



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A photograph of two men in business attire. The man on the left is standing, wearing a dark suit, white shirt, and a blue and white striped tie. He is smiling and wearing glasses. The man on the right is seated at a dark wooden desk, wearing a grey suit, light blue shirt, and a red tie. He is looking directly at the camera and wearing glasses. His hands are resting on an open book or document on the desk. The background is a plain, light-colored wall with a large, dark grey rectangular panel mounted on it.

**“Sowing seeds for
the future, even
outside traditional
microfinancing”**

Frans Verheeke, Chairman & Loïc de Cannière, Managing Director

More than ever, private investors are finding their way to Incofin. The long-term vision and social added value of this Belgian fund are clearly bearing fruit. With good capital growth, new activities in Africa and a stronger focus on Technical Assistance, jubilee year 2017 will enter the history books as one of Incofin's most successful.

Frans Verheeke, Chairman, and Loïc de Cannière, CEO, enthusiastically look back on 2017, and no more so than at the special edition of the shareholders' meeting in April 2017.

FRANS: "That day we celebrated our 25th anniversary with all shareholders, a fitting high point. But apart from all the festivities we also worked hard, and achieved results. We ended the year with capital of EUR 43 million (compared to 39 million in 2016). Thanks to the exits of two participations dating back to 2003 and 2007 respectively, an exceptional capital gain was booked last year. We stayed on board with these institutions for more than ten years, clearly showing that Incofin is a long-term investor and a loyal partner. Confianza was originally an investment with social objectives. With the exit, Incofin proves that a social investment can also realise good financial results."

LOÏC: Another happy fact is the growing number of shareholders. We have always appealed to both institutional and private investors. But this is the first time that we have attracted so many private investors. Compared to last year, new shareholders accounted for 6% more share purchases in 2017;

in the case of the existing private shareholders, this even increased to 28%. The fact that the latter are buying more shares indicates that our investors too appreciate a long-term vision."

"OUR MICROFINANCE INSTITUTIONS CAN ACHIEVE THEIR GOALS FASTER IF THEY ALSO ELIMINATE THE NON-FINANCIAL OBSTACLES. WHICH IS WHY WE DOUBLED OUR BUDGET FOR TECHNICAL ASSISTANCE. THIS MAKES IT POSSIBLE FOR THEM TO CALL UPON THE RIGHT EXPERTS MORE OFTEN."

Frans Verheeke
CHAIRMAN

Affordable home

But the fund is not resting on its laurels. The Chairman and CEO emphasise the importance of looking ahead and investing in the future.

LOÏC: "From that perspective, the biennial meeting of the Board of Directors in Cadzand was fundamental. We observed among others that Incofin invested a great deal in capital participations in its first decade. We were able to realise a nice capital gain with the exits. The time has come to begin sowing again, on the one hand through new capital participations, but also by going beyond traditional microfinance. In Africa we want to introduce microinsurance and agro-financing.

"FRANS: "And 'affordable housing': a loan of USD 5,000 to 10,000 that makes it possible to renovate a family home. After all, the aim of our initiatives is to improve the living standard of ordinary people. Our interventions are thus always synonymous with impact investments."

Under the hurdle

It was also decided at that same strategic Cadzand meeting to double the annual budget for Technical Assistance from 50,000 to 100,000 euros. This has been an Incofin focus for years and it is the only private organisation in Belgium that offers this extra support to its participations.

FRANS: "Technical Assistance is dear to my heart. We provide capital to microfinance institutions, which is a first step. But in order to achieve a given goal, non-financial obstacles sometimes have to be eliminated. Our investment managers also have an eye for aspects such as the development of corporate governance or new financial products. Our staff puts the microfinance institution in touch with an expert who can formulate a solution to a very specific problem. These specialists are contracted with the Technical Assistance budget; thanks to their recommendations, the organisations in which we invest make progress faster. Our approach therefore is clearly bearing fruit. Globally, there are only a handful of organisations offering Technical Assistance".

LOÏC: "In some cases, we provide loans at a particularly favourable social rate, the so-called 'hurdle rate'. This is the minimum interest rate at which microfinance institutions can take out a loan with Incofin. This lower limit is necessary to break-even and to pay an annual dividend of 2.5%. Some of our microfinance institutions borrow at lower than market conditions and draw on a social envelope. Fundación Paraguaya is one such example."



FRANS: "In December 2017, we granted this organisation a loan worth USD 2 million. We take out insurance for each loan. If a loan is made in a local currency instead of dollars or euros, the exchange rate risk is estimated higher, the premium is higher and the loan becomes more expensive. With its loan in guarani, the Paraguay national currency, Fundación Paraguaya was 0.5% below the hurdle rate. But we had known the organisation for a long time: it does an excellent job. We thought it worthwhile to work with them."

"WE ARE PROUD TO ANNOUNCE THAT INCOFIN WAS AT THE FOREFRONT OF SPI4, THE STANDARD INSTRUMENT USED BY THE SECTOR TO MEASURE THE SOCIAL PERFORMANCE OF A MICROFINANCE INSTITUTION."

Loïc de Cannière

MANAGING DIRECTOR

Social mobility

Fundación Paraguaya will use the loan for further expansion, in breadth as well as depth. According to Frans Verheeke and Loïc de Cannière, the organisation is a textbook example of social performance in the field.

LOÏC: "They not only provide microloans, but also want to permanently lift their clients out of poverty. They developed a methodology, 'Poverty Stoplight', with which a family can identify the causes of poverty. Such families are supervised by a Fundación staff member to set priorities and develop a concrete action plan. More than 3,000 poor families have already been able in this way to move up to the middle class. The foundation also has agricultural schools where young people learn how to farm, but also how to become entrepreneurs. Fundación Paraguaya carries out pioneering work in the area of social mobility. "

FRANS: "It helps its clients with a microloan and guides them. Incofin does the same with Fundación Paraguaya. After the loan, comes the inevitable request for Technical Assistance, to which they of course are entitled. And

we monitor them with respect to social performance via SPI4, a methodology used by various funds.”

LOÏC: “SPI4 is today the standard for measuring social performance. And what’s more: it was developed by our Social Performance Manager Dina Pons, together with a number of sector colleagues. We are proud to announce that SPI4 is being used today by more than 100 institutions worldwide to measure the impact of microfinancing in the field. If an institution reaches 70%, this is no longer a solitary score: we can compare it with the scores of other comparable institutions. But because SPI4 uses a rather abstract language, we now want to link it to the seventeen sustainable development goals of the United Nations, with a further 267 sub-goals. Goal number 2, for example, concerns agriculture and hunger. This includes the sub-goal ‘productivity of the small farmer’. Few players are engaged in this, but Incofin is. We have now advanced so far that we are able to measure this productivity: production per hectare, evolution over time, whether there is a connection with our interventions,... This makes everything much more concrete.”

Back to Africa

The fact that Incofin is a pioneer and enjoys a good reputation in the sector is also evident in the new investment cases in Africa.

FRANS: “We had already started work in Africa. But in comparison to the other parts of the world, the continent has been underrepresented in recent years. So in 2017 we made serious efforts to grow our portfolio there. We started new activities in Ghana, Burkina Faso and Ivory Coast.”

LOÏC: “This expansion is due to extensive prospecting and effective cooperation between our office in Kenya and our fund manager Lionel Dieu. Ghana was initiated entirely from Nairobi, with a syndicated loan. The fact that we work together with the Netherlands Development Finance Company (FMO) indicates a high level of trust.”

Sowing seeds

A doubling of the budget for Technical Assistance, a slimmed down Board of Directors, a broader investment policy, more activity in Africa, greater communication with shareholders: 2017 was a busy year. And what’s in store for 2018?

FRANS: “Incofin CVSO recorded growth of 23% last year and we are far from our limit. To continue to grow, we want to diversify our approach; we have to go beyond traditional microfinance. But our biggest goal in 2018 is to launch new participations. We must again sow seeds for the future and thus energise our long-term vision.”



Highlights

Incofin CVSO expands further in West Africa

Incofin CVSO expanded in West Africa in 2017, with more investments in Ivory Coast and loans to two new partners in Ghana and Burkina Faso. The emphasis was on recognised microfinance institutions that occupy a prominent position in the market. Their strategy is also strongly focused on financial inclusion and is characterised by strong social performance. The expansion of the portfolio in West Africa provides more diversification, both geographically and in terms of areas of application. An excellent example of this is Fidelity Bank in Ghana, which specialises in financing micro, small and medium-sized enterprises.

Sale of Confianza

In May 2017, the sale of Financiera Confianza by Incofin CVSO and Volksvermogen was completed. In its role as shareholder, Incofin supported the company in its growth from a small microfinance institution in a remote region to a major player in national financing. Between 2003 and 2017, the number of Financiera Confianza clients exploded from 5,000 to 500,000. During the same period, the loan portfolio increased from USD 8 million to approximately USD 500 million. Incofin supported Financiera Confianza mainly by focusing on our core tasks: professionalising the institution and promoting social performance. Incofin also played a crucial role in finding a strategic partner and setting up a merger at a time when the global financial crisis stood in the way of most mergers and acquisitions.



Budget Technical Assistance (TA) doubled to € 100,000

Incofin CVSO decided in 2017 to increase the annual budget for Technical Assistance (TA) from € 50,000 to € 100,000. Technical Assistance was set up in 2011 to improve the overall development of microfinance institutions through customised support. The combination of financing with this technical support forms the basis of Incofin's "Capital Plus" approach. Since Incofin CVSO introduced this method, fifteen different projects have already received technical support for a total of € 400,000. Most of these projects were with smaller microfinance institutions that would have had little access to experts outside such a programme. With the doubling of the TA budget, Incofin CVSO will be able to support even more projects and increase its impact.

Good financial results for Incofin CVSO

In 2017, Incofin CVSO realised a nice profit of EUR 2.8 million, which corresponds to a return on average subscribed capital of 5.9%. Of this profit, approximately EUR 1 million is being distributed to shareholders as a dividend (2.5% on the subscribed capital), and the balance is being reserved and reinvested in the clients of Incofin CVSO.

In 2017, the portfolio increased by 23% to EUR 74 million. In addition, share subscriptions, by both existing and new shareholders, resulted in capital growth of EUR 3.2 million.

Queen Mathilde visits Fusion Microfinance (India)

During the state visit to India in November 2017, Her Majesty Queen Mathilde visited Fusion Microfinance. In 2010, Incofin was there at the start of this microfinance institution, which only provides microcredits to female entrepreneurs.

In July 2007, Incofin CVSO issued a loan of 4 million euros so that Fusion could expand to a number of new provinces. Fusion today has 221 agencies and 565,065 clients. Queen Mathilde not only met Fusion staff, she also had a personal conversation with a number of clients with a clothing shop, a carpet weaving mill and a workshop for the production of footballs. These three women were able to expand their businesses thanks to Fusion loans. At the same time, they were given a greater say in the family and it became financially feasible to send their children to school.



Perspective of Lionel Dieu, Fund Manager

“We are expanding our impact to those who need it”

In 2017, the Incofin CVSO fund continued to grow: compared to 2016, the fund's portfolio increased by 23%. This sharp increase confirms that Incofin CVSO is playing an increasingly important role in the area of impact.

Our success can be explained on the basis of various factors. First and foremost, a number of our existing clients needed more financial support as they gained more market share in their country of origin. Secondly, a number of positive macro developments occurred in certain countries where we invest. For example, Ivory Coast and Nicaragua enjoyed strong economic growth last year – 7.6% and 4.5% of GDP respectively. Thirdly, we further diversified our portfolio with stronger regulated partners that apply high standards on social results and have a common vision regarding impact. Finally, our growth also increased because more loans were paid out.

All of these developments enabled us to reach more micro-entrepreneurs and at the same time take a critical look at our plans for future portfolio diversification. In addition, Incofin CVSO doubled the budget for technical support to the microfinance institutions in which we invest, through projects to improve their governance or to create new products. This “capital plus” approach is the core of what we do and strengthens our ambition to have an impact on the lives of the people who need it.

Plans for 2018

1. Gradual diversification

In 2017, Incofin CVSO moderately increased its presence in new segments such as financing for housing, or small and medium-sized enterprises (SMEs). SMEs play an important role in job creation, while better housing is crucial to boosting the quality of life of the final beneficiaries.

Incofin CVSO had been working indirectly with these two aspects for some years now. Now they form the basis for a further diversification of the portfolio, and make the fund a stronger impact investor. One example of such a new investment is Fidelity Bank in Ghana.

2. Focus on impact

The main focus of Incofin CVSO remains the creation of social impact. The fund aims to reach the most vulnerable and disadvantaged people in society. Already in the first step of the investment process, in the selection of microfinance institutions, Incofin pays much attention to social impact. Incofin also continues to closely monitor the institutions in the subsequent phases. The dou-

bling of the budget for Technical Assistance will further contribute to this.

3. Communication and shareholder involvement

Incofin CVSO wants to continue the more frequent and clearer communication of 2017 this year. Action points for this include the further optimisation of the website, the quarterly newsletters and regular presence on social media. This year for the first time, Incofin CVSO is organising a study trip for its shareholders. This will be a unique experience in which a few investors are given the opportunity to visit microfinance institutions of Incofin CVSO.



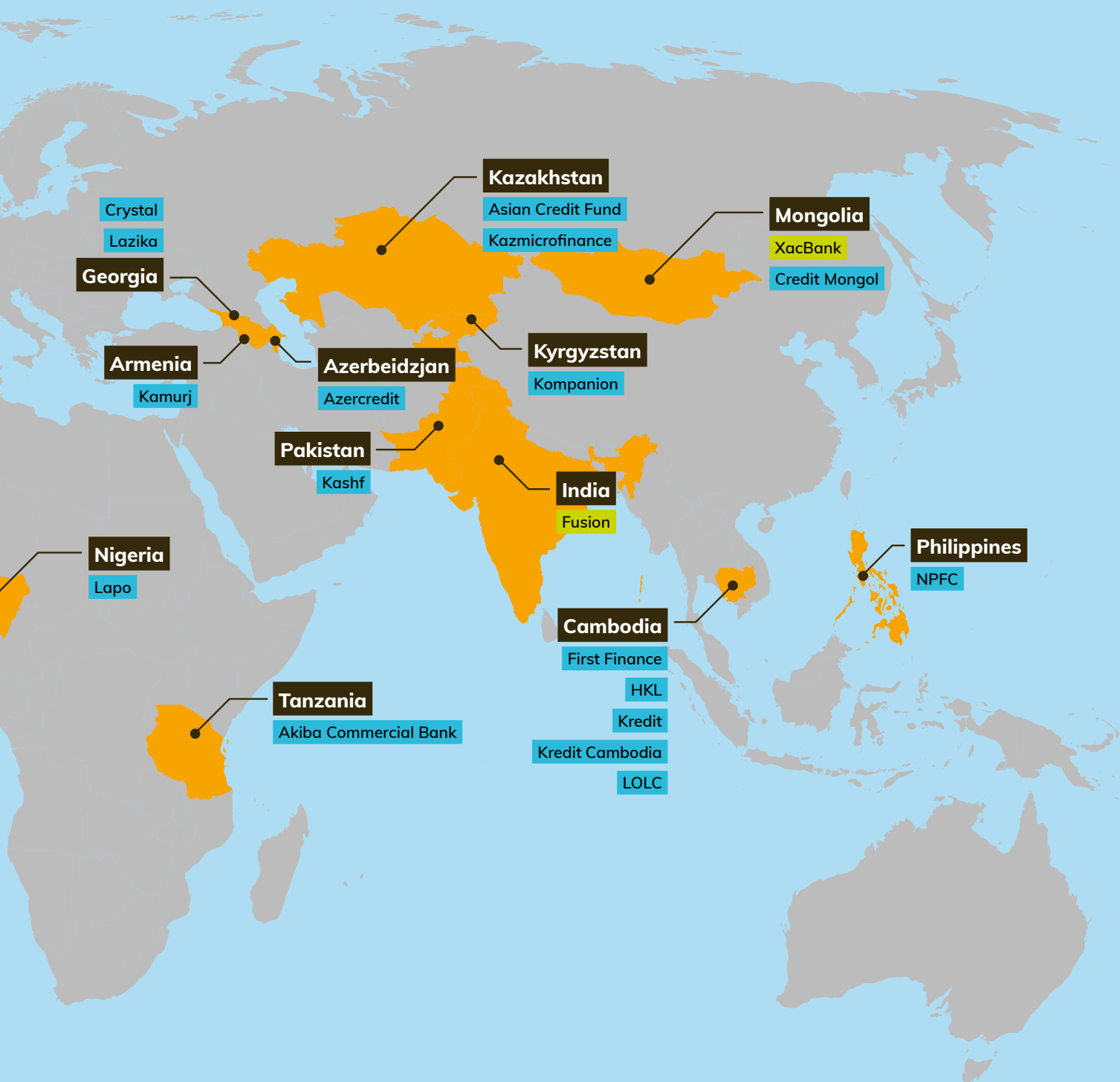
Yanou Segers,
Communication
Manager

"In 2017, we made a big step forward in the communication for Incofin CVSO. The fund caught up on its online presence, and we developed a strong communication plan. In this way, Incofin CVSO aims to create greater involvement with its shareholders and increase its name recognition. In May 2017, we gathered feedback and ideas in a survey of the shareholders, and developed various action points. In the meantime, Incofin CVSO has a new website in three languages (www.incofincvso.be), a quarterly newsletter, greater presence on social media, and we launched a successful end-of-year campaign on the radio, in print and online. Investors can learn more about the results, new investments, the impact created, the team and the history of the fund through all of these channels. It is now also easier for new and existing shareholders to invest via the website."

Incofin in the world

Incofin CVSO invested in 10 new MFI's last year. The counter now stands at 50 MFI's in 28 countries. The total investment portfolio currently amounts to EUR 74 million.





New investments in 2017

Existing investments

New investments in 2017



HONDURAS

Credisol

Offices **13**

Employees **156**

Clients **13,530**

Credisol was founded in 1998. This microfinance institution (MFI) offers financial services to more than 9,000 clients, including 4,000 rural entrepreneurs. From the head office in La Ceiba, a large network of regional offices and local service points is coordinated in five regions in Honduras. This MFI focuses mainly on the agricultural sector by offering financial products to small producers.



GEORGIA

Crystal

Offices **57**

Employees **837**

Clients **68,202**

Crystal was originally established in 1995 as a charitable humanitarian organisation to support displaced persons from Abkhazia. Today, Crystal is one of the largest microfinance institutions in Georgia. The organisation is known for the quality of its services and the contribution it makes to the development of micro and agricultural enterprises in the more remote areas of Georgia. The head office of Crystal is located in Kutaisi, and there are 54 branches located throughout the country.



GHANA

Fidelity Bank

Offices **75**

Employees **1,313**

Clients **32,184**

Fidelity Bank Ghana – founded in 2006 – is a leading commercial bank in Ghana with a strong focus on micro and small enterprises. The bank pays particular attention to corporate social responsibility as well as to environmental and social risk management, for which special business units have been set up. With 75 branches, more than 500 local service points and 1,000 agents in nine regions, the bank is firmly anchored in Ghana. The portfolio has grown significantly thanks to the acquisition of Procredit Ghana in 2014.



BURKINA FASO

Fidelis Finance

Offices **3**

Employees **26**

Clients **396**

Fidelis Finance was established in 1997 as a Non-Banking Financial Institution (NBFI). To fill in the 'missing middle' in Burkina Faso, the bank opted for a clear and unique focus on loans to small and medium-sized businesses. Fidelis offers different products for different classes, but is mainly known for its leasing to micro-entrepreneurs at the bottom of the social pyramid. The institution wants to promote economic development in Burkina Faso by stimulating local entrepreneurship. The institution works through four subsidiaries and

also uses other distribution channels to increase its reach at the lowest possible cost.



IVORY COAST

MicroCred

Offices **20**

Employees **593**

Clients **38,557**

MicroCred is a leading microfinance institution in Ivory Coast. The institution expanded its presence in recent years through new distribution channels, such as banking services and various loan and banking products. MicroCred currently has twenty branches, twelve of which are outside the capital Abidjan. The institution aims in this way to continue to concentrate on the 'missing

middle'. MicroCred is a member of the MicroCred Group, a network that serves 600,000 clients via ten companies, eight of which are in Africa.

Advans

Offices **11**

Employees **549**

Clients **13,237**

Advans is an authoritative microfinance institution in Ivory Coast. It aims to provide local micro and small entrepreneurs with better access to financial services. The institution provides individual loans and is rapidly expanding its services outside the capital Abidjan through eleven offices throughout the Ivory Coast. The loan portfolio amounts to EUR 73 million. Advans has a strong shareholder structure through its membership in the Advans Group and other local and



international shareholders. Advans Group is the majority shareholder, reaching more than 750,000 clients worldwide through ten microfinance institutions, eight of which are in Africa.



Fundación Paraguaya

Offices **24**

Employees **460**

Clients **80,000**

Fundación Paraguaya is a self-sufficient NGO, founded in 1985, with over thirty years of experience in microfinance. The institution mainly focuses on micro-entrepreneurs in rural and urban areas, 87% of which are women. Fundación Paraguaya develops and implements practical, innovative and sustainable solutions to eliminate poverty through four related strategies:

- a microfinance programme that serves micro and small entrepreneurs;
- a financial and economic educational programme for children and youth;
- self-sufficient agricultural schools for children of clients;
- a separate NGO 'Teach A Man To Fish' that promotes the Fundación self-sufficient school model worldwide.

Fundación Paraguaya also developed 'The Poverty Stoplight', a patented instrument with which poor families can measure and understand their poverty. With the aid of photographs, illustrations and maps, poverty is translated into fifty concrete indicators that are grouped into six dimensions. This allows families to visualise the way in which poverty affects them.

This self-diagnosis allows them to understand their poverty, and a personalised approach is developed for

each family to help them permanently out of poverty.



Fusion

Offices **221**

Employees **2,070**

Clients **585,065**

Fusion was founded in 2010 and is now one of the largest microfinance institutions in the India with an investment portfolio of close to USD 200 million. It only serves women (100%) in rural and semi-urban areas. The focus is on offering financial services to economically and socially disadvantaged female entrepreneurs who lack access to financial systems Fusion not only offers financial services, but also helps its clients to manage their finances. Fusion strives for value creation and balanced growth for all parties involved, while clients remain the central focus. In November 2017, Queen Mathilde together with Loïc De Cannière, CEO of Incofin, visited Fusion and some of its clients in Delhi.



KMF

Offices **15**

Employees **1,709**

Clients **192,314**

KMF was founded in 1997 and is now the largest microfinance institution in Kazakhstan. The institution has a good reputation and is having a major impact on local development. It is registering steady growth in the number of its clients, its loan portfolio and its regional network. The institution serves more than 190,000 micro-entrepreneurs, 62% of whom

are women. Thanks to its extensive distribution network of offices, KMF is able to penetrate deep into rural areas. The institution offers financial and non-financial services to micro, small and agro entrepreneurs to help them develop their business activities.



CAMBODIA

Kredit

Offices **83**

Employees **1,635**

Clients **76,882**

Kredit has been active in Cambodia since 1993 and currently serves more than 75,000 clients, 88% of whom are women. It wants to responsibly offer its clients a range of suitable, flexible and simple financial products such as deposit accounts, loans and payment services. Kredit also provides social loans for the purchase of sanitary products and water filters and for financing higher studies. There is credit protection insurance for the most vulnerable clients, in which the credit balance is written off when the customer dies, plus an additional package for help with the funeral ceremony. The institution also organises various training courses for its clients, including on the topics of financial education, agricultural techniques and upbringing techniques.



MEXICO

Financiamiento Progresemos

Offices **28**

Employees **286**

Clients **116,628**

Financiamiento Progresemos was founded in 2006, and provides financial services to low-income clients in rural areas. These entrepreneurs are very vulnerable to economic changes, and have limited or no access to financial services. The institution is one of the smaller players in Mexico, but has an innovative business model. It invests in smaller, local microfinance institutions that are then included in the Progresemos Group. Thus this



institution is well represented in the poorest areas of Mexico such as Oaxaca, Veracruz and Chiapas. In 2017, Progresemos won the 'Great Place to Work' award.

Financiera Equipaté

Offices **48**

Employees **650**

Clients **55,122**

Since its inception in 2006, Financiera Equipaté has enjoyed stable growth, and is present in various regions. It aims to strengthen the financial capacity of its clients through loans and technical assistance. Equipaté provides loans to micro-entrepreneurs who want to invest in their company and wish to increase their turnover. The institution also provides loans to families for housing.



BOLIVIA

Sembrar Sartawi

Offices **39**

Employees **373**

Clients **31,831**

Sembrar Sartawi is an NGO that was founded in 1991. The institution offers financial services to micro, small and agro entrepreneurs through 39 branches in various regions of the country. Although half of the clients live in urban areas, the institution mainly focuses on rural populations. The mission of Sembrar Sartawi is to meet the financing needs of Bolivian farmers for capital, working capital and production. Both individual and group loans are granted. In addition, the institution designs products and services based on the needs of small producers and on the agricultural cycles. Sembrar Sartawi applies a holistic approach that not only provides financial products, but also technical support and platforms to improve market access for their clients.



ARGENTINA

FIE Gran Poder

Offices **9**

Employees **91**

Clients **7,051**

FIE Gran Poder is a microfinance institution in Argentina, founded in 2001. Despite the small scale of the institution, it is one of the largest in Argentina, with a high percentage of exclusive clients. FIE Gran Poder has been able to maintain good portfolio quality even in economically uncertain times. The institution offers financial and non-financial services to micro-entrepreneurs who have limited or no access to formal banks. The product range includes loans to micro and small entrepreneurs in urban areas, as well as non-financial services such as training and legal advice.



MONGOLIA

XACBANK

Offices **79**

Employees **1,292**

Clients **99,463**

XacBank was founded in 2001 in Mongolia. Over the years, the bank has created sustainable growth in the country's financial sector. Through continuous expansion, XacBank has become one of the largest banks in Mongolia. The bank's mission is to become the preferred bank of a wide range of clients by offering easy financial solutions. XacBank emphasises the values 'People, Planet and Prosperity', and maintains high standards with respect to both management and social responsibility. Xacbank currently employs 1,200 employees spread over 79 offices, units and service points throughout the country.

Focus on social performance



For Incofin, it is crucial that each microfinance institution in which Incofin invests is able to demonstrate that they understand the importance of Social Performance Management. What is social performance?

How is this reflected in the microfinance institutions?

And how does it work in the field? We interviewed the Social Performance Manager and went to Paraguay to report.

A portrait of Dina Pons, a woman with long brown hair, smiling. She is wearing a dark blazer over a mustard yellow top. The background is a blurred office interior with a window.

Social Performance Management... What's in a name?

Dina Pons has been working for Incofin since 2011. She combines her position as regional director for Asia with the role of Impact Manager. Impact investing is, in short, the comprehensive term for investment forms that have a social objective in addition to a financial or commercial goal. At Incofin CVSO, this translates into SPM or Social Performance Management.

It is a mouthful, but for Incofin, Social Performance Management is an essential part of its investment policy. If a microfinance institution (MFI) sets itself social goals, or simply wants to improve the lives of its borrowers, then SPM is an essential tool for achieving this. Incofin believes in the so-called double bottom line: the idea that each investment and each loan ultimately aspires to a dual objective. On the one hand, you want to see a return and profit: those who take out a microloan must do business in such a way that enough profit is generated to at least provide for their livelihood. But on the other hand, you also want to achieve results that cannot be expressed in financial terms: social gain, say, in the domain of health, safety, the environment, education for children, and so on.

Trendsetter

In order to achieve these forms of social profit, an MFI must also engage in Social Performance Management. It is crucial for Incofin that each MFI in which Incofin invests is able to demonstrate that they understand the importance of SPM. And that they are taking concrete steps to put into practice everything that relates to SPM. "We look at this before we provide financing to an MFI: is there a willingness to implement a sound SPM policy? We then also help the MFI to shape such a policy. We have considerable experience in this area. In fact, Incofin is one of the trendsetters in SPM worldwide. Our measuring instruments, with which we check whether an MFI is meeting its social objectives, are considered standard in the microfinance sector and are used by many", says Dina Pons.

Incofin by definition invests in MFIs and organisations that also have social objectives. "And we ensure that these objectives do not remain on paper,

limited to idle words in the declaration of principle. We are only satisfied when we see that social objectives lead to focused efforts in practice. Do a CEO and his Board of Directors only discuss the financial results, or do they also address the well-being of their employees and the future prospects of the micro-entrepreneurs who are their clients? Are the loan officers, the credit advisers who visit their clients on a daily basis, trained to pay attention to these social aspects and to take them into account when someone might not be able to repay their loan on time due to circumstances beyond their control?"

THOSE WHO INVEST WITH A BETTER, INCLUSIVE SOCIETY IN MIND, ARE ALSO ASSURED OF THEIR FINANCIAL RETURN. THIS ALSO APPLIES TO THE SHAREHOLDERS OF INCOFIN CVSO.

Dina Pons

CO-HEAD ASIA & IMPACT MANAGER INCOFIN

Failed harvest

The story of borrowers who might not be able to repay their loan on time is characteristic of the practical implications of a solid SPM strategy on the ground. Dina Pons translates this to the level of MFIs in aspects such as personnel policy, product development and risk management. "We see the positive effects of social performance in so many areas. Employees of a bank working with SPM generally stay on board longer. They are better trained, look for the impact of their work not only in the figures, but also in what happens in the field. And when a problem does arise, they know how to deal with it based on a long-term vision. They respond better to exceptional situations such as a failed harvest, their clients feel better supported (even

when things temporarily are going less well), such that the financial results are also better in the longer term.

We see the same set of positive effects that reinforce one another when we look at the products that a bank develops. An MFI that strives for social goals will, ideally, extend this aspiration throughout the chain. Such an organisation will want to develop products – certain loan types for example – that are adapted to the concrete living and working conditions of the micro-entrepreneurs they aim to serve. If this adaptation is done well, and if adjustments are made along the way, such an MFI will simultaneously manage risk for itself and for its clients. With the right type of loan for the right entrepreneurs, you immediately create greater certainty that everything will be paid back properly and that entrepreneurs will still have a sufficient return after repayment to provide a good standard of living for themselves and their family."

House in order

MFIs that strive for social performance also automatically improve their financial performance. They themselves also evolve into a more sophisticated form of doing business: sometimes with the active help of Incofin, whose Technical Assistance services are perfectly suited when experts are needed. "These hired specialists often eliminate non-financial obstacles, they put the house in order, so that afterwards better results are achieved, both financially and socially. Social and financial performance go hand in hand. Those who invest with a better, inclusive society in mind, are also assured of their financial return. This applies at all levels, also to Incofin CVSO shareholders", concludes Dina Pons.

“A step up to the middle class”

Interview with Luis Sanabria, General Manager Fundación Paraguaya

In December 2017, Incofin CVSO invested in Fundación Paraguaya, a self-sufficient NGO with over thirty years of experience in microfinance. The institution mainly targets micro-entrepreneurs in rural and urban areas, 87% of which are women. But for Fundación Paraguaya, poverty reduction goes far beyond providing a loan. In order to also increase social impact on the ground, it developed its own measuring instrument, ‘The Poverty Stoplight’, and it provides practical education in its agricultural schools.



Paraguay has had a turbulent history in recent centuries with many wars and changes of power. When Fundación Paraguaya was founded in 1985, the country was ruled by a dictator. Poverty reduction was synonymous with social benefits and was entirely in the hands of the government. Founder Martin Burt and a few investors wanted to change course by turning the poor into small entrepreneurs who took matters into their own hands.

Living or just surviving?

Since its inception, Fundación Paraguaya has helped lift more than 24,000 families out of poverty. Luis Sanabria, who has been working at Fundación Paraguaya for 31 years, explains the organisation's vision: “In the 1980s but even today, poverty is described in financial terms. In Paraguay, the poverty threshold is an income of USD 120. A five-member family

that receives 600 USD each month is no longer considered poor. But one can only 'survive' on such a meagre amount. When we visit such people, we see houses without a kitchen or without running water, children who do not go to school, people with health problems,... Poverty has many faces. Of course, the financial need must be satisfied, but that alone is not enough."

Which is why the organisation began looking for an instrument to define and measure poverty in detail. Luis Sanabria: "While there are many quality measuring instruments available, they always focus on the government and NGOs, and forget the most important party: the poor themselves. While they are the object of the statistics, they are not served by a percentage point more or less. Which is why we decided to develop our own tool. The first step was to formulate a comprehensive definition of 'poverty'. A scientific study yielded no less than fifty criteria that we divided into six categories (see sidebar). In the second phase, we organised focus groups with the poor: by talking to them, we were able to refine our measuring instrument. Our aim is to improve the score of the poor on the fifty parameters in the long term, so that they can take a step towards the middle class."







Stoplight

The new measuring instrument, Poverty Stoplight, was introduced in 2011. By means of photos and a colour code – red, yellow, green – families can indicate the situation they find themselves in. Luis Sanabria: "Our tool allows our clients to visualise how poverty is affecting them. They first need to realise that they are in a precarious situation. Through self-diagnosis, they identify their poverty and gain greater insight into its causes."



Poverty Stoplight

The Poverty Stoplight is a measuring instrument that allows families to identify their poverty themselves. It describes what it means to be "not poor". There are a total of fifty criteria, divided into six categories:

-  Income and employment
-  Health and living environment
-  Housing and furnishing of the home
-  Education and culture
-  Organisation and participation in public life
-  Motivation and self-image

Each criterion is illustrated with photographs and simple statements that apply to the local context. Users review the entire list with a supervisor and give themselves a score for each criterion with coloured stickers or on a tablet: red stands for extremely poor, yellow for poor and green for not poor.



They can then define the priorities with the Fundación Paraguaya mentor: which of the fifty criteria will be addressed in the coming year? And thirdly, concrete actions are proposed. The mentor enters all data via a tablet; our software gives us a good overview of the situation per family, their evolution, but also per region in which we operate. After all, we have thirty offices located throughout Paraguay. These data also allow us to urge the government to implement specific changes".

"POVERTY HAS MANY FACES. OF COURSE, THE FINANCIAL NEED MUST BE SATISFIED, BUT THAT ALONE IS NOT ENOUGH."

Luis Sanabria

GENERAL MANAGER FUNDACIÓN PARAGUAYA

5,000 families

The threefold approach "Awareness – Understanding – Action" is part of the organisation's DNA and is present everywhere. Luis Sanabria: "In order to make ourselves visible to the outside world and to introduce our working method to other countries, we also use these three steps. Our communication department increases our visibility through the website, leaflets, our TV and radio programmes. They explain what we do and how. Which generates new clients and partnerships. This, however, is not enough. Organisations such as Incofin are also very important to us. We have known Incofin for some time. The director for the South America region put us in touch with various interesting partners. There had long been plans for a loan, but Fundación only lends in guarani, the local currency. As a result,

handling the case took longer, but in December 2017 a decision was finally taken. We received a loan that we will pay back by 2021, but also other forms of support. Today we have 80,000 clients. The injection of USD 2 million will help establish ourselves in new regions, and help 5,000 new families financially and socially".



Nancy Ramos

MANAGER, POVERTY STOPLIGHT METHODOLOGY

"Poverty has many facets and can therefore be very overwhelming. Often one does not know where to begin. The Poverty Stoplight makes it possible to subdivide poverty into smaller problems that can be tackled more easily. Under the guidance of one of our staff members, families assess their own situation. Such a session takes only half an hour. This allows us to expose the mechanisms that cause poverty and to agree with them on specific actions to change the situation for good. We develop a tailor-made approach for each family.

We initially developed the Poverty Stoplight for the clients of Fundación Paraguaya. But after a while our own employees also began requesting its use. In a third phase, Fundación Paraguaya was approached by other companies that also wanted to offer the tool to their staff. Today the Poverty Stoplight is used by more than fifty Paraguayan companies and implemented in some twenty countries, even in the United Kingdom. For each user group, we adapt the fifty criteria to the local situation."



3,285

families who participated in the Poverty Stoplight programme now have green scores on the 50 parameters

24,767

families raised themselves out of poverty

Employees can register for the programme at

more than **50** companies; this again had favourable consequences for 3,700 families

POVERTY STOPLIGHT IN PRACTICE

“A stone house and 15 refrigerators”

Interview with Carmen Avila (30), shopkeeper

Carmen Avila operates a shop just outside the capital Asunción. She has been a client of Fundación Paraguaya for ten years and was one of the first users of the Poverty Stoplight.

I first studied, but also had to work to finance my studies. I attended a meeting of a committee whose members had a loan, and that sparked my interest. I decided to also take out a loan, and started a shop. My first loan was for only 300,000 guarani (EUR 45). I have since taken out various loans, the last of which amounted to 6 million guarani (EUR 900).

About six years ago I joined fourteen other women in the Poverty Stoplight programme. I remember finding the list of fifty parameters very impressive; I had never looked at my personal situation in this way. I did the self-test and was confronted with many red dots. It was at the same time an incentive to take action in various areas. For this, I was able to count on the support of Romina of Fundación Paraguaya.

My life has improved considerably in recent years. My biggest achievements? The shop evolved from yellow to green because we diversified our product range. I now no longer sell only food, but also clothing. Clothing

yields higher margins, but takes longer to sell; food has lower margins, but sells better. So the two complement one another perfectly and together yield more income. And because I earn more, I am able to further expand the shop. A few years ago I didn't have a refrigerator, now there are fifteen. In our warm climate they are indispensable for storing food and cooling drinks.

On a personal level, I now have a stone house. We previously lived in a small wooden house. And we also became more aware of the needs of our village. Our committee has joined forces with three others: together we convinced the local government to asphalt the road that passes through here. We can now also get around more easily in the rainy season and people have access to my shop 365 days a year. Thus everyone is getting ahead.”



Interview with Romina Molina, Women's Committee Officer

Romina Molina has been working for Fundación Paraguaya for seven years. She is active in San Lorenzo, a municipality that is part of Greater Asunción.

"I act as Women's Committee Officer. In my region I am responsible for no less than seventy committees that together include 1,100 women. And it's not just about loans. I also help them bring more structure to their daily lives. Among other things, I use the Poverty Stoplight. Almost thirty women joined this programme in the past year.

The Poverty Stoplight describes in fifty sentences what it means to be no longer poor. One of the first indicators on which I work is the quality of life of these women. This is hardly possible when there is too little money. So we often first work on per capita income. Under USD 200, they are in the red zone; between USD 300 and 400 they

are in the yellow zone. From USD 600, we can grant green status.

In order to properly manage the income, I teach the women to work with a monthly budget. They often keep track of their spending in the head. However, I give them a booklet with different types of income and expenses, such as food, but also a visit to the hairdresser, medical care and costs for their business. This awareness can help them adjust their spending pattern.

Another frequent priority is housing. Sometimes a door or a window is missing. By focusing on this, the house is finished and can be locked, which in turn provides a greater sense of security. Houses are sometimes also built with inferior materials: over time, the wood can be replaced by concrete or stone for example.

Carmen Avila is one of the women who has evolved the most. Her house is now made of brick and no longer of wood. She participated in the "Mi baño, mi cocina, mi orgullo" [My bathroom, my kitchen, my pride] competition. She now has a real bathroom, where before there was only a latrine. Today her shop is twice as big as it was seven years ago. But what is equally important: she became more aware of her own abilities. Together with the other women, she called on the local authorities to asphalt the road. Waste is now also collected, where everything used to be incinerated. Our programme leads to positive developments in personal, financial and environmental areas".



"My bathroom, my kitchen, my pride"

A house with a bathroom and kitchen is of course self-evident in Western Europe. In Paraguay, on the other hand, they form two action points within the Poverty Stoplight programme. Many families do not have running water, let alone a bath, shower or toilet. Cooking is often done on a wood fire, the kitchen is not tiled, the floor is sand.

To make the lives of their female clients more comfortable, Fundación Paraguaya encourages them to install their own kitchen or bathroom. To highlight this action point even more, in 2014 the competition "Mi baño, mi cocina, mi orgullo" was created. By remodelling a space, the women compete for the most beautiful kitchen or bathroom. The winner receives a cash prize. But in the end each participant wins, since she is rewarded with a full kitchen or bathroom. 250 bathrooms and kitchens have been installed in the last four years under the impetus of this competition.

IN THE FIELD WITH FUNDACIÓN PARAGUAYA

A breeding ground for agricultural entrepreneurs

Interview with Amalio Enciso, Director Agricultural School San Francisco

Fundación Paraguaya is the proud owner of four agricultural schools. By investing in sound education, the organisation wants to better arm the children of its clients for the future. We visited the San Francisco school and were shown around by director Amalio Enciso, himself a former student.

As the name suggests, the San Francisco school was founded by Franciscan monks in the 1960s. The school has had many ups and downs over the years. It faced serious financial problems around the turn of the century; at that moment, Fundación Paraguaya came to the rescue. Director Amalio: “Fundación Paraguaya was not only ready with financial, but also with organisational support. It was also the ideal moment to revise the school's operation. Two major changes were made. The programme became a combination of theory and practice, and the school became self-sufficient”.

Setting its own course

The self-sufficient model rests on five different activities: vegetable growing, livestock, dairy, hotel, and services (maintenance, marketing). The students are taught in all these disciplines. Amalio Enciso explains: “The students are involved in the production of cheese, vegetables and fruit, and they learn to run a hotel. At the same time, we derive our income from these activities. We consume 30% of the food in the hotel and at the boarding school; we sell the remaining 70%. Among our in-house





production, dairy products earn the most. But the most profitable branch is the hotel, which accounts for half of the income”.

“It is important to be able to provide for our own livelihood. The direct link between production, sales and revenues gives young people a greater sense of responsibility; it is simply more motivating to work in a profitable department. Secondly, the school is not dependent on anyone. This allows us to set our own course, with our own teaching method and organic farming”.

The school's approach is worthwhile because it attracts young people from inside as well as outside the country's borders. “We have 150 students, who come from all over the country and neighbouring Bolivia. We currently even

have a student from Mali. The ratio between boys and girls is almost 50/50. There must be an interest somewhere to later live in a rural environment and work or start a business. They must also be open to our teaching method, which alternates theory with practice. When they graduate from here, they have a double diploma: a more technical diploma in agricultural science, and a secondary diploma in hotel management & administration”.

Entrance exam

Studying for a year at this school costs USD 500. This represents a substantial amount for an average Paraguayan family. “Anyone who passes the entrance exam must also have the opportunity to study here. Over time this is a form of social impact. All parents can appeal to a Fundación Paraguaya

credit line to pay for the studies. It also happens that the parents take out a microloan to start a business and pay the school fees with the proceeds”.

Amalio Enciso is a former student of the school. He started his studies in 2002, the year in which Fundación Paraguaya took over the school. He worked among other places in Honduras, but came back when he was able to work at his former school: “I like the school a lot, because it opened many doors for me. It is exciting to now be able to offer the same opportunities to the next generation. We follow up our students when they leave. Some pursue higher studies, others immediately take a job, sometimes when they are still in their third year. Or they start their own business! In which case, we are always ready to help them with their business plan. The school fulfils an important role: it helps to eradicate poverty. Which is why it is so important that we develop the school further and are able to add new departments in the future”.

The San Francisco agricultural school is known as one of the best schools in the country. Fundación Paraguaya offers practical education to 150 young people. This 100% self-sufficient school trains its students to become true entrepreneurs and introduces them to vegetable growing, breeding livestock and poultry, dairy production, hotel management and marketing.

Interview with Hugo Torres (19), student

"I am in my third year: as a final year student, I am responsible for vegetable growing. I had known the school for a long time, because three of my brothers graduated here before me. I also saw the school in a TV broadcast and on the social media of Fundación Paraguaya. But not everyone can simply start here. You first have to go through a trial period of two weeks. You participate as if you were actually attending school: you receive one week of theory and one week of practice. The school wants to be sure that the student is suitable for the programme, because the number of places is limited. It was not easy, but I was admitted.

In the meantime, I am already in my last year and am guiding the younger students: I explain to them how to plant and harvest, but also how to irrigate and work without pesticides.

We are in the greenhouse or the field by 6 o'clock each morning.

My mother always had a big vegetable garden, which was necessary to provide for our livelihood. Perhaps that unconsciously pushed me in the direction of vegetable cultivation. I learned here how to grow organic

vegetables, how to care for them, but also about the taxonomy, the economic aspects of agriculture... I now understand how everything works. I hope to continue studying to become an agricultural engineer.

And in the future I might work at the company that supported me with a scholarship."

"No theory without practice"

The school is known for its combination of theory and practice. In the first two years, the students are divided into two groups. One week the A-group has theory (clase) and the B-group practice (campo); the following week the two switch. During the first two years they are immersed in all domains. Third year students specialise in one discipline and at the same time act as a mentor for the younger students. We meet two final-year students.

**"I HOPE TO CONTINUE
STUDYING TO BECOME AN
AGRICULTURAL ENGINEER."**



Interview with Valentina Santander (17), student

**“I CONSIDER THE
COMBINATION
OF THEORY AND
PRACTICE AS A MAJOR
ADVANTAGE.”**

“After my first two years, I opted for the hotel specialisation. There is a real hotel on the grounds of the school, where I work at the reception desk. I check guests in and out, issue invoices, explain the domain and the surroundings. I am able to immediately apply my acquired knowledge here.

Which is also the reason why I absolutely wanted to study here. One day I saw a broadcast on Canal 9 in which a teacher explained our school's philosophy; I considered the combination of theory and practice as a major advantage.

My mother immediately supported me in my choice to study here, even though this was not obvious. She took out a loan from Fundación Paraguaya to pay for my studies. And to get here, I have to take three buses and am on the road for four hours.

I am now in my last year and act as a mentor for first and second year students. I explain to them how the reception works. But also how to maintain the hotel and prepare the rooms for the guests.

I went for the hotel option because it has a lot to do with interpersonal relationships. You absorb a lot of people knowledge in this domain, which al-

ways comes in handy. And I also find it fascinating that the guests in the hotel come from so many different places and have different backgrounds.

Next year I will study Hotel & Tourism at the university. I hope to combine that with a part-time job, ideally in a hotel, to pay for my studies. The studies last for four years. And then I want to follow a specialisation in psychology. That's for the future of course, but it's important to have long-term goals in life.





“Paraguay able to compete with China”

Angelica Gonzalez (29)

HAS A MICROLOAN WITH FUNDACIÓN PARAGUAYA

When we arrive, Angelica Gonzalez is in full swing. She will be leaving the next day on a business trip and is completely absorbed by the preparations. She runs the family business: a leather atelier. She joined the company when she was 18.

“I come from a family with six children. As a little girl, I always hung out with my father. I did study marketing, but you can't hide your true nature. Which is how I slowly became involved in the atelier. I am familiar with all aspects of the business and can intervene everywhere, but today I mainly focus on sales.

We make belts for men, women and children. Plain brown or black, but also decorated with native motifs. We do everything ourselves: the design, the production, the sales. With the remnants, we make slippers and wallets, which reduces waste and increases the profit. Due to the high quality of our products, we do not suffer from competition with the

Chinese. Ten years ago we took out a first loan with Fundación Paraguaya for an amount of 10 million

guarani (EUR 1,500). The money made it possible to buy more raw materials. This resulted in higher production, increased revenue and higher wages for our employees. I have seven permanent employees; during peak periods there are ten.

We are able to easily pay back the loans. We are now on our third loan. With this we installed a roof on the second workspace, improving the working conditions for my people. Another positive effect of the loans is better cash flow. Our goods are paid for with checks and thanks to the loans, we always have sufficient cash.”

She sees the future as rosy: “We now make an average of 700 belts per week, with peaks of up to 1,000. We also want to expand our machinery soon. Together with the purchase of more raw materials, this will again lead to greater revenues. And I don't exclude also selling our products abroad in the future.”

Financial report

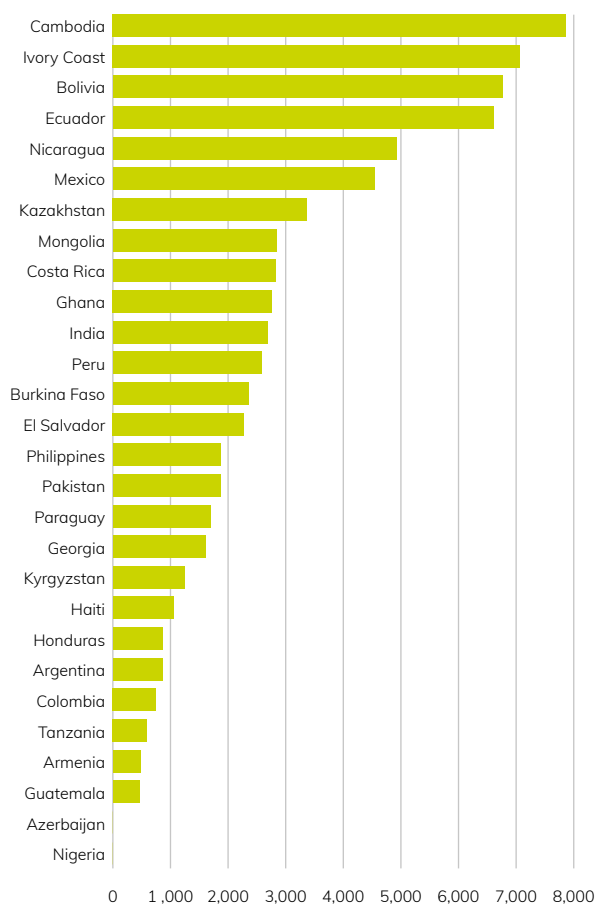
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1. Key figures in k€

	2017	2016
Balance sheet total	85,933	63,694
Portfolio	74,337	60,122
Participations	9,278	12,068
Subordinated loans	8,065	8,596
Loans	56,995	39,458
Average investment in MFIs	794	1,001
Average loan amount to MFIs	1,183	961
Equity	49,588	44,564
Capital	42,207	39,017
Debt financing	33,815	17,565
Available (uncalled)	7,435	16,685
Proportion of loan finance	68%	39%
General provision for (subordinated) loan portfolio	1,391	1,244
% balance sheet total	1.62%	1.95%

MFI portfolio per country

● portfolio in k€

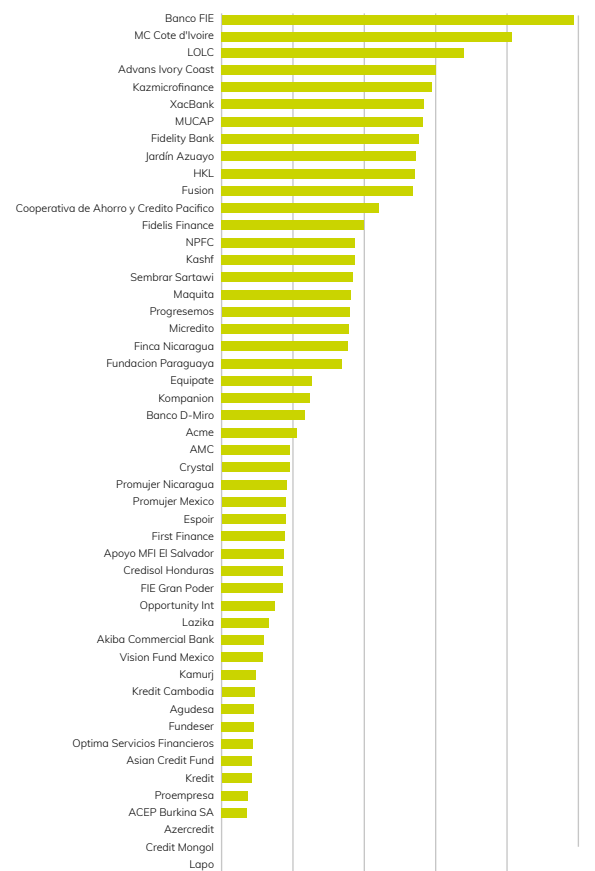


Return	2017	2016
Return on subordinated loan portfolio (IRR)	7.52%	8.32%
Return on loan portfolio (IRR)	5.66%	6.36%
Weighted average financing charge	2.44%	2.93%
Dividend	2.50%	2.50%

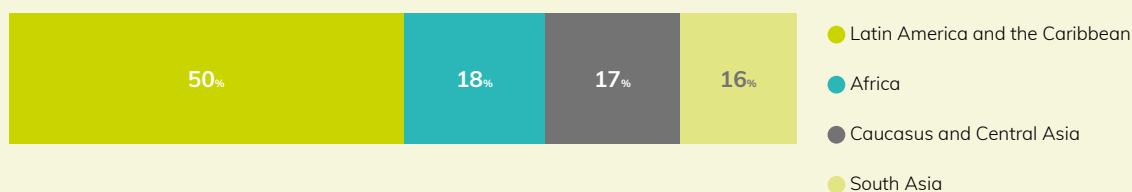
MFI performance	2017	2016
MFI portfolio (€ m)	5,822	5,461
Average loan amount (EUR)	7,678	3,807
Total number of clients reached	3,217,990	3,405,616
% women	76%	73%
Portfolio at risk – 30 days (PAR30)	6.47%	6.23%
# of MFIs	50	50
# of countries	28	27

Portfolio per MFI

● portfolio in k€



MFI portfolio per region



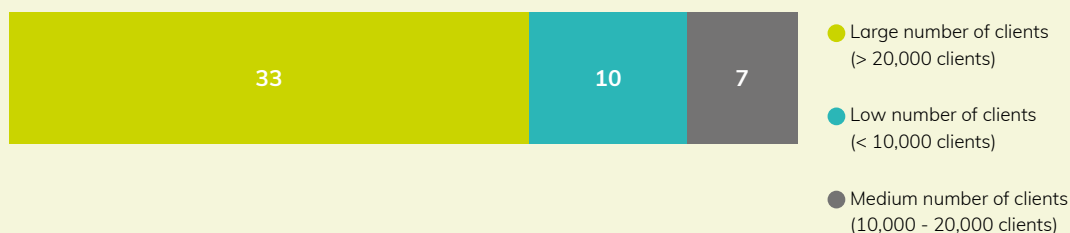
MFI portfolio per product



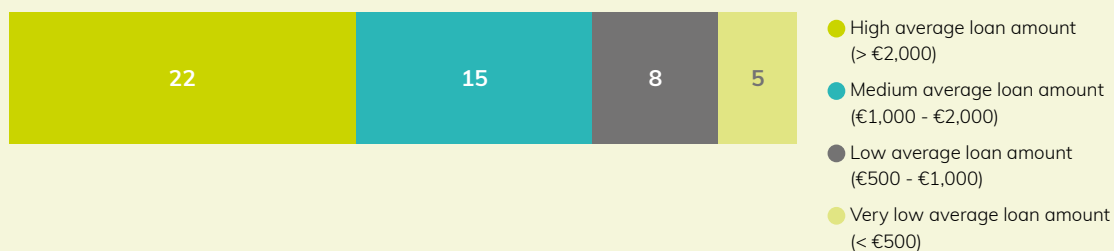
Portfolio by MFI size



Portfolio by number of MFI clients



Portfolio by average MFI loan amount



2. Corporate governance

General Meeting

The General Shareholders Meeting takes place annually on the last Wednesday in April. In 2017, it fell on 26 April.

Board of Directors

The Board of Directors met three times in 2017. During these meetings, the financial figures, the annual budget and the general operations of Incofin cvso were discussed.

Members of the Board of Directors receive no remuneration or financial benefits of any kind in return for their mandate.

The composition of the Board of Directors at the end of 2017 was as follows:

Chairman

Frans Verheeke - Chairman, Volksvermogen

Directors

Willy Bosmans - Individual

Benoît Braeckman - Former head of asset management, Electrabel

Erik Brijs - Vice President Accounting & Control, Umicore

Jos Daniëls - Honorary Chairman of the Board of Directors, KBC Insurance

Frank De Leenheer - Investor Relations & Corporate Communications Manager, Gimv

Alfons De Potter - Vice Chairman, ACV Bouw-Industrie & Energie

Johan De Schamphelaere - Director, vdk bank

Rein De Tremerie - Deputy Chairman, Volksvermogen

Frank Degraeve - Head of Large Companies, Crelan

Eric Delecluyse - Former chairman, ACV Voeding en Diensten

Yvan Dupon - Individual

Michiel Geers - General secretary, Volksvermogen

Tony Janssen - Former Chairman, ACV Metaal and European Metal Association

Mark Leysen - Chairman, Vanbreda Risk & Benefits

Greet Moerman - Director, Sociaal Fonds Bedienden Voedingsnijverheid

Guy Pourveur - Company Director

André Sarens - Grid Participations Manager, Electrabel

Frans Samyn - Chairman, Tabor

Ignace Schatteman - Internal Auditor, vdk bank

Marc Timbremont - Former Managing Director, Huisvesting Het Volk

Anne Van Autreve - Former Department Head, Flemish Government – Ministry of Foreign Affairs

Peter Van den Brock - Former Director, Pax-Bank, Vorstand Pax-Bank-Stiftung

Leen Van den Neste - Chairman, Management Committee, vdk bank

Miguel Van Hoof - Director, Wereld Missie Hulp

Ann Van Impe - Compliance Officer, vdk bank

Patrick Vandenberghe - Chairman, ACV Bouw-Industrie & Energie

Bart Vannetelbosch - Director, Sociaal Fonds Arbeiders Voedingsnijverheid

Henri Vansweevelt - Former Vice President, Bekaert Group

Frank Vereecken - Director, vdk bank

Koenraad Verhagen - Investments and microfinance advisor

Jan Verheeke - General Secretary, Milieu- en Natuurraad van Vlaanderen (Environmental and Nature Council of Flanders)

Pieter Verhelst - Member, Senior Management of the Boerenbond (Farmers' Association)

Luc Versele - Chairman, Crelan

Dirk Vyncke - Honorary Chairman, Vyncke

Vic Van de Moortel - General Manager Corporate Sustainability, KBC Group

Francis Deknudt - Managing Director, Deknudt Mirrors

Klaartje Vandersypen - Individual

Patrick Vandenberghe - Chairman, ACV Bouw-Industrie & Energie

Honorary Directors

Jan Bevernaege - Director, Volksvermogen

Erik Bruyland - Former senior journalist at Trends magazine

Frank Lambert - Chairman, Antwerp Management School Fund for Sustainable and Innovative Entrepreneurship

Guido Lamote - Former CEO, Trias

Paul Steppe - Honorary Chairman, Management Committee Centea

Walter Vandepitte - Honorary Chairman, AVEVE Group

Roland Van der Elst - Former professor, EHSAL

Executive Committee

The Executive Committee is responsible for the preparation and follow-up of the current and long-term strategies, objectives, plans and budgets, and for monitoring the general affairs of the company. The Executive Committee met five times in 2017.

The Executive Committee is composed as follows:

- Frans Verheeke (Chairman)
- Willy Bosmans
- Jos Daniëls
- Eric Delecluyse
- Yvan Dupon
- Leen Van den Neste
- Ann Van Impe

Members of the Executive Committee receive no remuneration.

Investment Committee

The Investment Committee is responsible for the implementation of the company's investment policy, as set out in the investment guidelines. The Investment Committee is composed of members of the Board of Directors specialising in financial affairs and development issues. The Committee met twelve times in 2017.

The members of the Investment Committee are:

- Frans Verheeke (Chairman)
- Johan De Schampelaere
- Tony Janssen
- Michiel Geers
- Peter van den Brock
- Ignace Schatteman
- Pieter Verhelst
- Frank Degraeve

Members of the Investment Committee receive no remuneration.

Audit Committee

The Audit Committee supervises the company's procedures and processes, as well as all aspects related to risks and their management. The Audit Committee is composed of members of the Board of Directors and met three times in 2017.

- Frans Samyn (Chairman)
- Marc Timbremont
- Henri Vansweevelt

Members of the Audit Committee receive no remuneration.

Statutory auditor

Deloitte Bedrijfsrevisoren, represented by Maurice Vrolix, was appointed by the General Shareholders Meeting of 26 April 2017 as auditor of Incofin cvso for a period of three years.



First row from left to right: Ann Van Impe, Frans Verheeke, Leen Van den Neste, Willy Bosmans, Tony Janssen, Anne Van Autreve

Second row from left to right: Justin Daerden, Rein De Tremerie, Pieter Verhelst, Michiel Geers, Johan De Schampelaere, Luc Versele, Guy Pourveur

At the right side of the picture, at the back, from left to right: Peter Van den Brock, Frank Degraeve, Ignace Schatteman, Miguel Van Hoof

On the stairs, first row from left to right: Jan Verheeke, Eric Delecluyse, Dirk Vyncke

On the stairs, second row from left to right: Frans Samyn, Frank Vereecken, Henri Van Sweevelt

On the stairs, third row from left to right: Frank De Leenheer, Yvan Dupon

3. Annual accounts at 31.12.2017 in k€

Balance sheet

Assets	12/2017	12/2016
Participations portfolio	9,278	12,068
Acquisition value	6,305	9,587
Stock dividends	4,189	3,637
Impairment	-1,216	-1,156
Subordinated loan portfolio	7,891	8,489
Subordinated loan portfolio > 1 year	7,265	8,065
Subordinated loan portfolio < 1 year	800	531
General provision	-174	-107
Loan portfolio	55,778	38,321
Loan portfolio > 1 year	31,438	23,21
Loan portfolio < 1 year	26,515	17,565
Impairment	-959	-1,317
General provision	-1,217	-1,137
Current assets	1,948	1,32
Other amounts receivable	85	421
Prepayments and accrued income	1,863	899
Cash and cash equivalents	11,039	3,496
Assets	85,933	63,694
Liabilities	12/2017	12/2016
Equity	49,588	44,564
Capital	42,207	39,017
Reserves	1,404	1,262
Result carried forward	5,977	4,284
Loan capital	33,815	17,565
Debt financing > 1 year	29,815	15,565
Debt financing < 1 year	4,000	2,000
Current liabilities	2,530	1,565
Other debts	923	276
Dividends	1,005	884
Technical Assistance (TA) provision	147	119
Prepayments and accrued income	455	287
Liabilities	85,933	63,694

Profit & Loss Account

Profit & Loss Account	12/2017	12/2016
Operating income	5,991	4,420
Participations portfolio	2,719	1,643
Cash dividends	217	244
Stock dividends	600	650
Gains/(losses) on sales	1,963	924
Impairments	-61	-174
Subordinated loan portfolio	590	313
Interest	642	385
Upfront fees	14	9
General provision	-67	-81
Loan portfolio	2,123	2,615
Interest	2,621	2,356
Upfront fees	155	131
Impairments	-572	-118
Reversal of general provision	470	652
General provision	-550	-406
Other income	559	-152
Operational expenses	-2,162	-1,665
Incofin IM management fees	-1,445	-1,222
Portfolio insurance	-200	-149
Technical Assistance (TA) contribution	-100	-50
Additional TA provision	-100	-50
Reversal of TA provision	72	18
TA expenses	-72	-18
Communication	-279	-130
Other goods and services	-138	-113
Net operating result	3,829	2,754
Financial results	-798	-665
Interest	-635	-618
Miscellaneous	-163	-47
Income before tax	3,031	2,089
Corporation tax	-	-
Withholding tax interest	-191	-154
Income after tax	2,840	1,936

Cash flow

Cash flow	12/2017
Cash flow from operations	
EBIT	3,829
Other cash results	-354
Non-cash results	-723
Participations portfolio	-539
Impairment	61
Stock dividends	-600
Subordinated loan portfolio	67
General provision	67
Loan portfolio	-278
General provision	550
Reversal of general provision	-470
Impairment	-359
Technical Assistance (TA)	28
(Increase)/decrease in current assets/liabilities	189
Cash flow on net-income basis	2,941
Investment cash flow	
(Increase)/decrease in participations portfolio	3,329
(Increase)/decrease in subordinated loan portfolio	531
(Increase)/decrease in loan portfolio	-17,178
Free cash flow	-10,377
Financial cash flow	
Increase/(decrease) in capital	3,189
Dividends paid pertaining to previous financial year	-884
Increase/(decrease) in debt financing	16,250
Interest paid on debt financing	-708
Increase/(decrease) in outstanding interest	73
Net cash flow	7,543
Cash and cash equivalents previous period	3,496
Cash and cash equivalents current period	11,039

4. Notes

Financing structure

Capital

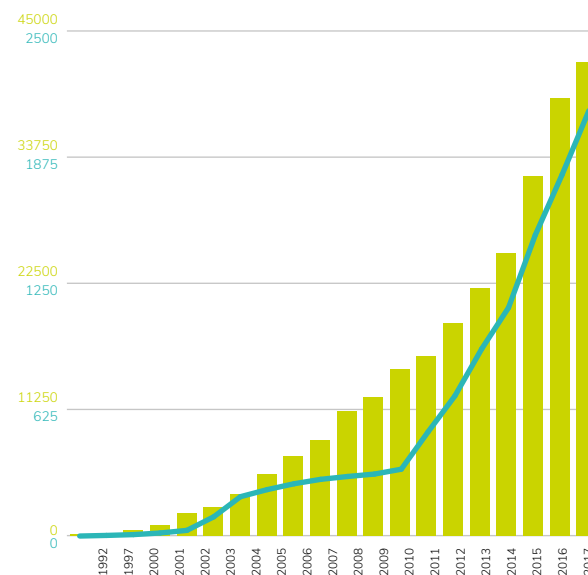
In 2017 the shareholders' equity rose by k€ 3,189 to k€ 42,207, an increase of 8% over 2016. This equity is represented by 2,108 shareholders.

Overview of shareholders

Shareholders with more than 1% of equity		
Wereld-Missiehulp VZW	1,562	3.7%
Volksvermogen	1,510	3.6%
ACV Metea	1,263	3.0%
vdK bank	1,146	2.7%
Congrégation Hospitalière des Soeurs de la Charité de J.M.	1,003	2.4%
Anonymous	3,120	7.4%
Abdij der Norbertijnen van Averbode	1,003	2.4%
Flemish Government – Flemish Department of Foreign Affairs	1,000	2.4%
Sociaal Fonds Bedienden Voedingsnijverheid	727	1.7%
BRS VZW	560	1.3%
ACV Bouw – Industrie & Energie	521	1.2%
Crelan NV	521	1.2%
ACV Voeding en Diensten	521	1.2%
Gimv	521	1.2%
Tradicator	469	1.1%
de Kade VZW	503	1.2%
Shareholders < 1% of equity	25,257	59.8%
Total	42,207	100.0%

Capital variations

● capital in k€ ● #shareholders



NOTES

Debt financing

	> 1 year			< 1 year			Book value	
	12/2016	+/-	12/2017	12/2016	+/-	12/2017	12/2016	12/2017
ACV-CSC Metea	1,000	500	1,500		500	500	1,000	2,000
Belfius	3,000	3,750	6,750				3,000	6,750
Bank für Kirche und Caritas	5,000	5,000	10,000				5,000	10,000
Crelan*								
Hefboom	1,000	-500	500		500	500	1,000	1,000
KBC Bank**	2,565	1,000	3,565				2,565	3,565
LBC	500	-500			500	500	500	500
vdK bank	2,500	5,000	7,500	2,000	500	2,500	4,500	10,000
	15,565	14,250	29,815	2,000	2,000	4,000	17,565	33,815

*k€ 1,000 in available credit line

**k€ 6,435 in available credit line

Proportion of loan finance

	12/2017
Equity	49,588
Debt financing	33,815
Proportion of loan finance (max. 100%)	68.2%
Max. increase in debt financing	15,773
Available credit lines	7,435

Portfolio summary

Participations portfolio in k€

MFI	Date Investment	Currency	Country	Acquisition value			Stock dividends			Impairments			Book value	
				12/2016	+/-	12/2017	12/2016	+/-	12/2017	12/2016	+/-	12/2017	12/2016	12/2017
ACEP Burkina SA	25/9/2009	XOF	Burkina Faso	351		351							351	351
Acme	14/7/2009	HTG	Haiti	782	271	1,053							782	1,053
Akiba Commercial Bank	30/4/2008	TZS	Tanzania	530		530	60		60				591	591
Banco FIE	28/8/2008	BOB	Bolivia	1,356		1,356	3,037	540	3,577				4,392	4,932
Confianza SAA	1/5/2013	PEN	Peru	2,516	-2,516								2,516	
FIE Gran Poder	11/8/2009	ARS	Argentina	1,189		1,189	466		466	-1,156	-61	-1,216	500	439
Proempresa	25/8/2010	PEN	Peru	284		284	73	12	85				357	369
MFI portfolio				7,007	-2,245	4,762	3,637	552	4,189	-1,156	-61	-1,216	9,488	7,735
Impulse	16/11/2005	EUR	Belgium	131		131							131	131
Incofin IM	23/7/2009	EUR	Belgium	395		395							395	395
Fair Trade Fund	3/9/2012	USD	Luxembourg	583		583							583	583
MFx LLC	25/6/2009	USD	United States	355		355							355	355
Rural Impulse Fund	15/10/2008	USD	Luxembourg	1,037	-1,037								1,037	
FPM SA	7/10/2014	USD	Congo, DRC	79		79							79	79
non MFI portfolio				2,580	-1,037	1,543							2,580	1,543
Participations portfolio				9,587	-3,282	6,305	3,637	552	4,189	-1,156	-61	-1,216	12,068	9,278

Subordinated loan portfolio in k€

MFI	Date Investment	Currency	Country	> 1 year			< 1 year			Impairments			Book value	
				12/2016	+/-	12/2017	12/2016	+/-	12/2017	12/2016	+/-	12/2017	12/2016	12/2017
Existing subordinated loans				8,065	-800	7,265	531	269	800				8,596	8,065
Finca Nicaragua	26/8/2015	USD	Nicaragua	1,772		1,772							1,772	1,772
HKL	7/7/2016	USD	Cambodia	1,344	-269	1,075		269	269				1,344	1,344
LOLC	15/4/2016	USD	Cambodia	2,124	-531	1,593	531		531				2,655	2,124
MUCAP	20/12/2016	USD	Costa Rica	2,825		2,825							2,825	2,825
Total subordinated loans				8,065	-800	7,265	531	269	800				8,596	8,065

Loan portfolio in k€

MFI	Investment date	Currency	Country	> 1 year			< 1 year			Depreciation			Book value	
				12/2016	+/-	12/2017	12/2016	+/-	12/2017	12/2016	+/-	12/2017	12/2016	12/2017
MFI portfolio				23,210	8,228	31,438	17,565	8,950	26,515	-1,317	359	-959	39,458	56,995
Existing loans				21,659	-14,065	7,595	3,113	11,347	14,460	-387	-572	-959	24,386	21,096
AMC	6/1/2017	USD	El Salvador	957		957							957	957
Apoyo MFI El Salvador	28/5/2016	USD	El Salvador	880	-880		880		880				1,759	880
Asian Credit Fund	18/8/2016	KZT	Kazakhstan	425	-425			425	425				425	425
Azercredit	29/7/2012	USD	Azerbaijan				366	-17	348	-366	17	-348		
Banco D-Miro	7/12/2015	USD	Ecuador	1,378	-212	1,167							1,378	1,167
Cooperativa de Ahorro y Credito Pacifico	30/8/2016	USD	Peru	886	-443	443	443		443				1,329	886
Credit Mongol	30/9/2013	EUR	Mongolia				21	-9	11	-21	9	-11		
First Finance	2/5/2016	USD	Cambodia	884		884							884	884
Fundeser	1/7/2016	USD	Nicaragua	451		451							451	451
HKL	7/8/2015	USD	Cambodia	1,364	-1,364			1,364	1,364				1,364	1,364
Jardín Azuayo	23/6/2015	USD	Ecuador	2,727	-1,364	1,364		1,364	1,364				2,727	2,727
Kamurj	26/12/2016	USD	Armenia	478	-239	239		239	239				478	478
Kashf	8/12/2016	USD	Pakistan	1,869	-1,869			1,869	1,869				1,869	1,869
Kredit Cambodia	27/1/2016	USD	Cambodia	460	-460		460		460				920	460
Lapo	9/9/2013	NGN	Nigeria				284	39	323	-323	-323		284	
Lazika	11/2/2015	USD	Georgia	661	-661		661		661				1,322	661
Maquita	2/8/2016	USD	Ecuador	1,343		1,343							1,343	1,343
MC Cote d'Ivoire	6/1/2016	XOF	Ivory Coast	1,066	-1,066			1,066	1,066				1,066	1,066
Micredito	27/9/2016	USD	Nicaragua	1,783	-1,783			1,783	1,783				1,783	1,783
NPFC	7/12/2016	EUR	Philippines	466	-466			390	390		-276	-276	466	114
Opportunity Int	13/6/2016	COP	Colombia	748		748							748	748
Optima Servicios Financieros	28/4/2016	USD	El Salvador	441	-441			441	441				441	441
Promujer Mexico	7/1/2016	MXN	Mexico	896	-896			896	896				896	896
Promujer Nicaragua	9/12/2015	NIO	Nicaragua	919	-919			919	919				919	919
Vision Fund Mexico	3/11/2016	MXN	Mexico	580	-580			580	580				580	580
New loans				20,318		20,318	9,111		9,111					29,429
Credisol Honduras	14/3/2017	HNL	Honduras	312		312		156	156				469	
Crystal	6/3/2017	USD	Georgia	950		950							950	
Fidelity Bank	31/3/2017	USD	Ghana	2,071		2,071		690	690				2,761	
Progresemos	27/6/2017	MXN	Mexico	896		896		896	896				1,792	
Sembrar Sartawi	27/3/2017	USD	Bolivia	918		918		918	918				1,837	
XacBank	17/2/2017	USD	Mongolia	1,894		1,894		947	947				2,841	
Fie Gran Poder	28/7/2017	USD	Argentina	422		422							422	
Kazmicrofinance	10/7/2017	KZT	Kazakhstan	2,947		2,947							2,947	
Fusion	7/7/2017	INR	India	2,687		2,687							2,687	
Fidelis Finance	29/9/2017	XOF	Burkina Faso	1,000		1,000		1,000	1,000				2,000	
Kredit	26/9/2017	USD	Cambodia	419		419							419	
Credisol Honduras	5/9/2017	HNL	Honduras	265		265		132	132				397	
Equipate	2/10/2017	USD	Mexico			846		423	423				1,270	
MC Cote d'Ivoire	27/10/2017	XOF	Ivory Coast			1,500		1,500	1,500				3,000	
Advans Ivory Coast	8/11/2017	XOF	Ivory Coast			1,500		1,500	1,500				3,000	
Fundacion Paraguaya	15/11/2017	PYG	Paraguay			1,690							1,690	
One Puhunam	15/12/2017	PHP	Philippines					948	948				948	
Renewals				1,550	1,975	3,526	4,645	-1,702	2,943				6,196	6,469
Cooperativa de Ahorro y Credito Pacifico	29/6/2015	USD	Peru				455	-455					455	
Cooperativa de Ahorro y Credito Pacifico	30/6/2017	USD	Peru			1,323								1,323
Espoir	8/6/2017	USD	Ecuador					894	894					894
Espoir	8/6/2016	USD	Ecuador				890	-890					890	
Maquita	27/2/2015	USD	Ecuador				442	-442					442	
Maquita	27/2/2017	USD	Ecuador			475								475
One Puhunam	3/5/2017	PHP	Philippines					809	809					809
One Puhunam	3/5/2016	PHP	Philippines				834	-834					834	
Kompanion	28/11/2016	USD	Kyrgyzstan	1,550	-1,550		311	-311					1,861	
Kompanion	30/11/2017	USD	Kyrgyzstan					1,240	1,240					1,240
Agudesa	2/12/2015	GTQ	Guatemala				497	-497					497	
Agudesa	2/12/2017	GTQ	Guatemala			457								457
LOLC	20/12/2014	USD	Cambodia				1,218	-1,218					1,218	
LOLC	20/12/2017	USD	Cambodia			1,271								1,271
Loans repaid							9,806	-9,806		-931	931		8,876	
Credo	30/3/2015	USD	Georgia				909	-909					909	
i-Finance	16/11/2015	USD	Congo, DRC				931	-931		-931	931			
Optima Servicios Financieros	7/5/2015	USD	El Salvador				227	-227					227	
Samic	9/6/2015	USD	Cambodia				675	-675					675	
TenGer	27/12/2013	USD	Mongolia				1,087	-1,087					1,087	
Asian Credit Fund	25/7/2014	KZT	Kazakhstan				324	-324					324	
Crystal	30/9/2014	USD	Georgia				785	-785					785	
KIF	24/12/2014	USD	East Timor				613	-613					613	
FIE Gran Poder	28/7/2016	USD	Argentina				448	-448					448	
Vision Fund Mexico	29/3/2016	MXN	Mexico				661	-661					661	
Enlace	25/8/2016	USD	El Salvador				886	-886					886	
Caja de Crédito de Sonsonate	23/12/2015	USD	El Salvador				915	-915					915	
			Palestinian Territory, Occupied											
Faten	9/12/2015	USD	Occupied				524	-524					524	
Vision Fund Cambodia	30/12/2014	USD	Cambodia				821	-821					821	
Total loan portfolio				23,210	8,228	31,438	17,565	8,950	26,515	-1,317	359	-959	39,458	56,995

5. Compliance

Fund policy

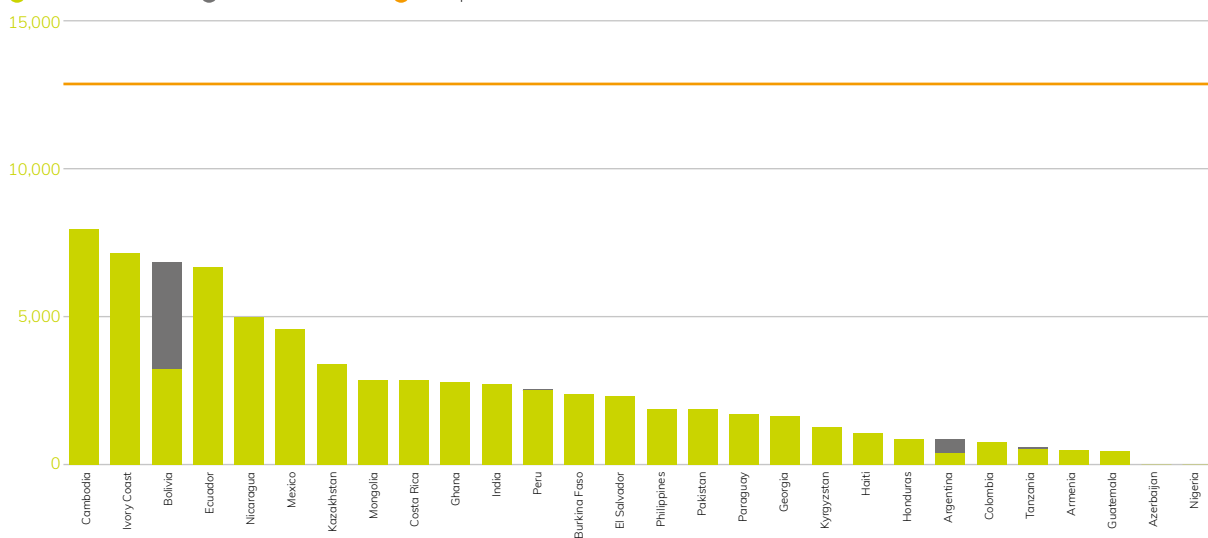
- In accordance with fund policies, the following rules for diversification were established to avoid concentration risk: the book value per country and per MFI must not exceed 15% and 10% respectively of Incofin cvso's total assets.
- Incofin limits its participations in MFIs and other funds to a maximum of 75% of its equity.

Compliance

Portfolio risk spread

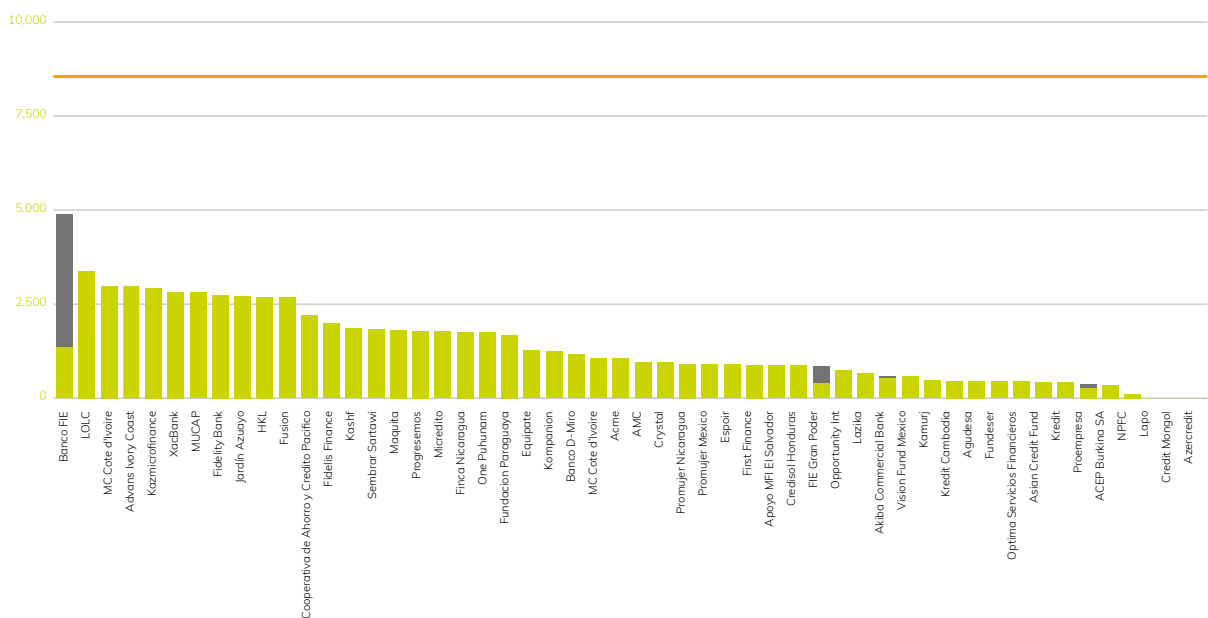
Exposure per country

● Book value in k€ ● Stock dividends in k€ ● Max. exposure



Exposure per MFI

● Book value in k€ ● Stock dividends in k€ ● Max. exposure



Book value of participations portfolio

	12/2017
Equity	49,588
Max. book value (75%)	37,191
Participations portfolio	9,278
Current book value	19%

6. Valuation rules

Without prejudice to the specific valuation rules mentioned below, the valuation rules that apply are those that were established pursuant to the provisions of the Royal Decree of 30 January 2001 in implementation of the Companies Code, more particularly Book II, title I, chapter II relating to valuation rules. Unless stated otherwise, the article numbers refer to the corresponding articles in the aforementioned Royal Decree of 30 January 2001.

Assets

Without prejudice to the specific valuation rules mentioned below, each asset item is valued separately at its acquisition cost and recognised in the balance sheet at that amount, after deduction of the depreciations and impairments on the asset item in question (Article 35, first paragraph).

Intangible fixed assets

Intangible fixed assets are valued at their acquisition cost, exclusive of additional costs. They are amortized over the economic lifetime of the asset, and over five years in the case of software.

Tangible fixed assets

Tangible fixed assets are valued at their acquisition cost, exclusive of additional costs. They are amortized over the economic lifetime of the asset, as follows:

- Office equipment 5 years
- Computers 3 years
- Furniture 10 years

Participations and shares

Participations and shares are valued at their acquisition price, exclusive of additional costs (Article 41, paragraph 2). Impairments are recognised in the event of sustained loss of value, as evidenced by the status, profitability, or prospects of the company in which participations or shares are held (Article 66, paragraph 2 of the Royal Decree of 30 January 2001). Participations and shares that are recognised under financial fixed assets are not revalued (Article 57, paragraph 1). Once a participation has been impaired, it will be revalued at no more than the original acquisition value, if the status, profitability or prospects of the company so justify in the judgment of the Board of Directors.

Fixed-interest securities

Fixed-interest securities are valued at their acquisition price. The difference between the acquisition value and the redemption value is recognised in the income statement on a straight-line pro rata basis.

Amounts receivable at more than one year and within one year

Without prejudice to the provisions of Articles 67, paragraph 2, 68 and 73, receivables are recognised at their nominal value (Article 67, paragraph 1) on the final day of the financial year.

Under Article 68 impairments are applied where repayment of all or part of the receivable on the repayment date is uncertain.

To make allowance for the special credit and currency risk that arises from extending credit to high-risk countries with unstable economic and political climates, global impairment of 1% is applied annually to the receivables in the outstanding investment portfolio, weighted by the ECA risk scores published for each country. This global impairment is applied in accordance with Article 47 of the Royal Decree in implementation of the Companies Code, given the similar technical and legal characteristics of these receivables.

The level of this impairment can be adapted on the basis of historical loss data.

Investments and cash and cash equivalents

These are recognised at the lesser of their acquisition cost or the realisable value at the reporting date (Article 74).

Liabilities

Provisions for risks and expenses

Provisions are set aside to cover losses or expenses of a clearly defined nature that are probable or certain at the balance date, but the amount of which is not known (Article 50, Royal Decree of 30 January 2001).

Amounts payable at more than one year and within one year

Without prejudice to the remaining provisions of Articles 77, 67, paragraph 2 and 73, amounts payable are recognised at their nominal value (Article 67, paragraph 1).

Foreign currency translation (Article 34)

Transactions in foreign currency are recognised at the exchange rate applicable on the transaction date.

All amounts receivable or payable in foreign currency are hedged against possible exchange rate differences via cross-currency contracts or forward contracts. These amounts receivable or payable are valued at the contractually agreed hedging rate.

Other financial assets and liabilities in foreign currency are translated at the closing rate on the balance date. Gains and losses arising from foreign currency transactions and from the translation of monetary assets and liabilities in foreign currency are recognised in the profit and loss account. Non-monetary items valued at their acquisition price in a foreign currency are translated at the exchange rate applicable on the date on which the acquisition price was determined.

Positive and negative exchange rate differences are entered in the financial results on a net basis.

7. Report of the Board of Directors

We hereby present our report on the financial year 2017 and ask you to approve the annual accounts at the balance sheet date of 31 December 2017. The Board of Directors has monitored the activities of the company, with attention for its special social purpose.

Social performance

Incofin is an investment firm with a social objective. Its Board of Directors ensures that the firm continues to operate in keeping with its social mission. Incofin's investments have considerable practical impact. Incofin cvso invests in 50 microfinancing institutions (MFIs) across 28 countries, often in difficult regions. Activating these local financial institutions gives Incofin cvso's investments a very powerful leverage effect. Together, these MFIs reach 3.2 million customers, 76% of whom are women. Incofin cvso ensures that the MFIs emphasize their customers' well-being and progress. This is monitored by means of a standardized measurement method.

The MFIs included in Incofin cvso's portfolio are healthy and high-performing financial institutions: they maintain a high-quality loan portfolio (with limited arrearages), keep their general expenses under control and are profitable.

Each year, Incofin cvso establishes a budget for valuable technical assistance. This budget makes support available to Incofin cvso's financial partners in developing countries. This support funds the hiring of microfinancing experts, who can share their knowledge with the staff of the institutions involved. This allows for considerable improvements in the MFIs' operations in various areas (e.g. risk management, product development, etc.). Due to the strong leverage effect of this technical assistance, the Board of Directors of Incofin cvso decided during 2017 to double the available budget from k€ 50 to k€ 100 annually. During 2017, 7 microfinancing institutions received support from this budget totaling k€ 72. Incofin cvso sees the support via technical assistance as an important additional means of achieving Incofin's social mission.

Explanatory notes to the 2017 Incofin cvso balance sheet

At the end of 2017 Incofin cvso's balance sheet total stood at k€ 85,933, an increase of 34.92% over the previous year. At the end of the financial year, the equity of Incofin cvso stood at k€ 49,588 in comparison with k€ 44,564 at the end of the 2016 financial year. Issued share capital increased by k€ 3,189 to k€ 42,207 thanks to a) the entry of new shareholders and b) additional contributions from existing shareholders.

The Board of Directors proposes to offer Incofin cvso shareholders a total return on capital invested of k€ 1,005 for the 2017 financial year (equal to a 2.5% dividend). The new partners and the partners who have increased their capital during the course of the financial year will be remunerated pro rata in accordance with Article 34 of the Articles of Incorporation.

Debt in the form of short and long term loans increased by k€ 16,250 during the course of 2017. At the end of 2017, Incofin cvso had k€ 33,815 in loans effectively outstanding, representing 68% of its equity. The fund also had undrawn credit lines totalling k€ 7,435. Within the guidelines set by the Board of Directors, these credit lines may be drawn on to a maximum of 100% of the amount of the shareholders' equity.

The investment portfolio at year-end totals k€ 74,337, and consists of participations totaling k€ 9,278 and loans totalling k€ 65,060, including four subordinated loans totaling k€ 8,065. In 2017 the loan portfolio consisted of 53 loans to 47 microfinance institutions across 26 countries.

The k€ 2,790 decrease in the participations portfolio to k€ 9,278 is primarily due to the sale of 100% of the participation in Confianza in September 2017. Incofin cvso realized a gain of k€ 787 on this sale. In late September, Incofin cvso also received k€ 2,212 (including k€ 1,175 in surplus value) from the Rural Impulse Fund, which went into liquidation on August 1, 2017 due to reaching its maturity date. Since all of the fund's assets have not yet been sold, additional payments are expected. Furthermore, (i) stock dividends were received from Banco Fie and Financiera Proempresa in the amount of k€ 552, (ii) an additional write-down was posted on the participation in Fie Gran Poder in the amount of k€ 61 due to another depreciation of the Argentinian Peso during 2017 and (iii) an additional investment in the amount of k€ 271 was posted on the ACME participation.

At the end of the reporting period the loan portfolio stood at k€ 65,060. At the end of the reporting period the general provision for any impairment was k€ 1,391 – 2.1% of the loan portfolio – and was offset against the loan portfolio. The loan portfolio of the MFIs in which Incofin invests is generally of good quality (with average overdue payments (PAR 30) of MFI clients of 6.5%).

Historically, Incofin cvso has issued m€ 205 in loans, only 1% of which has not been recovered. One can therefore state that Incofin cvso's MFI loan portfolio is of very high quality.

During 2015, Incofin cvso wrote off loans to Azercredit and Credit Mongol in full. Repayments were received from both institutions during 2017 in the amounts of k€ 17 and k€ 9, respectively.

The loan to Azercredit was covered by an investment insurance policy with Credendo. A settlement was reached regarding this claim during 2017, under which Credendo paid 50% of the outstanding amount. Consequently, this case is considered closed.

Due to money transfer problems in Nigeria, Lapo (despite adequate cash reserves) was unable to repay its loan to Incofin cvso on the anticipated maturity date. Consequently, 100% of the loan was written off. This transfer risk falls under Credendo's risk coverage. Needless to say, after submission and approval of this case, 90% of the amount was repaid. Lapo is expected to be able to repay its loan during 2018.

Filipino institution NPFC found itself in operational and financial problems during 2017. This made collection of the loan uncertain, which has already led to accommodating lower, interim repayments as an initial measure. NPFC was able to make its first repayments. By late 2017, however, they requested an additional amendment of the repayment schedule, prompting Incofin cvso to write off 67% of this receivable. The impairment was covered by a reversal of the general provision.

The cash available at the end of the financial year equals k€ 11,039, an increase of k€ 7,543 compared to the end of 2016. This increase in available cash is the result of draws on a number of lines of credit (which were necessary due to new increases or due dates that needed to be met). Furthermore, a number of planned investments were cancelled during the final quarter for a variety of reasons. The resulting availability of cash ensures that Incofin cvso will have ample reserves for its planned portfolio growth during 2018. The remaining balance sheet entries consist mainly of expected interest on the loan portfolio of k€ 1,863 and other receivables amounting to k€ 85 (recoverable VAT).

Off-balance sheet obligations include the contracts with KBC Bank and MFX Solutions in the form of cross-currency interest rate swaps and forward currency contracts to hedge exchange rate risks on the outstanding loans to MFIs. These hedge all non-euro interest and capital flows for loans made by Incofin cvso in local currency with a cross currency swap. At the end of 2017 Incofin cvso had exchange rate hedging products outstanding in a total notional sum of k€ 55,994 at the hedging rate, representing 86% of the outstanding loan portfolio. The remaining 14% of the loan portfolio includes loans issued in Western African CFA francs (ISO code: XOF), a currency closely tied to the exchange rate of the EUR. Hedged loans to MFIs in exotic currencies in 2017 represented 28% of the hedged loans. The remaining 72% consisted of USD loans to MFIs.

Explanatory notes to the 2017 Incofin cvso profit and loss account

Incofin cvso closed the financial year with an after-tax profit of k€ 2,840, which is significantly higher than last year (2016: k€ 1,936).

The recurring financial income amounted to k€ 3,892, principally composed of (i) interest received on MFI loans amounting to k€ 3,263, (ii) stock dividends received amounting to k€ 600, (iii) cash dividends received amounting to k€ 217, (iv) fee income amounting to k€ 169, (v) financing charges amounting to k€ 635 and (vi) other costs totaling k€ 163.

The non-recurring financial income in the amount of k€ 1,902 includes the gain realized on the sale of the participations in Confianza and Rural Impulse Fund in the amount of k€ 787 and k€ 1,175, and the additional impairment on the participation in FIE Gran Poder in the amount of k€ 61.

The impairments on amounts receivable as of the end of 2017 totalled k€ 719 (an increase of k€ 766 compared to the previous financial year) and consist of (i) a specific impairment on Lapo in the amount of k€ 323 and on NPFC in the amount of k€ 276, (ii) a recapture of specific impairments on Azercredit and Credit Mongol due to repayments in the amount of k€ 26, (iii) the addition to the general provision in the amount of k€ 617 and (iv) the reversal of the general provision in the amount of k€ 470. The allocation of the general provision to compensate for possible future payment defaults is 1.62% of the outstanding net loan portfolio (weighted based on the ECA risk scores).

Services and other goods totalled k€ 2,108 for the reporting period 2017 and are 34% higher than for the reporting period 2016.

The profit before tax for the 2017 financial year equals k€ 3,031 (a 45% increase compared to 2016) and is due to the good performance of the loan portfolio and the sale of the participations in Confianza and Rural Impulse Fund.

After deduction of the withholding tax on interest received abroad the profit for the reporting period is k€ 2,840.

We kindly ask you to approve the annual accounts at 31 December 2017. After approval, we propose to appropriate the profit for the financial year and the profit carried forward from the previous financial year as follows:

Profit available for appropriation	€ 7,124,157
Profit for the financial year available for appropriation	€ 2,839,749
Profit carried forward from the previous financial year	€ 4,284,408
Allocation to capital and reserves	€ 141,987
Allocation to the legal reserve	€ 141,987
Allocation to unavailable reserves	€ 0
Allocation to capital and issue premiums	€ 0
Retained earnings to be carried forward	€ 5,977,268
Retained profit to be carried forward	€ 5,977,268
Profit for distribution	€ 1,004,902
Return on capital	€ 1,004,902

Risks and uncertainties

As a result of its activity, Incofin cvso is subject to a range of risks including credit risks, country-specific risks, exchange rate risks and liquidity risks. The Board of Directors pays the necessary attention to monitoring these risks and is of the opinion that the risks are limited and adequately covered.

Information on major events occurring after the close of the financial year

There have been no significant events since the end of the financial year that might impact Incofin cvso's figures at 31 December 2017.

Directors

Please pronounce on the discharge to be given to the Board of Directors and to all the directors individually for the performance of their mandate during the past financial year.

Statutory auditor

Please pronounce on the discharge to be given to the auditor for the performance of his mandate during the past financial year.

Resignation

- Mr Alfons de Potter resigned as a member of the Board of Directors on September 19, 2017.
- Mr André Sarens resigned as a member of the Board of Directors on December 5, 2017.

The following members resigned effective April 26, 2018:

- Ms Klaartje Vandersypen
- Mr Mark Leysen
- Mr Erik Brijs
- Mr Francis Deknuddt
- Ms Rein De Tremmerie
- Mr Ignace Schatteman
- Ms Ann Van Impe
- Mr Frank Vereecken
- Mr Yvan Dupon
- Mr Benoît Braeckman
- Mr Patrick Vandenberghe
- Mr Miguel Van Hoof
- Mr Johan De Schampelaere
- Mr Jan Verheeke
- Mr Frank Degraeve
- Mr. Tony Janssen
- Ms. Greet Moerman

Appointments

- On September 19, 2017, the Board of Directors nominated Mr Justin Daerden as a member of the Board of Directors (to replace Mr Alfons De Potter) pending ratification of his appointment by the next General Meeting. We propose ratifying the appointment of Mr Justin Daerden as a member of the Board of Directors. His mandate would run until the 2021 General Meeting.
- We propose the appointment of Ms Anita Dewispelaere as a member of the Board of Directors. Her mandate would run until the 2024 General Meeting.

End of mandate / reappointments

The following Board mandates will expire the day of the General Meeting of April 25, 2018 and will not be renewed:

- Mr Jos Daniëls
- Mr Marc Timbremont
- Mr Bart Vannetelbosch
- Mr Henri Vansweevelt
- Mr Dirk Vyncke

The following Board mandates will expire the day of the General Meeting of April 25, 2018. We propose that these mandates be renewed for the statutory period of six years, i.e. until the 2024 General Meeting:

- Ms Leen Van den Neste
- Mr Koenraad Verhaegen

New composition of Board of Directors

During the strategic session in Cadzand on February 17-18, 2017, Incofin cvso's Board of Directors focused on several issues, including its "governance". The session ended with a number of recommendations, which were then formally ratified during the meeting of the Board of Directors on March 16, 2017.

In concrete terms, decisions were made (i) to transform the Board of Directors of Incofin cvso to a Strategic Advisory Board and (ii) to transform the existing "Management Committee" to a formal Board of Directors, which would be smaller than the current Board of Directors.

In addition, the decision was made to limit the Board of Directors to approximately 15 members, to focus on younger and more female membership and to have its members reflect "clusters" of shareholders. The renewed composition was entrusted to the Management Committee.

As a result, the new Board of Directors will consist of the following persons:

- Chair
- Ms. Leen Van den Neste
- Mr. Eric Delecluyse
- Mr. Michiel Geers
- Mr. Justin Daerden
- Mr. Vic Van de Moortel
- Mr. Luc Versele
- Mr. Frank De Leenheer
- Mr. Peter van den Brock
- Mr. Guy Pourveur
- Mr. Koenraad Verhaegen
- Mr. Willy Bosmans
- Ms. Anne van Autreve
- Mr. Frans Samyn
- Mr. Pieter Verhelst

8. Report of the statutory auditor

The statutory auditor Deloitte Bedrijfsrevisoren BCVBA, represented by Maurice Vrolix, has submitted with the legally required annual financial statements an unqualified statement including a paragraph emphasizing a certain matter.

The financial statements as of 31 December 2017 give a true and fair view of the company's assets, financial position and results in accordance with the accounting principles applicable in Belgium.

9. Risk management

Risks inherent in offering and holding shares

Risks inherent in investing in shares

There are economic risks inherent in an investment in Incofin cvso shares, as in any investment in equities: when considering an investment decision, investors must remember that they could lose their entire investment in shares.

Limited liquidity of Incofin shares

There is no secondary market on which Incofin cvso shares are traded. Although it is possible for a shareholder to withdraw in accordance with the procedure set out in the Articles of Incorporation, there is relatively limited liquidity. In addition, the funds raised by Incofin cvso are reinvested as efficiently as possible in its core activities. These resources are employed by MFIs under a series of contracts for a fixed time as working capital for financing the micro-entrepreneurs, and are thus not immediately available for withdrawal.

Under Article 10 of the Articles of Incorporation, partners may only withdraw or seek a partial repayment of their shares in the first six months of the financial year, after approval by the Board of Directors. Finally, shares may only be transferred with the Board of Director's prior consent.

Risks of future dividend changes

Past gains offer no guarantee for the future, and no guarantee is given as to future gains. The dividend may rise or fall to a maximum of 6% as set out in the Act of 20/7/1955 for cooperative partnerships recognised by the National Cooperation Council (NRC). Incofin cvso makes no forecasts or estimates of dividend yields.

Risks inherent in the business of Incofin cvso

Incofin cvso is a specialist player in the microfinancing sector. Incofin cvso invests directly and indirectly in MFIs in developing countries, which offer microloans and financial services to small local entrepreneurs.

Incofin cvso's investment decisions are taken by the Investment Committee, which is made up of a qualified team of experts with broad financial and legal expertise. They have experience of the

microfinancing sector and are well able to assess the risks of an investment. The Investment Committee closely monitors the evolution and management of all of these risks.

Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 ("the Directive") has been transposed into Belgian law in the form of the "AICB" law.

Following rigorous analysis of the AICB law and consultation with the FSMA it was concluded that Incofin cvso is covered by this legislation. However, the impact of this legislation on the activities of Incofin cvso is limited, for the following two reasons:

- Incofin cvso benefits from the de minimis rule as set out in article 106 of the AICB law; and
- Incofin cvso is a development fund in the sense of Article 2, 1° of the law of 1 June 2008 and therefore falls within the exceptional regime under the AICB law as specified in its Article 180 §2 2°.

In accordance with Article 107 of the AICB law Incofin cvso has duly notified the FSMA. Incofin cvso will fulfil its obligations to process the registration documentation in accordance with Article 107 § 2 of the AICB law.

There is no further impact on the operations of Incofin cvso, nor on the relationship with Incofin Investment Management as fund adviser.

Credit risks

Incofin cvso invests in microfinance institutions, which in turn grant loans to people who are often unable to provide any real security. Incofin cvso also works together with such microfinance institutions and with microfinance funds. It cannot be ruled out that the microfinance institutions in which Incofin cvso invests or with which Incofin cvso collaborates could at any given moment become insolvent, as a result of which Incofin cvso's investment could be lost. Incofin cvso manages this risk by:

- conducting a rigorous financial analysis;
- evaluating their business plans;
- evaluating their management and directors;
- calling for regular reporting of developments in their activities;
- regular on-site follow-up.

Country-specific risks

Incofin invests in developing countries, which are subject to country-specific risks. These risks include political risks (e.g. war or civil war) and transfer risks (the inability to repatriate funds invested in the country owing to foreign exchange shortages or other government measures). To cover these risks, Incofin cvso has concluded an insurance policy with Delcredere-Ducroire, the Belgian export credit insurer, which insures Incofin's entire investment portfolio against these risks (with an excess of 10%).

Incofin cvso diversifies its investment portfolio (consisting of equity investments and loans) and spreads its risks in a prudent manner based on the risk distribution policy established by the Investment

Committee. This policy states that the exposure to any one country or MFI should not exceed 15% and 10% respectively of Incofin cvso's total assets.

Market risks

The investments are also exposed to market and environmental risks, which cannot be hedged from an insurance perspective. These risks include economic environmental factors, legal certainty and the quality of the local regulation of microfinance institutions. Incofin cvso analyses these issues carefully and also applies a sound geographic spread in the portfolio composition, to limit this risk as much as possible.

Despite the fund manager's experience in the microfinancing business, there is no guarantee of the identification of adequate attractive investments or of an optimal spread in the portfolio. Each contract is the result of negotiation, and the agreement of both the Investment Committee and the MFI in question is required to complete a transaction.

Exchange rate risks

Incofin actively manages its currency risk using hedging techniques (such as cross currency swaps, forwards etc.). The exchange rate risk on investments in local currency is not actively hedged. In these cases, it is expected that the return on investment will off-set the possible depreciation of the currency concerned.

Interest rate risk

On the one hand Incofin cvso draws debt financing, and on the other it places loans with MFIs in foreign currencies. Over time, the interest rates at which these operations take place are subject to market influences. Incofin cvso will always ensure that the margin between debit and credit interest rates remains large enough to allow Incofin cvso to continue to grow. The fund adviser manages this risk by (i) applying fixed rates to both incoming and outgoing transactions and (ii) determining a "minimum" return for all loan transactions.

Liquidity risk

The liquidity risk of the fund is relatively low given the high liquidity and maturity of the loan portfolio. The cash available (including available credit lines) and the outstanding loans which will reach maturity during the coming year will always be amply sufficient in order to meet the financial obligations and to absorb any loan defaults.

Colophon

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