Annual report on Alterfin's activities, financial and social performance
Printed on recycled paper with ecological inks.
Foreword
Map of Alterfin’s world presence
Alterfin’s mission

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Forward 2013
Dear reader,

2012 was a remarkable year for Alterfin, in the first place because we were able to welcome no less than 865 new shareholders. Thanks to our existing and new shareholders our capital grew by 6.1 million EUR to 25 million EUR. Alterfin’s portfolio kept pace with the increasing capital and reached 25.3 million EUR by the end of the year. This is a growth rate of 18%.

The strong growth of our own portfolio was necessary to compensate for the loss of portfolio that we used to manage for the Swiss reponsAbility. Moreover, the loss of responsAbility could not yet be compensated by our funds Fefisol and Fopepro (see page 14).

At the end of 2012, 52.5% of Alterfin’s own portfolio was invested in microfinance institutions. The rest (47.5%) was invested in farmer cooperatives and their value chain companies. This reflects the policy of Alterfin to keep a balance between investments in microfinance and investments in sustainable small-holder farming.

At the end of 2012, our partners were working with around 1,210,000 microfinance clients and 75,000 producers throughout the world. Of these 1,285,000 clients or producers, 50,675 persons (and their families) were being reached through the work of Alterfin.

Most of the people Alterfin reaches are women (67%), most of them live in rural areas and a large part of them live in Africa (47%).

This illustrates the fact that Alterfin is not only growing strongly but that is also keeps reaching the people we aim to reach.

For the fifteenth year in a row Alterfin has a solid positive financial margin, testimony to Alterfin’s sound business model and proof that Alterfin continues to stand for double bottom line investment and enterprise.

Dear reader, let me close this foreword with a personal touch. Eighteen years ago I started Alterfin with the backing of nine NGOs and two banks and soon many hundreds of private shareholders joined Alterfin. Together with a team of competent and committed professionals we turned Alterfin into a success. I have now decided to step aside as managing director and to continue as senior advisor of Alterfin. Kris Goossenaerts will take over at the helm. It was a pleasure and an honour to be trusted with the capital of our shareholders and to work for all those people in the South.

I thank you all.

Hugo Couderé
Our mission

Alterfin wants to enhance human dignity in developing countries by promoting individual and collective economic activities that are initiated locally and contribute to a sustainable development.

Self-employment, micro-enterprises and SME’s are indispensable if we want to achieve this goal. These small entrepreneurs need access to means of production. One of the essential tools to obtain this access is appropriate financial services that are offered by local, sustainable and transparent organisations.

Alterfin wants to support the development of sustainable local financial services in the South which cater for opportunity-poor groups in society. These financial services are provided by micro-finance institutions (MFI) and by associations of small producers (ASP) or other organisations that are embedded in the same (agricultural) value chain.

Alterfin therefore invests in microfinance institutions and producer’s associations in Africa, Latin America and Asia. By the end of December 2012, Alterfin was managing a portfolio of over 50 million USD. Alterfin is directly financing 112 partners in 24 different countries.

Alterfin was established in 1994 and is a collaborative association between NGOs, banks, a number of companies and more than 3,200 private individuals (83% of our total capital is in hands of private individuals).

Key Figures on Dec. 31, 2012

- 112 active partners in the South
- 24 countries
- 25.3 million EUR invested
- 25 million EUR in share capital
- 3,396 shareholders
1. Share capital on the rise

Alterfin is a cooperative, which means that it is owned by its members. Alterfin’s members also provide the most important financial product for the cooperative: the share capital that constitutes the financial basis which allows Alterfin to invest and attain its social mission.

Since its creation in 1994, Alterfin has been welcoming an increasing number of shareholders every year. Since 2010 Alterfin is recognised by the Belgian Government as a microfinance development fund. Under certain conditions, individuals may enjoy tax benefits on the amounts they invested in Alterfin which has led to a stronger growth of our share capital over the past two years.

In 2012, Alterfin welcomed 865 new shareholders (+34%), Jan De Grande, Alterfin’s Financial manager says he is “extremely pleased to welcome these new shareholders who challenge us to further develop our credit portfolio”. At the end of the year, the share capital amounted to 25,004,000 EUR (+6.1 million EUR; +32%).
2. Who are Alterfin’s shareholders?

There are two types of Alterfin shares, depending on who subscribes to the shares:
- Legal entities can subscribe to shares of 250 EUR (category A);
- Individuals can subscribe to shares of 62.50 EUR (category B).

Individuals are by far the largest contributors to the Alterfin capital: they represent 94% of the total number of shareholders and account for 83% of the total share capital.

<table>
<thead>
<tr>
<th>Situation on 31/12/2012</th>
<th>Category A</th>
<th>Category B</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legal entities</td>
<td>Individuals</td>
<td></td>
</tr>
<tr>
<td>Number of shareholders</td>
<td>188</td>
<td>6%</td>
<td>3,210</td>
</tr>
<tr>
<td>Share capital in EUR</td>
<td>4,163,250</td>
<td>17%</td>
<td>20,840,750</td>
</tr>
<tr>
<td>Average investment in EUR</td>
<td>22,145</td>
<td>6,492</td>
<td>7,358</td>
</tr>
</tbody>
</table>

3. Where did you see Alterfin in 2012?

In order to promote Alterfin’s activities, we have participated in fairs, enjoyed nice press coverage, entered the social media communities and released some new publications in 2012.

Alterfin stands in fairs to promote our activities

In 2012 Alterfin participated in many fairs. We were present at Finance Avenue and, for the first time, at Roularta’s MoneyTalk event and VFB event (‘Flemish Federation of Investors’). Furthermore we were also present at the Triodos Day and at the Réseau Financement Alternatif event.

Alterfin also participated in the ‘Fair trade Week’ organized by the Belgian development agency (BTC). We promoted our activities to members of staff of financial institutions by giving a presentation at their offices followed by a tasting session of fair trade products.
Alterfin at seminars and congresses all over the world

Alterfin actively participates in seminars and congresses to be informed and give its opinion on the current state of affairs in the development sector. In that light, Alterfin a.o. took part in: the International Summit of Cooperatives in Canada, the European Microfinance Platform in Luxemburg, the African Microfinance Transparency forum in Tunisia, the microfinance and microenterprise development event for Latin America and the Caribbean (FOROMIC) organized in Barbados, the Social Performance Task Force in Jordan, the fairs of the Special Coffee Association Europe (SCAE) in Austria and America (SCAA) in Portland, USA.

Press coverage

Alterfin enjoyed some interesting press coverage from some of Belgium’s leading newspapers and magazines. There were articles about Alterfin in Trends (Flemish version) and Trends-Tendances (French version), De Standaard and La Dernière Heure.

Social media

In order to enhance Alterfin’s web presence and to remain in contact with the wider community, we actively engaged in social media networking and created our own Facebook (www.facebook.com/Alterfin), LinkedIn (www.linkedin.com/company/alterfin-cvba) and Twitter (twitter.com/alterfin) accounts. Join us there!

New Alterfin publications

In 2012 we produced a number of new publications to promote Alterfin’s activities. These documents are distributed at fairs or sent by post. The Alterfin brochure has been updated, a general folder has been introduced explaining Alterfin’s activities, a welcome folder for new shareholders and a folder for potential partners in the South have been introduced with a view to raising Alterfin’s visibility.
1. Total Portfolio Overview

At the end of 2012 the total amount of investments managed by Alterfin (including the investments monitored by Alterfin for responsAbility, Fopepro, Fefisol and Calvert Foundation) amounted to 44.2 million EUR which is a bit less compared to last year (-4%).

<table>
<thead>
<tr>
<th>Investments</th>
<th>2011</th>
<th>2012</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alterfin portfolio</td>
<td>€ 21,374,463</td>
<td>€ 25,305,003</td>
<td>18%</td>
</tr>
<tr>
<td>responsAbility portfolio</td>
<td>€ 20,588,468</td>
<td>€ 13,071,683</td>
<td>-37%</td>
</tr>
<tr>
<td>Fopepro portfolio</td>
<td>€ 3,844,101</td>
<td>€ 3,290,394</td>
<td>-14%</td>
</tr>
<tr>
<td>Fefisol portfolio</td>
<td>€ 450,000</td>
<td>€ 1,789,049</td>
<td>298%</td>
</tr>
<tr>
<td>Calvert Foundation portfolio</td>
<td>€</td>
<td>€ 756,727</td>
<td></td>
</tr>
<tr>
<td><strong>Total portfolio monitored by Alterfin</strong></td>
<td>€ 46,257,032</td>
<td>€ 44,212,856</td>
<td>-4%</td>
</tr>
<tr>
<td><strong>Total partners with amounts outstanding</strong></td>
<td>108</td>
<td>115</td>
<td>7%</td>
</tr>
</tbody>
</table>
With a growth of 18% over the year, Alterfin’s own portfolio amounted to 25.3 million EUR at the end of the year.

However, the portfolio Alterfin is managing on behalf of third parties decreased significantly compared to last year (-24%). This decrease was expected following the 2011 decision by responsAbility to progressively scale down its cooperation with Alterfin in order to build up its own internal capacity. Our activity through Fopepro is also decreasing. The perspectives for Fopepro are not bright as it seems problems sourcing enough capital to fund its development. We are still actively developing our activities in Africa through Fefisol. Moreover, during the last quarters of the year, we started managing a loan for Calvert Foundation. More information about the portfolio we managed for third parties can be found on page 14.

2. Alterfin portfolio

Thanks to the increasing share capital, Alterfin could develop its own portfolio through direct investment (mainly loans) in new and current partners. At the end of 2012, Alterfin was managing an own portfolio of 25.3 million EUR (+18% compared to 2011).

The following graph gives a picture of the evolution of the Alterfin portfolio and the number of partners in the South.

[Graph showing the evolution of Alterfin's own portfolio]

Geographical scope

At the end of the year, Alterfin’s portfolio was distributed between 112 active partner organizations in 24 different countries. 97 partners had an amount outstanding by closing date: 79 in Latin America, 12 in Africa, 4 in Asia and 2 international (SIDI and MFX).
Alterfin started investing in Senegal

In November 2012, Alterfin approved a loan of 76,000 EUR to UGAN, a federation of sesame producer organisations in the Fatick Region, Senegal. This is Alterfin first investment in Senegal. Alterfin works closely with Vredeseilanden, one of our founding shareholders to provide technical assistance to UGAN.

This financing enabled the Federation to organise the members’ sesame harvest and to deliver the produce to a local buyer-factory. Close on 1,000 farmers and their families are benefitting from this scheme.

Alterfin’s partners

In 2012 Alterfin welcomed 12 new partners: 10 in Central and Latin America, 1 in Africa and 1 in Asia. In the story on page 17, we are highlighting one of them, Benjamin Aceval, an association of sugar cane producers in Paraguay.

Although the volume of investments in Africa is limited, the number of people that Alterfin reaches through its financing is significantly greater (see page 21). This is explained by the average amount of the loans which is much lower in Africa. With the same amount of money, Alterfin therefore reaches much more clients or producers in Africa than in any other continent.
Sector and products

At the end of 2012, 52.5% of Alterfin’s own portfolio was invested in microfinance institutions, up 1.4% since last year. The rest (47.5%) was invested in sustainable agriculture and fair trade. This reflects the policy of Alterfin to keep a balance between its investments in microfinance and in producers’ organizations involved in sustainable agriculture.

In terms of fair trade investments, coffee remains the most important product with a share of 21.1%, which is slightly lower compared to last year (23% in December 2011). In 2012, Alterfin added food products based on soya beans to the list of fair trade products being financed. The value chain investment refers to the investments in Acerola and Fopepro.

![Portfolio Alterfin 2012 Distribution by sector](image)

Types of financing

Alterfin mainly works through loans (93.9%): either in the form of loans to microfinance institutions or credit lines for fair trade partners. The other types of investments Alterfin currently makes are equity investments (5.8%) and guarantees (0.3%) which are mainly used to mitigate the currency risk of investments in Africa.

The major part of Alterfin’s investments are in USD (85.8%), 8.6% is in EUR and 5.6% of its investments are made in local currencies. Alterfin has access to hedging possibilities for financing in local currency through MFX Solutions, a company offering hedging services for currency risks adapted to the microfinance sector. However, investments in local currency in Africa are proposed as a priority to the Fefisol fund which has multiple ways of covering exchange risk.
3. Portfolio managed for other organizations

Alterfin made the strategic decision to use its expertise to develop and monitor portfolios for other organizations in 2005. The development of this activity allows Alterfin to leverage additional funds for its partners and to secure new income sources through the payment of administrative and monitoring fees.

responsAbility

In 2005, the cooperative begun to propose and monitor investments for responsAbility (rA), a social investment company based in Switzerland. The investments Alterfin monitored for rA grew steadily until 2010. However, in 2010, responsAbility started to scale down its collaboration in order to develop its own internal capacity. Alterfin continued to still propose and monitor fair trade partners until the end of 2012 and, in the future, Alterfin will only monitor the running contracts until their end date.

At the end of 2012, Alterfin was monitoring ten investments, amounting to 13 million EUR. The partners were located in Peru, Honduras, Paraguay, Costa Rica and Nicaragua. The share of microfinance represents 18% of the portfolio. The rest (82%) is invested in fair trade products: 60% in coffee, 17% in sesame and 4% in cacao.

Fopepro: supporting smallholders in Latin America

The Fopepro fund was co-created by Alterfin and SiDI, a French company specialized in financial and technical support to microfinance institutions in 2010. The role of Fopepro is to finance rural development in the Andean countries (Bolivia, Peru, Ecuador and Colombia), Central America (Nicaragua, Guatemala, Honduras and El Salvador) and Paraguay.
The fund is actually funded by SIDI, Fogal (Peru), Développement International Desjardins (Canada), the Inter-American Development Bank and Alterfin and is domiciled in Panama.

Since October 2011, Alterfin has been managing the Fopepro portfolio while SIDI took over the general management tasks. The situation of Fopepro is uncertain as it seems very difficult to find enough funds to finance the development of the fund. This severely limits the perspectives of growth.

At the end of 2012, 17 partners were being financed for a total amount of 3.3 million EUR.

Fefisol, an innovative fund for rural Africa

In 2008, Alterfin in collaboration with SIDI and Etimos (a social investment company based in Italy), began setting up Fefisol, a fund entirely dedicated to Africa. The fund has been operational since September 2011.

Alterfin’s activities in Africa are now mostly being developed through this fund. Equity investments, investments in local currency and investments requiring technical assistance are first presented to Fefisol. Fefisol funds can also be used to increase funding in cases where Alterfin cannot take any additional risks.

Fefisol is funded by the Caritas Foundation, Crédit Coopératif, Développement International Desjardins, the European Investment Bank, Etimos, FISEA, NMI, SEFEA, SIDI and Alterfin. The fund is domiciled in Luxembourg.

Alterfin is a Board member of the fund and follows up partners of the fund Alterfin proposes. The general management of the fund rests with SIDI.

The development of the fund is on track. Since the inception of Fefisol, 21 investments had been disbursed as the end of December 2012 for a total amount of 9.4 million EUR, in 16 countries (Benin, Cameroon, Ghana, Ivory Coast, Kenya, Madagascar, Namibia, Niger, Senegal, Sierra Leone, South Africa, Tanzania, Togo, Tunisia, Uganda and Zambia).
Of these, Alterfin proposed and directly manages 8 partners, with a total outstanding amount of 1.8 million EUR as of 31st December 2012 (+1.3 million compared to 2011). Alterfin’s partners are spread in 5 countries: Ivory Coast, Ghana, Sierra Leone, Kenya and Tanzania.

Calvert Foundation
In 2012, to compensate for the impact of the end of the collaboration with responsAbility, Alterfin went in search of new collaborations. In July 2012, we started to prospect and monitor fair trade partners on behalf of the Calvert Foundation, an American NGO founded in 1988 which invests in social projects.

One proposal (1,000,000 USD, Naranjillo in Peru) has so far been selected, approved and disbursed. We expect to strengthen our collaboration over the coming months.
Alterfin is supporting sugar cane producers in Paraguay

In 2012, Alterfin for the first time lent its support to Asociación de Productores de Caña de Azucar Benjamin Aceval (Benjamin Aceval), a small association of some hundred sugar cane producers in Paraguay. Here’s their story.

Located in the vast Chaco Region near the Paraguayan capital, Asunción, we found the town Benjamin Aceval and the association of sugar cane producers of the same name.

From harvest to export

Benjamin Aceval was founded in 1956 and is one of the privileged sugarcane producer organizations in the region that directly exports processed sugar without the intervention of a third party. The sugar cane is processed in a local factory and Benjamin Aceval remains the owner of the final product. This way, Benjamin Aceval also benefits from export earnings.

The traditional system of delivering cane to processors ('ingenios') is no longer sustainable and many ‘conventional’ producers have abandoned their crops. The association Benjamin Aceval was looking at fairer alternatives and at ways and means to boost their activities by exporting Organic and Fairtrade-certified sugar directly.

Thanks to these direct exports, the members of Benjamin Aceval can increase their cane plantations, enjoy better pricing and trade conditions and ultimately benefit from a better quality of life.

In 2010, the association accessed the Organic and Fairtrade market by obtaining the organic certification and the FLO-certificate (Fair Trade Organizations Labelling). Oxfam Wereldwinkels is Benjamin Aceval’s largest trading partner and Alterfin got in touch with this association through Oxfam Wereldwinkels.

Funding need

Benjamin Aceval needed funds to develop their harvests. The replanting and extension of crops are undeniably an on-going challenge for sugar cane producers as the plant has a limited lifetime of 5 to 6 cycles (one cycle corresponds to approximately one year). Unfortunately, this kind of operation does not receive financing from local banks.

The intervention by Alterfin

In 2012, Alterfin granted a loan of 100,000 USD (or +/-80,000 EUR) to be paid in two instalments: one in 2012 and the other in late 2013. With these funds, Benjamin Aceval can develop the 70 hectares of sugar cane plantation (renewal of existing crops and new plantations). They also bought a tractor which is leased to its members at a very attractive price.

The association intends to repay the loan with the social premium that they receive from the fair trade market.
1. Introduction

Social performance management at Alterfin

Alterfin created a social performance monitoring tool which sets the essential social performance indicators. This tool is based on a questionnaire that is sent out to all our partners every year. We monitor the social performance of our portfolio via the lists of indicators we receive from our partners.

The tool was first sent to our microfinance partners in 2007. Alterfin is an active member of the Social Performance Task Force (SPTF), a worldwide network of all microfinance stakeholders. The goal of the SPTF is to set industry standards for social performance management and to promote best practices. This active participation allows Alterfin to regularly fine-tune its social performance monitoring tool.

At the end of 2008, an adapted grid was extended to our fair trade partners. Recently, there have been new initiatives to better evaluate and monitor the social performance in the fair trade sector which have been incorporated in our tool. As an active member of FAST (Finance Alliance for Sustainable Trade), Alterfin contributes its know-how to the development of a more standardized social performance measurement methodology for the sector.

Representativeness of the results

The survey was sent to 118 partners: 57 microfinance institutions (MFIs) and 61 fair trade organizations (FTs). Answers were received from 85 partners (44 MFIs and 41 FTs). We could use valuable data from 2011 for 19 additional partners. The total number of partners analysed thus amounted to 104 (52 MFIs and 52 FTs).

1 The lower representativeness (compared to last year) results from the decision to share Alterfin’s social performance during our General Assembly which is annually organized in March. The partners had therefore much less time to collect and send their data.
On 31 December 2012, our partners were working with about 1,210,000 microfinance clients and 75,000 producers throughout the world. Of these 1,285,000 clients or producers, it can be stated that 50,675 people (and their families) were being reached through the work of Alterfin (through its own investments or via the different portfolios that Alterfin manages for other organizations).

The greatest number of clients are living in Africa: 47%. With 44%, Latin America also accounts for an important share of the total number of clients reached 44%. The number of clients in Asia is limited (9%). Although the volume of investments in Africa is limited, its outreach is significantly greater. This can be explained by the fact that the average loan amount is much lower in Africa (see page 21). With the same amount of money, Alterfin therefore reaches many more clients or producers in Africa than on any other continent.

The clients reached through the Alterfin microfinance partners account for 83% of the total number of persons reached. The other beneficiaries are the members of fair trade producers groups.

Women represent 67% of the persons reached by Alterfin’s work

There are many reasons why women’s access to microfinance service needs to be increased. E.g:

- Gender inequalities in developing societies inhibit economic growth and development.
- Women are disproportionately represented among the world’s poorest people.
- Women have been shown to spend more of their income on their households; therefore, when women are helped to increase their incomes, the welfare of the whole family improves.

67% of the clients of Alterfin’s partners are women (66% last year). The focus on women becomes even more striking when we exclusively look at our microfinance partners as 71% of their clients are women.
70% of our partners’ clients live in rural areas

In most developing countries, the rural population usually engages in agricultural activities, with known seasonality and unpredictable climatic conditions which often lead to great variations in the family’s income.

Additionally, the rural population is widely dispersed and formal financial institutions (such as commercial banks) have largely avoided serving rural areas because of the higher transaction costs and higher risks.

Yet, most people live in such areas, they are generally poorer than their urban counterparts and the need for financing which could help create sustainable activities and reducing poverty is high. Alterfin therefore focuses its investments on rural areas. The fact that 70% of our partners’ clients live in such areas proves that we are reaching our goal relatively well.

3. Microfinance

Alterfin focuses on emerging partners with a social comparative advantage

In 2012, we pursued our objective to have, among our partners, an optimal balance between institutions with a high social impact and organizations that could guarantee the sustainability of our operations. We are often our partners’ first international investor, triggering additional investments from other investors, and thus enabling highly dynamic growth.

As a result, Alterfin usually focuses on smaller pioneering institutions and emerging institutions (”C” and “B” institutions, see definitions below) with a social comparative advantage. We also fund larger-scale organizations (“A”) to increase the stability of our operations.

<table>
<thead>
<tr>
<th>Category</th>
<th>Type</th>
<th>Gross loan portfolio</th>
<th>Number of clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Larger institutions</td>
<td>more than 10 million USD</td>
<td>more than 15,000</td>
</tr>
<tr>
<td>B</td>
<td>Emerging institutions</td>
<td>between 3 and 10 million USD</td>
<td>between 5,000 and 15,000</td>
</tr>
<tr>
<td>C</td>
<td>Smaller pioneering institu-</td>
<td>less than 3 million USD</td>
<td>less than 5,000</td>
</tr>
</tbody>
</table>

Living in urban areas | 30%
Living in rural areas | 70%
In 2012, 28% of our partners belonged to the “A” category, 35% to the emerging institutions (“B”) and 37% were pioneers (“C”). The targets developed in Alterfin’s investment policy are: 25% category “A”, 50% category “B” and 25% category “C”.

The average microloan is well below the average gross domestic product per capita

The average loan (weighted by the number of clients per MFI) varies considerably between regions: from 231 EUR in Africa to 1,297 EUR in South America. The overall average loan is 935 EUR per client.

In each region, the average microloan is well below the average gross domestic product per capita, which illustrates the extent of our partners’ outreach and proves that they work with relatively poor population groups.
The average interest rates charged by our MFI partners are similar to those charged in the sector.

Investors are often surprised by the seemingly high interest rates for small loans asked for by microfinance institutions (MFIs) in developing countries. Typical interest rates vary strongly between countries and are in the range of 2 to 4% per month with a global average of 35% annually².

There are various reasons why MFIs charge higher interest rates than normal banks:

- The main reason is that the operational costs are inevitably higher for microlending than for normal bank lending. Lending a million USD worth of 100 USD loans each will obviously cost more in staff salaries than granting one single loan for the total amount.

- Clients generally have no credit history, no collateral, and often live in remote areas. It is expensive to go to these clients’ doorsteps and monitor repayments. Moreover, MFIs also need to cover the risk of loan defaults. The loan loss reserve expenses also influence the level of the interest rates.

- Another factor is the inflation rate that is usually higher in the countries where microfinance is developed.

- Clients are willing and able to pay these rates knowing that the rates charged by the MFIs are far lower than anything they would have to pay village moneylenders and other informal sources who can charge up to 4.69% per day³. MFI interest rates must legitimately cover operating costs, but those costs should be as low as possible. On no account should high interest rates lead to important returns for the owners of the MFIs.

The average interest rates charged by our MFI partners are similar to those charged in the sector (see below). Before making any investments, Alterfin also carefully looks at the level of profit of an MFI partner. If the MFI is not profitable, Alterfin will usually reject the investment based on the risk of the institution’s unsustainability. On the other hand, if the MFI is too profitable, Alterfin might reject the investment based on the partner’s poor social performance.

² “Variations in Microcredit Interest Rates”, Christoph Kneiding, Richard Rosenberg, CGAP Brief, July 2008
³ In Chennai, India, fruit sellers buy INR 1000 worth of fruit on credit from the wholesalers and pay it back at the end of the day with an interest of 4.69%. Example from “Poor Economics: Rethinking Poverty And The Ways To End It”, Abhijit V. Banerjee and Esther Duflo (Vintage / Random House India 2011).
Loan pricing can be extremely confusing. To be as transparent as possible, we decided to calculate the Annual Percentage Rates (APR) of our partners, which is now the standardized calculation method in the sector. The APR takes into account the impact of:

- The types of interest calculation: flat or declining balance
- The commission or fees paid
- The compounding frequency
- The payment frequency
- The compulsory savings

More partners endorsing the Client Protection Principles.

Alterfin is concerned about all the effects of microfinance on clients' lives. This is especially important because clients served by microfinance institutions are vulnerable.

Hence, Alterfin is one of the endorsers of the Smart Campaign, a global effort to implement a set of 7 Client Protection Principles (see box) and the practices that go with them throughout the industry.

71% of our partners have signed the Client Protection Principles (67% last year and 50% in 2010). Those that haven’t yet were called upon to do so.

The Client Protection Principles

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution
Our partners offer a wide range of services that meets their clients’ needs.

57% of our microfinance partners also provide savings services for their clients.

The core function of microfinance institutions is to provide a range of financial services to populations traditionally marginalized from countries’ formal financial sector. In recent years, there has been a growing recognition that the lack of access to savings, loans, transfer of funds and insurance represents a major barrier to development.

In order to meet their clients’ unique needs and constraints, our MFI partners offer the following financial products:

![Financial services provided by Alterfin’s MFI partners](chart)

The usual other types of loans provided by the partners are consumer loans, housing loans or loans for education. The main insurance services are credit life insurance, life insurance or health insurance. The main savings services are voluntary, compulsory savings or fixed term deposits. Money transfer services or payments by cheque are the other main financial services offered by Alterfin’s partners.
Creating a savings culture in Bolivia

The members of CRECER, one of the microfinance institution finance by Alterfin in Bolivia, have to make an obligatory savings contribution together with their group loan payments. They also have the option of contributing to a voluntary savings scheme.

Client surveys affirm that this savings dynamic, in addition to creating a savings culture among the members, directly benefits the clients as they receive a return on their savings. Thanks to the service provided by CRECER, they feel that they are making an investment towards their future.

65% of our microfinance partners offer women’s empowerment services

In addition to financial services, most MFI partners offer their clients and members a series of non-financial services.

Recent research and industry discussions suggest that the achievement of MFIs’ social performance goals may be better met by the additional provision of non-financial services that complement MFIs’ core business and help clients make the best possible use of the financial products and services available.

As a result, most of Alterfin’s MFI partners offer additional non-financial services to their clients:

- 65% of our partners offer **women’s empowerment services** which aim to alleviate social inequalities and constraints faced by women. The main services that are offered are business and women leadership training.
- 61% of our partners offer **adult education services**, mainly training in financial literacy but also health or child education.
- 45% offer specific **micro-business services** (which help low-income individuals make a living through small enterprises).
- 14% offer **health-care services**.
4. Sustainable agriculture and fair trade.

As long as farmers are getting unfavourable trading terms, smallholders will get poorer, even with access to microfinance. This is the very reason why Alterfin became involved in fair trade finance. Financing the fair trade sector has now been further extended to the sustainable agricultural value chain as Alterfin has started to finance SMEs targeting smallholder farming. In our vision, inclusive, sustainable value chains need to be built to ensure that farmers really do benefit from access to world markets.

Key Figures
At the end of 2012, Alterfin was working with 53 producer organizations representing 75,000 producers, including more than 11,000 women farmers, as well as 1,800 permanent employees. Together the members of these organizations sustainably cultivated at least 177,000 hectares.

Certified products represent 80% of the total sales of our partners in 2012.

91% of Alterfin’s partners are Fair Trade (FLO) certified and 85% are organic certified. However, when we look at their total sales volume, the sales with at least one certification represent 80% of the total.

A detailed analysis of the total sales of our partners allows us to conclude that:

- The total sales of the partners we finance significantly increased these past two years (from 197 to 476 million USD). This growth comes, on the one hand, from the increased volume of sales of our existing partners and, on the other hand, from Alterfin’s new partners.
- The volume of sales with a Fair Trade certification (FLO) is increasing and amounted to 286 million USD in 2012.
- The volume of sales with an organic certification is stable (214 million USD in 2012).
- An increasing volume of sales have another type of certification, mainly Utz or Rain Forest.
Using the fair trade premium to secure the future

In addition to the minimum price, fair trade buyers also agree to pay a premium on top of the agreed fair trade price, for investment in social, environmental or economic development projects, decided upon democratically by producers within the farmers' organization.

The total amount that has been paid to our FT partners as fair trade premium amounted to 17.2 million EUR in 2012. This means that, on average, each FT partner received a premium of 399,000 EUR.

The following chart shows how our partners have allocated this premium during the past few years.

![Use of the Fair Trade Premium](chart)

Going beyond the business relationship

85% of the producer’ associations financed by Alterfin also offer additional services to their members, mainly technical assistance to improve crop quality, quantity and the association’s productivity. There are also diverse services in education, healthcare, projects for women and other community projects.

For example, the cooperative Cocafcal, in Honduras, offers a special support to micro-enterprises managed by groups of women. The cooperative also created a virtual library and bought some land to build a soccer field for the community.
In their own words

We have asked our FT partners what they consider to be the main social impact of Alterfin’s financing of fair trade activities.

For Apavam, in Peru, “communities are now involved in decision making at district level in Roque”. For CIIAB, in Bolivia, “farmers in the region benefit from the increased selling price of cocoa”. And Cocafelol, in Honduras highlights the support for schoolchildren and the creation of direct and indirect jobs.

The greatest social impact achieved by Ecologic Coffee, in Bolivia, is “undoubtedly the great contribution to social and economic development of all coffee producers within the region of Taipiplaya, through an increased production at regional level and better conditions on the market for our products. Moreover, the promotion of the production of coffee offers a good alternative to the planting of coca.”

“In the case of Canaan, the initiative set out to empower the very backbone of the Palestinian society, namely the small, marginalized farming communities caught in the midst of a conflict that has led to their isolation and threatened their livelihood. Farmers working with Canaan feel the difference in their lives and the lives of their families and communities.”

Christa Bruhn, PhD student who worked on the 2012 impact report for Canaan, in Palestine.
5. Environmental Performance

Alterfin mainly contributes to the environment by actively supporting environmentally friendly agriculture. In 2012, 66% of the funding provided through our own portfolio and through the portfolios we managed for others has gone directly to agriculture, much of which has funded certified organic farming.

Moreover, a growing number of our MFI partners also are developing environmental policies:

- 43% have an environmental policy (formal or informal) for their clients. Most of them don’t finance activities that have a negative impact on the environment.
- 50% have an environmental policy (formal or informal) for their own organization’s practices (reducing energy and water consumption, using recycled paper and reducing waste production).

Additionally most of our Fair trade partners (66%) monitor the impact of their activities on the quality of the water. The most common used practices are:

- Manures and fertilizers are stored in a clean, dry location where there is no risk of contamination of watercourses, and separate from nursery stock; they are not applied to waterlogged, steep, or frozen ground where there is a risk of run-off (66% of the partners).
- The use of inputs as well as release of wastewater is properly managed in order to preserve surrounding water sources (63% of the partners).
- Sources of water are carefully and regularly assessed for their microbial, chemical, and mineral content, and properly managed in accordance with the assessment results (46% of the partners).
- Buffer zones adjacent to waterways are planted, maintained, or restored, preferably with native species (44% of the partners).

At its headquarters Alterfin also tries to be as environmentally friendly as possible in its daily work:

- We use “green” electricity that comes from sustainable sources;
- Rainwater is used in bathrooms;
- Cleaning is done with products that have a minimal impact on the environment;
- Paper is 100% recycled;
- All waste is sorted;
- The staff exclusively uses public transport;
- We work, wherever possible, with bicycle courier.

Reducing of the number of flights, required to visit our partners, still remains a challenge. Where possible, we reduce our airmiles through local partnerships or by hiring local staff.
In 2012, Alterfin decided to fund the organization Ecookim in Ivory Coast for the second time. This union of seven Ivorian cocoa cooperatives numbers more than 2,500 farmers. Under the motto “unity is strength”, Ecookim is looking to improve their activities and quality of life. Alterfin is proud to contribute to this vision.

Ivory Coast is the largest producer of cocoa, accounting for nearly 40% of the world production. Cocoa is almost exclusively produced on small farms and more than one million families depend on the income of cocoa. Alterfin first funded the union in the autumn of 2011. In 2012, Alterfin decided to repeat its support to this organization by providing a second loan.

Increase farmers’ incomes to improve their lives
The main target of Ecookim is selling cocoa beans along with its mission to increase farmers’ incomes and improve the position of small farmers in the cocoa sector. The organization groups its purchases of inputs (fertilizers, pesticides, bags, etc.) and services (transport, treatment plant, etc.). The union also provides operational support to cooperatives and technical assistance to producers.

Ecookim goes fairtrade
Furthermore, since 2010, Ecookim went ‘fair trade’. It has helped its members to get the FLO (Fair Trade Labelling Organization) Fairtrade label and more than three quarters of the last harvest was sold in the fair trade circuit. ‘Fair trade’ buyers pay a premium in addition to the Fairtrade minimum price for the producer group. Ecookim decided to use the FLO premiums of 2010 and 2011 (over 310,000 EUR) to finance technical assistance to producers (33%), build additional warehouses to store the cocoa beans at cooperatives’ level (32%) and create a fund for loans to members (35%).
The Alterfin factor

Alterfin, and from 2012 on, also Fefisol are the first international financial institutions to support Ecookim. In the past, Ecookim depended mostly on the funding provided by local buyers, putting the organization in a weaker bargaining position. Thanks to the Alterfin funding, Ecookim can sell its beans under better conditions on the export market and is less dependent on the local buyers.

Alterfin renewed its credit to help Ecookim for the next harvest and increased the loan by 200,000 EUR to a total amount of 350,000 EUR. Alterfin’s suggestion to Fefisol to also increase their loan to Ecookim from 450,000 to 700,000 EUR was approved. With these loans, Alterfin wants to support the union in its target to further develop its activities and contribute to the improvement of the lives of thousands of farmers in Ivory Coast.
4 Governance, Management and Team

Alterfin has a threefold corporate structure consisting of the general meeting, the board of directors and management. In addition, there are credit committees responsible for the final approval of financing. The functioning of these bodies is governed by the provisions of the Company Law Code, more specifically the law on cooperatives, and by Alterfin's articles of association.

1. Our Board of Directors

The Board of Directors met four times in 2012. The following table shows the composition of the board of directors as of 31 December 2012:

<table>
<thead>
<tr>
<th>Name</th>
<th>Proposed by</th>
<th>Start date</th>
<th>End date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dré Smessaert</td>
<td>11.11.11</td>
<td>27/03/2010</td>
<td>27/03/2015</td>
</tr>
<tr>
<td>Leo Ghysels</td>
<td>11.11.11</td>
<td>27/03/2010</td>
<td>27/03/2015</td>
</tr>
<tr>
<td>Olivier Marquet(^4)</td>
<td>Triodos Bank</td>
<td>28/03/2009</td>
<td>28/03/2014</td>
</tr>
<tr>
<td>Kris Goossenaerts(^5)</td>
<td>Vredeseilanden</td>
<td>26/03/2011</td>
<td>26/03/2016</td>
</tr>
<tr>
<td>Dominique Morel (chairperson)</td>
<td>Independent</td>
<td>24/03/2009</td>
<td>28/03/2014</td>
</tr>
<tr>
<td>Marc Mees</td>
<td>SOS Faim</td>
<td>28/03/2009</td>
<td>28/03/2014</td>
</tr>
<tr>
<td>Klaartje Vandersypen</td>
<td>Private shareholders</td>
<td>24/03/2012</td>
<td>24/03/2017</td>
</tr>
<tr>
<td>Jean Matton</td>
<td>Private shareholders</td>
<td>24/03/2012</td>
<td>24/03/2017</td>
</tr>
<tr>
<td>Vincent de Brouwer</td>
<td>Private shareholders</td>
<td>15/03/2008</td>
<td>15/03/2013</td>
</tr>
<tr>
<td>Mark Lambrechts</td>
<td>Independent</td>
<td>15/03/2008</td>
<td>15/03/2013</td>
</tr>
</tbody>
</table>

---

\(^4\) Olivier Marquet resigned on 30 April 2012.

\(^5\) On 1st February, 2013 Kris Goossenaerts assumed the position of General Manager of Alterfin and therefore left the Board of Directors as well as his position of chairman in December 2012. Dominique Morel was elected as the new chairperson in December 2012.
2. Our Credit Committees

Alterfin’s External Credit Committee is an external body responsible for the final approval of financing. The committee consists of people working within development cooperation and people with technical expertise in terms of credit provision. This unique combination of development expertise and financial expertise is one of Alterfin’s strengths.

Katleen Deruytter decided to leave the committee in 2012. The composition of the credit committee as of 31 December 2012 is:

<table>
<thead>
<tr>
<th>Name</th>
<th>Expertise</th>
<th>Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vincent de Brouwer</td>
<td>Financial Management, Credit analysis</td>
<td>Independent</td>
</tr>
<tr>
<td>Kris Goossenaerts</td>
<td>Microfinance, Latin America</td>
<td>Vredeseilanden</td>
</tr>
<tr>
<td>Laurent Biot</td>
<td>Rural development</td>
<td>SOS Faim</td>
</tr>
<tr>
<td>Reginald Thibaut</td>
<td>Banking sector, Africa</td>
<td>Independent</td>
</tr>
<tr>
<td>Isabelle Philippe</td>
<td>Microfinance, Credit analysis</td>
<td>Independent</td>
</tr>
</tbody>
</table>

Given that a lot of the proposals discussed by the External Credit Committee centre on loan renewals, that the credit team has been considerably strengthened and that the portfolio was growing substantially, the Board of Directors decided in September 2010, that, under specific conditions, renewals of loans of less than 1,000,000 EUR could be handled by an Alterfin internal credit.

The internal credit committee seats three persons: the General Manager, the Portfolio Manager and the Reporting and Compliance Manager. It meets every week.
3. Our operational team

At the end of 2012, the Alterfin team consisted of 12 employees, namely:

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hugo Couderé</td>
<td>Managing Director; Regional Manager Africa and Asia</td>
</tr>
<tr>
<td>Jan De Grande</td>
<td>Financial Manager</td>
</tr>
<tr>
<td>Saúl Castro</td>
<td>Regional Manager Latin America</td>
</tr>
<tr>
<td>Julie Depelchin</td>
<td>Accountant and Financial Officer</td>
</tr>
<tr>
<td>Sofie Desmet</td>
<td>Portfolio Manager</td>
</tr>
<tr>
<td>Alex Tack</td>
<td>Credit Manager Latin America and Africa</td>
</tr>
<tr>
<td>Mauricio Duran</td>
<td>Credit Manager Latin America</td>
</tr>
<tr>
<td>Bernard Ornilla</td>
<td>Credit Manager Latin America</td>
</tr>
<tr>
<td>Diana Banuro</td>
<td>Credit Manager Africa</td>
</tr>
<tr>
<td>Audrey Timmermans</td>
<td>Reporting and Compliance Manager</td>
</tr>
<tr>
<td>Karin Huffer</td>
<td>Marketing and Communication Officer and responsible for relations with shareholders</td>
</tr>
<tr>
<td>Georges Karras</td>
<td>Marketing and Communication Officer</td>
</tr>
</tbody>
</table>

In 2012, Alterfin welcomed 2 additional staff members: Audrey Timmermans as Reporting and Compliance Manager and Georges Karras as Marketing and Communication Officer.

On 1st February 2013, Hugo Couderé will step down as general manager to become a full time senior advisor with regional responsibilities for Africa and Asia at Alterfin. Kris Goossenaerts (former chairman of the Board of Directors and member of the external credit committee) will replace him as general manager.
Alex Tack is credit manager for Alterfin in Africa and Latin America. He is in charge of a large part of the portfolio in Peru, Paraguay, Argentina, Ivory Coast and D.R. Congo and specializes in the financing of Agricultural Producers Organizations and Value Chains. In the past year Alex has been travelling around Africa and Latin America to pay a visit to our existing partners and meet new potential partners. In this interview, Alex speaks about his role within Alterfin.

Alex, what was your first project at Alterfin?

After I finished my Management and Commercial Engineering studies, I joined the Alterfin team as communication manager although my goal was to work as a credit manager but I lacked experience.

I was sent to Honduras for an initiation trip to meet partners so that I would have a better understanding of the activities of Alterfin in the South. During my trip my colleague Saul Castro, Alterfin’s Portfolio Manager for Latin America, suggested that I should visit a potential partner, COMSA, as they had recently applied for a loan. I accepted the challenge and went to meet COMSA, an organic coffee producer, on site. I spent a couple of days there and made my first report. This was a first great experience of credit management and I was taught many things about coffee.

COMSA’s request was accepted and they are still one of Alterfin’s partners. COMSA has experienced remarkable growth over the years.

What struck you the most when you first started your job as a credit manager?

What struck me most when I started as a credit manager was the importance of the human factor in every business deal. When evaluating an organization we apply models that deliver us
figures about its financial health. Those figures give us a clear idea of the financial state of the company but what is really decisive in a loan agreement is the human relationship that you create and build with the partner. By having strong relationships with your partners you better understand their needs and functioning, which allows you to measure the flaws and assets of an organization more accurately. You only get a global view of the organization when you meet the partner. That's why Alterfin is meeting every potential partner before any loan is agreed.

What are the criteria to obtain a credit facility?
To obtain a loan from Alterfin, you have to be active in sustainable agriculture or be a micro-finance institution. Your project needs to have a social added value to a group of people and also need to be financially viable. We look for organizations that are not too small and that are capable of reimbursing the loan. My goal is not to make my company rich on the back of the credit facilities we extend but to give to less privileged people in developing countries access to finance to help them realize their own development. The social impact is fundamental in Alterfin's activities.

Did you notice any changes since you started working at Alterfin?
Yes, first of all, I notice changes when I visit our partners. Take our partners in San Ignacio in Peru for instance. Alterfin is working with three organizations there: Frontera, Unicafec and Casil. All three are active in the coffee business and have enjoyed exceptional growth over the past years. Alterfin gave a helping hand in that growth but the success is of course mainly due to the hard work the members of those organizations put in.

Although the work philosophy in these organizations is very diverse and even though they are competitors, they still manage to collaborate with each other and gain know-how that also furthers their development. Frontera, Unicafec and Casil are now selling more coffee and work more efficiently. The trade is having a positive effect on the many producers and their families.

Secondly, Alterfin also grew a lot since I first started in 2006. The amount of staff members has doubled (from 6 to 12 co-workers) and our social capital and portfolio grew marvellously. The rise of our capital allows us to give more credits to more organizations.

"The best way to evaluate an organization is by meeting its people" explains Alex Tack
Are there other organizations with special ways of working?

An interesting business model is the one our Peruvian partner Norandino has adopted. Norandino is a Microfinance Institution that only lends money to members of agricultural cooperatives, mostly coffee producers. Their work is therefore 100% rural. The producers reimburse the loans with the sales of their products. Alterfin was introduced to Norandino through the Belgian NGO ‘SOS Faim’.

Apart from the business model, the company also has a distinctive culture. It’s a small team of hard workers with a no-nonsense mentality. Their spirit of progressivism makes it very stimulating to work with them.

What is the most pleasurable part of your job?

The best part of my job is when a credit facility to a partner is approved. After having evaluated the organization, having met the people and having understood their needs and objectives, it is very rewarding to get a positive answer from the credit committee to their request.

Another pleasurable part of my job is working with my colleagues. We are a small and dynamic team at Alterfin and I appreciate the work atmosphere. Travelling is also a nice aspect of my work. In 2012, I had three missions in Latin America and two in Africa. Looking ahead to the many projects we have in the pipeline, I’m sure there will be a lot of travelling in 2013!
# Financial Performance

## 1. Balance Sheet

<table>
<thead>
<tr>
<th><strong>In EUR</strong></th>
<th><strong>2011</strong></th>
<th><strong>2012</strong></th>
<th><strong>Δ</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Intangible fixed assets</td>
<td>384</td>
<td>285</td>
<td>74%</td>
</tr>
<tr>
<td>- Tangible fixed assets</td>
<td>31,068</td>
<td>18,261</td>
<td>59%</td>
</tr>
<tr>
<td>- Financial fixed assets</td>
<td>1,294,717</td>
<td>1,455,360</td>
<td>112%</td>
</tr>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Credit portfolio</td>
<td>19,614,831</td>
<td>22,944,541</td>
<td>117%</td>
</tr>
<tr>
<td>- Cash and cash equivalents</td>
<td>18,135,995</td>
<td>23,961,652</td>
<td>132%</td>
</tr>
<tr>
<td>- Other accounts receivable</td>
<td>864,800</td>
<td>242,459</td>
<td>28%</td>
</tr>
<tr>
<td><strong>Transitory Accounts:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Accrued dividend/interests</td>
<td>416,335</td>
<td>1,111,508</td>
<td>267%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>40,358,131</td>
<td>49,734,065</td>
<td>123%</td>
</tr>
<tr>
<td><strong>Equity:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Paid-in capital</td>
<td>20,927,094</td>
<td>27,202,960</td>
<td>130%</td>
</tr>
<tr>
<td>- Legal reserve</td>
<td>134,770</td>
<td>187,013</td>
<td>139%</td>
</tr>
<tr>
<td>- General risks reserve</td>
<td>737,113</td>
<td>1,100,000</td>
<td>149%</td>
</tr>
<tr>
<td>- Accumulated results</td>
<td>57,543</td>
<td>77,733</td>
<td>135%</td>
</tr>
<tr>
<td>- Result of the period</td>
<td>1,044,855</td>
<td>834,214</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Provisions for accrued interests/dividends</strong></td>
<td>60,603</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Long Term Liabilities (&gt;1 year)</td>
<td>2,984,452</td>
<td>4,463,705</td>
<td>150%</td>
</tr>
<tr>
<td>- Short Term Liabilities (&lt;1 year)</td>
<td>15,525,709</td>
<td>17,413,370</td>
<td>112%</td>
</tr>
<tr>
<td>- Other Liabilities</td>
<td>419,832</td>
<td>448,900</td>
<td>107%</td>
</tr>
<tr>
<td><strong>Transitory Accounts:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interests/tax due</td>
<td>440,441</td>
<td>205,129</td>
<td>47%</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equities</strong></td>
<td>40,358,131</td>
<td>49,734,065</td>
<td>123%</td>
</tr>
</tbody>
</table>
At the end of 2012, the total assets of Alterfin amounted to 49.73 million EUR, an increase of 23% since the previous year. Alterfin’s equity as per 31 December 2012 amounted to 27.20 million EUR, compared to 20.93 million EUR on 31 December 2011. The share capital increased from 18.95 to 25 million EUR thanks to the entry of new shareholders as well as the increased participations of current shareholders.

Most of Alterfin’s partners need financing in USD. Alterfin therefore puts most of its share capital (collected in EUR) on savings and deposits accounts that are used as collateral to obtain lines of credit in USD from banking partners. These lines of credit can be higher than the collateral to ensure that Alterfin can create a leverage effect. Alterfin then develops its portfolio by lending the borrowed USD to the partners in the South.

Thanks to the increasing amount of share capital collected in 2012, Alterfin could provide higher guarantees to the banks and thus obtain additional lines of credit in USD. This explains the 18% debt increase in 2012. This increase is directly related to the 17% credit portfolio increase.

### 2. Profit and Loss Statement in EUR

<table>
<thead>
<tr>
<th>In EUR</th>
<th>2011</th>
<th>2012</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from portfolio</td>
<td>1,182,463</td>
<td>1,867,784</td>
<td>158%</td>
</tr>
<tr>
<td>Income from portfolio management for 3rd parties</td>
<td>383,150</td>
<td>381,029</td>
<td>99%</td>
</tr>
<tr>
<td>Income from technical assistance &amp; consultancy</td>
<td>12,580</td>
<td>5,050</td>
<td>40%</td>
</tr>
<tr>
<td>Income from commissions</td>
<td>47,197</td>
<td>30,132</td>
<td>64%</td>
</tr>
<tr>
<td>Income from deposits</td>
<td>587,154</td>
<td>701,418</td>
<td>119%</td>
</tr>
<tr>
<td><strong>Total operational and financial income</strong></td>
<td>2,212,544</td>
<td>2,985,413</td>
<td>135%</td>
</tr>
<tr>
<td>Financial costs</td>
<td>-414,976</td>
<td>-725,759</td>
<td>75%</td>
</tr>
<tr>
<td><strong>Financial margin</strong></td>
<td>1,797,568</td>
<td>2,259,654</td>
<td>126%</td>
</tr>
<tr>
<td>Personnel</td>
<td>-533,863</td>
<td>-649,119</td>
<td>122%</td>
</tr>
<tr>
<td>Office</td>
<td>-245,880</td>
<td>-253,942</td>
<td>103%</td>
</tr>
<tr>
<td>Services</td>
<td>-23,968</td>
<td>-19,023</td>
<td>79%</td>
</tr>
<tr>
<td>Monitoring portfolio</td>
<td>-72,607</td>
<td>-77,645</td>
<td>107%</td>
</tr>
<tr>
<td><strong>Total Operational costs</strong></td>
<td>-876,318</td>
<td>-999,729</td>
<td>114%</td>
</tr>
<tr>
<td><strong>Gross operational margin</strong></td>
<td>921,249</td>
<td>1,259,925</td>
<td>137%</td>
</tr>
<tr>
<td>Provisions for risks</td>
<td>-123,334</td>
<td>-326,217</td>
<td>264%</td>
</tr>
<tr>
<td>Political risk insurance</td>
<td>-38,577</td>
<td>-39,965</td>
<td>104%</td>
</tr>
<tr>
<td>Commissions for Alterfin guarantee fund</td>
<td>-12,128</td>
<td>-8,032</td>
<td>66%</td>
</tr>
<tr>
<td><strong>Net operational margin</strong></td>
<td>747,210</td>
<td>885,711</td>
<td>119%</td>
</tr>
<tr>
<td>Currency exchange result</td>
<td>28,339</td>
<td>-12,388</td>
<td>44%</td>
</tr>
<tr>
<td>Extraordinary result</td>
<td>323,755</td>
<td>32,358</td>
<td>10%</td>
</tr>
<tr>
<td>Taxes</td>
<td>-54,448</td>
<td>-71,467</td>
<td>131%</td>
</tr>
<tr>
<td><strong>Net margin</strong></td>
<td>1,044,855</td>
<td>834,214</td>
<td>80%</td>
</tr>
<tr>
<td>Operational costs/operational &amp; financial income</td>
<td>40%</td>
<td>34%</td>
<td></td>
</tr>
<tr>
<td>Financial costs/operational and financial income</td>
<td>19%</td>
<td>24%</td>
<td></td>
</tr>
</tbody>
</table>
In 2012, the total operational and financial income of Alterfin amounts to 2.99 million EUR. The growth of the total operational and financial income (+35%) is mainly explained by the growth in income generated by Alterfin’s own portfolio (+58%) and is related to the growth of the portfolio. The income generated by savings and deposit accounts has also increased (+19%).

**Where does Alterfin get its income from?**

- 63% comes from the interests and dividends on Alterfin’s own portfolio.
- 23% comes from the interests that Alterfin receives from the savings and deposits accounts used as collateral to obtain lines of credit in USD from banking partners.
- 13% comes from portfolio monitoring fees Alterfin receives from third parties.

Financial costs have significantly increased in 2012, even when considered in proportion to the financial and operational income. This increase is mainly due to 3 factors:

- the growth of Alterfin’s activities which led Alterfin to increase its credit lines in USD in order to develop its portfolio;
- the costs of USD funding that has significantly increased since the end of 2011; and
- the decrease in the value of the EUR against the USD in 2012 which had a negative impact on those financial costs as they are expressed in USD and have to be converted into EUR in the Alterfin statements.

The total operational costs have increased as they are related to the growth of our activities and to the increased in staff numbers. However, the operational costs considered in proportion to the financial and operational income have decreased which means that the efficiency of Alterfin’s work has improved. The “Office” costs also include all the costs related to marketing activities.

Alterfin ended the year with a net operational margin of 885,711 EUR. This is a 19% increase when we compare it to the 2011 net operational margin of 747,210 EUR.
However, the net after tax result of 834,214 EUR is significantly lower than last year (-20%). The difference can mainly be explained by 2 factors:

- The extraordinary results in 2011 related to the sale of shares in Confianza (a partner in Peru).
- The increased amount of provisions we took to cover potential commercial risks of some partners: Adok Timo (Kenya), Copabo (Ivory Coast), El Quinacho (Peru), Iturbe (Paraguay) and La Florida (Peru).

3. Distribution of the results

The dividend proposed to the Annual General Meeting amounts to 3.35%.
2012 was clearly a “grand-cru” year for Alterfin. We welcomed 865 new shareholders entrusting us with part of their savings and 12 new partner organizations in the South wanting to make use of our services to help them meet their development goals. This resulted in a clearly higher outreach for our activities and an excellent financial result.

Until 2014 Alterfin has a window to mobilise capital with a tax benefit for the shareholders. In 2013 and 2014 we will as much as possible make use of this window. The increase in capital would come in the first place from the private (individual) investor.

The growth of the portfolio would follow more or less the same pace, which means that leverage would not increase much.

At present, a special point of concern for us is the end of our relation with responsAbility. This challenges us in two areas: how to replace the income of these commissions and how to continue servicing the partners involved. We are confident that we will be able to find a suitable solution during the year. Therefore, we are trying to attract more funds from third parties.

Special points of attention during 2013 will be to get the Fopepro fund back on track and to very closely monitor our internal procedures to ensure that they match the increased level of operations.

As you might have noticed, we have now integrated our financial report and our social and environmental report into one report. This is a logical step since our activities are aimed at generating both a social return and a financial return. We now have a good baseline to, as from next year, report on the evolution of our financial return and on the evolution of our social return.

For 2013 we intend to continue on the same path, and will once again put the emphasis on mobilizing additional capital at a level comparable to last year’s one. Naturally, this needs to lead to a sustainable growth in our portfolio, with a clear emphasis on a close follow-up of the portfolio to maintain its high quality.

All this in the aim of broadening our outreach even further and maintaining our present profitability.

To end, a special word for our shareholders:

Thanks to your confidence we were able and will be able to continue to develop this wonderful Alterfin project in the future!

Kris Goossenaerts
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