Annual report **2018**

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Annual report 2018

About the cover picture:

Fourth Partner Energy, India

Gopi lal Saini is a client of Fourth Partner Energy Pvt. Ltd, a renewable energy services company which designs, engineers, installs, operates and maintains solar powered systems. In 2017 he borrowed INR 120,000 (around € 1,500) from the community in his village of Ghans to buy a solar pump installation. The government funded 75% of the investment. He grows guava, groundnut, wheat, mustard seed and Indian squash. The farm is the only source of income for his family.

Gopi says: "My experience with the solar pump is very good. I have a better income now. I am happy from my heart."

Fourth Partner Energy has been an Oikocredit partner since 2015.

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From the Managing Director

This is a time of renewal for Oikocredit. After updating our strategy in 2017 in response to changes in the world around us, in 2018 we began our transition to become a more streamlined and effective organisation. We are refining the sectors and markets in which we are active while reaffirming the values and qualities that have made our cooperative a leader in social impact investing for more than four decades. Organisational change is rarely if ever easy, but a living organisation must evolve and adapt to stay relevant, and we can already see benefits starting to emerge.

Our contribution to improving the quality of life of low-income people in Africa, Asia, and Latin America and the Caribbean is as much needed as ever. Worldwide, 1.7 billion adults lack adequate access to formal financial services, and most of these people have low and unpredictable incomes.[1] Global population growth[2] demands increases in food production, local food sovereignty and the creation of decent work in low-income communities. More than 500 million smallholder farmer households are vulnerable to climate change, volatile pricing and unfair competition.[3] Around one billion people lack access to energy for cooking, lighting and other household and livelihood tasks, especially in rural areas.[4]

Oikocredit's three focus sectors – financial inclusion, agriculture and renewable energy – are targeted to address these global-scale challenges, which we also see as opportunities for our distinctive investing model. Working in markets where need and opportunity are greatest, we aim to maximise our social impact while safeguarding the environment and generating fair financial returns for our members and investors. Rather than simply concluding one-off transactions or projects, we develop partnerships and go the extra mile by providing capacity building support to our partner organisations. With the implementation of our updated strategy,[5] we will be in an even better position to act as a catalyst for change, bringing together diverse actors to find solutions that amplify social impact for low-income people.

Oikocredit is well on its way to becoming leaner and fit for the future, while our passion is as strong as ever. As our portfolio resumes growth, we aim to be even more partner- and client-centric, enabling our partners to develop and strengthen the skills and systems they need to meet their goals in serving clients and members sustainably. Maximising social impact for low-income people and communities will continue to be our guiding principle.

Oikocredit's combination of over 40 years of experience in impact investing, a loyal investor base which is deeply committed to our vision and mission, a truly global network of partners, local and regional offices, and skilled and dedicated staff and volunteers creates a proposition that few other organisations can match. Our staff are key in delivering on our ambitions. We will increase investments in our people's capabilities to help us continue to add more value in our work. As we improve our processes, reduce complexity and adopt the right technology we will move forward in our quest to be a more flexible, innovative, efficient and effective organisation that aspires to do better every day.

I would like to thank our members and investors, partners, volunteers, staff and Supervisory Board for their continued support to Oikocredit and for being part of our global movement for social change.

Thos Gieskes
Managing Director

[1] World Bank 2018, Global Findex Database 2017
[2] FAO 2017, The future of food and agriculture
[3] FAO 2017, The future of food and agriculture
[4] World Bank 2018, SDG7 Tracking: The Energy Progress Report
[5] Oikocredit Vision & Strategy 2018-2022

Five-year **Oikocredit key figures**

Figures from the consolidated financial statements	2018	2017	2016	2015	2014	Reference
Members	558	567	575	581	589	
Investors (approximate number)	57,000	56,000	54,000	51,000	53,000	
Countries with regional and country offices [1]	21	31	31	33	34	
National support offices and support associations	32	35	36	37	36	
Staff members in full-time equivalents (FTE) [2]	235	290	269	258	253	Note 27
Partners in portfolio [3]	684	747	801	809	805	
€ millions						
Total consolidated assets	1,292.9	1,220.0	1,209.3	1,026.3	907.1	Consolidated Balance Sheet
Member capital	1,082.5	1,012.4	913.0	806.3	711.1	Consolidated Balance Sheet
Other lendable funds [4]	146.4	140.5	105.5	93.2	96.4	Consolidated Balance Sheet
Total lendable funds	1,228.9	1,152.9	1,018.5	899.5	807.5	
Development financing activities						
New disbursements	444.5	380.2	438.7	419.0	337.9	Note 8
Increase % disbursements	*16.9%*	*-13.3%*	*4.7%*	*24.0%*	*10.4%*	
Cumulative disbursements	3,795.1	3,350.6	2,970.4	2,531.7	2,112.8	
Total cumulative payments (capital, interest and dividends) by partners	3,289.4	2,839.9	2,422.1	2,052.2	1,714.7	
Total development financing outstanding	1,046.6	981.7	1,047.2	900.2	734.6	Note 8
As % of lendable funds (beginning of year)	*90.8%*	*96.4%*	*116.4%*	*111.5%*	*102.3%*	
Portfolio at risk 90 days	4.0%	4.6%	4.5%	5.3%	5.1%	
Loan loss provisions on capital and interest and impairment of equity [5]	80.3	74.0	81.7	68.6	59.6	Notes 8 and 11
Loan loss provisions and impairment of equity as % of development financing outstanding	*7.7%*	*7.5%*	*7.8%*	*7.6%*	*8.1%*	
Write-offs capital charged to loss provisions	5.3	4.6	11.4	6.8	6.1	Note 8
As % of development financing outstanding loan portfolio	*0.6%*	*0.5%*	*1.2%*	*0.8%*	*0.8%*	
Term investments	149.0	149.9	112.8	120.2	154.6	Consolidated Balance Sheet
Total financial income [6]	87.2	90.1	101.9	75.3	65.3	Consolidated Income Statement
General and administrative expenses [7]	37.1	37.6	34.0	31.4	28.7	Consolidated Income Statement
As % of total assets	*2.9%*	*3.1%*	*2.8%*	*3.1%*	*3.2%*	
General and administrative expenses excluding grant-based expenses [8]	36.0	36.6	33.5	29.7	27.3	
As % of total assets	*2.8%*	*3.0%*	*2.8%*	*2.9%*	*3.0%*	
Impairments and additions to loss provisions	15.0	7.1	26.9	17.0	12.5	Consolidated Income Statement
As % of development financing outstanding	*1.4%*	*0.9%*	*2.6%*	*1.9%*	*1.7%*	
Net income (available for distribution) [9]	1.3	18.4	29.0	15.4	20.5	Society Income Statement
Proposed dividend	10.6	9.6	17.1	15.0	13.2	Other information

[1] Countries with legal entities that no longer carry out operational activities are not included in this number.
[2] Including staff employed by regional offices and national support offices.
[3] Partners in portfolio includes development financing outstanding as well as partners currently in the process of disbursement, and excludes partner funding that has been repaid, written off or cancelled.
[4] Other lendable funds are general reserves (2018: € 90.8 million) and non-current liabilities (2018: € 56.8 million) excluding hedge contracts and other liabilities (2018: € 1.9 million).
[5] Provisions and impairments on capital (2018: € 76.0 million) and provision on interest (2018: € 4.3 million).
[6] Consists of interest on development financing portfolio (2018: € 83.0 million), interest on term investments (2018: € 2.5 million) and income from equity investments (2018: € 1.7 million).
[7] Including expenses covered by grants (for example capacity building expenses).
[8] Excluding expenses covered by grants (for example capacity building expenses).
[9] Refer to Society Income Statement.

Managing Board report

We are pleased to present the annual report and consolidated financial statements of Oikocredit, Ecumenical Development Cooperative Society U.A. (the Society) for 2018. This report highlights the most important developments during the year.

Komida, Indonesia
Acem is a farmer and a member of the Komida cooperative, an Oikocredit partner which provides financial services to low-income women. She is using her latest loan to buy rice seed.

Implementing our updated strategy

Oikocredit is evolving and adapting in order to stay relevant to the people we serve in a changing world. While our vision and mission remain unaffected, we have updated our existing 2016-2020 strategy to ensure that our organisation achieves the best possible impact where it is most needed.

With the funds entrusted to us by our members and investors, we have made responsible investments in 1,940 organisations since our founding in 1975. Partners we support range from institutions that provide access to finance for people who are left out of the regular financial system, to agricultural organisations that generate high economic and social impact for smallholder farmers, and renewable energy projects that bring energy access to remote areas across the globe. Through our capacity building support, partners have been able to access new technologies, knowledge and skills to support their growth and development. Achieving social impact has always been the key driver for our work.

While we are proud of what we have achieved, we see that the world around us is changing fast, and external trends are impacting the work we do. We face challenges that have put our results under pressure, including a persistent low interest rate environment and increased competition and liquidity in the markets where we are active. At the same time we have identified opportunities to become more efficient, improve our processes and grow our portfolio to contribute to Oikocredit's long-term financial sustainability. These developments and opportunities compelled us to update our existing 2016-2020 strategy, which we began implementing in 2018 by sharpening our strategic focus and reducing complexity in our organisation.

Despite 2018 being a year of change, net income after taxation improved compared to 2017, close to forecast, as both lendable funds and the investment portfolio grew. Total outstanding loans and investments passed the € 1 billion mark at year end for the second time in our history (the first was in 2016). We provided 143 current and potential partners with capacity building, exceeding our target of 100.

These signs of success reflect the commitment of our investors, partners and staff. We also deeply value the work of our support associations in maintaining a healthy level of inflow during this transition period.

Strategy implementation

Concentrating where we work

In the first phase of Oikocredit's updated strategy we decided which sectors and markets we want to focus on. Our three focus sectors – financial inclusion, agriculture and renewable energy – are the right ones for us and remain unchanged. Within each sector we are applying further concentration in subsectors where we have expertise and can best support our partners.

In early 2018 we communicated our decision to focus on offering loans, equity investments and capacity building in 33 countries in Africa, Asia, and Latin America and the Caribbean going forward. Over the past decades Oikocredit had spread itself very thinly. We decided it was no longer sustainable to invest in projects in countries where we had only a few partners and saw little potential to achieve significant social impact or financial returns that would provide justification for our future involvement. The decision to focus on growing our activities in 33 selected countries was based on thorough analysis and research into our past performance, the need for social investing and our ability to succeed.

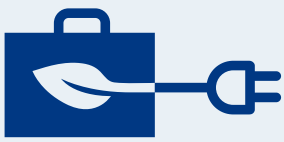
This means that Oikocredit has stopped providing new loans, equity investments and capacity building in 31 countries, mainly in Eastern Europe and Central Asia and a select number of others in Africa where we had limited exposure. When this decision was made, these countries accounted for 14% of our portfolio and 16% of our partners. We continue to work with and support partners in these countries from our central office in Amersfoort until the end of existing commitments.

The updated strategy has also meant changes for Oikocredit's inflow network. To ensure we raise capital in the most

Our focus sectors

Financial inclusion

Agriculture



Renewable energy

effective and efficient way, we decided to close our national support offices in Canada and the United Kingdom & Ireland. Members and investors in these countries will continue to be served from Oikocredit's central office.

Reducing complexity in the way we work

The second phase of implementing Oikocredit's updated strategy is to reduce complexity in the way we work. This includes designing the appropriate organisational structure and improving processes. In 2018 we introduced Lean Six Sigma, a methodology which allows us to streamline our processes and improve our current and future ability to change by building a culture of continuous improvement and feedback. We have started work on six process improvement initiatives, including key processes such as loan approvals and monitoring.

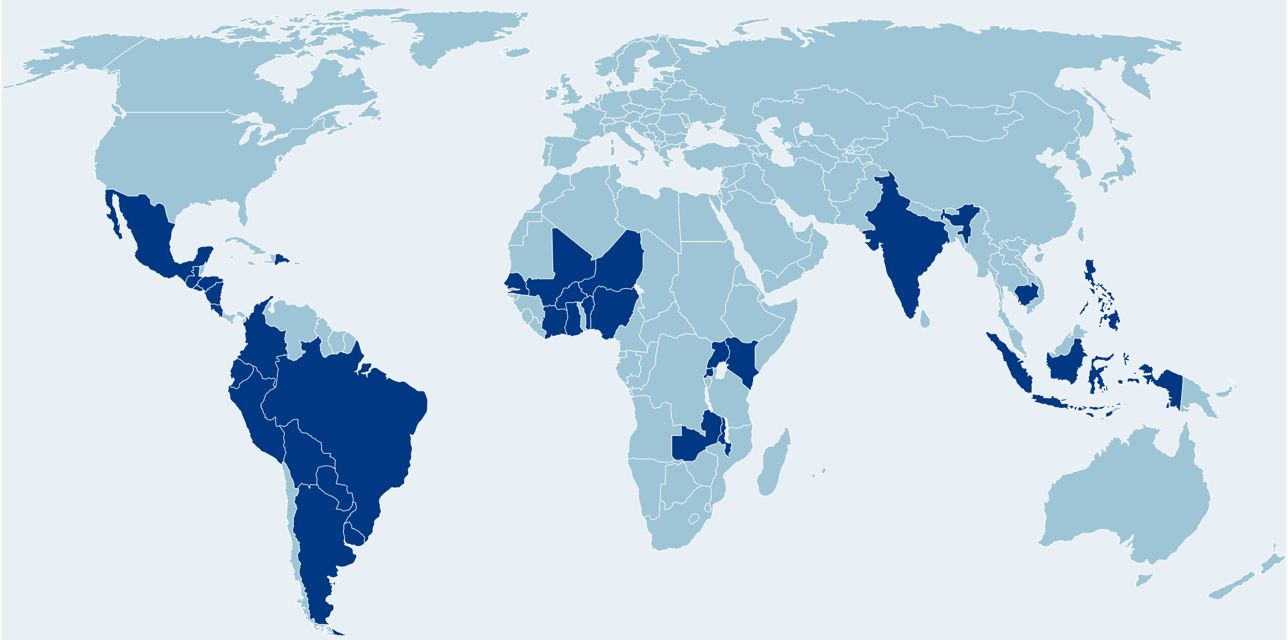
We have also begun to implement a new operating model that allows us to innovate and improve our services, contribute to our financial sustainability and ultimately deliver our mission more efficiently and effectively. Proximity to our partners is an important aspect of how we work and distinguishes us from many competitors. Local presence and knowledge are an important ingredient in our success and will be crucial for delivering on our catalyst ambitions in future. We therefore decided to continue to work with regional offices, country offices and one central office, but with fewer offices organised in three regions: Africa, Asia, and Latin America and the Caribbean. This allows us to make the best possible use of our resources, while staying close to our partners across all 33 focus countries.

To decide which offices would best serve the needs of each region, we considered a range of factors including the growth potential of the market, the ability to retain and hire staff, convenient connections to current and future partners in our focus countries and regulatory requirements. The decision to close certain country and regional offices has not been easy but is crucial to the task of further strengthening the organisation's financial position. In the course of 2019 we will complete implementation of the new operating model by reorganising our central office.

Impact on our staff and partners

Implementation of the updated strategy is resulting in job losses as a consequence of focusing on selected markets and adapting our operating model, including closing or merging offices. This is always difficult to achieve in a sensitive manner, and we are striving to provide as much constructive support as possible for staff whose positions become redundant. We are extremely grateful to all our staff for the important contribution they have made to the organisation over the years and the ongoing commitment to Oikocredit and its partners in this transition period.

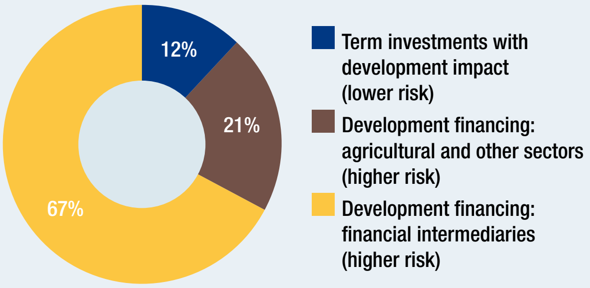
33 countries where Oikocredit will focus its activities going forward



2018 in graphs

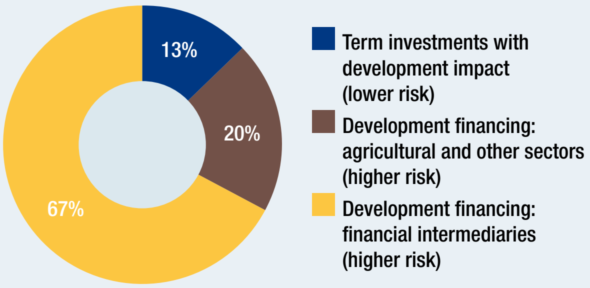
Investment mix Oikocredit invested funds 2018

As at 31 December 2018



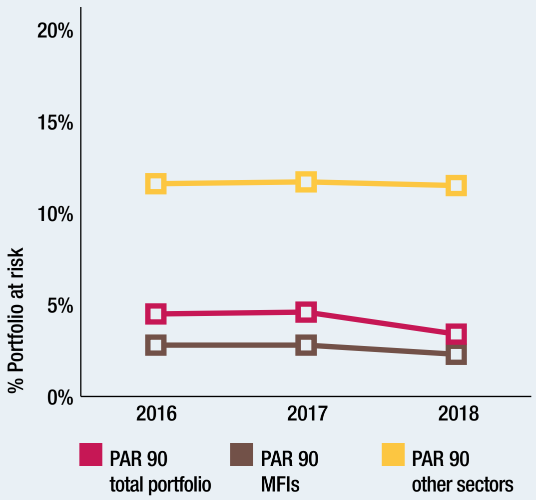
Investment mix Oikocredit invested funds 2017

As at 31 December 2017



Portfolio at risk

As percentage of total development financing
As at 31 December 2018



We continue to work with existing partners in the 31 countries where we will no longer make investments in future, and we are supporting them through this transition until the end of existing commitments. We are also working to keep the impact of the changes resulting from the new operating model to a minimum for all of our partners. Where we have decided to close or merge an office in a focus country, partners in these countries continue to be served from an Oikocredit office in a nearby country.

Financial results

Operating context

Oikocredit's work continues to be affected by the prevailing low interest rate environment, which affects our profitability. Most of our portfolio is in the form of interest-bearing loans, so generally low interest rates impact on our income. There is also significant liquidity worldwide available for investing, and traditional investors are increasingly interested in social impact investing as it becomes more mainstream. All this is good news for our partners and for low-income people, but it intensifies market competition and puts pressure on the margins we can earn to allow for a fair return to our members and investors and to invest in the future of the organisation.

As a result of our new hedging and risk management policies, currency fluctuations have had far less impact on our results. Some credit risks have increased nevertheless, particularly due to economic instability in Latin America and the Caribbean, where much of our portfolio is invested.

Income statement 2018

In 2018 Oikocredit's income after taxation showed a marked improvement on the previous year with a significantly reduced loss of € 1.3 million in comparison with € 20.0 million in 2017. Local currency losses decreased substantially, and we only drew on € 2.8 million from the local currency risk fund, compared with € 38.5 million in 2017. Following this release from the fund, the net income for the Society is a modest € 1.3 million (2017: € 18.4 million). Total operating income rose from € 27.9 million in 2017 to € 52.7 million. There were no large unforeseen gains or losses. Under our new hedging policy, hedging costs more than doubled to € 27.3 million (2017: € 11.5 million), but this expenditure significantly reduced exchange rate risks.

Loss provisions and impairments

Additions to loss provisions increased from € 7.4 million to € 11.5 million, and impairments from € 0.2 million (release) to € 3.5 million (addition), partly in line with overall portfolio growth but also to address increased risk in the credit portfolio in Latin America.

Operational expenses

Increased cost awareness and tight cost control have kept operational expenditure below 2017 levels. Despite investing in the organisation's future fitness through implementation of the updated strategy, operating costs decreased by 1.3% to € 37.1 million. Excluding one-off costs related to implementation of the updated strategy, operational expenditure decreased by 3.7% to € 34.6 million.

General and administrative expenses fell both in absolute terms and in relation to total assets (-2.9%) and portfolio size (-3.5%).

Annual dividend
In June 2018 the Annual General Meeting (AGM) agreed to the Managing Board's recommendation, approved by the Supervisory Board, to reduce the year's dividend to 1% for 2017. For the 2018 dividend, the Managing Board considered the appropriateness of paying out a dividend, given that the net distributable income in 2018 is only € 1.3 million. This would mean that the majority of the dividend payment would effectively be paid out of general reserves. After thoroughly analysing the potential impact of various dividend levels on the Society's financial sustainability, the Managing Board, supported by the Supervisory Board, recommends the declaration of a 1% dividend to the AGM in June.

Member capital classification
The 2018 AGM added a new transition clause to the Articles of Association to allow the Managing Board, once the clause is in force, to adjust the period for which it may suspend share redemptions from the current maximum of five years to an indefinite period. The transitional clause ensures that any change to accounting standards does not affect the way our capital is classified from an accounting perspective, which could negatively affect the perception that third parties have of Oikocredit's financial strength. The transitional clause may only come into effect if, in the next three years, the Generally Accepted Accounting Principles in the Netherlands (Dutch GAAP) change or Oikocredit moves to another accounting standard (e.g. the International Financial Reporting Standards). A working group of the support associations is considering whether different arrangements for our member capital would be a better fit for future potential regulatory changes.

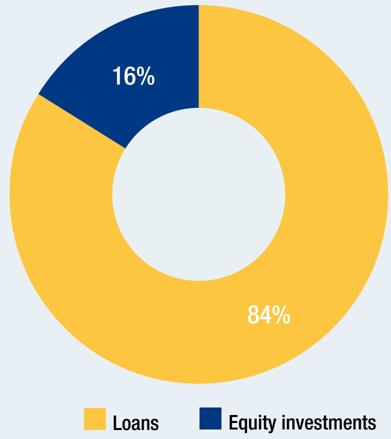
Term investments
The term investments are the portion of total assets that we use for liquidity reasons such as to redeem share capital or to provide for operating funds. They mostly consist of liquid, conservatively invested funds including the Buy and Maintain Environmental Social Governance (ESG) Credit Portfolio (bond portfolio). In 2018 we improved the composition of the bond portfolio in terms of more sustainable investment criteria. The term investments portfolio's size reduced slightly as a proportion of total assets from 12.3% to 11.5% due to the growth of our total assets. Portfolio performance did not meet our targets this year, with overall yields becoming negative. Interest income totalled € 2.5 million (€ 2.5 million in 2017) and revaluations amounted to € -3.5 million (€ -0.9 million in 2017).

Development financing

In 2018 Oikocredit began to implement its updated strategy across the development financing portfolio. We continued to lend and invest in our priority sectors of financial inclusion, agriculture and renewable energy, while focusing efforts on our recently selected 33 focus countries. As previously noted, in transitioning to a less complex operating model we began to merge and close certain regional and country offices.

Type of financing

As at 31 December 2018



The portfolio returned to growth in 2018, with overall portfolio quality remaining within agreed targets. Through our Lean Six Sigma projects on the loan and monitoring processes we aim to achieve efficiency gains and to deliver a better service to our partners.

Portfolio growth and distribution
Oikocredit's total development financing portfolio (loans and equity investments) increased to € 1,046.6 million in 2018, from € 981.7 million in 2017, a rise of 6.6%. Net loan and investment approvals totalled € 400.1 million, up by 7.0% from € 375.2 million. Disbursements rose by 16.9% to € 444.5 million from € 380.2 million. Average loan size increased from € 1.6 million to € 1.7 million as we support our partners' growth and it remains below the sector average. At end-2018 we had 684 partners in 69 countries, compared to 747 partners in 71 countries the previous year.

The outstanding portfolio in financial inclusion, including loans to and investments in microfinance institutions (MFIs) and financial institutions that support small to medium enterprises (SMEs), grew by 5.5% from € 754.8 million to € 796.2 million, with 466 partners. Financial inclusion approvals were € 310.3 million (5.6% more than in 2017) and disbursements € 339.0 million (19.8% more). Financial inclusion's share of development financing decreased from 76.9% to 76.1%.
In agriculture, loans and investments rose by 14.5% from € 147.4 million to € 168.8 million, with 167 partners. Approvals were up by 46.1% to € 79.8 million and disbursements up by 17.2% to € 89.7 million. Agriculture increased from 15% to 18.1% of the portfolio. Renewable energy fell by 1.4% from € 49.1 million to € 48.4 million, with 18 partners. Approvals at € 9.6 million fell by 60.3% and disbursements fell by 61.5% to € 6.8 million reflecting our updated strategy which includes a shift from financing larger infrastructure projects to smaller and high-impact off-grid solar and clean cooking initiatives. Renewable energy's portfolio share was down from 5.0% to 4.6%.

Key developments across sectors

Financial inclusion remains Oikocredit's leading development financing sector, and in 2018 we started work to update our financial inclusion strategy. We work with MFIs as core partners, while diversifying and increasing support for lenders to SMEs that stimulate job creation. We are also supporting more partners that use fintech (financial technology) to reach underserved communities, a subsector where we are building expertise and reputation. Providing capacity building support for financial inclusion partners remains an important value-add that we contribute.

We see that financial inclusion markets are maturing, with growing demand for larger loans, competitive pressures and increasing regulation in many countries. With the rise in mobile device adoption[6] and internet connectivity,[7] we closely follow developments in the technology-based provision of responsible financial services to low-income people and SMEs. In 2018 we added four new fintech partners to our portfolio, bringing the total number to five. As one of a group of more than 50 fintech investors and other practitioners we supported the development of guidelines for investing in responsible digital financial services.

In agriculture we have identified eight crops that we will continue to invest in to maximise our expertise and value-add for partners. Core subsectors continue to include coffee, cacao, grains, fruits and vegetables, and nuts. Leading subsectors for approvals in 2018 were coffee, cacao and fruit.

Agriculture continues to be a challenging sector, where we work to find the right balance between financial returns, targeting underserved market segments and high-impact business models. We see blended finance, the combination of public and private funds, as the bridge to underserved segments such as smaller loans to first-time borrowers. The high proportion of loans at risk is a further challenge in this sector.

Oikocredit's main external collaboration in agriculture is our price risk management project with the Inter-American Development Bank (IDB) in partnership with the SAFE Platform, Catholic Relief Services, Fair Trade USA and Keurig Dr Pepper. We actively participate in the Council on Smallholder Agricultural Finance (CSAF) and the Smallholder and Agri-SME Finance and Investment Network, have joined the Sustainable Coffee Challenge and in 2018 sponsored the Sustainability Forum at World of Coffee in Amsterdam.

In renewable energy, with developing countries leading the low-carbon power transition,[8] we are focusing on projects that maximise social impact and access to energy for low-income communities, in particular off-grid solar, selective small and medium sized on-grid infrastructure projects and clean cooking. Off-grid solar partners serving households and small entrepreneurs in sub-Saharan Africa are showing good revenue growth,[9] though few if any are so far profitable. Although it is often challenging to find suitable and financially robust off-grid solar partners, social impact can be considerable, contributing to improved living standards and health.[10]

Key developments in the regions

We are consolidating our portfolio across our three focus regions of Africa, Asia, and Latin America and the Caribbean where we aim to continue to be a significant player, serve multiple partners and leverage our networks. Despite inherent risks in many countries where we provide funding, our portfolio generally performed well across these regions. At the same time we started winding down operations in our former region of Eastern Europe and Central Asia in 2018 where we expect to keep a portfolio for the coming years until existing commitments expire.

In Africa the portfolio increased to € 186.8 million in 2018 (compared to € 174.1 million in 2017). We have 164 partners across the continent, maintaining the same share of our total development financing (17.7%) as in 2017.
We undertook new financing in Nigeria for the first time since the 2016 currency devaluation and recession that had led to restrictions on cross-border foreign currency flows.[11]
The business environment in Kenya remained slow as a result of the political tensions brought about by the 2017 elections, reduced government spending and the continued interest rate cap regime, all of which impeded the flow of private capital.[12]
With the selection of our 13 focus countries in Africa, we stopped making new investments elsewhere in the region, although we will continue to support all existing partners in wind-down countries as they repay outstanding loans.

The Asia region experienced steady economic growth,[13] despite volatility in India's currency performance,[14] with strong portfolio growth for Oikocredit. Our outstanding portfolio with 138 partners in the region grew by 17.8% from € 242.5 million to € 285.5 million, driven by robust increases in India and Southeast Asia. This brings the portfolio in Asia to 27% of our total development financing (compared to 25% in 2017). The region's portfolio remains concentrated in financial inclusion, although our renewable energy investments are progressing well in India. Diversification into agriculture remains a challenge that we are reviewing. We are reducing operations in Central Asian countries that were formerly part of our Eastern Europe and Central Asia regional portfolio. Portfolio quality in Central Asia is good, with no delays in repayments in 2018.

Contextual factors affecting us in Latin America and the Caribbean included the migration crisis in Venezuela and much of Central America,[15] high inflation, high interest rates, the currency crisis in Argentina, and political uncertainty in Argentina, Bolivia, Brazil, Mexico and Nicaragua.[16]

[6] GSMA 2019, Mobile connection including M2M
[7] World Bank 2018, Individuals using the internet (% of population)
[8] Bloomberg New Energy Finance 2018, Climatescope – Emerging Markets Outlook 2018
[9] International Renewable Energy Agency (IRENA) 2018, Off-grid renewable energy solutions: Global and regional status and trends
[10] Global Off-grid Lighting Association (GOGLA) 2018, Standardized impact metrics for the off-grid solar energy sector
[11] FMDQ OTC Securities Exchange 2017
[12] African Development Bank 2019, Kenya Economic Outlook
[13] Asian Development Bank 2018, Asian Development Outlook 2018 Update: Growth Outlook
[14] Asian Development Bank 2018, Key Reforms to Sustain India's Growth Momentum
[15] World Bank Group 2018, Migration from Venezuela to Colombia: Short- and Medium-Term Impact and Response Strategy
[16] Focus Economics 2019, Economic Snapshot for Latin America

With financial distress in these countries we see a risk of a contagion effect across the region. Coffee prices also fared poorly in 2018.[17] In response to these challenges, we adopted a conservative regional growth strategy with a balanced portfolio in terms of exposure to sectors and countries. We have invested successfully in Mexican financial institutions that support SMEs and are increasing exposure to this subsector across the region. Although we saw a substantial decrease in loan portfolio size in some countries (such as Brazil and Guatemala), we saw accelerated growth in others (e.g. the Dominican Republic, Ecuador and Mexico) and achieved 4.6% overall growth in lending in 2018 from € 480.9 million to € 503.1 million. In total, we have 328 partners in Latin America and the Caribbean. The region represents 48.1% of our development finance portfolio, remaining stable compared to 2017 (49.0%).

Our portfolio in Central and Eastern Europe has reduced by 20.2% to € 24.6 million, in line with the commitment in our updated strategy to wind down operations in this area and concentrate on three focus regions. We continue to have 38 partners in Central and Eastern Europe, representing 2.4% of our development finance portfolio (3.1% in 2017). The area is generally characterised by high economic growth and ample liquidity,[18] and Oikocredit's outstanding portfolio in the region continues to be of high quality. Despite some challenges in repayments in the agricultural portfolio due to adverse climatic conditions and market challenges, the wind-down of the portfolio is going as planned. Our office in Bulgaria remains operational to support partners that need greater proximity.

Credit portfolio

Credit (lending) comprises the largest part (84.5% at end-2018) of the development financing portfolio. Total outstanding credit increased to € 884.1 million (up by 4.2% from € 848.6 million in 2017) while the number of credit partners fell from 712 to 624. We approved 189 new loans to the value of € 359.4 million (2017: 212 loans, € 363.3 million), while disbursements grew from € 368.5 million to € 411.9 million.

Lending in financial inclusion rose by 5.4% from € 677.9 million to € 714.5 million. In agriculture, outstanding loans were up by 6.9% from € 113.3 million to € 121.1 million, and in renewable energy lending went down by 10.1% from € 37.4 million to € 33.6 million. Financial inclusion remains the largest part of the credit portfolio (80.8%), followed by agriculture (13.7%) and renewable energy (3.8%). Regional shares of the credit portfolio are: Africa 17.2%, Asia 27.5%, Latin America and the Caribbean 50.4% and other regions 4.8%.

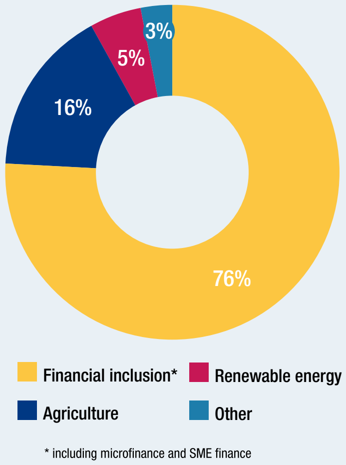
Equity portfolio

Oikocredit's equity portfolio grew strongly by 22.1% from € 133.1 million in 2017 to € 162.5 million and now comprises 15.5% of our development financing portfolio, up from 13.6%. We hold investments in 60 partners in 32 countries, distributed between financial services (€ 81.7 million, 50.3%),

[17] Bloomberg 2018, Plunging Coffee Bean Prices Could Drive Grower Cutbacks in 2019
[18] Economist Intelligence Unit 2018, Country Reports

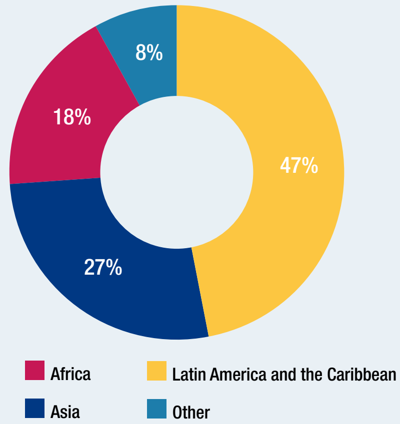
Development financing outstanding by sector

As at 31 December 2018



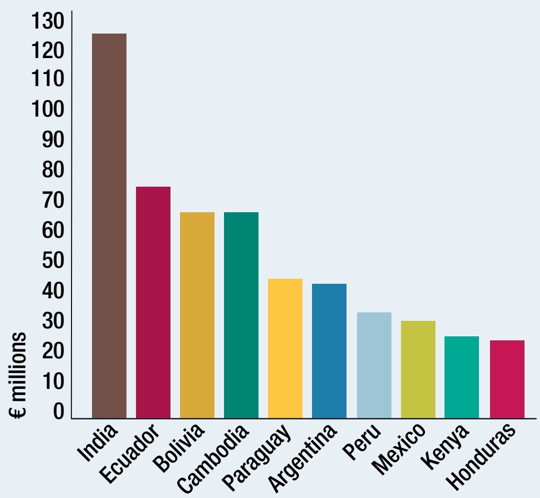
Development financing outstanding by region

As at 31 December 2018



10 countries with highest capital outstanding

As at 31 December 2018



agriculture and food (€ 47.7 million, 29.4%) and other sectors (€ 33.1 million, 20.4%). Africa accounts for 19.4% of our equity holdings, Asia 26.0%, Latin America and the Caribbean 30.3% and other regions 24.3%. Equity approvals increased to € 29.0 million (2017: € 10.7 million), while disbursements rose to € 32.6 million (2017: € 11.8 million), benefiting from robust growth in agriculture and fintech. The environment for our equity investing continues to be attractive, albeit with risks, with significant demand for patient growth capital. We now also offer equity investments in renewable energy.

We sold our stake in Ecuadorian MFI Banco Solidario, where we had helped strengthen the social mission and supported growth to reach 400,000 clients. We also received the final tranche from our 2016 sale of HKL in Cambodia. As an active shareholder and through board representation we work with equity partners to enhance social and financial performance and organisational sustainability.

Portfolio quality and PAR

Portfolio at risk (PAR 90: the percentage of the credit portfolio with payments more than 90 days overdue) was at 4.0% (4.6% in 2017), below our maximum limit of 6.0%. Rising markedly in the second half of the year, agriculture PAR settled to reasonable levels by year end at 13.7% (2017: 12.1%). Agriculture, where Oikocredit's financing can be especially impactful, remains a high risk and volatile sector where thorough partner screening and monitoring are imperative. The identification of focus crops and translation of past experiences into prudential guidelines and lending practices form part of our efforts to reduce the impacts of volatility in agriculture. In financial inclusion PAR was 2.3% (2017: 2.8%), in renewable energy 2.1% (2017: 4.5%) and in other sectors 15.1% (2017: 22.6%). Write-offs, at 0.6%, remain low.

Social performance

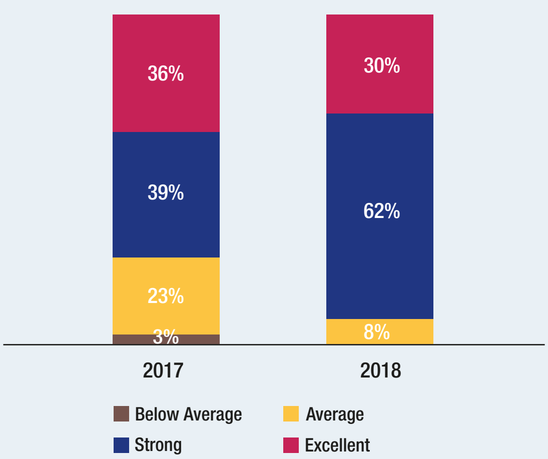
Improving Oikocredit's own and our partners' social performance remains central to our mission. Effective social performance management (SPM) involves more than outreach alone, because once target groups are reached we need to know whether and how our investments contribute to improving their lives. In 2018 we completed alignment of our SPM with the updated strategy, began to monitor and report outcomes with tailored indicators for each of our priority sectors – financial inclusion, agriculture and renewable energy – and improved the linking of our indicators to internationally recognised metrics. We are exploring further digitisation of our monitoring as part of the Lean Six Sigma programme.

We updated our exclusion list of potentially damaging activities that we will not finance, strengthened our environmental assessment with a prudent palm oil policy and completed piloting our environmental, social and governance (ESG) scorecard for financial institutions that support small to medium enterprises (SMEs). The latter underscores our commitment to contribute to job creation and decent work as we grow our fintech and SME lending via financial institutions. The average ESG scores of financial inclusion and agriculture partners approved for financing in 2018 were higher than those approved for financing in 2017 (financial inclusion: average score of 63.0% in 2018 compared to 62.6% in 2017; agriculture: average score of 77.3% compared to 74.7% in 2017).

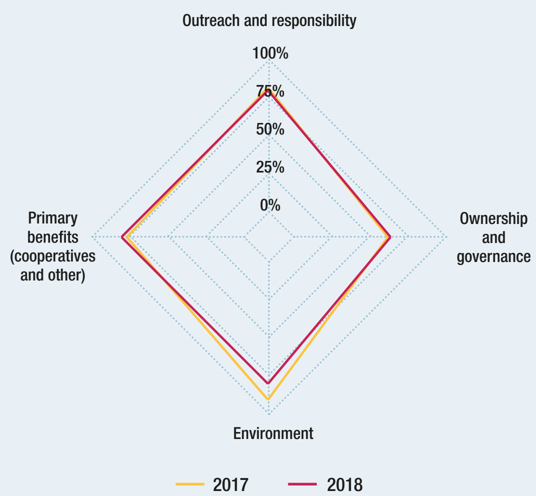
Our rigour in social performance for financial services organisations is based on the Client Protection Principles (CPPs), particularly related to digital products and services. In the agriculture sector the focus has been strengthening partners' business acumen. According to Oikocredit's monitoring, in 2017 our development finance portfolio continued to outperform the financial inclusion sector as a whole in outreach to women,[19] and we support a growing number of low-income households with improved access

[19] Symbiotics 2017, Microfinance Investment Vehicles (MIV) survey

ESG score classification agriculture
Partners approved for financing in 2018



ESG scores agriculture – by section
Partners approved for financing in 2018



to energy, avoiding thousands of tonnes of greenhouse gas emissions. Through the financing we provided via loans and investments approved in 2018, we reached 577,873 end-clients in the financial services sector and 95,033 farmers through our agricultural portfolio. Further 2018 data is still being processed and will be published in our report on social and environmental performance later this year.

Local currency loans and risk fund

To help protect partners from exchange rate fluctuations Oikocredit makes local currency loans. In 2018, € 414.9 million (46.9%) of loans were in local currencies and € 469.2 million (53.1%) in hard currencies (2017: 50.6% and 49.4%). We used our own local currency risk fund to partly absorb changes from currency fluctuations. We also changed our hedging strategy, resulting in higher hedging costs but greatly reducing the effects of currency fluctuations. We continue to welcome donations to the fund.

Capacity building

Oikocredit's three global capacity building programmes focus on agriculture, financial services and client outcomes. We had € 2.2 million available for capacity building in 2018 and provided € 0.9 million (up 10.4% from 2017) in donor grants and Oikocredit's own funds to support 143 current and potential partner organisations with capacity building. The majority of this funding was used to support partners in agriculture (€ 0.8 million), followed by partners in financial services (€ 0.1 million). We have successfully combined efforts with our support associations in accessing institutional donor funds for this work, as well as piloting fundraising from individuals in the United States via 'Giving Tuesday'.

In agriculture, our price risk management project for coffee partners in Latin America has developed well. In Peru, basic and intermediate training sessions have been conducted for cooperative farmers, and updates on the accompanying manuals are in process. The aim is to embed a participatory approach in the training and thereby translate academic knowledge into the farmers' practices. Advanced sessions were conducted later in Honduras and Costa Rica with an early simulation module enabling participants to test their skills.

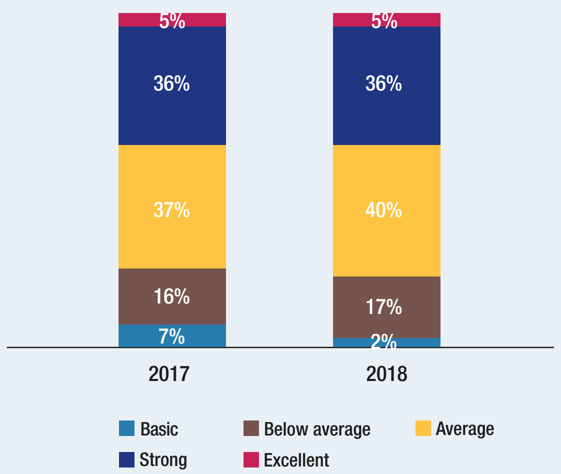
A new project with Church of Sweden funding geared to farmer based organisations was implemented in Guatemala. In East Africa, we are working with six partners in Rwanda, Uganda, Kenya and Tanzania to improve access to finance for farmers, training them how best to manage loans and savings, as well as improve agricultural practices. The projects with German relief agency Bread for the World – Protestant Development Service and Evangelische Landeskirche (Evangelical-Lutheran Church) in Württemberg, south-west Germany, both entered their second year. In the Philippines, we concluded a multi-year project geared towards farmer based organisations with funding support from Rabobank. In India, we continue to support a cashew-processing organisation which provides livelihood opportunities for women.

In financial services, we are still applying and developing a mentoring approach to our capacity building. We continued with our pilot project in the Philippines, 'Bridging the Gender Gap', funded by the Church of Sweden. The project supports financial institutions and their clients in using a gender-based learning approach to enable financial planning at household level. Financial services capacity building also included work with partners in Africa, Latin America and Cambodia on CPP self-assessments, as well as monitoring visits to a number of African partners. Key delivery and sector expert partners in our financial services capacity building are the French microfinance organisation CERISE, the Smart Campaign and the Social Performance Task Force.

In our work on measuring client outcomes, we supported four partners: Komida in Indonesia, Faces in Ecuador, LOLC in Cambodia and BJS in India. We also undertook in-depth research on the welfare of microfinance borrowers over time using the Poverty Probability Index, collecting and processing

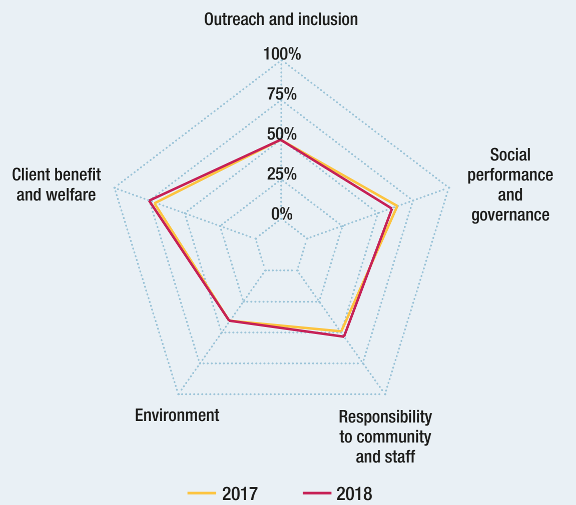
ESG score classification financial inclusion

Partners approved for financing in 2018

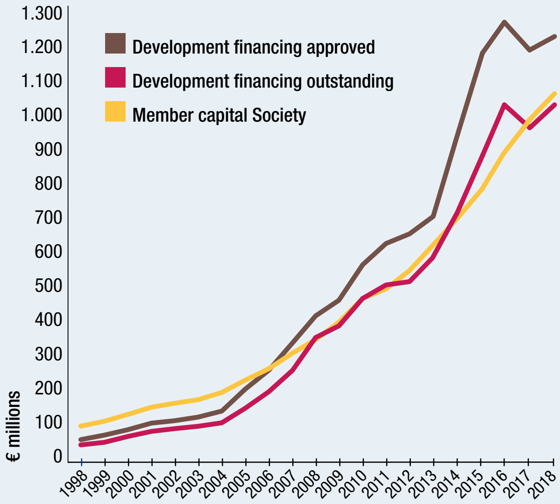


ESG scores financial inclusion – by section

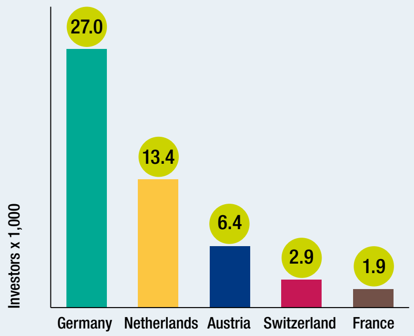
Partners approved for financing in 2018



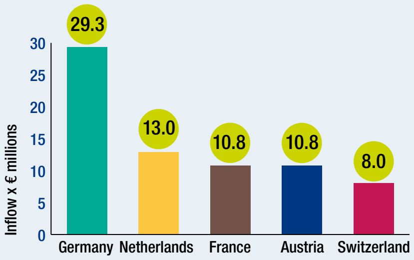
Member capital
As at 31 December 2018



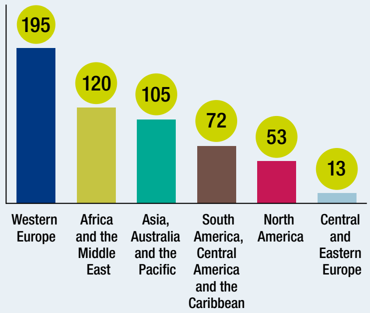
Number of investors
Top 5 countries as at 31 December 2018



Net inflow
Top 5 countries as at 31 December 2018



Number of members per continent
As at 31 December 2018



data from seven microfinance partners in the Philippines and India.

Oikocredit is committed to improving its capacity building work and to sharing best practice. We worked with peers in the Global Impact Investing Network (GIIN) to develop indicators for demonstrating social impact. Our research partnership with Erasmus University International Institute of Social Studies has focused on the effects of microfinance on poverty reduction and involved completion of a student thesis on microfinance as a poverty alleviation tool in the Philippines. The thesis found that participation in certain loan programmes by microfinance borrowers slightly reduces the likelihood of poverty as measured by the Poverty Probability Index. In addition, in 2018 we held a seminar on financial literacy with two researchers.

Investor relations
Oikocredit's investors have stayed loyal during a period of continuing organisational change, providing sufficient inflow of new capital to support the growth and development of our portfolio.

Capital inflow and investor numbers
In 2018 Oikocredit's net inflow of lendable funds (gross inflow minus redemptions) was € 77.9 million (compared with € 117.4 million in 2017). Gross inflow was € 99.2 million (€ 143.9 million in 2017) despite challenging circumstances, including paying out a lower dividend for 2017 (1%, down from 2% in 2016). Overall, Oikocredit's total lendable funds grew by 6.5% to € 1,228.2 million and member capital grew by 6.9% to € 1,082.5 million, a result that owes much to the hard work of our support associations.

The number of investors grew by roughly 1,000, with total investor numbers rising to around 51,000 individuals and 6,000 institutions. The total number of members of the cooperative was 558 at year end, with ten members leaving and one new member, GLS Treuhand, joining. Our national support offices and the support associations continue to seek to diversify our investor base, especially in Austria, Germany and the Netherlands. Germany, the Netherlands, Austria, Switzerland and France were the leading countries in terms of new net inflow. Ethical banks and credit unions we work with also continued to provide significant contributions to our total lendable funds.

Inflow network developments
Oikocredit's inflow network comprises support associations, the Oikocredit International Share Foundation (OISF), other members of the cooperative and our national support offices.

Strategic changes in our inflow network in 2018 included the decision to close two national support offices, in Canada (Toronto) and the UK & Ireland (London). We are grateful to our staff members in these offices who have significantly raised the profile of Oikocredit in these markets and welcomed many new investors. However, we decided to close these offices due to challenges specific to those markets, including increased regulation, higher operating costs and an investment offering that is uncommon locally. Being relatively new capital-raising countries for us, these operations also represent a very small share of total lendable funds. Nevertheless we will continue to welcome and support new and existing investors and members in these markets from our central office.

The support associations, particularly in North America, are increasingly using their networks to raise resources to provide capacity building support to partners. In Spain, options for offering OISF investments (depository receipts) were explored. The next steps are currently being considered for this offering. Together with the Japanese support association we reviewed the activities and set-up of this group and came to the conclusion that, while it will remain a member of the cooperative, it will no longer be organised as a support association.

The OISF, which issues depository receipts of Oikocredit shares to non-members and is Oikocredit's largest cooperative member in terms of capital, is making changes to ensure more consistent governance, monitoring, policies and service delivery across all countries where OISF is offered.

Online investing

In keeping with the trend towards digitisation, we continued the rollout of our online portal, MyOikocredit, where investors of the support associations and OISF can manage their investments digitally. More than 6,000 investors signed up to the portal in 2018.

Investors, members and Members' Council

Individual investors, who invest in Oikocredit via support associations or OISF, are committed to our mission and provide 70.9% of our investor capital. Most of the campaigns focus on attracting more retail investors. Churches, church-related organisations and ethical banks are also important. They provide 29.1% of our funding and raise awareness for Oikocredit through their constituencies.

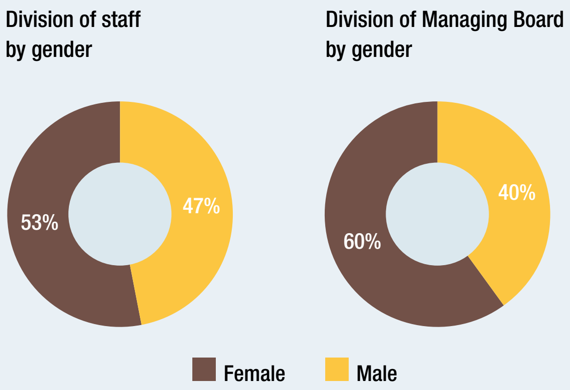
Established in 2016, the Members' Council continues to demonstrate value as a consultative and advisory body for the cooperative. In 2018 we continued to involve the Members' Council in our work. We held discussions about how to further establish its role within the cooperative, how best to deliver its mandate to reflect the voices of members within the organisation and how we can support the Council in transitioning from the current pilot format to a more permanent form. Members' Council representatives visited member organisations in several countries to increase their involvement.

Volunteers, communications and events

The hundreds of volunteers in the support associations play a key role in raising awareness about Oikocredit at public events and as support association board members. We inform and engage these volunteers through regular newsletters (which also go to member organisations and individual investors) as well as webinars, road shows,

Oikocredit staff overview

As at 31 December 2018



Oikocredit employs staff from 40 countries worldwide.

study tours, partner visits and the annual Oikocredit Academy. In 2018 several support association staff spent a week at our central office in Amersfoort gaining insights into our work.

We organised two road shows in 2018, bringing our partners to investor countries. The road show in Europe featured Ecuadorean fair trade organic coffee cooperative Fapecafes; the other, in the United States, was with Nicaraguan coffee cooperative Aldea Global. Our study tour took investors, volunteers and staff to Peru to visit financial inclusion partners and clients in Lima and coffee cooperatives and smallholder farmers in Jaén and San Ignacio provinces. During our AGM week in Chennai, India, we organised visits to six partners.

Organisational developments

Leadership team

In February 2018 Oikocredit expanded the Managing Board to include Petra Lens, Director of Human Resources, and a Director of IT & Operations. With the vacancy for our first Director of IT & Operations still unfilled during 2018, Managing Director Thos Gieskes took interim responsibility for this portfolio. We are pleased that Patrick Stutvoet joined the Managing Board as our new Director of IT & Operations on 1 March 2019.

Several new appointments were made in the Investments department, led by Bart van Eyk since taking overall responsibility for both credit and equity in February 2018. Tom Keleher became Equity Director, and three new Regional Director positions were created. Hans Perk was appointed Regional Director for Africa and Eduard Walkers was appointed Regional Director for Latin America and the Caribbean. Guillermo Salcedo became Interim Regional Director for Asia to lead the development of the operating model for this region until a decision has been reached about the location of the Asian regional office.

Irene van Oostwaard, our Director of Finance, left at the end of 2018. We thank Irene for her years of hard work and dedication to Oikocredit since joining the organisation in 2010, and wish her every success in the future. Our Director of Risk, Laura Pool, took on interim responsibility for Finance in addition to her role following Irene's departure.

People

At the end of 2018 Oikocredit employed 235 full-time equivalent staff in total, down from 290 in 2017, of whom 138 worked outside the Netherlands. We are strengthening our people development agenda while supporting the move to a new operating model under the updated organisational strategy. And we have worked to align our human resources strategy with Oikocredit's updated strategy, with the aim of achieving greater consistency across our global operations.

In 2018 we began a leadership development programme for Managing Board members and continued to implement our global job structure, which is an important building block for career development and consistency in our salary structure across the organisation. We also worked to introduce new human resources management software, giving staff and management quick access to their performance reviews, salary overviews and personal data. We developed recruitment guidelines, processes and procedures, and worked to better position ourselves in a competitive labour market.

A time of transition can be stressful, and we have provided training sessions for managers in communicating change. We have also offered a range of support to help our central office staff manage uncertainty and have offered support for all staff affected by job losses worldwide through a holistic exit package including financial compensation and support for re-entering the job market.

Our 'new way of working' at Amersfoort has progressed well. The introduction of flexible working spaces and a work café focal point aims to encourage the frequent exchange of ideas, and allows teams and individuals to collaborate effectively within the most appropriate work environment for the task at hand.

Works Council

The Managing Board is very pleased to enjoy a truly collaborative relationship with Oikocredit's Works Council. Works Council members have generously given their time beyond their regular jobs to help us address a range of organisational issues during this period of change. The Managing Board also acknowledges the other members of staff who compensate for the time that their colleagues spend on their Works Council duties.

Environment

Oikocredit works with FairClimateFund in purchasing Gold Standard Fairtrade Carbon Credits to offset our CO_2 emissions. The credits help finance carefully selected projects supporting low-income households, who are much affected by climate change, with biogas digesters and cookstoves. We are committed to reducing our carbon footprint over time.

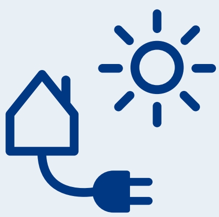
Risk management

We are strengthening Oikocredit's risk culture to better address the regulatory environment on such issues as 'know your customer' and in relation to a range of other financial and non-financial risks. In implementing the European Union's General Data Protection Regulation (GDPR) we have undertaken staff training on data protection and information security. We undertook a review and adjustment of our processes as required to ensure personal data is treated in line with the GDPR.

Our outreach objectives by 2022

2.3 m
end borrowers reached

100,000
farmers reached



100,000
households with access to clean energy

500,000
jobs created or sustained

Good risk management protects both our organisation and our members' capital.

To better reflect currency risks, we are adjusting our prices to partners. We provide partners with local currency loans within predetermined risk limits to help protect them from exchange rate fluctuations, but this comes at a cost. Hence we are increasingly including the majority of our hedging costs in our pricing of loans to partners.

Tax

In 2018, following agreement with the Dutch tax authority, Oikocredit's tax status changed to that of a Dutch corporate income tax paying entity, and thus no longer tax-exempt as had been the case in previous years. However, this has not resulted in our paying corporate income tax in the Netherlands for 2018 because income from certain equity investments is tax-exempt via the Dutch participation exemption, and the remaining tax that would be due in the Netherlands is offset by taxes on interest paid abroad.

Looking ahead

We expect to complete implementation of the changes required by Oikocredit's updated strategy, in terms of our structure, processes and IT systems, in 2020. Our financial performance will still be under pressure in 2019 as we continue to implement our strategy. However, we expect to see improvements in 2020 as we maintain steady portfolio growth and as our complexity-reduction cost savings take effect. Keeping costs under review will help ensure that the organisation's efficiency is in line with market norms and with our members' and investors' expectations, while we remain mindful of our distinctive added value.

In our updated strategy, we have set ambitious goals on growing our portfolio and investor base, improving our financial sustainability, providing capacity building and increasing our outreach.

In development financing, Oikocredit will continue to concentrate on our selected countries, sectors and subsectors while reducing activity in Eastern Europe and Central Asia and other non-focus countries as partners repay outstanding loans. We aim for 13.5% growth in development finance in 2019. We foresee the strongest growth in Africa, where we aim to double portfolio size by 2022. We will look for opportunities to realise income through capital gains from the equity portfolio when the timing is right to responsibly exit an investment. We expect future impacts on profit and loss of local currency devaluations to be close to zero, having substantially reduced currency fluctuation risks through our updated hedging policy.

In financial inclusion, we see new opportunities for fintech to further develop and realise the potential of the payments and micro insurance subsectors. We will continue to analyse our agriculture portfolio for risk and ways to improve portfolio quality. In renewable energy, we will maintain support for off-grid solar, with its clear social and environmental benefits, while monitoring on-grid infrastructure where we see potential to support projects too small for large development finance institutions. Across the regions we will complete the transition to the new operating model in the first months of 2019.

Our ambition is to add value by creating connections between sectors and subsectors and to forge partnerships with other institutions. We will increasingly build on our knowledge, skills, experience and networks and mobilise investors, donors, local agencies and other actors to jointly provide innovative solutions that lead to measurable change in the lives of low-income people and communities.

In social performance, Oikocredit will roll out the new ESG scorecard for financial institutions supporting SMEs. As our portfolio grows, so will our outreach to key social target groups – women, smallholder farmers and SMEs

Our strategic ambitions

1. We focus on **low-income people** in three priority sectors: financial inclusion, agriculture and renewable energy.
2. We work in markets where **need and opportunity** are the greatest.
3. We aim to **maximise our social impact**. At the same time, we will **safeguard the environment** and generate **fair financial returns**.
4. We **lead positive change as a catalyst institution** with a global network and local footprint, amplifying impact through both investments and capacity building.
5. We want to be the **preferred social investor and development partner** for our partner organisations.
6. We will further grow our **global member and investor community** and offer our investors the chance to be part of a global movement for social change.

that support decent employment – with an emphasis on ensuring that financial institution partners act responsibly. Capacity building will be central in helping Oikocredit fulfil its ambition of becoming a catalyst in the sector. We aim to scale up the knowledge and experience we have gained while increasingly seeking and matching institutional funding to the needs of partners. We aim to pilot at least one capacity building engagement in digital finance and will continue to improve our follow-up of partners' implementation of action plans following social assessments, as well as our mentoring approach.

We will continue to roll out our online investor portal, MyOikocredit, and with our support associations increase the number of investors using this platform. Several support associations are exploring opportunities to transition into their new role of mobilising support for capacity building and contributing to thought leadership in this area. We will continue to monitor changing compliance requirements and ensure that our investor offering is the best fit for markets where we are active. Attracting more individual investors and members will remain a priority to support continued growth of our development financing portfolio. And we will support the Members' Council in clarifying its role and mandate.

We will invest in the capabilities of our people and organisation to ensure that our staff have the right tools to meet all the needs of our partners. In 2019 Oikocredit will invest further in leadership development beyond Managing Board level and continue to develop its human resources capability while undertaking more of the organisation-wide strategic changes. We will implement a global compensation and benefit structure.

Conclusions

Oikocredit is undergoing transition, and we have achieved good progress over the past year. We anticipate that we will be stronger and fitter for the future by the end of 2019. We addressed key challenges during 2018, and we recognise that this resulted in some anxiety among our staff, but we are certain that the benefits for the organisation will steadily emerge. While from a purely financial point of view there is still pressure on our profitability, in terms of social impact our performance has remained strong, although as always we continually strive to do better.

The Managing Board is confident that Oikocredit will strengthen its leadership position in the impact investing sector, giving exceptional attention to social performance, environmental sustainability, supporting and enabling our partners over the long term to provide the best possible services to their stakeholders, and catalysing lasting positive change.

Amersfoort, 7 March 2019

Thos Gieskes
Managing Director

Ging Ledesma
Director of Investor Relations and Social Performance

Petra Lens
Director of Human Resources

Laura Pool
Director of Risk,
interim Director of Finance

Patrick Stutvoet
Director of IT & Operations

Bart van Eyk
Director of Investments

Supervisory Board report

ACEP, Burkina Faso
Mamounata Ouedraogo uses the loans she receives from savings and credit company ACEP to buy looms for her weaving business.

Staying true to Oikocredit's mission

Oikocredit's Supervisory Board is the organisation's deliberative, guiding and supervising non-executive body. Its core responsibility is to keep the cooperative true to its vision, mission and values.

The Supervisory Board has a supervisory and advisory role towards the Managing Board and towards Oikocredit as a whole. It pays particular attention to strengthening the governance of the cooperative and to overseeing the effectiveness of internal risk management and control systems, policies and processes. It appoints the Managing Board, provides direction and advice, especially with regard to strategy and policy, and helps ensure that the organisation takes full account of its internal and external stakeholders in its decision-making. The Supervisory Board receives regular reports and updates from the Managing Board, including on the Society's compliance with relevant laws and regulations. It monitors finances; financial, operational and compliance risks; and human resources structures and policies, with input from internal audit findings.

Key decisions and discussions

Leadership team

As the body that employs the Managing Board, during the year the Supervisory Board decided on and made key changes to the Managing Board. Bart van Eyk was appointed to the role of Director of Investments in February 2018 when the credit and equity departments were merged. As a consequence of this departmental merger, the former Credit Director Hann Verheijen left Oikocredit. It was also decided to appoint Petra Lens as Director of Human Resources, and create a new Director of IT & Operations role. To fulfil the latter role, the Supervisory Board appointed Patrick Stutvoet, who took up his position on 1 March 2019.

Following the resignation of Irene van Oostwaard in December 2018, the Supervisory Board appointed Laura Pool as interim Director of Finance in addition to her role as Director of Risk.

Organisational strategy

The Supervisory Board maintained a close and detailed overview of the major strategic challenges facing Oikocredit in 2018 as the organisation began implementing its updated strategy. This involved agreeing to the Managing Board's proposals to concentrate efforts on 33 focus countries and three main sectors (financial inclusion, agriculture and renewable energy), and to reduce operational complexity by implementing a new regional model with one regional office per continent.

The Managing Board worked with an external strategy consultancy to assist in updating the operating model of Oikocredit's central organisation. The Managing Board, along with the external consultancy, engaged with the Supervisory Board at the September and November meetings to outline the progress made. The Supervisory Board reviewed the Request for Advice that the Managing Board filed with the Works Council in December 2018 and discussed the proposal with the Managing Board.

Dutch Structure Regime

The Supervisory Board's Governance Committee began preparations for the forthcoming implementation of a change in the Articles of Association to meet the requirements under Dutch civil law for large companies, including cooperatives (Structure Regime). With effect from August 2019, Oikocredit will be subject to the Structure Regime, under which Supervisory Board members will be nominated to the General Meeting by the Supervisory Board (rather than being recommended by the current Nomination Committee). If the General Meeting has no objection, the nominated candidate will be appointed by the General Meeting. Oikocredit is also working on a proposal to reflect the new nomination and election procedures in accordance with the regime.

Finances

Discussion of the 2017 financial results and the organisation's financial performance in 2018 was a major focus of the Supervisory Board. The main discussion points included: the level of the 2017 dividend proposed to the Annual General Meeting (AGM); the 2018 spring budget update given the changes resulting from the new regional operating model; alternative financial scenarios based on the variation of key parameters of the baseline strategic projections; the allocation of net income policy; and the hedging policy which was updated after the local currency risk fund was almost exhausted in 2017 following the significant foreign exchange rate volatility that year.

Self-review

The Supervisory Board undertook its own structural review in 2018, deliberating on the board's size, the structure of its meetings and its committee structure in order to increase its efficiency and effectiveness. The Supervisory Board agreed to have slightly shorter meetings in future and to meet in person four times a year instead of the current three.

Board meetings

The Supervisory Board met in person three times during the year (in March, June and November) and held five conference calls (two in April, two in September and one in December). The main topics discussed were: the financial results; the approval of the annual budget and dividend for 2017; approving changes to the Managing Board; the strategy update process; the composition of the Supervisory Board, including the appointment of Karsten Löffler as Chair and Annette Austin as Vice-chair; and preparations for the Structure Regime noted above.

All of the Supervisory Board's meetings and conference calls during 2018 included a component conducted with the Managing Board. The Supervisory Board's Personnel Committee met with the Works Council in Amersfoort in March and November. The Supervisory Board did not visit any support associations or members during the year but was represented at the annual meeting of the support associations in February and at the stakeholder meetings held in the week of the AGM. Key topics discussed on these occasions were the strategy update, member capital classification, and the different needs of the support associations.

Attendance of Supervisory Board meetings in 2018

Supervisory Board members 2018	*Meeting attendance*	
Karsten Löffler (Chair)	100%	(8/8)
Annette Austin (Vice-chair)	87.5%	(7/8)
Eduardo Cabral Jimenez	75%	(6/8)
Daira Gómez Mora	75%	(6/8)
Joseph Patterson	62.5%	(5/8)
Åsa Norell	75%	(6/8)
Carla Veldhuyzen van Zanten	87.5%	(7/8)
Vincent De Waele	62.5%	(5/8)
Ruth Waweru	50%	(4/8)
Eltjo Kok (appointed in June 2018)	100%	(4/4)
Jacinta Hamann de Vivero (completed term in June 2018)	100%	(4/4)

Board Committees

The Supervisory Board's six committees help the board organise its work efficiently by preparing ahead of plenary meetings. All committees met on at least a quarterly basis, either in person or by teleconference.

Audit Committee

The Audit Committee reports to the Supervisory Board, and to the AGM as an integral committee of the Supervisory Board. Its primary function is to assist the Supervisory Board in fulfilling its oversight responsibilities regarding the integrity of the financial statements, and the effectiveness of internal controls. The Audit Committee reviews the financial reporting process and financial information; the systems of internal controls; the audit process; and the company's process for monitoring compliance with laws and regulations. One member, Vincenz Gora, is not a member of the Supervisory Board.

The Audit Committee held 10 meetings during 2018 in addition to maintaining frequent contact with the cooperative's key stakeholders. The main action points for 2018 were: a close follow-up of audit findings and of the impact of the strategy implementation on the internal controls; a thorough IT audit; and the expansion of the Audit Committee and internal audit work into social performance related processes.

The Audit Committee observed that audit findings were not resolved as quickly during 2018 due to the cooperative's focus on implementing its updated strategy. Setting priorities and resolving audit findings while implementing the new operating model are important objectives for 2019.

An IT audit was performed by an external resource. Although some findings are challenging to resolve in the current context, the Audit Committee is confident that the IT controls are acceptable. Under the guidance of the new Director of IT & Operations an in-depth analysis will need to be made to further improve IT controls.

The internal audit on social performance focused on social and environmental risk management in credit and equity operations, and reporting on the organisation's social and environmental performance achievements. It also included the activities and responsibilities of the Social Performance department.

Credit Committee

Transactions that bring total exposure of Oikocredit to one single project partner (being a legal entity) to € 10 million or above are subject to approval from the Supervisory Board. The Supervisory Board has delegated the authority to approve such transactions to its Credit Committee. In 2018 the Credit Committee reviewed 10 loan proposals and one equity proposal. All loan proposals were approved. The equity proposal was withdrawn by management. The Credit Committee met with Oikocredit management twice in person. The main topics covered were the loan pricing and approval processes.

Governance Committee

The Governance Committee is responsible for assisting and advising the Supervisory Board in fulfilling its legal and ethical responsibilities through an adequate governance framework and the delivery of a best practice approach to committee and policy structures. It also monitors adherence to that framework.

The Governance Committee met four times, two of which were in person, along with several phone and email deliberations. Topics discussed in 2018 included: the implications of the Structure Regime, especially the impact on the future process for nominating and electing Supervisory Board members; the update of the Supervisory Board and Managing Board rules and terms of reference of Supervisory Board committees; duties and responsibilities of the Supervisory Board committees; and review and revision of the Articles of Association as needed. Separately, some members of the Governance Committee also participated in two governance workshops held in July and November. The focus was on ensuring good governance and understanding the roles and responsibilities of stakeholders.

Personnel Committee

The purpose of the Personnel Committee is to support the Supervisory Board in its statutory role as the employer of the members of the Managing Board, including supporting decision-making by the Supervisory Board in appointing and dismissing Managing Board members and appraising the Managing Board and its individual members. The Personnel Committee also supervises the Human Resources strategies, policies and operations, ensuring that our people strategies and plans contribute effectively to Oikocredit's mission and values.

The Personnel Committee held three in-person meetings in 2018. It also held both regular and frequent ad hoc meetings via teleconference in between Supervisory Board meetings. The committee advised the Supervisory Board on the changes to Managing Board positions as mentioned above. In addition, the Personnel Committee reviewed the structure proposed by the Managing Board for first and second management levels of Oikocredit, as part of the proposed operating model for Oikocredit's central organisation in the Netherlands. The committee has also been working on an enhanced appraisal and target setting process, to be implemented in 2019.

Risk Committee

The Risk Committee advises the Supervisory Board on the overall risk appetite and risk strategy, including monitoring the implementation of the strategy and ensuring the Managing Board maintains sound risk management practices. In 2018 the Risk Committee met four times, including twice in person. The committee discussed the Financial Risk reports and Operational and Compliance Risk reports, as well as the risk governance structure proposed by the Risk department.

Strategy Committee

The Strategy Committee is responsible for reviewing the process for strategy development, monitoring its implementation, and incentivising the analysis of strategic business opportunities and innovation. In 2018, the Strategy Committee met seven times, three of which were in person. The committee's focus was on reviewing Oikocredit's regional operating model, implemented in 2018, and the proposed operating model for Oikocredit's central organisation in the Netherlands. The committee also focused on setting key performance indicators.

Members Relations Committee

The Members Relations Committee, which was inactive in 2018, ceased to function as a result of the decision made by the AGM to establish a Members' Council. Irrespective of this, Supervisory Board members have attended and will continue to attend member-related meetings.

Training

The Supervisory Board attended a full day joint leadership training session in conjunction with the Managing Board ahead of its November meeting. This was preceded by a half day session on mission alignment; Supervisory Board priorities, responsibilities and key governance topics; and work modes. An external evaluation of the Supervisory Board is planned for 2019.

Supervisory Board composition

The 2018 AGM adopted a proposal to leave one Supervisory Board vacancy open, meaning the Supervisory Board was constituted by 10 members for the second year in a row. A proposal regarding the size of the Supervisory Board is planned to be brought to the AGM in 2019. As the terms of five Supervisory Board members are due to end in June 2019, these positions will be up for election at this time. This will result in a complete change in membership of the Audit Committee and a significant part of the Supervisory Board. The Supervisory Board has discussed the need for continuity in its membership within and beyond the boundaries of the Articles of Association, and continues to discuss and work towards solutions.

Remuneration of the Supervisory and Managing Boards

Remuneration of board members is described in note 35 of the financial statements. The Supervisory Board plans to table an updated remuneration policy with the AGM.

Looking ahead

The Supervisory Board's priorities for 2019 include, most notably, continuing to work to keep Oikocredit's financial position stable so as to provide sufficient resilience and financial buffers to support operations in times of change. The strategy update and its implementation will remain very high on the Supervisory Board's agenda, and it will work closely with the Managing Board to align on the main dimensions of the changes. The Supervisory Board is monitoring to ensure that essential safeguards remain in place and key staff are retained.

The Supervisory Board will maintain its focus on supporting the Managing Board to continue its work to ensure that key organisational processes are fully in place and aligned across the wider network, compliance requirements that impact on our inflow and outflow networks are adhered to, and Oikocredit delivers on its mission.

With respect to the Structure Regime requirements referred to above, the Supervisory Board will seek to make its membership nomination and election processes as inclusive as possible, with participation from members, the Works Council and the Managing Board.

The Supervisory Board thanks all staff and volunteers for their unfaltering commitment to the realisation of Oikocredit's vision, mission and values.

Amersfoort, 7 March 2019

Karsten Löffler
Chair

Annette Austin
Vice-chair

Eduardo Cabral Jimenez
Supervisory Board member

Vincent De Waele
Supervisory Board member

Daira Gómez Mora
Supervisory Board member

Eltjo Kok
Supervisory Board member

Åsa Norell
Supervisory Board member

Joseph Patterson
Supervisory Board member

Carla Veldhuyzen van Zanten
Supervisory Board member

Ruth Waweru
Supervisory Board member

Consolidated financial statements

Arrend, Guatemala
Construction worker Francis Zuñiga works for building materials company Global Mix which leases vehicles and machinery from Arrend. Oikocredit partner Arrend provides leasing and loans to small and medium enterprises.

Consolidated **balance sheet**

(before appropriation of net income)

Notes		31/12/2018	31/12/2017
		€ ,000	**€ ,000**
	NON-CURRENT ASSETS		
6	**INTANGIBLE FIXED ASSETS**	**458**	**1,132**
7	**TANGIBLE FIXED ASSETS**	**4,886**	**2,247**
	FINANCIAL ASSETS		
8	Development financing:		
	Total development financing outstanding	1,046,583	981,664
	Less: - loss provision and impairments	(75,989)	(69,329)
		970,594	**912,335**
	Consists of:		
	Loans (net of loss provision)	*825,212*	*795,016*
	Equity (net of impairments)	*145,382*	*117,319*
9	Term investments	149,015	149,851
10	Other financial assets	4,939	3,220
	Total	**1,124,548**	**1,065,406**
	Total non-current assets	**1,129,892**	**1,068,785**
	CURRENT ASSETS		
11	Receivables and other current assets	53,724	31,936
12	Cash and banks	109,327	119,324
	Total	**163,051**	**151,260**
	TOTAL	**1,292,943**	**1,220,045**

The accompanying notes are an integral part of these financial statements.

Consolidated **balance sheet**

(before appropriation of net income)

Notes		31/12/2018	31/12/2017
		€ ,000	**€ ,000**
	GROUP EQUITY AND FUNDS		
13/14	Member capital	1,082,492	1,012,421
14	General reserve	90,816	81,986
14	Restricted exchange fluctuation reserve	(9,148)	(7,383)
15	Local currency risk funds	10,002	12,813
16	Funds for subsidised activities and model costs	4,417	4,264
	Undistributed net income for the year	1,270	18,439
		1,179,849	**1,122,540**
17	**Third-party interests**	**1,664**	**2,703**
	Total group equity and funds	**1,181,513**	**1,125,243**
18	**PROVISIONS**	**1,801**	**1,582**
19	**NON-CURRENT LIABILITIES**	**56,808**	**56,934**
20	**CURRENT LIABILITIES**	**52,821**	**36,286**
	TOTAL	**1,292,943**	**1,220,045**

The accompanying notes are an integral part of these financial statements.

Consolidated **income statement**

Notes		2018	2017
		€ ,000	€ ,000
	INCOME		
	Interest and similar income		
22	Interest on development financing portfolio	83,010	80,726
22	Interest on term investments	2,506	2,548
9/22	Revaluation term investments	(3,468)	(858)
	Total interest and similar income	**82,048**	**82,416**
	Interest and similar expenses		
23	Interest expenses	(2,492)	(2,068)
	Total interest and similar expenses	**(2,492)**	**(2,068)**
	Income from equity investments		
24	Result from sale of equity investments	(513)	4,395
	Dividends	2,165	2,465
	Total income from equity investments	**1,652**	**6,860**
25	**Grant income**	**1,068**	**894**
	Other income and expenses		
26	Exchange rate differences	(2,353)	(48,699)
26	Hedge premiums and provisions	(27,291)	(11,489)
26	Other	37	19
	Total other income and expenses	**(29,607)**	**(60,169)**
	TOTAL OPERATING INCOME	**52,669**	**27,933**
	GENERAL AND ADMINISTRATIVE EXPENSES		
27	Personnel	(23,687)	(23,083)
	Travel	(1,008)	(1,116)
28	General and other expenses	(12,386)	(13,359)
	TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**(37,081)**	**(37,558)**
	ADDITIONS TO LOSS PROVISIONS AND IMPAIRMENTS		
30	Additions to loss provisions	(11,542)	(7,354)
30	Impairments on equity investments	(3,483)	237
	TOTAL ADDITIONS TO LOSS PROVISIONS AND IMPAIRMENTS	**(15,025)**	**(7,117)**
	INCOME BEFORE TAXATION	**563**	**(16,742)**
31	Taxes	(1,856)	(3,238)
	INCOME AFTER TAXATION	**(1,293)**	**(19,980)**
17	Third-party interests	(96)	(136)
32	Additions to (-) and releases (+) from funds	2,659	38,555
	INCOME FOR THE YEAR AFTER ADDITIONS TO FUNDS	**1,270**	**18,439**

The accompanying notes are an integral part of these financial statements.

Consolidated **cash flow statement**

Notes		2018 € ,000	2017 € ,000
	INCOME BEFORE TAXATION	**563**	**(16,742)**
	Adjusted for non-cash items		
8/11	Value adjustments loans, equity and receivables	18,938	(2,191)
9	Unrealised revaluation term investments	3,468	727
6/7	Depreciation (in)tangible fixed assets	1,303	1,091
10/11/ 20/29	Taxes	(2,410)	(3,249)
	Exchange adjustments	(9,611)	61,656
	Changes in		
8	Development financing (disbursements and repayments)	(70,728)	(41,453)
10	Other financial assets	87	287
11	Receivables and other current assets	(21,854)	3,589
18	Provisions	219	1,582
20	Current liabilities	16,716	(48,177)
	CASH FLOW FROM OPERATING ACTIVITIES	**(63,309)**	**(42,875)**
9	Term investments	(2,621)	(37,826)
6	Intangible assets	(12)	(325)
7	Tangible assets	(3,256)	(1,349)
	CASH FLOW FROM INVESTING ACTIVITIES	**(5,889)**	**(39,500)**
13/45	Member capital (Issue and redemptions) in euro and foreign currencies	70,071	99,453
34	Dividend paid on member capital in euro and foreign currencies	(9,609)	(16,706)
17	Third-party interests	(1,135)	2,392
19	Loans and notes	(126)	21,113
	CASH FLOW FROM FINANCING ACTIVITIES	**59,201**	**106,252**
	CHANGES IN CASH AND BANKS	**(9,997)**	**23,877**
12	Cash and banks beginning of the year	119,324	95,447
	Cash and banks end of the year	109,327	119,324
	CHANGES IN CASH AND BANKS	**(9,997)**	**23,877**

The accompanying notes are an integral part of these financial statements.

Notes to the **consolidated financial statements**

Year ended 31 December 2018

These financial statements are expressed in euro (€). As at 31 December 2018, US$ 1 equalled € 0.89725 (31 December 2017: US$ 1 equalled € 0.83).

1 General information

Description of the organisation

OIKOCREDIT, Ecumenical Development Cooperative Society U.A. (the Society) was established in 1975 in Rotterdam, the Netherlands, and has corporate status under the laws of the Netherlands. The Society is owned by its members throughout the world: churches, subdivisions of churches, councils of churches, church-related organisations, partner members and support associations established by individuals and local parishes. The Society has an undefined ending date.

The entities belonging to the Oikocredit group (Oikocredit) are: the Society registered in Amersfoort, the Netherlands; Oikocredit International Support Foundation (Support Foundation) in Amersfoort, the Netherlands; Maanaveeya Development & Finance Private Limited in Hyderabad, India; Finance Company Oikocredit Ukraine in Lviv, Ukraine; and the Low Income Countries Loan Fund (LIC Loan Fund) in Amersfoort, the Netherlands.

Oikocredit's mission is to challenge all to invest responsibly. It provides financial services and supports organisations to improve the quality of life of low-income people and communities in a sustainable way.

Oikocredit's vision is a global, just society in which resources are shared sustainably and all people are empowered with the choices they need to create a life of dignity.

Oikocredit operates directly in the following countries, through its offices which may have differing legal statuses depending on the laws of the country concerned. Oikocredit has its central office in Amersfoort, the Netherlands, and has regional offices in the following locations: Abidjan, Côte d'Ivoire; Hyderabad, India; Lima, Peru; Manila, the Philippines; and Nairobi, Kenya. In addition, it has offices in Argentina, Benin, Bolivia, Brazil, Bulgaria, Costa Rica, Ecuador, Ghana, Guatemala, Mali, Mexico, Nigeria, Paraguay, Senegal, Uruguay and the USA.

The offices in Bolivia, Brazil, Costa Rica, Ecuador, Ghana, Guatemala, Kenya, Nigeria, the Philippines, Uruguay and the USA are incorporated as legal entities. Due to the limited size of the assets of these legal entities, it was decided to regard these assets as if they were owned by branch offices.

Oikocredit has taken the decision to liquidate or is already in the process of liquidating the following legal entities: Bolivia, Mozambique (dormant), South Africa (dormant), Rwanda, Tanzania and Ukraine, and has taken the decision to close the following representative and branch offices: Argentina, Benin, Cambodia, Dominican Republic, El Salvador, Honduras, Mali, Nicaragua, Uganda and Senegal.

Oikocredit has national support offices that coordinate and support efforts to attract investors in Austria, Canada, France and Germany.

LIC Loan Fund

The Society has developed the LIC Loan Fund, which invests in partners in low-income countries. This fund has been created as a restricted, closed-end, tax transparent investment fund (beleggingsfonds). The fund is not an incorporated legal entity, but an unincorporated fund for joint account (fonds voor gemene rekening). The fund and the participations will not be listed on any stock exchange. The Society acts as fund manager of the Low Income Countries Loan Fund. In June 2017 the LIC Fund reached the end of the its five-year investment period. In November 2017 the terms and conditions of the LIC Loan Fund were amended to allow for the distribution of distributable assets. Since December 2017 and until the end of the life of the LIC Loan Fund on 30 June 2022, distributable assets are distributed to the participants of the LIC Loan Fund in proportion to the capital contributions made by the participants. Participants are the persons that are holders of participations in the LIC Loan Fund admitted as such to the fund by the Cooperative, subject to the unanimous approval of the meeting of participants.

Oikocredit International Support Foundation

The Support Foundation was established in 1995, in Amersfoort, the Netherlands, in accordance with the laws of the Netherlands. The duration of the Support Foundation is unlimited. The main purpose of the Support Foundation is to mobilise grant funds to support various subsidised activities such as technical assistance and 'model costs' of the Society. 'Model costs' are costs no financial institution of this size would incur, but which are an integral part of the Society's cooperative model. The board of the Support Foundation has decided to allocate some of these costs to their account (category A) and to endeavour to raise funds to subsidise part of the remaining costs (category B).

Category A costs are:

- 100% (2017: 100%) of external capacity building for partners

Category B costs are:

- Investor relations costs: besides the category A costs charged to the Support Foundation, the target is to raise subsidies and grants for another 15% of national support office costs and 15% of technical and organisational

assistance to support associations.
- Incidental costs: to be decided on a case-by-case basis.

The Support Foundation also manages local currency risk funds and guarantee funds. The local currency risk funds are available to offset the risk of currency losses on Oikocredit loans disbursed in local currencies; the guarantee funds are available to cover Oikocredit's partners which are deemed to be risky.

Basis of consolidation

The consolidated financial statements include the financial information of Oikocredit, its group companies and other entities over which it exercises control or whose central management it conducts. Group companies are entities over which Oikocredit exercises direct or indirect dominant control based on a shareholding of more than one half of the voting rights, or whose financial and operating policies it has the power to govern. Potential voting rights that can be directly exercised at the balance sheet date are also taken into account.

Inter-company transactions, profits and balances among group companies and other consolidated entities are eliminated. Unrealised losses on inter-company transactions are also eliminated. The accounting policies of group companies and other consolidated entities have been changed where necessary, in order to align them with the prevailing group accounting policies. Group companies and other entities over which Oikocredit exercises control or whose central management it conducts are consolidated in full. Minority interests in group equity and group net income are disclosed separately.

The Society in Amersfoort is at the head of the group and includes the consolidated companies listed below:
- Oikocredit International Support Foundation, Amersfoort, the Netherlands
- Maanaveeya Development & Finance Private Limited, Hyderabad, India
- Finance Company Oikocredit Ukraine, Lviv, Ukraine
- Low Income Countries Loan Fund, Amersfoort, the Netherlands.

As the income statement for 2018 of the Society is included in the consolidated financial statements, an abridged income statement has been disclosed in the Society financial statements in accordance with Section 402, Book 2, of the Netherlands Civil Code.

Related parties

All Oikocredit group companies mentioned above are considered to be related parties.

The support associations and the Oikocredit International Share Foundation (Share Foundation) are separate organisations established to support the worldwide work of Oikocredit.

The Oikocredit Provident Fund was a foundation registered in Amersfoort, the Netherlands, which managed the designated savings and contributions from OIKOCREDIT, Ecumenical Development Cooperative Society U.A. employees based in developing countries. The board of the foundation mainly consisted of Oikocredit employees. On 21 March 2017, the board of directors decided to liquidate the Provident Fund. Liquidation was finalised on 11 December 2017.

The Share Foundation was established in 1995, in Amersfoort, the Netherlands, under the laws of the Netherlands. The duration of the Share Foundation is unlimited. The main purpose of the Share Foundation is to provide investment opportunities in Oikocredit for non-church bodies, such as banks and development organisations and for individuals in countries where no support association exists or where support associations are not allowed to sell financial products themselves.

Members are also considered to be related parties. Significant transactions with related parties are disclosed in the notes insofar as they are not transacted at arm's length. The nature, extent and other information of transactions are disclosed if this is required to provide a true and fair view.

Cash flow statement

The cash flow statement has been prepared using the indirect method. The cash items disclosed in the cash flow statement comprise cash and cash equivalents. Cash flows denominated in foreign currencies have been translated at average exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement. Interest paid and received, dividends received and income taxes are included in cash from operating activities. Dividends paid are recognised as cash used in financing activities.

Estimates

The preparation of financial statements, in conformity with the relevant rules, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. If necessary for the purposes of meeting the requirements under Section 362(1), Book 2, of the Netherlands Civil Code, the nature of these estimates and judgements, including the related assumptions, is disclosed in the notes to the financial statement items in question.

2 Accounting policies for the balance sheet

General information

The consolidated financial statements have been prepared in accordance with the statutory provisions of Part 9, Book 2, of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board. The financial statements are denominated in euro. In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or fair value. If not specifically stated otherwise, they are recognised at the amounts at which they were acquired or incurred. The balance sheet, income statement and cash flow statement include references to the notes. These financial statements have been prepared under the going concern assumption.

Comparative figures
The accounting policies have been consistently applied to all the years presented.

Foreign currencies
The financial statements are presented in euro, which is the functional and presentation currency of the Society. Foreign currency transactions in the reporting period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. Foreign-exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates are recognised in the income statement. Translation differences on non-monetary assets held at cost are recognised using the exchange rates prevailing at the dates of the transactions.

Assets and liabilities of consolidated foreign group companies denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date; income and expenses are translated at average exchange rates during the financial year. The cumulative exchange rate differences on investments in foreign group companies are kept in the restricted exchange fluctuation reserve.

Assets and liabilities
An asset or a liability is recognised in the balance sheet when the contractual rights or obligations in respect of that instrument arise. An asset or liability is no longer recognised in the balance sheet when there is a transaction that results in a transfer to a third party of all or substantially all of the rights to economic benefits and all or substantially all of the risks related to the position.

Fixed assets and depreciation
Fixed assets (both tangible and intangible) are stated at cost minus depreciation. Expenditure for additions, renewals and improvements are capitalised. Depreciation is computed using the straight-line method over the estimated useful life of the respective assets. At each balance-sheet date, it is established whether there are any indications of fixed assets being subject to impairment. If any such indication exists, the recoverable amount of the asset is determined. An asset is subject to impairment if its carrying amount exceeds its recoverable amount; the recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Development financing
Receivables disclosed under development financing are valued at amortised cost.

Associates

Equity investments in companies in which Oikocredit has significant influence ('associates') are accounted for under the equity accounting method. Significant influence is normally evidenced when Oikocredit has from 20% to 50% of a company's voting rights. In addition, Oikocredit takes into consideration the factual circumstances, such as:

1. Oikocredit's involvement in the company's operational and/or strategic management by participation in its management, supervisory board or investments committee; and
2. The presence of material transactions between Oikocredit and the company; and
3. Oikocredit making essential technical assistance available.

Investments in associates are initially recorded at cost and the carrying amount is increased or decreased after the date of acquisition to recognise Oikocredit's share of the investee's results or other results directly recorded in the equity of associates.

Oikocredit operates in developing countries that may not have particularly advanced accounting standards and practices comparable to those in developed countries. Financial reporting may not always be comparable to the quality under part 9, Book 2, of the Netherlands Civil Code and may not be available in a timely manner. Inherent to this situation, Oikocredit only accounts the associates according to the equity method if underlying financial data has been recently audited and prepared under internationally accepted accounting standards. If these criteria are not met, Oikocredit records the associates at cost less impairment. The fair value is determined taking into account suitable valuation methods such as book value multiples, price-earnings ratios and recent sale prices of similar investments. In line with the accounting principles for equity investments, the impairment losses are included in profit and loss and cannot be reversed through the profit and loss accounts, except upon realisation.

Investments

Participating interests where no significant influence is exercised are stated at the lower of cost or realisable value. In case the Society has the intention to sell, then the participating interest is stated at the lower expected sales value. If the Society transfers an asset or a liability to a participating interest that is measured at cost or current value, the gain or loss resulting from this transfer is recognised directly and in full in the profit and loss account, unless the gain is in substance not realised.

Provision for possible losses on development financing
The Society's provision for possible losses is based on an evaluation of the risks of the current development financing portfolio (loans and equity investments) in terms of present conditions. The calculation of the loss provision comprises the following layers:

- A collective general provision for incurred but not yet identified losses at reporting date using historical loss data.
- A collective provision based on country ratings calculated for each country in which the partner is based, also considering the currency in which the loan is granted.
- If a partner is considered to be 'non-performing' (see section 3 for explanation of a non-performing partner) due to overdue payments or other factors, the society will account for a specific provision if the incurred loss exceeds the collective provision for that partner. This provision is calculated based on the management's risk assessment of, and experience with, these kinds of partner.

This provision for development financing risks is deducted from loans and interest outstanding in the balance sheet. Write-offs are charged against this loss provision. Additions to or withdrawals from the provision for loan losses are recognised in the income statement.

In practice, equity investments (including investments in associates) are valued at cost less impairment. All equity investments are reviewed and analysed at least annually. An equity investment is considered impaired when the carrying amount exceeds the recoverable amount. Oikocredit operates in countries where there is no active market for these equity stakes. The recoverable amount calculated as part of the impairment assessment is determined taking into account suitable valuation methods such as price-earnings ratios and recent sale prices of similar investments as far as these are available.

Term investments

The term investments which are listed on regulated markets are measured and recognised at fair value as these are not held to maturity. Changes in the fair value are taken directly to the income statement.

Non-listed term investments (only equity investments) are stated at cost less impairment. The impairment is tested on an annual basis.

Transaction costs are expensed in the income statement if these are related to financial assets carried at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and deposits held at call or with maturities up to one year. Cash and cash equivalents are stated at nominal value. If cash and cash equivalents are not readily available, this is taken into account in the measurement.

Member capital

The Society issues shares in euro, British pounds, Canadian dollars, Swedish kronor, Swiss francs and US dollars.

The shares shall be redeemed no later than five years after a redemption request has been submitted and are as such considered a liability (puttable shares). Redemption (or partial redemption) will be at the nominal value. However, if the net asset value per share is lower than the value stated in the most recent audited (interim) balance sheet preceding the redemption by the Society, the amount payable upon redemption of the share(s) shall not exceed the sum corresponding to the net asset value of the share(s) according to that balance sheet (article 13 of the Articles of Association).

The Managing Board opted to make use of the exemption in RJ 290.808 to classify its member capital in both euro and foreign currencies as equity. The member shares are the most subordinated class of instruments issued by the Society. All member shares are identical in subordination, the difference in currency denomination does not provide any preferential terms or conditions to its holder and all members are treated equally in the event of dissolution of the Society. As such, all instruments are presented as equity in the consolidated financial statements.

Where the Society repurchases shares, the consideration paid is deducted from equity (member capital). Where such membership shares are issued, any consideration received is included in equity (member capital).

Provisions

The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or constructive obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations.
The Society recognises severance payments if the Society has demonstrably committed itself, to:

- the termination of the employment contracts of current employees in accordance with an announced detailed formal plan without the option of the plan being withdrawn; or
- the payment of termination benefits as a result of an offer to encourage voluntary redundancy that cannot be withdrawn.

The onerous contract results from an unfavourable lease in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received or for which no benefits are expected to be received.

Provisions are measured at the nominal value of the best estimate of the expenditures that are expected to be required to settle the liabilities and losses.

Pensions

The Society has pension plans to which the conditions of the Dutch Pension Act are applicable. The pension plan is a defined contribution plan. The Society pays premiums based on (legal) requirements, on a contractual or voluntary basis to insurance companies. Premiums are recognised as personnel costs when they are due. Prepaid contributions are recognised as deferred assets if these lead to a refund or reduction of future payments. Contributions that are due but have not yet been paid are presented as liabilities.

Non-current liabilities

Borrowings are initially recognised at fair value, with net transaction costs incurred. Borrowings are subsequently stated at amortised cost, being the amount received taking account of any premium or discount, less transaction costs.

Financial instruments

Listed securities (part of the term investments) included in financial and current assets are stated at fair value. All other financial instruments are carried at (amortised) cost, which usually equals face value, unless stated otherwise. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If no fair value can be readily and reliably established, fair value is approximated by deriving it from the fair value of components or of a comparable financial instrument, or by approximating fair value using valuation models and valuation techniques. Valuation techniques include using: recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that represents substantially the same discounted cash flow, and option pricing models, making allowance for entity-specific inputs.

Derivative financial instruments

Derivative financial instruments are stated at cost or lower market value. The company has applied cost price hedge accounting. The Society has documented the relationship between hedging instruments and hedged items. The company also tests its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Society has no derivative financial instruments embedded in contracts.

In applying cost price hedge accounting, the initial recognition of, and the accounting policies for, the hedging instrument are dependent on the hedged item, which has the following implications:

- If the hedged item is recognised at cost in the balance sheet, the derivative instrument is also stated at cost.
- If the hedged item qualifies as a monetary item denominated in a foreign currency, the derivative instrument, where it has currency elements, is also stated at the spot rate on the balance sheet date. If the derivative instrument has currency elements, the difference between the spot rate (on the date the derivate instrument is contracted) and the forward rate (at which it will be settled) is spread over the maturity of the derivative instrument.

The ineffective portion of the hedge is recognised directly in profit or loss.

3 Accounting policies for the income statement

General information

The consolidated financial statements have been prepared in accordance with the statutory provisions of Part 9, Book 2, of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

Income and expense recognition

Income from investments, expenses, outstanding project funding, management fees and time deposits are recognised on an accrual basis. The Society does not accrue or invoice interest for partners that are considered 'non-performing'. Non-performing partners are partners that are in the process of foreclosure or being written off and where the value of collateral or a third-party guarantee does not exceed the amounts due to the Society.

Transactions between the Society and equity investments that do not classify as group companies, resulting in a gain or loss are recognised directly and in full in the consolidated income statement. Dividends of equity investments that are carried at cost are recognised as income from equity investments in the period in which the dividends become payable.

Finance income and expenses

Interest paid and received is recognised on an accrual basis, taking into account the effective interest rate of the assets and liabilities concerned.

Grant contributions

Designated grants are included as income in the year in which such grants are realised.

Exchange rate differences

Exchange rate differences arising upon the settlement of monetary items are recognised in the income statement in the period that they arise, unless these monetary items are designated as hedges.

Short-term employee benefits

Salaries, wages and social security contributions are taken to the income statement based on the employee's terms of employment, when these are due to employees.

Pensions

For its pension plans, the Society pays contributions to the insurance company Nationale Nederlanden, which administers these pensions. Contributions are recognised as expenses when incurred. Prepaid contributions are recognised as prepayments and accrued income to the extent that this will lead to a reduction in future payments or a cash refund.

The pension scheme is a conditionally indexed average-salary scheme. Entitlements and rights granted of inactive members are indexed (adjusted in line with increases in prices) based on the CPI-index. For active members, indexation is decided upon each year by the Society. In recent years, the CAO loon index has been used as a reference.

The pension scheme is classified as a defined-contribution agreement under the Dutch Pensions Act. The top-up scheme (Excedentregeling) is classified as a defined contribution scheme under the Dutch Pension Act. The administration agreement with the pension provider runs until the end of 2019.

The main provisions of the agreement are:

- Indexation does not result in a change in contributions.
- There are no specific agreements relating to reduction or refund of contributions.
- The pension contribution for the employee is 5.25% of the pensionable salary. The pensionable salary is a maximum € 103,317 reduced by a franchise of € 13,123.
- The pensions are guaranteed by the pension provider (insurance). In the top-up scheme, the investment risk is borne by the employee.

Employees in foreign countries receive a monthly payment which they can use for their pensions.

Taxes

The Society is liable to corporate income tax in the Netherlands at a rate of 25%, with a step-up rate of 20% for the first € 200,000 of taxable income. No tax has to be withheld on dividend distributed by the Society to its members. The growth of the organisation has led us to thoroughly review Oikocredit's tax and legal structures in the countries where we have offices, to ensure that we have a structure in place to pay our fair share of taxes. We have included an amount in our current liabilities for possible tax payments relating to previous years.

4 Accounting policies for the cash flow statement

The consolidated cash flow statement shows the sources of liquidity that became available during the year and the application of this liquidity. The liquidity is measured by the balance sheet accounts 'cash and banks'. The cash flows are broken down according to operating, investing and financing activities. The cash flow statement is prepared using the indirect method.

Cash flow from operating activities

The net cash flow from operating activities includes the portfolio movements, such as loans and equity investments. The net cash flow further includes the movements in receivables and current liabilities.

Cash flow from investing activities

The net cash flow from investing activities includes the movements in the term investment portfolio and tangible fixed assets.

Cash flow from financing activities

The net cash flow from financing activities includes movements in the funding attracted from member capital and received loans.

5 Risk management

Organisation

Three lines of defence

Within Oikocredit a Three Lines of Defence model is applied. This model ensures that all staff are aware of their role in managing risks. In this model, the business departments and offices, as the first line of defence, are responsible for executing the daily processes and internal controls, and manage the risks of their operations on a daily basis.

The Risk department, as the second line of defence, is responsible for the risk management framework and ensures that the relevant risks are properly identified, and monitors whether sufficient risk-mitigation procedures are in place within the first line of defence to manage such risks.

Internal Audit, as the third line of defence, provides independent and objective assurance on the governance processes, internal controls and risk management framework, including the effectiveness of the internal controls within the first and second lines of defence.

Risk organisation

With the growth of Oikocredit, the risk function has been consolidated, resulting in an independent and more formal second line function. A further step was taken in December 2017 with the appointment by the Supervisory Board of a Director of Risk, being part of the Managing Board. The Director of Risk will help to further mould a high-achieving, well-controlled organisation that can safely reach its impact and growth targets.

The risk governance framework comprises the duties and responsibilities of the risk management organisation and the risk committee structure. Oikocredit tests and assesses its internal controls. This is done by the line management (first line of defence), the departments specifically tasked with adequately controlling risks (monitoring and testing by the risk management function as the second line of defence) and the internal audit function (third line of defence). The risk governance framework covers the following risk categories:

Financial risks
• Credit risk
• Equity risk
• Foreign currency risk
• Interest rate risk
• Liquidity risk
Non-financial risks
• Operational risk
• Compliance risk
• Reputation risk
Strategic risks
• Business model risk
• Operating model risk
• Regulatory risk

Besides the Credit Committee and Investment Committee, the Managing Board of Oikocredit established the following committees, covering the risk categories within Oikocredit: an Asset and Liability Committee (ALCO), whose members are the Director of Risk & interim Director of Finance (chair), the Deputy Director Investor Relations, the Director of Investments, the Financial Risk Manager, the Treasurer and the Financial Risk Analyst. The purpose of this committee is to monitor asset and liability management within Oikocredit, and in particular ensure that treasury activities and interest rate risk and FX risk relating to lending operations are aligned with Oikocredit's risk appetite.

In September 2018 a Non-financial Risk Committee (NFRC) was established. The members of the committee are the Director of Risk & interim Director of Finance (chair), the Operational Risk and Compliance Manager, the Credit Operations Deputy Director, the Equity Operations Manager, the Social Performance and Capacity Building Deputy Director, the Investor Relations Deputy Director, the Deputy Director IT, the HR Business Partner and the General Counsel. The purpose of the NFRC is to ensure the efficient and effective management of the operational, compliance, and reputational risks throughout the Oikocredit group, in support of the strategy and in line with the risk appetite and the related governance, risk and control framework.

In September 2018 the Managing Board also established a Portfolio Risk Committee (PRC). The members of this committee are the Director of Investments (chair), the Director of Risk & interim Director of Finance, the Regional Director Asia, the Equity Operations Manager, the Social Performance and Capacity Building Manager, and the Financial Risk Manager. The purpose of this committee is to ensure the efficient and effective management of the total risk in the development financing portfolio throughout the Oikocredit group, in support of the strategy and in line with the risk appetite and the related governance, risk and control framework.

In its operating environment and daily activities, Oikocredit encounters risks. Therefore, Oikocredit has an enterprise risk management system to identify the most important risks that may threaten its operations and continuity. The structure of the risk organisation covers all relevant risks for Oikocredit grouped into the risk categories mentioned above: financial risks, non-financial risks and strategic risks.

Financial risk

The following financial risks have been identified:
- credit risk
- equity risk
- liquidity risk
- foreign currency risk
- interest rate risk.

Credit risk

Credit risk is defined as the risk that a change in the credit quality of a counterparty (to which Oikocredit has granted loans) will affect the value of Oikocredit's position. Changes in credit quality may, for example, occur due to specific counterparty risks, risks relating to the country in which the counterparty conducts its business, and sector risks.

Management of credit risk is part of Oikocredit's core business.

Credit risk in development financing portfolio

To mitigate credit risk, all individual loan proposals are assessed by our local management and staff in the developing countries in which we work, as well as by analysts in the central office in Amersfoort, the Netherlands. In assessing the financing proposals, predefined criteria should be met. Strengths, weaknesses, opportunities and threats (SWOT) analyses are made and management, financial, legal and social performance analyses take place. Risks are evaluated through a risk score card; environmental, social and governance aspects are rated using an ESG scorecard. Where appropriate, credit enhancement is available in the form of collateral and/or third-party guarantees.

The Society's Credit Committee, consisting of the Managing Director, Director of Investments, Director of Risk & interim Director of Finance, Credit Deputy Director, Credit Operations Deputy Director, Director of Investor Relations and Social Performance, Social Performance and Capacity Building Deputy Director, with input from a member of the legal team, approve credit proposals. At least three Credit Committee members from different departments are present at the meeting to constitute a valid quorum.

To mitigate the concentration risk, as part of credit risk, the Society has established policies based on its risk assessment system to set limits in exposure related to:
- Amounts outstanding per country and per region (depending on a risk assessment of the countries in which Oikocredit operates).
- Amounts outstanding per partner. Amounts over € 10 million need approval from the Supervisory Board.
- Amounts outstanding to a group of companies. A group is defined as two or more counterparties that are interrelated in such a way that they can be considered a single risk.

The adherence to these limits is monitored on a periodic basis. These are hard limits and cannot be overruled. However, exchange rate fluctuations may cause the limit to be exceeded (without new investments being made – the limits are designated in euro). If this is the case, no new investments are made until the capital outstanding has decreased sufficiently to allow for new investments.

2018 Credit					
As at 31 December	Financial Services	Agriculture	Renewable Energy	Other	Total
Region	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000
Africa	147,839	36,902	6,191	4,443	195,375
Asia	257,880	4,975	12,230	644	275,729
South America	237,719	85,557	5,239	7,208	335,723
Central America	125,068	43,969	16,119	1,913	187,069
Other	69,886	4,133	-	819	74,838
Grand Total	**838,392**	**175,536**	**39,779**	**15,027**	**1,068,734**

2017 Credit					
As at 31 December	Financial Services	Agriculture	Renewable Energy	Other	Total
Region	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000
Africa	155,361	32,137	3,437	3,538	194,473
Asia	259,390	7,203	12,797	1,365	280,755
South America	241,031	72,095	16,906	11,590	341,622
Central America	117,174	36,208	18,210	2,800	174,392
Other	67,463	9,415	72	2,329	79,279
Grand Total	**840,419**	**157,058**	**51,422**	**21,622**	**1,070,521**

These tables include committed not yet disbursed amounts as at year-end 2018 amounting to € 184.6 million (2017: € 220.0 million).

Loans overdue - portfolio at risk

As part of managing credit risk, Oikocredit closely monitors the Portfolio at risk (PAR) of each individual counterparty that has been financed. The PAR 90 ratio, for loans overdue for more than 90 days, is a key indicator of the credit risk included in the development financing portfolio. PAR 90 is currently 4.0% (2017: 4.6%).

Loans more than 90 days overdue or rescheduled loans have been provisioned, depending on the individual partner’s situation or available collateral. A provision for country risks has also been established based on the external rating of the country in which Oikocredit operates.

Overview of bad debts and overdue receivables				
	31/12/2018		31/12/2017	
	€ ,000	%	€ ,000	%
On time	819,900	92.7%	775,470	91.4%
Overdue	20,890	2.4%	21,176	2.5%
PAR 30	6,666	0.8%	7,734	0.9%
PAR 60	945	0.1%	5,274	0.6%
PAR 90	2,346	0.3%	3,682	0.4%
PAR 180	8,389	0.9%	8,657	1.0%
PAR 360	25,004	2.8%	26,572	3.1%
	884,140	**100.0%**	**848,565**	**100.0%**

Details regarding the method of provisioning for possible losses on development financing can be found in the accounting policies for the balance sheet. In 2018 the addition to the loan loss provision was € 10.0 million (2017: € 5.4 million). The write-offs during the year amounted to € 5.3 million (2017: € 4.6 million).

Country risk and concentration

Country risk arises from country-specific events that have an impact on the exposure in a specific country, such as those of a political or macroeconomic nature. All investments involve country risk.

To limit the country risk, Oikocredit has developed a set of country limits depending on a risk assessment of the countries. The assessment of country risk is, among others, based on a benchmark of external rating agencies and other internal and external information.

The country risks are mitigated through diversification of the geographical distribution of the portfolio across a large number of countries.

Gross exposure distributed by country rating				
Indicative country rating	2018		2017	
	€ ,000	%	€ ,000	%
Very low risk (0 - <15)	0	0.0%	0	0.0%
Low risk (15 - <25)	9,539	0.4%	250	0.0%
Moderately low risk (25 - <35)	82,996	6.6%	208,397	17.1%
Moderate risk (35 - <45)	403,037	32.6%	295,660	24.2%
Moderately high risk (45 - <55)	521,654	41.8%	555,573	45.5%
High risk (55 - <65)	124,993	10.0%	52,517	4.3%
Very high risk (65 - 100)	5,790	0.5%	13,818	1.1%
Multinational	101,234	8.1%	94,228	7.7%
Total	**1,249,243**	**100.0%**	**1,220,443**	**100.0%**

This table includes both loans and equity investments as well as the committed not yet disbursed amounts.

Transfer and conversion risk

Part of the credit risk relates to transfer risk, which is defined as the risk that a local currency cannot be converted into the currency that a debt is denominated in. Transfer risk, also known as conversion risk, may arise due to a currency not being widely traded, or from capital controls that prevent a lender, investor or business from freely moving currency in or out of a country.

Credit risk in term investments

The term investments in bonds have all been rated ‘investment grade’ by either Moody’s, S&P and/or Fitch, with at least 30% in the AAA range (Aaa-A3) and up to a maximum of 65% in the BBB range. Moreover, it is defined in the investment policy that individual issuers are maximised at 5% of total portfolio for quasi and foreign governments, 2.5% of total portfolio for AAA/

AA range, 1.75% of total portfolio for A range and 1.5% of total portfolio for BBB and lower range. The manager of the bond portfolio, AXA Investment Managers Paris, constantly monitors the performance of the bonds and takes appropriate action when necessary. Despite this, a debtor may face sudden downgrades and/or price corrections. Such credit risk must always be taken into account when investing. A maximum of 10% of the total amount available for term investments may be invested in shares.

Credit quality of term investments				
As at 31 December	**2018**		**2017**	
	€ ,000	**%**	**€ ,000**	**%**
AAA - prime investment grade	1,889	1.4%	1,881	1.4%
AA - high quality investment grade	18,420	14.0%	18,593	14.1%
A - upper medium investment grade	32,454	24.6%	38,023	28.7%
BBB - lower medium investment grade	73,054	55.5%	68,254	51.6%
NR - not rated	5,961	4.5%	5,581	4.2%
Total	**131,778**	**100.0%**	**132,332**	**100.0%**

This table only shows the bonds being part of the AXA Buy and Maintain ESG Credit portfolio, as included in the term investment portfolio.

Credit risk counterparty banks

Oikocredit has exposure to credit risk from banks. This exposure consists of the cash balances plus the mark-to-market value of derivative contracts concluded with the bank. The credit risk resulting from derivative contracts relates to contracts to cover the foreign currency risk exposure; these derivative contracts are both forward contracts as well as cross-currency swap contracts.

Depending on the creditworthiness, assessed with credit rating of external rating agencies and the Credit Default Swap (CDS) rates, a sort of insurance premium for a possible credit default, Oikocredit has set limits per bank. Counterparties have at least a BBB rating. These ratings and limits are monitored regularly.

Equity risk

Equity risk can be defined as the financial risk involved in holding a particular equity stake. The equity risk includes the risk that the value of that stake will become lower or is lost. In addition, the equity risk includes the risk of illiquidity, in the case that there is no buyer for the equity stake.

Equity investments have different risk characteristics when compared to loans: there is a longer lock-up period of capital and no steady cashflow through instalments and interest payments.

To mitigate equity risk, all individual investment proposals (equity and equity-related products) are assessed by our specialist equity team members in the developing countries in which we work, as well as by the Equity department in the central office in Amersfoort, the Netherlands. The assessment involves an extensive due diligence process.

In assessing the investment proposals, predefined criteria should be met. Strengths, weaknesses, opportunities and threats (SWOT) analyses are made and management, financial, legal and social performance analyses take place.

The Society's Investment Committee (consisting of the Managing Director, the Director of Risk & interim Director of Finance, the Director of Investments, the Director of Investor Relations and Social Performance with input from an independent external advisor) decides on all equity investments. Investment proposals are first processed by the Equity department and require initial approval from the Oikocredit Investment Committee. The quorum for the OIC is three voting members.

The risk of equity investment-stake changes influencing the value of the portfolio (for example due to finding a buyer and realising a responsible exit, specific business and market risks, sector risks, reputational risks, and country and currency risks) is reduced by the following:

- A specialised global equity department operates within Oikocredit. This department is responsible for actively managing and monitoring equity investments. While Oikocredit has been making equity investments for more than 15 years, for approximately the last eight years this has been done by a department dedicated to this role.
- For all equity investments, Oikocredit aims to be entitled to a board seat. Developments in the total portfolio are analysed and reported as part of the quarterly Financial Risk report.

The gross exposure of the equity investment portfolio, at acquisition price, is as follows:

2018 Equity					
As at 31 December	**Financial Services**	**Agriculture**	**Renewable Energy**	**Other**	**Total**
Region	**€ ,000**	**€ ,000**	**€ ,000**	**€ ,000**	**€ ,000**
Africa	9,894	20,672	-	3,828	34,394
Asia	19,801	17,267	8,865	-	45,933
South America	23,908	922	5,393	-	30,223
Central America	16,479	5,366	-	3,914	25,759
Other	20,906	7,054	5,000	11,240	44,200
Grand Total	**90,988**	**51,281**	**19,258**	**18,982**	**180,509**

2017 Equity					
As at 31 December	**Financial Services**	**Agriculture**	**Renewable Energy**	**Other**	**Total**
Region	**€ ,000**	**€ ,000**	**€ ,000**	**€ ,000**	**€ ,000**
Africa	7,569	20,697	-	3,777	32,043
Asia	16,165	7,991	-	-	24,156
South America	21,973	922	4,237	-	27,131
Central America	9,166	5,366	-	-	14,532
Other	25,751	3,474	13,719	9,118	51,151
Grand Total	**80,624**	**38,450**	**17,956**	**12,895**	**149,923**

Note that these tables include committed not yet disbursed amounts, 2018: € 18.0 million, (2017: € 16.8 million); impairments are not included in these tables. In 2018 impairments were made amounting to € 5.8 million (2017: € 2.1 million). The write-offs during the year amounted to € 2.1 million (2017 € 1.8 million). The dividend received in 2018 amounted to € 2.2 million (2017: € 2.5 million). The realised capital gains and losses amounted to € 0.5 million loss (2017: € 4.4 million gain).

In practice, equity investments are valued at cost less impairment since not enough reliable information is available to determine the fair value. An equity investment is considered impaired when the carrying amount exceeds the recoverable amount of the investment. The recoverable amount is calculated as part of the impairment assessment, taking into account suitable valuation methods such as book value multiples, price-earnings ratios and recent sales prices of similar investments as far as these are available.

Liquidity risk

Liquidity risk can be defined as the risk that we are unable to meet payment obligations, redemption requests from members, payment commitment to partners and other counterparties, or drawdown commitments.

The Society aims to have liquidity at least at 15% of its total assets in cash or term investments. The largest part of the term investments portfolio is liquid; term investments are not subject to legal or contractual restrictions on their resale. As a result, these investments can be easily acquired or disposed of at prices quoted on the various exchanges. This enables the Society to meet its commitments to contracts already entered into and the possible redemptions of member capital. In addition, and to manage liquidity risk, the Society has implemented a liquidity monitoring tool with rolling forecasts, enabling better monitoring and forecasting of liquidity trends.

Liquidity				
As at 31 December	**2018**		**2017**	
	€ ,000	**%**	**€ ,000**	**%**
Term investments (excl. TCX)	145,468	11.3%	149,851	12.3%
Cash and banks	109,327	8.5%	119,324	9.8%
	254,795	**19.7%**	**269,175**	**22.1%**
Pledged term investments	**30,838**		**34,700**	
Net liquidity	**223,957**	**17.3%**	**234,475**	**19.2%**
Total assets	**1,292,943**		**1,220,045**	**100.0%**

Furthermore, the Society is primarily funded by member capital. The Articles of Association include provisions that shares shall be redeemed no later than five years after a redemption request has been submitted. Redemption will be at the nominal value. However, if the net asset value per share is lower than the nominal value per share in the most recent audited (interim) balance sheet preceding the redemption by the Society, the amount payable upon redemption of the share(s) shall not exceed the sum corresponding to the net asset value of the share(s) according to that balance sheet. Even though the Society has the right to delay redemptions for five years, to date, it has never delayed redemptions.

In addition, the Society is exposed to liquidity risk on break clauses included in financial derivative contracts. These break clauses, which are not unusual, give parties the right and sometimes the obligation to terminate the contract at certain times. The Society may have to pay the market value of the derivative financial instrument in the event a break clause results in termination of the contract. Break clauses only lead to a liquidity risk for the Society when the market value of the financial instrument is negative upon termination date. At balance sheet date, the Society has derivative contracts with a notional amount of € 713.10 million with a positive market value of € 5.6 million involving break clauses.

Foreign currency risk
Currency risk is defined as the risk that the value of Oikocredit's currency positions will fluctuate due to changes in foreign currency exchange rates.

The reporting currency of Oikocredit is the euro. However, a significant part of Oikocredit's investments in development financing is outstanding in US dollar and in domestic currencies. The Society issues US dollar, British pound, Canadian dollar, Swiss franc and Swedish krona denominated shares. This reduces our currency exposure, mostly with respect to the US dollar. A result of issuing shares and receiving loans in US dollars is a better match between assets and liabilities in the different currencies.

Declining exchange rates of e.g. the US dollar or domestic currencies versus the euro may negatively impact the financial results and the reserves. The net currency position as at 31 December 2018, translated to euro at the exchange rates prevailing at the balance sheet date, is presented on the following page – currency exposures from equity investments included in the development financing portfolio are not taken into account since these investments are valued at cost less impairment:

Currency exposure

As at 31 December 2018		FX Credit Assets EUR m	FX Cash EUR m	FX Liabilities + FX LLP EUR m	FX Member Capital EUR m	FX Hedging EUR m	Net currency exposure EUR m
XOF	BCEAO Franc	36.96	7.19	2.39	0.00	23.97	17.78
USD	US Dollar	438.52	25.50	37.16	15.52	401.24	10.11
IDR	Indonesian Rupiah	9.81	7.88	0.20	0.00	8.82	8.68
GHS	Ghana Cedi	10.21	2.45	0.92	0.00	3.42	8.32
PHP	Philippines Peso	6.39	9.24	1.33	0.00	6.74	7.56
INR	Indian Rupee	97.07	4.11	16.44	0.00	77.50	7.24
ARS	Argentine Peso	13.10	0.00	0.79	0.00	6.26	6.05
ZAR	South African Rand	7.32	1.50	0.15	0.00	3.83	4.85
HNL	Honduras Lempira	14.82	0.00	1.15	0.00	8.90	4.77
MDL	Moldovan Leu	4.67	0.00	0.24	0.00	0.00	4.43
UGX	Ugandan Shilling	7.92	2.47	0.66	0.00	5.50	4.23
XAF	BEAC Franc	4.16	0.00	0.14	0.00	0.00	4.02
KHR	Cambodia Riel	0.38	3.74	0.15	0.00	0.00	3.97
KGS	Kyrgyzstan Som	8.20	0.00	0.70	0.00	4.00	3.51
Other		229.96	178.78	70.36	1,066.98	173.73	-66.30
Total		**889.48**	**242.86**	**132.76**	**1,082.49**	**723.92**	**29.21**

Currency exposure

As at 31 December 2017		FX Credit Assets EUR m	FX Cash EUR m	FX Liabilities + FX LLP EUR m	FX Member Capital EUR m	FX Hedging EUR m	Net currency exposure EUR m
USD	US Dollar	389.55	7.88	32.72	14.99	299.54	50.18
INR	Indian Rupee	75.74	3.92	24.60	0.00	9.94	45.12
XOF	BCEAO Franc	37.65	2.01	2.52	0.00	0.00	37.14
BOB	Bolivar Boliviano	35.01	0.00	1.79	0.00	0.00	33.22
BRL	Brasilian Real	25.61	0.00	1.09	0.00	0.00	24.53
KHR	Cambodia Riel	7.10	14.97	0.39	0.00	0.09	21.59
PEN	Peruvian Sol	17.21	0.00	0.19	0.00	0.00	17.02
COP	Colombian Peso	16.23	0.00	0.34	0.00	0.00	15.88
IDR	Indonesian Rupiah	9.56	5.22	0.30	0.00	0.00	14.49
PHP	Philippines Peso	12.63	4.11	3.66	0.00	0.32	12.77
HNL	Honduras Lempira	12.12	0.00	0.94	0.00	0.00	11.18
ZAR	South African Rand	13.32	1.80	0.41	0.00	3.68	11.02
MXN	Mexican Peso	19.31	0.00	0.68	0.00	7.87	10.76
Other		155.73	16.77	24.97	65.54	62.77	19.22
Total		**826.76**	**56.69**	**94.59**	**80.53**	**384.21**	**324.12**

These tables include the foreign currency exposure included in the net development financing portfolio (loans including loss provisioning), cash and bank balances as well as hedging contracts, member capital and liabilities in foreign currencies. Equity investments in foreign currencies are not included.

It is expected that Oikocredit's US dollar and domestic currency exposure will increase as a result of further growth in the development financing portfolio, taking into account that most newly issued member capital tends to be in euro.

During 2017, Oikocredit was negatively impacted by the decline of the US dollar from 1.0517 per euro to 1.2000 per euro and accordingly several domestic currencies that are highly correlated with the US dollar. This largely contributed to the currency exchange loss in 2017 of € 48.7 million. Of this total amount, € 38.6 million was absorbed by the local currency risk funds via the Support Foundation. As a consequence of this, in early 2018 the Managing Board adopted a new foreign currency risk management policy. The main part of the policy is the definition of the FX risk appetite. The amount of the foreign currency risk, calculated according to a value-at-risk based currency risk estimation model, may not be higher than the amount available for the foreign currency risk buffer. This buffer is composed of the available balances of the local currency risk funds via the Support Foundation, the restricted exchange fluctuation reserve as well as the designated amount for local currency loans in the general reserves. With a view to maintaining the value of the member capital, any foreign currency risk amount above the available buffer needs to be hedged. Derivatives are used for this purpose.

Sensitivity of group equity to main foreign currency		
Change of value to the euro	**31/12/2018**	**31/12/2017**
	Sensitivity of group equity	**Sensitivity of group equity**
	€ ,000	**€ ,000**
USD value increase of 1.0%	939	2,116
USD value decrease of 1.0%	(939)	(2,116)

Due to the increased hedging position, the sensitivity of the group equity to changes in the EUR-USD exchange rates has decreased.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will cause fluctuations in the value of Oikocredit's development financing or term investment portfolio.

Interest rate risk in development financing portfolio

Oikocredit has established an interest rate model (suggested margin model) to determine interest rates to be charged on loans to its partners. These loans use base rates in the currencies in which Oikocredit works (Euribor, Libor, swap rates and similar rates) plus surcharges for credit risks, costs and dividends we expect to pay.

The interest rates on loans denominated in US dollars and euro granted to our partners are usually fixed for the term of the loan. The loans have an average tenor of around four years. Individual loans can have tenors from one up to twenty years. Each year, a proportion of the loan portfolio matures and is repaid. Oikocredit replaces the loans with new loans to new or existing partners. The new loan agreements we enter into are spread over the year.

The risk of market interest rate changes influencing the market value of the portfolio is reduced, as each year new loans are added to the portfolio with fixed interest rates (usually in hard currency) prevailing at the moment we enter into a new loan agreement. The interest rates on loans denominated in the domestic currencies of the countries in which we work granted to our partners are usually variable and repriced periodically. Therefore, market interest rate developments influence the value of our loan portfolio stated in domestic currencies in a limited way.

The main focus of the Society in concluding derivatives is currency hedging and not interest rate hedging.

The main sources of interest rate risk within Oikocredit relate to:

- the exposure to movements in the European interest rate environment;
- the exposure to the US interest rate environment caused by a duration mismatch between USD hedging and the underlying loan exposure, and;
- a duration mismatch between local currency hedging and the underlying loan exposure caused by the fact that for some frontier market currencies it is not possible to hedge the duration of the loan portfolio effectively.

Interest rate risk in term investments
The average effective duration of the term investment portfolio is a measure of the sensitivity of the fair value of the fixed-interest securities to changes in market interest rates. The management of the term investment portfolio aims for a duration of its bond portfolio of approximately 4.5 to 5.5 years (a lower or higher duration may be accepted) and does not normally actively manage interest rate risks related to its bond portfolios. In 2018 the Managing Board decided to reduce the exposure of the term investment portfolio to 4 years.

Sensitivity of interest rate changes on value of term investments		
	31/12/2018	31/12/2017
	€ ,000	€ ,000
Increase of 100 basis points (Euro Swaps)	(5,160)	(5,380)
Decrease of 100 basis points (Euro Swaps)	5,160	5,380

Interest rate risk in liabilities
The risk of market interest rate changes influencing the market value of the liabilities is reduced, as each year new long-term loans are added with fixed interest rates prevailing at the moment Oikocredit enters into a new loan agreement.

Non-financial risk
The following non-financial risks have been identified:
- operational risk,
- compliance risk,
- reputational risk.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems or from external events. Oikocredit's objective is to minimise overall operational losses and avoid material losses, as well as to maintain its reputation vis-à-vis investors and partners as an effective and reliable organisation. To this end, Oikocredit utilises a cost-benefit approach to putting in place policies, procedures and systems that are capable of mitigating the impact and/or probability of occurrence of the operational risks inherent in its activities.

In 2018, Oikocredit emphasised the streamlining of operations and optimisation of controls in the areas of development financing, treasury, investor relations, information security and business continuity. We launched an improved incidents reporting process to enable the timely capturing of potential losses and near misses occurring in the course of day-to-day operations. The purpose of this process is to derive lessons learned for avoiding incidents in the future while in the meantime enable the absorption of potential losses through appropriate capital planning. No incidents with a material impact on Oikocredit's financial condition took place in 2018.

Compliance risk
Compliance risk is the risk related to the failure to comply with laws/regulations, internal rules/policies, and good business practices. Such failures may lead to regulatory sanctions, financial losses, and reputational damage; hence Oikocredit has a very low tolerance for them. Therefore, internal policies, procedures, and staff training are in place to ensure that a culture of compliance is embedded in all business operations.

In 2018 Oikocredit carried out an organisation-wide review of its operations in order to comply with the General Data Protection Regulation. In addition, we continued to optimise processes to ensure continued compliance with know your customer obligations and capital raising regulations. In 2018 no significant incidents occurred.

Reputational risk
Reputational risk is the risk that Oikocredit's market position deteriorates due to a negative perception by investors, partners, counterparties, regulatory authorities or society as a whole. Typically, reputational risk arises from the failure to manage compliance or operational risk. Therefore, Oikocredit safeguards its reputation by focusing on a robust management of compliance and operational risk. Furthermore, Oikocredit's exposure to reputational risk is reduced when staff acts consciously in line with the organisation's mission, vision and values, and by extension, with the expectations of investors. To this end, in its recruitment process, Oikocredit seeks to ensure staff commitment to its mission, vision and values. Moreover, Oikocredit's Investor Relations department organises frequent interaction between staff and investors in order to promote transparency and increase understanding of expectations.

Strategic risk
Strategic risk can be defined as the risk of losses caused by a failure to respond well to changes in the business environment or implementation of strategy and can potentially have a major impact on Oikocredit's financial situation and ability to meet its strategic objectives. In 2017, with the help of external consultants, a full reassessment of the strategy and business model (products, markets) was conducted.

Strategic issues which had an impact in 2018, and are expected to have an impact on the organisation in future years are: the global low interest rate environment and accordingly a need for improved operational efficiency; the increased volatility in the currency markets and the potential effect this has on our ability to do transactions; and an increase in regulations globally with which we need to comply. These are all taken into account in the general strategy review.

Besides increased competition in our business activities, we also see a tightening labour market which makes it more difficult to attract and retain qualified staff. We plan to address this by updating our recruitment strategy and closely monitoring the risk of losing key staff, particularly during the implementation phase of the updated strategy.

6 Intangible fixed assets

Changes in intangible fixed assets in 2018 and in the costs of acquisition and accumulated depreciation as at 31 December 2018 can be specified as follows:		
	2018	**2017**
	€ ,000	**€ ,000**
Historical cost price as at 1 January	2,042	1,273
Accumulated depreciation as at 1 January	(910)	(249)
Balance as at 31 December	1,132	1,024
Investments	12	769
Disposals	-	-
Depreciation	(686)	(661)
Movements in the year	**(674)**	**108**
Historical cost price as at 31 December	2,054	2,042
Accumulated depreciation as at 31 December	(1,596)	(910)
Balance as at 31 December	**458**	**1,132**

The intangible assets consist of software. The software relates to the new loans and investment system and an online portal for investors, which both went live during 2016. Software is depreciated in three years.

7 Tangible fixed assets

Changes in tangible fixed assets in 2018 and in the costs of acquisition and accumulated depreciation as at 31 December 2018 can be specified as follows:	**IT equipment**	**Furniture**	**Installation Solar assets**	**Total 2018**	**Total 2017**
	€ ,000	**€ ,000**	**€ ,000**	**€ ,000**	**€ ,000**
Historical cost price as at 1 January	2,043	1,437	1,864	5,344	3,995
Accumulated depreciation as at 1 January	(1,752)	(1,194)	(151)	(3,097)	(2,667)
Balance as at 1 January	291	243	1,713	2,247	1,328
Investments	128	650	2,496	3,274	1,357
Disposals	(8)	(10)	-	(18)	(8)
Depreciation	(129)	(32)	(456)	(617)	(430)
Movements in the year	**(9)**	**608**	**2,040**	**2,639**	**919**
Historical cost price as at 31 December	2,163	2,077	4,360	8,600	5,344
Accumulated depreciation as at 31 December	(1,881)	(1,226)	(607)	(3,714)	(3,097)
Balance as at 31 December	**282**	**851**	**3,753**	**4,886**	**2,247**

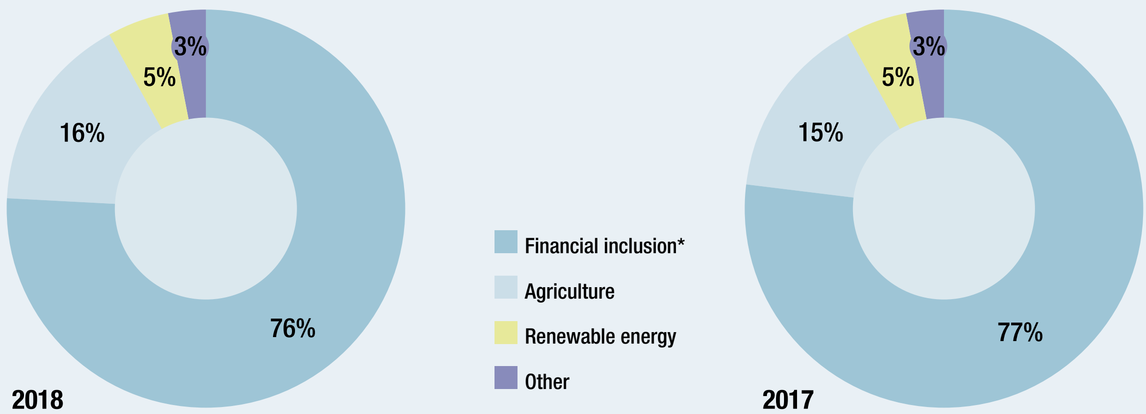
The useful life of the furniture is estimated at five years on average. Information technology (IT) equipment is depreciated in three years. Installations consisting of solar panels are depreciated in 20 years.

8 Development financing

Changes in development financing outstanding		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Outstanding as at 1 January	981,664	1,047,226
Disbursements	444,458	380,212
Capitalised interest and dividends	-	48
Less: - repayments	(373,730)	(338,759)
- write-offs	(7,451)	(6,317)
Equity divestments	(5,593)	(3,336)
Exchange adjustments	7,235	(97,410)
Outstanding as at 31 December	**1,046,583**	**981,664**

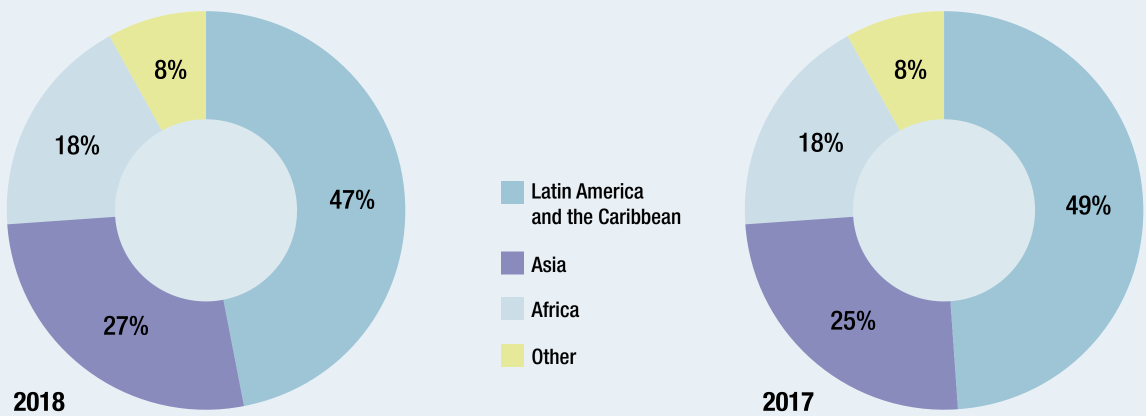
Breakdown of development financing outstanding

Development financing outstanding by sector as at 31 December

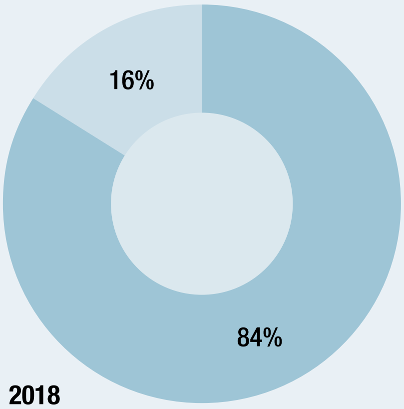


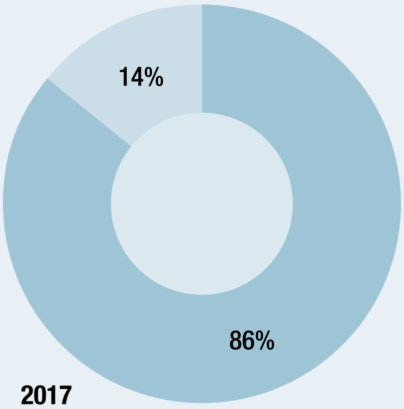
* including microfinance and SME finance

Development financing outstanding by region as at 31 December

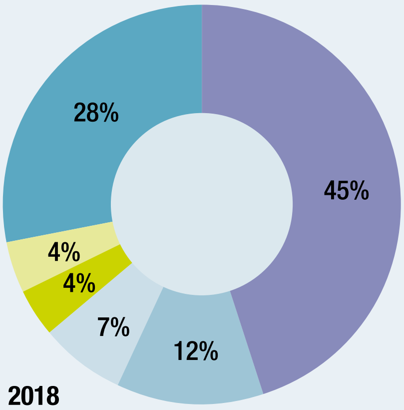


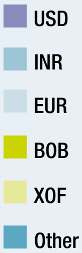
Development financing outstanding by type of financing (loans and equity investments) as at 31 December

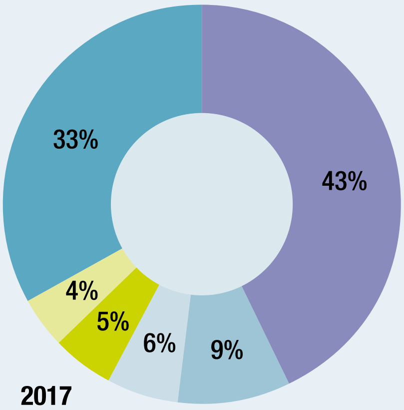




Development financing outstanding by type of currency as at 31 December







Maturity of development financing outstanding		
Can be specified as follows:	**31/12/2018**	**31/12/2017**
	€ ,000	**€ ,000**
Instalments maturing < 1 year	322,523	312,411
Instalments maturing > 1 < 5 years	536,839	483,700
Instalments maturing > 5 years	24,717	52,454
Equity investments	162,504	133,099
Balance as at 31 December	**1,046,583**	**981,664**

Movement schedule loans		
Can be specified as follows:	31/12/2018	31/12/2017
	€ ,000	€ ,000
Balance as at 1 January	848,565	933,415
Disbursements	411,885	357,636
Repayments	(373,730)	(338,759)
Reclassification	(4,568)	-
Write-offs	(5,309)	(4,560)
Exchange adjustments	7,236	(99,167)
Balance as at 31 December	**884,079**	**848,565**

Movement schedule equity investments		
Can be specified as follows:	31/12/2018	31/12/2017
	€ ,000	€ ,000
Balance as at 1 January	133,099	113,811
Additions	32,572	22,624
Reclassification	4,568	-
Write-offs	(2,142)	(1,757)
Disposals	(5,593)	(1,579)
Balance as at 31 December	**162,504**	**133,099**

Movement schedule equity investments				
Can be specified as follows:	< 20%	> 20%	Total 2018	Total 2017
	€ ,000	€ ,000	€ ,000	€ ,000
Historical cost value	138,301	24,203	162,504	133,099
Impairments	(9,764)	(7,358)	(17,122)	(15,780)
Net value as at 31 December	**128,537**	**16,845**	**145,382**	**117,319**

Associate equity				
Oikocredit had significant influence in the following equity investments as at 31 December 2018:	Participation	Participation	Net equity [1] (latest available)	Result [1] (latest available)
	2018	2017	€ ,000	€ ,000
Outgrower SPV, Nicaragua	44.2%	44.2%		
Guaguazu S.A., Bolivia	35.3%	35.3%	434	(38)
Gebana Brazil Cataratas do Iguaçu Produtos Orgânicos Ltd., Brazil	33.4%	33.4%	902	(135)
Fertiplant East Africa Ltd., Kenya	30.0%			
Vehículos Líquidos Financieros, Mexico	29.7%	25.1%		
Cafedirect Plc, United Kingdom	27.8%	27.8%	3,649	1,113
Planet Guarantee, France	19.1%	14.3%		

[1] The Net equity and Result in the table are the equity and result of the whole organisation and not only the equity stake of Oikocredit. For these equity investments we make use of the exemption of art. 379.2 under part 9, Book 2 of the Netherlands Civil Code. These equity investments are not obliged to publish their net equity and result according to local law.

The table above includes all equity investments in which Oikocredit has significant influence. The shareholding percentages of 20% and above are one of the indicators of significant influence.

The presented net equity value and result are based on local accounting standards from unaudited financial statements not adjusted to reflect Oikocredit's share in the respective net equity value and result. Financial reporting may not always be comparable to the quality under part 9, Book 2, of the Netherlands Civil Code and may not be available in a timely manner. As such all the equity investments in which Oikocredit has significant influence are valued at cost less impairment as at 31 December 2018.

Total loan loss provision and impairments equity	2018	2017
	€ ,000	€ ,000
Loan loss provision	(58,867)	(53,549)
Impairments equity	(17,122)	(15,780)
Balance as at 31 December	**(75,989)**	**(69,329)**

Provision for possible losses		
Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Balance as at 1 January	(53,549)	(59,739)
Additions	(10,046)	(5,381)
Exchange adjustments	(581)	7,011
	(64,176)	(58,109)
Less: - write-offs	5,309	4,560
Balance as at 31 December	**(58,867)**	**(53,549)**

Impairments equity investments		
Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Balance as at 1 January	(15,780)	(17,774)
Additions	(5,777)	(2,084)
Reversals	2,293	2,321
	(19,264)	(17,537)
Less: - write-offs	2,142	1,757
Balance as at 31 December	**(17,122)**	**(15,780)**

Fair value of development financing loan portfolio

- The development financing portfolio consists of local currency loans and hard currency loans usually with semi-annual or annual instalments that have to be repaid equally over the loan period.
- The interest rates charged to our partners on local currency loans consist of base rates (local interbank or other appropriate base rates) plus an additional margin for risk and costs and are usually comparable to local market rates. The majority of Oikocredit's local currency loans are repriced quarterly or semi-annually.
- The interest rates charged to our partners on hard currency loans are usually fixed interest rates for the full loan period and consist of base rates plus an additional margin for risks and costs. Oikocredit uses the applicable base rates in the currencies in which Oikocredit works (Euribor, Libor, swap rates and similar rates) plus surcharges for risks, costs and dividends we expect to pay.
- The loans have an average contractual maturity of approximately 4 years and 6 months, (2017: 4 years and 4.5 months).
- An analysis of the recoverability of the loans is performed quarterly and a provision for possible losses on the development financing loan portfolio is formed.

The fair value of the development financing loan portfolio at least equals the book value, which is estimated at € 825.2 million (2017: € 795.0 million).

Fair value of development financing equity portfolio

- Equity investments are valued at the lower of cost or realisable value.
- Oikocredit operates in countries where there is no active market for these equity stakes. The fair value is however determined taking into account suitable valuation methods such as book value multiples, price-earnings ratios and recent sale prices of similar investments.

It is estimated that the fair value of the equity portfolio at least equals the book value, which is estimated at € 145.4 million (2017: € 117.3 million).

9 Term investments

Changes in term investments can be specified as follows:	2018	2017
	€ ,000	€ ,000
Balance as at 1 January	149,851	112,807
Investments during the year at cost	2,629	37,964
Disinvestments/redemptions during the year	(8)	(8)
Revaluation to market value as at 31 December	(3,468)	(858)
Exchange adjustments	11	(54)
Balance as at 31 December	**149,015**	**149,851**

	2018	2017
	€ ,000	€ ,000
Buy and Maintain ESG Credit Portfolio [1]	134,309	135,131
Portfolio managed by Alternative Bank Schweiz, Switzerland [2]	9,931	9,950
TCX, The Currency Exchange Fund N.V., the Netherlands	7,071	7,071
TCX, The Currency Exchange Fund N.V., the Netherlands (held for Triple Jump, the Netherlands)	(1,708)	(1,708)
TCX, The Currency Exchange Fund N.V., the Netherlands (held for Grameen Crédit Agricole Microfinance Foundation, Luxembourg)	(1,816)	(1,816)
GLS Gemeinschaftsbank, Germany	500	500
Banca Popolare Etica, Italy	100	100
Ekobanken, Sweden	10	10
Other	618	613
Total term investments	**149,015**	**149,851**

[1] 'Buy and Maintain environmental social governance (ESG) Credit Portfolio' is the name of the bond portfolio managed by AXA.
[2] In August 2017 we purchased a number of company bonds held by ABS.

Fair value of term investments

With the exception of our share in The Currency Exchange Fund N.V. (TCX) the fair value equals the carrying amount. The fair value of the investment in TCX as at 31 December 2018 amounted to $ 5.6 million (€ 4.9 million) (2017: $ 5.9 million, € 4.9 million).

Part of the term investments serves as collateral for the credit facilities with banks – reference is made to notes 12 and 20.

Maturity of term investments		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Maturity < 1 year	20,320	7,340
Maturity > 1 < 5 years	87,723	59,015
Maturity > 5 years	40,972	83,496
Total	**149,015**	**149,851**

In the table above the original duration of the bonds are presented, Oikocredit can sell the bonds at any time and are therefore liquid. The term investments in bonds have been rated 'investment grade' by either Moody's, S&P and/or Fitch.

10 Other financial assets

Summary of other financial assets:	**31/12/2018**	**31/12/2017**
	€ ,000	**€ ,000**
Hedge contracts financial institutions [1]	4,809	2,745
Staff loans [2]	130	217
Tax asset Maanaveeya	-	258
Total	**4,939**	**3,220**

[1] The fair value of these hedge contracts and other details are disclosed in note 33.

[2] All housing loans to staff are covered by mortgages. Market interest rates are charged on staff loans.

Hedge contracts financial institutions		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	2,745	494
Movements	2,064	2,251
Balance as at 31 December	**4,809**	**2,745**

Staff loans		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	217	504
Movements	(87)	(287)
Balance as at 31 December	**130**	**217**

Maanaveeya Tax Asset		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	258	-
Movements	(258)	258
Balance as at 31 December	**-**	**258**

11 Receivables and other current assets

The receivables maturing within one year can be specified as follows:		**2018**		**2017**
		€ ,000		**€ ,000**
Accrued interest on development financing net of allowance		15,348		10,895
Collateral related to hedging contracts		11,823		-
Receivables Share Foundation		10,645		4,582
Hedging receivable		6,130		2,260
Hedging contracts (refer to note 33)		3,792		8,377
Amounts prepaid		2,143		523
Value added tax and wage taxes		2,033		1,887
Interest receivable		1,222		1,577
- Face value	5,535		6,186	
- Less: allowance for uncollectability	(4,313)		(4,609)	
Staff loans [1]		91		131
Accrued interest bank accounts and deposits		8		3
Advances leasing agreements		-		1,190
Sundry receivables		492		511
Balance as at 31 December		**53,724**		**31,936**

Changes in the allowance for uncollectability are specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	(4,609)	(4,164)
Additions charged to income	(1,496)	(1,973)
Write-offs from allowance	1,832	1,165
Exchange adjustment	(40)	363
Balance as at 31 December	**(4,313)**	**(4,609)**

[1] All housing loans to staff are covered by mortgages. Market interest rates are charged on staff loans.

12 Cash and banks

Can be specified as follows:	31/12/2018	31/12/2017
	€ ,000	€ ,000
Cash and banks including time deposits maturing within one year	109,327	119,324
Balance as at 31 December	**109,327**	**119,324**

Oikocredit maintains its funds in banking institutions in Europe, Asia, Latin America, Africa and the United States of America. The time deposits included in cash and banks as at 31 December 2018 all mature in 2019.

The Society has credit facility agreements with Dutch banks amounting to € 5.0 million. These facilities, which were not used in 2018, are subject to the following conditions:

- Audited financial statements should be provided within six months after year-end.
- The solvency ratio of the Society should be at least 70%.
- The Society should keep its bond portfolio and liquidities free of any encumbrances for 125% of the amounts of the credit lines of the Dutch institutions (€ 6.3 million).
- Without the written permission of the credit institution, Oikocredit is not allowed to sell or securitise fixed assets or establish mortgages or other encumbrances on fixed assets (except for transactions taking place in the normal course of business) and to issue guarantees for liabilities of third parties.

13 Member capital

The Society issues shares in euro, British pounds, Canadian dollars, Swedish kronor, Swiss francs and US dollars.

The shares shall be redeemed no later than five years after a redemption request has been submitted and are as such considered a liability (puttable shares). Redemption (or partial redemption) will be at the nominal value. However, if the net asset value per share is lower than the value stated in the most recent audited (interim) balance sheet preceding the redemption by the Society, the amount payable upon redemption of the share(s) shall not exceed the sum corresponding to the net asset value of the share(s) according to that balance sheet (article 13 of the Articles of Association). As at 31 December 2018, the net asset value per share amounted to € 214.84. There were no repayment obligations to members as at 31 December 2018.

The Managing Board opted to make use of the exemption in Dutch GAAP to classify the puttable shares as equity (RJ 290.808) as disclosed in the accounting policies.

Can be specified as follows:		2018	2017
		€ ,000	€ ,000
Member capital			
Balance as at 1 January		1,012,421	912,968
New euro shares issued		78,648	102,299
New shares in other currencies issued		13,437	9,834
Redemption of euro shares		(19,303)	(11,673)
Redemption of shares in other currencies		(2,479)	(2,289)
Exchange adjustments		(232)	1,282
Balance as at 31 December		**1,082,492**	**1,012,421**
Of which	- euro shares	987,219	927,875
	- shares in other currencies	95,273	84,546

14 General reserve

Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Balance as at 1 January	81,986	69,684
Appropriation of the prior-year results	8,830	12,302
Balance as at 31 December	**90,816**	**81,986**

For the restricted exchange fluctuation reserve please refer to the Society financial statements.

15 Local currency risk funds

The currency risk funds are used to cover potential currency losses on loans issued in the currencies of developing countries in which Oikocredit operates, rather than issuing loans in US dollars or euro in those countries. The funds originate from grants and subsidies from members and third parties and from the allocation of profits. With effect from 1 January 2018 the pricing between the Support Foundation's local currency risk fund and Oikocredit was changed into a pricing model that aligns with market rates.

	Philippines	Indonesia	General	Local currency risk fund Africa	Local currency risk fund South and East Asia	Local currency risk fund Mexico, Central America and the Caribbean	Local currency loans cumulative exchange rate differences [1]	Total 2018 [2]	Total 2017
	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000
Balance as at 1 January	6,355	1,224	28,459	6,886	4,635	5,723	(40,469)	12,813	51,300
Addition to/released from fund	486	66	(8,829)	934	(48)	2,445	2,135	(2,811)	(38,487)
Balance as at 31 December	**6,841**	**1,290**	**19,630**	**7,820**	**4,587**	**8,168**	**(38,334)**	**10,002**	**12,813**

[1] Local currency loans cumulative exchange rate differences account: this amount is included as a separate item in the local currency risk fund as long as local currency loans have not yet matured. The differences in interest rates agreed with our partners for these local currency loans and interest rates in euro (if these loans had been granted in euro) are added or charged to this account. Exchange rate differences on local currency loans when translated to euro are charged or added to this account as well. If losses or profits are realised when the loans in local currency mature, the cumulative profits or losses will be taken out of this cumulative exchange rate difference account and charged or added to the specified local currency risk funds mentioned above. For the addition to and releases from these funds, we refer to note 32.

[2] This overview does not include Capacity Building and Guarantee Funds as mentioned in note 32.

16 Funds for subsidised activities and model costs

The funds below originate from grants received for purposes described for each separate fund below. The Support Foundation charges the related A and B costs to these funds. We refer to the general information (note 1) for an explanation of category A and B costs.

Funds for subsidised activities and model costs, capacity building and guarantee funds		
Can be specified as follows:	**31/12/2018**	**31/12/2017**
	€ ,000	€ ,000
Funds for subsidised activities and model costs	1,145	1,212
Capacity building and guarantee funds	3,272	3,053
Balance as at 31 December	**4,417**	**4,265**

Funds for subsidised activities and model costs	Donated investments [1]	Funds for subsidised activities and model costs [2]	Total 2018	Total 2017
	€ ,000	€ ,000	€ ,000	€ ,000
Balance as at 1 January	478	734	1,212	1,271
Addition to/released from fund	1	(68)	(67)	(59)
Balance as at 31 December	**479**	**666**	**1,145**	**1,212**

[1] This fund was established to account for donated shares.

[2] This fund was set up in 1999 to cover the subsidised activities and model costs of Oikocredit.

Capacity building and guarantee funds	Capacity building Africa, South and East Asia [1]	Capacity building fund [2]	Capacity building ELK Outcome fund [3]	Capacity building BftW2 [4]	Capacity building IDB3 [5]	Geographic programmes fund [6]	General guarantee fund [7]	Guarantee fund for Africa [7]	Total 2018	Total 2017
	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000	€ ,000
Balance as at 1 January	-	1,089	-	-	-	(64)	70	1,958	3,053	3,061
Addition to/released from fund [8]	-	(20)	-	-	-	64	185	(10)	219	(8)
Balance as at 31 December	**-**	**1,069**	**-**	**-**	**-**	**-**	**255**	**1,948**	**3,272**	**3,053**

[1] This fund originated from the Church of Sweden Aid and was set up in 2004 for capacity building of existing and potential partners and for feasibility studies of potential partners in Africa and South and East Asia. The 2018 activities derive from the 2014-2016 cooperation agreement, which was extended by one year followed by a further extension of six months. The activities have now finished and the remaining advance was returned to the Church of Sweden.

[2] This fund was set up for capacity building of existing and potential partners and feasibility studies of potential partners in all countries in which Oikocredit operates.

[3] The Client Outcome fund originates from the Evangelical-Lutheran Church in Württemberg and was set up for research and analysis training of microfinance institutions in Latin America and Asia as well as an agricultural project in East Africa.

[4] A three-year capacity building (CB) programme Building Resilience of Smallholder Farmers Businesses started in 2017, financed by Bread for the World – Protestant Development Service.

[5] The Multilateral Investment Fund – a member of the Inter-American Development Bank Group – supports the three-year CB programme Price Risk Management For Coffee Cooperatives In Latin America which started in 2017.

[6] The Geographic programmes fund is a specific capacity building fund from the Church of Sweden under which two programmes ran in 2018. A project Bridging the Gender Gap in Microfinance in the Philippines and a new programme aiming at the Strengthening of Small Cooperatives in Guatemala.

[7] The two guarantee funds were established to enable institutional donors and individuals to participate in a fund that insures part of the counterparty risk (equity or loan and accumulated interest) of partners to be financed by Oikocredit.

[8] For the additions to and releases from these funds, we refer to note 32.

17 Third-party interests

Consists of third-party interests of participants in the Low Income Countries Loan Fund.

Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Balance as at 1 January	2,703	4,959
Capital payment [1]	(1,135)	(2,392)
Results	96	136
Balance as at 31 December	**1,664**	**2,703**

[1] In relation to the decreasing investments under management of the 'Low Income Countries Loan Fund' it was decided to make a capital payment of € 1.1 million to both shareholders FMO and Oikocredit.

18 Provisions

Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Restructuring provision [1]	1,624	1,205
Provision for onerous contract [2]	177	377
Total provisions	**1,801**	**1,582**

[1] This provision reflects the costs associated with the implementation of the new strategic plan for countries outside the Netherlands only.

[2] As a consequence of our New Way Of Working project implementation, part of the current lease contract for our office premises will be dissolved. The provision reflects the costs associated with the unused office space for the remaining period of the lease rental contract.

19 Non-current liabilities

Can be specified as follows:	31/12/2018	Remaining term > 1 year	Remaining term > 5 years	31/12/2017
	€ ,000	€ ,000	€ ,000	€ ,000
Bank loans	54,844	54,844	-	56,613
Hedge contracts (refer to note 33)	1,814	1,799	15	-
Loans for investment in development financing	-	-	-	321
Other non-current liabilities	150	150	-	-
Total other non-current liabilities	**56,808**	**56,793**	**15**	**56,934**

Repayment obligations due within 12 months of the end of the financial year are included under the current liabilities.

Bank loans consists of the following:

- Loans with a total principal amount of INR 1.1 billion from financial institutions in India maturing in 2019 for INR 763.4 million (included under current liabilities), in 2020 for INR 284.8 million and for 2021 INR 15 million. The loans carry an average interest rate of 10.3%.
- A loan granted by a German bank amounting to € 23.0 million (2017: € 22.9 million), which matures on 30 January 2021 for € 18.0 million and the remaining part (€ 5.0 million) matures on 30 January 2023. The loan carries an interest rate equal to the base rate of the financial institution (as at 31 December 2018: 0%) plus an agreed margin (as at 31 December 2018: 0.65%). The loan is unsecured for the first € 4.0 million. From an outstanding amount of € 4.0 million up to € 24.0 million, the loan is guaranteed by KfW Germany.
- A loan granted by a Swedish bank amounting to € 1.9 million (2017: € 1.9 million). The loan is for an indefinite period. The loan carries an interest rate equal to the base rate of the financial institution (as at 31 December 2018: 0%) plus an agreed margin (as at 31 December 2018: 0.57%). The loan is secured by a pledge on the Oikocredit bond portfolio for a maximum of € 6.3 million.
- A loan granted by a French bank amounting to €17.0 million (2017: € 10.0 million). The loan is for a maximum term of five years. The loan carries an interest rate equal to the base rate of the financial institution plus an agreed margin (as at 31 December 2018: 0.9%). The first € 3.0 million of the loan is not guaranteed. Above € 3.0 million, the loan is secured by a pledge on the Oikocredit bond portfolio at the bank for an amount of € 14.0 million.
- A loan granted by a Swiss bank for an amount of € 8.9 million. (2017: 8.5 million) The loan is for an indefinite period. The loan carries an interest rate of 0.4% for the first CHF 8.0 million and 1.25% for the remaining CHF 2.0 million. The loan is secured by a pledge on the Oikocredit bond portfolio at the bank for an amount of CHF 9.2 million.
- Loans managed by Oikocredit on behalf of funders which have invested in Oikocredit's development financing. Oikocredit receives these loans under contract from various co-financing donors or development agencies and social ethical funds. The loans for investment in development financing are managed by Oikocredit for the risk and account of these donor agencies and funds. From the total loans managed, € 0.3 million is classified under non-current liabilities and € 0.1 million under current liabilities.

Fair value of long-term liabilities
The majority of the bank loans are at variable interest rates. Therefore, the fair value of the current liabilities approximates the book value. Loans for investment in development financing have been invested in the Oikocredit development financing portfolio for risk and account of the funders.

20 Current liabilities

All current liabilities mature within one year and can be specified as follows:	**31/12/2018**	**31/12/2017**
	€ ,000	**€ ,000**
Long-term loans expired or expiring within one year [1]	20,265	21,529
Hedge contracts (refer to note 33)	17,588	2,226
Other taxes payable [2]	7,023	6,444
Accrued expenses, sundry liabilities	2,231	3,530
Hedge premiums payable	2,165	448
Accounts payable	1,348	869
Provision hedges	1,220	94
Accrued personnel expenses	981	1,146
Balance as at 31 December	**52,821**	**36,286**

[1] Consists of amounts maturing within one year from loans taken from an Italian bank for € 5.0 million, from loans taken from financial institutions in India for € 9.5 million, from a loan taken from a US organisation for € 5.7 million and from loans managed by Oikocredit on behalf of funders for € 0.1 million.
[2] The growth of the organisation has led us to thoroughly review Oikocredit's tax and legal structures in the countries where we have offices, to ensure that we have a structure in place to pay our fair share of taxes. We have included an amount of € 5.9 million for possible tax payments from the past and € 0.5 million for possible tax payments for 2018.

Fair value of current liabilities
The interest rates of the current liabilities are in accordance with applicable market interest rates. Therefore, the fair value of the current liabilities approximates the book value.

21 Commitments and contingencies not included in the balance sheet

In July 2017 the Society renewed its rental agreement for the office building, the agreement will end on 31 December 2024. The yearly rent payments amount to € 267,625 up until 31 December 2022 and thereafter amount to € 138,125. The yearly rent is indexed. For this agreement, a bank guarantee was issued for € 120,860.

The hedging agreements with Standard Chartered Bank and TCX, The Currency Exchange Fund N.V. contain an obligation to post eligible collateral under a credit support annex. In the contract with Standard Chartered Bank, the threshold for Oikocredit is set at US$ 3,000,000 and for Standard Chartered Bank at US$ 50,000,000. In the contract with TCX, the threshold is set at US$ 3,000,000 for both Oikocredit and TCX. In the contract with Rabobank, the threshold is set at € 0 for both Oikocredit and Rabobank. As at 31 December 2018 the mark to market value of the hedge contracts with Standard Chartered Bank was US$ 2.2 million negative. As at 31 December 2018 the mark to market value of the hedge contracts with TCX was US$ 5.0 million positive. For posted cash collateral, please refer to note 11.

The Society issued two guarantees for a total amount of € 1.0 million to an Ethiopian bank, covering loans issued by the bank to two partners in Ethiopia.

The Society pledged in total € 29.96 million of its bond portfolio to guarantee loans from financial institutions.

Maanaveeya Development & Finance Private Limited in India filed appeals to the Commissioner of Income Tax/the Income-tax Appellate Tribunal challenging demand notices totalling INR 82.75 million (€ 1.0 million).

22 Interest and similar income

Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Interest on development financing portfolio	**83,010**	**80,726**
Interest on term investments:		
- Interest unrealised	(82)	(37)
- Interest realised	2,588	2,474
Total interest on term investments	**2,506**	**2,548**
Revaluation term investments	**(3,468)**	**(858)**
Total interest and similar income	**82,048**	**82,416**

23 Interest and similar expenses

Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Interest payable on long-term loans, current accounts and other short-term liabilities	(2,492)	(2,068)
Total	**(2,492)**	**(2,068)**

24 Income from equity investments

Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Result from sale of equity investments		
Hattha Kaksekar Limited (HKL)	1,217	1,018
Financiera Confianza	-	3,377
Africinvest II	745	-
Banco Solidario	6	-
SAINDESUR	1	-
Balkan Financial Sector Equity Fund	(1,353)	-
Wizzit	(1,129)	-
Total result from sale of equity investments	**(513)**	**4,395**

25 Grant income

Grants		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Grants received from Inter-American Development Bank, USA	378	300
Grants received from Evangelical-Lutheran Church in Württemberg, Germany	181	94
Grants received from Bread for the world – Protestant Development Service, Germany	159	75
Grants received from Church of Sweden	136	287
Other grants received	214	138
Total grants	**1,068**	**894**

Grant income consists of payments received, deriving from contractual agreements with partners or from other parties such as donations from dividends or legacies. The presented grant income from partners means that they were spent during the calendar year. Unspent grants are accounted for under the header current liabilities. Other grant income is recognised in the year received.

From the Church of Sweden we received SEK 450,000 in 2018 for a specific geographic programme in Guatemala. The Evangelical-Lutheran Church in Württemberg transferred € 150,000 in 2018 for the continuation of an agricultural and client outcome project in East Africa.

The Inter-American Development Bank disbursed US$ 462,982 for the Price Risk Model programme in Central and South America, implemented in cooperation with Fair Trade USA and Catholic Relief Services. From Bread for the World – Protestant Development Service we received € 70,000 supporting an agricultural project in East Africa.

26 Other income and expenses

Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Exchange rate differences	(2,353)	(48,699)
Hedge premiums	(26,165)	(11,601)
Hedge provision	(1,126)	112
Management fees	37	19
Total	**(29,607)**	**(60,169)**

Exchange rate differences		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Local currency exchange rate differences (covered by local currency risk funds)	(5,323)	(37,590)
Hard currency exchange rate differences (unhedged)	2,970	(11,109)
Total	**(2,353)**	**(48,699)**

In the local currency exchange rate differences of € 5.3 million (loss) we included a € 0.6 million gain to adjust our Maanaveeya subsidiary valuation of previous years.

27 Personnel

The number of employees who were directly or indirectly employed by the Society and group companies at the end of 2018 on the basis of full-time equivalents (FTE) amounted to 235 (2017: 290). This number includes staff based outside the Netherlands employed by the regional, country and national support offices (2018: 138 FTE, 2017: 173 FTE). Of the total FTEs (235), 53% were female and 47% male. Of the total Managing Board FTEs (5), 60% were female and 40% male.

Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Salaries	(13,334)	(13,930)
Social security charges	(1,946)	(2,001)
Expenses temporary staff	(3,150)	(1,797)
Other allowances (13th month, holiday allowance)	(1,288)	(1,295)
Pension charges	(1,419)	(964)
Settlements	(236)	(1,364)
Provident fund charges	-	(217)
All other personnel costs	(2,314)	(1,515)
Total personnel expenses	**(23,687)**	**(23,083)**

28 General and other expenses

Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Contribution to support associations and Share Foundation	(3,547)	(4,085)
Office expenses	(2,813)	(2,835)
Consultancy expenses including audit fees (refer to note 29)	(2,022)	(1,746)
Legal expenses	(469)	(693)
Marketing expenses	(934)	(951)
IT-related expenses	(1,160)	(1,200)
Capacity building expenses	(1,110)	(951)
Expenses AGM and Supervisory Board	(219)	(349)
All other general expenses	(112)	(549)
Total general and other expenses	**(12,386)**	**(13,359)**

29 Auditor's fees

The following auditor's fees were charged by KPMG Accountants N.V. to the Society, as referred to in Article 2:382a (1) and (2) of the Netherlands Civil Code, and expensed in the income statement in the reporting period:	**2018**	**2017**
	€ ,000	**€ ,000**
Audit of financial statements	(142)	(133)
Assurance services	-	(23)
Consulting services	(5)	(117)
Total audit fees	**(147)**	**(271)**

30 Additions to loss provisions and impairments

Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Additions to provisions against losses and equity impairments		
- equity impairments	(3,483)	237
- on principal projects	(10,046)	(5,381)
- on interest	(1,496)	(1,973)
Total	**(15,025)**	**(7,117)**

The higher amount on equity impairments was a result of relatively large impairments for two of our holdings (€ 1.6 million and € 1.2 million), compensated by releases of a total of € 1.7 million. Higher additions to the Loan Loss Provision were driven by increased country risks in the South America region. Additions related to specific projects, mainly in the Other region as well as in South America region, were another important driver for the charges incurred in 2018.

31 Taxes

The tax rate in the Netherlands is 25% with a step-up of 20% on the first € 200,000 of taxable income. In 2018, following agreement with the Dutch tax authority, Oikocredit's tax status changed to a Dutch corporate income-tax paying entity, and therefore it was no longer tax-exempt as it had been in previous years. This change has not resulted in the payment of corporate income tax in the Netherlands as income from qualifying equity investments is tax-exempt via the participation exemption, and the remaining corporate income taxes could be offset by withholding taxes on interest paid abroad. As mentioned in the notes to the consolidated financial statements, the offices in Bolivia, Brazil, Costa Rica, Ecuador, Ghana, Guatemala, Kenya, Nigeria, the Philippines, Uruguay and the USA are incorporated as legal entities, but due to the limited size of assets of these legal entities these assets were regarded as if they were owned branch offices. The taxes of € 596,000 relate to these offices. The tax rate of € 1,260,000 relates to Maanaveeya. The effective tax rate of the Society is 32%. The effective tax rate of the Oikocredit group cannot be calculated.

Can be specified as follows:	2018	2017
	€ ,000	€ ,000
Taxes regional and country offices	(596)	(1,746)
Taxes Maanaveeya Development & Finance Private Limited	(1,260)	(1,483)
Taxes Financial Company Oikocredit Ukraine	-	(9)
Total taxes	**(1,856)**	**(3,238)**

32 Additions to and releases from funds

Can be specified as follows:	2018	2017
	€ ,000	**€ ,000**
Local currency risk fund the Philippines		
Exchange rate differences on invested funds	33	(20)
Exchange rate differences local currency loans repaid	(553)	(2,760)
Interest added	34	(21)
Addition to/(released from) fund	(486)	(2,801)
Local currency risk fund Indonesia		
Exchange rate differences on invested funds	6	(5)
Exchange rate differences local currency loans repaid	(78)	(412)
Interest added	6	(4)
Addition to/(released from) fund	(66)	(421)
Local currency risk fund general		
Grants received	(83)	(149)
Exchange rate differences on invested funds	147	(188)
Exchange rate differences local currency loans repaid	8,569	5,577
Interest added	196	(150)
Addition to/(released) from fund	8,829	5,090
Local currency risk fund Africa		
Exchange rate differences on invested funds	36	(31)
Exchange rate differences local currency loans repaid	(1,008)	(1,256)
Interest added	38	(26)
Addition to/(released) from fund	(934)	(1,313)
Local currency risk fund South and East Asia		
Exchange rate differences on invested funds	24	(26)
Interest added	24	(19)
Addition to/(released from) fund	48	(45)
Local currency risk fund Mexico, Central America and the Caribbean		
Exchange rate differences on invested funds	30	(22)
Exchange rate differences local currency loans repaid	(2,511)	(1,744)
Interest added	36	(20)
Addition to/(released from) fund	(2,445)	(1,786)
Local currency loans cumulative exchange rate differences		
Addition exchange rate differences local currency loans repaid	(4,421)	594
Addition exchange rate differences and premiums	2,286	39,169
Addition to/(released from) fund	(2,135)	39,763
Subtotal local currency risk funds	**2,811**	**38,487**
Donated investments		
Grants received	(1)	(2)
Addition to/(released from) fund	(1)	(2)
Subsidised activities and model costs		
Interest received (paid) allocated to fund	3	(3)
Other costs; office expenses	65	64
Addition to/(released from) fund	68	61

	2018	2017
	€ ,000	€ ,000
Capacity building Africa and South and East Asia		
Grants received	-	(102)
Non-allocated grants	(87)	31
Transfer between funds	(3)	-
Other costs	90	70
Addition to/(released from) fund	-	(1)
Capacity building funds		
Grants received	(97)	(262)
Transfer between funds	69	-
Non-allocated grants	(35)	21
Interest added (paid)	6	(4)
Other costs	77	245
Addition to/(released from) fund	20	-
Capacity building ELK Client Outcome		
Grants received	(150)	(100)
Non-allocated grants	(31)	39
Other costs	181	61
Addition to/(released from) fund	-	-
Capacity building BftW		
Grants received	(70)	(94)
Non-allocated grants	(88)	34
Other costs	158	60
Addition to/(released from) fund	-	-
Capacity building IDB		
Grants received*	(433)	(206)
Non-allocated grants	55	65
Other costs	378	141
Addition to/(released from) fund	-	-
Capacity building CoS Geographic programmes		
Grants received	(63)	(185)
Non-allocated grants	14	16
Transfer between funds	(66)	-
Other costs	51	177
Addition to/(released from) fund	(64)	8
General guarantee funds		
Guarantee calls	(186)	10
Transfer between funds	-	45
Interest added (paid)	1	-
Addition to/(released from) fund	(185)	55
Guarantee fund for Africa		
Guarantee calls	-	-
Transfer between funds	-	(45)
Interest added (paid)	10	(8)
Addition to/(released from) fund	10	(53)
Subtotal capacity building and guarantee funds	**(152)**	**68**
Total addition to/(released from) funds	**2,659**	**38,555**

33 Use of financial instruments

Balance sheet item	Product	31/12/2018 Notional € ,000	31/12/2018 Carrying amount € ,000	31/12/2017 Carrying amount € ,000
Oikocredit has entered into the following derivatives to cover its exposure:				
Non-current assets				
FX derivatives	Under hedge accounting	-	-	-
Cross currency swaps	Under hedge accounting	52,700	4,809	2,745
	Total		**4,809**	**2,745**
Current assets				
FX derivatives	Under hedge accounting	54,794	674	5,814
Cross currency swaps	Under hedge accounting	32,190	3,118	2,563
	Total		**3,792**	**8,377**
Non-current liabilities				
FX derivatives	Under hedge accounting	-	-	-
Cross currency swaps	Under hedge accounting	56,047	(1,814)	-
	Total		**(1,814)**	**-**
Current liabilities				
FX derivatives	Under hedge accounting	493,714	(16,565)	(2,042)
Cross currency swaps	Under hedge accounting	23,667	(1,023)	(184)
	Total		**(17,588)**	**(2,226)**

The total book value of the hedge contracts as at 31 December 2018 was € 10.8 million negative (2017: € 8.9 million positive), while the market value was € 5.6 million negative (2017: € 10.5 million positive). The hedge-effectiveness test established that some hedge contracts were ineffective during 2018, for which a provision was formed for € 1.2 million (2017: € 0.1 million) which is recorded in the income statement under Hedge premiums (refer to note 26).

34 Overview total result

Movement in group equity and funds can be specified as follows:	2018	2017
	€ ,000	€ ,000
Equity and funds as at 1 January	**1,122,540**	**1,064,179**
Income after taxation	(1,293)	(19,980)
Exchange rate differences on investments in group companies	(1,956)	(4,270)
Third-party interest	(96)	(136)
Total direct changes in equity and funds	(2,052)	(4,406)
Total result group excluding third-party interests	**(3,345)**	**(24,386)**
Net addition member capital (new shares minus redemptions)	70,071	99,453
Prior year adjustment	191	440
Dividends paid to members	(9,608)	(17,145)
	60,654	**82,747**
Equity and funds as at 31 December	**1,179,849**	**1,122,540**

35 Remuneration policies

Remuneration policy supervisory board

On 20 June 2014 the AGM adopted a new policy on the remuneration of members of the Supervisory Board to be implemented retroactively with effect from 1 January 2014. Oikocredit's remuneration of Supervisory Board members is an honorarium or fee to compensate for the services rendered on the board, and should not be considered as a salary to compensate for work done on the basis of a contract between employer and employee.

The remuneration structure is composed of four elements:

a) annual fee: the same basic amount for all board members. A one-size-fits-all approach to keep the structure simple. This annual fee must cover the cost related to time spent on the board membership on the basis of eight board meeting days and board committee meeting days per year;
b) board meeting attendance fee, to be paid out for every board meeting day that exceeds the eight basic meeting days per year. A board meeting and board committee meeting on the same day count as one meeting. Other meetings and activities should be covered by the annual fee;
c) additional fee for members that chair a board committee, and for the chair of the board;
d) compensation for costs.

The total compensation/remuneration in 2018 amounted to € 57,583 (2017: € 62,773).

Remuneration Managing Board

The remuneration can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Gross salary, holiday, year-end allowance and performance reward	952	757
Expense allowances	19	34
Pension contributions	109	88
Total	**1,080**	**878**

Staff of Oikocredit globally
Oikocredit believes in remunerating its employees in a fair and equitable manner. This means that the remuneration of our staff worldwide should be aligned with the values and nature of the organisation, acknowledging people's diverse experience and educational background, and elements of both the financial sector as well as the social sector at an international or national level, depending on the job requirements.

Performance reward
A performance reward was awarded to all staff members with a permanent contract and working for the organisation longer than one year (as an acknowledgement for good results based on specific social and financial objectives agreed with the Supervisory Board) for 2017 (paid in 2018) as well as 2016 (paid in 2017). The performance reward is awarded in cash, subject to taxation. This amount is accounted for under personnel expenses.

Supervisory Board and Managing Board holdings in Oikocredit share capital
Some Supervisory Board and Managing Board members have indirect holdings in Oikocredit shares. These holdings do not have any voting rights.

Society financial statements

Coopfam, Brazil
Coffee grower Dayany de Assis dos Santos Ferreira is a member of Oikocredit partner Coopfam. The cooperative empowers women to produce a speciality organic coffee Café Feminino and build their economic independence.

Society **balance sheet**

(before appropriation of net income)

Notes		31/12/2018	31/12/2017
		€ ,000	**€ ,000**
	NON-CURRENT ASSETS		
37	**Intangible fixed assets**	**458**	**1,132**
38	**Tangible fixed assets**	**1,125**	**521**
	Financial assets		
39	Development financing		
	Total development financing outstanding	950,628	918,323
	Less: - loss provision and impairments	(73,619)	(67,533)
		877,009	**850,790**
	Consists of:		
	Loans (net of loss provision)	*732,728*	*754,528*
	Equity (net of impairments)	*144,281*	*96,262*
40	Investments in group companies	45,615	41,745
41	Term investments	116,557	117,231
42	Other financial assets	95,777	43,432
	Total financial assets	**257,949**	**202,408**
	Total non-current assets	**1,136,540**	**1,054,851**
	CURRENT ASSETS		
43	Receivables and other current assets	50,275	30,514
44	Cash and banks	96,514	117,166
	Total current assets	**146,789**	**147,680**
	TOTAL	**1,283,330**	**1,202,531**

The accompanying notes are an integral part of these financial statements.

Society **balance sheet**

(before appropriation of net income)

Notes		31/12/2018	31/12/2017
		€ ,000	**€ ,000**
	MEMBER CAPITAL AND RESERVES		
45	Member capital in euro	1,082,492	1,012,421
46	General reserve	90,813	81,984
46	Restricted exchange fluctuation reserve	(9,148)	(7,383)
	Undistributed net income for the year	1,270	18,439
		1,165,427	**1,105,461**
48	**PROVISIONS**	**1,801**	**1,582**
49	**NON-CURRENT LIABILITIES**	**52,910**	**43,803**
50	**CURRENT LIABILITIES**	**63,192**	**51,685**
	TOTAL	**1,283,330**	**1,202,531**

The accompanying notes are an integral part of these financial statements.

Society **income statement**

Notes		2018	2017
		€ ,000	**€ ,000**
	RESULTS		
40	Results participation in group companies after taxes	5,435	3,692
	Other results	(3,569)	16,493
	INCOME BEFORE TAXATION	**1,866**	**20,185**
	Taxes	(596)	(1,746)
	INCOME AFTER TAXATION	**1,270**	**18,439**

The accompanying notes are an integral part of these financial statements.

Notes to the **Society financial statements**

36 General

The Society financial statements have been prepared in accordance with the statutory provisions of Part 9, Book 2, of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

The accounting policies of the Society financial statements and the consolidated financial statements are the same. Group companies are stated at net asset value in accordance with the accounting policies for the consolidated financial statements.

For the accounting policies of the Society financial statements, we refer to the summary of accounting policies as included in the notes to the consolidated financial statements.

37 Intangible fixed assets

Changes in intangible fixed assets in 2018 and in the costs of acquisition and accumulated depreciation as at 31 December 2018 can be specified as follows:

	Total 2018	Total 2017
	€ ,000	€ ,000
Historical cost price as at 1 January	2,042	1,273
Accumulated depreciation as at 1 January	(910)	(249)
Balance as at 1 January	1,132	1,024
Investments	12	769
Disposals	-	-
Depreciation	(686)	(661)
Movements in the year	**(674)**	**108**
Historical cost price as at 31 December	2,054	2,042
Accumulated depreciation as at 31 December	(1,596)	(910)
Balance as at 31 December	**458**	**1,132**

The intangible assets consist of software. The software relates to the new loans and investment system, which went live during 2016. Software is depreciated in three years.

38 Tangible fixed assets

Changes in tangible fixed assets in 2018 and in the costs of acquisition and accumulated depreciation as at 31 December 2018 can be specified as follows:	IT equipment	Furniture	Total 2018	Total 2017
	€ ,000	€ ,000	€ ,000	€ ,000
Historical cost price as at 1 January	2,010	1,417	3,427	3,228
Accumulated depreciation as at 1 January	(1,724)	(1,182)	(2,906)	(2,587)
Balance as at 1 January	286	235	521	641
Investments	126	649	775	200
Disposals	(8)	(10)	(18)	(1)
Depreciation	(124)	(29)	(153)	(319)
Movements in the year	**(6)**	**610**	**604**	**(120)**
Historical cost price as at 31 December	2,128	2,056	4,184	3,427
Accumulated depreciation as at 31 December	(1,848)	(1,211)	(3,059)	(2,906)
Balance as at 31 December	**280**	**845**	**1,125**	**521**

The useful life of the furniture is estimated at five years on average. Information technology (IT) equipment is depreciated in three years

39 Development financing

Changes in development financing outstanding		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Outstanding as at 1 January	918,323	989,582
Disbursements	374,135	335,452
Capitalised interest and dividends	-	48
Less: - repayments	(338,506)	(304,567)
- write-offs	(7,322)	(5,951)
Equity divestments	(5,593)	(3,336)
Exchange adjustments	9,591	(92,905)
Outstanding as at 31 December	**950,628**	**918,323**

Associate equity investments				
Oikocredit had significant influence in the following equity investments as at 31 December 2018:	**Participation**	**Participation**	**Net equity [1] (latest available)**	**Result [1] (latest available)**
	2018	**2017**	**€ ,000**	**€ ,000**
Outgrower SPV, Nicaragua	44.2%	44.2%		
Guaguazu S.A., Bolivia	35.3%	35.3%	434	(38)
Gebana Brazil Cataratas do Iguaçu Produtos Orgânicos Ltd., Brazil	33.4%	33.4%	902	(135)
Fertiplant East Africa Ltd., Kenya	30.0%			
Vehículos Líquidos Financieros, Mexico	29.7%	25.1%		
Cafedirect Plc, United Kingdom	27.8%	27.8%	3,649	1,113
Planet Guarantee, France	19.1%	14.3%		

[1] The Net equity and Result in the table are the equity and result of the whole organisation and not only the equity stake of Oikocredit.
[2] For these equity investments we make use of the exemption of art. 379.2 under part 9, Book 2 of the Netherlands Civil Code. These equity investments are not obliged to publish their net equity and result according to local law.

The table above includes all equity investments in which Oikocredit has significant influence. The shareholding percentages of 20% and above are one of the indicators of significant influence.

The presented net equity value and result are based on local accounting standards from unaudited financial statements not adjusted to reflect Oikocredit's share in the respective net equity value and result. Financial reporting may not always be comparable to the quality under part 9, Book 2, of the Netherlands Civil Code and may not be available in a timely manner. As such, all the equity investments above 20% participation are valued at cost less impairment as at 31 December 2018.

Total loan loss provision and impairments equity	**2018**	**2017**
	€ ,000	**€ ,000**
Loan loss provision	(56,497)	(51,753)
Impairments equity	(17,122)	(15,780)
Balance as at 31 December	**(73,619)**	**(67,533)**

Provision for possible losses		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	(51,753)	(57,860)
Additions	(9,058)	(4,291)
Exchange adjustments	(866)	6,204
	(61,677)	(55,947)
Less: - write-offs	5,180	4,194
Balance as at 31 December	**(56,497)**	**(51,753)**

Impairments equity investments		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	(15,780)	(17,774)
Additions	(5,777)	(2,084)
Reversals	2,293	(2,321)
	(19,264)	(17,537)
Less: - write-offs	2,142	1,757
Balance as at 31 December	**(17,122)**	**(15,780)**

We refer to note 8 of the consolidated financial statements for further detailed information on consolidated development financing.

40 Group companies

Net asset value investments in group companies		
	31/12/2018	**31/12/2017**
	€ ,000	**€ ,000**
Maanaveeya Development & Finance Private Limited, Hyderabad, India [1]	43,161	38,308
Financial Company Oikocredit Ukraine, Lviv, Ukraine [2]	790	734
Low Income Countries Loan Fund, Amersfoort, the Netherlands [3]	1,664	2,703
Balance as at 31 December	**45,615**	**41,745**

[1] The investment in Maanaveeya Development & Finance Private Limited, Hyderabad, India, consists of 100% of the ordinary shares amounting to INR 2.5 billion (228,652,711 shares). One share is held by the Managing Director of Maanveeya.
[2] The investment in Financial Company Oikocredit Ukraine in Lviv, Ukraine, consists of 100% of the ordinary shares, amounting to UAH 20 million.
[3] This amount represents the Society's participation in the Low Income Countries Loan Fund (50%). This fund was created as a restricted, closed-ended, tax transparent investment fund for members/shareholders. The fund is not incorporated as a legal entity, but a contract of its own nature. The Society acts as fund manager of the Low Income Countries Loan Fund. In June 2017 the LIC Fund reached the end of the its five-year investment period. In November 2017 the terms and conditions of the LIC Loan Fund were amended to allow for the distribution of distributable assets. Since December 2017 and until the end of the life of the LIC Loan Fund on 30 June 2022, distributable assets are distributed to the participants of the LIC Loan Fund in proportion to the capital contributions made by the participants. Participants are the persons that are holders of participations in the LIC Loan Fund admitted as such to the fund by the Cooperative, subject to the unanimous approval of the meeting of participants.

Maanaveeya Development & Finance Private Limited		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	38,308	39,350
Result for the year	5,351	3,560
Interest paid to Oikocredit on compulsory convertible debentures	(1,227)	(555)
Prior year adjustment	2,753	-
Exchange adjustments	(2,024)	(4,047)
Balance as at 31 December	**43,161**	**38,308**

Due to an accounting error we adjusted the valuation of Maanaveeya. This adjustment resulted in a prior-year adjustment of € 2.0 million of which € 1.4 million in the restricted exchange fluctuation reserve and € 0.6 million in the income statement. The value of Maanaveeya in 2017 should have been € 40.2 million.

Financial Company Oikocredit Ukraine		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	734	1,125
Dividend payments	-	(164)
Net result for the year	(12)	(4)
Exchange adjustments	68	(223)
Balance as at 31 December	**790**	**734**

Low Income Countries Loan Fund		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	2,703	4,959
Investments	-	-
Capital payments [1]	(1,135)	(2,392)
Result for the year	96	136
Balance as at 31 December	**1,664**	**2,703**

[1] In relation to the decreasing investments under management of the 'Low Income Countries Loan Fund' it was decided to make a capital payment of € 1.1 million to both shareholders FMO and Oikocredit.

41 Term investments

Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	117,231	80,540
Investments during the year at cost	2,117	37,345
Disinvestments/redemptions during the year	(8)	(8)
Revaluation to market value as at 31 December	(2,783)	(644)
Exchange adjustments	-	(2)
Balance as at 31 December	**116,557**	**117,231**

Summary of term investments:	**31/12/2018**	**31/12/2017**
	€ ,000	**€ ,000**
Bonds		
Buy and Maintain ESG Credit Portfolio [1]	105,917	106,565
Portfolio managed by Alternative Bank Schweiz [2]	9,931	9,950
Subtotal bonds	115,848	116,515
Other term investments		
GLS Bank, Germany	500	500
Other	209	216
Subtotal other term investments	709	716
Balance as at 31 December	**116,557**	**117,231**

[1] 'Buy and Maintain environmental social governance (ESG) Credit Portfolio' is the name of the bond portfolio managed by AXA.
[2] In August 2017 we purchased a number of company bonds held by ABS.

Fair value of term investments

The fair value equals the carrying amount. Part of the term investments serves as collateral for the credit facilities with banks – reference is made to notes 44 and 49. The term investments in bonds have been rated 'investment grade' by either Moody's, S&P and/or Fitch.

42 Other financial assets

Summary of other financial assets:	**31/12/2018**	**31/12/2017**
	€ ,000	**€ ,000**
Loans to group companies	52,504	-
Hedge contracts related parties (Oikocredit International Support Foundation)	38,334	40,470
Staff loans [1]	130	217
Hedge contracts financial institutions	4,809	2,745
Balance as at 31 December	**95,777**	**43,432**

[1] All housing loans to staff are covered by mortgages. Market interest rates are charged on staff loans.

Loans to group companies consists of the following:

- ECB (External Commercial Borrowing) loan 1 with Maanaveeya Development & Finance Private Limited with a total principal amount of INR 1.5 billion (€ 18.8 million). The loan carries an interest of 9.30%. The first repayment of the loan is due in December 2023, the second repayment in December 2024 and the last repayment in December 2025.
- ECB loan 2 with Maanaveeya Development & Finance Private Limited with a total principal amount of INR 1.5 billion (€ 18.8 million). The loan carries an interest of 9.60%. The first repayment of the loan is due in October 2022, the second repayment in October 2023 and the last repayment in October 2024.
- ECB loan 3 with Maanaveeya Development & Finance Private Limited with a total principal amount of INR 1.2 million (€ 15.0 million), which is the first tranche of ECB loan 3, the second tranche will take place in 2019. The loan carries an interest of 9.70%. The first repayment of the loan is due in December 2021 and the last repayment in December 2024. Between 2021 and 2024 half-yearly repayments are scheduled.

43 Receivables and other current assets

The receivables maturing within one year can be specified as follows:		**2018**		**2017**
		€ ,000		**€ ,000**
Accrued interest on development financing net of allowance		13,758		12,731
Collateral related to hedging contracts		11,823		-
Receivables Share Foundation		10,645		4,582
Hedging receivable		6,130		2,260
Hedging contracts (refer to note 33)		3,792		8,377
Amounts prepaid		2,143		513
Interest receivable:		978		1,284
- Face value	5,202		5,748	
- Less: allowance for uncollectability	(4,224)		(4,464)	
Value added tax and wage taxes		310		309
Loans to group companies expiring within 1 year		125		10
Staff loans [1]		91		131
Accrued interest on bank accounts and deposits		8		3
Sundry receivables		472		314
Balance as at 31 December		**50,275**		**30,514**

[1] All housing loans to staff are covered by mortgages. Market interest rates are charged on staff loans.

44 Cash and banks

The Society maintains its funds in banking institutions in Europe, Asia, Latin America, Africa and the United States of America. The time deposits included in cash and banks as at 31 December 2018 all mature in 2019.

The Society has credit facility agreements with Dutch banks amounting to € 5.0 million. These facilities, which were not used in 2018, are subject to the following conditions:
- Audited financial statements should be provided within six months after year-end.
- The solvency ratio of the Society should be at least 70%.
- The Society should keep its bond portfolio and liquidities free of any encumbrances for 125% of the amounts of the credit line of the Dutch institutions (€ 6.3 million).
- Without the written permission of the credit institution, the Society is not allowed to sell or securitise fixed assets or establish mortgages or other encumbrances on fixed assets (except for transactions taking place in the normal course of business) and to issue guarantees for liabilities of third parties.

45 Member capital

For details about the member capital, please refer to note 13 of the consolidated financial statements.

46 General and other reserves

General reserves [1]		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	81,984	69,682
Appropriation of prior-year results	8,829	11,858
Adjustment prior years (Online portal for investors)	-	444
Balance as at 31 December	**90,813**	**81,984**

[1] The Oikocredit Supervisory Board allocated a part of the general reserve for specific purposes, we refer to Other information.

Restricted exchange fluctuation reserve [1]		
Can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Balance as at 1 January	(7,383)	(3,108)
Prior year adjustment	2,142	-
Exchange rate differences	(3,907)	(4,275)
Balance as at 31 December	**(9,148)**	**(7,383)**

[1] The restricted exchange fluctuation reserve represents the accumulation of gains and losses from currency translation on investments in group companies. This reserve also contains the results (gains, losses and premiums) on the hedge contracts concluded on our investment in group companies.

Due to an accounting error we adjusted the valuation of Maanaveeya which resulted in an increase in the restricted exchange fluctuations reserve. The impact on previous years was € 1.4 million.

47 Differences in equity and net income between the society and consolidated financial statements

Changes in the difference between the Society and consolidated equity and profit/loss in the financial year can be specified as follows:	**31/12/2018**	**31/12/2017**
	€ ,000	**€ ,000**
Equity according to society financial statements	**1,165,427**	**1,105,461**
Reserves Oikocredit International Support Foundation	3	-
Local currency risk funds Support Foundation	10,002	12,813
Funds for subsidised activities and model costs Support Foundation	4,417	4,264
Third-party interests	1,664	2,703
Group Equity and Funds according to consolidated financial statements	**1,181,513**	**1,125,241**

48 Provisions

Can be specified as follows:	**31/12/2018**	**31/12/2017**
	€ ,000	**€ ,000**
Restructuring provision [1]	1,624	1,205
Provision for onerous contract [2]	177	377
Total provisions	**1,801**	**1,582**

[1] This provision reflects the costs associated with the implementation of the new strategic plan for the countries outside the Netherlands only.

[2] As a consequence of our New Way Of Working project implementation, part of the current lease contract for our office premises will be dissolved. The provision reflects the costs associated with the unused office space for the remaining period of the lease rental contract.

49 Non-current liabilities

Can be specified as follows:	**31/12/2018**	**Remaining term > 1 year < 5 years**	**Remaining term > 5 years**	**31/12/2017**
	€ ,000	**€ ,000**	**€ ,000**	**€ ,000**
Bank loans	51,096	51,096	-	43,482
Hedge contracts (refer to note 33, consolidated financial statements)	1,814	1,799	15	-
Loans for investment in development financing	-	-	-	321
Total non-current liabilities	**52,910**	**52,895**	**15**	**43,803**

Repayment obligations due within 12 months of the end of the financial year are included under the current liabilities.

Bank loans consists of the following:

- A loan granted by a German bank amounting to € 23.0 million (2017: € 23.0 million), which matures on 30 January 2021 for € 18.0 million and the remaining part (€ 5.0 million) matures on 30 January 2023. The loan carries an interest rate equal to the base rate of the financial institution (as at 31 December 2018: 0%) plus an agreed margin (as at 31 December 2018: 0.65%). The loan is unsecured for the first € 4.0 million. From an outstanding amount of € 4.0 million up to € 24.0 million, the loan is guaranteed by KfW, Germany.
- A loan granted by a Swedish bank amounting to € 1.9 million (2017: € 1.9 million). The loan is for an indefinite period. The loan carries an interest rate equal to the base rate of the financial institution (as at 31 December 2018: 0%) plus an agreed margin (as at 31 December 2018: 0.57%). The loan is secured by a pledge on the Oikocredit bond portfolio for a maximum of € 6.3 million.
- A loan granted by a French bank amounting to €17.0 million (2017: € 10.0 million). The loan is for a maximum term of five years. The loan carries an interest rate equal to the base rate of the financial institution plus an agreed margin (as at 31 December 2018: 0.9%). The loan is unsecured.
- A loan granted by a Swiss bank for an amount of € 8.9 million. (2017: € 8.5 million) The loan is for an indefinite period. The loan carries an interest rate of 0.4% for the first CHF 8.0 million and 1.25% for the remaining CHF 2.0 million. The loan is secured by a pledge on the Oikocredit bond portfolio at the bank for an amount of CHF 9.2 million.
- Loans managed by Oikocredit on behalf of funders which have invested in Oikocredit's development financing. Oikocredit receives these loans under contract from various co-financing donors or development agencies and social ethical funds. The loans for investment in development financing are managed by Oikocredit for the risk and account of these donor agencies and funds. From the total loans managed, € 0.3 million is classified under non-current liabilities and € 0.1 million under current liabilities.

Fair value of long-term liabilities

The majority of the bank loans are at variable interest rates. Therefore, the fair value of the current liabilities approximates the book value. Loans for investment in development financing have been invested in the Oikocredit development financing portfolio for risk and account of the funders.

50 Current liabilities

All current liabilities mature within one year and can be specified as follows:	**31/12/2018**	**31/12/2017**
	€ ,000	**€ ,000**
Group companies (refer to note 52)	20,771	26,838
Hedge contracts	17,588	2,226
Long-term loans expired or expiring within one year [1]	10,723	10,896
Other taxes payable [2]	7,023	6,444
Accrued expenses, sundry liabilities	3,702	4,740
Hedging premiums payable	2,165	447
Provision hedges	1,220	94
Balance as at 31 December	**63,192**	**51,685**

[1] Consists of amounts maturing within one year from loans taken from an Italian bank for € 5.0 million, from a loan taken from a US organisation for € 5.7 million and from loans managed by Oikocredit on behalf of funders for € 0.1 million.

[2] The growth of the organisation has led us to thoroughly review Oikocredit's tax and legal structures in the countries where we have offices, to ensure that we have a structure in place to pay our fair share of taxes. We have included an amount of € 5.9 million for possible tax payments from the past and € 0.5 million for possible tax payments for 2018.

Fair value of current liabilities

The interest rates of the current liabilities are in accordance with applicable market interest rates. Therefore, the fair value of the current liabilities approximates the book value.

51 Commitments not included in the balance sheet

In July 2017 the Society renewed its rental agreement for the office building, which will end on 31 December 2024. The yearly rent payments amount to € 267,625 up until 31 December 2022 and thereafter amount to € 138,125. The yearly rent is indexed. For this agreement, a bank guarantee was issued for € 120,860.

The hedging agreements with Standard Chartered Bank and TCX, The Currency Exchange Fund N.V. contain an obligation to post eligible collateral under a credit support annex. In the contract with Standard Chartered Bank, the threshold for Oikocredit is set at US$ 3,000,000 and for Standard Chartered Bank at US$ 50,000,000. In the contract with TCX, the threshold is set at US$ 3,000,000 for both Oikocredit and TCX. In the contract with Rabobank, the threshold is set at EURO 0 for both Oikocredit and Rabobank. As at 31 December 2018 the mark to market value of the hedge contracts with Standard Chartered Bank was US$ 2.2 million negative. As at 31 December 2018 the mark to market value of the hedge contracts with TCX was US$ 5.0 million positive. For posted cash collateral, please refer to note 43.

The Society issued three corporate guarantees for a maximum of INR 1.2 billion to Rabobank International, Mumbai Branch for loans issued by Rabobank to Maanaveeya Development & Finance Private Limited in India.

The Society issued two guarantees for a total amount of € 1.0 million to an Ethiopian bank, covering loans issued by the bank to two partners in Ethiopia.

The Society pledged in total € 29.96 million of its bond portfolio to guarantee loans from financial institutions.

52 Related party transactions

For transactions with the Managing Board and Supervisory Board, please refer to note 35 of the consolidated financial statements.

Transactions with Oikocredit Support Foundations during the year
Oikocredit added unrealised cumulated exchange rate differences on local currency loans to the fund for local currency loans cumulative exchange rate differences amounting to € 5.3 million (2017: charge € 37.6 million).

Transactions with the Oikocredit International Share Foundation
OIKOCREDIT, EDCS U.A. signed a Service Level Agreement with Oikocredit International Share Foundation, which replaced the existing agreement. The new Service Level Agreement came into effect on 1 January 2018. Pursuant to this agreement Oikocredit will perform all back office activities and bear the related costs as its own costs.. This means Oikocredit will no longer grant a contribution for costs to the International Share Foundation (2017: € 452,000).

Transactions with Maanaveeya Development and Finance Private Limited
Oikocredit charged interest to Maanaveeya on non-convertible debentures totalling € 1.2 million (2017: € 0.6 million).

Transactions with Low Income Countries Loan Fund
Transactions with Low Income Countries Loan Fund during 2018 or 2017 consisted of repayments and disbursements of the loan portfolio and settlements of exchange rate differences € 21,715 (2017: € 213,189) and premiums € 106,037 (2017: € 10,867) on local currency loans. The current account will bear interest at the average of the market interest rate on the savings account of 0.01 % (2017: 0.05%). The total amount of interest calculated in 2018 amounts to € 175 (2017: € 3,000).

Transactions with Support Associations and members
Oikocredit granted a contribution for costs to the support associations during 2018 for € 3,547,000 (2017: € 3,633,000). There are no outstanding balances with the support associations.

Oikocredit received loans during 2018 from Ekobanken Sweden for SEK 1 million (2017: SEK 1 million) and no loans from GLS Bank Germany (2017: € 131,000). The Support Foundation received grants during 2018 from the Church of Sweden for € 136,000 (2017: € 242,000).

Amounts owed by and to Oikocredit foundations and other group companies [1]		
	2018	2017
	€ ,000	€ ,000
Amounts owed to group companies		
Oikocredit International Support Foundation	19,703	24,989
Low Income Countries Loan Fund	1,068	1,849
Total owed to group companies (refer to note 50)	**20,771**	**26,838**
Amounts owed by group companies		
Oikocredit International Support Foundation cumulated exchange rate differences (refer to note 42)	38,334	40,470
Maanaveeya Development & Finance Private Limited (refer to note 42)	52,504	-

[1] Market interest rates are charged on these amounts.

Total funds available within the Support Foundation to cover future category B costs, as well as guarantees and capacity building by Oikocredit, amounted to approximately € 4.4 million at year end (2017: € 4.3 million). At year end, the available local currency risk funds within the Support Foundation, to cover future currency losses on local currency loans, amounted to approximately € 10.0 million (2017: € 12.8 million).

53 Subsequent events

Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are prepared, are recognised in the financial statements.

Other information

Proposal for allocation of net income

With respect to the allocation of net income, the Society's Articles of Association determine the following (article 45):
'The net profits shall be allocated by the General Meeting after receiving the proposals of the Managing Board'.
The Managing Board will make the following proposal to the Annual General Meeting in 2019 with regard to 2018 net income:

- To pay a dividend of 1/12th of 1% for every full calendar month of 2018 that the EUR, USD, CAD, CHF, SEK and GBP shares were registered.
- The dividend payment will be made up of the 2018 net income of € 1,270,000 as well as € 9,298,000 that will be deducted from the general reserve.

Allocation of net income 2018	
The Managing Board proposes to appropriate the net income as follows:	**2018**
	€ ,000
Dividend distribution	**10,568**
General reserve	
Deduction from general reserve	9,298
Net income 2018	1,270
	10,568

Allocation of net income 2017	
The Managing Board proposes to appropriate the net income as follows:	**2017**
	€ ,000
General reserve	
Unrealised exchange differences (withdrawal)	(14,295)
Other	23,126
	8,831
Dividend distribution	**9,608**
Net income	**18,439**

Information on cumulative unrealised results and specific designated amounts in the general reserve		
The breakdown of the balance of the cumulative amounts of the unrealised results included in the general reserve can be specified as follows:	**2018**	**2017**
	€ ,000	**€ ,000**
Local currency loans	12,121	12,121
Capacity building for partners	2,500	2,500
Total unrealised results and designated amounts included in general reserve	**14,621**	**14,621**

Independent auditor's report

To: the General Meeting of Members of Oikocredit Ecumenical Development Cooperative Society U.A.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2018 of Oikocredit Ecumenical Development Cooperative Society U.A., based in Amersfoort, the Netherlands.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Oikocredit Ecumenical Development Cooperative Society U.A. as at 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. the consolidated and society balance sheet as at 31 December 2018;
2. the consolidated and society income statement for 2018;
3. the consolidated cash flow statement for 2018; and
4. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Oikocredit Ecumenical Development Cooperative Society U.A. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Letter from the Managing Director;
- Five-year Oikocredit key figures;
- Managing Board Report: Implementing our updated strategy;
- Supervisory Board report: Staying true to Oikocredit's mission;

— Strategic partners and relevant networks;

— Contact information; and

— other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

— is consistent with the financial statements and does not contain material misstatements;

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Managing Board is responsible for the preparation of the other information, including the Managing Board Report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Managing Board and the Supervisory Board for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as the Managing Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Managing Board is responsible for assessing the society's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting unless the Managing Board either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so. The Managing Board should disclose events and circumstances that may cast significant doubt on the society's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the society's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_algemeen_01
This description forms part of our independent auditor's report.

Amstelveen, 7 March 2019

KPMG Accountants N.V.

M. Frikkee RA

Strategic **partners** and relevant **networks**

AFRICAN GUARANTEE FUND
www.africanguaranteefund.com

AVCA African Private Equity and Venture Capital Association
www.avca-africa.org

avpn
www.avpn.asia

Brot für die Welt
www.brot-fuer-die-welt.de/en

Church of Sweden
www.svenskakyrkan.se

CRS CATHOLIC RELIEF SERVICES faith. action. results.
www.crs.org

CSAF COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE
www.csaf.net

ECLOF INTERNATIONAL
www.eclof.org

EUROPEAN MICROFINANCE PLATFORM NETWORKING WITH THE SOUTH
www.e-mfp.eu

EVANGELISCHE LANDESKIRCHE IN WÜRTTEMBERG
www.elk-wue.de

Fair Trade USA™
www.fairtradeusa.org

FINANCIAL INCLUSION EQUITY COUNCIL
www.cmef.com

GIIN® MEMBER
www.thegiin.org

global alliance for banking on values
www.gabv.org

IDB
www.iadb.org

mix
www.themix.org

NABC
www.nabc.nl

npm platform for inclusive finance
www.inclusivefinanceplatform.nl

PRI Principles for Responsible Investment
www.unpri.org

safe Sustainable Agriculture Food Environment
www.safeplatform.org

SUSTAINABLE COFFEE CHALLENGE
www.sustaincoffee.org

SUSTAINABLE FOOD LAB
www.sustainablefoodlab.org

the smart campaign Keeping clients first in financial inclusion
www.smartcampaign.org

SocialPerformance TASK FORCE
www.sptf.info

USAID FROM THE AMERICAN PEOPLE
www.usaid.gov

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www.oikocredit.coop

Oikocredit's vision is a global, just society in which resources are shared sustainably and all people are empowered with the choices they need to create a life of dignity.

investing in people