

Oikocredit in 2005: accelerating growth

The United Nations Year of Microcredit, 2005, has brought many highlights for Oikocredit, especially in terms of growth and increased institutional profile. We achieved new records in investments as well as approvals and disbursements to project partners across the globe. In our development financing portfolio, the share of the microfinance sector has increased from 51% in 2004 to 66% in 2005.

On behalf of the Oikocredit Board of Directors, we hereby present the Annual Report (including the Financial and Consolidated Financial Statements) of the Society for the year 2005. This report highlights the most important developments during the year. The report will be presented for approval to the Oikocredit Annual General Meeting in June 2006.

Development financing Approvals and disbursements

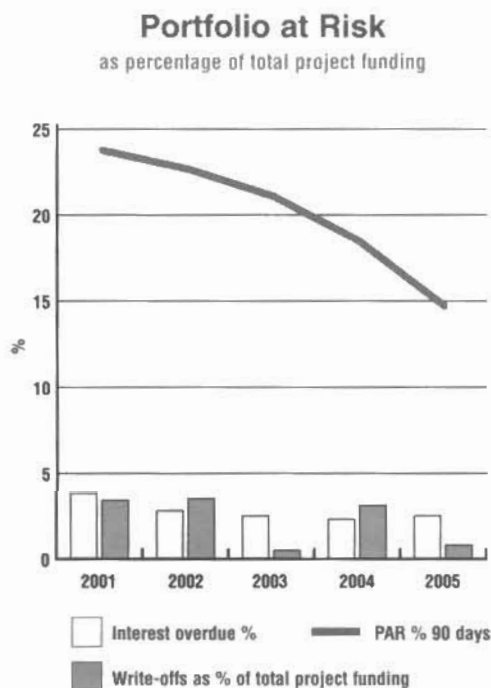
The growth in the microfinance sector was triggered by the UN challenge to Microfinance Institutions (MFIs) all over the world to scale up their efforts so as to ensure the achievement of the Millennium Development Goals, which aim to reduce world-wide poverty by half by the end of 2015. As a result, new MFIs emerged and existing MFIs expanded their services, many of whom turned to Oikocredit for the needed capital. This increased the demand for Oikocredit loans by MFIs to an exceptionally high level during 2005. Gross approvals for the year 2005 almost doubled to 90 million euros (2004: 45 million), whereas disbursements more than doubled to a level of 72 million euros (2004: 33 million). This is a result of a strong emphasis during recent years on faster disbursement procedures, through strengthening of staff both in the regions and at the International Support Office and through a higher level of well prepared project proposals.

Quality of portfolio

We continue to witness improvement in the repayment performance of our project partners. Portfolio quality, indicated as Portfolio at Risk (PAR) ratio

(measured as all outstanding capital that has a payment of interest or capital overdue for 90 days or more, divided by total outstanding portfolio) dropped from 18.6% in 2004 to 14.8% in 2005. Write-offs in 2005 were also lower than in 2004 (1.2 million euros in 2005 to 3.5 million in 2004). This improvement is a direct result of enhanced monitoring, collection procedures and portfolio growth. The focus on microfinance has positively influenced Oikocredit's portfolio quality, but at the same time further concentration in this sector creates new areas for attention as individual MFIs are often financed with considerable amounts.

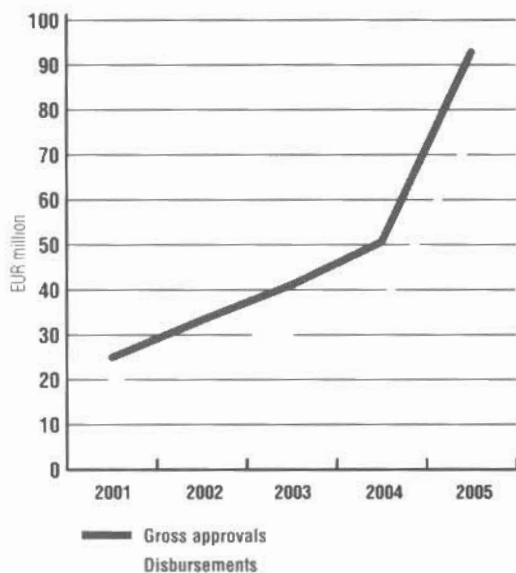
The PAR ratio, interest overdue (both as percentages of the total portfolio at year-end) and write-offs, show the following trends:



PAR of the MFI part of the portfolio is much lower than that of other sectors and has improved from 7.7% in 2003 to 5.1% in 2005.

Approvals and Disbursals

at average exchange rates over the last 5 years



Local currency loans

Our local currency loans have once again proven extremely important for MFIs because they finance micro-entrepreneurs who generate income in local currency. By the end of 2005, local currency loans amounting to 47 million euros (2004: 29 million) - a growth of 62% - were outstanding or in the process of disbursement.

We expect a continued high demand for local currency loans and equity. From a currency risk point of view we are approaching our lending limits as we have almost completely allocated the Local Currency Risk Funds (LCRFs). These funds form a buffer for the currency risk that we assume when we lend in local currency. Our experience with the LCRFs so far is that we have had limited losses charged to them. Nonetheless, the funds need to be enlarged to ensure further growth in local currency lending. Therefore we are developing new ways to do this, such as hedging for local currency risks.

Breakthrough in India

In June 2005, the Reserve Bank of India finally approved our application to operate as a non-banking finance institution. This was the last approval needed to extend local currency loans in this huge focus country. Following this approval, activities in India rapidly expanded in the second half of 2005 with more than 4 million euros in new disbursements. We expect our portfolio in India to continue to grow significantly in the coming years.

Africa strategy

A special Africa strategy for 2004 and 2005 was developed in 2003 to enhance the growth of our lending operations and ensure increased sustainability of the African regional offices. The success of this strategy is visible: total approvals for Africa have reached 17.4 million euros over 2005 (10.5 million euros over 2004), a big increase compared to the total of 2.8 million euros in 2003. In addition to the portfolio growth, the sustainability level of our regional offices in Africa also improved. The microfinance support programme (TerraFina, a joint initiative of ICCO, Rabobank Foundation and Oikocredit) for Francophone West Africa, the Horn of Africa and the Great Lakes district, has also started well with fact-finding missions completed in Mali, Ethiopia, Rwanda and Burkina Faso. Based on the findings of these missions, the TerraFina programme will extend technical assistance as well as loans and equity support to emerging MFIs in the region.

Equity strategy

In the second semester of 2005 we reviewed our development-related equity investment strategy. Based on this review, the newly appointed Manager for Equity Investments, who is also co-responsible for managing our equity participations, will further implement the strategy. One outcome of the review is that Oikocredit aims to increase its involvement in equity in the coming years.

Impact Assessment

We can only accomplish our mission if our financing services positively impact the lives of poor

people. A working group has therefore been established within Oikocredit to develop guidelines for our increased focus on social performance for the years to come. The group was given the task to develop Terms of Reference and to review Oikocredit's achievements to date in the area of social performance. We will also improve our systems of measuring the social performance of projects we finance.

Inflow of capital

Over 2005, we registered a record increase in inflow of members' capital, with gross inflow rising to 37.8 million euros (2004: 23.3 million). Redemptions during 2005 remained at the low level of 1.3 million euros (1 million in 2004). This unprecedented inflow shows that our members are willing and able to respond to the increase in demand for development financing as experienced during 2005.

More than 2,005 new investors joined Oikocredit, mainly through our extensive and active network of Support Associations. This tremendous growth in capital and membership is certainly the result of

active campaigning by Oikocredit and its Support Associations in the context of both the UN Year of Microcredit and Oikocredit's 30th anniversary which took place in November 2005.

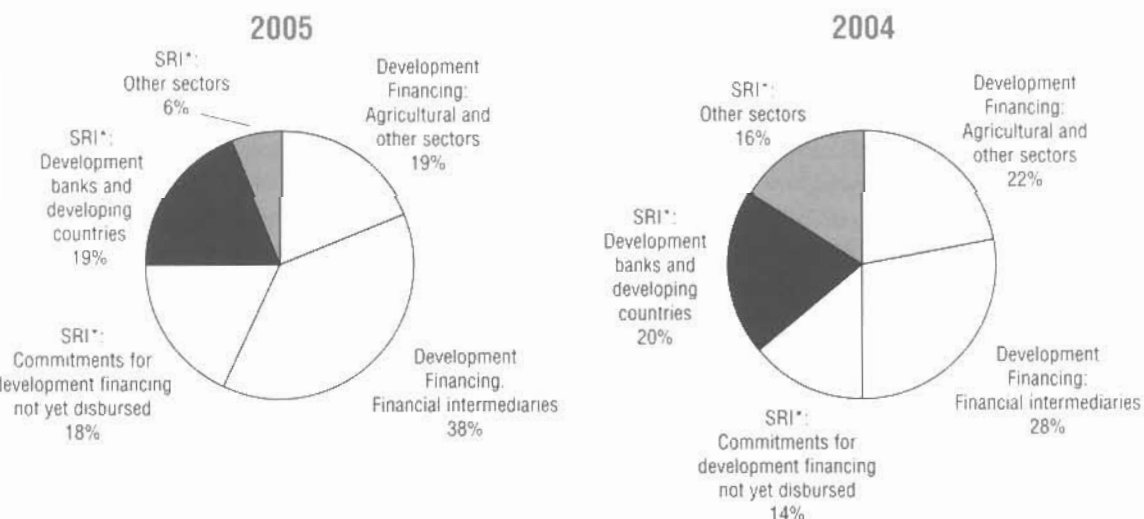
Oikocredit Investment Mix

The graphs below show the risk profile and composition of Oikocredit's long-term invested capital. An important element in the investment strategy of Oikocredit is to balance risks. Oikocredit does not invest all of its funds in projects with a higher risk, but maintains part of its capital in lower-risk investments (the Long Term Investment or LTI portfolio). Our constant effort is to invest this part of the portfolio in bonds and corporations with a high socially responsible profile, especially related to developing countries and local communities.

The investment mix significantly changed in the direction of development financing during 2005, mainly due to the high growth in the microfinance portfolio. We also succeeded in increasing the Long Term Investment part that is invested in the development-oriented sector.

Oikocredit Investment Mix

As of 31 December



*SRI = Socially Responsible Investments

During 2005 we asked the screening agency for Socially Responsible Investments, Ethibel, to provide us with additional information on the behaviour and impact of companies which are active in developing countries. The thus obtained additional information enabled us to select more corporations with a clear positive involvement and impact in developing countries for our LTI portfolio.

Income statement 2005

Income

As a result of the enormous growth of our development financing portfolio, the related income increased by almost 30%. Part of this increase was the result of improved US dollar and local currency exchange rates against the euro during 2005.

The Long Term Investment (LTI) income was almost 8% lower than the previous year, mainly as a result of lower yields. Long-term/medium-term interest rates showed a downward trend in 2005 (3.15% by the end of 2005) compared to 2004 and 2003 (3.5 to 4%). Reinvested amounts therefore had to be invested at lower interest rates than before. The return on investments in the Bond Portfolio was satisfactory and above the performance of the benchmark we use for comparison.

Expenses

Expenses increased by almost 26%, but decreased as a percentage of credit operations income from 57% in 2004 to 56% in 2005, demonstrating improved efficiency.

Addition to Loan Loss Provisions

During 2005 we changed our method of calculating the Loan Loss Provision (please refer to the relevant note in the accounting principles at page 14). During 2005 we added 5.6 million euros to the loss provision or 45% of development financing income, compared to 4.6 million euros or 48% in 2004. We added an extra amount to the loss provision in view of the financial difficulties of one of our larger project partners. Moreover, the strengthening of the US dollar versus the euro lead to a higher addition to the loss provision.

Results of business units

Oikocredit recognises three business units:

- Credit Operations (direct project financing)
- Long Term Investment Portfolio (bonds and shares)
- Non-banking activities (model costs)

It is worth noting that the results of our credit operations improved from a loss in 2003 and earlier years to a net positive result of around 1.4 million euros in 2005 (1% of average outstanding portfolio). This is the result of portfolio growth, increase in efficiency and the improved quality of the development financing portfolio. The positive results will contribute to the dividend that we will propose paying to investors.

As in earlier years, our non-banking expenses were covered by grant income through the Oikocredit International Support Foundation.

Dividend

A dividend of 2% will be proposed to the Annual General Meeting (AGM) in June 2006. In addition to this dividend, we will propose an addition of 1.1 million euros to the general reserves and 0.8 million euros to the Local Currency Loan Reserve.

Other important developments

Strategic alliances

On July 1, 2005, a revised Memorandum of Agreement was signed with ICCO. This revision intends to bring the existing partnership to a higher level of production and outreach.

The agreement with ING that was signed in 2004, also brought positive results: joint seminars, new communication tools and technical assistance assignments of ING staff to Oikocredit project partners as well as within the Oikocredit network itself. The ING Oikocredit Support Foundation furthermore promoted capital inflow from the ING staff.

SAturn process

In order to prepare for the years to come, a participatory process to review the role and functioning of

Support Associations within the Oikocredit structures was started in 2004. After a first year of analysis, the project has now entered the second stage during which key dilemmas and challenges have been reviewed and possible directions for the future formulated. A discussion paper was sent to all Support Associations. The final report, which will include feedback on this paper from the Support Associations and other stakeholders, will be presented to the 2006 AGM, for decisions on concrete strategy proposals.

Risk Management

The introduction of Risk Management was completed in 2005. The main risks Oikocredit faces today were identified through the so-called Strategic Risk Assessment Process. Improvement plans were adapted in 2005. Risk management is now an integrated process within the organisation. All department heads are responsible for managing risks within their own areas of responsibility.

Audit Committee

During 2005, two meetings with the Audit Committee took place. The Audit Committee paid special attention to Oikocredit's regulatory environment, internal controls, accounting procedures and changes in accounting principles as well as to internal audit plans and reports. The Committee also reviewed the risk management process and discussed the audit plans for 2005 with the external auditor.

Oikocredit Information Project

The current phase of growth compels us to plan for future information needs. Therefore, an Oikocredit Information Project was started during 2005. This project seeks to define information requirements and integrate different sources of information into a consistent information and reporting infrastructure, which is to be incorporated into an overall information model. This project will function as an umbrella model for a number of smaller information-related projects.

Human Resource Management

In line with our overall growth in operations, the

average number of employees directly or indirectly employed by Oikocredit on the basis of Full Time Equivalents (FTEs) increased to 122 in 2005 (2004: 101). This number includes staff employed by the International Support Office (ISO), the regional and country offices and country representatives. The network of country representatives grew with the appointment of new country managers for Kenya, Uganda, Mali and Argentina. India and Indonesia also expanded their staff with representatives for satellite offices in New Delhi and Chennai for India and an office in Jakarta for Indonesia. Furthermore a new Manager Equity Investments was appointed. To strengthen relationships with the churches an additional staff member was also recruited. During 2005, we further enhanced the quality of our HRM procedures and remunerations systems. Also, we appointed a confidentiality officer and fine-tuned our personnel information system.

Concentration / Decentralisation

As part of a decentralisation process that started with the launch of the Futura strategy of 2001, the concept of Regional Development Centres (RDC) has been further implemented over the past year, as the regional office of Eastern Europe was upgraded to this level. This office complies with the internal quality standards set for RDCs and can - amongst other things - now approve projects that meet certain criteria.

Future developments

As a result of our global communication campaign, our profile as one of the largest, most experienced and most internationally spread private financiers in the microfinance sector rose sharply, both among potential investors and in the microfinance sector itself. Considering our strong growth in recent years, we believe it is appropriate to now consolidate. Fast growth creates the danger that the organisation can not keep up with this pace. Adding staff is not the only solution to keep the organisation abreast with growth. Equally important is a regular review of organisational structures to ensure efficient and effective operations. SATurn

is expected to bring about some of the changes needed, but we will also have to review other systems, policies and structures, as well as provide systematic training for staff at all levels. Therefore our focus for 2006 shifts from "growth", "profile" and "quality service" to three other themes from the Futura strategy i.e.: "product development", "concentration / decentralisation" and "social performance", both at the credit and investment side of our operations.

We have been implementing the Futura strategy for 3.5 years and will continue to do so in the near future. We will however need to update certain elements of this strategy in 2006. We do not foresee fundamental changes, but mainly a fine-tuning of our strategy. Attention will be paid to the Asian continent, as there is still ground to be covered before we can achieve the Futura goal to invest 20% of our portfolio in Asia. With our office in India now able to operate fully, the achievement of this goal should be within reach in the coming years. We will also further explore our profiling opportu-

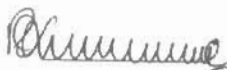
nities of Oikocredit as a leading Socially Responsible Investment instrument for the churches.

Conclusion

The unique combination of the UN Year of Micro-credit and Oikocredit's 30th anniversary, as well as an adequate strategy, made 2005 another year of excellent achievements for Oikocredit. We thank all our stakeholders for the tremendous commitment to and support for our work and also want to express our appreciation to everyone and especially management and staff whose hard work has produced such remarkable results.

For the years to come, our ambition is to further strengthen our organisation, so as to serve as many people in need of financial opportunities as we can. We know the demand is high and Oikocredit can not meet every demand. However, with the continued commitment of staff, membership, Support Associations and project partners across the globe, we will continue to bring dignity, hope and justice to the lives of those we serve.

New York, February 2006



Phyllis Wanjiku Kibui
President of the Board of Directors

Amersfoort, February 2006



Tor G. Gull
Managing Director