

FMO

Entrepreneurial
Development
Bank

interim report

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16

June 30, 2016



**Our mission
is to empower
entrepreneurs
to build a
better world.**

– FMO interim report June 30, 2016 –

Contact details

Should you have any feedback or questions,
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Table of contents

· Key figures	6
· From the Management Board	7
· Portfolio information	8
Consolidated interim accounts 2016	10
· Consolidated balance sheet	11
· Condensed consolidated profit and loss account	12
· Consolidated statement of comprehensive income	13
· Condensed consolidated statement of changes in shareholders' equity	14
· Condensed consolidated statement of cash flows	15
· Notes to the consolidated interim accounts for the period ended June 30, 2016	16
· EY review opinion	26
· Additional Information	27

Key figures

	June 30, 2016	December 31, 2015
Balance sheet		
Net loans	4,335,389	4,307,159
Equity investments portfolio (including associates)	1,559,816	1,500,268
Total assets	8,820,417	8,421,282
Shareholders' equity	2,594,116	2,510,916
Debentures and notes	5,701,933	5,347,614
Committed investment portfolio	8,947,963	9,255,840
· of which government funds	1,172,296	1,194,444
Profit and loss account		
	June 30, 2016	June 30, 2015
Income		
Interest income	138,715	133,684
Interest expenses	-30,707	-21,896
Net interest income	108,008	111,788
Income from equity investments	27,202	22,119
Other income including services	12,599	32,675
Total income	147,809	166,582
Expenses		
Operating expenses	-42,016	-37,014
Operating profit before value adjustments	105,793	129,568
Value adjustments:		
· on loans and guarantees	-13,058	-8,674
· on equity investments	-25,232	-5,278
Total value adjustments	-38,290	-13,952
Operating profit after value adjustments	67,503	115,616
Share in the results of associates	226	3,224
Profit before taxation	67,729	118,840
Income tax	-10,973	-21,327
Net profit	56,756	97,513
	June 30, 2016	December 31, 2015
Ratios at end of period (%)		
Shareholders' equity / Total assets	29.4	29.8
Return on average shareholders' equity ¹⁾		
· Operating profit after value adjustments	5.3	9.1
· Net profit	4.4	7.5
Cost to income ratio	28	25
Common Equity Tier 1 (CET1)	23.8	22.9
Liquidity coverage ratio ²⁾	594	362

¹⁾ June 30, 2015 annualized.

²⁾ The calculation of the liquidity coverage ratio and the net stable funding ratio complies with CRD IV. If no technical standards are available BIS guidance is used instead.

From the Management Board

Dear stakeholder,

The first half of 2016 has shown a decline in net profit compared to the same period last year from €98 million to €57 million. This was mainly due to higher value adjustments on our loan portfolio and impairments on our private equity portfolio. Our committed portfolio including the FMO managed government funds has decreased to €8.9 billion (year end 2015: €9.3 billion). The new commitments in the first half year of 2016 amount to €341 million (first half year 2015: €646 million) and we catalyzed €129 million from third parties (in the first half 2015: €216 million). The lower volumes are the results of external developments, timing of deals, especially in the Energy sector and lower targets in order to increase focus on the existing portfolio. Based on a strong pipeline in the remaining sectors, we still expect to meet the majority of our targets in 2016.

In the first half of 2016 we generated 159,000 direct and indirect jobs and GHG avoidance of 49,000 tCO₂eq (first half 2015: 329,000 jobs and 554,000 tCO₂eq). These lower amounts resulted from the lower total commitments and the fact that in the first half of 2015 green transactions included a few debt and equity funds, which added a relatively high amount of GHG avoidance. The percentage of green transactions was lower at 22%, while we supported our clients in achieving 31% of agreed ESG action items (June 30, 2015: 26% and 34% respectively).

Our net interest income decreased with €4 million mainly due to one-off results in the 2015 comparing period. The higher interest income and expense in 2016 is predominantly driven by the increased short term US dollar interest and does not impact our net interest income. Results from financial transactions amounts to a loss of €3 million in the first half of 2016 compared to a gain of €16 million in the same period last year. The decline was mainly caused by the negative fair value results on US dollar cross currency interest rate swaps. Total value adjustments increased with € 24 million to € 38 million. Lower commodity prices and geo-political circumstances in the eastern European region are the main reasons for this increase. The non-performing loans increased in the course of 2016 from 6.9% to 8.0% as a result of the increased provisioned loans. The coverage ratio decreased from 60.0% to 56.5%.

We have realized positive results in the segments Financial Institutions, Energy and Agribusiness of which Financial Institutions contributed the most significant part. Negative results were realized in Multi-Sector PE Funds and Infrastructure, Manufacturing and Services, primarily due to impairments of equity investments and loans respectively.

FMO's common equity Tier 1 (CET1) ratio improved from 22.9% (year end 2015) to 23.8%.

For the second half of 2016, our outlook will remain uncertain and cautious. Low commodity prices and lower global economic growth might have a continuous effect on multiple regions, which could impact our markets.

Responsibility Statement

In accordance with Article 5:25d sub 2 under c of the Dutch Financial Supervision Act (Wet op het financieel toezicht) we state that, to the best of our knowledge:

- The condensed consolidated interim accounts 2016 give a true and fair view of the assets, liabilities, financial position and profit of FMO and its consolidated undertakings;
- The section 'From the Management Board' includes a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the condensed consolidated interim accounts 2016; and the section 'From the Management Board' includes a description of the principal risks and uncertainties for the remaining six months of the financial year.

The Hague, August 22, 2016

Nanno Kleiterp
Chief Executive Officer

Jurgen Rigterink
Chief Risk & Finance Officer

Linda Broekhuizen
Chief Investment Officer

Portfolio information

In the tables below, we present our committed portfolio per region and sector. The committed portfolio of the funds we manage for the Dutch State and the Loans guaranteed by the State are not included. Of the total committed portfolio of €7,695 million an amount of €5,359 million relates to the on-balance Loans to the private sector and €2,335 million relates to the on-balance Equity investments.

Committed portfolio distributed by region and sector

	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At June 30, 2016						
Africa	679,488	532,015	85,768	446,493	492,128	2,235,892
Asia	818,447	585,060	83,644	384,798	357,668	2,229,617
Latin America & the Caribbean	699,263	502,121	183,202	144,882	237,351	1,766,819
Europe & Central Asia	493,682	92,495	106,727	185,529	147,133	1,025,566
Non-region specific	153,788	17,442	50,979	22,907	191,573	436,689
Total	2,844,668	1,729,133	510,320	1,184,609	1,425,853	7,694,583

	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At December 31, 2015						
Africa	725,939	553,368	100,819	455,847	465,943	2,301,916
Asia	859,590	569,070	87,881	342,605	437,887	2,297,033
Latin America & the Caribbean	728,997	546,798	192,385	152,469	243,962	1,864,611
Europe & Central Asia	616,472	94,031	103,199	150,655	112,545	1,076,902
Non-region specific	128,600	39,604	55,003	79,843	137,288	440,338
Total	3,059,598	1,802,871	539,287	1,181,419	1,397,625	7,980,800

In the tables below, we present our committed portfolio of the top 10 countries per sector. The committed portfolio of the funds we manage for the Dutch State and the Loans guaranteed by the State are not included.

Committed portfolio of top 10 countries by sector

	Financial Institutions	Energy	Agri- business	Multi- Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At June 30, 2016						
India	152,668	154,288	50,796	81,664	78,281	517,697
Nigeria	167,210	36,247	2,400	29,487	67,889	303,233
Turkey	82,898	43,339	52,843	59,655	36,894	275,629
Bangladesh	155,798	26,669	4,531	26,054	58,604	271,656
Mongolia	116,782	15,894	-	5,207	78,919	216,802
Ghana	80,196	72,847	-	-	59,354	212,397
Cambodia	176,306	-	-	8,938	-	185,244
Honduras	91,581	80,489	-	-	12,686	184,756
South Africa	62,923	73,976	9,164	28,645	5,208	179,916
Peru	66,648	65,606	6,887	10,962	17,871	167,974
Total	1,153,010	569,355	126,621	250,612	415,706	2,515,304
	Financial Institutions	Energy	Agri- business	Multi- Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At December 31, 2015						
India	197,754	167,472	55,650	79,031	88,132	588,039
Nigeria	180,887	36,836	2,800	31,993	69,815	322,331
Turkey	111,987	42,790	56,813	58,175	18,343	288,108
Bangladesh	162,858	30,067	-	28,732	60,222	281,879
Mongolia	100,282	17,274	-	5,357	79,910	202,823
Honduras	96,306	88,833	-	-	12,893	198,032
Costa Rica	70,575	114,482	11,972	-	-	197,029
South Africa	76,209	73,748	9,290	26,084	6,835	192,166
Peru	79,264	66,955	7,367	10,706	19,170	183,462
Ghana	76,765	75,108	-	-	24,404	176,277
Total	1,152,887	713,565	143,892	240,078	379,724	2,630,146

Consolidated interim **accounts 2016**

Consolidated balance sheet

	Notes	Page numbers	June 30, 2016	December 31, 2015
Assets				
Banks			89,245	76,966
Short-term deposits			1,750,361	1,545,384
Interest-bearing securities			637,726	611,570
Derivative financial instruments			301,619	251,089
Loans to the private sector	3	18	4,278,749	4,250,379
Loans guaranteed by the State			56,640	56,780
Equity investments			1,528,957	1,467,516
Investments in associates			30,859	32,752
Tangible fixed assets			8,081	7,626
Deferred income tax assets			3,528	2,108
Current income tax receivables			16,136	-
Current accounts with State funds and programs			375	724
Other receivables			17,435	25,071
Accrued income			100,706	93,317
Total assets			8,820,417	8,421,282
Liabilities				
Short-term credits			132,600	76,015
Derivative financial instruments			303,885	391,073
Debentures and notes	8	25	5,701,933	5,347,614
Other liabilities			10,522	12,476
Current accounts with State funds and other programs			1,051	1,459
Current income tax liabilities			-	18,563
Wage tax liabilities			272	183
Deferred income tax liabilities			5,051	4,249
Accrued liabilities			56,820	57,028
Provisions			14,167	1,706
Total liabilities			6,226,301	5,910,366
Shareholders' equity				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			1,308,420	1,308,420
Development fund			657,981	657,981
Available for sale reserve			497,753	455,352
Translation reserve			3,395	4,111
Other reserves	13	25	28,937	39,207
Undistributed profit			56,756	6,231
Shareholders' equity (parent)			2,591,590	2,509,650
Non-controlling interests			2,526	1,266
Total shareholders' equity			2,594,116	2,510,916
Total liabilities and shareholders' equity			8,820,417	8,421,282
Contingent assets and liabilities:				
· Effective guaranteed issued	7	25	93,581	119,974
· Effective guarantees received	7	25	-223,535	-230,937
Irrevocable facilities	7	25	1,456,697	1,823,122

all amounts in € × 1,000

Consolidated profit and loss account

	Notes	Page numbers	June 30, 2016	June 30, 2015
Income				
Interest income			138,715	133,684
Interest expense			-30,707	-21,896
Net interest income			108,008	111,788
Fee and commission income			2,553	3,093
Fee and commission expense			-220	-61
Net fee and commission income			2,333	3,032
Dividend income			7,797	8,565
Results from equity investments			19,405	13,554
Results from financial transactions			-3,273	15,805
Remuneration for services rendered			12,549	12,586
Other operating income			990	1,252
Total other income			37,468	51,762
Total income			147,809	166,582
Operating expenses				
Staff costs			-30,811	-29,453
Other administrative expenses			-9,875	-6,429
Depreciation and impairment			-1,273	-1,104
Other operating expenses			-57	-28
Total operating expenses			-42,016	-37,014
Value adjustments/impairments on				
Loans			-14,716	-7,182
Equity investments and associates			-25,232	-5,278
Guarantees issued			1,658	-1,492
Total value adjustments/impairments			-38,290	-13,952
Results on associates				
Share in the result of associates			226	3,224
Total result on associates			226	3,224
Profit before taxation			67,729	118,840
Income tax	10	25	-10,973	-21,327
Net profit			56,756	97,513
Net profit attributable to				
Owners of the parent company			56,756	97,513
Non-controlling interests			-	-
Net Profit			56,756	97,513

Consolidated statement of comprehensive income

	June 30, 2016	June 30, 2015
Net profit	56,756	97,513
Other comprehensive income		
Exchange differences on translating associates	-716	1,505
Available for sale financial assets	45,615	152,466
Income tax effect	-3,214	2,631
Items to be reclassified to profit and loss	41,685	156,602
Actuarial gains/losses on defined benefit plans	-13,692	7,137
Income tax effect	3,422	-1,784
Items not reclassified to profit and loss	-10,270	5,353
Total other comprehensive income, net of tax	31,415	161,955
Total comprehensive income	88,171	259,468
Total comprehensive income attributable to:		
Owners of the parent company	88,171	259,468
Non-controlling interests	-	-
Total comprehensive income	88,171	259,468

Condensed consolidated statement of changes in shareholders' equity

	Share capital	Share premium reserve	Contractual reserve	Development fund	Available for sale reserve	Translation reserve	Other reserves	Undistributed profit	Non-controlling interests	Total
Balance at December 31, 2014	9,076	29,272	1,140,363	657,981	267,119	859	28,330	4,560	-	2,137,560
Total other comprehensive income, net of tax	-	-	-	-	155,097	1,505	5,353	-	-	161,955
Changes in subsidiary Equis DFI Feeder L.P.	-	-	-	-	-	-	-	-	1,237	1,237
Net profit	-	-	-	-	-	-	-	97,513	-	97,513
Dividend declared	-	-	-	-	-	-	-	-4,560	-	-4,560
Balance at June 30, 2015	9,076	29,272	1,140,363	657,981	422,216	2,364	33,683	97,513	1,237	2,393,705

	Share capital	Share premium reserve	Contractual reserve	Development fund	Available for sale reserve	Translation reserve	Other reserves	Undistributed profit	Non-controlling interests	Total
Balance at December 31, 2015	9,076	29,272	1,308,420	657,981	455,352	4,111	39,207	6,231	1,266	2,510,916
Total other comprehensive income, net of tax	-	-	-	-	42,401	-716	-10,270	-	-	31,415
Changes in subsidiary Equis DFI Feeder L.P.	-	-	-	-	-	-	-	-	1,260	1,260
Net profit	-	-	-	-	-	-	-	56,756	-	56,756
Dividend declared	-	-	-	-	-	-	-	-6,231	-	-6,231
Balance at June 30, 2016	9,076	29,272	1,308,420	657,981	497,753	3,395	28,937	56,756	2,526	2,594,116

Condensed consolidated statement of cash flows

	June 30, 2016	June 30, 2015
Net profit	56,756	97,513
Adjusted for non-cash items	42,219	109,553
Operational cash flows not included in profit before taxation	-131,183	-212,008
Net cash flow from operational activities	-32,208	-4,942
Net cash flow from investing activities	-16,287	-42,830
Net cash flow from financing activities	265,751	630,227
Net cash flow	217,256	582,455
Cash and cash equivalents		
Banks and short-term deposits at January 1	1,622,350	1,046,181
Banks and short-term deposits at June 30	1,839,606	1,628,636
Total cash flow	217,256	582,455

Notes to the consolidated interim accounts for the period ended June 30, 2016

1. Corporate information

FMO was incorporated in 1970 as a public limited company and is located at Anna van Saksenlaan 71, The Hague, The Netherlands. FMO finances activities in developing countries to stimulate private sector development. In addition, FMO provides services in relation to government funds and programs.

Financing activities

FMO is the Dutch development bank. We support sustainable private sector growth in developing and emerging markets by investing in ambitious entrepreneurs. We specialize in sectors where our contribution can have the highest long-term impact: financial institutions, energy, and agribusiness.

FMO's main activity consists of providing loans, guarantees and equity capital to the private sector in developing countries. Furthermore FMO offers institutional investors access to its expertise in responsible emerging market investing through its subsidiary FMO Investment Management B.V.

A minor part of the investment financing is guaranteed by the Dutch State under the Faciliteit Opkomende Markten (FOM), in which FMO itself participates as a 5% to 20% risk partner. Any losses to be claimed under the guarantee are reported under 'Other receivables'.

2. Basis of preparation and changes to accounting policies

Compliance statement

The consolidated annual accounts as at December 31, 2015 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). These consolidated interim accounts are presented in accordance with IAS 34 Interim Financial Reporting.

The accounting policies, presentation and methods of computation are consistent with those applied in the preparation of FMO's consolidated financial statements for the year ended December 31, 2015, except for the adoption of new standards, interpretations and amendments effective as of January 1, 2016. The consolidated interim accounts do not include the same information and disclosures that are required for the consolidated annual accounts, and should be read in conjunction with FMO's consolidated annual accounts as at December 31, 2015.

Group accounting and consolidation

The company accounts of FMO and the company accounts of the subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Investment Management B.V., FMO Medu II Investment Trust Ltd. and Equis DFI Feeder L.P. are consolidated in these annual accounts.

The activities of Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Medu II Investment Trust Ltd. and Equis DFI Feeder L.P. consist of providing equity capital to companies in developing countries. FMO Investment Management B.V. manages third party capital funds which are invested alongside FMO's own transactions in emerging and developing markets. FMO has a 63% stake in Equis DFI Feeder L.P. and all other subsidiaries are 100% owned by FMO.

Adoption of new standards, interpretations and amendments

The following standards, amendments to published standards and interpretations were adopted in the current year.

IFRS 11 ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS – AMENDMENTS TO IFRS 11 (EFFECTIVE DATE 1 JANUARY 2016)

The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 and other IFRSs that do not conflict with the requirements of IFRS 11 *Joint Arrangements*. Furthermore, entities are required to disclose business combination information required in those IFRSs. This amendment has no significant impact on FMO.

IAS 1 DISCLOSURE INITIATIVE – AMENDMENTS TO IAS 1 (EFFECTIVE DATE 1 JANUARY 2016)

The amendments clarify the existing IAS 1 requirements with respect to materiality and presentation of items in the financial statements. This amendment has no significant impact on FMO.

IAS 16 AND IAS 41 AGRICULTURE: BEARER PLANTS – AMENDMENTS TO IAS 16 AND IAS 41 (EFFECTIVE DATE 1 JANUARY 2016)

The amendments to IAS 16 and IAS 41 Agriculture change the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g., fruit trees). Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in IAS 16 including the choice between the cost model and revaluation model. This amendment has no impact on FMO.

IAS 16 AND IAS 38 CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTISATION – AMENDMENTS TO IAS 16 AND IAS 38 (EFFECTIVE DATE 1 JANUARY 2016)

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. This amendment has no impact on FMO.

IAS 27 EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS – AMENDMENTS TO IAS 27 (EFFECTIVE DATE 1 JANUARY 2016)

The amendments to IAS 27 Separate Financial Statements allow an entity to use the equity method in separate financial statements for its investments in subsidiaries, joint ventures and associates. This amendment has no significant impact on FMO.

ANNUAL IMPROVEMENTS 2012-2014 CYCLE (EFFECTIVE DATE 1 JANUARY 2016)

Amendments regarding IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting are included in the annual improvements 2012-2014 cycle. These amendments mainly comprise additional guidance and clarification and has a minor impact on FMO.

Other significant standards issued, but not yet endorsed by the European Union and not yet effective up to the date of issuance of FMO financial statements, are listed below.

IFRS 9 FINANCIAL INSTRUMENTS

In July 2014 the IASB issued the final version IFRS 9 'Financial Instruments' which will become effective as of January, 1 2018. The standard is not yet endorsed by the EU. IFRS 9 is replacing IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The Classification and Measurement and Impairment requirements are applied retrospectively, whereas Hedge accounting is applied prospectively from that date. FMO is currently assessing the impact of this standard. The implementation of IFRS 9, if and when endorsed by the EU, will have an impact on Shareholders' equity, Net profit and/or Other comprehensive income and disclosures.

IFRS 15 REVENUE CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue as and when the agreed performance obligations are satisfied. The standard should in principle be applied retrospectively, with certain exceptions. FMO is currently assessing the impact of this standard.

IFRS 16 LEASES

The new standard IFRS 16 'Leases' has been issued in January 2016 by the IASB and requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The standard will be effective for annual periods beginning on or after 1 January 2019, but is not yet endorsed by the EU. FMO will assess the impact of this standard in the course of 2017.

Estimates and assumptions

In preparing the consolidated interim accounts in conformity with IFRS, management is required to make estimates and assumptions. The most relevant estimates and assumptions relate to the determination of the fair value of equity instruments based on generally accepted modeled valuation techniques and the determination of the counterparty-specific and group-specific value adjustments. The same methods for making estimates and assumptions have been followed in the consolidated interim accounts as were applied in the preparation of FMO's consolidated annual accounts as at December 31, 2015.

Segment reporting

FMO is active in the following sectors:

1. Financial Institutions
2. Energy
3. Agribusiness
4. Infrastructure, Manufacturing and Services

The business sectors are included in Note 5 Segment Information. In addition to these sectors, fund investments without a specific operating sector have been identified separately as Multi-Sector Fund Investments, since these are a substantial part of FMO's business. In the first half of 2016 there were no transactions between the operating segments.

3. Loans past due and value adjustments

The non-performing loans increased in the course of 2016 from 6.9% to 8.0% as a result of increased provisioned loans. The coverage ratio (specific provisions divided by non-performing loans), decreased from 60.0% to 56.5%.

Loans past due and value adjustments as at June 30, 2016

	Loans not value adjusted	Loans value adjusted	Gross exposure	Counter- party specific value adjustment	Total
Loans not past due	4,262,845	97,648	4,360,493	-40,441	4,320,052
Loans past due:					
· Past due up to 30 days	16,403	42,239	58,642	-28,704	29,938
· Past due 30-60 days	-	-	-	-	-
· Past due 60-90 days	32,975	38,324	71,299	-13,943	57,356
· Past due more than 90 days	19,458	175,990	195,448	-127,849	67,599
Sub total	4,331,681	354,201	4,685,882	-210,937	4,474,945
Less: amortizable fees	-45,346	-3,349	-48,695	-	-48,695
Less: group-specific value adjustments	-147,501	-	-147,501	-	-147,501
Carrying value	4,138,834	350,852	4,489,686	-210,937	4,278,749

Loans past due and value adjustments as at December 31, 2015

	Loans not value adjusted	Loans value adjusted	Gross exposure	Counter- party specific value adjustment	Total
Loans not past due	4,333,305	104,208	4,437,513	-56,528	4,380,985
Loans past due:					
· Past due up to 30 days	11,913	34,237	46,150	-8,559	37,591
· Past due 30-60 days	-	1,850	1,850	-1,850	-
· Past due 60-90 days	-	6,028	6,028	-1,507	4,521
· Past due more than 90 days	-	175,028	175,028	-124,285	50,743
Sub total	4,345,218	321,351	4,666,569	-192,729	4,473,840
Less: amortizable fees	-49,841	-2,270	-52,111	-	-52,111
Less: group-specific value adjustments	-171,350	-	-171,350	-	-171,350
Carrying value	4,124,027	319,081	4,443,108	-192,729	4,250,379

The lower group-specific value adjustments at 30 June 2016 is predominatly the result of the country rating upgrade of Argentina with 5 notches.

4. Capital management

FMO complies with the Basel III requirements and reports its Common Equity Tier 1 ratio to the Dutch central bank on a quarterly basis. At the end of June 2016 the Common equity Tier 1 ratio improved to 23.8% from 22.9% as per December 2015. This improvement was mainly due to improvement in capital position driven by inclusion of year end profit in CET 1 capital in 2016 and rise in available for sale reserves.

	At June 30, 2016	At December 31, 2015
IFRS shareholders' equity	2,594,116	2,510,916
Tier 2 capital	175,000	175,000
Regulatory adjustments:		
· Interim profit not included in CET 1 capital	-34,255	-47,785
· Other adjustments (deducted from CET 1)	-127,621	-143,290
· Other adjustments (deducted from Tier 2)	-65,111	-105,783
Total capital	2,542,129	2,389,058
Of which common equity Tier 1 capital	2,432,240	2,319,841
Risk weighted assets	10,212,314	10,139,274
Total capital ratio	24.9%	23.6%
Common equity Tier 1 ratio	23.8%	22.9%

5. Segment information

At June 30, 2016	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Loans & guarantees						
Interest & fee income	47,801	29,056	9,837	17	23,630	110,341
Other income	-1,261	-431	-41	-229	-321	-2,283
Value adjustments	2,929	-6,847	16,066	359	-25,565	-13,058
Other comprehensive income	4,400	2,462	946	-	1,834	9,642
Total loans & guarantees	53,869	24,240	26,808	147	-422	104,642
Equity investments (including associates and subsidiaries)						
Results from equity investments, associates and subsidiaries	16,173	-	-	3,541	-83	19,631
Dividend income	5,793	681	-	1,410	-87	7,797
Impairments	-7,060	-5,428	-2,004	-9,901	-839	-25,232
Other comprehensive income	20,095	1,376	1,233	4,255	5,084	32,043
Total equity investments	35,001	-3,371	-771	-695	4,075	34,239
Remuneration for services rendered						
Managed government funds	5,702	1,676	937	1,033	959	10,307
Syndicated & parallel transactions	1,073	1,145	24	-	-	2,242
Total remuneration for services rendered	6,775	2,821	961	1,033	959	12,549
Other						
Operating expenses	-16,903	-9,456	-3,629	-4,983	-7,045	-42,016
Income tax expenses	-5,991	-2,912	-4,894	776	2,048	-10,973
Other comprehensive income	-4,131	-2,312	-887	-1,218	-1,722	-10,270
Total other	-27,025	-14,680	-9,410	-5,425	-6,719	-63,259
Total comprehensive income	68,620	9,010	17,588	-4,940	-2,107	88,171
Total other comprehensive net of tax	20,364	1,526	1,292	3,037	5,196	31,415
Net profit	48,256	7,484	16,296	-7,977	-7,303	56,756

Segment assets At June 30, 2016	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Loans (incl. guaranteed by the State)	1,954,337	1,094,934	445,849	46,380	793,889	4,335,389
Equity investments and investments in associates	417,346	231,791	63,325	652,791	194,563	1,559,816
Other assets	1,176,834	658,324	252,653	346,930	490,471	2,925,213
Total assets	3,548,517	1,985,049	761,827	1,046,101	1,478,923	8,820,417
Contingent liabilities – effective guarantees issued	55,011	-	-	-	38,570	93,581
Assets under management (loans and equity investments) managed for the risk of the State	377,217	221,538	75,426	85,797	166,698	926,676

At June 30, 2015	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Loans & guarantees						
Interest & fee income	54,292	24,734	9,724	-643	26,713	114,820
Other income	8,156	3,584	1,032	1,800	2,485	17,057
Value adjustments	7,347	1,607	2,111	-739	-19,000	-8,674
Other comprehensive income	-3,792	-1,900	-649	-	-1,551	-7,892
Total loans & guarantees	66,003	28,025	12,218	418	8,647	115,311
Equity investments (including associates and subsidiaries)						
Results from equity investments, associates and subsidiaries	4,472	83	-	11,383	840	16,778
Dividend income	2,627	1,959	99	3,719	161	8,565
Impairments	-1,072	-963	-	-3,243	-	-5,278
Other comprehensive income	49,623	30,235	4,110	27,513	53,013	164,494
Total equity investments	55,650	31,314	4,209	39,372	54,014	184,559
Remuneration for services rendered						
Managed government funds	5,801	1,652	600	1,054	529	9,636
Syndicated & parallel transactions	2,094	385	105	144	222	2,950
Total remuneration for services rendered	7,895	2,037	705	1,198	751	12,586
Other						
Operating expenses	-15,490	-7,766	-2,651	-4,773	-6,334	-37,014
Income tax expenses	-13,363	-5,922	-2,740	1,147	-449	-21,327
Other comprehensive income	2,241	1,122	383	691	916	5,353
Total other	-26,612	-12,566	-5,008	-2,935	-5,867	-52,988
Total comprehensive income	102,936	48,810	12,124	38,053	57,545	259,468
Total other comprehensive net of tax	48,072	29,457	3,844	28,204	52,378	161,955
Net profit	54,864	19,353	8,280	9,849	5,167	97,513

Segment assets At June 30, 2015	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Loans (incl. guaranteed by the State)	2,027,271	972,390	342,696	42,314	820,726	4,205,397
Equity investments and investments in associates	321,449	204,430	58,870	684,186	140,093	1,409,028
Other assets	1,163,677	583,057	198,956	359,195	476,039	2,780,924
Total assets	3,512,397	1,759,877	600,522	1,085,695	1,436,858	8,395,349
Contingent liabilities – Effective guarantees issued	73,018	-	-	29,419	11,517	113,954
Loans and equity investments managed for the risk of the State	338,196	216,130	62,304	85,010	85,034	786,674

6. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which FMO has access at that date.

When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument (level 1). A market is regarded as active if transactions of the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, valuation techniques are used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Valuation techniques include:

1. Recent dealer price quotations
2. Discounted cash flow models
3. Option-pricing models

The techniques incorporate current market and contractual prices, time to expiry, yield curves and volatility of the underlying instrument. Inputs used in pricing models are market observable (level 2) or are not market observable but can be derived from market observable data (level 3). A substantial part of fair value of equity investments (level 3) is based on net asset values.

The fair value measurement of derivative financial instruments categorized within level 3, are mainly based on EBITDA multiples within a range of 6-8 for the relevant industry classes per country/region, adjusted for illiquidity. An increase (decrease) by 10% of these EBITDA multiples would have minimum to zero impact as a result of the decline in value.

Equity investments are measured at fair value when a quoted market price in an active market is available or when fair value can be estimated reliably by using a valuation technique. The main part of the fair value measurement related to equity investments (level 3) is based on net asset values of investment funds as reported by the fund manager and are based on advanced valuation methods and practices. When available, these fund managers value the underlying investments based on quoted prices, if not available multiples are applied as input for the valuation. For the valuation process of the equity investments we further refer to the accounting policies as well as the Equity Risk section of the chapter Financial Risk Management of the Annual Accounts 2015. The determination of the timing of transfers is embedded in the quarterly valuation process. As per December 2015 a part of the equity investments were measured at cost price as best estimate for fair value. In the first half of 2016 FMO was able to reliably estimate fair value of all its equity investments resulting in an unrealized gain of €16 million, recorded in the available for sale reserve.

FMO uses internal valuation models to value its OTC derivative financial instruments. Due to model imperfections, there are differences between the transaction price and the calculated fair value. These differences are not recorded in the profit and loss at once but are amortized over the remaining maturity of the transactions. Per June 30, 2016, the unamortized accrual amounts to €25,279 (December 31, 2015: €26,312). An amount of €3,372 was recorded as an expense in the profit and loss (June 30, 2015: €2,771).

The carrying values in the financial asset and liability categories approximate their fair values, except for loans to the private sector and non-hedged funding. Loans to the private sector are valued at amortized cost. The underlying changes to the fair value of these assets are therefore not recognized in the balance sheet. At June 30, 2016, the fair value of the loans to the private sector was €99,020 (December 31, 2015: €68,112) above their carrying value. A parallel shift of 100 basis points in the interest curves will result in an increase/decrease of the fair value by €52 million (December 31, 2015: €65 million).

The unhedged funding is valued at amortized cost. The difference between the fair value and the carrying cost value amounts to €14,676 as per June 30, 2016 (December 31, 2015: €8,510).

The valuation technique we use for the calculation of fair value of unhedged funding and loans to the private sector is the discounted cash-flow method. The discount rate we apply is a spread curve based on the average spread of the portfolio.

The following table gives an overview of the financial instruments valued at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

At June 30, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Short-term deposits	-	1,750,361	-	1,750,361
Derivative financial instruments	-	299,370	2,249	301,619
Available for sale financial assets				
Equity investments	47,291	-	1,481,666	1,528,957
Interest-bearing securities	637,726	-	-	637,726
Total financial assets at fair value	685,017	2,049,731	1,483,915	4,218,663
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	-	303,885	-	303,885
Total financial liabilities at fair value	-	303,885	-	303,885

At December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Short-term deposits	-	1,545,384	-	1,545,384
Derivative financial instruments	-	250,177	981	251,158
Available for sale financial assets				
Equity investments	43,695	-	1,423,821	1,467,516
Interest-bearing securities	611,570	-	-	611,570
Total financial assets at fair value	655,265	1,795,561	1,424,802	3,875,628
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	-	391,073	-	391,073
Total financial liabilities at fair value	-	391,073	-	391,073

Movements in financial instruments measured at fair value based on level 3	Derivative financial instruments	Equity investments	Total
Balance at January 1, 2015	188	781,418	781,606
Total gains or losses			
· In profit and loss (changes in fair value and value adjustments)	793	-13,430	-12,637
· In other comprehensive income (changes in fair value available for sale reserve)	-	197,772	197,772
Purchases	-	253,633	253,633
Sales	-	-82,858	-82,858
Transfers into level 3	-	287,286	287,286
Transfers out of level 3	-	-	-
Balance at December 31, 2015	981	1,423,821	1,424,802
Total gains or losses			
· In profit and loss (changes in fair value and value adjustments)	1,268	-20,002	-18,734
· In other comprehensive income (changes in fair value available for sale reserve)	-	30,949	30,949
Purchases	-	94,051	94,051
Sales	-	-40,399	-40,399
Transfers into level 3	-	-	-
Transfers out of level 3	-	-6,754	-6,754
Balance at June 30, 2016	2,249	1,481,666	1,483,915

Valuation techniques and unobservable inputs used measuring fair value of equity investments

Type of equity investment	Fair value at June 30, 2016	Valuation technique	Significant unobservable inputs	Range (weighted average)	Fair value measurement sensitivity to unobservable inputs
Private equity fund investments	921,981	Net Asset Value	n/a	n/a	n/a
Private equity direct investments	164,712	Recent transactions	n/a	Based on at arm's length recent transactions	n/a
	151,859	Book multiples	Book value	0.8 – 2.8	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €15 million. To be recorded in other comprehensive income.
	95,280	Earning multiples		Depends on several unobservable data such as EBITDA multiples (range 5 - 12), EV/EBITDA (range 6 -13)	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €10 million. To be recorded in other comprehensive income.
	81,806	DCF		Based on discounted cash flows	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €8 million. To be recorded in other comprehensive income.
	49,217	Put option based on guaranteed floor		The guaranteed floor depends on several unobservable data such as IRR, EBITDA multiples, book multiples and Libor rates	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €5 million. To be recorded in other comprehensive income.
	16,811	Firm offers	Book value	1.15 – 1.5	n/a
Total	1,481,666				

7. Commitments and contingent liabilities

During the first half year of 2016 the irrevocable facilities decreased mainly as a result of disbursements and lower production of new contracts.

	June 30, 2016	December 31, 2015
Contingent liabilities		
Effective guarantees issued	93,581	119,974
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities)	-9,811	-11,839
Total contingent liabilities	83,770	108,135
Effective guarantees received	223,535	230,937
Total guarantees received	223,535	230,937

8. Debentures and notes

Debentures and notes increased to €5.7 billion (December 31, 2015: €5.3 billion). During the first half of 2016 an amount of €460 million was issued and €188 million was redeemed. The outstanding debt amount increases by €83 million due to currency and fair value movements.

9. Dividends

In the General Meeting of Shareholders in May 2016 the proposal for appropriation of profit 2015 was approved. The distributable amount of the net profit amounts to €6,231 million which has been fully distributed as cash dividend.

10. Income tax

Income tax decreased compared to 2015 due to the decreased net profit and a lower weighted average annual rate of 16.2% (first half year of 2015: 17.9%). Current income tax receivables amount to €16,136 (December 31, 2015: tax liability of €18,563) and is mainly due to payments to tax authorities.

11. Events after the end of the reporting period

On July 21, 2016 FMO signed an agreement to set up an investment vehicle together with Norfund and Rabobank. This investment vehicle intends to invest in African financial institutions. The total transaction amounts to USD 211 million and consist of contribution of private equity assets and cash. The transaction is subjected to regulatory approvals. The capital ratio of FMO will remain well above it's minimum required capital.

12. Related parties

FMO defines the Dutch State, subsidiaries, associated companies, the Management Board and Supervisory Board as related parties. This is in line with the Annual Report 2015.

In the first half of 2016 no significant related parties transaction outside the normal course of business occurred.

13. Other Reserves

Other reserves reflects the accumulated actuarial gains and losses on the defined benefit plans. The decrease is mainly driven by current low market interest rates resulting in a significant lower discount rate of 1.57% (year end 2015: 2.68%).

EY review opinion

Independent auditor's review report

To: the Management Board of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V.

Introduction

We have reviewed the accompanying interim financial information of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V., The Hague, which comprises the consolidated balance sheet as at 30 June 2016, the consolidated profit and loss account, consolidated statement of comprehensive income, condensed consolidated statement of changes in shareholder's equity and condensed consolidated statement of cash flows for six-month period then ended and the related notes.

The Management Board is responsible for the preparation and presentation of this financial information in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on the interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law, including Standard 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information for the six-month period ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 22 August 2016

Ernst & Young Accountants LLP

Signed by N.Z.A. Ahmed-Karim

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Reporting scope

This interim report covers activities that took place or had effect on the first six months of 2016.

FMO publishes its integrated annual report in April. This report is audited by the external auditor. Please read the 2015 auditor's report for detailed information on the scope and result of their work. Previous reports are available on www.fmo.nl or via annualreport.fmo.nl



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